FEDERAL HOME LOAN MORTGAGE CORP
Form 10-K
February 19, 2015
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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, 2014
Commission File Number: 001-34139
Federal Home Loan Mortgage Corporation
(Exact name of registrant as specified in its charter)
Freddie Mac

Federally chartered corporation	8200 Jones Branch Drive McLean, Virginia 22102-3110	52-0904874	(703) 903-2000
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices, including zip code)	(I.R.S. Employer Identification No.)	(Registrant's telephone number, including area code)

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: FMCCK)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCL)
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: FMCCT)
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 [X]
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 [X]
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 [X] 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 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 (Do not check if a smaller reporting company) [ ]	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, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was $2.5 billion.

As of February 5, 2015, there were 650,043,899 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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PART I

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 “BUSINESS — 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.”

ITEM 1. BUSINESS

Executive Summary

You should read this Executive Summary in conjunction with our MD&A and consolidated financial statements and related notes for the year ended December 31, 2014.

Overview

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 mortgages originated by mortgage lenders. In most instances, we package these mortgage 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 mortgage loans or lend money directly to consumers.

We support the U.S. housing market and the overall economy by: (a) providing America’s families with access to mortgage funding at lower rates; (b) helping distressed borrowers keep their homes and avoid foreclosure; and (c) providing consistent liquidity to the multifamily mortgage market, which includes providing financing for affordable rental housing. We are also working with FHFA, our customers and the industry to build a stronger housing finance system for the nation.

Conservatorship and Government Support for Our Business

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. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. We cannot retain capital from the earnings generated by our business operations or return capital to stockholders other than Treasury. For more information on the conservatorship and government support for our business, see “Conservatorship and Related Matters.”

Consolidated Financial Results

Comprehensive income was $9.4 billion for 2014 compared to $51.6 billion for 2013. Comprehensive income for 2014 consisted of $7.7 billion of net income and $1.7 billion of other comprehensive income. The main drivers of our results for 2014 include: (a) net interest income; (b) declines in the fair value of our derivatives; and (c) income from settlements of lawsuits regarding our investments in certain non-agency mortgage-related securities. Our net income for 2013 was substantially higher than in 2014 primarily because in 2013 we recorded a benefit for federal income taxes of $23.3 billion from the release of the valuation allowance against our deferred tax assets. Our 2013 results also benefited from larger home price appreciation.

Our total equity was $2.7 billion at December 31, 2014. Because our net worth was positive at December 31, 2014, we are not requesting a draw from Treasury under the Purchase Agreement for the fourth quarter of 2014. Through December 31, 2014, we have received aggregate funding of $71.3 billion from Treasury under the Purchase Agreement, and have paid $91.0 billion in aggregate cash dividends to Treasury.

Sustainability and Variability of Earnings

The level of our earnings in 2013 and 2014 is not sustainable over the long term. Our 2013 financial results included a very large benefit related to the release of the valuation allowance against our deferred tax assets. Our 2013 and 2014 financial results included large amounts of income from settlements of representation and warranty claims arising out of our loan purchases and settlements of non-agency mortgage-related securities litigation. We do not expect any future settlements of representation and warranty claims related to our pre-conservatorship loan purchases to have a significant effect on our financial results. Our 2013 financial results, particularly the level of loan loss provisioning, benefited from a high level of home price appreciation. In addition, declines in the size of our mortgage-related investments portfolio, as required by FHFA and the Purchase Agreement, will reduce our earnings over the long term.

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Our financial results are subject to significant earnings and net worth variability from period to period. This variability can be driven by changes in interest rates, the yield curve, implied volatility, home prices, and mortgage spreads, as well as other factors. For example, while derivatives are an important aspect of our strategy to manage interest-rate risk, they increase the volatility of reported comprehensive income because fair value changes on derivatives are included in comprehensive income, while fair value changes associated with several of the types of assets and liabilities being economically hedged are not. As a result, there can be timing mismatches affecting current period earnings, which may not be reflective of the underlying economics of our business.

Our Primary Business Objectives

Our primary business objectives are:

- to support U.S. homeowners and renters by maintaining mortgage availability even when other sources of financing are scarce and by providing struggling homeowners with alternatives that allow them to stay in their homes or avoid foreclosure;
- to reduce taxpayer exposure to losses by increasing the role of private capital in the mortgage market and reducing our overall risk profile;
- to build a commercially strong and efficient business enterprise to succeed in a to-be-determined "future state;" and
- to support and improve the secondary mortgage market.

Our business objectives reflect direction that we have received from the Conservator, including the 2014 and 2015 Conservatorship Scorecards. For information on the Scorecards and the related 2014 Strategic Plan, see "Regulation and Supervision — Legislative and Regulatory Developments — FHFA's Strategic Plan for Freddie Mac and Fannie Mae Conservatorships."

Supporting U.S. Homeowners and Renters

Maintaining Mortgage Availability

We maintain a consistent presence in the secondary mortgage market, and we are available to purchase mortgages even when other sources of financing are scarce. By providing this consistent source of liquidity for mortgages, we help provide our customers with confidence to continue lending even in difficult environments. In 2014, we purchased, or issued other guarantee commitments for, $255.3 billion in UPB of single-family conforming mortgage loans (representing approximately 1.2 million homes), compared to $422.7 billion in 2013 (representing approximately 2.1 million homes). Origination volumes in the U.S. residential mortgage market declined significantly during 2014, as compared to 2013, driven by a significant decline in the volume of refinance mortgages. We estimate that we, Fannie Mae, and Ginnie Mae collectively guaranteed more than 90% of the single-family conforming mortgages originated in 2014.

During 2014, our total multifamily new business activity was $28.3 billion in UPB, which provided financing for nearly 1,800 multifamily properties (representing approximately 413,000 apartment units). Approximately 90% of the units were affordable to families earning at or below the median income in their area. In 2013, our total multifamily new business activity was $25.9 billion in UPB, which provided financing for nearly 1,600 multifamily properties (representing approximately 388,000 apartment units).

Providing Struggling Homeowners with Alternatives that Allow Them to Stay in Their Homes or Avoid Foreclosure

We use a variety of borrower-assistance programs (such as HARP and HAMP) designed to provide struggling borrowers with alternatives to help them stay in their homes. We establish guidelines for our servicers to follow and provide them with default management programs to use in determining which type of borrower-assistance program (i.e., one of our loan workout activities or our relief refinance initiative) would be expected to enable us to manage our exposure to credit losses.

Our relief refinance initiative is a key program used to keep families in their homes. Our relief refinance initiative includes HARP, which is the portion of the initiative for loans with LTV ratios above 80%. In 2014, we purchased or guaranteed $27.3 billion in UPB of relief refinance loans, including $14.1 billion of HARP loans. In 2013, we purchased or guaranteed $99.2 billion in UPB of relief refinance loans, including $62.5 billion of HARP loans. We have purchased HARP loans provided to more than 1.3 million borrowers since the initiative began in 2009, including approximately 82,000 borrowers during 2014. See "Table 49 — Single-Family Relief Refinance Loans" for more information about the volume of relief refinance loans we have purchased.

When a refinancing of a loan is not practicable, we require our servicer first to evaluate the loan for a repayment plan, forbearance agreement, or loan modification, because the level of recovery on a loan that reperforms is often much higher than for a loan that proceeds to a foreclosure or foreclosure alternative. Our servicers contact borrowers experiencing hardship with a goal of helping them to stay in their homes or otherwise to avoid foreclosure. Across all of our modification programs, we modified $12.8 billion in UPB of loans during 2014, compared to $17.4 billion in 2013. Since 2009, we have helped approximately 1,073,000 borrowers experiencing hardship to complete a loan workout under these programs. When a home retention solution is not practicable, we require our servicers to pursue foreclosure alternatives, such as short sales, before initiating foreclosure.

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The table below presents our completed workout activities for loans within our single-family credit guarantee portfolio for the last five years.

Table 1 — Total Single-Family Loan Workout Volumes[1]

(1) Excludes modification, repayment, and forbearance activities that have not been made effective, such as loans in modification trial periods. As of December 31, 2014, approximately 24,000 borrowers were in modification trial periods. These categories are not mutually exclusive and a loan in one category may also be included in another category in the same period.

As shown in the table above, the volume of our workout programs declined in recent years (totaling approximately 120,000 in 2014, compared to 169,000 in 2012 and 275,000 in 2010). We attribute this decline to overall improvements in the economy and mortgage market, including rising home prices, declining unemployment rates, and declining serious delinquency rates. While we believe our borrower-assistance programs have been largely successful, many borrowers still need assistance. See “MD&A — RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Managing Problem Loans" for more information about loss mitigation activities and our efforts to keep families in their homes. We continue our efforts relating to: (a) encouraging eligible borrowers to refinance their mortgages under HARP; (b) assessing and developing additional plans for loss mitigation strategies; and (c) developing and implementing a neighborhood stabilization initiative. In 2014:

- We participated with FHFA and Fannie Mae in open forum meetings in certain cities to inform community leaders about HARP eligibility criteria and benefits.
- We worked with FHFA and Fannie Mae to develop neighborhood stabilization plans in certain cities. These plans involve short sales and REO sales, including expanded auctions of properties. In these areas we also expanded: (a) our efforts with locally-based private entities to facilitate REO dispositions; and (b) our first look opportunities, which provide an initial period for REO properties to be purchased by owner occupants and non-profits dedicated to neighborhood stabilization before we consider offers from investors.
- We continued to work with FHFA and Fannie Mae to assess or pilot new strategies for loss mitigation, including implementing a new temporary modification initiative targeted to assist troubled borrowers in certain cities.

Reducing Taxpayer Exposure to Losses

We are working diligently with FHFA to reduce the taxpayers' exposure to losses. We are reducing our credit risk by:

- managing the performance of our servicers through our contracts with them;

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- transferring to private investors part of the credit risk of our New single-family book and our Multifamily mortgage portfolio;
- improving our returns on short sales and REO sales;
- protecting our contractual rights with sellers;
- pursuing our rights against mortgage insurers;
- recovering losses on non-agency mortgage-related securities; and
- reducing our mortgage-related investments portfolio over time.

As discussed above, many of our borrower-assistance programs, such as loan modifications, also help reduce our risk of credit losses.

Managing the Performance of Our Servicers

We continue to face challenges in managing our mortgage credit risk. In 2014, the serious delinquency rate of our single-family credit guarantee portfolio continued the trend of improvement of the past several years, declining to 1.88% as of December 31, 2014 (which is the lowest level since January 2009) from 2.39% as of December 31, 2013. Despite this improvement, we still have a large number of seriously delinquent loans. We continue to face challenges in resolving these loans, including general constraints on servicer capacity and court backlogs in states that require a judicial foreclosure process. These situations generally extend the time it takes for seriously delinquent loans to be modified, foreclosed upon, or otherwise resolved. The longer a loan remains delinquent, the more costs we incur. As of December 31, 2014, approximately half of our seriously delinquent single-family loans had been delinquent for more than one year.

The financial institutions that service our single-family loans (we refer to these institutions as "servicers") are required to service loans on our behalf in accordance with our standards. If a servicer fails to do so, we have certain contractual remedies, including the ability to require the servicer to pay us compensatory or other fees, repurchase a loan at its current UPB, and/or reimburse us for the losses we realize on the loan. We also issue notices of defect to our servicers for certain violations of our servicing standards. As of December 31, 2014, we had: (a) $0.4 billion of outstanding repurchase requests for servicing related violations; and (b) an additional $0.2 billion of outstanding notices of defect, based on the UPB of the related loans. We also recognized $335 million of compensatory fees in 2014, mostly for failures to complete a foreclosure within our timelines.

During 2014, approximately $9.7 billion in UPB of our single-family loans were transferred from our primary servicers to specialty servicers that specialize in workouts of problem loans. (This figure excludes transfers between affiliated companies and assignments of servicing for newly originated loans.) A majority of the transfers were facilitated by us as part of our efforts to assist troubled borrowers, increase problem loan workouts, and mitigate our credit losses.

Transferring Credit Risk

We believe that using credit risk transfer transactions is a prudent way for us to manage our mortgage credit risk. We are continuing to reduce our exposure to credit risk in our New single-family book through the use of STACR debt note and ACIS (re)insurance transactions. In 2014, we completed seven STACR debt note transactions and three ACIS (re)insurance transactions. These transactions transferred a portion of credit losses that could occur under adverse home price scenarios (through a mezzanine credit loss position) on certain groups of loans in the New single-family book from us to third-party investors. In 2014, we also completed 17 K Certificate transactions in which we transferred the first loss position associated with the underlying multifamily loans to third-party investors. In February 2015, we completed our first STACR debt note transaction that transfers a portion of the first loss position in addition to mezzanine loss positions associated with the reference pool. We expect to complete additional such STACR transactions in 2015.

Improving Our Returns on Short Sales and REO Sales

We use several strategies to mitigate our credit losses and improve our returns on short sale transactions and sales of REO properties. When a seriously delinquent single-family loan cannot be resolved through a home retention solution (e.g., a loan modification), we typically seek to pursue a short sale transaction. A short sale is preferable to a foreclosure primarily because we: (a) avoid the costs we would otherwise incur to complete the foreclosure; and (b) reduce the time needed to dispose of the property, reducing our exposure to maintenance, property taxes, and other expenses. However, some of our seriously delinquent loans ultimately proceed to foreclosure. In a foreclosure, we typically acquire the underlying property (which we refer to as real estate owned, or REO), and later sell it, using the proceeds of the sale to reduce our losses.

We implemented a number of changes in the past several years to increase the use of short sales and increase the proceeds from REO sales. These changes include: (a) an initiative to repair a significant portion of our REO properties prior to listing them for sale; and (b) changes to our process for evaluating the market value of the properties underlying our impaired loans and for determining listing prices for our REO properties.

Protecting Our Contractual Rights with Sellers

We purchase mortgage loans from financial institutions that originate the loans (we refer to these institutions as "sellers"). When we purchase loans, the sellers represent and warrant that the loans have been originated in accordance with our underwriting standards. If we subsequently discover that these standards were not followed, we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These remedies may include requiring the seller to repurchase the loan at its current UPB and/or to reimburse us for the losses we realized on the loan. As of December 31, 2014 and 2013, we had $0.3 billion and $1.6 billion, respectively, of outstanding repurchase requests with sellers, based on the UPB of the loans.

We seek remedies from both sellers and servicers in the normal course of business related to breaches of representations and warranties for loans they sold to us or service for us. At times, this may include entering into settlement agreements to resolve repurchase requests. In 2014, we recovered amounts with respect to $2.0 billion in UPB of loans subject to our repurchase requests for selling and servicing violations, including $0.4 billion in UPB related to settlement agreements.

Pursuing Our Rights Against Mortgage Insurers

We continue to pursue claims for coverage under mortgage insurance policies, a form of credit enhancement we use to mitigate our credit loss exposure. Primary mortgage insurance is generally required for mortgages with LTV ratios greater than 80%.

We received payments under primary and other mortgage insurance policies of $1.1 billion and $2.0 billion during 2014 and 2013, respectively. Although the financial condition of certain of our mortgage insurers has improved in recent years, some have failed to fully meet their obligations and there remains a significant risk that others may fail to do so. We expect to receive substantially less than full payment of our claims from two of our mortgage insurance counterparties, as they are only permitted to make partial payments under orders from their respective regulators.

Our ability to manage our exposure to mortgage insurers is limited. While our mortgage insurers are operating below our eligibility thresholds, we generally cannot revoke a mortgage insurer's status as an eligible insurer without FHFA approval. In addition, we do not select the insurer that will provide the insurance on a specific loan. Instead, the selection is made by the lender at the time the loan is originated.

Recovering Losses on Non-Agency Mortgage-Related Securities

We incurred substantial losses on our investments in non-agency mortgage-related securities in prior years. We are working, in some cases in conjunction with other investors, to mitigate or recover our losses. In 2014, we and FHFA reached settlements with a number of institutions which resulted in our recognition of $6.1 billion of income. Lawsuits against other institutions are currently pending. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for more information about our recent agreements with institutions that issued certain non-agency mortgage-related securities.

Reducing Our Mortgage-Related Investments Portfolio Over Time

We are required to reduce the size of our mortgage-related investments portfolio over time pursuant to the Purchase Agreement and FHFA regulation. We are particularly focused on reducing the balance of less liquid assets in this portfolio. In 2014, the size of our mortgage-related investments portfolio declined by 11% or $52.6 billion, to $408.4 billion. Our less liquid assets accounted for $47.0 billion of this decline. Our less liquid assets are reduced through: (a) liquidations (including scheduled repayments along with prepayments); (b) sales (including sales related to settlements of non-agency mortgage-related securities litigation); and (c) securitizations.

In July 2014, pursuant to the 2014 Conservatorship Scorecard, we submitted a plan to FHFA to meet (even under adverse market conditions) the portfolio reduction requirements of the Purchase Agreement. In October 2014, FHFA requested that we revise the plan to provide that we would manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement. Under the revised plan approved by FHFA, we may seek permission from FHFA to increase the plan's limit on the UPB of the mortgage-related investments portfolio to 95% of the Purchase Agreement annual cap. FHFA has indicated that any portfolio sales should be commercially reasonable transactions that consider impacts to the market, borrowers and neighborhood stability.

For additional information, see “Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.”

Building a Commercially Strong and Efficient Business Enterprise to Succeed in a To-Be-Determined “Future State”

We continue to take steps to build a stronger, profitable business model. Our goal is to strengthen the business model so we can run our business efficiently and effectively in support of homeowners and taxpayers and, if required as part

of a future state for the enterprise, be ready to return to private sector ownership.
Our Single-family Guarantee segment is focused on strengthening our business model by:

- Better serving our customers: Our customers are our sellers, servicers, and investors/dealers. Based on feedback from our customers, we are enhancing our processes and programs to improve their experience when doing business with us. This includes providing seller/servicers with greater certainty that the loans they sell to us or service for us meet our requirements, thereby reducing the number of repurchase requests we make to them and the amount of compensatory fees they pay to us. We are providing greater certainty by enhancing the tools we make available to our customers (including Loan Prospector, Loan Quality Advisor, and Home Value Explorer), and expanding and leveraging the data standards of the Uniform Mortgage Data Program.

