

FEDERAL HOME LOAN MORTGAGE CORP  
Form 10-K  
February 18, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

Commission File Number: 001-34139

Federal Home Loan Mortgage Corporation  
(Exact name of registrant as specified in its charter)

Freddie Mac

Federally chartered corporation (State or other jurisdiction of incorporation or organization)	8200 Jones Branch Drive McLean, Virginia 22102-3110 (Address of principal executive offices, including zip code)	52-0904874 (I.R.S. Employer Identification No.)	(703) 903-2000 (Registrant's telephone number, including area code)
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Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Voting Common Stock, no par value per share (OTCQB: FMCC)

Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCI)

5% Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCKK)

Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCG)

5.1% Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCH)

5.79% Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCKK)

Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCCL)

Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCM)

Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCN)

5.81% Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCO)

6% Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCP)

Variable Rate, Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCCJ)

5.7% Non-Cumulative Preferred Stock, par value \$1.00 per share (OTCQB: FMCKP)

Variable Rate, Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCCS)

6.42% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCCCT)

5.9% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCKO)

5.57% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCKM)

5.66% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCKN)

6.02% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCKL)

6.55% Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCKI)

Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, par value \$1.00 per share (OTCQB: FMCKJ)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ X ]

Accelerated filer [ ]

Non-accelerated filer

Smaller reporting company [ ]

(Do not check if a smaller reporting company) [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The aggregate market value of the common stock held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was \$1.4 billion.

As of February 4, 2016, there were 650,045,962 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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Introduction

About Freddie Mac | Executive Summary

## INTRODUCTION

This Annual Report on Form 10-K includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-K. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-K. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in the “ABOUT FREDDIE MAC - Forward-Looking Statements” and “RISK FACTORS” sections of this Form 10-K.

Throughout this Form 10-K, we use certain acronyms and terms that are defined in the “GLOSSARY.”

## ABOUT FREDDIE MAC

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We do this primarily by purchasing residential mortgage loans originated by lenders. In most instances, we package these loans into mortgage-related securities, which are guaranteed by us and sold in the global capital markets. We also invest in mortgage loans and mortgage-related securities. We do not originate loans or lend money directly to consumers.

We support the U.S. housing market and the overall economy by enabling America’s families to access mortgage loan funding at lower rates and by providing consistent liquidity to the multifamily mortgage market, which we do primarily by providing financing for workforce housing. We have helped many distressed borrowers keep their homes or avoid foreclosure. We are working with FHFA, our customers and the industry to build a stronger housing finance system for the nation.

## EXECUTIVE SUMMARY

### CONSERVATORSHIP AND GOVERNMENT SUPPORT FOR OUR BUSINESS

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Since September 2008, we have been operating in conservatorship, with FHFA acting as our Conservator. The conservatorship and related matters significantly affect our management, business activities, financial condition, and results of operations. Our future is uncertain, and the conservatorship has no specified termination date. We do not know what changes may occur to our business model during or following conservatorship, including whether we will continue to exist.

Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury constrain our business activities. However, we believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to have adequate liquidity to conduct our normal business activities. The Purchase Agreement also requires our future profits to effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury. Consequently, our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

For more information on the conservatorship and government support for our business, see “Conservatorship and Related Matters” and Note 2.

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The tables below show our cumulative draws from Treasury and cumulative dividend payments to Treasury under the Purchase Agreement. The Treasury draw amounts shown are the total draws requested based on our quarterly net deficits for the periods presented. Draw requests are funded in the quarter subsequent to any net deficit. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains \$72.3 billion. The amount of available funding remaining under the Purchase Agreement is \$140.5 billion, and would be reduced by any future draws.

#### Draws From Treasury

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(in billions)	Total
Total Senior Preferred Stock Outstanding	\$72.3
Less: Initial Liquidation Preference	\$1.0
Treasury Draws	\$71.3

#### Dividend Payments to Treasury

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(in billions)	Total
Dividend Payments as of 12/31/15	\$96.5
Q1 2016 Dividend Obligation	\$1.7
Total Dividend Payments	\$98.2

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## CONSOLIDATED FINANCIAL RESULTS

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### Comprehensive Income

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Our comprehensive income for 2015 declined compared to 2014, primarily as a result of the following items:

- Lower other income, as we did not have any significant litigation settlements in 2015 related to our investments in non-agency mortgage-related securities. By comparison, we had a number of significant litigation settlements in 2014;
- We recorded fair value losses in 2015 on certain mortgage loans and mortgage-related securities that are measured at fair value due to spread widening, while in 2014 we recorded gains due to spread tightening; partially offset by
- Lower derivative fair value losses in 2015 than in 2014. Longer-term interest rates declined less in 2015 than in 2014, when the yield curve also flattened, leading to lower losses.

Our comprehensive income for 2014 declined compared to 2013, primarily as a result of events that occurred in 2013 but which did not occur in 2014, including:

- The release of the valuation allowance on our deferred tax asset; and
- Representation and warranty settlements related to our pre-conservatorship single-family loan purchases.

## Variability of Earnings

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Our financial results are subject to significant earnings variability from period to period. This variability is primarily driven by:

**Interest-Rate Volatility** — We hold assets and liabilities that expose us to interest-rate risk. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. However, the way we account for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at December 31, 2015, we generally recognize fair value losses in earnings when interest rates decline. This volatility generally is not indicative of the underlying economics of our business. This volatility and the declining capital reserve required under the terms of the Purchase Agreement (ultimately reaching zero in 2018) will increase the risk of our having a negative net worth and being required to draw from Treasury. We are exploring ways in which we can limit or manage our exposure to this volatility. For information about the sensitivity of our financial results to interest-rate volatility, see "MD&A - Risk Management - Interest-Rate Risk and Other Market Risks."

**Spread Volatility** — Spread volatility (i.e., credit spreads, liquidity spreads, risk premiums, etc.), or OAS, is the risk associated with changes in interest rates in excess of benchmark rates. We hold assets and liabilities that expose us to spread volatility, which may contribute to significant earnings volatility. For financial assets and liabilities measured at fair value, we generally recognize fair value losses when spreads widen. However, we may enter into transactions or take other steps to limit or manage our exposure to spread volatility.

**Non-Recurring Events** — From time to time, we have experienced and will likely continue to experience significant earnings volatility from non-recurring events, including events such as settlements with counterparties and changes in certain valuation allowances.



Introduction

About Freddie Mac | Our Business

## OUR BUSINESS

### PRIMARY BUSINESS STRATEGIES

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Our primary business strategies describe how we plan to pursue our Charter Mission over a timeframe of three to five years, or approximately through 2018 to 2020. Our core assumption is that the conservatorship will continue with no material changes during that period. These strategies complement FHFA's annual Conservatorship Scorecards.

#### Charter Mission

We are a government-sponsored enterprise with a specific and limited corporate purpose (i.e., "Charter Mission") to support the liquidity, stability and affordability of U.S. housing mortgage markets as a participant in the secondary mortgage market, while operating as a commercial enterprise earning an appropriate return. Everything we do must be done within the specific constraints of our Charter Mission.

#### Our Twin Goals

We established overarching twin goals to enable us to reach our Charter Mission:

- ▲ Better Freddie Mac; and
- ▲ Better Housing Finance System

#### Our Key Strategies

##### A Better Freddie Mac

We are focused on operating as a very well-run large financial institution, by:

- Being a very effective operating organization;
- Being a market leader through customer focus and innovation; and
- Managing risk and economic capital for quality risk-adjusted returns.

##### A Better Housing Finance System

We are focused on providing leadership, through innovation and constructive forward-looking engagement with FHFA to improve the liquidity, stability, and affordability of the U.S. housing markets, by:

- Modernizing and improving the functioning of the mortgage markets;
- Developing greater responsible access to housing finance; and
- Reducing taxpayer exposure to mortgage risks.

For further information on our goals and detailed strategies for each of our business segments, see "MD&A — Our Business Segments."

## OUR CHARTER

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Our Charter forms the framework for our business activities. Our statutory mission as defined in our Charter is to:

• Provide stability in the secondary market for residential loans;

• Respond appropriately to the private capital market;

• Provide ongoing assistance to the secondary market for residential loans (including activities relating to loans for low- and moderate-income families, involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and

• Promote access to mortgage loan credit throughout the U.S. (including central cities, rural areas, and other underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

Our Charter permits us to purchase first-lien single-family loans with LTV ratios at the time of our purchase of less than or equal to 80%. Our Charter also permits us to purchase first-lien single-family loans that do not meet this criterion if we have certain specified credit protections, which include mortgage insurance on the portion of the UPB of the loan that exceeds an 80% LTV ratio, a seller's agreement to repurchase or replace a defaulted loan, or the retention by the seller of at least a 10% participation interest in the loan.

This Charter requirement does not apply to multifamily loans or to loans that have the benefit of any guarantee, insurance or other obligation by the U.S. or any of its agencies or instrumentalities (e.g., the FHA, the VA, or the USDA Rural Development). Additionally, as part of HARP, we purchase single-family loans that refinance loans we currently own or guarantee without obtaining additional credit enhancement in excess of that already in place for any such loan, even when the LTV ratio of the new loan is above 80%.

Our Charter does not permit us to originate loans or lend money directly to consumers in the primary mortgage market. Our Charter limits our purchase of single-family loans to the conforming loan market, which consists of loans originated with UPBs at or below limits determined annually based on changes in FHFA's housing price index. Since 2006, the base conforming loan limit for a one-family residence has been set at \$417,000, and higher limits have been established in certain "high-cost" areas (currently, up to \$625,500 for a one-family residence). Higher limits also apply to two- to four-family residences and to loans secured by properties in Alaska, Guam, Hawaii, and the U.S. Virgin Islands.

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## BUSINESS SEGMENTS

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We have three reportable segments: Single-family Guarantee, Multifamily, and Investments. Certain activities that are not part of a reportable segment are included in the All Other category. For more information on our segments, see "MD&A - Our Business Segments" and Note 12.

## EMPLOYEES

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At February 4, 2016, we had 5,416 full-time and 46 part-time employees.

## PROPERTIES

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Our principal offices consist of four office buildings we own in McLean, Virginia, comprising approximately 1.3 million square feet. We operate our business in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

## AVAILABLE INFORMATION

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We file reports and other information with the SEC. In view of the Conservator's succession to all of the voting power of our stockholders, we have not prepared or provided proxy statements for the solicitation of proxies from stockholders since we entered into conservatorship, and do not expect to do so while we remain in conservatorship. Pursuant to SEC rules, our annual reports on Form 10-K contain certain information typically provided in an annual proxy statement.

We make available, free of charge through our website at [www.freddie.com](http://www.freddie.com), our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with the SEC. In addition, materials that we file with the SEC are available for review and copying at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. We are providing our website addresses and the website address of the SEC here and elsewhere in this Form 10-K solely for your information. Information appearing on our website or on the SEC's website is not incorporated into this Form 10-K.

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial

obligations, we report these types of obligations either in offering circulars or supplements thereto that we post on our website or in a current report on Form 8-K, in accordance with a “no-action” letter we received from the SEC staff. In cases where the information is disclosed in an offering circular posted on our website, the document will be posted within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The website address for disclosure about our debt securities is [www.freddie.mac.com/debt](http://www.freddie.mac.com/debt). From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac’s global debt facility, including pricing supplements for individual issuances of debt securities. Similar information about our STACR debt notes is available at [www.freddie.mac.com/creditriskofferings](http://www.freddie.mac.com/creditriskofferings).

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations (e.g., K Certificates), can be found at [www.freddie.mac.com/mbs](http://www.freddie.mac.com/mbs). From this address, investors can access information and documents about our mortgage-related securities, including offering circulars and related offering circular supplements.

#### FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-K, contain “forward-looking statements.” Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily, and Investments segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, and our results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control.

Forward-looking statements are often accompanied by, and identified with, terms such as “objective,” “expect,” “possible,” “trend,” “forecast,” “anticipate,” “believe,” “intend,” “could,” “future,” “may,” “will,” and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the “RISK FACTORS” section of this Form 10-K, and:

- The actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to support the housing markets or to implement FHFA’s Conservatorship Scorecards and other objectives for us;
- The effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend obligation on the senior preferred stock;
- Our ability to maintain adequate liquidity to fund our operations;
- Changes in our Charter or in applicable legislative or regulatory requirements (including any legislation affecting the future status of our company);
- Changes in the fiscal and monetary policies of the Federal Reserve, including any changes to its policy of maintaining sizable holdings of mortgage-related securities and any future sales of such securities;

- The success of our efforts to mitigate our losses on our Legacy single-family book and our investments in non-agency mortgage-related securities;
- The success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS, K Certificate and other credit risk transfer transactions;
- Our ability to maintain the security of our operating systems and infrastructure (e.g., against cyberattacks);
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance versus purchase, and fixed-rate versus ARM);
- Our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- The adequacy of our risk management framework;
- Our ability to manage mortgage credit risks, including the effect of changes in underwriting and servicing practices;
- Our ability to limit or manage our exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;
- Changes or errors in the methodologies, models, assumptions, and estimates we use to prepare our financial statements, make business decisions, and manage risks;
- Changes in investor demand for our debt or mortgage-related securities (e.g., single-family PCs and multifamily K Certificates);
- Changes in the practices of loan originators, investors and other participants in the secondary mortgage market; and
- Other factors and assumptions described in this Form 10-K, including in the “MD&A” section.

Forward-looking statements are made only as of the date of this Form 10-K, and we undertake no obligation to update any forward-looking statements we make to reflect events or circumstances occurring after the date of this Form 10-K.

## Selected Financial Data

## SELECTED FINANCIAL DATA

The selected financial data presented below should be reviewed in conjunction with MD&A and our consolidated financial statements and accompanying notes.

	At or For the Year Ended December 31,				
(dollars in millions, except share-related amounts)	2015	2014	2013	2012	2011
<b>Statements of Comprehensive Income Data</b>					
Net interest income	\$14,946	\$14,263	\$16,468	\$17,611	\$18,397
(Provision) benefit for credit losses	2,665	(58)	2,465	(1,890)	(10,702)
Non-interest income (loss)	(3,599)	(113)	8,519	(4,083)	(10,878)
Non-interest expense	(4,738)	(3,090)	(2,089)	(2,193)	(2,483)
Income tax (expense) benefit	(2,898)	(3,312)	23,305	1,537	400
Net income (loss)	6,376	7,690	48,668	10,982	(5,266)
Comprehensive income (loss)	5,799	9,426	51,600	16,039	(1,230)
Net loss attributable to common stockholders	(23)	(2,336)	(3,531)	(2,074)	(11,764)
Net loss per common share - basic and diluted	(0.01)	(0.72)	(1.09)	(0.64)	(3.63)
Cash dividends per common share	—	—	—	—	—
Weighted average common shares outstanding - basic and diluted (in millions)	3,235	3,236	3,238	3,240	3,245
<b>Balance Sheets Data</b>					
Loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	\$1,625,184	\$1,558,094	\$1,529,905	\$1,495,932	\$1,564,131
Total assets	1,986,050	1,945,539	1,966,061	1,989,856	2,147,216
Debt securities of consolidated trusts held by third parties	1,556,121	1,479,473	1,433,984	1,419,524	1,471,437
Other Debt	414,306	450,069	506,767	547,518	660,546
All other liabilities	12,683	13,346	12,475	13,987	15,379
Total stockholders' equity (deficit)	2,940	2,651	12,835	8,827	(146)
<b>Portfolio Balances - UPB</b>					
Mortgage-related investments portfolio	\$346,911	\$408,414	\$461,024	\$557,544	\$653,313
Total Freddie Mac mortgage-related securities	1,729,493	1,637,086	1,592,511	1,562,040	1,624,684
Total mortgage portfolio	1,941,587	1,910,106	1,914,661	1,956,276	2,075,394
TDRs on accrual status	82,347	82,908	78,708	66,590	45,254
Non-accrual loans	22,649	33,130	43,457	63,005	76,575
<b>Ratios</b>					
Return on average assets	0.3	%0.4	%2.5	%0.5	%(0.2)
Allowance for loan losses as percentage of loans, held-for-investment	0.9	1.3	1.4	1.8	2.2

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Equity to assets	0.1	0.4	0.5	0.2	—
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

KEY ECONOMIC INDICATORS

The following graphs and related discussion present certain macroeconomic indicators that can significantly affect our business and financial results.

SINGLE-FAMILY HOME PRICES

NATIONAL HOME PRICES

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(December 2000 = 100)

EFFECT ON FINANCIAL RESULTS

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• Changes in home prices affect the amount of equity that borrowers have in their homes. Borrowers with less equity typically have higher delinquency rates.

• As home prices decline, the severity of losses we incur on defaulted loans that we hold or guarantee increases because the amount we can recover from the property securing the loan decreases.

• Declines in home prices typically result in increases in expected credit losses on the mortgage-related securities we hold.

- Declines in home prices may result in declines in the value of our non-agency mortgage-related securities as lower home values may increase default rates and affect the prepayment activities of the borrowers.

COMMENTARY

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Home prices continued to appreciate during 2015, increasing 6.2%, compared to an increase of 5.2% during 2014, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.

• National home prices at the end of 2015 remained approximately 6% below their June 2006 peak levels, based on our index.

• We expect near-term home price growth rates to moderate gradually and return to growth rates consistent with long-term historical averages of approximately 2% to 5% per year.



## INTEREST RATES

### KEY MARKET INTEREST RATES AT QUARTER END

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#### EFFECT ON FINANCIAL RESULTS

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The 30-year Primary Mortgage Market Survey ("PMMS") interest rate represents the national average of mortgage rates on new 30-year fixed-rate mortgages. Declines in the PMMS rate typically result in increases in refinancing activity and originations.

Changes in interest rates affect the fair value of certain of our assets and liabilities, including derivatives, on our consolidated balance sheets measured at fair value on a recurring basis.

For additional information on the effect of LIBOR swap rates on our financial results, see "Our Business Segments - Investments - Market Conditions."

#### COMMENTARY

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Mortgage interest rates for 30-year fixed-rate loans are typically closely related to other long-term interest rates such as the 10-year Treasury rate and the 10-year LIBOR rate. When these rates decline, mortgage interest rates for 30-year fixed-rate loans usually also decline.

Mortgage interest rates, as indicated by the 30-year PMMS rate, increased at the end of 2015. However, the average 30-year PMMS rate was 3.85% in 2015 compared to 4.17% in 2014, resulting in higher refinancing activity and higher overall origination activity during 2015.

Longer-term interest rates, as indicated by the 10-year LIBOR rate and the 10-year Treasury rate, declined sharply in 2014 but moderated in 2015.

The Federal Reserve decided in December 2015 to begin raising short-term interest rates but committed to a measured pace of monetary tightening. However, the magnitude and timing of the impact of the Federal Reserve's action on mortgage and other longer-term rates is uncertain.

UNEMPLOYMENT RATE  
UNEMPLOYMENT RATE AND JOB CREATION

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Source: U.S. Bureau of Labor Statistics

EFFECT ON FINANCIAL RESULTS

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Changes in the unemployment rate can affect several market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.

Increases in the unemployment rate typically result in higher levels of delinquencies, which often result in an increase in expected credit losses on our total mortgage portfolio.

Decreases in the unemployment rate typically result in lower levels of delinquencies, which often result in a decrease in expected credit losses on our total mortgage portfolio.

COMMENTARY

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Monthly net new job growth decreased during 2015, but remained above 200,000 per month on average.

The unemployment rate continued to decline from the peak of 10.0% reached in October 2009.

We expect the unemployment rate to decline slightly throughout 2016 and 2017.

## Management's Discussion and Analysis

## Consolidated Results of Operations | Comparison

## CONSOLIDATED RESULTS OF OPERATIONS

You should read this discussion of our consolidated results of operations in conjunction with our consolidated financial statements and accompanying notes. See "Critical Accounting Policies and Estimates" for information concerning certain significant accounting policies and estimates applied in determining our reported results of operations and Note 1 for information on our accounting policies.

The table below compares our consolidated results of operations for the past three years.