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- Providing market leadership and innovation: We continue to develop innovative programs and services that benefit our customers and leverage our existing capabilities and product offerings to better meet the needs of an evolving mortgage market. We are doing this primarily by: (a) expanding access to credit for credit-worthy borrowers, such as the recently announced initiative for loans with LTV ratios up to 97%; (b) continuing to execute our credit risk transfer transactions and seeking to expand and refine our offerings of these transactions; and (c) continuing to work with FHFA and Fannie Mae on enhancing the secondary mortgage market, including the development of a new common securitization platform and a single (common) security. We completed ten credit risk transfer transactions in 2014 and three in 2013. Our 2014 transactions consisted of: (a) seven STACR debt note transactions that transferred $4.9 billion in mezzanine credit risk to third parties associated with $147.5 billion in principal of loans in our New single-family book; and (b) three ACIS transactions that transferred $0.7 billion in mezzanine credit risk to third parties. The 2015 Conservatorship Scorecard sets a goal for us to complete credit risk transfer transactions for at least $120 billion in UPB using at least two transaction types.
- Managing the credit risk of the single-family credit guarantee portfolio: We are managing our credit risk by setting our underwriting standards at a level commensurate with the long-term credit risk appetite of the company. We made various changes to our credit policies in the last several years, including changes to improve our underwriting standards, have purchased fewer loans with higher risk characteristics, and have assisted in improving our mortgage insurers' and lenders' underwriting practices. The credit quality of the New single-family book reflects the impact of these changes, as measured by original LTV ratios, credit scores, delinquency rates, credit losses, and the proportion of loans underwritten with full documentation. However, in 2014 and 2013, as refinancing volumes have declined, the composition of our loan purchase activity has been shifting to a higher proportion of home purchase loans, which generally have higher original LTV ratios than loans sold to us during 2010 through 2012.
- Reducing our credit losses: We continue to develop and implement plans intended to reduce our credit losses and identify and address emerging mortgage credit risks. As part of our loss mitigation strategy, we sold certain seriously delinquent loans during 2014. We also facilitated the transfer of servicing for certain groups of loans that were delinquent or deemed to be at risk of default to servicers that we believe have the capabilities and resources necessary to improve loss mitigation for those loans. We expect to execute similar loan sales and servicing transfers in 2015. Our portfolio includes several types of mortgage products that contain terms which may result in scheduled increases in monthly payments after specified initial periods (e.g., HAMP loans). A significant number of these will experience payment changes in 2015. To help address this risk, we implemented a new principal reduction incentive for our HAMP loans in January 2015.
- Optimizing the economics of our single-family business: We seek to achieve strong economic returns on our single-family credit guarantee portfolio while considering and balancing our: (a) housing mission and goals; (b) seller diversification; and (c) security price performance (i.e., the trading value of our PCs relative to comparable Fannie Mae securities in the market). However, economic returns on our guarantee activities are limited by, and subject to, FHFA's oversight.

We are investing in the company, in particular our infrastructure and operations, by:

- Improving our infrastructure: We continue to make strategic investments to maintain and improve our ability to operate the company for the foreseeable future in conservatorship, and potentially afterwards. We are improving our information technology to provide the necessary capabilities to meet our needs, the needs of the Conservator, and the mortgage industry. We are investing to continuously address risk, especially in the information security area and the recently deployed out-of-region disaster recovery capability. We are actively striving to operate our information technology at world class levels by investing in capabilities that will support the future mortgage market while also acting as good stewards of our technology assets by maintaining, standardizing and simplifying our existing technology portfolio.
- Strengthening our operations: We continue to strengthen and streamline our operations. We are conducting a multi-year project focused on eliminating redundant control activities. We are also conducting detailed operational control design reviews to identify ways to simplify our controls structure. We are improving our risk management capabilities by further enhancing our three-lines-of-defense risk management framework. As part of this effort, we have moved or are moving several key functions within the organization to better align business decision-making with

the first line of defense. We believe these enhancements will improve our risk management effectiveness. Our enhanced framework is designed to balance ownership of the risk by our business units with corporate oversight and independent assessment. See “MD&A — RISK MANAGEMENT” for more information.

To Support and Improve the Secondary Mortgage Market

Under the direction of FHFA, we continue various efforts to build the infrastructure for a future housing finance system, including the following:

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- Common Securitization Platform: We continue to work with FHFA, Fannie Mae, and Common Securitization Solutions, LLC (or CSS) on the development of a new common securitization platform. CSS is equally owned by us and Fannie Mae, and was formed to build and operate the platform. We and FHFA expect this will be a multi-year effort. In November 2014, we and Fannie Mae announced that a chief executive officer had been named for CSS. Additionally, we and Fannie Mae each appointed two executives to the CSS Board of Managers and signed governance and operating agreements for CSS.
- Single-Security Initiative: FHFA is seeking ways to improve the liquidity of mortgage-backed securities issued by us and Fannie Mae and reduce the disparities in trading value between our PCs and Fannie Mae's single-class mortgage-backed securities. Part of this effort is the proposed single (common) security, which would be issued and guaranteed by either Freddie Mac or Fannie Mae. The proposed single security would use the features of the current Fannie Mae mortgage-backed security and the disclosure framework of the current Freddie Mac PC. One of the goals for the proposed single security is for Freddie Mac PCs and Fannie Mae mortgage-backed securities to be fungible with the single security to facilitate trading in a single TBA market for these securities. In August 2014, FHFA requested public input on the single security project as further discussed in "Regulation and Supervision — Legislative and Regulatory Developments — FHFA Request for Input on Proposed Single Security Structure." We continue to work on a detailed implementation plan, and we expect that the implementation will be a multi-year effort.
- Uniform Mortgage Data Program: We and Fannie Mae continue to collaborate with the industry to develop and implement uniform data standards for single-family mortgages. This includes active support for the following mortgage data standardization initiatives: (a) the Uniform Closing Disclosure Dataset; and (b) the Uniform Loan Application Dataset. We have also made improvements to the Uniform Collateral Data Portal, which provides standardized appraisal data for loans we purchase and provides our sellers with real-time feedback that is intended to help them evaluate the quality of property appraisals.
- Improve mortgage industry standards: We continue to: (a) develop approaches to reduce borrower costs for lender placed insurance; (b) align mortgage insurer eligibility requirements; and (c) enhance our representation and warranty framework that governs our contractual obligations with our seller/servicers. We announced changes in servicing standards for situations in which servicers obtain property hazard insurance on properties securing single-family loans we own or guarantee. As a result, beginning in June 2014, our seller/servicers may not receive compensation or other payment from insurance carriers nor may they use their own or affiliated entities to insure or reinsure a property. During 2014, we continued to develop counterparty risk management standards for mortgage insurers, including: (a) revised eligibility requirements that include financial requirements under a risk-based framework; and (b) revised master policies that provide greater certainty of coverage and facilitate timely claims processing. The revised standards are designed to promote the ability of mortgage insurers to fulfill their intended role of providing private capital to the mortgage market even under a stressful economic scenario. The revised master policies were implemented in October 2014. FHFA published draft insurer eligibility requirements for public input during a comment period that concluded in September 2014. We expect to publish new eligibility requirements in early 2015.
- Improve the underwriting processes with our single-family sellers: We continued our initiative for enhanced early-risk assessment by sellers through the use of Loan Prospector and Loan Quality Advisor, our automated tools for use in evaluating the credit and product eligibility of loans and identifying non-compliance issues. We implemented requirements for our sellers and servicers in response to certain final rules from the CFPB. We also used our loan sampling strategy, appeal requirements, alternative remedies for resolving repurchase obligations, and our recently implemented standard timelines for reviews and appeals as part of our efforts to enhance post-delivery quality control practices and our representation and warranty framework.

Our Business

Our Charter

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 mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages for low- and moderate-income families, involving a reasonable economic return that may be less than the

return earned on other activities); and

- promote access to mortgage credit throughout the U.S. (including central cities, rural areas, and other underserved areas).

Our charter does not permit us to originate mortgage 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. Conforming loans are 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 mortgages secured by properties in Alaska, Guam, Hawaii, and the U.S. Virgin Islands.
Our charter permits us to purchase first-lien single-family mortgages 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 mortgages that do not meet this criterion if we have one of the following credit protections:

- mortgage insurance on the portion of the UPB of the mortgage that exceeds 80%;
- a seller's agreement to repurchase or replace any mortgage that has defaulted; or
- retention by the seller of at least a 10% participation interest in the mortgage.

This charter requirement does not apply to multifamily mortgages or to mortgages 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 mortgages that refinance mortgages 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%.

Overview of the Mortgage Securitization and Guarantee Process

Mortgage securitization is an integral part of our business activities. Mortgage securitization is a process where we purchase mortgage loans that lenders originate, and then pool these loans into mortgage-related securities that can be sold in global capital markets. Our primary single-family mortgage securitization and guarantee process involves the issuance of single-class PCs and our primary multifamily mortgage securitization and guarantee process involves the issuance of K Certificates. We also resecuritize mortgage-related securities that are issued by us, other GSEs, HFAs, or private (non-agency) entities, and issue other single-class and multiclass mortgage-related securities to third-party investors.

The following diagram illustrates how we support mortgage market liquidity when we create PCs through mortgage securitizations. PCs can be sold to investors or held by us or our lender customers.

Mortgage Securitizations

For single-family loans, our securitization and guarantee process generally works as follows: (a) a lender originates a mortgage loan to a borrower purchasing a home or refinancing an existing mortgage loan; (b) we purchase the loan from the lender and place it with other mortgages into a security (this process is referred to as "pooling"); (c) we provide a credit guarantee (for a fee) to those who invest in the security; (d) the borrower's monthly payment of mortgage principal and interest (net of a servicing fee and our management and guarantee fee) is passed through to the investors; and (e) if the borrower stops making monthly payments, we make the applicable payments to the investors pursuant to our guarantee.

The terms of single-family mortgage loans that we purchase allow borrowers to prepay them, thereby allowing borrowers to refinance their loans. Because of the nature of long-term, fixed-rate mortgage loans, borrowers with these loans are protected against rising interest rates, but are able to take advantage of declining rates through refinancing. When a borrower prepays a mortgage loan that we have securitized, the outstanding balance of the security owned by investors is reduced by the amount of the prepayment.

We issue mortgage-related securities in the form of PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions. Each of these types of mortgage-related securities is discussed below.

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PCs

Our PCs are single-class pass-through securities that represent undivided beneficial interests in trusts that hold pools of mortgages. For the fixed-rate PCs we currently issue, 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 mortgage loans. We also guarantee the full and final payment of principal, but not the timely payment of principal, on ARM PCs.

We guarantee our PCs in exchange for compensation, which consists primarily of a combination of management and guarantee fees paid on a monthly basis as a percentage of the UPB of the underlying loans (referred to as base fees), and initial upfront payments (referred to as delivery fees). We may also make upfront payments to buy-up the monthly management and guarantee fee rate ("buy-up"), or receive upfront payments to buy-down the monthly management and guarantee fee rate. These upfront payments are paid in conjunction with the formation of a PC to provide for a uniform coupon rate for the mortgage pool underlying the PC.

We issue most of our PCs in transactions in which our customers provide us with mortgage loans in exchange for PCs. We refer to these transactions as guarantor swaps. The following diagram illustrates a guarantor swap transaction.

Guarantor Swap

We also issue PCs in transactions in which we purchase mortgage loans for cash and securitize them for retention in our mortgage-related investments portfolio or to sell them to third parties. We may sell these PCs in a “cash auction," as illustrated in the following diagram.

Cash Purchase Process and Securitization of PCs

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: (a) resecuritizing PCs into REMICs and Other Structured Securities; (b) encouraging sellers to pool mortgages that they deliver to us into PC pools with a larger and more diverse population of mortgages; (c) influencing the volume and characteristics of mortgages delivered to us by tailoring our loan eligibility guidelines and by other means; and (d) engaging in portfolio purchase and sale activities. See “Investments Segment — Market Presence and PC Support Activities” and “RISK FACTORS — Competitive and Market 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 K Certificates.” for additional information about our efforts to support the liquidity and relative price performance of our PCs.

REMICs and Other Structured Securities

Our REMICs and Other Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. We create these securities (which can be either single-class or multiclass) primarily by using PCs or previously issued REMICs and Other Structured Securities as the underlying collateral.

Single-class securities involve the straight pass-through of all of the cash flows of the underlying collateral to holders of the beneficial interests. Multiclass securities divide all of the cash flows of the underlying collateral into two or more classes with varying maturities, payment priorities and coupons. Our primary multiclass securities qualify for tax treatment as REMICs. 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 holders of tranches of our REMICs and Other Structured Securities. 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. The collateral underlying nearly all of our single-family REMICs and Other Structured Securities consists of other mortgage-related securities that we guarantee. All of the cash flows from the collateral underlying our single-family REMICs and Other Structured Securities are generally passed through to investors in these securities. We do not issue tranches of securities in these transactions that have concentrations of credit risk beyond those embedded in the underlying assets. The following diagram provides a general example of how we create REMICs and Other Structured Securities.

REMICs and Other Structured Securities

We issue many of our REMICs and Other Structured Securities in transactions in which securities dealers or investors sell us mortgage-related assets or we exchange our own mortgage-related assets (e.g., PCs and REMICs and Other Structured Securities) for the REMICs and Other Structured Securities. For REMICs and Other Structured Securities that we issue to third parties, we typically receive a transaction, or resecuritization, fee. This transaction fee is compensation for facilitating the transaction, as well as future administrative responsibilities.

Other Guarantee Transactions

We also issue mortgage-related securities to third parties in exchange for non-Freddie Mac mortgage-related securities. We refer to these as Other Guarantee Transactions. The non-Freddie Mac mortgage-related securities are transferred to trusts that are specifically created for the purpose of issuing securities, or certificates, in the Other Guarantee Transactions.

Other Guarantee Transactions are generally of two different types. In one type, we purchase only senior tranches from a non-Freddie Mac senior-subordinated securitization, place the senior tranches into securitization trusts, and issue Other Guarantee Transaction certificates guaranteeing the principal and interest payments on those certificates. In this type of transaction, our credit risk is reduced by the structural credit protections from the related subordinated tranches, which we do not issue or guarantee. In the second type, we purchase single-class pass-through securities, place them in securitization trusts, and issue Other Guarantee Transaction certificates guaranteeing the principal and interest payments on those certificates. Our Other Guarantee Transactions backed by single-class pass-through securities do not benefit from structural or other credit enhancement protections. In exchange for providing our guarantee on Other Guarantee Transactions, we receive a management and guarantee fee and/or other delivery fees. Although Other Guarantee Transactions generally have underlying mortgage loans with varying risk characteristics, we do not issue tranches that have concentrations of credit risk beyond those embedded in the underlying assets. All of the cash flows from the underlying collateral are passed through to the investors in the securities, so there are no economic residual interests in the related securitization trusts.

Our primary Other Guarantee Transactions are multifamily K Certificates. In substantially all of these transactions, we guarantee only the most senior tranches of the securities. The expected credit risk associated with these loans is sold in subordinated tranches to third-party investors. We do not issue or guarantee the subordinated tranches, which are considered

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CMBS. However, we may purchase a portion of either the guaranteed certificates or the unguaranteed CMBS, based on market conditions.

The following diagram provides an example of our K Certificate transactions.

K Certificate Transaction

In 2009 and 2010, we entered into transactions under Treasury's NIBP with HFAs, which are classified as Other Guarantee Transactions. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Housing Finance Agency Initiative" for further information.

Our Business Segments

We have three reportable segments, which are based on the type of business activities each performs: Single-family Guarantee, Investments, and Multifamily. Certain activities that are not part of a reportable segment are included in the All Other category. We evaluate segment performance and allocate resources based on a Segment Earnings approach.

For more information on our segments, including financial information, see "MD&A — CONSOLIDATED RESULTS OF OPERATIONS — Segment Earnings" and "NOTE 13: SEGMENT REPORTING."

We operate our business solely in the United States and its territories, and therefore we generate no revenue from and have no long-lived assets in geographic locations outside the United States and its territories.

Single-Family Guarantee Segment

In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees.

Single-Family Mortgage Market

The U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders (i.e., our sellers) and a secondary mortgage market that links lenders and investors. We participate only in the secondary mortgage market. We do this primarily by purchasing mortgage loans and mortgage-related securities and by issuing guaranteed mortgage-related securities. In the Single-family Guarantee segment, we purchase and securitize "single-family mortgages," which are mortgages that are secured by one- to four-family properties.

The size of the U.S. residential mortgage market is affected by many factors, including changes in interest rates, home ownership rates, home 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 mortgages meeting the requirements of our charter, our own preference for credit risk reflected in our purchase standards, and the mortgage purchase and securitization activity of other financial institutions.

Our Customers

Our customers in the Single-family Guarantee segment are predominantly: (a) lenders that originate mortgages for homeowners and sell them to us; and (b) 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, we view investors and dealers in our guaranteed mortgage-related securities and investors and counterparties in risk transfer transactions as customers.

We acquire a significant portion of our mortgages from several lenders that are among the largest mortgage loan originators in the U.S. Our top ten single-family sellers provided approximately 50% of our single-family purchase volume

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during 2014. Wells Fargo Bank, N.A. accounted for 13% of our single-family mortgage purchase volume and was the only single-family seller that comprised 10% or more of our purchase volume during 2014.

A significant portion of our single-family mortgage loans is serviced by several large servicers. Our top two single-family loan servicers, Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., serviced approximately 22% and 12%, respectively, of our single-family mortgage loans as of December 31, 2014 and were the only servicers that serviced more than 10% of our loans at that date. For additional information about servicer concentration risk and our relationships with our seller/servicer customers, see "MD&A — RISK MANAGEMENT — Credit Risk Overview — Institutional Credit Risk Profile — Single-Family Mortgage Seller/Servicers."

Our Competition

The principal competitors of our Single-family Guarantee segment are Fannie Mae, Ginnie Mae (with FHA/VA), and other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, and thrift institutions. We compete on the basis of price, products, the structure of our securities, and service. Competition to acquire single-family mortgages 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 — Conservatorship and Related Matters — Competition from banking and non-banking companies may harm our business."

Guarantee Fees and Contractual Arrangements

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

We seek to issue guarantees with fee terms that we believe are commensurate with the risks assumed and that will, over the long-term: (a) provide management and guarantee fee income that exceeds our anticipated credit-related and administrative expenses on the underlying loans; and (b) provide a return on the capital that would be needed to support the related credit risk. However, we must obtain FHFA's approval to implement across-the-board increases in our guarantee fees. 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 and credit score. To compensate us for higher levels of risk in some mortgage products, we charge upfront delivery fees above our base fees, which are calculated based on credit risk factors such as the mortgage product type, loan purpose, LTV ratio and credit score. While we vary our guarantee and delivery fee pricing for different customers, mortgage products, and mortgage or borrower underwriting characteristics based on our assessment of credit risk, the seller may elect to buy, or originate, and then retain loans with better credit characteristics. The sellers' decisions for loan retention, or sale to us, could result in our portfolio purchases having a more adverse credit profile.

We implemented two across-the-board increases in guarantee fees in 2012. Effective April 1, 2012, at the direction of FHFA, we and Fannie Mae increased the guarantee fee on single-family residential mortgages sold to us 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 guarantee fees. In the fourth quarter of 2012, at the direction of FHFA, we and Fannie Mae implemented a further increase in guarantee fees on single-family mortgages of an average of 10 basis points.