(dollars in millions)	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
	2015	2014	2013	\$	%	\$	%
Net interest income	\$14,946	\$14,263	\$16,468	\$683	5	\$(2,205)	(13)
Benefit (provision) for credit losses	2,665	(58)	2,465	2,723	(4,695)	(2,523)	(102)
Net interest income after benefit (provision) for credit losses	17,611	14,205	18,933	3,406	24	(4,728)	(25)
Non-interest income (loss):							
Gains (losses) on extinguishment of debt	(240)	(422)	446	182	(43)	(868)	(195)
Derivative gains (losses)	(2,696)	(8,291)	2,632	5,595	(67)	(10,923)	(415)
Net impairment of available-for-sale securities recognized in earnings	(292)	(938)	(1,510)	646	(69)	572	(38)
Other gains (losses) on investment securities recognized in earnings	508	1,494	301	(986)	(66)	1,193	396
Other income (loss)	(879)	8,044	6,650	(8,923)	(111)	1,394	21
Total non-interest income (loss)	(3,599)	(113)	8,519	(3,486)	3,085	(8,632)	(101)
Non-interest expense:							
Administrative expense	(1,927)	(1,881)	(1,805)	(46)	2	(76)	4
REO operations (expense) income	(338)	(196)	140	(142)	72	(336)	(240)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(967)	(775)	(533)	(192)	25	(242)	45
Other (expense) income	(1,506)	(238)	109	(1,268)	533	(347)	(318)
Total non-interest expense	(4,738)	(3,090)	(2,089)	(1,648)	53	(1,001)	48
Income before income tax (expense) benefit	9,274	11,002	25,363	(1,728)	(16)	(14,361)	(57)
Income tax (expense) benefit	(2,898)	(3,312)	23,305	414	(13)	(26,617)	(114)
Net income	6,376	7,690	48,668	(1,314)	(17)	(40,978)	(84)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(577)	1,736	2,932	(2,313)	(133)	(1,196)	(41)
Comprehensive income	\$5,799	\$9,426	\$51,600	\$(3,627)	(38)	\$(42,174)	(82)

## Key Drivers:

Net interest income increased in 2015 compared to 2014, primarily due to an increase in management and guarantee fee income and amortization of upfront fees and basis adjustments as a result of higher prepayment rates. This increase was partially offset by a reduction in the amount of contractual net interest income derived from our mortgage-related investments portfolio, as this portfolio has continued to decline pursuant to the portfolio limits established by the Purchase Agreement and by FHFA. Net interest income decreased in 2014 compared to 2013, primarily due to a reduction in our mortgage-related investments portfolio and less amortization of upfront fees and basis adjustments as a result of lower prepayment rates. See "Net Interest Income" for more information.

Benefit (provision) for credit losses was a benefit in 2015 and was driven by the reclassification of loans from held-for-investment to held-for-sale. Excluding the effect of the reclassification of loans,



the amount of our benefit was not significant. The (provision) for credit losses in 2014 reflects a decline in the volume of newly impaired loans and a smaller benefit from settlement agreements with certain sellers to release specified loans from certain repurchase obligations in 2014 compared to 2013. See "Benefit (Provision) For Credit Losses" for more information.

Gains (losses) on extinguishment of debt in 2015, 2014, and 2013 primarily resulted from purchases of single-family PCs (which are accounted for as the extinguishment of debt). We extinguished debt securities of consolidated trusts with a UPB of \$54.6 billion, \$49.2 billion, and \$44.4 billion in 2015, 2014, and 2013, respectively. Losses in 2015 and 2014 were driven by interest rate declines between the time of issuance and the time of repurchase of these debt securities.

Changes in derivative gains (losses) primarily resulted from changes in interest rates. In 2015, longer-term interest rates declined less than they did in 2014, and resulted in lower fair value losses. Derivative losses also include the accrual of periodic cash settlements, which is the net amount we accrued during the period for interest-rate swap payments that we will make. In 2014, derivative losses primarily resulted from the effect of a flattening of the yield curve on the fair value of our interest-rate swaps. See "Derivative Gains (Losses)" for more information.

Net impairments of available-for-sale securities recognized in earnings declined in 2015 compared to 2014 because the unrealized losses associated with securities we intend to sell were lower due to improvements in forecasted home prices, declines in market interest rates, and continued tightening of credit spreads for our non-agency mortgage-related securities. Net impairments of available-for-sale securities recognized in earnings declined in 2014 compared to 2013 primarily as a result of increased impairments in 2013 due to the availability of more detailed information which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing our non-agency mortgage-related securities. See "Conservatorship And Related Matters - Limits On Our Mortgage-Related Investments Portfolio And Indebtedness" for additional information concerning our efforts to reduce our less liquid assets.

Other gains (losses) on investment securities recognized in earnings. The decrease in gains in 2015 compared to 2014 was primarily due to a decrease in sales of agency mortgage-related securities. The increase in gains in 2014 compared to 2013 was primarily the result of the effect of a decline in longer-term interest rates on the fair values of our trading securities.

Changes in other income (loss) were primarily driven by non-agency mortgage-related securities settlements, lower-of-cost-or-fair-value adjustments for mortgage loans transferred to held-for-sale, and changes in fair value of multifamily mortgage loans for which we have elected the fair value option, as discussed below.

The change between 2015 and 2014 was primarily driven by:

- \$6.0 billion decline in income from non-agency mortgage-related securities litigation settlements, as there was only one settlement in 2015;

- \$2.0 billion increase in write-downs due to lower-of-cost-or-fair-value adjustments for mortgage loans transferred from held-for-investment to held-for-sale (see "Effect of Loan Reclassifications" for more information); and
- \$0.7 billion decline in the fair value of these multifamily mortgage loans, due to the widening of K Certificate benchmark spreads observed in the market.

The change between 2014 and 2013 was primarily driven by:

\$0.6 billion increase in income from non-agency mortgage-related securities settlements, as the majority of such settlements occurred in 2014;

\$1.6 billion increase in the fair value of these multifamily mortgage loans, due to the tightening of K Certificate benchmark spreads observed in the market; and

\$0.2 billion increase in write-downs due to lower-of-cost-or-fair-value adjustments for mortgage loans transferred from held-for-investment to held-for-sale.

Administrative expense increased in 2015 and 2014 primarily because of costs associated with the FHFA-mandated termination of our pension plans. This increase was partially offset by lower professional services expense driven by lower expenses associated with FHFA-led lawsuits regarding our investments in certain non-agency mortgage-related securities.

REO operations expense increased in 2015 and 2014 compared to the respective prior year. REO property expenses declined in 2015 and 2014, consistent with a decline in REO inventory in each year. However, the REO property expenses were offset to a lesser extent by gains on the disposition of REO properties and recoveries from mortgage insurance, compared to the respective prior year.

Temporary Payroll Tax Cut Continuation Act of 2011 expense continued to increase as a result of the increase in the population of loans subject to this expense. As of December 31, 2015, \$1.1 trillion of loans (or 63% of the single-family credit guarantee portfolio) were subject to these fees. We expect the amount of these fees will continue to increase in the future as we add new business and the population of loans subject to these fees increases.

Other expense increased during 2015 compared to 2014, primarily driven by property taxes and insurance costs associated with loans reclassified from held-for-investment to held-for-sale. These costs are considered part of the loan loss reserves while the loans are classified as held-for-investment. See "Effect of Loan Reclassifications" for more information. In addition, beginning January 1, 2015, FHFA directed us to allocate funds that will be distributed to certain housing funds pursuant to the GSE Act. During 2015, we completed \$393.8 billion of new business purchases subject to this allocation and accrued \$165 million of related expense. We expect to pay these amounts in February 2016. Other expense increased during 2014 compared to 2013, due to a settlement with Lehman Brothers Holdings Inc. to resolve our claims related to Lehman's bankruptcy which reduced other expenses in 2013.

Income tax expense decreased in 2015 due to a decrease in pre-tax income. Income tax expense in 2014 reflects our return to a normal income tax recognition environment after the release of the valuation allowance against our net deferred tax asset in 2013.

Other comprehensive income was a loss in 2015 compared to income in 2014, primarily due to less spread tightening for our non-agency mortgage-related securities and less impairment reclassifications from AOCI into earnings. These factors were partially offset by a lower amount of accretion being recognized during 2015 compared to 2014. Other comprehensive income decreased during 2014 compared to 2013, primarily due to less spread tightening for our non-agency mortgage-related securities, partially offset by a flattening of the yield curve during 2014.

The three items discussed below affected multiple line items on our consolidated results of operations.

#### Effect of Loan Reclassifications

In 2014, management, with the approval of FHFA, decided to pursue sales of certain seriously delinquent single-family mortgage loans. During 2015, we expanded this program to include sales of certain

## Management's Discussion and Analysis

## Consolidated Results of Operations | Comparison

performing loans that are held by consolidated trusts in which we own all of the trusts' outstanding beneficial interests. During 2015 and 2014, we reclassified \$13.6 billion and \$0.7 billion, respectively, in UPB of single-family mortgage loans from held-for-investment to held-for-sale. The initial reclassifications of these loans affected several line items on our consolidated results of operations, as shown in the table below.

(in millions)	Year Ended December 31,	
	2015	2014
Benefit for credit losses	\$2,314	\$ 147
Other income (loss) - lower-of-cost-or-fair-value adjustment	(2,193	) (195
Other (expense) income - property taxes and insurance associated with these loans	(1,178	) (62
Effect on income before income tax (expense) benefit	\$(1,057	) \$(110

## Interest-Rate Risk Management Activities

We fund our business activities primarily through the issuance of unsecured short- and long-term debt. The type of debt we issue is based on a variety of factors including market conditions and our liquidity requirements.

We use derivatives to economically hedge interest-rate sensitivity mismatches between our assets and liabilities. For example, depending on our strategic objectives and the duration of our mortgage-related assets, we may fund our business using longer-term debt or using a mix of derivatives and shorter- and medium-term debt. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. For more information about our interest-rate risk management and the sensitivity of reported earnings to our interest-rate risk management activities, see "Risk Management - Interest Rate Risk and Other Market Risk."

We currently favor a mix of derivatives and shorter- and medium-term debt to fund our business and manage interest-rate risk. This funding mix is a less expensive method than relying more extensively on long-term debt, and it provides greater flexibility and opportunity to match the duration of our assets and liabilities in the future as we reduce the mortgage-related investments portfolio in accordance with the requirements of the Purchase Agreement and FHFA.

While our interest-rate risk management activities reduce our economic exposure to interest-rate risk to a low level, as measured by our models, the accounting treatment for our assets and liabilities, including derivatives, creates volatility in our earnings when interest rates fluctuate. Some assets and liabilities are measured at amortized cost and some are measured at fair value, while all derivatives are measured at fair value. These measurement differences create volatility in our earnings that generally is not indicative of the underlying economics of our business.

The table below presents the effect of derivatives used in our interest-rate risk management activities on our comprehensive income, after considering the accrual of periodic cash settlements (which is the economic equivalent of interest expense), and the extent to which the effect of interest rate changes on our derivatives was offset by their effect on other financial instruments. The estimated net effect on comprehensive income is essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value.

## Management's Discussion and Analysis

## Consolidated Results of Operations | Comparison

(in billions)	Year Ended December 31,		
	2015	2014	2013
Components of derivative gains (losses)			
Derivative gains (losses)	\$ (2.7	) \$ (8.3	) \$ 2.6
Less: Accrual of periodic cash settlements	(2.2	) (2.6	) (3.5
Derivative fair value changes	\$ (0.5	) \$ (5.7	) \$ 6.1
Estimated Net Interest Rate Effect			
Interest rate effect on derivative fair values	\$ (0.5	) \$ (5.5	) \$ 5.9
Estimate of offsetting interest rate effect related to financial instruments measured at fair value	0.2	2.0	(4.0
Income tax benefit (expense)	0.1	1.2	(0.7
Estimated Net Interest Rate Effect on Comprehensive income	\$ (0.2	) \$ (2.3	) \$ 1.2

As this table demonstrates, the estimated net effect of derivatives used in our interest-rate risk management activities on our comprehensive income is volatile, and can be significant. For information about the sensitivity of our financial results to interest-rate volatility, see "Risk Management - Interest-Rate Risk and Other Market Risks."

## Effects of Changes in Asset Spreads

Comprehensive income was impacted by an estimated \$(0.1) billion, \$2.0 billion, and \$2.5 billion (after-tax) for 2015, 2014, and 2013, respectively, due to the impact of credit spread tightening (widening) on certain mortgage loans and mortgage-related securities measured at fair value.



## NET INTEREST INCOME

EXPLANATION OF KEY DRIVERS OF NET INTEREST INCOME

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Net interest income consists of several primary components:

Contractual net interest income - consists of two primary components:

The difference between the interest income earned on the assets in our investments portfolio and the interest expense incurred on the liabilities used to fund those assets; and

Management and guarantee fees on loans held by consolidated trusts. We record interest income on loans held by consolidated trusts and interest expense on the debt securities issued by the trusts. The difference between the interest income on the loans and the interest expense on the debt represents the management and guarantee fee income we receive as compensation for our guarantee of the principal and interest payments of the issued debt securities. This difference includes the legislated 10 basis point increase in management and guarantee fees that is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011.

Contractual net interest income is primarily driven by the volume of assets in the mortgage-related investments and guarantee portfolios and the interest rate differential between those interest-earning assets and the related interest-bearing liabilities.

Amortization of cost basis adjustments - consists of cost basis adjustments, such as premiums and discounts on loans, investment securities, and debt that are amortized into interest income or interest expense based on the effective yield over the contractual life of the associated financial instrument.

The majority of our total net amortization relates to loans and debt securities of consolidated trusts, while amortization related to investment securities, other debt, and other assets and liabilities makes up a smaller portion. The net amortization of loans and debt securities of consolidated trusts is primarily driven by actual prepayments on the underlying loans.

Net amortization of loans and debt securities of consolidated trusts generally increases net interest income as it includes amortization of the upfront delivery fees we receive when we acquire a loan. Increases in actual prepayments result in higher net amortization, while decreases in actual prepayments result in lower net amortization. The timing of amortization of loans may differ from the timing of amortization of the securities backed by the loans, as the proceeds received from the loans backing these securities are remitted to the security holders at a date subsequent to the date proceeds from the loans are received.

Expense related to derivatives - consists of deferred gains and losses on closed cash flow hedges related to forecasted debt issuances that are reclassified from AOCI to net interest income when the related forecasted transaction affects net interest income.

## NET INTEREST YIELD ANALYSIS

The table below presents an analysis of interest-earning assets and interest-bearing liabilities. Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in the average balances.

(dollars in millions)	Year Ended December 31,									
	2015			2014			2013			
	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	
Interest-earning assets:										
Cash and cash equivalents	\$12,482	\$8	0.06 %	\$13,889	\$4	0.03 %	\$31,087	\$15	0.05 %	
Securities purchased under agreements to resell	51,380	62	0.12	42,905	28	0.06	44,897	36	0.08	
Mortgage-related securities:										
Mortgage-related securities	226,162	8,706	3.85	256,548	10,027	3.91	313,707	12,787	4.08	
Extinguishment of PCs held by Freddie Mac	(107,986 )	(3,929 )	(3.64)	(111,545 )	(4,190 )	(3.76)	(127,999 )	(5,045 )	(3.94)	
Total mortgage-related securities, net	118,176	4,777	4.04	145,003	5,837	4.03	185,708	7,742	4.17	
Non-mortgage-related securities	10,699	17	0.16	9,983	6	0.06	21,385	26	0.12	
Loans held by consolidated trusts <sup>(1)</sup>	1,590,768	55,867	3.51	1,540,570	57,036	3.70	1,511,128	57,189	3.78	
Loans held by Freddie Mac <sup>(1)</sup>	157,261	6,359	4.04	170,017	6,569	3.86	203,760	7,694	3.78	
Total interest-earning assets	\$1,940,766	\$67,090	3.46	\$1,922,367	\$69,480	3.61	\$1,997,965	\$72,702	3.63	
Interest-bearing liabilities:										
Debt securities of consolidated trusts including PCs held by Freddie Mac	\$1,611,388	\$(49,465)	(3.07)	\$1,557,895	\$(52,193)	(3.35)	\$1,532,032	\$(52,395)	(3.42)	
Extinguishment of PCs held by Freddie Mac	(107,986 )	3,929	3.64	(111,545 )	4,190	3.76	(127,999 )	5,045	3.94	
Total debt securities of consolidated trusts	1,503,402	(45,536 )	(3.03)	1,446,350	(48,003 )	(3.32)	1,404,033	(47,350 )	(3.37)	

held by third parties

Other debt:

Short-term debt	108,096	(173 )	(0.16)	118,211	(145 )	(0.12)	132,674	(178 )	(0.13)
Long-term debt	313,502	(6,207 )	(1.98)	331,887	(6,768 )	(2.04)	393,094	(8,251 )	(2.10)
Total other debt	421,598	(6,380 )	(1.51)	450,098	(6,913 )	(1.54)	525,768	(8,429 )	(1.60)
Total interest-bearing liabilities	1,925,000	(51,916 )	(2.70)	1,896,448	(54,916 )	(2.89)	1,929,801	(55,779 )	(2.89)
Expense related to derivatives	—	(228 )	(0.01)	—	(301 )	(0.02)	—	(455 )	(0.02)
Impact of net non-interest-bearing funding	15,766	—	0.02	25,919	—	0.04	68,164	—	0.10
Total funding of interest-earning assets	\$1,940,766	\$(52,144)	(2.69)	\$1,922,367	\$(55,217)	(2.87)	\$1,997,965	\$(56,234)	(2.81)
Net interest income/yield		\$14,946	0.77 %		\$14,263	0.74 %		\$16,468	0.82 %

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income for loans held by consolidated trusts were \$2.0 billion, \$1.4 billion, and \$1.2 billion, respectively, and were \$383 million, \$373 million, and \$294 million in 2015, 2014, and 2013, respectively, for loans held by Freddie Mac.

## NET INTEREST INCOME RATE / VOLUME ANALYSIS

The table below presents a rate and volume analysis of our net interest income. Our net interest income reflects the reversal of interest income accrued, net of interest received on a cash basis, related to mortgage loans that are on non-accrual status.

(in millions)	2015 vs. 2014 Variance Due to			2014 vs. 2013 Variance Due to		
	Rate	Volume	Total Change	Rate	Volume	Total Change
<b>Interest-earning assets:</b>						
Cash and cash equivalents	\$6	\$(2)	) \$4	\$(5)	) \$(6)	) \$(11)
Securities purchased under agreements to resell	24	10	34	(7)	) (1)	) (8)
<b>Mortgage-related securities:</b>						
Mortgage-related securities	(149)	) (1,172)	) (1,321)	) (508)	) (2,252)	) (2,760)
Extinguishment of PCs held by Freddie Mac	129	132	261	229	626	855
Total mortgage-related securities, net	(20)	) (1,040)	) (1,060)	) (279)	) (1,626)	) (1,905)
Non-mortgage-related securities	11	—	11	(10)	) (10)	) (20)
Loans held by consolidated trusts	(2,991)	) 1,822	(1,169)	) (1,256)	) 1,103	(153)
Loans held by Freddie Mac	297	(507)	) (210)	) 175	(1,300)	) (1,125)
Total interest-earning assets	\$(2,673)	) \$283	\$(2,390)	) \$(1,382)	) \$(1,840)	) \$(3,222)
<b>Interest-bearing liabilities:</b>						
Debt securities of consolidated trusts including PCs held by Freddie Mac	\$4,476	\$(1,748)	) \$2,728	\$1,079	\$(877)	) \$202
Extinguishment of PCs held by Freddie Mac	(129)	) (132)	) \$(261)	) (229)	) (626)	) \$(855)
Total debt securities of consolidated trusts held by third parties	4,347	(1,880)	) \$2,467	850	(1,503)	) (653)
<b>Other debt:</b>						
Short-term debt	(41)	) 13	(28)	) 15	18	33
Long-term debt	193	368	561	229	1,254	1,483
Total other debt	152	381	533	244	1,272	1,516
Total interest-bearing liabilities	4,499	(1,499)	) 3,000	1,094	(231)	) 863
Expense related to derivatives	73	—	73	154	—	154
Total funding of interest-earning assets	\$4,572	\$(1,499)	) \$3,073	\$1,248	\$(231)	) \$1,017
Net interest income	\$1,899	\$(1,216)	) \$683	\$(134)	) \$(2,071)	) \$(2,205)

## COMPONENTS OF NET INTEREST INCOME

The table below presents the components of net interest income.

(in millions)	Year Ended December 31,			Change 2015-2014		Change 2014-2013			
	2015	2014	2013	\$	%	\$	%		
Contractual net interest income:									
Management and guarantee fee income	\$2,722	\$2,399	\$2,111	\$323	13	%	\$288	14	%
Management and guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	957	759	519	198	26	%	240	46	%
Other contractual net interest income	8,106	9,070	11,484	(964)	(11)	%	(2,414)	(21)	%
Total contractual net interest income	11,785	12,228	14,114	(443)	(4)	%	(1,886)	(13)	%
Net amortization - loans and debt securities of consolidated trusts	2,883	1,913	2,791	970	51	%	(878)	(31)	%
Net amortization - other assets and debt	506	423	18	83	20	%	405	2,250	%
Expense related to derivatives	(228)	(301)	(455)	73	(24)	%	154	(34)	%
Net interest income	\$14,946	\$14,263	\$16,468	\$683	5	%	\$(2,205)	(13)	%

## Key Drivers:

Management and guarantee fee income increased during 2015, compared to 2014 and 2013, as the rates and volume of our guarantee businesses increased. Specifically, management and guarantee fee rates received on new business are higher than the rates received on older vintages that continue to pay-down. Furthermore, the size of our single-family credit guarantee portfolio continues to grow as we continue to securitize single-family loans into PCs. The increase in management and guarantee fee income, combined with a decline in our other contractual net interest income, resulted in management and guarantee fee income becoming a larger component of our contractual net interest income. We expect this trend to continue in the future. See the Single-family Guarantee segment's "Business Results" section in "Our Business Segments" for additional discussion.

Other contractual net interest income declined in 2015 and 2014, primarily due to the reduction in the balance of our mortgage-related investments portfolio, as we continue to manage the size and composition of this portfolio pursuant to the limits established by the Purchase Agreement and by FHFA. Although we reinvested a portion of the proceeds received from pay-downs and dispositions, the new mortgage-related assets we acquired have lower yields as a result of a lower interest rate environment. We expect our other contractual net interest income to continue to decline in the near future as we reduce our mortgage-related investments portfolio. See "Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness" for additional discussion of the limits on the mortgage-related investments portfolio.

Net amortization of loans and debt securities of consolidated trusts increased in 2015 compared to 2014 due to an increase in the amortization of upfront fees and basis adjustments on debt securities of consolidated trusts. This increase was primarily driven by higher prepayment rates on single-family loans in 2015 compared to 2014.

Conversely, net amortization of loans and debt securities of consolidated trusts was lower in 2014 compared to 2013, due to slower prepayment rates on single-family loans and timing differences between the amortization of the loan and debt securities basis adjustments.

## BENEFIT (PROVISION) FOR CREDIT LOSSES

## EXPLANATION OF KEY DRIVERS OF PROVISION FOR CREDIT LOSSES

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The benefit (provision) for credit losses predominantly relates to single-family loans and includes components for both collectively impaired loans and individually impaired loans.

Collectively impaired loans - The provision for collectively impaired loans is primarily driven by the volume of newly delinquent loans and changes in estimated probabilities of default and estimated loss severities for the loans.

Estimated probabilities of default and estimated loss severities are based on current conditions and historical data and are heavily influenced by changes in home prices, but are also affected by a number of other factors, such as local and regional economic conditions, changes in reperformance and default rates, and the success of our borrower assistance programs.

Individually impaired loans - The provision for individually impaired loans is primarily driven by the volume of our loss mitigation activity (e.g., loan modifications) that results in loans being considered TDRs, the payment performance of our individually impaired mortgage portfolio, and changes in estimated probabilities of default and estimated loss severities, which affect the future cash flows we expect to receive from these loans. Estimated probabilities of default and estimated loss severities for individually impaired loans are based on the same current conditions and historical data and are affected by the same factors noted above for collectively impaired loans.

As we continue to perform loss mitigation activities that result in loans being considered individually impaired, the portion of our allowance for loan losses and provision for credit losses related to collectively impaired loans continues to decline.

Our allowance for loan losses and provision for credit losses are significantly affected by the "interest rate concessions" we make on loans that we have modified (i.e., reductions in the contractual interest rate). When a loan is modified and considered individually impaired, we generally measure impairment based on the present value of the expected future cash flows discounted at the loan's original effective interest rate. Under this methodology, we record a loss at the time a loan is modified equal to the difference in the present value of expected cash flows resulting from the change in the modified loan's contractual interest rate, which increases the provision for credit losses in that period. When a modified loan subsequently performs according to its new contractual terms and we receive the new contractual cash flows (i.e., principal and interest payments), a portion of the discount that was previously applied to those cash flows is amortized into earnings each period and is recognized as a reduction in the provision for credit losses in the period in which the cash flows are received. We refer to this reduction in the provision for credit losses as the "amortization of interest rate concessions."

Our provision for credit losses and the amount of charge-offs that we record in the future will be affected by a number of factors, such as the actual level of loan defaults; the effect of loss mitigation efforts; any government actions or programs that affect the ability of borrowers to refinance loans with an LTV ratio greater than 100% or obtain modifications; changes in property values; regional economic conditions, including unemployment rates; additional delays in the foreclosure process; and third-party mortgage insurance coverage and recoveries.

**BENEFIT (PROVISION) FOR CREDIT LOSSES**

The table below presents the components of our benefit (provision) for credit losses.

(dollars in billions)	Year Ended December 31,			Change 2015-2014		Change 2014-2013			
	2015	2014	2013	\$	%	\$	%		
Provision for newly impaired loans	\$(0.9 )	\$(1.7 )	\$(2.5 )	\$0.8	47 %	\$0.8	32 %		%
Amortization of interest rate concessions	1.2	1.4	1.0	(0.2 )	(14 )%	0.4	40 %		%
Reclassifications of held-for-investment loans to held-for-sale loans	2.3	0.1	—	2.2	2,200 %	0.1	N/A		
Other, including changes in estimated default probability and loss severity	0.1	0.1	4.0	—	— %	(3.9 )	(98 )%		%
Benefit (provision) for credit losses	\$2.7	\$(0.1 )	\$2.5	\$2.8	2,800 %	\$(2.6 )	(104 )%		%

**Key Drivers:**

The main driver of the benefit for credit losses in 2015 was the reclassifications of loans from held-for-investment to held-for sale in connection with our efforts to sell seriously delinquent single-family loans. See "Effect of Loan Reclassifications" for the effect of these loan reclassifications on pre-tax net income.

The provision for newly impaired loans decreased in 2015 and 2014 due to declines in the volume of newly delinquent single-family loans in both years.

The benefit (provision) for credit losses in 2014 and 2013 reflect benefits of \$0.3 billion and \$1.7 billion, respectively, related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments primarily associated with our Legacy single-family book.

## DERIVATIVE GAINS (LOSSES)

## EXPLANATION OF KEY DRIVERS OF DERIVATIVE GAINS (LOSSES)

Derivative instruments are a key component of our interest-rate risk management strategy. We use derivatives to economically hedge our interest-rate risk exposure. We primarily use interest-rate swaps, option-based derivatives such as swaptions, and futures to manage our exposure to changes in interest-rates. We consider the cost of derivatives used in interest-rate risk management to be an inherent part of the cost of funding our mortgage-related investments portfolio.

In addition, while not part of our interest-rate risk management activities, we routinely enter into commitments to purchase and sell loans and mortgage-related securities. The majority of these commitments are accounted for as derivative instruments.

Derivative gains (losses) consist of both fair value changes and accrual of periodic cash settlements:

**Fair value changes** - Represent changes in the fair value of our derivatives based on market conditions at the end of the period or at the time the derivative instrument is terminated. These amounts may or may not be realized over time, depending on future changes in market conditions and the terms of our derivative instruments.

**Accrual of periodic cash settlements** - Consists of the net amount we accrue during a period for interest-rate swap payments that we will make or receive. This accrual represents the ongoing cost of our hedging activities, and is economically equivalent to interest expense.

Gains and losses on derivatives are affected by a number of factors, including:

**Changes in interest rates** - Our primary derivative instruments are interest-rate swaps, including pay-fixed and receive-fixed interest-rate swaps. With a pay-fixed interest-rate swap, we pay a fixed rate of interest and receive a variable rate of interest based on a specified notional balance (the notional balance is for calculation purposes only). With a pay-fixed interest-rate swap, as interest rates decline, we recognize derivative losses, as the amount of interest we pay remains fixed, and the amount of interest we receive declines. As rates rise, we recognize derivative gains, as the amount of interest we pay remains fixed, but the amount of interest we receive increases. With a receive-fixed interest-rate swap, the opposite results occur.

**Implied volatility** - Many of our assets and liabilities have embedded prepayment options. We use option-based derivatives, including swaptions, to economically hedge the prepayment options embedded in our mortgage assets and callable debt. Fair value gains and losses on swaptions are sensitive to changes in both interest rates and implied volatility, which reflects the market's expectation of future changes in interest rates. Assuming all other factors are unchanged, including interest rates, purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases, with the opposite being true for written swaptions.

**Changes in the shape of the yield curve** - We own assets and have outstanding debt with different cash flows along the yield curve. We use derivatives to hedge the yield exposure of assets and debt, resulting in derivatives with different maturities. As a result, changes in the shape of the yield curve will affect our derivative gains (losses).



Changes in the composition of our derivative portfolio - The mix and balance of our derivative portfolio changes from period to period as we enter into or terminate derivative instruments to respond to changes in interest rates and changes in the balances and modeled characteristics of our assets and liabilities. Changes in the composition of our derivative portfolio will affect the derivative gains and losses we recognize in a given period, thereby affecting the volatility of comprehensive income.

While our sensitivity to interest rates on an economic basis remains low based on our models, our exposure to earnings volatility resulting from our use of derivatives has increased in recent years as we have changed the mix of our derivative portfolio to align with the changing duration of our hedged assets and liabilities. We believe the impact of derivatives on our GAAP financial results should be considered in the context of our overall interest-rate risk profile, including our PMVS and duration gap results. For more information about our interest-rate risk management activities and the sensitivity of reported earnings to those activities, see "Risk Management - Interest Rate Risk And Other Market Risks."

#### COMPONENTS OF DERIVATIVE GAINS (LOSSES)

The table below presents the components of derivative gains (losses).

(in millions)	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
	2015	2014	2013	\$	%	\$	%
Fair value changes:							
Change in interest-rate swaps	\$(778 )	\$(7,294 )	\$8,598	\$6,516	(89 )%	\$(15,892 )	(185 )%
Change in option-based derivatives	258	1,437	(2,422 )	(1,179 )	(82 )	3,859	(159 )
Accrual of periodic cash settlements	(2,198 )	(2,625 )	(3,467 )	427	(16 )	842	(24 )
Other	22	191	(77 )	(169 )	(88 )	268	(348 )
Derivative gains (losses)	\$(2,696 )	\$(8,291 )	\$2,632	\$5,595	(67 )%	\$(10,923 )	(415 )%

#### Key Drivers:

• We recognized derivative losses in 2015 primarily from the accrual of periodic cash settlements. Fair value changes were less significant in 2015, as interest rates declined slightly.

• We recognized derivative losses in 2014 primarily as a result of the impact of a flattening yield curve as shorter-term interest rates increased and longer-term interest rates declined during 2014.

• We recognized derivative gains in 2013 primarily as a result of an increase in longer-term interest rates.

## OTHER COMPREHENSIVE INCOME (LOSS)

## EXPLANATION OF KEY DRIVERS OF OTHER COMPREHENSIVE INCOME (LOSS)

Our investments in securities classified as available-for-sale are measured at fair value on our consolidated balance sheets. The fair value of these securities is primarily affected by changes in interest rates, credit spreads, and the movement of these securities towards maturity. All unrealized gains and losses on these securities are excluded from earnings and reported in other comprehensive income until realized. We reclassify our unrealized gains and losses from AOCI to earnings upon the sale of the securities or if the securities are determined to be other-than-temporarily impaired.

If, subsequent to the recognition of other-than-temporary impairment, our expectation of the cash flows we will receive on a previously impaired security has significantly increased, we will accrete that increase in cash flows into the security's amortized cost basis and use the new amortized cost basis for future impairment evaluation. The increased amortized cost basis will generally reduce the amount of unrealized gains that we would have otherwise recognized if not for the accretion.

The following table presents the attribution of the other comprehensive income (loss) reported in our consolidated statements of comprehensive income.

(in millions)	Year Ended December 31,			
	2015	2014	2013	
Other comprehensive income, excluding accretion and reclassifications	\$374	\$2,563	\$3,167	
Accretion due to significant increases in expected cash flows on previously-impaired available-for-sale securities	(449	) (519	) (339	)
Reclassifications from AOCI	(502	) (308	) 104	
Total other comprehensive income (loss)	\$(577	) \$1,736	\$2,932	

## Key Drivers:

Other comprehensive income was a loss in 2015 compared to income in 2014, primarily due to less spread tightening for our non-agency mortgage-related securities and less impairment reclassifications from AOCI into earnings. Other comprehensive income declined during 2014 compared to 2013, primarily due to less spread tightening for our non-agency mortgage-related securities, partially offset by a flattening of the yield curve.

We recognized lower unrealized gains as a result of our accretion of the increase in expected cash flows to the amortized cost basis of the previously-impaired available-for-sale securities in all periods presented. Accretion was higher during 2015 and 2014 compared to 2013, as a result of improving collateral performance and declining longer-term interest rates.

We reclassified unrealized gains and losses from AOCI to earnings as a result of our sales of available-for-sale mortgage-related securities in all periods presented. During 2015 and 2014, we reclassified net unrealized gains as a result of improved pricing due to declining longer-term interest rates and stabilized collateral performance.

Conversely, during 2013, we reclassified net unrealized losses as a result of rising longer-term interest rates.

## Management's Discussion and Analysis

## Consolidated Balance Sheets Analysis

## CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

(dollars in millions)	December 31,		\$ Change	% Change	
	2015	2014			
<b>Assets:</b>					
Cash and cash equivalents	\$5,595	\$10,928	\$(5,333)	) (49	)%
Restricted cash and cash equivalents	14,533	8,535	5,998	70	
Securities purchased under agreements to resell	63,644	51,903	11,741	23	
Investments in securities	114,215	136,987	(22,772)	) (17	)
Mortgage loans, net	1,754,193	1,700,580	53,613	3	
Accrued interest receivable	6,074	6,034	40	1	
Derivative assets, net	395	822	(427)	) (52	)
Real estate owned, net	1,725	2,558	(833)	) (33	)
Deferred tax assets, net	18,205	19,498	(1,293)	) (7	)
Other assets	7,471	7,694	(223)	) (3	)
<b>Total assets</b>	<b>\$1,986,050</b>	<b>\$1,945,539</b>	<b>\$40,511</b>	<b>2</b>	<b>%</b>
<b>Liabilities and Equity:</b>					
<b>Liabilities:</b>					
Accrued interest payable	\$6,183	\$6,325	\$(142)	) (2	)%
Debt, net	1,970,427	1,929,542	40,885	2	
Derivative liabilities, net	1,254	1,963	(709)	) (36	)
Other liabilities	5,246	5,058	188	4	
<b>Total liabilities</b>	<b>1,983,110</b>	<b>1,942,888</b>	<b>40,222</b>	<b>2</b>	
<b>Total equity</b>	<b>2,940</b>	<b>2,651</b>	<b>289</b>	<b>11</b>	
<b>Total liabilities and equity</b>	<b>\$1,986,050</b>	<b>\$1,945,539</b>	<b>\$40,511</b>	<b>2</b>	<b>%</b>

**Key Drivers:**

Cash and cash equivalents, restricted cash and cash equivalents, and securities purchased under agreements to resell affect one another, so the changes in the balances should be viewed together. For example, cash and cash equivalents and restricted cash and cash equivalents can be invested in securities purchased under agreements to resell or other investments in securities (i.e., non-mortgage-related securities). The drivers of the increase in the combined balance are higher near-term cash needs for upcoming maturities and anticipated calls of other debt, and an increase in principal and interest payments received from servicers for unsecuritized mortgage loans owned by us.

Investments in securities continued to decline as we continued to reduce the less liquid assets in our mortgage-related investments portfolio, partially offset by increases in Treasury securities for upcoming maturities and anticipated calls of other debt.

Mortgage loans, net increased, driven by an increase in acquisitions of purchase money loans, which resulted from higher volumes of home sales and home price appreciation.

Real estate owned, net continued to decline as we continued to sell our existing inventory and the pace of new REO acquisitions slowed as our population of seriously delinquent loans declined.

Deferred tax assets, net declined primarily due to the reduction of deferred differences related to the allowance for loan losses and credit-related items.

Management's Discussion and Analysis

Consolidated Balance Sheets Analysis

Debt, net increased as debt securities of consolidated trusts held by third parties rose as a result of the increase in the acquisition and securitization of mortgage loans in 2015 due to higher volumes of home sales and home price appreciation. This increase in debt securities of consolidated trusts held by third parties was partially offset by declines in other debt as we continued to reduce our indebtedness along with the decline in our mortgage-related investments portfolio.

Total equity increased as a result of higher comprehensive income in the fourth quarter of 2015 compared to the fourth quarter of 2014 and was partially offset by dividends paid related to the \$600 million decline in the Capital Reserve Amount in 2015.

## Management's Discussion and Analysis

## Our Business Segments | Segment Earnings

## OUR BUSINESS SEGMENTS

As shown in the table below, we have three reportable segments, which are based on the way we manage our business. Certain activities that are not part of a reportable segment are included in the All Other category.

Segment	Description	Primary Income Drivers	Primary Expense Drivers
Single-family Guarantee	Reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk	<ul style="list-style-type: none"> <li>• Management and guarantee fee income</li> </ul>	<ul style="list-style-type: none"> <li>• Credit-related expenses</li> <li>• Administrative expenses</li> </ul>
Multifamily	Reflects results from our investment, securitization, and guarantee activities in multifamily loans and securities, and the management of multifamily mortgage credit risk	<ul style="list-style-type: none"> <li>• Net interest income</li> <li>• Management and guarantee fee income</li> <li>• Gains and losses on loans</li> <li>• Investment gains and losses</li> <li>• Derivative gains and losses</li> <li>• Net interest income</li> <li>• Investment gains and losses</li> <li>• Derivative gains and losses</li> </ul>	<ul style="list-style-type: none"> <li>• Gains and losses on loans</li> <li>• Investment gains and losses</li> <li>• Derivative gains and losses</li> <li>• Administrative expenses</li> <li>• Credit-related expenses</li> </ul>
Investments	Reflects results from managing the company's mortgage-related investments portfolio (excluding Multifamily investments and single-family seriously delinquent loans), treasury function, and interest-rate risk		<ul style="list-style-type: none"> <li>• Other-than-temporary impairments on non-agency mortgage-related securities</li> <li>• Investment gains and losses</li> <li>• Derivative gains and losses</li> </ul>
All Other	Consists of material corporate level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments	N/A	<ul style="list-style-type: none"> <li>• Administrative expenses</li> </ul>

## SEGMENT EARNINGS

We evaluate segment performance and allocate resources based on a Segment Earnings approach:

We make significant reclassifications among certain line items in our GAAP financial statements to reflect measures of management and guarantee fee income on guarantees and net interest income on investments that are in line with how we manage our business.

We allocate certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments.

The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss) and the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive

income (loss).

In the second quarter of 2015, we changed our Segment Earnings definition associated with the expense related to the Temporary Payroll Tax Cut Continuation Act of 2011. As a result of this change, the expense related to the legislated 10 basis point increase is now netted within management and guarantee fee income. The purpose of this change is to better reflect how management evaluates the Single-family

Guarantee segment. Prior period results have been revised to conform to the current period presentation. We reclassified \$775 million and \$533 million of Temporary Payroll Tax Cut Continuation Act of 2011 expense into management and guarantee fee income for 2014 and 2013, respectively.

Segment Earnings differs significantly from, and should not be used as a substitute for, net income (loss) as determined in accordance with GAAP. Our definition of Segment Earnings may differ from similar measures used by other companies. We believe that Segment Earnings provides us with meaningful metrics to assess the financial performance of each segment and our company as a whole. See Note 12 for additional details on Segment Earnings, including additional financial information for our segments.

SEGMENT COMPREHENSIVE INCOME

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The table below shows our comprehensive income by segment, including the All Other category.

## SINGLE-FAMILY GUARANTEE BUSINESS OVERVIEW

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In our Single-family Guarantee segment, we purchase, securitize, and guarantee single-family loans originated by lenders and we manage our single-family mortgage credit risk. Our Single-family Guarantee segment supports our primary business strategies by creating:

### A Better Freddie Mac:

- Providing market leadership by delivering quality offerings, programs, and services to an increasingly diversified customer base and an evolving mortgage market;

- Improving the customer experience through continued enhancement of our products, programs, processes, and technology; and

- Establishing efficient risk management activities that are appropriate for the expected level of risk.

### A Better Housing Finance System:

- Developing innovative technology platforms to provide sellers and Freddie Mac with better methods of assessing and managing single-family mortgage credit risk;

- Developing and implementing initiatives to reduce taxpayer exposure and offer private investors new and innovative ways to share in the credit risk of the Core single-family book;

- Expanding access to mortgage credit in a responsible manner to support our Charter Mission as well as to meet specific mandated goals;

- Working with FHFA, Fannie Mae, and Common Securitization Solutions, LLC ("CSS") on the development of a new common securitization platform; and

- Implementing the single (common) security initiative for Freddie Mac and Fannie Mae, which is intended to reduce the disparities in trading value between our PCs and Fannie Mae's single-class mortgage-related securities.

The U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders and a secondary mortgage market that links lenders and investors. We participate only in the secondary mortgage market.

The size of the U.S. residential mortgage market is affected by many factors, including changes in interest rates, unemployment rates, homeownership rates, housing prices, the supply of housing, lender preferences regarding credit risk, and borrower preferences regarding mortgage debt. The amount of residential mortgage debt available for us to purchase and the mix of available loan products are also affected by several factors, including the volume of loans meeting the requirements of our Charter, our own preference for credit risk reflected in our purchase standards, and the loan purchase and securitization activity of other financial institutions.

### Products and Activities

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#### Securitization and Guarantee Products

In a typical loan securitization, we purchase loans that lenders originate and then pool these loans into mortgage-related securities that can be sold in the capital markets. We typically guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fee income. We administer the collection of borrowers' payments on their loans and the distribution of payments to the investors in the mortgage-related securities, net of our management and guarantee fee



income. When a borrower prepays a loan that we have securitized, the outstanding balance of the security owned by investors is reduced by the amount of the prepayment. If the borrower becomes delinquent, we continue to make the applicable payments to the investors in the mortgage-related securities pursuant to our guarantee. When that occurs, we work to mitigate our losses through our loan workout programs, which are discussed in more detail in "Risk Management." If we are unable to achieve a successful loan workout, we pursue foreclosure of the underlying property.