Securitization Activities

Our securitization activities primarily involve PCs, and REMICs and Other Structured Securities. We have not completed an Other Guarantee Transaction in our Single-family Guarantee segment in several years. In order to expand our alternatives for the transfer of mortgage credit risk to third party investors, we may resume issuing Other Guarantee Transactions in our Single-family Guarantee segment in 2015. See "Our Business — Overview of the Mortgage Securitization and Guarantee Process" for additional information about our securitization activities.

Single-Family PC Trust Documents

We establish trusts for all of our issued PCs pursuant to our PC master trust agreement. We use PC trusts to hold the underlying mortgage loans separate and apart from our corporate assets. In accordance with the terms of our PC trust documents, we have the option, and in some instances the requirement, to remove specified mortgage loans from the applicable trust. To remove these loans, we pay the trust an amount equal to the current UPB of the mortgage loan, less any outstanding advances of principal that have been distributed to PC holders. Our payments to the trust are distributed to the PC holders at the next scheduled payment date.

We have the option to remove a mortgage loan from a PC trust under certain circumstances to resolve an existing or impending delinquency or default. Our practice generally has been to remove substantially all single-family mortgage loans that are 120 days or more delinquent from our issued PCs. From time to time, we reevaluate our practice of removing delinquent loans from PCs and alter it if circumstances warrant.

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The To Be Announced Market

Single-family fixed-rate PCs generally trade on a “generic” basis, also referred to as trading in the TBA market. A TBA trade is a contract for the purchase or sale of PCs to be delivered at a future date; however, the specific PCs that will be delivered are not known (i.e., “announced”) until shortly before the trade is settled. The use of the TBA market increases the liquidity of mortgage investments and improves the distribution of investment capital available for residential mortgage financing, thereby helping us to accomplish our statutory mission. The Securities Industry and Financial Markets Association publishes guidelines pertaining to the types of mortgages that are eligible for TBA trades. Certain of our PC securities are not eligible for TBA trades, such as those backed by relief refinance mortgages with LTV ratios greater than 105%.

Other Guarantee Commitments

In certain circumstances, we provide a guarantee on mortgage-related assets held by third parties, in exchange for a management and guarantee fee, without securitizing those assets. For example, we provide long-term standby commitments to certain of our single-family customers, which 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 mortgage loans.

Underwriting Requirements, Quality Control Standards, and the Representation and Warranty Framework

We use a process of delegated underwriting for the single-family mortgage loans we purchase or securitize. In this process, our contracts with sellers describe mortgage eligibility and underwriting standards, and the sellers represent and warrant to us that the mortgage loans sold to us meet these standards. In our contracts with individual sellers, we may waive or modify selected underwriting standards. Through our delegated underwriting process, mortgage loans and the borrowers’ ability to repay the loans are evaluated using a number of critical risk characteristics, including, but not limited to: (a) the credit profile of the borrower (e.g., credit score, credit history, and monthly income relative to debt payments); (b) the documentation level; (c) the number of borrowers; (d) the features of the mortgage itself; (e) the purpose of the mortgage; (f) occupancy type; (g) the property type and market value; and (h) LTV ratio. Our single-family loans are generally underwritten with a requirement for a maximum original LTV ratio of 95%. We prescribe maximum LTV ratio limits of 80% for cash-out refinance loans and 90% for jumbo conforming mortgages, but no maximum for fixed-rate HARP mortgages. In December 2014, we announced guidelines for mortgages with LTV ratios up to 97% to serve a targeted segment of creditworthy borrowers. We expect to begin our purchase and guarantee of mortgages under this initiative in March 2015.

The majority of our single-family mortgage purchase volume is evaluated using our proprietary automated underwriting software (Loan Prospector), the sellers’ own software, or Fannie Mae’s proprietary software. We use underwriting software and available data to help us identify loans with potential underwriting defects. The percentage of our single-family mortgage purchase volume (acquired under purchase volume agreements and excluding HARP and other relief refinance loans) evaluated by the loan originator using Loan Prospector prior to being purchased by us was 47% and 45% during 2014 and 2013, respectively. We monitor the performance of loans delivered to us that were underwritten using underwriting software other than Loan Prospector to determine whether their performance is in line with our risk tolerance.

We review a sample of the loans we purchase to validate compliance with our underwriting standards. In addition, we review many delinquent loans and loans that have resulted in credit losses, such as through foreclosure or short sale. Beginning with loans delivered in 2013, in conjunction with our revised representation and warranty framework discussed below, we began to make changes to reduce the time it takes to complete our quality control review after the loan is delivered to us. We have implemented tools, such as our proprietary Quality Control Information Manager, to provide greater transparency into our customer quality control reviews. We have also implemented a process of targeted quality control sampling of loans with certain characteristics. We expect that further enhancements to these systems and processes will continue in 2015.

If we discover that representations and warranties 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 may 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 and Fannie Mae revised our representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. Under this revised framework, sellers are relieved of certain repurchase obligations for loans that meet specific payment requirements. This includes, subject to certain exclusions, loans with 36 months (12 months for relief refinance mortgages) of consecutive, on-time payments after we purchase them. At the direction of FHFA, we announced certain additional changes to our representation and warranty framework during 2014. These changes include providing repurchase relief on loans that: (a) have established an acceptable payment history (i.e., no more than two 30-day delinquencies and no 60-day delinquencies in a 36 month period); or (b) satisfactorily completed a review in our quality control process. We also made changes that provided additional clarity around life-of-loan exclusions from repurchase relief. These changes are generally designed to provide sellers with a higher degree of certainty and clarity regarding their repurchase

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exposure and liability on future sales of loans to us. It is possible that FHFA will require us to make further changes to the framework.

We do not have our own mortgage loan servicing operation. Instead, our customers perform the primary servicing function on our behalf. Our servicers are required to service loans in accordance with our standards. Under these standards, we pay various incentives to servicers for completing workouts of problem loans. We also assess compensatory fees if servicers do not achieve certain benchmarks with respect to servicing delinquent loans. Similar to seller violations, we can require servicers to repurchase loans or provide alternative remedies in the case of servicing violations. For certain servicing violations, we typically first issue a notice of defect and allow the servicer a period of time to correct the problem. If the servicing violation is not corrected, we may issue a repurchase request. For breaches of servicing violations related to loans that have proceeded through foreclosure and REO sale or other workouts (e.g., short sales), we will accept reimbursement for realized credit losses in lieu of repurchase.

For more information, see "MD&A — RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile," " — Institutional Credit Risk Profile — Single-Family Mortgage Seller/Servicers" and "RISK FACTORS —Competitive and Market Risks — We face significant risks related to our delegated underwriting process for single-family mortgages, including risks related to data accuracy and fraud. Recent changes to the process could increase our risks."

Credit Enhancements

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests. Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is typically provided on a loan-level basis. 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.

For some mortgage loans, we transfer a portion of the credit risk to various third parties in STACR and ACIS transactions, or other credit enhancements, including:

- lender recourse, where we may require a lender to repurchase a loan upon default;
- indemnification agreements, where we may require a lender to reimburse us for realized credit losses; and
- collateral pledged by lenders, and subordinated security structures.

Lender recourse and indemnification agreements are typically entered into contemporaneously with the purchase of a mortgage loan as an alternative to requiring primary mortgage insurance or in exchange for a lower guarantee fee.

STACR and ACIS transactions are new types of credit risk transfer transactions we introduced in 2013. We have used these risk transfer transactions to transfer a portion of credit losses that could occur under adverse home price scenarios (through a mezzanine credit loss position) on certain groups of loans in our New single-family book from us to third-party investors. In the STACR debt note transactions, we issue unsecured debt securities that reduce our exposure to credit risk, as illustrated below:

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Risk Transfer - STACR® (Debt Issuance)

In a STACR debt note transaction, we create a reference pool consisting of recently acquired single-family mortgage loans. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (e.g., first loss, mezzanine, and senior positions). The notional amounts of all positions are reduced based on scheduled principal payments that occur in the reference pool. Unscheduled principal payments that occur in the reference pool are allocated to the senior position only, unless certain specified events have occurred, in which case unscheduled principal payments are also allocated to the mezzanine and/or first loss positions.

We issue STACR debt notes (which relate to the mezzanine loss position) to investors. We are obligated to make payments of principal and interest on the STACR debt notes. The principal balance of the STACR debt notes is reduced (based on a fixed severity schedule) when certain specified credit events (such as a loan becoming 180 days delinquent) occur on the loans in the reference pool. Principal reductions for the specified credit events will initially occur on the first loss position (which is retained by us) until it is fully reduced before the STACR debt notes begin participating in reductions to their principal balances relating to those events. The interest rate on STACR debt is generally higher than on our other unsecured debt securities due to the potential for reductions to its principal balance.

In 2014 and 2013, we only issued STACR debt notes related to mezzanine loss positions with credit event reductions based on fixed severity schedules. In 2015, we began issuing STACR debt notes that will transfer some of the credit risk related to the first loss positions in addition to the mezzanine loss position, and expect to complete transactions that provide reductions for credit events based on actual losses rather than fixed amounts.

In an ACIS transaction, we purchase one or more insurance policies (typically underwritten by a panel of insurers and reinsurers) that obligate the counterparties to reimburse us for specified credit events (on a fixed severity schedule) that occur on our non-issued mezzanine loss position of a STACR debt transaction. Under each insurance policy, we pay monthly premiums that are determined based on the outstanding balance of the STACR debt reference pool. We receive compensation from the insurance policy up to an aggregate limit when specified credit events (such as a loan becoming 180 days delinquent) occur. In 2015, we expect to enter into such contracts for reimbursement of our actual credit losses rather than fixed or scheduled amounts.

Our use of certain types of credit enhancements to reduce our exposure to mortgage credit risk generally increases our exposure to institutional credit risk. See “MD&A — RISK MANAGEMENT — Credit Risk Overview — Institutional Credit Risk Profile” for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio, including our mortgage loan insurers.

Single-Family Loan Workouts and the MHA Program

Loan workout activities are a key component of our loss mitigation strategy for managing and resolving troubled assets and lowering credit losses. Our loan workouts include:

- Forbearance agreements, where reduced or no payments are required during a defined period, generally less than one year. These agreements provide additional time for the borrower to return to compliance with the original terms of the

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mortgage or to implement another loan workout. During 2014, the average time period granted for completed short-term forbearance agreements was between two and three months.

- Repayment plans, which are contractual plans to make up past due amounts. These plans assist borrowers in returning to compliance with the original terms of their mortgages. During 2014, the average time period granted for completed repayment plans was approximately four months.
- Loan modifications, which may involve changing the terms of the loan, or adding outstanding indebtedness, such as delinquent interest, to the UPB of the loan, or a combination of both. We have used principal forbearance but have not used principal forgiveness for our loan modifications. Principal forbearance is a change to a loan's terms to designate a portion of the principal as non-interest-bearing and non-amortizing.
- Foreclosure alternatives, which are short sale and deed in lieu of foreclosure transactions.

We participate in the MHA Program, which is designed to help in the housing recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts, and set market standards. Through our participation in this program, we help borrowers maintain home ownership. Some of the key initiatives of this program include HAMP and HARP, which are discussed below. We also maintain our non-HAMP standard loan modification and streamlined modification initiatives discussed below. See "MD&A — RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Managing Problem Loans" for additional information about our loan workout activities, as well as HARP and our relief refinance initiative.

HAMP and Non-HAMP Modifications

Our primary loan modification programs are HAMP and our non-HAMP standard loan modification. Under these programs, we offer loan modifications to struggling homeowners that reduce the monthly principal and interest payments on their mortgages. Under HAMP, the goal is to reduce the borrower's monthly mortgage payments to 31% of gross monthly income. Both programs require that the borrower complete a trial period of at least three months prior to receiving the modification. During the trial period, the borrower makes monthly payments based on the estimated amount of the modification payments. If a borrower fails to complete the trial period, the loan is considered for our other workout activities. HAMP is available for loans originated on or before January 1, 2009. The program is currently scheduled to end with trial period plan effective dates on or before March 1, 2016 and modification effective dates on or before September 1, 2016.

In July 2013, we implemented a streamlined modification initiative, which provides an additional modification opportunity to certain borrowers. This modification requires a three-month trial period and offers eligible borrowers the same mortgage terms as the non-HAMP standard modification, including an extension of the loan's term to 480 months and a fixed interest rate.

Under HAMP, borrowers receive monthly incentive payments (in the form of credits) to reduce the principal balance of their loans by up to $1,000 per year, for five years, as long as they are making timely payments under the modified loan terms. Servicers are paid incentive fees for each completed HAMP modification and non-HAMP modification. Unlike HAMP modifications, our non-HAMP standard and streamlined modifications do not provide for borrower incentive payments. We bear the costs of these borrower incentive payments and servicer incentive fees, and are not reimbursed by Treasury.

In January 2015, at the instruction of FHFA, we implemented a new $5,000 principal reduction incentive payable to eligible borrowers who remain in good standing on their HAMP modified loans through the sixth anniversary of their modification. In addition, we will require our servicers to offer such borrowers the opportunity to modify their loan by reamortizing the unpaid principal balance over the remaining term of the loan, which could lower the borrowers' monthly principal and interest payments and would further reduce the risk of borrower default. Treasury will pay the $5,000 incentive for certain of our eligible HAMP modified loans, and we will pay the $5,000 incentive on our other eligible HAMP modified loans. We expect to begin paying these incentives in late 2015. Our payment of these incentives is not expected to have a significant effect on our earnings.

A borrower may only receive one HAMP modification. A loan may generally be modified twice (although only once during a 12 month period) under our standard loan modification program or once under our streamlined modification program.

We are the compliance agent for Treasury for certain foreclosure avoidance activities under HAMP. Among other duties, as the program compliance agent, we conduct examinations and review servicer compliance with the published requirements for the program.

Relief Refinance Mortgage Initiative and the Home Affordable Refinance Program

Our relief refinance initiative (which includes HARP, the portion of our relief refinance initiative for loans with LTV ratios above 80%) is a significant part of our effort to keep families in their homes. This initiative is designed to provide eligible homeowners with loans already guaranteed by us an opportunity to refinance their mortgages on more favorable terms, without obtaining new mortgage insurance in excess of what was already in place. Our relief refinance initiative allows us to assist homeowners by employing one or more of the following: (a) a reduction in payment; (b) a reduction in interest rate;

(c) movement to a more stable mortgage product type (i.e., from an adjustable-rate mortgage to a fixed-rate mortgage); or (d) a reduction in amortization term.

The relief refinance initiative (including HARP) was implemented in 2009 and originally permitted eligible borrowers with Freddie Mac mortgages having LTV ratios up to 125% to refinance their mortgages. We subsequently implemented a number of changes to the initiative including: (a) removing the 125% LTV ratio ceiling for fixed-rate mortgages; and (b) relieving the lenders of certain representations and warranties on the original mortgage being refinanced. Our relief refinance initiative (including HARP) is scheduled to end in December 2015.

Relief refinance mortgages (including HARP loans) generally present higher risk to us than other refinance loans we have purchased since 2009 since: (a) underwriting procedures on these loans are more limited than other refinance loans; (b) many of the loans have high LTV ratios; and (c) the new loan will generally have limited representations and warranties compared to the original loan. However, relief refinance mortgages (including HARP loans) generally have performed better than loans with similar characteristics remaining in our single-family credit guarantee portfolio that were originated prior to 2009.

Investments Segment

The Investments segment reflects results from three primary activities: (a) managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments and single-family seriously delinquent loans; (b) managing the treasury function for the entire company, including funding and liquidity; and (c) managing interest-rate risk for the entire company.

Our Investments segment is focused on:

- Maintaining a presence in the agency mortgage-related securities market: Our activities in this market may include outright purchases and sales, dollar roll transactions, and structuring activities (e.g., resecuritizing existing agency securities into REMICs and selling some or all of the REMIC tranches).
- Maintaining a portfolio of liquid mortgage assets consistent with our liquidity management guidelines: We evaluate the liquidity of our investments based on two categories: (a) single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities); and (b) assets that are less liquid than the agency securities noted above (e.g., mortgage loans and non-agency mortgage-related securities). We are focusing our efforts on reducing the balance of less liquid assets in the mortgage-related investments portfolio. Our less liquid assets collectively represented $239.3 billion and $286.3 billion, or approximately 59% and 62% of the UPB of the portfolio, at December 31, 2014 and 2013, respectively.
- Managing the single-family performing loans obtained through our cash purchase program: In conjunction with the single-family business, we purchase loans from lenders for cash and securitize the majority of them into Freddie Mac agency securities. These agency securities may be sold to dealers or investors, or retained in our Investments segment mortgage investments portfolio.
- Managing single-family delinquent loans along with the single-family business: This includes removing seriously delinquent loans from PC pools and selling loans, and could include other disposition strategies in the future.
- Managing single-family reperforming loans and performing modified loans: This includes securitizing loans, structuring the resulting securities and selling some or all of the tranches, and could include selling loans or other disposition strategies in the future.
- Reducing the balance of our non-agency mortgage-related securities through liquidations and sales, subject to a variety of constraints, including market conditions.
- Managing the treasury function for the entire company, including funding and liquidity, through the issuance of short-term and long-term unsecured debt: We maintain a liquidity and contingency operating portfolio of cash and non-mortgage investments for short-term liquidity management.
- Managing the interest-rate risk for the entire company through the use of derivatives and unsecured debt.

Our Customers

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

Customers.”

Our Competition

Our competitors are firms that invest in mortgage loans and mortgage-related assets, and issue corporate debt. As a result, we have a variety of principal competitors, including Fannie Mae, REITs, supranationals (international institutions that provide development financing for member countries), commercial and investment banks, dealers, thrift institutions, insurance companies, and the FHLBs.

Market Presence and PC Support Activities

From time to time, we may undertake various activities in an effort to support: (a) our presence in the agency securities market; or (b) the liquidity and price performance of our PCs relative to comparable Fannie Mae securities. These activities may include the purchase and sale of agency securities, purchases of loans, dollar roll transactions, and the issuance of REMICs and Other Structured 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, purchasing or selling agency securities could adversely affect the price performance of our PCs relative to comparable Fannie Mae securities. While we may employ a variety of strategies in an effort to support the liquidity and price performance of our PCs and may consider additional strategies, we may cease such activities if deemed appropriate. For more information about our efforts to support the liquidity and relative price performance for PCs, see "Our Business — Overview of the Mortgage Securitization and Guarantee Process."

We incur costs in connection with our efforts to support our presence in the agency securities market or 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 — Competitive and Market 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 K Certificates."