We establish trusts for mortgage-related securities we issue pursuant to Master Trust Agreements and serve as trustee for the trusts. We have the option, and in some instances the requirement, to purchase specified loans, including certain delinquent loans, from the trusts at a purchase price equal to the current UPB of the loan, less any outstanding advances of principal that have been previously distributed. For information on an operational risk issue relating to the Master Trust Agreement, see "Risk Management - Operational Risk."

The management and guarantee fee we charge on new acquisitions generally consists of a combination of upfront delivery fees and a base monthly fee paid as a percentage of the UPB of the underlying loan. We may also make upfront payments to buy up the monthly management and guarantee fee rate ("buy-up fees"), or receive upfront payments to buy down the monthly management and guarantee fee rate ("buy-down fees"). These fees are paid in conjunction with the formation of a PC to provide for a uniform coupon rate for the mortgage pool underlying the PC. The payments made to buy up the management and guarantee fee rate are not considered compensation for the credit risk assumed for purposes of our financial statements. Consequently, these amounts are allocated to the Investments segment.

We enter into loan purchase agreements with many of our single-family customers that outline the terms under which we agree to purchase loans from them over a period of time. For the majority of the loans we purchase, the management and guarantee fees are not specified contractually. Instead, we bid for some or all of the lender's loan volume on a monthly basis at a management and guarantee fee rate that we specify. As a result, our loan purchase volumes from individual customers can fluctuate significantly.

We seek to issue guarantees with fee terms that are commensurate with the risks assumed and that will, over the long-term, provide management and guarantee fee income that exceeds the credit-related and administrative expenses on the underlying loans and provide a return on the capital that would be needed to support the related credit risk. We do not have the ability to fully price for our credit risk at the loan level as our base fee does not differentiate by LTV ratio, credit score, and certain other credit-related factors. We must obtain FHFA's approval to implement across-the-board increases in our management and guarantee fees. To compensate us for higher levels of risk in some loan products, we charge upfront delivery fees above our base fees, which are calculated based on credit risk factors such as the loan product type, loan purpose, LTV ratio, and credit score. While we vary our guarantee and, in certain cases, delivery fee pricing for different customers, loan products, and loan or borrower underwriting characteristics based on our assessment of credit risk, the seller may elect to retain loans with better credit characteristics. The sellers' decisions with respect to loan retention, or sale to us, could result in our purchases having a more adverse credit profile.

In 2012, at FHFA's direction, we increased management and guarantee fees by 10 basis points. Under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this increase are being remitted to Treasury on a quarterly basis to fund the payroll tax cut. We refer to this fee increase as the legislated 10 basis point increase in management and guarantee fees.

As part of our Single-family Guarantee business, we issue the types of guarantee and securitization products described below. In these securitization products, Freddie Mac functions in its capacity as depositor, guarantor, administrator, and trustee.

PCs - our primary single-family mortgage securitization and guarantee process involves our issuance of single-class PCs, which are pass-through securities that represent undivided beneficial interests in trusts that hold pools of loans. For our fixed-rate PCs, we guarantee the timely payment of principal and interest. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying loans. We also guarantee the full and final payment of principal, but not the timely payment of principal, on ARM PCs.

Guarantor Swap PCs - we issue most of our PCs in guarantor swap transactions in which our customers provide us with loans in exchange for PCs, as shown in the diagram below:

Cash PCs - we also issue PCs in transactions in which we purchase performing loans (which we sometimes refer to as a securitization pipeline) and securitize them for retention in our mortgage-related investments portfolio or for sale to third parties, as shown in the diagram below. We also use this process to securitize reperforming loans.

Resecuritization Products - our resecuritization products represent beneficial interests in pools of PCs and certain other types of mortgage assets. We create these securities primarily by using PCs or our previously issued resecuritization products as the underlying collateral. We believe our issuance of these securities expands the range of investors in our mortgage-related securities to include those seeking specific security attributes. Similar to our PCs, we guarantee the payment of principal and interest to the investors in our resecuritization products. We do not charge a management and guarantee fee for these securities if the underlying collateral is already guaranteed by us since no additional credit risk is introduced, although we typically receive a transaction fee as compensation for creating the security and future administrative responsibilities. All of the cash flows from the collateral underlying our resecuritization products are generally passed through to investors in these securities. We do not issue resecuritization products that have concentrations of credit risk beyond those embedded in the underlying assets. In many of our resecuritization transactions, securities dealers or investors deliver mortgage assets in exchange for the resecuritization product. In certain cases, we may also exchange our own mortgage assets for the resecuritization product. The following diagram provides a general example of how we create resecuritization products:

We issue the following types of resecuritization products:

**Giant PCs** - Giant PCs are resecuritizations of previously issued PCs or Giant PCs. Giant PCs are single-class securities that involve the straight pass through of all of the cash flows of the underlying collateral to holders of the beneficial interests.

**Stripped Giant PCs** - Stripped Giant PCs are multiclass securities that are formed by resecuritizing previously issued PCs or Giant PCs and issuing principal-only and interest-only securities backed by the cash flows from the underlying collateral.

**REMICs** - REMICs are resecuritizations of previously issued PCs, Giant PCs, Stripped Giant PCs, or REMICs. REMICs are multiclass securities that divide all of the cash flows of the underlying collateral into two or more classes with varying maturities, payment priorities and coupons.

**Other securitization products** - From time to time, we issue guaranteed mortgage-related securities collateralized by non-Freddie Mac mortgage-related securities. However, we have not entered into these types of transactions as part of our Single-family Guarantee business in several years. In 2009 and 2010, we entered into transactions under Treasury's NIBP with HFAs. See Note 2 for further information.

**Long-term standby commitments** - we provide a guarantee on mortgage assets held by third parties, in exchange for management and guarantee fees, without securitizing those assets. Long-term standby commitments obligate us to purchase seriously delinquent loans that are covered by those commitments. From time to time, we have consented to the termination of our long-term standby commitments and simultaneously entered into guarantor swap transactions with the same counterparty, issuing PCs backed by many of the same loans.

### Credit Risk Transfer Transactions

Most of our credit risk transfer transactions are designed to transfer a portion of the credit risk on groups of previously acquired loans to third-party investors. These transactions are intended to attract private capital from new types of investors that have not historically invested in single-family mortgage credit risk. The following strategic considerations were incorporated into the design of our credit risk transfer transactions:

- Repeatable and scalable execution with a broad appeal to diversified investors;
- Execution at a cost that is economically sensible;
- Minimal effect on the TBA market;
- Minimize changes required of, and effects on, sellers and servicers by having Freddie Mac serve as the credit manager for investors; and
- Avoid or seek to mitigate the risk that our losses are not reimbursed timely and in full.

The value of these transactions to us is dependent on various economic scenarios, and we will primarily benefit from these transactions if we experience significant loan defaults. These new credit risk transfer transactions include:

**STACR debt notes** - In this transaction, we create a reference pool of loans from our Core single-family book and an associated securitization structure with notional credit risk positions (e.g., first loss, mezzanine, and senior positions). The notional amounts of the credit risk positions are reduced when certain specified credit events occur on the loans in the reference pool. The notional amounts of the credit risk positions may also be reduced based on scheduled and unscheduled principal payments that occur on the loans in the reference pool.

In STACR debt note transactions, losses may be allocated to the notional balances based on calculated losses using a predefined formula or based on the actual losses on the loans in the reference pool. For loans that are covered by credit risk transfer transactions based on calculated losses, we may write down STACR debt notes or receive reimbursement of losses when the loans experience a credit event, which predominantly includes a loan becoming 180 days delinquent. For loans that are covered by credit risk transfer transactions based on actual losses, we may write down STACR debt notes or receive reimbursement of losses once an actual loss event (e.g., third-party foreclosure sale, short sale or REO disposition) occurs.

We issue STACR debt notes related to certain of the notional credit risk positions to third-party investors and retain the remaining credit risk. We make payments of principal and interest on the issued notes, but are not required to repay principal to the extent that the notional credit risk position is reduced as a result of a specified credit event. The interest rate on STACR debt notes is generally higher than on our other unsecured debt securities due to the potential for reductions to their principal balance. The following diagram illustrates a typical STACR debt note transaction:

ACIS insurance policies - In this transaction, we purchase insurance policies, typically underwritten by a group of insurers and reinsurers, that provide credit protection for certain specified credit events that occur and are allocated to the non-issued notional credit risk positions of a STACR debt note transaction (i.e., the risk positions that Freddie Mac retains). Under each insurance policy, we pay monthly premiums that are determined based on the outstanding balance of the STACR debt note reference pool. When specific credit events occur, we receive compensation from the insurance policy up to an aggregate limit based on a predefined formula or based on actual losses. We require insurers and reinsurers to partially collateralize their exposure to reduce the risk that we will not be reimbursed for our claims under the policies.

In 2015, we began offering two new types of credit risk transfer transactions:

Whole loan securities - In this transaction, we issue guaranteed senior securities and unguaranteed subordinated securities backed by single-family loans. The unguaranteed subordinated securities will absorb first losses on the related loans.

- Seller indemnification agreement - In this transaction, we enter into an agreement upon loan acquisition with a seller under which the seller will absorb a portion of losses on the related single-family loans in exchange for a fee or a reduction in our management and guarantee fee. The indemnification amount may be fully or partially collateralized.

We also use other types of credit enhancements, such as primary mortgage insurance, to mitigate our credit risk exposure. See "Risk Management" for additional information on our credit risk transfer transactions, as well as the other types of credit enhancements we use.

## Customers

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Our customers in the Single-family Guarantee segment are predominantly lenders that originate loans for new or existing homeowners and sell them to us, and financial institutions that service these loans for us. These companies include mortgage banking companies, commercial banks, community banks, credit unions, other non-depository financial institutions, HFAs, and thrift institutions. Many of these companies are both sellers and servicers for us. In addition, our customers include investors and dealers in our guaranteed mortgage-related securities and investors and counterparties in credit risk transfer transactions.

We acquire a significant portion of our loans from several lenders that are among the largest originators in the U.S. In addition, a significant portion of our single-family loans is serviced by several large servicers. The graphs below present the concentration of our single-family purchase volume for 2015 and our loan servicing as of December 31, 2015 among our top five customers.

Management's Discussion and Analysis

Our Business Segments | Single-Family Guarantee

Percentage of Single-Family Purchase Volume

Percentage of Single-Family Servicing Volume

For additional information about seller/servicer concentration risk and our relationships with our seller/servicer customers, see “Risk Management - Credit Risk - Institutional Credit Risk - Sellers and Servicers.”

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## Competition

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Our principal competitors in the Single-family Guarantee segment are Fannie Mae, Ginnie Mae (with FHA/VA), and other financial institutions that retain or securitize loans, such as commercial and investment banks, dealers, and thrift institutions. We compete on the basis of price, products, securities structure, and service. Competition to acquire single-family loans can also be significantly affected by changes in our credit standards. The conservatorship, including direction provided to us by our Conservator, may affect our ability to compete. For more information, see "Risk Factors - Other Risks - Competition from banking and non-banking institutions (including Fannie Mae, Ginnie Mae, and FHA/VA) may harm our business. FHFA's actions as Conservator of both companies could affect competition between us and Fannie Mae."

Our Segment Earnings management and guarantee fee income is influenced by our PC price performance because we adjust our fees based on the price performance of our PCs relative to comparable Fannie Mae securities (we refer to this as market-adjusted pricing).

From time to time we undertake a variety of actions in an effort to support the liquidity and price performance of our PCs relative to comparable Fannie Mae securities. These actions may include:

- Resecuritizing PCs;

- Encouraging sellers to pool loans that they deliver to us into PC pools with a larger and more diverse population of loans; and

- Influencing the volume and characteristics of loans delivered to us by tailoring our loan eligibility guidelines and by other means.

For additional information about our efforts to support the liquidity and relative price performance of our PCs, see "Investments - Market Conditions" and "Risk Factors - Other Risks - A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates."

## MARKET CONDITIONS

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The graphs and related discussion below present certain single-family market indicators, for the most recent five years, that can significantly affect the business and financial results of our Single-family Guarantee segment.

### U.S. Single-Family Originations

Source: Inside Mortgage Finance dated January 29, 2016.

### U.S. Single-Family Home Sales

Source: National Association of Realtors news release dated January 22, 2016.

### Commentary

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There was a significant increase in single-family loan origination volumes in the U.S. in 2015, driven by an increase in refinancing activity as a result of lower average mortgage interest rates.

We expect the volume of home sales in 2016 to grow slightly from 2015.

Single-Family Mortgage Debt Outstanding as of December 31,

Source: Federal Reserve Financial Accounts of the United States of America dated December 10, 2015. For 2015, the amount is as of September 30, 2015 (latest available information).

Single-Family Serious Delinquency Rates as of December 31,

Source: National Delinquency Survey from the Mortgage Bankers Association. For 2015, the rates (excluding Freddie Mac) are as of September 30, 2015 (latest available information).

#### Commentary

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Single-family serious delinquency rates in the U.S. continued to decline due to macroeconomic factors, such as decreased unemployment rates and continued home price appreciation.

The U.S. single-family mortgage debt outstanding increased in 2015 compared to 2014, which resulted in an increase in the supply of loans available for us to purchase.

As reported by the U.S. Census Bureau, the U.S. homeownership rate was 63.8% in the fourth quarter of 2015, compared to a high point of 69.2% in the fourth quarter of 2004, and the average of 66.2% since 1990.

## BUSINESS RESULTS

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The graphs and related discussion below present the business results of our Single-family Guarantee segment over the last three years.

### New Business Activity

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#### Single-Family Loan Purchases and Guarantees

##### Number of Families Helped to Own a Home

### Commentary

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We maintain a consistent market presence by providing lenders with a constant source of liquidity for conforming loan products. We funded approximately 12.5 million single-family homes since 2009 and purchased nearly 1.4 million HARP loans since the initiative began in 2009, including nearly 45,000 during 2015.

Our loan purchase activity increased significantly in 2015 compared to 2014, due to acquisitions of purchase money loans resulting from higher volumes of home sales and home price appreciation. Our loan purchase activity declined in 2014 to its lowest level since 2000. The decrease in our loan purchase activity in 2014 compared to 2013 was due to decreased refinancing activity driven by higher average mortgage interest rates in 2014.

We continued working to improve access to affordable mortgage credit, including the introduction of a new loan initiative in March 2015 with a down payment option as low as three percent to help qualified borrowers with limited savings buy a home. We also continue to explore the feasibility of:

- Increasing our purchases of loans securitized by permanently affixed manufactured housing;
- Improving the effectiveness of pre-purchase and early delinquency counseling for borrowers;
- Utilizing alternative credit score models and credit history standards in loan eligibility decisions; and
- Increasing support for first-time home buyers.

We are responsibly expanding our programs and outreach capabilities to better serve low and moderate income borrowers and underserved markets. Expanding access to affordable mortgage credit will continue to be a top priority in 2016.

We expect our purchase volume in 2016 to be similar to 2015, with HARP activity remaining low during 2016 since the pool of borrowers eligible to participate in the program has declined.

Single-family Credit Guarantee Portfolio

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Single-Family Credit Guarantee Portfolio as of December 31,

Total Single-Family Loans as of December 31,

Commentary

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The Core single-family book grew to 66% of the single-family credit guarantee portfolio at December 31, 2015. We exclude HARP and other relief refinance loans from the Core single-family book because such loans generally reflect credit risk attributes of the original loans (many of which were originated between 2005 and 2008).

The HARP and other relief refinance book represented an additional 18% of the single-family credit guarantee portfolio at December 31, 2015.

The Legacy single-family book declined to 16% of the single-family credit guarantee portfolio at December 31, 2015.

Management and Guarantee Fees

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Average Portfolio Segment Earnings Management and Guarantee Fee Rate<sup>(1)</sup> for the Year Ended December 31,

Average Management and Guarantee Fee Rate<sup>(1)</sup> Charged on New Acquisitions for the Year Ended December 31,

(1) Excludes the legislated 10 basis point increase in management and guarantee fees.

Commentary

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Average portfolio Segment Earnings management and guarantee fees increased in 2015 compared to 2014, due to higher amortization of upfront fees, driven by higher loan liquidations resulting from a lower interest rate environment, as well as the acquisition of new loans with higher management and guarantee fee rates.

The difference between the average management and guarantee fee rate charged on new acquisitions and the average portfolio Segment Earnings management and guarantee fee rate, in basis points, reflects different methodologies for recognizing upfront delivery fee income. The average management and guarantee fee rate charged on new acquisitions recognizes upfront delivery fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations, whereas the average portfolio Segment Earnings management and guarantee fee rate recognizes these amounts over the contractual life of the related loans (usually 30 years). In addition, the average portfolio Segment Earnings management and guarantee fee rate reflects an average of our total mortgage portfolio and is not limited to purchases in the applicable year. Loans acquired prior to 2012 have lower contractual management and guarantee fee rates than loans we have acquired since that time.

Management and guarantee fees charged on new acquisitions decreased during 2015, compared to 2014, due to a combination of competitive pricing and increased market-adjusted pricing costs based on the price performance of our PCs relative to Fannie Mae securities.



## Credit Risk Transfer Activity

Since 2013, STACR debt note and ACIS transactions have been our principal method of transferring a portion of the mortgage credit risk subsequent to loan acquisition in our Core single-family book. The following charts present transactions that occurred in 2015 and the cumulative amount of transactions at December 31, 2015.

New STACR Debt Note and ACIS Transactions for the Year Ended December 31, 2015<sup>(1)</sup>

(In billions)

Freddie Mac

Senior

\$169.4

ACIS

Freddie Mac

\$1.7

STACR Debt Notes

Reference Pool<sup>(2)</sup>

Mezzanine

\$0.4

\$5.6

\$179.2

First

Freddie Mac

ACIS

STACR Debt

Loss

\$1.0

\$0.4

Notes

\$0.7

(1) The amounts represent the UPB upon issuance of STACR debt notes and execution of ACIS transactions.

(2) Excludes additional STACR debt note and ACIS transactions of \$0.4 billion and \$0.7 billion, respectively, related to reference pools in transactions executed in prior periods.

## Cumulative STACR Debt Note and ACIS Transactions as of December 31,

2015<sup>(1)</sup>

(In billions)

Freddie Mac

Senior

\$365.5

Mezzanine

Freddie Mac

ACIS

STACR Debt Notes

Reference Pool

\$0.9

\$3.2

\$12.0

\$384.6

First	Freddie Mac	ACIS	STACR
Loss	\$1.9	\$0.4	Debt Notes
			\$0.7

(1) The amounts represent the UPB upon issuance of STACR debt notes and execution of ACIS transactions.

Commentary

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We continued to transfer a portion of credit losses to third-party investors, insurers, and selected sellers through credit risk transfer transactions. In 2015, we transferred a portion of the credit risk associated with \$181.2 billion in UPB of loans in our Core single-family book using four types of credit risk transfer transactions. Significant developments in 2015 include completion of the following credit risk transfer transactions:

STACR debt notes and ACIS transactions that transferred some of the credit risk related to the first loss positions.

Prior to 2015, we retained all of the first loss positions of these transactions;

STACR debt notes and ACIS transactions that allocated credit losses based on actual losses rather than calculated losses. Five of our eight STACR debt notes transactions completed in 2015 followed this new approach as did seven of our ten ACIS transactions;

Two whole loan security transactions where we issued \$0.9 billion in UPB of guaranteed securities and \$0.1 billion in UPB of unguaranteed subordinated securities; and

One seller indemnification agreement transaction.

Since 2013, we have completed 34 credit risk transfer transactions that, upon execution of the transaction, covered \$386.6 billion in principal of loans in our Core single-family book.

The interest and premiums we pay on our issued STACR debt note and ACIS transactions to transfer credit risk effectively reduce the management and guarantee income we earn on the PCs within the respective pools. Our expected management and guarantee fee income on the PCs within the STACR and ACIS reference pools has been effectively reduced by approximately 30%, on average, for transactions executed as of December 31, 2015. The reduction to our overall management and guarantee income could change over time as we continue our credit risk transfer activities or if there are changes in the economic or regulatory environment that impact the cost of executing these transactions.

As of December 31, 2015 there has not been a significant number of loans in our STACR debt note reference pools that have experienced a credit event. As a result of the credit performance of these loans, we have only recognized small write-downs on our STACR debt notes and have begun to make claims for reimbursement of losses under our ACIS transactions.

The 2016 Conservatorship Scorecard sets a goal for us to complete credit risk transfer transactions on at least 90% of the UPB of certain categories of newly acquired single-family loans, such as non-HARP fixed-rate loans with terms greater than 20 years and LTV ratios above 60%.

## Loss Mitigation Activities

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### Number of Families Helped to Avoid Foreclosure

### Loan Workout Activity

### Commentary

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We continue to help struggling families retain their homes or otherwise avoid foreclosure through loan workouts, helping approximately 1.2 million borrowers since 2009. Our loan workout activity has declined over the last several years, along with a decline in the size of our seriously delinquent single-family loan portfolio. One of our loan workout programs, HAMP, terminates in December 2016.

- When a home retention solution is not practicable, we require our servicers to pursue foreclosure alternatives, such as short sales, before initiating foreclosure. When foreclosure is unavoidable and we acquire the property as REO, we have helped to stabilize communities by focusing on REO sales to owner-occupants, who have made up 67% of purchasers since the beginning of 2009.

- As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we sold seriously delinquent loans totaling \$2.9 billion in UPB during 2015. Of the \$7.7 billion in UPB of single-family loans classified as held-for-sale at December 31, 2015, \$5.7 billion related to loans that were seriously delinquent.

We believe selling these loans provides better economic returns than continuing to hold them.

See "Risk Management" for additional information on our loan workout activities.

## FINANCIAL RESULTS

The table below presents the components of the Segment Earnings and comprehensive income for our Single-family Guarantee segment.

(dollars in millions)	Year Ended December 31,			Change 2015-2014		Change 2014-2013		
	2015	2014	2013	\$	%	\$	%	
Net interest income (expense)	\$(111 )	\$(111 )	\$320	\$—	—	\$(431 )	(135 )%	
Benefit (provision) for credit losses	2,030	(982 )	1,409	3,012	(307 )%	(2,391 )	(170 )%	
Non-interest income:								
Management and guarantee fee income	5,406	4,397	4,397	1,009	23 %	—	— %	
Other non-interest income (loss)	(1,422 )	712	1,162	(2,134 )	(300 )%	(450 )	(39 )%	
Total non-interest income	3,984	5,109	5,559	(1,125 )	(22 )%	(450 )	(8 )%	
Non-interest expense:								
Administrative expense	(1,285 )	(1,170 )	(1,025 )	(115 )	10 %	(145 )	14 %	
REO operations (expense) income	(334 )	(205 )	124	(129 )	63 %	(329 )	(265 )%	
Other non-interest expense	(1,445 )	(191 )	(179 )	(1,254 )	657 %	(12 )	7 %	
Total non-interest expense	(3,064 )	(1,566 )	(1,080 )	(1,498 )	96 %	(486 )	45 %	
Segment adjustments	(254 )	(303 )	(694 )	49	(16 )%	391	(56 )%	
Segment Earnings before income tax (expense) benefit	2,585	2,147	5,514	438	20 %	(3,367 )	(61 )%	
Income tax (expense) benefit	(807 )	(600 )	282	(207 )	35 %	(882 )	(313 )%	
Segment Earnings, net of taxes	1,778	1,547	5,796	231	15 %	(4,249 )	(73 )%	
Total other comprehensive income (loss), net of tax	12	(10 )	49	22	(220 )%	(59 )	(120 )%	
Total comprehensive income	\$1,790	\$1,537	\$5,845	\$253	16 %	\$(4,308 )	(74 )%	

## Key Drivers:

The benefit for credit losses in 2015 was primarily due to a reduction of loan loss reserves associated with the reclassification of mortgage loans from held-for-investment to held-for-sale. Excluding the effect of loan reclassifications and other related subsequent activity in 2015 and settlement agreements in 2014, the provision for credit losses decreased compared to 2014 primarily due to decreases in newly impaired loans. The (provision) for credit losses in 2014 reflects decreases for both newly impaired loans and settlement agreements with certain sellers to release specified loans from certain repurchase obligations.

Management and guarantee fee income increased in 2015 primarily due to higher amortization of upfront fees, driven by higher loan liquidations resulting from lower average mortgage interest rates, higher average management and guarantee fee income rates, and an increase in the single-family credit guarantee portfolio.

Other non-interest income decreased in 2015 primarily due to increased lower-of-cost-or-fair value adjustments on loans that were reclassified from held-to-investment to held-for-sale, fair value losses on STACR debt notes carried at fair value due to an increase in market prices for these notes, as well as higher STACR transaction volumes, and losses on our investment in CSS. Other non-interest income decreased in 2014 primarily due to fair value losses on guarantee assets and lower-of-cost-or-fair-value adjustments on loans held-for-sale, compared to gains on guarantee assets in 2013 due to an increase in interest rates during that year.



Administrative expense increases resulted, in part, from our investments in our technology to better support our lenders and Freddie Mac's products and programs, as well as the new common securitization platform and the single (common) security initiative.

REO operations expense increased in 2015 and 2014 compared to the respective prior year. REO property expenses declined in 2015 and 2014, consistent with a decline in REO inventory in each year. However, the REO property expenses were offset to a lesser extent by gains on the disposition of REO properties and recoveries from mortgage insurance, compared to the respective prior year.

Other non-interest expense increased in 2015 primarily due to property taxes and insurance expense associated with loans reclassified as held-for-sale and expenses related to the allocation of funds to certain housing funds pursuant to the GSE Act during 2015.

## MULTIFAMILY BUSINESS OVERVIEW

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The Multifamily segment provides liquidity to the multifamily market and supports a consistent supply of workforce housing by purchasing and securitizing loans secured by properties with five or more units. The Multifamily segment reflects results from our investment, securitization, and guarantee activities in multifamily loans and securities and the management of multifamily mortgage credit risk. The Multifamily segment supports our primary business strategies by creating:

### A Better Freddie Mac:

- Continuing to provide financing to the multifamily mortgage market and expanding our market presence for workforce housing in line with our mission;
- Improving our risk-adjusted returns by leveraging private capital in our credit risk transfer transactions; and
- Maintaining strong credit and capital management discipline.

### A Better Housing Finance System:

- Operating in a customer focused manner, in an effort to build value and support the creation of a strong, long-lasting rental housing system;
- Identifying new opportunities beyond our existing K Certificate transactions to transfer credit risk to third parties and reduce taxpayer exposure; and
- Fostering innovation of products that expand the availability of workforce housing in the marketplace.

We use a prior-approval underwriting approach for multifamily loans, in contrast to the delegated underwriting approach used in our Single-family Guarantee segment. Under this approach, we maintain credit discipline by completing our own underwriting and credit review for each new loan prior to issuance of a loan commitment, including review of third-party appraisals and cash flow analysis.

Multifamily loans are typically without recourse to the borrower, making repayment dependent on cash flows generated by the underlying property. Cash flows generated by a property are significantly influenced by vacancy and rental rates, as well as conditions in the local rental market, the physical condition of the property, the quality of property management, and the level of operating expenses.

Multifamily property markets are affected by local and regional economic factors, such as employment rates, construction cycles, preferences for homeownership versus renting, and relative affordability of single-family home prices, all of which influence the supply and demand for multifamily properties and pricing for apartment rentals.

### Products and Activities

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#### Securitization and Guarantee Products

In our Multifamily segment, we primarily issue the following types of securitization and guarantee products which make up our guarantee portfolio:



K Certificates - Our primary business model is to purchase multifamily loans for aggregation and securitization through the issuance of multifamily K Certificates, which allows us to transfer the vast majority of the expected credit losses of the loans to third-party investors. As shown in the diagram below, in a typical K Certificate transaction, we sell multifamily loans to a non-Freddie Mac securitization trust that issues senior and subordinated securities, and simultaneously purchase and place the senior securities into a Freddie Mac securitization trust that issues guaranteed K Certificates. In substantially all of these transactions, we guarantee only the senior securities issued by the Freddie Mac securitization trust and do not issue or guarantee the subordinated securities issued by the non-Freddie Mac securitization trust. As a result, the vast majority of the expected credit risk is sold to the third-party investors in the subordinated securities, thereby reducing our credit risk exposure. We receive a management and guarantee fee in exchange for guaranteeing the K Certificates. Profitability on our K Certificates is evaluated in terms of management and guarantee fee income and gains on the sales of loans. We attempt to maximize our returns by optimizing the combination of gains we earn when we sell the loans for securitization and the management and guarantee fees we will earn over time.

We may purchase or retain a portion of the K Certificates or the unguaranteed subordinated securities, and, from time to time, we may undertake other activities to support the liquidity of K Certificates. For more information, see “Risk Factors - Other Risks - A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates.”

Other securitization products - We purchase small balance multifamily loans and sell them to a third-party securitization trust in transactions that are similar to our K Certificate transactions and that transfer a portion of the credit risk of the loans to third-party investors. From time to time, we also issue other types of securitization products, including PCs backed by multifamily loans and pass

through certificates backed by multifamily housing revenue bonds. In 2009 and 2010, we entered into transactions under Treasury's NIBP with HFAs. See Note 2 for further information.

- Other mortgage-related guarantees - We guarantee mortgage-related assets held by third parties in exchange for management and guarantee fee income without securitizing those assets. For example, we provide guarantees on certain tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily loans.

#### Investing Activities

**Mortgage loans** - Our primary business model is to acquire loans for aggregation and then to securitize the loans through the issuance of K Certificates. However, we continue to hold a portfolio of multifamily mortgage loans that we acquired under our prior buy-and-hold investment strategy. This portfolio is declining over time.

**Agency mortgage-related securities** - We may purchase or retain a portion of the K Certificates and other types of multifamily securitization products we issue, depending on market conditions, and we may also buy or sell these securities in the secondary market.

**Non-Agency mortgage-related securities** - We may purchase a portion of the unguaranteed subordinated securities related to our securitization transactions, depending on market conditions.

**CMBS** - We are not currently an active purchaser of CMBS. However, we continue to hold a portfolio of CMBS and other multifamily investment securities that we acquired under our prior buy-and-hold investment strategy. This portfolio is declining over time.

#### Customers

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Our multifamily loan volume is sourced through our approved lenders. We generally provide post-construction financing to apartment project operators with established performance records. The following graphs show the concentration of our 2015 multifamily new business volume by our largest sellers and loan servicing by our largest servicers as of December 31, 2015. Any seller or servicer with a 10% or greater share is listed separately.

Management's Discussion and Analysis

Our Business Segments | Multifamily

Percentage of Multifamily New Business Volume

Percentage of Multifamily Servicing Volume

Competition

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We compete on the basis of price, service, and products, including our use of certain securitization structures. Our principal competitors in the Multifamily segment are Fannie Mae, FHA, commercial and investment banks, CMBS conduits, dealers, thrift institutions, and life insurance companies.

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## MARKET CONDITIONS

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The graphs and related discussion below present certain multifamily market indicators, for the most recent five years, that can significantly affect the business and financial results of our Multifamily segment.

Change in Effective Rents for Period Ending December 31,

Source: REIS, Inc.

Apartment Vacancy Rates as of December 31,

Source: REIS, Inc.

### Commentary

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Effective rents (i.e., the average rent paid by the tenant over the term of the lease, adjusted for concessions by the landlord and costs borne by the tenant) remain strong, but the rate of increase is expected to moderate in the future, consistent with the rise in vacancy rates. Vacancy rates increased slightly since 2013 from what is likely the cyclical low.

Multifamily property prices have been especially strong, with 13% growth in 2015. Multifamily property price growth may slow from this level with the expected moderation in the rate of effective rent increase, the rising vacancy rate, as well as improving returns for other investment types.

### Apartment Completions and Net Absorption

Source: REIS, Inc.

K Certificate Benchmark Spread as of December 31,

Source: J.P. Morgan

### Commentary

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Apartment completions are an indication of the supply of rental housing. Net absorption, which is a measurement of the rate at which available apartments are occupied, is an indication of demand for rental housing.

While supply (indicated by completions) has been on the rise and has driven the increase in vacancies, demand (indicated by net absorption) has also been strong for rental housing in recent periods because of an improving job market and lower homeownership rates. However, in the longer term, the increasing supply may have unfavorable impacts on rental and vacancy rates.

The K Certificate benchmark spread represents the spread of a typical 10-year senior K Certificate over the U.S. swap curve. In 2015, the spread widened due to broad macroeconomic market volatility and uncertainty.

The profitability of our K Certificate transactions (as measured by gains and losses on sales of mortgage loans) is impacted by the change in the K Certificate benchmark spread during the period between loan purchase and execution of the K Certificate transaction. During 2015, spread widening had an adverse effect on K Certificate profitability.

Multifamily Mortgage Debt Outstanding as of December 31,

Source: Federal Reserve Financial Accounts of the United States of America dated December 10, 2015. For 2015, the amount is as of September 30, 2015 (latest available information).

Multifamily Delinquency Rates as of December 31,

Source: Freddie Mac, FDIC Quarterly Banking Profile, Trepp, LLC. (MF CMBS market, excluding REOs), American Council of Life Insurers (ACLI). For 2015, the amounts for FDIC insured institutions and ACLI investment bulletin are as of September 30, 2015 (latest available information).

Commentary

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There was significant growth in the multifamily market during 2015. As reported by the Federal Reserve, total multifamily mortgage debt outstanding was approximately \$1.1 trillion at September 30, 2015 (the latest available information), representing an increase of \$95.0 billion (or 10%) since September 30, 2014, one of the largest annual increases ever reported by the Federal Reserve.

Our share of multifamily mortgage debt outstanding has remained relatively stable over the past several years in the 12-14% range.

Our multifamily delinquency rates during 2015 remained among the lowest in the industry, primarily due to our prior-approval underwriting approach discussed earlier.

We expect continued growth in the multifamily mortgage market due to increasing property prices and new completions, along with favorable investment opportunities. In addition, we expect to maintain our share of multifamily mortgage debt outstanding in 2016.

We expect the credit losses and delinquency rates for the multifamily mortgage portfolio to remain low in the near term.

## BUSINESS RESULTS

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The graphs and related discussion below present the business results of our Multifamily segment over the last three years.

### New Business Activity

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New Business Activity for the Year Ended December 31,

Acquisition of Units by Area Median Income (AMI) for the Year Ended December 31,

### Commentary

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We met the 2015 Conservatorship Scorecard goal of maintaining the dollar volume of multifamily new business activity at or below a production cap of \$30.0 billion. For purposes of determining our performance under the goal, business activity associated with certain targeted loan types is excluded from this production cap.

In May 2015, FHFA expanded the affordable housing categories excluded from the production cap in our 2015 scorecard. These revisions enabled us to further support the needs of the workforce housing market across more communities. Based on this guidance, approximately 63% of our multifamily new business activity during 2015 counted towards the 2015 scorecard production cap, and the remaining 37% was uncapped.

Nearly 90% of the eligible units we financed during 2015 were affordable to families earning at or below the median income in their area (eligible units are multifamily units that qualify toward our affordable housing goal). We increased our support of workforce housing in the multifamily mortgage market during 2015 through new initiatives, including purchases of manufactured housing community loans and small balance loans.

We expect our overall new business volume to increase in 2016; however, we expect our volume in the capped categories to be at or below the 2016 Conservatorship Scorecard cap of \$31.0 billion. We also expect to introduce new initiatives to support liquidity and workforce housing in the multifamily mortgage markets.

We expect the increased competition from other market participants, particularly banking institutions, to continue.



## Multifamily Portfolio

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Multifamily Portfolio as of December 31,

Net Interest Yield Earned For the Year Ended December 31,

## Commentary

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Our Multifamily portfolio grew in 2015 due to an increase in the guarantee portfolio, which was primarily attributable to our securitization of loans in K Certificate transactions. This growth was consistent with the overall increase in multifamily mortgage debt outstanding in the U.S.

Our portfolio of interest-earning assets continued to decline in 2015 as a result of reductions in our unsecuritized loan and mortgage-related securities portfolios, consistent with our plans to reduce our holdings of less liquid assets. The interest earning assets that liquidated had lower net interest yields relative to the average portfolio, resulting in an increase in net interest yields in 2015.

We expect a continued increase in the size of our guarantee portfolio as a result of ongoing K Certificate transactions and a reduction in our unsecuritized loan and mortgage-related security portfolios due to ongoing principal repayments.

Management and Guarantee Fees

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Average Management and Guarantee Fee Rate Charged on New K Certificates for the Year Ended December 31,

Average Portfolio Management and Guarantee Fee Rate as of December 31,

Commentary

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The guarantee portfolio increased in 2015 as a result of our ongoing issuance of K Certificates. The average management and guarantee fee rate on both the overall guarantee portfolio and on newly issued K Certificates increased in 2015, primarily as a result of increased securitizations of products for which we charge higher fees. We expect the average management and guarantee fee rate charged for new K Certificate issuances in 2016 to be consistent with the rates in 2015.

The average management and guarantee fee rate charged on K Certificates is generally lower than the average management and guarantee fee rate charged on our other securitization products and other mortgage-related guarantees. The lower management and guarantee fee rate on K Certificates is driven by higher levels of subordination that absorb the vast majority of the expected credit losses.

Credit Risk Transfer Activity

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New K Certificate Issuances for the Year Ended December 31,

Cumulative K Certificate Issuances as of December 31,

Commentary

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In addition to the credit risk we transferred on the K Certificates issued in 2015, we also transferred credit risk associated with \$1.7 billion of additional loans through other securitization products, such as small balance loan securitizations.

• More than 90% of the loans we purchased in 2015 were designated for securitization.

• We resecuritized \$3.4 billion of less liquid non-agency mortgage-related securities, transferring a portion of the credit risk to private investors.

• While we expect to use K Certificates as the primary method to transfer credit risk in 2016, we also expect to introduce new initiatives to transfer risk.

## FINANCIAL RESULTS

The table below presents the components of the Segment Earnings and comprehensive income for our Multifamily segment.

(dollars in millions)	Year Ended December 31,			Change 2015 - 2014		Change 2014 - 2013		
	2015	2014	2013	\$	%	\$	%	
Net interest income	\$927	\$948	\$1,186	\$(21)	(2)%	\$(238)	(20)%	
Benefit for credit losses	26	55	218	(29)	(53)%	(163)	(75)%	
Non-interest income:								
Management and guarantee fee income	339	254	206	85	33%	48	23%	
Gains (losses) on loans	(93)	870	(336)	(963)	(111)%	1,206	(359)%	
Derivative gains	372	335	1,281	37	11%	(946)	(74)%	
Other non-interest income	17	234	1,203	(217)	(93)%	(969)	(81)%	
Total non-interest income	635	1,693	2,354	(1,058)	(62)%	(661)	(28)%	
Non-interest expense:								
Administrative expense	(325)	(274)	(257)	(51)	19%	(17)	7%	
REO operations (expense) income	(4)	9	16	(13)	(144)%	(7)	(44)%	
Other non-interest expense	(56)	(23)	(24)	(33)	143%	1	(4)%	
Total non-interest expense	(385)	(288)	(265)	(97)	34%	(23)	9%	
Segment Earnings before income tax expense	1,203	2,408	3,493	(1,205)	(50)%	(1,085)	(31)%	
Income tax expense	(376)	(772)	(443)	396	(51)%	(329)	74%	
Segment Earnings, net of taxes	827	1,636	3,050	(809)	(49)%	(1,414)	(46)%	
Total other comprehensive income (loss), net of tax	(261)	(177)	(1,595)	(84)	47%	1,418	(89)%	
Total comprehensive income	\$566	\$1,459	\$1,455	\$(893)	(61)%	\$4	—%	

## Key Drivers:

Net interest income declined in 2015 compared to 2014 primarily due to a segment allocation in 2015 of debt extinguishment costs related to the transfer of \$1.2 billion of seasoned mortgage loans to a consolidated K Certificate trust. This decline was partially offset by higher net interest income in 2015 due to changes in the composition of our multifamily portfolio, as lower yielding legacy loans and securities were replaced with purchases of higher-yielding loans to support future securitizations. The decline in 2014 compared to 2013 was primarily due to lower average multifamily portfolio balances of interest-earning assets.

Benefit for credit losses declined each year. The credit performance of the multifamily mortgage portfolio remained strong each year and the number of loans subject to a loan loss reserve has declined over time. Loans purchased for securitization are recorded at fair value and are therefore not subject to a loan loss reserve.

Management and guarantee fee income increased each year, primarily due to higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates.

Gains (losses) on loans was a loss in 2015 as loans are sensitive to changes in K Certificate benchmark spreads observed in the market as well as to interest rate-related fair value changes (for which resulting gains (losses) are offset in derivatives gains (losses)). The significant widening of K Certificate benchmark spreads coupled with higher loan purchase and securitization volume resulted in losses on loans in 2015, as compared to gains on loans recognized in 2014 when spreads tightened. The change from losses in 2013 to gains in 2014 was attributable to interest rate-related



fair value changes (that are offset in derivative gains (losses)), as rates increased in 2013 but decreased in 2014. Derivative gains (losses) for the Multifamily segment are offset by fair value changes of the loans and investment securities being hedged. As a result, there is no net impact on total comprehensive income for the Multifamily segment from fair value changes related to interest rate-related derivatives. The fair value changes of the hedged assets are included in gains (losses) on loans, other non-interest income and total other comprehensive income. Other non-interest income and total other comprehensive loss (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) declined each year, primarily due to declining sales of available-for-sale securities where gains had previously been recognized in AOCI. We sold \$1.0 billion of investment securities in 2015, compared to \$2.6 billion during 2014 and \$13.6 billion in 2013.

## INVESTMENTS

## BUSINESS OVERVIEW

The Investments segment reflects results from three primary activities:

- Managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments and single-family seriously delinquent loans;

- Managing the treasury function for the company, including funding and liquidity; and

- Managing interest-rate risk for the company.