Multifamily Segment

Our Multifamily segment provides liquidity to the multifamily market and supports a consistent supply of affordable rental housing by purchasing and securitizing mortgage loans secured by properties with five or more units. The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates, which generally allows us to transfer the expected credit risk of the loans to third-party investors.

Our Multifamily segment is focused on:

- Continuing to provide stability to the multifamily mortgage market, particularly the market for affordable housing, while meeting FHFA's Scorecard requirements relating to our new business volumes.
- Maintaining a strong credit and capital management discipline.

The multifamily property market is 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. Our multifamily loan volume is largely sourced through established institutional channels where we are generally providing post-construction financing to larger apartment project operators with established performance records.

Multifamily mortgages generally are without recourse to the borrower (i.e., the borrower is not liable for any deficiency remaining after foreclosure and sale of the property), except in the event of fraud or certain other specified types of default. Therefore, repayment of the mortgage depends on the ability of the underlying property to generate cash flows sufficient to cover the related debt obligations. That, in turn, depends on conditions in the local rental market, local and regional economic conditions, the physical condition of the property, the quality of property management, and the level of operating expenses.

Our Customers

We acquire our multifamily mortgage loans from a network of approved sellers. A significant portion of our multifamily mortgage loans are serviced by several of our large customers. Our top two multifamily sellers, CBRE Capital Markets, Inc. and Berkadia Commercial Mortgage LLC, accounted for 20% and 15%, respectively, of our multifamily new business volume for 2014. Our top ten multifamily sellers represented an aggregate of approximately 84% of our multifamily new business volume for 2014.

Our Competition

In the Multifamily segment, we compete on the basis of: (a) price; (b) products, including our use of certain securitization structures; and (c) service. Our principal competitors are Fannie Mae, FHA, commercial and investment banks, CMBS conduits, dealers, thrift institutions, and life insurance companies.

Underwriting Requirements and Quality Control Standards

Our process and standards for underwriting multifamily mortgages differ from those used for single-family mortgages as we use a prior approval underwriting approach. With this approach, we maintain our credit discipline by completing our own underwriting and credit review for each newly-originated multifamily loan prior to purchasing or guaranteeing it. This process includes review of third-party appraisals and cash flow analysis. Our underwriting standards focus on loan quality measurement based, in part, on the LTV ratio and DSCR. The DSCR estimates a multifamily borrower’s ability to service its mortgage obligation (both principal and interest) using the secured property’s cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely a multifamily borrower will be able to continue servicing its mortgage obligation. Our standards for multifamily loans specify a maximum original LTV ratio and a minimum DSCR that vary based on the loan characteristics, such as loan type (new acquisition or supplemental financing), loan term (intermediate or longer-term), and loan features (interest-only or amortizing, fixed- or variable-rate). Our multifamily loans are generally underwritten with requirements for a maximum original LTV ratio of 80% and a DSCR of greater than 1.25 (which for interest-only and partial interest-only loans is based on an assumed monthly payment that reflects amortization of principal). In certain circumstances, our standards for multifamily loans allow for certain types of loans to have an original LTV ratio over 80% and/or a DSCR of less than 1.25, typically where this will serve our mission and contribute to achieving our affordable housing goals. In addition to DSCR and LTV ratio, we consider other qualitative factors, such as borrower experience and the strength of the local market, in the credit decision we make on each loan.

Multifamily sellers make representations and warranties to us about the mortgage and about certain information submitted to us in the underwriting process. We have the right to require that a seller repurchase a multifamily mortgage for which there has been a breach of representation or warranty. However, because of our evaluation of underwriting information for most multifamily properties prior to purchase, repurchases have been rare.

We generally require multifamily sellers to service mortgage loans they have sold to us to mitigate potential losses. This includes property monitoring tasks beyond those typically performed by single-family servicers. We are the master servicer for loans in our multifamily mortgage portfolio. In our securitizations (e.g., K Certificates), we typically transfer the master servicing responsibilities for securitized loans to the trustees on behalf of the bondholders in accordance with the securitization and trust documents. For unsecuritized loans over $1 million in our portfolio, servicers must generally submit an annual assessment of the mortgaged property to us based on the servicer's analysis of the property as well as the borrower's quarterly financial statements. In situations where a borrower or property is in distress, the frequency of communications with the borrower may be increased. Because the activities of multifamily seller/servicers are an important part of our loss mitigation process, we rate their performance regularly and may conduct on-site reviews of their servicing operations in an effort to confirm compliance with our standards.

Loss Mitigation Activities

As discussed above, we primarily use subordination, such as in K Certificate transactions, to mitigate credit losses on the loans we purchase or guarantee. For unsecuritized loans (for which we are the master servicer), we may offer a workout option to a borrower in distress. For example, we may modify the terms of a multifamily mortgage loan (e.g., providing a short-term loan extension of up to 12 months), which gives the borrower an opportunity to bring the loan current and retain ownership of the property. These arrangements are made with the expectation that we will recover our initial investment or minimize our losses. We do not enter into these arrangements in situations where we believe we would experience a loss in the future that is greater than or equal to the loss we would experience if we foreclosed on the property at the time of the agreement. For many of our unsecuritized loans, we use other types of credit enhancements that also help mitigate potential losses in the event of default.

Securitization Activities

We primarily securitize multifamily mortgage loans through Other Guarantee Transactions (i.e., K Certificates). To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. These housing revenue bonds are collateralized by mortgage loans on low- and moderate-income multifamily housing developments. We refer to these transactions as Other Structured Securities. In 2014, in order to expand our securitization activities for a broader number of investors, we entered into other types of securitization transactions, including issuing PCs backed by multifamily mortgage loans. See "Our Business — Overview of the Mortgage Securitization and Guarantee Process" for additional information about our securitization activities.

From time to time, we may undertake various activities in an effort to support the liquidity of our K Certificates. These activities are similar to those described above in "Investments Segment — Market Presence and PC Support Activities."

Other Guarantee Commitments

In certain circumstances, we provide our guarantee on mortgage-related assets held by third parties, in exchange for a management and guarantee fee, without securitizing those assets. For example, we guarantee the payment of principal and interest on certain tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. In addition, we have issued guarantees under the TCLFP on securities backed by HFA bonds as part of the HFA Initiative (certain of which are still outstanding). See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Housing Finance Agency Initiative" for further information.

Conservatorship and Related Matters

Since September 2008, we have been operating in conservatorship, with FHFA acting as our Conservator. The conservatorship and related matters continue to have wide-ranging effects on us, including our management, business activities, financial condition and results of operations.

In connection with our entry into conservatorship, we entered into the Purchase Agreement with Treasury. Under the Purchase Agreement, we issued to Treasury both senior preferred stock and a warrant to purchase common stock. We refer to

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the Purchase Agreement and the warrant as the "Treasury Agreements." The Treasury Agreements and the senior preferred stock will continue to exist even if the conservatorship ends. The conservatorship, the Treasury Agreements and the senior preferred stock materially limit the rights of our common and preferred stockholders (other than Treasury as holder of the senior preferred stock) and have otherwise materially and adversely affected our common and preferred stockholders. For more information, see "RISK FACTORS — Conservatorship and Related Matters."

In May 2014, FHFA issued its 2014 Strategic Plan, which updated FHFA's vision for implementing its obligations as Conservator of Freddie Mac and Fannie Mae and established three reformulated strategic goals. FHFA has also issued its Conservatorship Scorecards for 2014 and 2015. The Conservatorship Scorecards establish objectives and performance targets and measures for Freddie Mac and Fannie Mae related to the strategic goals set forth in the Strategic Plan. For more information, see "Regulation and Supervision — Legislative and Regulatory Developments — FHFA's Strategic Plan for Freddie Mac and Fannie Mae Conservatorships."

We receive substantial support from Treasury and FHFA, and are dependent upon their continued support in order to continue operating our business. This support includes our ability to access funds from Treasury under the Purchase Agreement, which is critical to: (a) keeping us solvent; (b) allowing us to focus on our primary business objectives under conservatorship; and (c) avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. In recent years, the Federal Reserve has purchased significant amounts of mortgage-related securities issued by us, Fannie Mae, and Ginnie Mae.

Supervision of Our Company During Conservatorship

FHFA has broad powers when acting as our Conservator, as discussed below under "Powers of the Conservator." In addition, under conservatorship, we are subject to heightened supervision and direction from FHFA, in its capacity as our regulator.

The Conservator has delegated certain authority to the Board of Directors to oversee, and to management to conduct, business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator. The Conservator retains the authority to withdraw or revise its delegations of authority at any time. The Conservator also retains certain significant authorities for itself, and has not delegated them to the Board. For more information on limitations on the Board's authority during conservatorship, see "DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE — Authority of the Board and Board Committees."

Impact of Conservatorship and Related Actions on Our Business

We conduct our business subject to the direction of FHFA as our Conservator. The conservatorship has benefited us through, for example, enabling us to maintain access to the debt markets because of the support we receive from Treasury. However, the Purchase Agreement and the terms of the senior preferred stock we issued to Treasury constrain our business activities.

The Conservator continues to determine, and direct the efforts of the Board of Directors and management to address, the strategic direction for the company. While the Conservator has delegated certain authority to management to conduct business operations, many management decisions are subject to review and approval by FHFA and Treasury. In addition, management frequently receives directions from FHFA on various matters involving day-to-day operations.

Our current business objectives reflect direction we received from the Conservator (including the Conservatorship Scorecards). At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability. Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. Some of these initiatives impact our near- and long-term financial results. Given our public mission and the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions, we may be required to take actions that could have a negative impact on our business, operating results or financial condition, and thus contribute to a need for additional draws under the Purchase Agreement.

For more information on the impact of conservatorship and our current business objectives, see "Executive Summary —Our Primary Business Objectives," "RISK FACTORS — Conservatorship and Related Matters — We are under the control of FHFA, and our business activities are subject to significant restrictions. We may be required to take actions that materially adversely affect our business and financial results," and "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS."

Limits on Investment Activity and Our Mortgage-Related Investments Portfolio

Our mortgage-related investments portfolio consists of agency securities, single-family non-agency mortgage-related securities, CMBS, housing revenue bonds, other multifamily securities, and single-family and multifamily unsecuritized mortgage loans. Our ability to acquire and sell mortgage assets is significantly constrained by limitations under the Purchase Agreement and those imposed by FHFA.

Under the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the cap reaches $250 billion. As a result, the UPB of our mortgage-related investments portfolio could not exceed $470 billion as of December 31, 2014 and may not exceed $399 billion as of December

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31, 2015. Our 2014 Retained Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement, subject to certain exceptions. For more information on the plan, see “Executive Summary — Our Primary Business Objectives — Reducing Taxpayer Exposure to Losses — Reducing Our Mortgage-Related Investments Portfolio Over Time.” The reduction in the mortgage-related investments portfolio will result in a decline in income from this portfolio over time.
The table below presents the UPB of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement and FHFA regulation. See "Table 21 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios" for more information on the composition of the table below.

Table 2 — Mortgage-Related Investments Portfolio

	December 31, 2014			December 31, 2013		
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total
	(in millions)					
Investments segment — Mortgage investments portfolio:						
Single-family unsecuritized mortgage loans	$—	$82,778	$82,778	$—	$84,411	$84,411
Freddie Mac mortgage-related securities	150,852	7,363	158,215	156,438	8,809	165,247
Non-agency mortgage-related securities	—	44,230	44,230	—	64,524	64,524
Non-Freddie Mac agency mortgage-related securities	16,341	—	16,341	16,889	—	16,889
Total Investments segment — Mortgage investments portfolio	167,193	134,371	301,564	173,327	157,744	331,071
Single-family Guarantee segment — Single-family unsecuritized seriously delinquent mortgage loans	—	28,738	28,738	—	37,726	37,726
Multifamily segment — Mortgage investments portfolio	1,911	76,201	78,112	1,411	90,816	92,227
Total mortgage-related investments portfolio	$169,104	$239,310	$408,414	$174,738	$286,286	$461,024
Percentage of total mortgage-related investments portfolio	41 %	59 %	100 %	38 %	62 %	100 %
Mortgage-related investments portfolio cap			$469,625			$552,500

We evaluate the liquidity of the assets in our mortgage-related investments portfolio based on two categories: (a) single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities); and (b) assets that are less liquid than the agency securities noted above. Assets that we consider to be less liquid than agency securities include unsecuritized single-family and multifamily mortgage loans, certain structured agency securities collateralized with non-agency mortgage-related securities, and our investments in non-agency mortgage-related securities.
The UPB of our mortgage-related investments portfolio was $408.4 billion at December 31, 2014, a decline of $52.6 billion (or 11%) compared to $461.0 billion at December 31, 2013. Our less liquid assets accounted for $47.0 billion of this decline, primarily due to liquidations and our efforts to reduce these assets. We sold $16.5 billion of less liquid assets in 2014 (including sales related to settlements of non-agency mortgage-related securities litigation). In addition,

we securitized $7.0 billion of single-family reperforming and modified loans in 2014. These amounts do not include sales of mortgage loans we purchased for cash and subsequently securitized. The sales of less liquid assets noted above included a pilot transaction in which we sold approximately $0.6 billion in UPB of seriously delinquent unsecuritized single-family loans. In January 2015, we received FHFA approval to execute additional such sales. We plan to continue reducing the balance of our less liquid assets, although we also continue to add certain of these assets to our mortgage-related investments portfolio as part of our business strategies (e.g., removal of seriously delinquent loans from PC pools and acquisitions of mortgage loans purchased for cash).

Powers of the Conservator

Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director of Freddie Mac with respect to Freddie Mac and its assets. The Conservator also succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party.

Under the GSE Act, the Conservator may take any actions it determines are necessary to put us in a safe and solvent condition and appropriate to carry on our business and preserve and conserve our assets and property. The Conservator’s powers include the ability to transfer or sell any of our assets or liabilities (subject to certain limitations and post-transfer notice provisions) without any approval, assignment of rights or consent of any party. The GSE Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Freddie Mac securitization trust must be held by the Conservator for the beneficial owners of the trust and cannot be used to satisfy our general creditors. For more information on the GSE Act, see "Regulation and Supervision."

Treasury Agreements and Senior Preferred Stock

Treasury entered into several agreements with us in connection with our entry into conservatorship, as described below.

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Purchase Agreement

On September 7, 2008, we, through FHFA, in its capacity as Conservator, entered into the Purchase Agreement with Treasury. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, and August 17, 2012. Pursuant to the Purchase Agreement, we issued to Treasury: (a) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (b) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding. The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of Treasury's commitment to provide funding to us under the Purchase Agreement. The terms of the senior preferred stock and warrant are summarized in separate sections below. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. However, deficits in our net worth have made it necessary for us to make substantial draws on Treasury’s funding commitment under the Purchase Agreement. As a result, the aggregate liquidation preference of the senior preferred stock has increased to $72.3 billion at December 31, 2014. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. As of December 31, 2014, the amount of available funding remaining under the Purchase Agreement was $140.5 billion. This amount will be reduced by any future draws.

The Purchase Agreement provides for us to pay a quarterly commitment fee to Treasury. However, pursuant to the August 2012 amendment to the Purchase Agreement, as long as the net worth sweep dividend provisions described below under "Senior Preferred Stock" remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue or be payable. Treasury had previously waived the fee for all prior quarters.

The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP balance sheet for the applicable fiscal quarter (referred to as the deficiency amount), provided that the aggregate amount funded under the Purchase Agreement may not exceed Treasury’s commitment. The Purchase Agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement), then FHFA, in its capacity as our Conservator, may request that Treasury provide funds to us in such amount. The Purchase Agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement). Any amounts that we draw under the Purchase Agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the Purchase Agreement.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. Treasury's consent is required for a termination of the conservatorship other than in connection with receivership. For more information on the Purchase Agreement, see “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Purchase Agreement and Warrant — Termination Provisions,” “— Waivers and Amendments and “— Third-party Enforcement Rights.”

Senior Preferred Stock

Shares of the senior preferred stock have a liquidation preference that is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference. In addition, any amounts we draw under the Purchase Agreement are added to the liquidation preference.

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as and if declared by our Board of Directors. Under the August 2012 amendment to the Purchase Agreement, our dividend obligation each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. For more information regarding our net worth sweep dividend, see “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS.”

The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury’s funding commitment under the Purchase Agreement. For more information on the senior preferred stock, including the limited circumstances under which we may make payments to reduce the liquidation preference, see “NOTE 11: STOCKHOLDERS’ EQUITY — Issuance of Senior Preferred Stock.”

Common Stock Warrant

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028.

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Covenants Under the Treasury Agreements

The Purchase Agreement and warrant contain covenants that significantly restrict our business activities. For example, the Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- pay dividends on or repurchase our equity securities (other than the senior preferred stock or warrant);
- issue any additional equity securities (except in limited instances);
- sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value in limited circumstances including: (a) if the transaction is in the ordinary course of business, consistent with past practice, or (b) in one transaction or a series of related transactions if the assets have a fair market value individually or in the aggregate of less than $250 million; and
- issue any subordinated debt.

The Purchase Agreement also requires us to reduce the amount of mortgage assets we own, as described in "Limits on Investment Activity and our Mortgage-Related Investments Portfolio." Under the Purchase Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

For more information on the covenants in the Purchase Agreement and the warrant, see "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Purchase Agreement and Warrant — Purchase Agreement Covenants" and "— Warrant Covenants."

Regulation and Supervision

In addition to our oversight by FHFA as our Conservator, we are subject to regulation and oversight by FHFA under our charter and the GSE Act. We are also subject to certain regulation by other government agencies.

Federal Housing Finance Agency

FHFA is an independent agency of the federal government responsible for oversight of the operations of Freddie Mac, Fannie Mae and the FHLBs.

Under the GSE Act, FHFA has safety and soundness authority that is comparable to, and in some respects, broader than that of the federal banking agencies. FHFA is responsible for implementing the various provisions of the GSE Act that were added by the Reform Act.

Receivership

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act.

Certain aspects of conservatorship and receivership operations of Freddie Mac, Fannie Mae and the FHLBs are addressed in an FHFA rule. Among other provisions, the rule indicates that FHFA generally will not permit payment of securities litigation claims during conservatorship and that claims by current or former shareholders arising as a result of their status as shareholders would receive the lowest priority of claim in receivership. In addition, the rule indicates that administrative expenses of the conservatorship will also be deemed to be administrative expenses of a subsequent receivership and that capital distributions may not be made during conservatorship, except as specified in the rule.