The objectives of our Investments segment are to make appropriate risk and capital management decisions and to be a market leader. The Investments segment supports our primary business strategies by creating:

A Better Freddie Mac:

- Engaging in economically sensible transactions to reduce our less liquid assets, including non-agency mortgage-related securities, and to reduce the balance of our reperforming loans and our performing modified loans;

- Managing the mortgage-related investments portfolio's risk-versus-return profile based on our internal economic capital framework;

- Enhancing the liquidity of our issued securities in the secondary mortgage market to support our business needs;

- Responding to market opportunities by efficiently funding the company's business activities; and

- Managing the company's economic interest-rate risk through the use of derivatives and other debt.

A Better Housing Finance System:

- Expanding and improving the delivery of mortgage capital markets services through our cash loan purchase program, in conjunction with the Single-family Guarantee segment.

Although we manage our business on an economic basis, we may forgo certain investment opportunities for a variety of reasons, including the limit on the size of our mortgage-related investments portfolio or the risk that a particular accounting treatment may create earnings volatility as well as result in a future draw from Treasury. For additional information on the limits on the mortgage-related investments portfolio established by the Purchase Agreement and by FHFA, see "Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness."

Products and Activities

## Investing and Related Activities

In our Investments segment, we manage the following types of products:

- Agency mortgage-related securities - We primarily invest in Freddie Mac mortgage-related securities, but may also invest in Fannie Mae and Ginnie Mae mortgage-related securities from time to time. Our activities with respect to this product may include purchases and sales, dollar roll transactions, and structuring activities (e.g., resecuritizing existing agency securities into REMICs and selling some or all of the resulting REMIC tranches).



Non-agency mortgage-related securities - We generally no longer purchase non-agency mortgage-related securities, but continue to have a large portfolio of non-agency mortgage-related securities that we acquired in prior years. We are working, in some cases in conjunction with other investors, to mitigate or recover losses we recognized in prior years. In recent years, we and FHFA reached settlements with a number of institutions. Lawsuits against other institutions are currently pending. Our activities with respect to this product are primarily sales but could include other disposition strategies in the future.

Single-family unsecuritized loans - Single-family unsecuritized loans are classified into three categories:

Loans acquired through our cash loan purchase program that are awaiting securitization;

Reperforming loans and performing modified loans; and

Seriously delinquent loans that we have removed from PC pools (this loan category is managed by both the Investments and Single-family Guarantee segments, but is included in the Single-family Guarantee segment's investment portfolio and financial results).

The strategies employed to manage each category may differ. We securitize a majority of the loans acquired through our cash loan purchase program into Freddie Mac mortgage-related securities, primarily PCs, which may be sold to investors or retained in our mortgage-related investments portfolio. As part of the Retained Portfolio plan, we are reducing the balance of our reperforming and performing modified loans through a variety of methods, including disposition through structured transactions, with the resulting securities being sold to investors or retained in our mortgage-related investments portfolio. In the future, we may seek to sell these loans directly or pursue other disposition strategies. Seriously delinquent loans continue to be reduced through loss mitigation and foreclosure activities, as well as through sales of certain non-performing loans.

Non-mortgage-related assets - We maintain a portfolio consisting primarily of cash, Treasury securities, and securities purchased under agreements to resell, principally for short-term liquidity management. This portfolio also includes cash invested on behalf of our consolidated trusts and cash pledged to us under various agreements.

We evaluate the liquidity of our mortgage-related assets based on three categories (in order of liquidity):

• Liquid: single-class and multi-class agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities;

• Securitization Pipeline: performing single-family loans purchased for cash and primarily held for a short period until securitized, with the resulting Freddie Mac issued securities being sold or retained; and

• Less Liquid: assets that are less liquid than agency securities and loans in the securitization pipeline (e.g., reperforming loans and performing modified loans and non-agency mortgage-related securities).

As a well-established disposition path exists for our single-family loans included in the securitization pipeline, we consider those assets to be more liquid than non-agency securities and reperforming loans and performing modified loans, but less liquid than single-class and multi-class agency securities.

As part of our Retained Portfolio plan, we are focused on reducing the balance of less liquid assets that we hold in the mortgage-related investments portfolio through a combination of pay-downs, sales and securitizations.

We may undertake various activities in an effort to support our presence in the agency securities market or to support the liquidity of our PCs, including the price performance relative to comparable Fannie Mae securities. These activities may include the purchase and sale of agency securities, the purchase of loans, dollar roll transactions, and structuring activities, such as securitization of existing agency securities and the sale of some or all of the resulting securities. Depending upon market conditions, there may be substantial variability in any period in the total amount of securities we purchase or sell. In some cases, the purchase or sale of agency securities could adversely affect the price performance of our PCs relative to comparable Fannie Mae securities.

We incur costs in connection with our efforts to support our presence in the agency securities market and to support the liquidity and price performance of our PCs, including by engaging in transactions that yield less than our target rate of return. For more information, see "Risk Factors - Other Risks - A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates."

#### Funding and Liquidity Management Activities

Our Treasury function manages the funding needs of the company, including the Investments segment, primarily through the issuance of unsecured other debt. The type and term of debt issued is based on a variety of factors and is designed to efficiently meet our ongoing cash needs and to comply with our Liquidity Management Framework. This Framework provides a mechanism for us to sustain significant periods of market illiquidity, while being able to maintain certain business activities and remain current on all obligations. See "Liquidity and Capital Resources - Liquidity Management Framework" for additional discussion of our Liquidity Management Framework.

We use the following types of products as part of our funding and liquidity management activities:

**Discount Notes and Reference Bills** - We issue short-term instruments with maturities of one year or less. These products are generally sold on a discounted basis, paying principal only at maturity. Reference Bills are auctioned to dealers on a regular schedule, while discount notes are issued in response to investor demand and our cash needs.

**Medium-term Notes** - We issue a variety of fixed-rate and variable-rate medium-term notes, including callable and non-callable fixed-rate securities, and zero-coupon securities, with various maturities.

**Reference Notes Securities** - Reference Notes securities are non-callable fixed-rate securities, which we currently issue with original maturities greater than two years.

To maintain sufficient short-term liquidity, we may hold a combination of cash, cash-equivalent, and non-mortgage-related investments in our liquidity and contingency operating portfolio. These instruments are limited to those we expect to be liquid and readily convertible into cash. We also lend available cash on a short-term basis through transactions where we purchase securities under agreements to resell. This portfolio is designed to allow us to meet all of our obligations in the event that we lose access to the unsecured debt markets for a period of time.

#### Interest-Rate and Other Risk Management Activities

Our goal is to manage the economic interest-rate risk for the company within management approved levels, as measured by our models. See "Risk Management - Interest-Rate Risk and Other Market Risks"

for additional information, including the measurement of the interest rate sensitivity of our financial assets and liabilities.

Typically there is an interest rate risk mismatch between our financial assets and the other debt that we use to fund those assets. For example, many investors in our callable Medium-term Notes prefer to have final maturities of 5 years or less. While this type of debt helps us to meet our need for longer-term liquidity, it may not match the mortgage assets' interest-rate risk characteristics. In this case, we would typically use interest-rate derivatives to reduce the economic risk exposure between our financial assets and liabilities. Using our risk management framework described in the "Risk Management - Interest Rate and Other Market Risks" section, we seek to reduce this impact to low levels. We also could consider the expected holding periods of our financial assets and liabilities. Our debt terms are generally shorter than our assets' projected life. As a result, we will likely have to reissue debt to continue to hold the assets. Changes in spreads on future debt issuances may impact the future cash flows of our portfolio. We at times attempt to manage the impact of interest-rates on future debt issuance. Additionally, financial assets that are likely to be sold prior to their final maturity may have a different debt and derivative mix than financial assets that we plan to hold for a longer period. As a result, interest rate risk measurements for those assets may include additional assumptions (such as a view on expected changes in spreads) concerning their price sensitivity rather than just a longer-term view of cash flows.

To manage our interest rate risk, we primarily use interest rate swaps, options, swaptions, and futures. When we use derivatives to mitigate our risk exposures, we consider a number of factors, including cost, exposure to counterparty risk, and our overall risk management strategy.

#### Customers

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Our unsecured other debt securities and structured mortgage-related securities are initially purchased by dealers and redistributed to their customers. The customers for these securities generally include state and local governments, insurance companies, money managers, central banks, depository institutions, and pension funds. Our customers under our loan cash purchase program are a variety of lenders, as discussed in "Single-Family Guarantee - Business Overview - Customers."

#### Competition

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Our competitors in the Investments segment are firms that invest in loans and mortgage-related assets, and issue corporate debt, including Fannie Mae, REITs, supranationals (international institutions that provide development financing for member countries), commercial and investment banks, dealers, thrift institutions, insurance companies, the Federal Farm Credit Banks, and the FHLBs.

## MARKET CONDITIONS

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The following graph and related discussion presents the par swap rate curve for the most recent three years. As our derivatives and variable-rate debt are generally LIBOR-based, changes in par swap rates can significantly affect the business and financial results of our Investments segment.

Par Swap Rates as of December 31,

Sources: Bloomberg, ICAP

Commentary

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We primarily use LIBOR-based derivatives and fixed-rate debt to hedge our interest rate risk. The mortgage-related investments portfolio's exposure to interest rate risk is calculated by our models that project loan and security cash flows over a variety of scenarios. For additional information on our exposure to interest rate risk, see "Risk Management - Interest-Rate Risk and Other Market Risks."

Changes in interest rates affect the fair value of our derivatives. Our primary derivative instruments are interest-rate swaps, including pay-fixed and receive-fixed interest-rate swaps. With a pay-fixed interest-rate swap, as interest rates decline, we recognize derivative losses. Conversely, as interest

rates rise, we recognize derivative gains. The opposite is true with respect to a receive-fixed interest-rate swap.

As our derivative portfolio is referenced to different maturity terms along the yield curve, a change in the shape of the yield curve (flattening or steepening) will also affect the fair value of our derivatives.

The Federal Reserve decided in December 2015 to begin raising short-term interest rates but committed to a measured pace of monetary tightening. As a result, shorter-term interest rates, including the 3-month LIBOR rates, increased in December 2015. However, the magnitude and timing of the impact of the Federal Reserve's action on mortgage and other longer-term rates is uncertain.

## BUSINESS RESULTS

The tables, graphs and related discussion below present the business results of our Investments segment.

## Investing Activity

The following table presents the Investments segment's investments portfolio.

(in millions)	December 31, 2015				December 31, 2014			
	Liquid	Securitized Pipeline	Less Liquid	Total	Liquid	Securitized Pipeline	Less Liquid	Total
Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	\$—	\$ 10,041	\$—	\$10,041	\$—	\$ 7,497	\$—	\$7,497
Reperforming loans and performing modified loans	—	—	67,036	67,036	—	—	75,281	75,281
Total single-family unsecuritized loans	—	10,041	67,036	77,077	—	7,497	75,281	82,778
Freddie Mac mortgage-related securities	135,869	—	6,076	141,945	150,852	—	7,363	158,215
Non-agency mortgage-related securities	—	—	27,754	27,754	—	—	44,230	44,230
Non-Freddie Mac agency mortgage-related securities	12,958	—	—	12,958	16,341	—	—	16,341
Total - Mortgage investments portfolio	\$148,827	\$ 10,041	\$100,866	\$259,734	\$167,193	\$ 7,497	\$126,874	\$301,564
Non-mortgage-related assets portfolio	100,913	—	—	100,913	78,040	—	—	78,040
Total Investments Portfolio	\$249,740	\$ 10,041	\$100,866	\$360,647	\$245,233	\$ 7,497	\$126,874	\$379,604

## Commentary

Consistent with our efforts to improve the overall liquidity of our mortgage investments portfolio, our new asset acquisitions have almost entirely consisted of purchases of agency mortgage-related securities and loans awaiting securitization into PCs. During 2015, the percentage of our less liquid assets relative to our total mortgage investments portfolio declined 3.3% to 38.8%.

We expect to reduce the balance of our less liquid assets through a combination of pay-downs, securitizations, and sales.

Net Interest Yield and Average Balances

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Net Interest Yield & Average Investments Portfolio Balance  
Commentary

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The average balance of the mortgage-related securities that we manage declined by 10.3% during 2015 compared to 2014, consistent with the company's efforts to comply with the mortgage-related investments portfolio limits. The decline in the balance of our mortgage-related securities was primarily due to pay-downs of certain agency mortgage-related securities and pay-downs and sales of certain non-agency mortgage-related securities.

The average balance of the single-family unsecuritized mortgage loans that we manage declined by 4.6% during 2015 compared to 2014, primarily due to the securitization of certain reperforming loans and performing modified loans. The average balance of the non-mortgage-related assets that we manage will fluctuate period to period based on our liquidity needs, investment strategy, and investment returns. This portfolio reflects our investments for operating purposes as well as the restricted assets that we hold and invest on behalf of consolidated trusts and cash that has been pledged to us under various agreements.

Net interest yield declined 29 basis points during 2015, primarily due to a decline in the average yield earned from the mortgage-related assets that we manage. This decline was primarily driven by the pay-down of certain higher-yielding agency securities. Although we acquired additional agency

securities to replace certain of those securities that paid down, the new securities have lower yields due to an overall lower interest rate environment. The decline in average yield earned was also driven by an increase in the amount of premium amortization recognized for loans held by consolidated trusts due to higher borrower prepayments. The amortization of loan premiums is generally offset by the amortization of the related debt premiums that were recognized upon the issuance of a PC. However, while loan premiums are amortized into net interest income, the related debt premiums are amortized into other non-interest income.

• We expect our net interest yield and average investments portfolio balance to continue to decline in 2016 as we manage the size of our mortgage-related assets.



Management's Discussion and Analysis

Our Business Segments | Investments

Reduction In Less Liquid Assets

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Securitizations of Reperforming Loans and Performing Modified Loans

Sales of Less Liquid Assets

Commentary

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- Since 2013, we have focused on reducing, in an economically sensible manner, our holdings of certain less liquid assets, including reperforming and performing modified single-family loans and non-agency mortgage-related securities. Our principal disposition strategies for our less liquid assets include securitizations and sales.

## Management's Discussion and Analysis

## Our Business Segments | Investments

## Funding Activity

The table below summarizes our funding activity.

(in millions)	Year Ended December 31,		
	2015	2014	2013
<b>Discount notes and Reference Bills:</b>			
Beginning balance	\$134,670	\$137,767	\$117,930
Issuances	427,964	217,717	293,350
Maturities	(458,546	) (220,747	) (273,513
Other	—	(67	) —
Ending balance	104,088	134,670	137,767
<b>Callable debt:</b>			
Beginning balance	107,070	108,391	102,908
Issuances	128,612	66,128	69,738
Repurchases	—	(2,592	) (1,879
Calls	(124,435	) (61,288	) (59,557
Maturities	(3,572	) (3,563	) (2,816
Other	—	(6	) (3
Ending balance	107,675	107,070	108,391
<b>Non-callable debt:</b>			
Beginning balance	206,393	264,080	331,634
Issuances	42,520	21,595	45,353
Repurchases	(397	) (1,413	) (197
Maturities	(54,144	) (77,869	) (112,731
Other	—	—	21
Ending balance	194,372	206,393	264,080
Total other debt	\$406,135	\$448,133	\$510,238
Commentary			

We fund our business activities primarily through the issuance of unsecured other short-term (e.g., discount notes and Reference Bills), medium-term and long-term debt. The outstanding balance of our other debt declined during 2015, as we required less debt to fund our business operations, as the balance of our mortgage-related investments portfolio continued to decline.

During 2015, we began to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. This resulted in an increase in both issuances and pay-offs of our short-term other debt.

Issuances and calls of our longer-term callable debt increased during 2015, as we refinanced more of our outstanding callable debt due to the low interest rate environment. See "Market Conditions" for additional discussion of interest rates.

## Debt Composition

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Contractual Maturity Date as of December 31, 2015

Earliest Call Date as of December 31, 2015

## Commentary

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As our long-term debt spreads remained high in 2015, we continued to rely on short-term and medium-term debt issuances to fund our business. Short-term debt as a percentage of total other debt has remained relatively flat at 41.3% in 2015, down 1.3% and 1.5% from 2014 and 2013, respectively.

Our short-term debt issuances provide us with overall lower funding costs relative to longer-term debt and greater flexibility as we reduce our mortgage-related investments portfolio. However, in recent years, we have witnessed a significant increase in FHLB short-term debt issuances and outstanding balances. Increased competition from the FHLBs with respect to short-term debt issuances may have caused our short-term debt spreads to increase during the last quarter of 2015.

During 2015, spreads on our callable debt were favorable relative to our non-callable medium-term and long-term debt. Furthermore, our callable debt provides us with flexibility in the event that our liquidity condition changes. As a result, we issued more callable debt during 2015 compared to 2014. As of December 31, 2015, \$93 billion of the outstanding \$108 billion of callable debt may be called in 2016.

## FINANCIAL RESULTS

The table below presents the components of the Segment Earnings and comprehensive income for our Investments segment.

(dollars in millions)	Year Ended December 31,			Change 2015 - 2014		Change 2014 - 2013	
	2015	2014	2013	\$	%	\$	%
Net interest income	\$1,734	\$2,966	\$3,525	\$(1,232)	(42)%	\$(559)	(16)%
Non-interest income:							
Net impairment of available-for-sale securities recognized in earnings	420	(140)	(974)	560	(400)	834	(86)
Derivative gains (losses)	(70)	(5,158)	5,543	5,088	(99)	(10,701)	(193)
Gains (losses) on trading securities	(737)	(276)	(1,466)	(461)	167	1,190	(81)
Non-agency mortgage-related securities settlements	65	6,084	5,501	(6,019)	(99)	583	
Other non-interest income	3,614	2,797	3,401	817	29	(604)	(18)
Total non-interest income	3,292	3,307	12,005	(15)	—	(8,698)	(72)
Non-interest expense:							
Administrative expense	(317)	(437)	(523)	120	(27)	86	(16)
Other non-interest (expense) income	(4)	(6)	349	2	(33)	(355)	(102)
Total non-interest expense	(321)	(443)	(174)	122	(28)	(269)	155
Segment adjustments	781	635	1,037	146	23	(402)	(39)
Segment Earnings before income tax expense	5,486	6,465	16,393	(979)	(15)	(9,928)	(61)
Income tax expense	(1,715)	(1,945)	(463)	230	(12)	(1,482)	320
Segment Earnings, net of taxes	3,771	4,520	15,930	(749)	(17)	(11,410)	(72)
Total other comprehensive income (loss), net of tax	(356)	1,951	4,357	(2,307)	(118)	(2,406)	(55)
Total comprehensive income	\$3,415	\$6,471	\$20,287	\$(3,056)	(47)%	\$(13,816)	(68)%

Certain of our financial assets and liabilities are measured at amortized cost, while others, including derivatives, are measured at fair value. We use derivatives to economically hedge the interest-rate exposure related to our financial assets. As a result, changes in interest rates create volatility in our Segment Earnings, as the volatility created by interest rate changes is recognized in the Investment segment, unless otherwise allocated to other segments. The volatility in our Segment Earnings generally is not indicative of the underlying economics of our business.

## Key Drivers:

Net interest income declined in 2015 and 2014, primarily due to the continued reduction in the balance of our mortgage-related assets. The decline in our mortgage-related assets balance during 2015 was due to pay-downs and sales and other active dispositions.

Net impairment of available-for-sale securities recognized in earnings was in a net recovery position during 2015 compared to a net loss position in 2014, primarily due to the accretion of previously recognized other-than-temporary impairments exceeding new other-than-temporary impairments. Net impairment of available-for-sale securities recognized in earnings declined during 2014 compared to 2013, primarily due to a larger amount of accretion being recognized in 2014 and lower new other-than-temporary impairments.

Changes in derivative gains (losses) primarily resulted from changes in longer-term interest rates. Longer-term interest rates declined in both 2015 and 2014, while interest rates increased during



2013. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.

The losses on trading securities during all periods were primarily due to the movement of securities in an unrealized gain position towards maturity. The losses on trading securities in 2015 were larger than 2014, as a result of agency spreads widening in 2015 compared to tightening in 2014. The losses on trading securities in 2013 were primarily driven by increases in longer-term interest rates.

Non-agency mortgage-related securities settlements declined significantly during 2015 compared to 2014, as a majority of our non-agency mortgage-related securities litigation settled during 2014 and 2013. We continue to have ongoing litigation with respect to certain other non-agency mortgage-related securities. In 2015, we entered into one small settlement to resolve a claim with respect to certain non-agency mortgage-related securities that we hold, while we reached settlements with 10 institutions during 2014. Income from the settlement of non-agency mortgage-related securities litigation was significant during 2014, however it was relatively flat compared to 2013.

Other non-interest income increased during 2015 compared to 2014, primarily due to an increase in the amortization of basis adjustments associated with debt securities of consolidated trusts. This increase was a result of higher prepayment rates during 2015 compared to 2014. Other non-interest income decreased during 2014 compared to 2013, primarily due to a decrease in the amortization of basis adjustments associated with debt securities of consolidated trusts, as a result of slower prepayment rates. See "Key Economic Indicators" for a discussion of mortgage interest rates, which are generally correlated to the amount of refinance activity.