Capital Standards

FHFA suspended capital classification of us during conservatorship in light of the Purchase Agreement. The existing statutory and FHFA-directed regulatory capital requirements are not binding during the conservatorship. These capital standards are described in "NOTE 18: REGULATORY CAPITAL." Under the GSE Act, FHFA has the authority to increase our minimum capital levels or to establish additional capital and reserve requirements for particular purposes. Pursuant to an FHFA rule, FHFA-regulated entities are required to conduct annual stress tests to determine whether such companies have sufficient capital to absorb losses as a result of adverse economic conditions. Under the rule, Freddie Mac is required to: (a) conduct annual stress tests using scenarios specified by FHFA that reflect a minimum of three sets of economic

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and financial conditions (baseline, adverse, and severely adverse); and (b) publicly disclose the results of the stress test under the “severely adverse” scenario. In April 2014, we disclosed the results of the first annual stress test.
For additional information, see “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock.”

New Products

The GSE Act requires the enterprises to obtain the approval of FHFA before initially offering any product (including new mortgage products), subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice of any new activity that we consider not to be a product. While FHFA has published an interim final rule on prior approval of new products, it has stated that permitting us to engage in new products is inconsistent with the goals of conservatorship and instructed us not to submit such requests under the interim final rule. This could have an adverse effect on our business and profitability in future periods.

Affordable Housing Goals

We are subject to annual affordable housing goals. We view the purchase of mortgage loans that are eligible to count toward our affordable housing goals to be a principal part of our mission and business, and we are committed to facilitating the financing of affordable housing for low- and moderate-income families. In light of these goals, we may make adjustments to our mortgage loan sourcing and purchase strategies, which could potentially increase our credit losses. These strategies could include entering into purchase and securitization transactions with lower expected economic returns than our typical transactions. In February 2010, FHFA stated that it does not intend for us to undertake uneconomic or high risk activities in support of the housing goals nor does it intend for the state of conservatorship to be a justification for withdrawing our support from these market segments.
If the Director of FHFA finds that we failed to meet a housing goal and that achievement of the housing goal was feasible, the Director may require the submission of a housing plan with respect to the housing goal. The housing plan must describe the actions we would take to achieve the unmet goal in the future. FHFA has the authority to take actions against us, including issuing a cease and desist order or assessing civil money penalties, if we: (a) fail to submit a required housing plan or fail to make a good faith effort to comply with a plan approved by FHFA; or (b) fail to submit certain mortgage purchase data, information or reports as required by law. See “RISK FACTORS — Legal and Regulatory Risks — We may make certain changes to our business in an attempt to meet our housing goals and subgoals.”
FHFA has established four goals and one subgoal for single-family owner-occupied housing, one multifamily affordable housing goal, and one multifamily affordable housing subgoal. Three of the single-family housing goals and the subgoal target purchase money mortgages for: (a) low-income families; (b) very low-income families; and/or (c) families that reside in low-income areas. The single-family housing goals also include one that targets refinancing mortgages for low-income families. The multifamily affordable housing goal targets multifamily rental housing affordable to low-income families. The multifamily affordable housing subgoal targets multifamily rental housing affordable to very low-income families.
The single-family goals are expressed as a percentage of the total number of eligible mortgages underlying our total single-family mortgage purchases. The multifamily goals are expressed in terms of minimum numbers of units financed.
The single-family goals are measured by comparing our performance with: (a) the actual share of the market that meets the criteria for each goal; and (b) a benchmark level established by FHFA. If our performance on a single-family goal falls short of the benchmark, we still could achieve the goal if our performance meets or exceeds the actual share of the market that meets the criteria for the goal for that year.

Affordable Housing Goals for 2014

FHFA’s affordable housing goals for Freddie Mac for 2014 are set forth below.

Table 3 — Affordable Housing Goals for 2014

	Goals for 2014	
Single -family purchase money goals (benchmark levels):		
Low-income	23	%
Very low-income	7	%

Low-income areas[(1)]	18	%
Low-income areas subgoal	11	%
Single -family refinance low-income goal (benchmark level)	20	%
Multifamily low-income goal (in units)	200,000	
Multifamily low-income subgoal (in units)	40,000	

(1) FHFA annually sets the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available. For 2014, FHFA set the benchmark level at 18%.

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We expect to report our performance with respect to the 2014 affordable housing goals in March 2015. At this time, based on preliminary information, we believe we met three of our single-family goals and both multifamily goals for 2014, but believe we failed to meet the FHFA benchmark level for the other single-family goals. In such cases, FHFA regulations allow us to achieve a goal if our qualifying share matches that of the market, as measured by the Home Mortgage Disclosure Act. Because the Home Mortgage Disclosure Act data for 2014 will not be released until September 2015, FHFA will not be able to make a final determination on our performance until that time. If we fail to meet both the FHFA benchmark level and the market level, we may enter into discussions with FHFA concerning whether these goals were infeasible under the terms of the GSE Act, due to market and economic conditions and our financial condition.

Affordable Housing Goals for 2015 to 2017

In August 2014, FHFA issued a proposed rule that would establish housing goals for Freddie Mac and Fannie Mae for 2015 through 2017. FHFA requested comment on all aspects of the proposed rule. Under FHFA's proposal: (a) the benchmark levels for our single-family goals could increase; (b) the number of units for both of our multifamily goals would increase; and (c) FHFA would establish a new subgoal related to small multifamily properties affordable to low-income families. We cannot predict the content of any final rule concerning affordable housing goals, or the impact any such final rule would have on our business or operations.

Affordable Housing Goals and Results for 2013 and 2012

FHFA has determined that we achieved two of our five single-family affordable housing goals and both multifamily goals in 2013, and did not achieve the other three single-family goals. We achieved all of our housing goals for 2012. Our performance on the goals, as determined by FHFA, is set forth below.

Table 4 — Affordable Housing Goals and Results for 2013 and 2012

	Goals for 2013	Market Level for 2013	Results for 2013	Goals for 2012	Market Level for 2012	Results for 2012
Single-family purchase money goals (benchmark levels):						
Low-income	23 %	24.0 %	21.8 %	23 %	26.6 %	24.4 %
Very low-income	7 %	6.3 %	5.5 %	7 %	7.7 %	7.1 %
Low-income areas[1]	21 %	22.1 %	20.0 %	20 %	20.5 %	20.6 %
Low-income areas subgoal	11 %	14.2 %	12.3 %	11 %	13.6 %	11.4 %
Single-family refinance low-income goal (benchmark level)	20 %	24.3 %	24.1 %	20 %	22.3 %	22.4 %
Multifamily low-income goal (in units)	215,000	N/A	254,628	225,000	N/A	298,529
Multifamily low-income subgoal (in units)	50,000	N/A	56,752	59,000	N/A	60,084

(1) FHFA annually sets the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available. For 2013 and 2012, FHFA set the benchmark level at 21% and 20%, respectively.

FHFA did not require us to submit a housing plan for the goals we did not achieve in 2013.

Affordable Housing Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of the UPB of total new business purchases, and allocate or transfer such amount to: (a) HUD to fund a Housing Trust Fund established and managed by HUD; and (b) a Capital Magnet Fund established and managed by Treasury. FHFA has the authority to suspend our allocation upon finding that the payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. In

November 2008, FHFA suspended the requirement to set aside or allocate funds for the Housing Trust Fund and the Capital Magnet Fund. In December 2014, FHFA terminated the suspension and directed us to begin making contributions to the funds, in accordance with the following terms and conditions:

- The amount we will set aside each fiscal year, commencing with fiscal year 2015, will be based on our total new business purchases during such fiscal year; and
- Within 60 days after the end of each fiscal year commencing with fiscal year 2015, we will allocate or otherwise transfer the amount set aside. However, if we have made a draw under the Purchase Agreement during that fiscal year or if such allocation or transfer will cause us to have to make a draw, then we will not make an allocation or transfer and the amount set aside for that fiscal year will be reversed.

We are prohibited from passing through the costs of the allocations (e.g., through increased charges or fees) to the originators of the mortgages that we purchase.

Prudential Management and Operations Standards

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FHFA has established prudential standards relating to the management and operations of Freddie Mac, Fannie Mae, and the FHLBs. The standards address a number of business, controls, and risk management areas. The standards specify the possible consequences for any entity that fails to meet any of the standards or otherwise fails to comply (including submission of a corrective plan, limits on asset growth, increases in capital, limits on dividends and stock redemptions or repurchases, a minimum level of retained earnings or any other action that the FHFA Director determines will contribute to bringing the entity into compliance with the standards). A failure to meet any standard also may constitute an unsafe or unsound practice, which may form the basis for FHFA to initiate an administrative enforcement action. On a periodic basis, we conduct self-assessments of our compliance with these standards. Issues identified in previous self-assessments have either been remediated or are in process of remediation.

Portfolio Activities

The GSE Act provides FHFA with power to regulate the size and content of our mortgage-related investments portfolio. The GSE Act requires FHFA to establish, by regulation, criteria governing portfolio holdings to ensure the holdings are backed by sufficient capital and consistent with the enterprises' mission and safe and sound operations. FHFA has adopted the portfolio holdings criteria established in the Purchase Agreement, as it may be amended from time to time, for so long as we remain subject to the Purchase Agreement.

See "Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio" for additional information on restrictions on our portfolio activities.

Anti-Predatory Lending

Predatory lending practices are in direct opposition to our mission, goals, and practices. We instituted anti-predatory lending policies intended to prevent the purchase or assignment of mortgage loans with unacceptable terms or conditions or resulting from unacceptable practices. These policies include processes related to the origination, delivery and quality control sampling of loans sold to us. In addition to the purchase policies we instituted, we promote consumer education and financial literacy efforts to help borrowers avoid abusive lending practices and we provide competitive mortgage products to reputable mortgage originators so that borrowers have a greater choice of financing options.

Subordinated Debt

FHFA directed us to continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. See "NOTE 18: REGULATORY CAPITAL — Subordinated Debt Commitment" for more information regarding subordinated debt.

Risk Retention

In October 2014, six agencies, including FHFA, issued a rule that generally requires a securitizer of asset-backed securities to retain no less than five percent of the credit risk of the assets underlying such securities. A provision in the rule indicates that our fully guaranteed securitizations generally will satisfy the risk retention requirements for so long as we are in conservatorship or receivership and receiving federal financial support. However, this provision will not apply to our securitization structures that are not fully guaranteed, and we will have to meet the rule's requirements with respect to such structures using other compliance options. The requirements of the final risk retention rule will apply to: (a) new residential mortgage securitizations issued beginning in December 2015; and (b) new multifamily securitizations issued beginning in December 2016.

Proposed Financial Eligibility Requirements for Seller/Servicers

In January 2015, FHFA proposed new minimum financial eligibility requirements for seller/servicers of Freddie Mac and Fannie Mae. FHFA stated that the proposed minimum financial requirements will ensure the safe and sound operation of us and Fannie Mae and further FHFA's goal of fostering liquid, efficient, competitive and resilient national housing finance markets. FHFA will engage with servicing industry participants, regulators and other stakeholders to obtain their feedback on, and improve their understanding of, the proposed requirements. FHFA stated that it anticipates finalizing the requirements in the second quarter of 2015, and anticipates that the requirements will be effective six months after they are finalized.

Department of Housing and Urban Development

HUD has regulatory authority over Freddie Mac with respect to fair lending. Our mortgage purchase activities are subject to federal anti-discrimination laws. In addition, the GSE Act prohibits discriminatory practices in our mortgage purchase activities, requires us to submit data to HUD to assist in its fair lending investigations of primary market lenders with which we do business, and requires us to undertake remedial actions against such lenders found to have engaged in discriminatory lending practices. In addition, HUD periodically reviews and comments on our underwriting and appraisal guidelines for consistency with the Fair Housing Act and the anti-discrimination provisions of the GSE Act.

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Department of the Treasury

Treasury has significant rights and powers with respect to our company as a result of the Purchase Agreement. In addition, under our charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. In addition, our charter authorizes Treasury to purchase Freddie Mac debt obligations not exceeding $2.25 billion in aggregate principal amount at any time.

Consumer Financial Protection Bureau

The CFPB regulates consumer financial products and services. The CFPB adopted a number of final rules in early 2013 relating to mortgage origination, finance, and servicing practices. The rules generally went into effect in January 2014. The rules include an ability-to-repay rule, which requires mortgage originators to make a reasonable and good faith determination that a borrower has a reasonable ability to repay the loan according to its terms. This rule provides certain protection from liability for originators making loans that satisfy the definition of a qualified mortgage. The ability-to-repay rule applies to most loans acquired by Freddie Mac, and for such loans covered by the rule, FHFA has directed us and Fannie Mae to limit our single-family acquisitions to loans that generally would constitute qualified mortgages under applicable CFPB regulations. The directive generally restricts us and Fannie Mae from acquiring loans that are: (a) not fully amortizing; (b) have a term greater than 30 years; or (c) have points and fees in excess of 3% of the total loan amount.

Securities and Exchange Commission

We are subject to the reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Although our common stock is required to be registered under the Exchange Act, we continue to be exempt from certain federal securities law requirements, including the following:

- Securities we issue or guarantee are “exempted securities” and may be sold without registration under the Securities Act;
- We are excluded from the definitions of “government securities broker” and “government securities dealer” under the Exchange Act;
- The Trust Indenture Act of 1939 does not apply to securities issued by us; and
- We are exempt from the Investment Company Act of 1940 and the Investment Advisers Act of 1940, as we are an “agency, authority or instrumentality” of the U.S. for purposes of such Acts.

Legislative and Regulatory Developments

We discuss certain significant legislative and regulatory developments below. For more information regarding these and other legislative and regulatory developments that could affect our business, see “RISK FACTORS — Conservatorship and Related Matters” and “— Legal and Regulatory Risks.”

Legislation Related to Freddie Mac and its Future Status

Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term.

Congress held hearings and considered legislation on the future state of Freddie Mac, Fannie Mae and the housing finance system during 2014. A number of bills were introduced in Congress in 2014 relating to the future status of Freddie Mac, Fannie Mae, and the secondary mortgage market. None of the bills was considered by the full Senate or the full House of Representatives, although one of them (the “Housing Finance Reform and Taxpayer Protection Act of 2014,” also known as the Johnson-Crapo bill) was approved by the Senate Banking Committee in May 2014. Several of the bills considered by Congress (including the Johnson-Crapo bill) would have placed us into receivership and materially affected our business prior to our eventual liquidation.

Since these bills were not enacted prior to the adjournment of the 113th Congress, they would need to be reintroduced in the 114th Congress that began in January 2015 in order to be considered further. We do not know whether that will occur. However, it is likely that similar or new bills related to Freddie Mac, Fannie Mae and the future of the mortgage finance system will be introduced and considered in the 114th Congress. We cannot predict whether any of such bills will be enacted.

On January 27, 2015, the "Pay Back the Taxpayers Act of 2015" was introduced in the House Financial Services Committee. This bill would prohibit contributions by us and Fannie Mae to the Housing Trust Fund and the Capital Market Fund while we are in conservatorship or receivership. For more information, see "Federal Housing Finance Agency — Affordable Housing Allocations."

For more information, see "RISK FACTORS — Conservatorship and Related Matters — The future status and role of Freddie Mac are uncertain."

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FHFA’s Strategic Plan for Freddie Mac and Fannie Mae Conservatorships

In May 2014, FHFA issued its 2014 Strategic Plan and the 2014 Conservatorship Scorecard. The 2014 Strategic Plan updated FHFA's vision for implementing its obligations as Conservator of Freddie Mac and Fannie Mae (the “Enterprises”). The 2014 Conservatorship Scorecard established objectives and performance targets and measures for 2014 for the Enterprises related to the strategic goals set forth in the 2014 Strategic Plan. On January 14, 2015, FHFA issued the 2015 Conservatorship Scorecard, which establishes objectives and performance targets and measures for 2015 for the Enterprises related to the strategic goals set forth in the 2014 Strategic Plan.

The 2014 Strategic Plan established three reformulated strategic goals for the conservatorships of Freddie Mac and Fannie Mae:

- Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.
- Reduce taxpayer risk through increasing the role of private capital in the mortgage market.
- Build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

As part of the first goal, the 2014 Strategic Plan describes various steps related to increasing access to mortgage credit for credit-worthy borrowers. The 2014 Strategic Plan provides for the Enterprises to continue to play an ongoing role in supporting multifamily housing needs, particularly for low-income households. The plan states that FHFA will continue to impose a production cap on Freddie Mac’s and Fannie Mae’s multifamily businesses.

The second goal focuses on ways to transfer risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit. The second goal provides for us to increase the use of single-family credit risk transfer transactions, continue using credit risk transfer transactions in the multifamily business and continue shrinking our mortgage-related investments portfolio consistent with the requirements in the Purchase Agreement, with a focus on selling less liquid assets.

The third goal includes the continued development of the Common Securitization Platform. FHFA refined the scope of this project to focus on making the new shared system operational for Freddie Mac’s and Fannie Mae’s existing single-family securitization activities. The third goal also provides for the Enterprises to work towards the development of a single (common) security.

We continue to align our resources and internal business plans to meet the goals and objectives provided to us by FHFA.

For information about the 2014 Conservatorship Scorecard, and our performance with respect to it, see “EXECUTIVE COMPENSATION — Compensation Discussion and Analysis.” For information about the 2015 Conservatorship Scorecard, see our current report on Form 8-K filed on January 15, 2015.

FHFA Request for Input on Proposed Single Security Structure

In August 2014, FHFA published a request for input on the proposed structure for a single security that would be issued and guaranteed by Freddie Mac or Fannie Mae. FHFA requested comment on all aspects of the proposed structure. Under FHFA’s proposal, the single security would leverage the enterprises’ existing security structures, and would encompass many of the pooling features of the current Fannie Mae mortgage backed security and most of the disclosure framework of the current Freddie Mac PC. FHFA stated that its goal for the proposed single security structure is for legacy Freddie Mac PCs and legacy Fannie Mae mortgage backed securities to be fungible with the single security for purposes of fulfilling TBA contracts. FHFA also stated that the development of the single security will be a multi-year effort, and that FHFA, Freddie Mac and Fannie Mae will continue to seek input and work with stakeholders throughout the process to achieve the goal of improving overall secondary mortgage market liquidity while mitigating any risk of market disruption.

FHFA Request for Input on Guarantee Fees

In June 2014, FHFA published a request for input on the guarantee fees that we and Fannie Mae charge lenders. FHFA’s request for input included questions related to guarantee fee policy and implementation regarding the optimum level of guarantee fees required to protect taxpayers and implications for mortgage credit availability. We cannot predict what changes, if any, FHFA will require us to make to our guarantee fees as a result of this request.

FHFA Advisory Bulletin

In April 2012, FHFA issued Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”), which is applicable to Fannie Mae, Freddie Mac and the FHLBs. The Advisory Bulletin establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this regulatory guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000.

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Among other requirements, the Advisory Bulletin requires that we classify the portion of an outstanding single-family loan balance in excess of the fair value of the underlying property, less costs to sell and adjusted for any credit enhancements, as a "loss" no later than when the loan becomes 180 days delinquent, except in certain specified circumstances (where our servicers are actively working with the borrowers on alternatives to allow them to stay in their homes and our data supports that the loans are not yet uncollectible). The Advisory Bulletin also requires us to charge off the portion of the loan classified as a "loss." Prior to our adoption of the charge-off provisions of the Advisory Bulletin, we deemed a loan uncollectible at the time of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale).