Income tax expense decreased during 2015 compared to 2014, as result of lower Segment Earnings and a relatively flat effective tax rate (see Note 11). Income tax expense increased during 2014 compared to 2013, as a result of a full year of income tax expense in 2014. In 2013, we released the valuation allowance against our net deferred tax assets, creating less income tax expense for the year.

Other comprehensive income was a loss during 2015 compared to income during 2014, primarily due to less spread tightening for our non-agency mortgage-related securities and less impairment reclassifications from AOCI to earnings. The decrease in other comprehensive income during 2014 compared to 2013 was primarily due to less spread tightening for our non-agency mortgage-related securities, partially offset by a flattening of the yield curve during 2014. Other comprehensive income in all periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

Management's Discussion and Analysis

Our Business Segments | All Other

ALL OTHER  
COMPREHENSIVE INCOME

The table below shows our comprehensive income (loss) for the All Other category.

(in millions)	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
	2015	2014	2013	\$	%	\$	%
Comprehensive income (loss) - All Other	\$28	\$(41 )	\$24,013	\$69	(168 )%	\$(24,054 )	(100 )%

Comprehensive income (loss) for the All Other category for 2013 reflects a benefit for federal income taxes that resulted from the release of our valuation allowance against our net deferred tax assets.

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**RISK MANAGEMENT  
OVERVIEW**

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, interest rate and other market risks, liquidity risk, and operational risk. We primarily discuss credit risk, interest-rate and other market risks, and operational risk in this section. See "Liquidity and Capital Resources" for a discussion of liquidity risk. For more discussion of these and other risks facing our business, see "Risk Factors."

**RISK MANAGEMENT FRAMEWORK**

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We manage risk using a three-lines-of-defense risk management framework. The diagram below provides examples of how the three lines of defense complement each other under our risk management framework. These roles and responsibilities continue to evolve.



Management's Discussion and Analysis

Risk Management | Overview

Lines of Defense

RISK CATEGORY	First Line Business Units	Second Line ERM Division Compliance Division	Third Line Internal Audit Division
Credit	<p>Identify, assess, measure and manage risk within established credit policy guidelines</p> <p>Establish key risk indicators and various other metrics</p>	<p>Establish credit risk appetite, policy, limits, monitoring metrics and credit risk decision review process</p>	<p>Evaluates the design adequacy, operational effectiveness, and efficiency of governance, risk management, and control processes, including, but not limited to, the manner in which the first and second lines of defense achieve risk management and control objectives</p>
Interest Rate and Other Market Risks	<p>Identify, assess, measure and manage duration gap, PMVS, and other measures on a daily basis, including spread risk</p> <p>Establish key risk indicators and various other metrics</p>	<p>Establish interest rate and other market risks appetite, policy, limits, monitoring metrics and assess measurement methodologies</p>	
Liquidity	<p>Identify, assess, measure and manage cash balances and short-and long-term liquidity needs on a daily basis</p> <p>Establish key risk indicators and various other metrics</p>	<p>Establish liquidity risk appetite, policy, limits, monitoring metrics and assess measurement methodologies</p>	
Operational	<p>Identify, assess, measure and manage risk, while establishing and implementing operational processes and controls</p>	<p>Establish operational risk appetite, policy, limits, monitoring metrics and evaluate loss event data and perform root cause analysis and testing</p>	

Establish key risk  
indicators and various  
other metrics

## RISK MANAGEMENT GOVERNANCE STRUCTURE

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We manage risk using a governance structure that includes enterprise-wide oversight by the Board and its committees, CERO, CCO, and our corporate Enterprise Risk Committee ("ERC").

The discussion and diagram below present the structure of our three-lines-of-defense risk management framework and our governance structure.

We have made considerable enhancements to our risk management framework in recent years, including:

- Revising our integrated enterprise risk management framework to enable us to place more focus on high risk business processes and activities; and

- Leveraging our enterprise risk management framework to begin implementation of a redesigned, enhanced, and still maturing three-lines-of-defense methodology.

We use this still maturing three-lines-of-defense methodology to both strengthen risk ownership in our business units and add clarity to risk management roles and responsibilities. Our framework focuses on balancing ownership of risk by our business units with corporate oversight and independent assurance of the design and effectiveness of our risk management activities. For more information on the role of the Board and its committees, see "Directors, Corporate Governance, and Executive Officers - Board and Committee Information."

Management's Discussion and Analysis

Risk Management | Overview

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ECONOMIC CAPITAL

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We use an internal economic capital framework as a component in our risk management process, which includes a risk-based measurement of capital adjusted for relevant interest rate and other market, credit, and operational risks. We assign economic capital internally to asset classes based on their respective risks. Economic capital is a factor we consider when we make economic decisions, establish risk limits, and measure profitability. We are working with FHFA to develop an overall risk measurement framework for evaluating Freddie Mac's and Fannie Mae's business decisions during conservatorship.

## CREDIT RISK

### OVERVIEW

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We are exposed to both mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a loan that we own or guarantee. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations.

We are exposed to three types of mortgage credit risk:

- Single-family mortgage (SF) credit risk, through our ownership or guarantee of loans in the single-family credit guarantee portfolio;

- Multifamily mortgage (MF) credit risk, through our ownership or guarantee of loans in the multifamily mortgage portfolio; and

- Mortgage-related securities (MRS) credit risk, through our ownership of non-Freddie Mac mortgage-related securities in the mortgage-related investments portfolio.

We also hold investments in certain non-mortgage-related securities. As of December 31, 2015, 2014, and 2013, the fair value of our investments in these securities was \$17.2 billion, \$6.7 billion and \$6.6 billion, respectively, and consisted of investments in Treasury securities. As Treasury securities are backed by the full faith and credit of the U.S. government, we consider these securities to be free of credit risk. We may also invest in other types of non-mortgage-related securities that may expose us to institutional credit risk.

In the sections below, we generally discuss our risk management framework and current risk environment for each of the three types of mortgage credit risk and for institutional credit risk.

## SINGLE-FAMILY MORTGAGE CREDIT RISK

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We manage our exposure to single-family mortgage credit risk using the following principal strategies:

- Maintaining policies and procedures for new business activity, including prudent underwriting standards;
- Offering private investors new and innovative ways to share in the credit risk of the Core single-family book;
- Monitoring loan performance and characteristics for the single-family credit guarantee portfolio and individual sellers and servicers;
- Engaging in loss mitigation activities; and
- Managing foreclosure and REO activities.

### Maintaining Policies and Procedures for New Business Activity, Including Prudent Underwriting Standards

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We use a delegated underwriting process in connection with our acquisition of single-family loans whereby we set eligibility and underwriting standards and sellers represent and warrant to us that loans they sell to us meet these standards. Our eligibility and underwriting standards evaluate loans based on a number of characteristics, including those discussed in the “Monitoring Loan Performance and Characteristics for the Single-family Credit Guarantee Portfolio and Individual Sellers and Servicers” section below. We can exercise certain contractual remedies, including requiring repurchase of the loan, for loans that do not meet our standards.

Limits are established on the purchase of loans with certain higher risk characteristics. These limits are designed to balance our credit risk exposure with the facilitation of affordable housing in a responsible manner. Our purchase guidelines generally provide for a maximum original LTV ratio of 95%, with certain exceptions such as a maximum LTV ratio of 80% for cash-out refinance loans, and no maximum LTV ratio for fixed-rate HARP loans. In March 2015, we began to purchase certain loans with LTV ratios up to 97% under an initiative designed to serve a targeted segment of creditworthy borrowers. We fully discontinued purchases of Alt-A loans in 2009, interest-only loans in 2010, and option ARM loans in 2007.

The majority of our purchase volume is evaluated using our own proprietary underwriting software (Loan Prospector (“LP”)), the seller’s software, or Fannie Mae’s software. During 2015 and 2014, 54% and 47%, respectively, of our purchase volume was evaluated using LP. The performance of non-LP loans is monitored to ensure compliance with our risk appetite.

We employ a quality control process to review loan underwriting documentation for compliance with our standards on a sample basis. Many delinquent loans and all loans that result in credit losses are also reviewed. Sellers may appeal ineligible loan determinations prior to repurchase of the loan. Our reviews of 2014 originations are largely complete, while our reviews of 2015 originations are ongoing. The average aggregate ineligible loan rate across all sellers for loans funded during 2014, 2013, and 2012, excluding HARP and other relief refinance loans, was approximately 1.1%, 1.4%, and 3.0%, respectively, based on reviews completed through 2015. The most common underwriting defect found in our review of loans funded during 2014 related to the delivery of insufficient income data.

We made changes in recent periods to standardize our quality control process and facilitate more timely reviews. These changes allow us to identify breaches of representations and warranties early in the life of

the loan. We also implemented new tools, such as our proprietary Quality Control Information Manager, to provide greater transparency into our customer quality control reviews. We also have a process of targeted quality control sampling reviews of loans with certain characteristics. In January 2015, we launched Loan Coverage Advisor, a new tool that allows our sellers to track significant events for the loans they sell us, including when the seller obtains relief from its obligation to repurchase loans due to breach of certain representations and warranties. Also, in October 2015, we announced Loan Advisor Suite, which is a set of integrated software applications designed to give lenders a way to originate and deliver high quality mortgage loans to us and to actively monitor representation and warranty relief earlier in the mortgage loan production process. Further enhancements are expected in 2016.

If we discover that the representations or warranties related to a loan were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses.

These contractual remedies include the ability to require the seller/servicer to repurchase the loan at its current UPB, reimburse us for losses realized with respect to the loan after consideration of any other recoveries, and/or indemnify us. At the direction of FHFA, we implemented a new remedies framework for the categorization of loan origination defects for loans with settlement dates on or after January 1, 2016. Among other items, the framework provides that "significant defects" will result in a repurchase request or a repurchase alternative, such as recourse or indemnification.

At the direction of FHFA, we made a number of changes to our representation and warranty framework for our purchases of conventional mortgage loans in recent years. FHFA may require further changes to the framework in the future. Under the revised framework, sellers are relieved of repurchase obligations for breaches of certain representations and warranties for certain types of loans, including:

- Loans with 36 months (12 months for relief refinance loans) of consecutive, on-time payments after purchase, subject to certain exclusions;
- Loans that have established an acceptable payment history; and
- Loans that have satisfactorily completed a quality control review.

As part of the revised framework, we also made changes that provide additional clarity on life-of-mortgage loan exclusions from repurchase relief. These changes are designed to provide sellers with a higher degree of certainty regarding their repurchase exposure and liability on loan sales to us.

In February 2016, at the direction of FHFA, we published guidelines for a new independent dispute resolution process for alleged breaches of representations and warranties on loans sold to us. Under the new process, a neutral third party resolves demands that remain unresolved after the existing appeal and escalation processes have been exhausted.

The tables below show the credit profile of the single-family loans we purchased or guaranteed in the last three years.



## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

## Weighted Average Original LTV Ratio

## Weighted Average Credit Score

The table below contains additional information about the single-family loans we purchased or guaranteed in the last three years.

(dollars in millions)	Year Ended December 31,		2014		2013			
	2015	% of Total	Amount	% of Total	Amount	% of Total		
30-year or more amortizing fixed-rate	\$262,209	75	% \$192,458	75	% \$287,773	68	%	
20-year amortizing fixed-rate	16,470	5	8,677	4	21,658	5		
15-year amortizing fixed-rate	58,958	17	38,200	15	97,025	23		
Adjustable-rate	12,760	3	15,711	6	16,007	4		
FHA/VA and other governmental	163	—	207	—	279	—		
Total	\$350,560	100	% \$255,253	100	% \$422,742	100	%	
Percentage of purchases:								
With credit enhancements		23	%	25	%	17	%	
Detached/townhome property type		92	%	92	%	93	%	
Primary residence		90	%	88	%	88	%	
Loan purpose:								
Purchase		44	%	52	%	27	%	
Cash-out refinance		21	%	17	%	16	%	
Other refinance		35	%	31	%	57	%	

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

The table below contains additional detail on the relief refinance loans we purchased.

(UPB in millions)	Year Ended December 31,			2014		
	2015	2015	Average	2014	2014	Average
	UPB	Loan Count	Loan Size	UPB	Loan Count	Loan Size
Above 125% Original LTV	\$569	3,766	\$151,000	\$1,439	8,794	\$164,000
Above 100% to 125% Original LTV	2,043	11,784	\$173,000	4,295	24,113	\$178,000
Above 80% to 100% Original LTV	4,938	28,999	\$170,000	8,356	49,340	\$169,000
80% and below Original LTV	11,980	85,677	\$140,000	13,204	96,409	\$137,000
Total	\$19,530	130,226	\$150,000	\$27,294	178,656	\$153,000

Offering Private Investors New and Innovative Ways to Share in the Credit Risk of the Core Single-Family Book

Our Charter requires coverage by specified credit enhancements or participation interests on single-family loans with LTV ratios above 80% at the time of purchase. In addition to obtaining credit enhancements required by our Charter, we also enter into various other types of transactions in which we transfer mortgage credit risk to third parties.

We use the following types of credit enhancements to transfer a portion of the credit risk on a loan or group of loans at the time we acquire the loan.

**Primary mortgage insurance** - Most of our loans with LTV ratios above 80% are protected by primary mortgage insurance. Primary mortgage insurance provides loan-level protection against default up to a specified amount and is typically paid for by the borrower. Generally, an insured loan must be in default and the borrower's interest in the underlying property must have been extinguished, such as through a short sale or foreclosure, before a claim can be filed under a primary mortgage insurance policy. The mortgage insurer has a prescribed period of time within which to process a claim and make a determination as to its validity and amount.

**Seller indemnification agreement** - An agreement with a seller upon loan acquisition under which the seller will absorb a portion of the losses on the related single-family loans in exchange for a fee or a guarantee fee reduction. The indemnification amount may be fully or partially collateralized.

**Lender recourse and indemnification agreements** - Require a lender to repurchase a loan upon default or to reimburse us for realized credit losses. Lender recourse and lender indemnification agreements are entered into as an alternative to requiring primary mortgage insurance or in exchange for a lower management and guarantee fee. We have not used lender recourse or lender indemnification agreements on a widespread basis in recent years.

**Pool insurance** - Provides insurance on a group of loans up to a stated aggregate loss limit. We have not purchased pool insurance policies since 2008, and the majority of our pool insurance policies will expire in the next five years. We also enter into the following types of credit risk transfer transactions subsequent to our purchase or guarantee of loans.

**STACR debt notes** - Are unsecured debt obligations. We issue STACR debt notes related to certain notional credit risk positions to third-party investors. We make payments of principal and interest on the issued notes. The amount of principal that we are required to pay the STACR debt note investors is linked to the credit performance of certain loans (referred to as a reference pool) that we have

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

previously guaranteed. As a result, we are not required to repay principal to the extent that the notional credit risk position is reduced as a result of a specified credit event.

ACIS insurance policies - Provide credit protection on a portion of the non-issued notional credit risk positions we retain in a STACR debt note transaction. We receive compensation from the insurance policy up to an aggregate limit when specified credit events occur.

Whole loan security - We issue guaranteed senior securities and unguaranteed subordinated securities backed by certain single-family loans that we purchased previously. The unguaranteed subordinated securities will absorb first losses on the related loans. We retain a portion of the subordinated securities.

See "Our Business Segments - Single-Family Guarantee" for additional information on these credit risk transfer transactions.

The table below provides information on the credit-enhanced loans in our single-family credit guarantee portfolio. "Other" credit-enhanced loans include loans covered by our credit risk transfer transactions. The credit enhanced categories are not mutually exclusive as a single loan may be covered by both primary mortgage insurance and other credit protection.

(Percentage of portfolio based on UPB)	As of December 31, 2015		2014		2013			
	% of Portfolio	Serious Delinquency Rate	% of Portfolio	Serious Delinquency Rate	% of Portfolio	Serious Delinquency Rate		
Non-credit-enhanced	70	% 1.30	% 77	% 1.74	% 83	% 2.09	%	
Credit-enhanced:								
Primary mortgage insurance	15	% 2.06	% 14	% 3.10	% 12	% 4.40	%	
Other	20	% 0.58	% 12	% 1.21	% 5	% 3.66	%	
Total	N/A	1.32	% N/A	1.88	% N/A	2.39	%	

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

The table below provides information on the credit enhanced loans in our single-family credit guarantee portfolio by book as of December 31, 2015 and 2014. The table includes all types of single-family credit enhancements.

As of December 31, 2015

(dollars in millions)	Total Current UPB	Total Protected UPB	Coverage Remaining	Collateralized Coverage Remaining <sup>(1)</sup>	Percentage of Coverage Remaining Provided By Credit Risk Transfer Transactions <sup>(2)</sup>
Core single-family book	\$1,128,732	\$441,426	\$69,217	\$13,015	23 %
HARP and other relief refinance book	302,564	33,900	9,272	—	— %
Legacy single-family book	270,591	36,867	11,281	—	— %
Total	\$1,701,887	\$512,193	\$89,770	\$13,015	18 %

As of December 31, 2014

(dollars in millions)	Total Current UPB	Total Protected UPB	Coverage Remaining	Collateralized Coverage Remaining <sup>(1)</sup>	Percentage of Coverage Remaining Provided By Credit Risk Transfer Transactions <sup>(2)</sup>
Core single-family book	\$994,454	\$300,379	\$50,350	\$6,011	13 %
HARP and other relief refinance book	331,059	37,804	10,339	—	— %
Legacy single-family book	339,609	48,149	14,626	—	— %
Total	\$1,665,122	\$386,332	\$75,315	\$6,011	8 %

Collateralized coverage includes cash received by Freddie Mac upon issuance of STACR debt notes and (1) unguaranteed whole loan securities, as well as cash and securities pledged for our benefit. All collateralized coverage relates to credit risk transfer transactions in the Core single-family book.

Credit risk transfer transactions include STACR debt notes, ACIS insurance policies, seller indemnification (2) agreements, and whole loan securities. The substantial majority of single-family loans covered by these transactions were acquired after 2012.

The table below provides information on estimated recoveries we could receive from our most significant credit risk transfer transactions (i.e., STACR debt notes and ACIS insurance policies) under various home price scenarios. The timing of our recognition of the recoveries in our statements of comprehensive income will depend on the type of credit risk transfer transaction and whether we are reimbursed based on calculated losses or actual losses, which may result in timing differences between the recognition of recoveries and the related credit event.

In estimating the recoveries from our STACR debt note and ACIS transactions, we performed a sensitivity analysis under three scenarios, based on our actual loss and prepayment experience related to loans that were originated during periods that experienced above average home price appreciation (47%), moderate home price appreciation (7%), and severe home price depreciation (-24%), over a four-year period. For this analysis, we grouped loans using LTV ratios and FICO scores and applied historical losses and prepayments experienced by these groups to similar groups within the reference pools related to our STACR debt note and ACIS transactions. Our recoveries were estimated based on

loan losses, net of mortgage insurance claim amounts. These are estimated projections prepared for illustrative purposes only. Our actual losses under the chosen scenarios could differ materially from these estimates. In

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

addition, these estimates do not include interest expense and transaction costs we incur to issue our STACR debt notes, and premiums we pay on ACIS transactions.

(dollars in millions) As of December 31,  
2015

UPB of loans covered by STACR  
debt notes and ACIS insurance  
policies \$328,872

## Performance Under Home Price Scenarios at December 31, 2015

	Above Average Home Price Appreciation		Moderate Home Price Appreciation		Severe Home Price Depreciation	
	Amount	bps	Amount	bps	Amount	bps
Estimated credit losses	\$199	6	\$1,431	44	\$10,679	325
Estimated recoveries from STACR debt notes and ACIS insurance policies	\$66	2	\$507	15	\$7,993	243
Loss coverage ratio	33	% N/A	35	% N/A	75	% N/A

#### Monitoring Loan Performance and Characteristics for the Single-family Credit Guarantee Portfolio and Individual Sellers and Servicers

We review loan performance, including delinquency statistics and loan characteristics in conjunction with housing market and economic conditions, to determine if our pricing and eligibility standards reflect the risk associated with the loans we purchase and guarantee. We review the payment performance of our loans to facilitate early identification of potential problem loans, which could inform our loss mitigation strategies. We also review performance metrics for additional loan characteristics that may expose us to concentrations of credit risk, including:

- Higher risk loan attributes and attribute combinations;
- Higher risk loan product types; and
- Geographic concentrations.

We actively monitor seller and servicer performance, including compliance with our standards, and periodically review their operational processes. We also periodically change seller/servicer guidelines based on the results of our mortgage portfolio monitoring, if warranted.

The credit quality of our single-family loan purchases remained strong during the past several years. The majority of our loan purchases over the last several years have been fixed-rate loans.

#### Single-Family Credit Guarantee Portfolio

Serious delinquency rates continued to decline across our total single-family credit guarantee portfolio in 2015 as economic conditions in many parts of the U.S. continued to improve. Improvement in home prices in many areas of the U.S. during 2015 generally led to improved current LTV ratios of the loans in our single-family credit guarantee portfolio as of December 31, 2015, which contributed to lower credit losses (excluding charge-offs related to the adoption of the FHFA advisory bulletin) and an improving overall credit profile.