In May 2013, FHFA issued an additional Advisory Bulletin clarifying the implementation timeline for AB 2012-02, requiring that: (a) the asset classification provisions of AB 2012-02 should be implemented by January 1, 2014; and (b) the charge-off provisions of AB 2012-02 should be implemented no later than January 1, 2015. Effective January 1, 2014, we implemented the asset classification provisions of AB 2012-02, and we provide FHFA with this information on a quarterly basis. Effective January 1, 2015, we implemented the charge-off provisions.

Our adoption of the Advisory Bulletin did not have a material effect on our financial position or results of operations. As a result of our implementation of the Advisory Bulletin as of January 2015, our allowance for loan losses on the affected loans was eliminated and the corresponding recorded investment was reduced by the amount charged off.

Employees

At February 5, 2015, we had 4,957 full-time and 50 part-time employees. Our principal offices are located in McLean, Virginia.

Available Information

SEC Reports

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.

We make available free of charge through our website at www.freddiemac.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, or furnish it to, 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) 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 or 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.

Information about Certain Securities Issuances by Freddie Mac

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.freddiemac.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 securities is available at www.freddiemac.com/creditriskofferings.

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations, can be found at www.freddiemac.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

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the conservatorship, our current expectations and objectives for our single-family, multifamily, and investment businesses, our loan workout initiatives and other 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 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 further support the housing recovery or to implement FHFA's Conservatorship Scorecards and other objectives for us and Fannie Mae;
- 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 books and our investments in non-agency mortgage-related securities;
- the success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS and other credit risk transfer transactions;
- our ability to maintain the security of our operating systems and infrastructure (e.g., against cyber attacks);
- changes in economic and market conditions, including changes in employment rates, interest rates, yield curves, mortgage and debt spreads, and home prices;
- changes in the U.S. residential mortgage market, including changes in the supply and type of mortgage 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 manage interest-rate and other market risks, including the availability of derivative financial instruments needed for 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 speak only as of the date they are made, 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.

ITEM 1A. RISK FACTORS

Investing in our securities involves risks, including the risks described below and in "BUSINESS," "MD&A," and elsewhere in this Form 10-K. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

Conservatorship and Related Matters

The future status and role of Freddie Mac are uncertain.

Our future is uncertain. It is likely that future legislative or regulatory action will materially affect our role, business model, structure, and results of operations. Some or all of our functions could be transferred to other institutions, and we could cease to exist as a stockholder-owned company or at all. If any of these events were to occur, our shares could further diminish

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in value, or cease to have any value, and there can be no assurance that our stockholders would receive any compensation for such loss in value.

Several bills were introduced in Congress in 2013 and 2014 concerning the future status of Freddie Mac, Fannie Mae, and the mortgage finance system, including bills which provided for the wind down of Freddie Mac and Fannie Mae. The Administration has recommended reducing the role of Freddie Mac and Fannie Mae and ultimately winding down both companies.

The conservatorship is indefinite in duration. The timing and likelihood of our emerging from conservatorship are uncertain, as are the circumstances under which that might occur. Termination of the conservatorship (other than in connection with receivership) also requires Treasury's consent under the Purchase Agreement. There can be no assurance about whether, and under what circumstances, Treasury would give such consent. It is possible that the conservatorship will end with us being placed into receivership. Even if the conservatorship is terminated, we would remain subject to the Purchase Agreement and the senior preferred stock. In addition, because Treasury holds a warrant to acquire almost 80% of our common stock for nominal consideration, the company could effectively remain under the control of the U.S. government even if the conservatorship is ended and the voting rights of common stockholders are restored.

During 2013 and 2014, a number of lawsuits were filed against the U.S. government challenging certain government actions related to the conservatorship (including actions taken in connection with the imposition of conservatorship) and the Purchase Agreement. This may add to the uncertainty surrounding our future.

For more information, see "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments," "ITEM 3. LEGAL PROCEEDINGS," and "NOTE 17: LEGAL CONTINGENCIES."

We may request additional draws under the Purchase Agreement in future periods.

We may request additional draws under the Purchase Agreement in future periods. The need for any such future draws will be determined by a variety of factors that could adversely affect our net worth or our ability to generate comprehensive income, including the following:

- declines in home prices;
- the success of our foreclosure prevention and loss mitigation efforts;
- adverse changes in interest rates, yield curves, implied volatility or mortgage spreads, which could affect derivatives and mortgage-related securities held by us and increase realized and unrealized losses recorded in earnings or AOCI;
- the required reductions in the size of our mortgage-related investments portfolio or reductions of higher yielding assets, and other limitations on our investment activities that reduce our earnings capacity;
- restrictions on our single-family guarantee activities that could reduce our income from these activities;
- restrictions on the volume of multifamily business we may conduct or other limits on multifamily business activities that could reduce our income from these activities;
- adverse changes in our liquidity or funding costs, or limitations in our access to public debt markets;
- changes in accounting practices or guidance;
- effects of the MHA Program and other government initiatives, including any future requirements to forgive the principal amount of loans, which could increase the likelihood of prepayment of mortgages and potentially reduce our net interest income;
- changes in housing or economic conditions, legislation, or other factors that affect our assessment of our ability to realize our net deferred tax asset, and cause us to establish a valuation allowance against our net deferred tax asset;
- changes in business practices resulting from legislative and regulatory developments or direction from our Conservator; or
- reductions in corporate tax rates resulting in an inability to realize our net deferred tax asset at its current book value.

We cannot retain capital from the earnings generated by our business operations, as a result of the net worth sweep dividend. This increases the likelihood of draws in future periods, particularly as the permitted Capital Reserve Amount (which is $1.8 billion for 2015) declines over time. Any future draws we take will reduce the amount of available funding remaining under the Purchase Agreement, which was $140.5 billion as of December 31, 2014. Additional draws and corresponding increases in the already substantial liquidation preference of our senior preferred stock ($72.3 billion as of December 31, 2014), along with the limited flexibility we have to redeem it, may add to the uncertainty regarding our long-term financial sustainability.

We are under the control of FHFA, and our business activities are subject to significant restrictions. We may be required to take actions that materially adversely affect our business and financial results.

We may be required to undertake activities that are unprofitable, difficult to implement, expose us to additional credit and other risks, or otherwise adversely affect our business and financial results over the short- or long-term. We are under the

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control of FHFA, as our Conservator, and are not managed to maximize stockholder returns. FHFA determines our strategic direction. FHFA has required us to make changes to our business that have adversely affected our financial results, and could require us to make additional changes at any time. Other agencies of the U.S. government and Congress also could require us to take actions that adversely affect our business and financial results.

FHFA may require us to provide additional support for the mortgage market in a manner that serves our public mission, but that adversely affects our financial results, such as investing in the common securitization platform or engaging in more expensive foreclosure prevention efforts. From time to time, FHFA and Treasury have prevented us from engaging in business activities or transactions that we believe would benefit our business and financial results, and may do so in the future. FHFA may require us to engage in activities that are operationally difficult to implement, such as building the common securitization platform, implementing the single (common) security, and other initiatives under the Conservatorship Scorecards. FHFA could also take a number of actions that could materially adversely affect us, such as limiting the amount of securities we could sell or further limiting the size of our mortgage-related investments portfolio.

We currently face a variety of different, and potentially competing, business objectives and FHFA-mandated activities (e.g., the initiatives we are pursuing under the Conservatorship Scorecards). It may be difficult for us to devote sufficient resources and management attention to these multiple priorities, some of which present significant operational challenges to us. See "BUSINESS — Executive Summary — Our Primary Business Objectives" for more information.

The Purchase Agreement and terms of the senior preferred stock include significant restrictions on our ability to manage our business, including limitations on the amount of indebtedness we may incur, the size of our mortgage-related investments portfolio, and the circumstances in which we may pay dividends, transfer certain assets, raise capital, and pay down the liquidation preference of the senior preferred stock. These limitations could have a material adverse effect on our future results of operations and financial condition. As a result of the net worth sweep dividend provisions of the senior preferred stock, we cannot retain capital from the earnings generated by our business operations or return capital to stockholders other than Treasury. The Purchase Agreement prohibits us from taking a variety of actions without Treasury's consent. Treasury has the right to withhold its consent for any reason and is not required to consider any particular factors, including whether or not management believes that the transaction would benefit the company. The warrant held by Treasury, the restrictions on our business under the Purchase Agreement, and the senior status and net worth dividend provisions of the senior preferred stock also could adversely affect our ability to attract new private sector capital in the future should the company be in a position to do so.

Our regulator may, and in some cases must, place us into receivership, which would result in the liquidation of our assets; if this occurs, there may not be sufficient funds to pay the claims of the company, repay the liquidation preference of our preferred stock, or make any distribution to the holders of our common stock.

We could be put into receivership at the discretion of the Director of FHFA at any time for a number of reasons set forth in the GSE Act. In addition, FHFA could be required to place us in receivership if Treasury is unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth. Treasury might not be able to provide the requested funding if, for example, the U.S. government were shut down or reached its borrowing limit. For more information, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Receivership."

A receivership would terminate the conservatorship. The appointment of FHFA as our receiver would terminate all rights and claims that our stockholders and creditors may have against our assets or under our charter arising as a result of their status as stockholders or creditors, other than the potential ability to be paid upon our liquidation. Unlike conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of receivership is to liquidate our assets and resolve claims against us. Bills considered by Congress in 2013 and 2014 provided for Freddie Mac to eventually be placed into receivership.

If our assets were liquidated, there is no assurance that there would be sufficient proceeds to pay the secured and unsecured claims of the company, repay the liquidation preference of any series of our preferred stock or make any distribution to the holders of our common stock. If we are placed into receivership and do not or cannot fulfill our guarantee to the holders of our mortgage-related securities, such holders could become unsecured creditors of ours with respect to claims made under our guarantee. Only after paying the secured and unsecured claims of the company, the administrative expenses of the receiver and the liquidation preference of the senior preferred stock would any liquidation proceeds be available to repay the liquidation preference of any other series of preferred stock. Finally, only after the liquidation preference of all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock.

If we are placed into receivership or no longer operate as a going concern, our basis of accounting would change to liquidation-based accounting. Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their estimated settlement amounts, which could adversely affect our financial results. In addition, the amounts in AOCI would be reclassified to earnings.

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The conservatorship and investment by Treasury have had, and will continue to have, a material adverse effect on our common and preferred stockholders.

The market price for our common stock and publicly traded classes of preferred stock declined substantially after we entered into conservatorship. As a result, the investments of our common and preferred stockholders lost substantial value, which they may never recover. Our shares could further diminish in value, and may not have any value in the long-term.

The conservatorship and investment by Treasury have had, and will continue to have, other material adverse effects on our common and preferred stockholders, including the following:

- No voting rights during conservatorship. The rights and powers of our stockholders are suspended during the conservatorship and our common stockholders do not have the ability to elect directors or to vote on other matters.
- Our future profits will effectively be distributed to Treasury. Under the Purchase Agreement and the terms of the senior preferred stock, we are required to pay quarterly dividends to Treasury equal to the amount, if any, by which our Net Worth Amount exceeds a permitted Capital Reserve Amount that decreases to zero over time. Accordingly, our future profits will effectively be distributed to Treasury. Therefore, the holders of our common stock and non-senior preferred stock will not receive benefits that would otherwise flow from any such future profits.
- Priority of Senior Preferred Stock. The senior preferred stock ranks senior to the common stock and all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company.
- Dividends have been eliminated. The Conservator has eliminated dividends on Freddie Mac common and preferred stock (other than dividends on the senior preferred stock) during the conservatorship. In addition, under the Purchase Agreement, dividends may not be paid to common or preferred stockholders (other than on the senior preferred stock) without the consent of Treasury, regardless of whether we are in conservatorship.
- Warrant may substantially dilute investment of current stockholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares outstanding on a fully diluted basis, the ownership interest in the company of our then existing common stockholders will be substantially diluted. Existing common stockholders have no assurance that, as a group, they will be able to control the election of our directors or the outcome of any other vote after the time, if any, that the conservatorship ends and the voting rights of the common stockholders are restored.

Competitive and Market Risks

Our level of earnings in recent periods is not sustainable over the long term.

The level of our earnings in 2013 and 2014 is not sustainable over the long term. Our 2013 financial results included a very large benefit related to the release of the valuation allowance against our deferred tax assets. Our 2013 and 2014 financial results included large amounts of income from settlements of representation and warranty claims arising out of our loan purchases and settlements of non-agency mortgage-related securities litigation. We do not expect any future settlements of representation and warranty claims related to our pre-conservatorship loan purchases to have a significant effect on our financial results. Our 2013 financial results, particularly the level of loan loss provisioning, also benefited from a high level of home price appreciation.

In addition, declines in the size of our mortgage-related investments portfolio, as required by FHFA and the Purchase Agreement, will reduce our earnings over the long term. We are subject to significant limitations on our investment activity, including a requirement to reduce the size of our mortgage-related investments portfolio, and significant constraints on our ability to purchase or sell mortgage assets. These limitations will reduce the earnings capacity of our mortgage-related investments portfolio. In addition, many of our mortgage investments do not trade in a liquid secondary market. In some cases, the size of our holdings relative to normal market activity is large enough that, if we were to attempt to sell a significant quantity of these assets, market pricing could be significantly disrupted and the price we ultimately realize may be materially lower than the value at which we carry these investments on our consolidated balance sheets. We can provide no assurance that the cap on our mortgage-related investments portfolio will not, over time, force us to sell mortgage assets at unattractive prices or that our current strategies will not have an adverse impact on our business or financial results. For more information, see “BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.”

Due to the reduced earnings capacity of our mortgage-related investments portfolio, we will have to place greater emphasis on our guarantee activities to generate revenue. However, our ability to generate revenue through guarantee activities may be limited for a number of reasons. We may be required to adopt business practices that help serve our public mission and other non-financial objectives, but that may negatively affect our future financial results. We must obtain FHFA's approval to implement across-the-board increases in our guarantee fees, and there can be no assurance FHFA will approve any such increase requests in the future. The combination of the restrictions on our business activities and our potential inability to generate sufficient revenue through our guarantee activities to offset the effects of those restrictions may have an adverse effect on our results of operations and financial condition.

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Our single-family credit guarantee and multifamily mortgage portfolios are subject to mortgage credit risks, including mortgage credit risk relating to off-balance sheet arrangements; credit costs related to these risks could adversely affect our financial results.

Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee, exposing us to the risk of credit losses and credit-related expenses. We are primarily exposed to mortgage credit risk with respect to the single-family and multifamily loans and securities that we own or guarantee. We are also exposed to mortgage credit risk with respect to securities and guarantee arrangements that are not reflected as assets on our consolidated balance sheets. These relate primarily to: (a) Freddie Mac mortgage-related securities backed by multifamily loans (e.g., K Certificates we guarantee); (b) certain single-family Other Guarantee Transactions; and (c) other guarantee commitments, including long-term standby commitments and liquidity guarantees.

We expect our single-family credit losses to remain elevated in the near term in part due to the substantial number of delinquent and underwater (i.e., where the borrower's debt on the property is greater than its market value) mortgage loans in our single-family credit guarantee portfolio that will likely be resolved. We also continue to have significant amounts of mortgage loans in our single-family credit guarantee portfolio with certain characteristics, such as Alt-A loans, interest-only loans, option ARM loans, loans with original LTV ratios greater than 90%, and loans to borrowers with credit scores less than 620 at the time of origination, that expose us to greater credit risk than other types of mortgage loans. See “Table 45 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio” for more information.

Our loan loss reserves may not reflect the total of all future credit losses we will ultimately incur with respect to the single-family and multifamily mortgage loans we currently own or guarantee. Pursuant to GAAP, our reserves only reflect probable losses we believe we have already incurred as of the balance sheet date. Accordingly, it is likely that the credit losses we ultimately incur on the loans we currently own or guarantee will exceed the amounts we have already reserved for such loans. If we were to experience another recession or another sharp drop in home prices, it is possible that the credit losses we ultimately incur related to such an event could be larger, perhaps substantially larger, than our current loan loss reserves.

We use certain credit enhancements (e.g., mortgage insurance and risk transfer transactions) to mitigate some of our potential credit losses. However, such credit enhancements may provide less protection than we expect. Our ability to use certain types of risk transfer transactions (and the cost to us of doing so) could change rapidly, depending on market conditions. Some of our risk transfer transactions (e.g., STACRs and ACIS) are new, and it is uncertain if there will be adequate demand for these products over the long term. For more information, see "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Credit Protection and Other Forms of Credit Enhancement."

For more information on our mortgage credit risk with respect to single-family and multifamily loans and our use of credit enhancements, see “MD&A — RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile" and " — Multifamily Mortgage Credit Risk Profile.”

We face significant risks related to our delegated underwriting process for single-family mortgages, including risks related to data accuracy and mortgage fraud. Recent changes to the process could increase our risks.

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, our contracts with sellers describe mortgage eligibility and underwriting standards, and the sellers represent and warrant to us that the mortgages they sell to us meet these standards. We do not independently verify most of the information that is provided to us before we purchase a loan. This exposes us to the risk that one or more of the parties involved in a transaction (such as the borrower, seller, broker, appraiser, title agent, loan officer, lender or servicer) will misrepresent the facts about the underlying property, borrower, or loan, or otherwise engage in fraud. While we review a sample of these loans to determine if they are in compliance with our contractual standards, there can be no assurance that this will detect any misrepresented facts or deter mortgage fraud, or otherwise reduce our exposure to these risks. We are also exposed to fraud by third parties in the mortgage servicing function, particularly with respect to sales of REO properties, short sales, and other dispositions of non-performing assets.

In 2013 and 2014, we significantly revised our representation and warranty framework by relieving sellers of certain repurchase obligations in specific cases. We may face greater exposure to credit and other losses under this revised framework because our ability to seek recovery or repurchase from the seller is more limited. As a result of these changes to the framework, it is critical that we identify breaches of representations and warranties early in the life of the loan. This represents a significant change in practice and presents a number of operational and systems challenges. We have not fully implemented systems and processes designed to do this. Once fully implemented, there is a risk that such systems and processes will not enable us to identify all breaches within the accelerated timelines. For more information, see "BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Underwriting Requirements, Quality Control Standards, and the Representation and Warranty Framework."

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We are exposed to significant credit risk related to the subprime, Alt-A, and option ARM loans that back the non-agency mortgage-related securities we hold in our mortgage-related investments portfolio.

Our investments in non-agency mortgage-related securities include securities that are backed by subprime, Alt-A, and option ARM loans. We also hold non-agency mortgage-related securities backed by manufactured housing loans and home equity lines of credit. The credit performance of the loans underlying these non-agency mortgage-related securities has declined since 2007, and although it has stabilized in recent periods, it remains weak. Our net income could be adversely affected if the population of non-agency mortgage-related securities that we intend to sell were to change or increase, as we would be required to immediately recognize in earnings any unrealized losses on such securities. This population could change or increase for a number of reasons, including as a result of changes in economic condition or our plans for the securities.

Since 2007, our net worth has at times been adversely affected by declines in the fair value of these investments. We may experience additional fair value declines and losses in the future due to a number of factors, including increased delinquency and loss rates on the underlying loans. The quality of the servicing performed on the underlying loans can significantly affect the performance of these securities, including the timing and amount of losses incurred on the underlying loans and thus the timing and amount of losses we recognize on our securities. Our ability to influence servicing performance is limited. In addition, there is a general lack of transparency in the market for the non-agency mortgage-related securities we hold, and the information disclosed by the trustees of the trusts that issued these securities is often not sufficient to allow us to adequately analyze decisions made by servicers that may directly affect the cash flows on such securities. The servicing of the loans is significantly concentrated among several specialty servicers, which may increase this risk. These specialty servicers are non-depository financial institutions, and may not have the same financial strength, internal controls or operational capacity as depository servicers. Any credit enhancements covering these securities may not prevent us from incurring losses.

For more information, see “MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities,” "RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile," and "— Institutional Credit Risk Profile — Agency and Non-Agency Mortgage-Related Security Issuers."

Declines in U.S. home prices or other adverse changes in the U.S. housing market could negatively impact our business and financial results.

Our financial results and business volumes can be negatively affected by declines in home prices and other adverse changes in the housing market. Although the single-family housing market improved in 2014, our credit losses remained high compared to levels before 2009, in part because home prices have experienced significant cumulative declines in many geographic areas since 2006. While we currently believe that home price growth rates will continue to moderate gradually during the near term and will return towards growth rates that are consistent with long-term historical averages (approximately 2 to 5 percent per year), there can be no assurance that this will occur.

We prepare internal forecasts of future home prices, which we use for certain business activities, including: (a) hedging prepayment risk; (b) estimating expected costs of new guarantee business; and (c) conducting portfolio activities. If future home prices are lower than our forecasts, this could cause the return we earn on new single-family guarantee business to be less than expected. In addition, home price changes that differ from our forecasts could affect prepayments and cause us to incorrectly hedge prepayment risk. This could also result in higher losses due to other-than-temporary impairments on our investments in non-agency mortgage-related securities (which would be recognized in earnings) or fair value declines on our investments in non-agency mortgage-related securities (which would be recognized in AOCI). For more information, see “MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities.”

Our business volumes (i.e., mortgage loan purchases and guarantee issuances) are closely tied to the rate of growth in total outstanding U.S. residential mortgage debt, the size of the U.S. residential mortgage market, and the amount of new mortgage originations. Total residential mortgage debt declined approximately 0.3% in the first nine months of 2014 (the most recent data available) compared to a decline of approximately 1% in 2013.

While the multifamily market has experienced strong rent growth and occupancy trends in the past five years, these trends are not likely to continue at their current pace as apartment fundamentals are already very favorable, with vacancy rates near their lowest level since 2001. New supply of multifamily housing has been increasing in recent periods and could potentially outpace demand, which could result in excess supply and rising vacancy rates. Any softening of multifamily markets could cause delinquencies and credit losses relating to our multifamily activities to increase beyond our current expectations.

We could incur significant losses in the event of a major natural disaster or other catastrophic event.

We own or guarantee mortgage loans and own REO properties throughout the United States. A major natural or environmental disaster or similar catastrophic event in a regional geographic area of the United States could damage or destroy residential real estate underlying mortgage loans we own or guarantee, or negatively affect the ability of homeowners to continue to make payments on mortgage loans we own or guarantee. In turn, this could increase our serious delinquency rates and average loan loss severity in the affected region, which could have a material adverse effect on our business and financial results. Such an event could also damage or destroy REO properties we own. We may not have insurance coverage for some of these catastrophic events.

We depend on our institutional counterparties to provide services that are critical to our business, and our financial results may be adversely affected if one or more of our counterparties do not meet their obligations to us.

We face the risk that one or more of the institutional counterparties that has entered into a business contract or arrangement with us may fail to meet its obligations to us. Our important institutional counterparties include seller/servicers, mortgage insurers, insurers and reinsurers in ACIS transactions, bond insurers, and counterparties to derivatives and short-term lending and other funding transactions.

A significant failure by a major institutional counterparty could harm our business and financial results in a variety of ways, as many of our major counterparties provide several types of services to us. The concentration of our exposure to our counterparties remains high, and we continue to face challenges in reducing our risk concentrations with counterparties. Efforts we take to reduce exposure to financially weak counterparties could concentrate our exposure to other counterparties, and increase our costs and reduce our revenue. Challenging market conditions have, at times, adversely affected the liquidity and financial condition of our counterparties, and some of our major counterparties have failed. Similar events may occur in future periods. Many of our counterparties are subject to increasingly complex regulatory requirements and oversight, which place additional stress on their resources.

Our business could be adversely affected if counterparties to derivatives and short-term lending and other transactions fail to meet their obligations to us.

We have significant exposure to institutions in the financial services industry relating to derivatives, funding, short-term lending, securities and other transactions. These transactions are critical to our business, including our ability to: (a) manage interest rate and other risks related to our investments in mortgage-related assets; (b) fund our business operations; and (c) service our customers. In addition, we face the risk of operational failure of any of the clearing members, exchanges, clearinghouses, or other financial intermediaries we use to facilitate these transactions. If a clearing member or clearinghouse were to fail, we could experience losses related to any collateral we had posted with such clearing member or clearinghouse to cover initial or variation margin. Similarly, if our counterparties in short-term lending transactions fail, we have exposure to losses if the transaction is unsecured or the value of the collateral posted to us is insufficient. We believe most of our derivative portfolio and cash and other investments portfolio counterparties are exposed to fiscally troubled European countries. It is possible that continued adverse developments in the Eurozone could significantly affect such counterparties. In turn, this could adversely affect their ability to meet their obligations to us.

For more information, see “MD&A — RISK MANAGEMENT — Credit Risk Overview — Institutional Credit Risk Profile — Cash and Other Investments Counterparties” and “— Derivative Counterparties.”

Our financial results may be adversely affected if mortgage seller/servicers fail to perform their repurchase and other obligations to us.

Our servicers perform the primary servicing function on our behalf with respect to single-family loans. Our servicers play an active role in our loss mitigation efforts, as we rely on them to perform loan workout activities as well as foreclosures on loans that they service for us. A decline in their performance could affect the overall quality of our credit performance (including by missing opportunities for repayment plans and mortgage modifications), which could significantly affect our ability to mitigate credit losses.

Our credit losses could increase to the extent that our servicers do not fully perform their servicing obligations in a timely manner. The risk of such a decline in performance remains high due to a number of factors, including the continued high volume of seriously delinquent loans and the fact that the servicing function has become significantly more complex since the onset of the housing and economic downturn. We could be adversely affected if our servicers lack appropriate controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans (including as a result of legal or regulatory actions or ratings downgrades). Any efforts we take to attempt to improve our servicers’ performance (such as requiring that they pay us compensatory fees for underperformance) could adversely affect our relationships with such servicers, many of which also sell loans to us.

If a servicer does not fulfill its servicing obligations (including its repurchase or other responsibilities), we may seek to recover the amounts that such servicer owes us, such as by attempting to sell the applicable mortgage servicing rights to a different servicer and applying the proceeds to such owed amounts. However, we face the risk that we might not receive a sufficient price for the mortgage servicing rights or that we may be unable to find buyers who are willing to assume the representations and warranties of the former servicer and who have sufficient capacity to service the affected mortgages. This option may be difficult to accomplish with respect to our larger seller/servicers due to the operational and capacity challenges presented by transfers of large servicing portfolios.

We require seller/servicers to make certain representations and warranties regarding the loans they sell to us and/or service for us. If loans are sold to us in breach of those representations and warranties, we may have the contractual right to require the seller/servicer to repurchase those loans from us. We also may have other contractual remedies, including the right

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to be indemnified against losses on the loans. We have similar rights and remedies with respect to loans that seller/servicers service on our behalf. If a seller/servicer does not satisfy its contractual obligations to us with respect to a loan, we will be subject to the full range of credit risks if the loan fails to perform, including the risk that a mortgage insurer may deny or rescind coverage on the loan (if the loan is insured) and the risk that we will incur credit losses on the loan through the workout or foreclosure process. It may be difficult, expensive, and time-consuming to enforce (through the exercise of contractual remedies, including legal proceedings) a seller/servicer's repurchase obligations, in the event a seller/servicer fails to perform such obligations.

During 2013 and 2014, we entered into a number of agreements with sellers to resolve certain existing and future repurchase obligations, and we may enter into additional agreements with sellers or servicers in the future. The amounts we receive under any such agreements may be less than the losses we ultimately incur on the underlying loans.

If, as we expect, origination volume remains low and there is a change in the mix of originations (refinance vs. purchase) in 2015, the competitive and financial pressures on single-family sellers and servicers could increase, thereby increasing our counterparty risk with respect to these entities.

Over the last several years, our exposure to non-depository and smaller financial institutions has increased. We are acquiring a greater portion of our single-family business volume directly from these types of institutions. In addition, specialty servicers (i.e., companies that specialize in servicing troubled loans) service a large share of our single-family loans, and many of these specialty servicers are non-depository financial institutions. These non-depository and smaller financial institutions may not have the same financial strength, internal controls or operational capacity as our large single-family mortgage seller and servicer counterparties (which are depository institutions). As a result, we face increased risk that these counterparties could fail to perform their obligations to us.

In particular, non-depository servicers have experienced rapid growth in their servicing portfolios in the last several years. This could expose us to increased risks in the event that the rapid growth results in operational strains that adversely affect their servicing performance or weakens their financial strength. Certain non-depository specialty servicers, particularly subsidiaries and/or affiliates of Ocwen Financial Corp., have recently been the subject of significant adverse regulatory scrutiny, and Ocwen's credit rating has been downgraded.

Our seller/servicers also have a significant role in servicing loans in our multifamily mortgage portfolio. We are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property's financial performance and physical condition.

For more information, see "MD&A — RISK MANAGEMENT — Credit Risk Overview —Institutional Credit Risk Profile — Single-family Mortgage Seller/Servicers" and "— Multifamily Mortgage Seller/Servicers."

Our losses could increase if more of our mortgage or bond insurers become insolvent or fail to perform their obligations to us.

We are unlikely to receive full payment of our claims from several of our mortgage insurers (that insure some of the single-family mortgages we purchase or guarantee) and bond insurers (that insure certain of the non-agency mortgage-related securities we hold), as they are insolvent or are not paying us in full for claims under mortgage and bond insurance policies. Instead, a significant portion of their claims are generally recorded by us as deferred payment obligations. It is possible that these companies may never pay us in full for our claims. For more information, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers" and "— Bond Insurers."

We also remain exposed to the risk that some of our other mortgage or bond insurance counterparties could become insolvent or fail to fully perform their obligations to us. The weakened financial condition and liquidity position of many of these other counterparties increases the risk that they will fail to fully reimburse us for claims under the insurance policies.

As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. Thus, if any of our mortgage insurers fails to fulfill its obligations, we could experience increased credit losses. In addition, if a regulator determined that a mortgage insurer lacked sufficient capital to pay all claims when due, the regulator could take action that might affect the timing and amount of claim payments made to us. A regulator could also restrict an insurer's ability to write new business.

In the event a mortgage insurer falls out of compliance with regulatory capital requirements, it may attempt various strategies (such as a corporate restructuring or raising additional capital) designed to enable it to continue to write new business. There can be no assurance that any such restructuring or recapitalization will enable payment in full of all of our claims in the future.

A mortgage insurer may make business decisions that could increase the risk that the insurer would be unable to fully perform its obligations to us. For example, an insurer could improperly forecast the risks associated with a given group of loans, which could lead the insurer to charge lower prices for insuring those loans than are necessary to cover the risk. Over the long term, this could result in the insurer not having sufficient financial resources to pay all claims when due.

If a bond insurer were to become insolvent, it is likely that we would not fully collect our claims from the insurer and that payment of such claims could be delayed significantly. This would affect our ability to recover certain unrealized losses on our investments in non-agency mortgage-related securities. We evaluate the expected recovery from primary bond insurance policies as part of our impairment analysis for our investments in securities. If a bond insurer's performance with respect to its obligations on our investments in securities is worse than expected, this could contribute to additional net impairment of those securities.

For more information, see "MD&A — RISK MANAGEMENT — Credit Risk Overview — Institutional Credit Risk Profile — Mortgage Insurers" and "— Bond Insurers."

The loss of business volume could result in a decline in our market share and revenues.

Our business depends on our ability to acquire a steady flow of mortgage loans. We purchase a significant percentage of our single-family mortgages from several large mortgage originators. Similarly, we acquire a significant portion of our multifamily mortgage loans from several large lenders.

We enter into mortgage purchase commitments with many of our single-family customers that are typically less than one year in duration. The loss of business from any one of our major lenders could adversely affect our market share and our revenues.

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by mortgage insurance or other credit enhancements. If the availability of mortgage insurance for loans with LTV ratios above 80% is reduced, we may be restricted in our ability to purchase or securitize such loans. This could reduce our overall volume of new business.

Competition from banking and non-banking companies may harm our business.

Competition in the secondary mortgage market combined with a decline in the amount of residential mortgage debt outstanding may make it more difficult for us to purchase mortgages. Furthermore, competitive pricing pressures may make our products less attractive in the market and negatively affect our financial results. Increased competition from Fannie Mae, Ginnie Mae, FHA/VA, and new entrants may alter our product mix, lower our volumes, and reduce our revenues on new business.

We also compete with other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, thrift institutions, and insurance companies. In recent years, FHFA took a number of actions designed to encourage these other financial institutions to increase their activities in the mortgage market (e.g., increasing our guarantee fees in 2012), and could take additional actions in the future.

Because of these actions and given that our base fees charged for our guarantee do not vary for differing LTV ratios or credit scores, there is a risk that financial institutions may buy, or originate, and then retain loans on their balance sheet, or otherwise seek to structure financial transactions that result in our loan purchases having a higher proportion of lower credit scores and higher LTV ratios. While we compensate ourselves for higher levels of risk through charging of upfront delivery fees, the seller may elect to retain loans with better credit characteristics, which could result in us having lower overall purchase volumes, revenues, and returns (as a result of a more adverse credit risk profile).

FHFA is also Conservator of Fannie Mae, our primary competitor, and FHFA's actions as Conservator of both companies could affect competition between us and Fannie Mae. It is possible that FHFA could require us and Fannie Mae to take a uniform approach that, because of differences in our respective businesses, could place Freddie Mac at a competitive disadvantage to Fannie Mae. FHFA may also prevent us from taking actions that could provide us with a competitive advantage.

We could be prevented from competing efficiently and effectively by competitors who use their patent portfolios to prevent us from using necessary business processes and products, or require us to pay significant royalties to use those processes and products.

As multifamily market fundamentals have improved over recent years, more life insurers, banks, CMBS conduits, and other market participants have increased their activities in the multifamily market, and as a result we have faced increased competition. In addition, FHFA may take actions that could encourage further competition.

Our activities may be adversely affected by limited availability of financing and increased funding costs.

The amount, type and cost of our unsecured funding, including financing from other financial institutions and the capital markets, directly affects our interest expense and results of operations. A number of factors could make such financing more difficult to obtain, more expensive or unavailable on any terms, or could cause spreads to widen, both domestically and internationally, including:

- changes in U.S. government support for us;
- reduced demand for our debt securities;

- competition for debt funding from other debt issuers; and
- other market factors.

Our ability to obtain funding in the public unsecured debt markets or by pledging mortgage-related and other securities as collateral to other institutions could cease or change rapidly, and the cost of available funding could increase significantly, due to changes in market interest rates, market confidence, operational risks and other factors. We may incur costs, including potentially higher funding costs, for our liquidity management practices and procedures. There can be no assurance that such practices and procedures would provide us with sufficient liquidity to meet our ongoing cash obligations under all circumstances. In particular, we believe that our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis or period of significant market turmoil. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or significantly impaired, as our alternative sources of liquidity (e.g., cash and other investments) may not be sufficient to meet our liquidity needs.

We make extensive use of the Federal Reserve's payment system in our business activities. The Federal Reserve requires that we fully fund accounts at the Federal Reserve Bank of New York to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. Although we seek to maintain sufficient intraday liquidity to fund our activities through the Federal Reserve's payment system, we have limited access to cash once the debt markets are closed for the day. Insufficient cash may cause our account to be overdrawn, potentially resulting in penalties and reputational harm.

Prolonged wide spreads on long-term debt could cause us to reduce our long-term debt issuances and increase our reliance on short-term and callable debt issuances. This increased reliance could increase rollover risk (i.e., the risk that we may be unable to refinance our debt when it becomes due) and result in a greater use of derivatives. This greater use of derivatives could increase the volatility of our comprehensive income.

Our mortgage-related investments portfolio has contracted significantly since we entered into conservatorship. A significant portion of the assets remaining in the portfolio are those we consider to be less liquid, and our ability to use these assets as a significant source of liquidity (for example, through sales or use as collateral in secured lending transactions) is limited.

We pay net worth sweep dividends to Treasury on the senior preferred stock on a quarterly basis. The amount of the net worth sweep dividend could vary substantially from quarter to quarter for a number of reasons, including as a result of non-cash changes in net worth. It is possible that, due to non-cash increases in net worth, the amount of our dividend for a quarter could exceed the amount of available cash, which could have an adverse effect on our financial results.

Changes in U.S. Government Support

Treasury supports us through the Purchase Agreement and Treasury’s ability to purchase up to $2.25 billion of our obligations under its permanent statutory authority. Unlike certain of our competitors, we do not have access to the Federal Reserve's discount window. Changes or perceived changes in the U.S. government’s support of us could have a severe negative effect on our access to the unsecured debt markets and our debt funding costs. While we believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the unsecured debt markets and to have adequate liquidity to conduct our normal business activities, our access to the unsecured debt markets and the costs of our debt funding could be adversely affected by a number of factors, including: (a) uncertainty about the future of the GSEs; (b) debt investors' concerns that the risk of receivership is increasing; and (c) future draws that significantly reduce the amount of available funding remaining under the Purchase Agreement. For more information, see “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock.”