The improvement in our serious delinquency rate in 2015 is primarily due to the better performance of newly acquired loans in the Core single-family book, continued loss mitigation and foreclosure activities for loans in the Legacy single-family book as well as sales of certain non-performing loans. The gradual reduction of our Legacy single-family book also contributed to the improvement in the serious delinquency

rate. However, we still have a large number of seriously delinquent loans relative to our historical experience. Our loss mitigation activities may create fluctuations in our delinquency statistics. For example, loans in modification trial periods, loans subject to forbearance agreements, and loans in repayment plans continue to be reported as seriously delinquent. There may also be temporary lags in the reporting of payment status and modification completion due to differing practices of our servicers that can affect our delinquency statistics.

The charts below show the credit losses and serious delinquency rates for each of our single-family books. Our Core single-family book and our HARP and other relief refinance book continue to perform well and account for a small percentage of our credit losses, as shown below. Our Legacy single-family book continues to decline as a percentage of our overall portfolio, but continues to account for the majority of our credit losses.

Portfolio Composition and Credit Losses

Serious Delinquency Rates as of December 31,

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

The table below provides credit quality information about our single-family books.

(dollars in billions)	December 31, 2015								
	UPB	Average Credit Score	Original LTV Ratio	Current LTV Ratio	Current LTV Ratio >100%	Foreclosure and Short Sale Rate <sup>(1)</sup>	Alt-A	%	
Core single-family book	\$1,129	754	72	% 61	% —	% 0.15	% —	%	
HARP and other relief refinance book	303	731	89	% 70	% 10	% 0.95	% —	%	
Legacy single-family book	270	702	75	% 66	% 12	% 4.09	% 15	%	
Total	\$1,702	741	75	% 63	% 4	% N/A	2	%	

(1) The foreclosure and short sale rate presented for the Legacy single-family book represents the rate associated with loans originated in 2000 through 2008.

The table below contains a description of some of the loan characteristics we monitor in our single-family credit guarantee portfolio.



## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

Characteristic	Description	Impact on Credit Quality
LTV Ratio	Ratio of the UPB of the loan to the value of the underlying property collateralizing the loan. Original LTV ratio is at loan origination, while current LTV ratio is based on the current UPB to the estimated current property value.	<ul style="list-style-type: none"> <li>Measures ability of the underlying property to cover our exposure on the loans</li> <li>Higher LTV ratios indicate higher risk, as proceeds from sale of the property may not cover our exposure on the loans</li> <li>Borrowers with higher credit scores are generally more likely to repay or have the ability to refinance than those with lower scores</li> </ul>
Credit Score	Statistically-derived number used by lenders to assess a borrower's likelihood to repay debt. We primarily use FICO scores, which are currently the most commonly used credit scores.	<ul style="list-style-type: none"> <li>Credit scores presented in this Form 10-K are at the time of origination and may not be indicative of the borrowers' current creditworthiness</li> </ul>
Loan Purpose	Indicates how the borrower intends to use the proceeds from a loan (i.e., purchase, cash-out refinance, or other refinance)	<ul style="list-style-type: none"> <li>Cash-out refinancings generally have had a higher risk of default than loans originated in purchase or other refinance transactions</li> </ul>
Property Type	Indicates whether the property is a detached single-family house, townhouse, condominium, or co-op	<ul style="list-style-type: none"> <li>Detached single-family houses and townhouses are the predominant type of single-family property</li> <li>Condominiums historically have experienced greater volatility in home prices than detached single-family houses, which may expose us to more risk</li> </ul>
Occupancy Type	Indicates whether the borrower intends to use the property as a primary residence, second home, or investment property	<ul style="list-style-type: none"> <li>Loans on primary residence properties tend to have lower credit risk than loans on second homes or investment properties</li> <li>Loan products that contain terms which result in scheduled changes in monthly payments may result in higher risk</li> </ul>
Product Type	Indicates the type of loan based on key loan terms, such as the contractual maturity, type of interest rate, and payment characteristics of the loan	<ul style="list-style-type: none"> <li>Shorter loan terms result in faster repayment of principal and may indicate lower risk</li> <li>Second liens can increase the risk of default</li> </ul>
Second Liens	Indicates whether the underlying property has more than one loan	<ul style="list-style-type: none"> <li>Borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so</li> </ul>

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

The table below contains details on characteristics of the loans in our single-family credit guarantee portfolio as of December 31, 2015, 2014, and 2013.

(percentage of portfolio based on UPB)	December 31,			
	2015	2014	2013	
Original LTV Ratio Range				
60% and below	20	% 21	% 22	%
Above 60% to 80%	53	% 52	% 53	%
Above 80% to 100%	22	% 21	% 19	%
Above 100%	5	% 6	% 6	%
Portfolio weighted average original LTV ratio	75	% 75	% 75	%
Current LTV Ratio Range				
60% and below	43	% 39	% 33	%
Above 60% to 80%	37	% 37	% 38	%
Above 80% to 100%	16	% 18	% 19	%
Above 100%	4	% 6	% 10	%
Portfolio weighted average current LTV ratio	63	% 66	% 69	%
Credit Score				
740 and above	59	% 58	% 58	%
700 to 739	21	% 20	% 20	%
660 to 699	13	% 13	% 13	%
620 to 659	5	% 6	% 6	%
Less than 620	2	% 3	% 3	%
Portfolio weighted average credit score	741	740	739	
Loan Purpose				
Purchase	32	% 30	% 26	%
Cash-out refinance	21	% 21	% 22	%
Other refinance	47	% 49	% 52	%

In addition, at December 31, 2015, 2014, and 2013:

• More than 90% of our loans were secured by detached homes or townhomes;

• Approximately 90% of our loans were secured by properties used as the borrower's primary residence; and

• More than 90% of our loans were fixed-rate.

At December 31, 2015, approximately 13% of our loans had second-lien financing by the originator or other third party at origination, and these loans comprised approximately 17% of our seriously delinquent loan population. It is likely that additional borrowers have post-origination second-lien financing.

#### Higher Risk Loan Attributes and Attribute Combinations

Certain of the loan attributes shown above may indicate a higher risk of default. In particular, loans with original LTV ratios over 90% and/or credit scores below 620 at origination may be higher risk. The table below provides information on loans in our portfolio with these characteristics. The table includes a presentation of each higher risk category in isolation. A single loan may fall within more than one category.

Management's Discussion and Analysis

Risk Management | SF Credit Risk

(dollars in billions)	December 31, 2015				
	UPB	CLTV	% Modified	SDQ Rate	
Original LTV ratio greater than 90%, HARP loans	\$134.2	89	% 1.3	% 1.16	%
Original LTV ratio greater than 90%, all other loans	\$144.8	84	% 8.4	% 2.72	%
Loans with credit scores below 620 at origination	\$41.3	74	% 20.7	% 6.67	%

(dollars in billions)	December 31, 2014				
	UPB	CLTV	% Modified	SDQ Rate	
Original LTV ratio greater than 90%, HARP loans	\$149.0	96	% 0.8	% 1.18	%
Original LTV ratio greater than 90%, all other loans	\$123.2	87	% 9.4	% 3.97	%
Loans with credit scores below 620 at origination	\$44.9	79	% 19.2	% 8.57	%

In addition, certain combinations of loan attributes can indicate an even higher degree of credit risk, such as loans with both higher LTV ratios and lower credit scores. The following tables show the combination of credit score and current LTV ratio attributes of loans in our single-family credit guarantee portfolio.

(credit score)	December 31, 2015									
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans			
	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Modified	
Core single-family book:										
< 620	0.2	% 2.32	% —	% 4.71	% —	% 14.84	% 0.2	% 2.74	% 2.9	%
620 to 659	1.3	1.05	% 0.2	1.49	% —	7.80	% 1.5	1.13	% 1.2	%
≥ 660	55.8	0.15	% 8.7	0.28	% 0.1	1.85	% 64.6	0.17	% 0.2	%
Not available	—	1.58	% 0.1	4.41	% —	9.97	% 0.1	3.41	% 3.1	%
Total	57.3	% 0.18	% 9.0	% 0.34	% 0.1	% 3.49	% 66.4	% 0.21	% 0.2	%

Relief refinance book:										
< 620	0.6	% 1.65	% 0.2	% 3.06	% 0.1	% 4.65	% 0.9	% 2.38	% 3.4	%
620 to 659	0.7	1.03	% 0.4	2.12	% 0.2	3.31	% 1.3	1.60	% 2.0	%
≥ 660	10.7	0.29	% 3.4	1.02	% 1.5	1.85	% 15.6	0.56	% 0.6	%
Not available	—	1.37	% —	—	% —	5.08	% —	1.47	% 0.6	%
Total	12.0	% 0.40	% 4.0	% 1.25	% 1.8	% 2.20	% 17.8	% 0.72	% 0.8	%

Legacy single-family book:										
< 620	0.8	% 6.57	% 0.3	% 13.74	% 0.2	% 21.39	% 1.3	% 9.09	% 30.7	%
620 to 659	1.5	4.73	% 0.5	10.85	% 0.4	17.73	% 2.4	6.82	% 25.0	%
≥ 660	8.5	1.99	% 2.2	7.26	% 1.2	12.84	% 11.9	3.08	% 11.6	%
Not available	0.2	5.12	% —	17.07	% —	21.12	% 0.2	5.95	% 13.5	%
Total	11.0	% 2.74	% 3.0	% 8.66	% 1.8	% 15.03	% 15.8	% 4.12	% 14.9	%

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

(credit score)	As of December 31, 2014										
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans				
	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Modified		
<b>Core single-family book:</b>											
< 620	0.2	% 2.77	% —	% 5.05	% —	% 16.43	% 0.2	% 3.34	% 2.5	%	
620 to 659	1.0	1.21	% 0.2	2.11	% —	7.48	% 1.2	1.38	% 1.1	%	
≥ 660	50.3	0.16	% 7.9	0.39	% 0.1	2.14	% 58.3	0.19	% 0.1	%	
Not available	0.1	1.64	% —	3.93	% —	10.06	% 0.1	3.77	% 2.1	%	
Total	51.6	% 0.19	% 8.1	% 0.47	% 0.1	% 3.75	% 59.8	% 0.24	% 0.2	%	
<b>Relief refinance book:</b>											
< 620	0.4	% 1.85	% 0.3	% 3.10	% 0.2	% 4.15	% 0.9	% 2.63	% 2.3	%	
620 to 659	0.7	1.12	% 0.4	2.02	% 0.3	2.86	% 1.4	1.71	% 1.3	%	
≥ 660	10.5	0.28	% 4.5	0.90	% 2.6	1.53	% 17.6	0.58	% 0.4	%	
Not available	—	1.79	% —	—	% —	1.04	% —	1.25	% 0.4	%	
Total	11.6	% 0.38	% 5.2	% 1.11	% 3.1	% 1.83	% 19.9	% 0.75	% 0.5	%	
<b>Legacy single-family book</b>											
< 620	0.8	% 7.93	% 0.4	% 15.58	% 0.4	% 23.56	% 1.6	% 11.29	% 27.1	%	
620 to 659	1.6	5.71	% 0.7	12.36	% 0.6	20.05	% 2.9	8.66	% 21.7	%	
≥ 660	10.2	2.26	% 3.2	8.11	% 2.2	14.31	% 15.6	3.90	% 9.6	%	
Not available	0.2	5.75	% —	18.51	% —	25.47	% 0.2	6.96	% 11.4	%	
Total	12.8	% 3.13	% 4.3	% 9.62	% 3.2	% 16.56	% 20.3	% 5.13	% 12.5	%	

## Higher Risk Loan Product Types

There are several types of loan products that contain terms which result in scheduled changes in the borrower's monthly payments after specified initial periods, such as interest-only and option ARM loans. These products may result in higher credit risk because the payment changes typically increase the borrower's monthly payment, resulting in a higher risk of default. The majority of these loans are in our Legacy single-family book. Only a small percentage of our Core single-family book consists of ARM loans.

The balance of interest-only and option ARM loans declined significantly in recent years as many of these borrowers have repaid or refinanced their loans, received loan modifications, or completed foreclosure alternatives or foreclosure transfers.

While we have not categorized option ARM loans as either subprime or Alt-A for presentation in this Form 10-K and elsewhere in our reporting, they could exhibit similar credit performance to collateral identified as subprime or Alt-A. For reporting purposes, loans within the option ARM category continue to be presented in that category following a modification of the loan, even though the modified loan no longer provides for optional payment provisions.

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

The table below provides credit characteristic information on higher risk loan product types.

(dollars in billions)	December 31, 2015					
	UPB	CLTV	% Modified	SDQ Rate		
Amortizing ARM and option ARM <sup>(1)</sup>	\$71.5	56	% 1.6	% 1.61	%	
Interest-only	\$22.0	80	% 0.1	% 6.02	%	
Step-rate modified	\$38.3	85	% 100	% 7.34	%	
	December 31, 2014					
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate		
Amortizing ARM and option ARM <sup>(1)</sup>	\$75.3	60	% 1.5	% 2.28	%	
Interest-only	\$27.8	87	% 0.2	% 9.36	%	
Step-rate modified	\$42.3	93	% 100	% 9.20	%	

Includes \$5.0 billion and \$5.7 billion in UPB of option ARM loans as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the option ARM loans had: (a) current LTV ratios of 71% and 79%, (b) loan modification percentages of 14.0% and 12.5%; and (c) serious delinquency rates of 8.01% and 9.87%, respectively.

The table below shows the timing of scheduled payment changes for certain types of loans within our single-family credit guarantee portfolio. The amounts in the table below are aggregated by product type and categorized by the year in which the loan will experience a payment change. The timing of the actual payment change may differ from that presented in the table due to a number of factors, including if the borrower refinances the loan. Loans where the year of first payment change is 2015 or prior have already had one or more payment changes as of December 31, 2015; loans where the year of first payment change is 2016 or later have not had a payment change as of December 31, 2015 and will not experience a payment change until a future period. Step-rate modified loans are shown in each year that the borrower will experience a scheduled interest-rate increase; therefore, a single loan may be included in multiple periods. However, the total of step-rate loans in the table reflects the ending UPB of such loans as of December 31, 2015.

(in millions)	December 31, 2015							Total <sup>(1)</sup>
	2015 and Prior	2016	2017	2018	2019	2020	Thereafter	
ARM/amortizing	\$16,451	\$3,505	\$3,984	\$4,712	\$8,297	\$9,653	\$19,436	\$66,038
ARM/interest-only	9,291	2,938	4,697	1,916	110	254	—	19,206
Fixed/interest-only	80	399	1,817	395	6	4	120	2,821
Step-rate modified	16,926	24,318	25,895	17,184	6,151	4,431	2,616	38,343
Total	\$42,748	\$31,160	\$36,393	\$24,207	\$14,564	\$14,342	\$22,172	\$126,408

(1) Excludes mortgage loans underlying certain other securitization products, since the payment change information is not available to us for these loans.

We believe that the performance of these types of loans has been more affected by macroeconomic conditions, such as unemployment rates and cumulative home price declines in many geographic areas since 2006, than by the increase in the borrower's monthly payment. However, we continue to monitor the performance of these loans as many have experienced a payment change or are scheduled to have a payment change in 2016 or 2017, which is likely to subject the borrowers to higher monthly payments. Since a substantial portion of these loans were originated in 2005 through 2008 and are located in geographic areas that were most affected by declines in home prices that began in 2006, we believe that the serious delinquency rate for these types of loans will remain high in 2016.

### Other Higher Risk Loans - Alt-A and Subprime Loans

While we have referred to certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-K, there is no universally accepted definition of subprime or Alt-A, and the classification of such loans may differ from company to company. For example, some financial institutions may use credit scores to delineate certain residential loans as subprime. We do not rely on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

Participants in the mortgage market may characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately \$1.5 billion and \$1.7 billion of security collateral underlying our other securitization products at December 31, 2015 and 2014, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continued to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, part of our relief refinance initiative, or part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-K and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to December 31, 2015, we have purchased approximately \$32.8 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including \$1.6 billion in 2015.

The table below contains information on Alt-A loans in our single-family credit guarantee portfolio.

(dollars in billions)	December 31, 2015				December 31, 2014				
	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate	
Alt-A	\$40.2	77	% 23.1	% 6.32	% \$48.3	82	% 19.9	% 8.53	%

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during 2015 primarily due to borrowers refinancing into other mortgage products, foreclosure transfers, and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida, and Nevada.

### Geographic Concentrations

We purchase mortgage loans from across the U.S. and maintain a geographically diverse portfolio. However, local economic conditions can affect borrowers' ability to repay and the value of the underlying

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

collateral, leading to concentrations of credit risk in certain geographic areas.

The following table presents certain geographic concentrations in our single-family credit guarantee portfolio. The states presented below had the largest number of seriously delinquent loans as of December 31, 2015. See Note 13 for additional information on the concentration of credit risk in our single-family credit guarantee portfolio.

(dollars in millions)	As of December 31, 2015				As of December 31, 2014				As of December 31, 2013			
	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Full Year 2015 Credit Losses	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Full Year 2014 Credit Losses	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Full Year 2013 Credit Losses
Florida	14,070	10 %	2.16 %	\$867	25,656	13 %	3.92 %	\$1,079	42,948	17 %	6.44 %	\$1,374
New York	13,981	10	2.94 %	568	19,462	10	4.06 %	170	21,459	8	4.41 %	48
New Jersey	11,978	9	3.90 %	702	16,960	8	5.49 %	244	19,306	8	6.20 %	115
Illinois	8,841	6	1.62 %	388	11,902	6	2.17 %	403	15,521	6	2.79 %	625
California	7,669	5	0.60 %	219	11,386	6	0.92 %	201	15,620	6	1.30 %	594
All Others	83,182	60	1.12 %	2,036	112,700	57	1.52 %	1,822	137,907	55	1.85 %	2,032
Total	139,721	100 %	1.32 %	\$4,780	198,066	100 %	1.88 %	\$3,919	252,761	100 %	2.39 %	\$4,788

The following table presents our single-family charge-offs and recoveries in each geographic region. See "Single-Family Credit Guarantee Portfolio" in Note 13 for a description of these regions.

(in millions)	Year Ended December 31, 2015			2014			2013		
	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net
Northeast	\$2,093	\$(207)	\$1,886	\$1,138	\$(238)	\$900	\$1,357	\$(656)	\$701
Southeast	1,294	(204)	1,090	1,703	(393)	1,310	3,015	(1,331)	1,684
North Central	869	(149)	720	1,018	(259)	759	1,870	(810)	1,060
West	701	(105)	596	875	(283)	592	2,589	(1,271)	1,318
Southwest	206	(52)	154	238	(85)	153	394	(245)	149
Total	\$5,163	\$(717)	\$4,446	\$4,972	\$(1,258)	\$3,714	\$9,225	\$(4,313)	\$4,912

## Management's Discussion and Analysis

## Risk Management | SF Credit Risk

The table below presents the concentration of loans in each geographic region by current LTV ratio.

December 31, 2015

	CLTV Ratio <= 80%		CLTV Ratio > 80% to 100%		CLTV Ratio > 100%		All Loans		
	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	
North Central	13	% 0.73	% 3	% 1.91	% 1	% 6.23	% 17	% 1.13	%
Northeast	20	1.28	% 5	3.55	% 1	13.35	% 26	2.04	%
Southeast	12	1.08	% 3	2.54	% 1	7.15	% 16	1.57	%
Southwest	10	0.76	% 2	1.45	% —	6.47	% 12	0.88	%
West	25	0.52	% 3	1.96	% 1	5.34	% 29	0.79	%
Total	80	% 0.87	% 16	% 2.41	% 4	% 8.08	% 100	% 1.32	%

December 31, 2014

	CLTV Ratio <= 80%		CLTV Ratio > 80% to 100%		CLTV Ratio > 100%		All Loans		
	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	
North Central	12	% 0.86	% 4	% 2.37	% 1	% 6.77	% 17	% 1.48	%
Northeast	20	1.67	% 5	4.98	% 1	15.21	% 26	2.81	%
Southeast	11	1.44	% 3	3.28	% 2	9.27	% 16	2.40	%
Southwest	10	0.96	% 2	2.06	% —	6.98	% 12	1.16	%
West	23	0.67	% 4	2.70	% 2	6.23	% 29	1.23	%
Total	76	% 1.13	% 18	% 3.21	% 6	% 9.06	% 100	% 1.88	%

## Credit Losses and Recoveries

Charge-offs were higher in 2015 than in 2014 primarily due to our adoption on January 1, 2015 of an FHFA advisory bulletin that changed when we deem a loan to be uncollectible. We expect the level of charge-offs in 2016 to be lower than 2015 as we continue our loss mitigation activities and our efforts to sell seriously delinquent single-family loans. See "Change in Estimate" in Note 1 for information about our adoption of the FHFA advisory bulletin and its effect on charge-offs and credit losses.

The tables below contain certain credit performance metrics of our single-family credit guarantee portfolio.

Year Ended December 31,

(dollars in millions)