Demand for Debt Funding

If investor demand for our debt securities were to decrease, our liquidity, business, and results of operations could be materially adversely affected. The willingness of domestic and foreign investors to purchase and hold our debt securities can be influenced by many factors, including changes in the world economy, changes in foreign-currency exchange rates, regulatory and political factors, as well as the availability of and investor preferences for other investments. If investors were to divest their holdings or reduce their purchases of our debt securities, our funding costs could increase and our business activities could be curtailed. The market for our debt securities may become less liquid as the size of our mortgage-related investments portfolio declines, as we will be issuing fewer debt securities. This could lead to a decrease in demand for our debt securities and an increase in our funding costs.

Competition for Debt Funding

We compete for debt funding with Fannie Mae, the FHLBs, and other institutions. Competition for debt funding from these entities can vary with changes in economic, financial market, and regulatory environments. Increased competition for debt funding may result in a higher cost to finance our business, which could negatively affect our financial results. See “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Other Debt Securities” for a description of our debt

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issuance programs. Our funding costs and liquidity contingency plans may also be affected by changes in the amount of, and demand for, debt issued by Treasury.

Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business.

Nationally recognized statistical rating organizations play an important role in determining the availability and cost of funding by means of the ratings they assign to issuers and their debt. Our credit ratings are important to our liquidity. We currently receive ratings from three nationally recognized statistical rating organizations (S&P, Moody's, and Fitch) for our unsecured debt. These ratings are primarily based on the support we receive from Treasury, and therefore are affected by changes in the credit ratings of the U.S. government. Any downgrade in the credit ratings of the U.S. government would be expected to be followed by or accompanied by a downgrade in our credit ratings. In addition to a downgrade in the credit ratings of or outlook on the U.S. government, a number of other events could adversely affect our debt credit ratings, including actions by governmental entities, changes in government support for us, future GAAP losses, and additional draws under the Purchase Agreement. Any such downgrades could lead to major disruptions in the mortgage and financial markets and to our business due to lower liquidity, higher borrowing costs, lower asset values, and higher credit losses, and could cause us to experience net losses and net worth deficits. For more information, see "MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Credit Ratings."

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 K Certificates.

The price performance of our PCs relative to comparable Fannie Mae securities is one of Freddie Mac's more significant risks and competitive issues, with both short- and long-term implications. Our PCs are an integral part of our mortgage purchase program. Our competitiveness in purchasing single-family mortgages from our seller/servicers, and thus the volume and/or profitability of our new single-family guarantee business, can be directly affected by the price performance of our PCs relative to comparable Fannie Mae securities.

The profitability of our securitization financing and our ability to compete for mortgage purchases are affected by the price differential between PCs and comparable Fannie Mae securities. Freddie Mac fixed-rate PCs provide for faster scheduled monthly remittance of mortgage principal and interest payments to investors than Fannie Mae fixed-rate securities. However, our PCs have typically traded at prices below the level that we believe reflects the full value of their faster monthly remittance cycle, resulting in a pricing discount relative to comparable Fannie Mae securities. This difference in relative pricing creates an economic incentive for sellers to conduct a disproportionate share of their single-family business with Fannie Mae and negatively affects the financial performance of our business.

There may not be a liquid market for our PCs, which could adversely affect the price performance of PCs and our single-family market share. A significant reduction in our market share, and thus in the volume of mortgage loans that we securitize, or a reduction in the trading volume of our PCs, could further reduce the liquidity of our PCs. While we may employ a variety of strategies in an effort to support the liquidity and price performance of our PCs and may consider additional strategies, any such strategies may fail or adversely affect our business, or we may cease such activities if deemed appropriate. In addition, we believe the liquidity-related price differences between our PCs and comparable Fannie Mae securities are, in part, the result of factors that are largely outside of our control. (For example, the level of the Federal Reserve's purchases of agency mortgage-related securities could affect the demand for and values of our PCs.) Thus, while we may employ strategies in an effort to address the liquidity-related price differences, we believe the strategies currently available to us may not reduce or eliminate these price differences over the long-term. A curtailment of mortgage-related investments portfolio purchases, sales, or retention activities may result in a decline in the volume and/or profitability of our new single-family guarantee business, lower comprehensive income, and an accelerated decline in the size of our total mortgage portfolio.

In certain circumstances, we compensate customers for the difference in price between our PCs and comparable Fannie Mae securities by reducing our guarantee fees, and this could adversely affect the volume and/or profitability of our new single-family guarantee business. We also incur costs in connection with our efforts 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 “BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Securitization Activities” and “— Investments Segment — Market Presence and PC Support Activities.”

In accordance with FHFA’s 2014 Strategic Plan and the 2014 and 2015 Conservatorship Scorecards, we are working towards the development of a single (common) security, which is designed to reduce the price performance disparities between Freddie Mac mortgage-related securities and Fannie Mae mortgage-related securities. This initiative is complex and involves significant cost and operational risk, and may require us to align our business processes more closely with those of Fannie Mae. There can be no assurance that this initiative will succeed in reducing the trading value disparities.

Our current Multifamily business model is highly dependent on our ability to finance purchased loans through securitization into K Certificates. A significant decrease in demand for K Certificates could have an adverse impact on the profitability of the Multifamily business to the extent that our holding period for the loans increases and we are exposed to credit and market risks for a longer period of time. We employ a variety of strategies in an effort to support the liquidity of our K Certificates, and may consider additional strategies if deemed appropriate. From time to time, we purchase and sell both guaranteed K Certificates and related unguaranteed CMBS through our mortgage-related investments portfolio.

Changes in interest rates could negatively affect the fair value of financial assets and liabilities, our results of operations and net worth.

Our investment activities and credit guarantee activities expose us to interest rate and other market risks, including prepayment risk. Changes in interest rates could adversely affect our net interest yield, the value of our mortgage assets and derivatives, and the prepayment rate on mortgage loans we own or guarantee. We incur costs in connection with our efforts to manage these risks.

Our financial results can be significantly affected by changes in interest rates and changes in yield curves, especially results driven by financial instruments that are measured at fair value for accounting purposes either through earnings or in AOCI. These instruments include derivatives, trading securities, available-for-sale securities, loans held-for-sale, and loans and debt with the fair value option elected. In particular, while fair value changes in derivatives from fluctuations in interest rates, yield curves, and implied volatility affect comprehensive income, fair value changes in several of the types of assets and liabilities being economically hedged do not affect comprehensive income. Therefore, there can be timing mismatches affecting current period earnings, which may not be reflective of the economics of our business. When interest rates decrease, pay-fixed swaps decrease in value and receive-fixed swaps increase in value (with the opposite being true when interest rates increase).

Changes in interest rates may affect mortgage and debt spreads and also affect prepayment projections, thus potentially affecting the fair value of our assets, including our investments in mortgage-related assets. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. An increased likelihood of prepayment on the mortgages underlying our mortgage-related securities may adversely affect the value of these securities.

Increases in interest rates could increase other-than-temporary impairments on our investments in non-agency mortgage-related securities. Higher interest rates can result in a reduction in the benefit from expected structural credit enhancements on these securities.

When interest rates increase, our credit losses from loans with adjustable payment terms (e.g., ARM loans) may increase as borrower payments increase at their reset dates, which increases the borrower’s risk of default. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan. Many borrowers may have additional debt obligations (such as home equity lines of credit and second liens) that also have adjustable payment terms. Increases in a borrower's payment on these other debt obligations (due to rising interest rates or a change in amortization) may increase the risk that the borrower may default on a loan we own or guarantee.

Interest rates can fluctuate for a number of reasons, including changes in the fiscal and monetary policies of the federal government and its agencies. Federal Reserve policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. Interest rates can also fluctuate as a result of geopolitical events or changes in general economic conditions, including events or conditions that alter investor demand for Treasury or other fixed-income securities.

Changes in OAS could materially affect our results of operations and net worth.

Changes in market conditions, including changes in interest rates, liquidity, prepayment and/or default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in OAS. Our financial results and net worth can be significantly affected by changes in OAS, especially results driven by financial instruments that are measured at fair value for accounting purposes either through earnings or in AOCI. These instruments include trading securities, available-for-sale securities, loans held-for-sale, and loans with the fair value option elected. A widening of the OAS on a given asset, which is typically associated with a decline in the current fair value of that asset, may cause significant fair value losses, and may adversely affect our near-term financial results and net worth. Conversely, a narrowing or tightening of the OAS is typically associated with an increase in the current fair value of that asset, but may reduce the number of attractive investment opportunities in mortgage loans and mortgage-related securities, and could increase the cost of our activities to support our market presence and the price performance of our PCs. Consequently, a tightening of the OAS may adversely affect our future financial results and net worth.

While wider spreads might create favorable investment opportunities, we are limited in our ability to take advantage of any such opportunities due to various restrictions on our mortgage-related investments portfolio activities. See “BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.”

Negative publicity causing damage to our reputation could adversely affect our business, financial results or net worth.

Negative public opinion could adversely affect our ability to keep and attract customers or otherwise impair our customer relationships, adversely affect our ability to obtain financing, impede our ability to hire and retain qualified personnel, hinder our business prospects, or adversely affect the trading price of our securities. Perceptions regarding the practices of our competitors, counterparties, and vendors, or the financial services and mortgage industries as a whole, may also adversely

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affect our reputation. Damage to the reputation of third parties with whom we have important relationships may also impair market confidence in our business operations. In addition, negative publicity could expose us to greater regulatory scrutiny or adverse regulatory or legislative changes, and could affect changes that may occur to our business structure during or following conservatorship, including whether we will continue to exist.

Our efforts to reduce foreclosures, modify loan terms and refinance mortgages may adversely affect our financial results.

The servicing alignment initiative, MHA Program (which includes HAMP and HARP), and other loss mitigation activities are key components of our strategy for managing and resolving troubled assets and lowering credit losses. However, our loss mitigation strategies may not be successful and our credit losses may remain high. The costs we incur related to loan modifications and other activities have been, and will likely continue to be, significant. For example, with respect to our non-HAMP loan modifications, we bear the full cost of the monthly payment reductions related to modifications of loans we own or guarantee, and all applicable servicer incentive fees.

We could be required or elect to make changes to our loss mitigation activities that could make these activities more costly to us, both in terms of credit expenses and the cost of implementing and conducting the activities. For example, we could be required to use principal forgiveness to achieve reduced payments for borrowers. This could further increase our costs, as we could bear some or all of the costs of such reductions.

Many loans are in the trial period of HAMP or our non-HAMP loan modification programs. A number of these loans will fail to complete the applicable trial period or qualify for our other loss mitigation programs. For these loans, the trial period will have effectively delayed the foreclosure process and could increase our losses.

Many of our HAMP loans have provisions for the interest rates, which initially were set at a below-market rate, to increase gradually until they reach the market rate that was in effect at the time of the modification. This increase in payments may increase the risk that these borrowers will default.

Mortgage modification initiatives, particularly any future focus on principal forgiveness, which at present we do not offer to borrowers, have the potential to change borrower behavior and mortgage underwriting. Principal reductions may create an incentive for borrowers who are current to become delinquent in order to receive a principal reduction. This incentive, coupled with continued high volumes of underwater mortgages, could significantly affect borrower attitudes towards homeownership, the commitment of borrowers to making their mortgage payments, the way the market values residential mortgage assets, the way in which we conduct business and, ultimately, our financial results.

Depending on the type of loss mitigation activities we pursue, those activities could result in accelerating or slowing prepayments on our PCs and REMICs and Other Structured Securities, either of which could affect the pricing of such securities or the earnings from mortgage-related assets we hold in our Investments segment mortgage investments portfolio. In addition, loss mitigation activities may adversely affect our ability to securitize and sell the loans subject to those activities (e.g., modified single-family mortgage loans).

Due to the impact of HARP and other refinance initiatives of Freddie Mac and Fannie Mae on prepayment expectations, we could experience declines in the fair values of certain agency security investments classified as available-for-sale or trading and lower net interest yields over time on other mortgage-related investments. Furthermore, HARP and similar programs make it harder to estimate prepayments, which could adversely affect our ability to hedge our mortgage-related investments.

We are devoting significant internal resources to the implementation of the servicing alignment initiative and the MHA Program. The costs we incur related to these initiatives have been, and will likely continue to be, significant. The size and scope of these efforts may also limit our ability to pursue other business opportunities or corporate initiatives.

For more information on our loss mitigation activities, see “BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Single-Family Loan Workouts and the MHA Program” and “MD&A — RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Managing Problem Loans.”

We have incurred, and will continue to incur, expenses and we may otherwise be adversely affected by delays and deficiencies in the single-family foreclosure process.

We have been, and will likely continue to be, adversely affected by delays and deficiencies in the foreclosure process. The average length of time for foreclosure of a Freddie Mac loan significantly increased since the onset of the housing and economic downturn, particularly in states that require a judicial foreclosure process, and may further increase. Delays in the foreclosure process could cause our expenses to increase for a number of reasons. For example, properties awaiting foreclosure could deteriorate until we acquire ownership of them. This would increase our expenses to repair and maintain the properties. Such delays may also adversely affect the values of, and our losses on, the non-agency mortgage-related securities we hold. Delays in the foreclosure process may also adversely affect trends in home prices regionally or nationally, which could adversely affect our financial results.
It is possible that mortgage insurance claims could be reduced or denied if servicers do not follow proper procedures in addressing seriously delinquent borrowers, including if servicers do not complete foreclosures within required timelines.

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Delays in the foreclosure process could create fluctuations in our single-family credit statistics. For example, delays could temporarily increase the number of seriously delinquent loans that remain in our single-family mortgage portfolio, which could result in higher reported serious delinquency rates and a larger number of non-performing loans than would otherwise have been the case.

We may experience further losses relating to our assets that could materially adversely affect our financial results, liquidity and net worth.

We experienced significant losses relating to certain of our assets in recent years, including from significant declines in market value, impairments of our investment securities, declines in the value of REO properties and impairments on other assets. We may experience additional losses relating to our assets, including those that are currently AAA-rated, and the fair values of our assets may decline in the future. This could adversely affect our financial results, liquidity, and net worth. We may decide to pursue certain mortgage-related investments portfolio strategies for economic reasons that could result in the immediate recognition of losses, such as paying a premium to repurchase debt or engaging in certain asset structuring activities that result in the write-off of premiums.

We had a net deferred tax asset of $19.5 billion as of December 31, 2014. In future periods we will continue to evaluate our ability to realize the net deferred tax asset. If future events significantly alter our current outlook, we may need to reestablish the valuation allowance. In addition, a reduction in corporate tax rates would result in a reduction in the net realizable value of our net deferred tax asset. If this occurs, we would incur additional income tax expense and might require additional draws under the Purchase Agreement, which could be significant. For more information, see "MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Deferred Tax Assets."

There may not be an active, liquid trading market for our equity securities.

Our common stock and the publicly traded classes of our preferred stock trade exclusively on the OTCQB Marketplace. Trading volumes on the OTCQB Marketplace can fluctuate significantly, and may not be stable, which could make it difficult for investors to execute transactions in our securities and could cause declines or volatility in the prices of our equity securities.

Changes in our accounting policies, as well as estimates we make, could materially affect how we report our financial condition or results of operations.

Our accounting policies are fundamental to understanding our financial condition and results of operations. Certain of our accounting policies, as well as estimates we make, are “critical,” as they are both important to the presentation of our financial condition and results of operations and require management to make particularly difficult, complex or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements. Because our financial statements involve estimates for amounts that are large, even a small change in our assumptions or methodology for making estimates can have a significant effect on the results for a reporting period. For a description of our critical accounting policies, see “MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES.”

From time to time, the FASB and the SEC change the financial accounting and reporting guidance that governs the preparation of our financial statements. The implementation of new or revised accounting guidance could result in material adverse effects to our net worth and result in or contribute to the need for additional draws under the Purchase Agreement. In addition, FHFA may require us and Fannie Mae to have the same independent public accounting firm. Either of these events could significantly increase our expenses and require a substantial time commitment of management.

Operational Risks

Our business may be adversely affected if we are unable to hire and retain qualified employees.

Our performance is largely dependent on the talents and efforts of highly skilled individuals. Our ability to recruit and retain executives and other employees with the necessary skills to conduct our business has at times in the past been, and may in the future be, adversely affected by the actions taken by Congress, Treasury, and the Conservator (e.g., significant restrictions on compensation), or other government agencies, the uncertainty regarding the duration of the conservatorship, the potential for future legislative or regulatory actions that could significantly affect our existence and our role in the secondary mortgage market, and negative publicity concerning the GSEs. We face competition from inside and outside the financial services industry for qualified employees. An improving economy may put additional pressures on turnover, as more attractive opportunities become available to our employees. Accordingly, we may not be able to retain or replace executives or other employees with the requisite institutional knowledge and the technical, operational and other key skills needed to conduct our business effectively.

Issues related to the MERS System could delay or disrupt foreclosure activities and could have an adverse effect on our business.

The MERS® System is an electronic registry that is widely used by seller/servicers, Freddie Mac, and other participants in the mortgage finance industry to maintain records of beneficial ownership of mortgages. The MERS System is owned and operated by MERSCORP Holdings, Inc., a privately held company, the shareholders of which include a number of organizations in the mortgage industry (including Freddie Mac). A significant portion of the loans we own or guarantee are registered in the MERS System.

Numerous lawsuits have been filed challenging foreclosures conducted using the MERS System. It is possible that adverse judicial decisions, regulatory proceedings or action, or legislative action could: (a) prevent us from using the MERS System, (b) delay or disrupt foreclosure of mortgages that are registered on the MERS System, or (c) create additional requirements for the transfer of mortgages. Any of these developments could increase our costs or otherwise adversely affect our business. For example, we could be required to transfer mortgages out of the MERS System.

We could also be adversely affected if MERSCORP Holdings and its subsidiaries fail to apply prudent and effective controls and to comply with legal and other requirements in the foreclosure process.

Weaknesses in internal control over financial reporting and in disclosure controls and procedures could result in errors and inadequate disclosures, and affect operating results.

Our business could be adversely affected by control deficiencies or failures. Control deficiencies could result in errors in our financial statements, lead to inadequate or untimely disclosures, and affect operating results. For information about management's conclusion that our disclosure controls and procedures are ineffective and the related material weakness in internal control over financial reporting, see “CONTROLS AND PROCEDURES.”

There are a number of factors that may impede our efforts to establish and maintain effective disclosure controls and procedures and internal control over financial reporting, including: (a) the nature of the conservatorship and our relationship with FHFA; (b) the complexity of, and significant changes in, our business activities and related GAAP requirements; (c) employee and management turnover; (d) internal corporate reorganizations; (e) data quality; and (f) servicing-related issues.

Effectively designed and operating internal control over financial reporting provides only reasonable assurance that material errors in our financial statements will be prevented or detected on a timely basis. A failure to maintain effective internal control over financial reporting increases the risk of a material error in our reported financial results and a delay in our financial reporting timeline.

We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties.

We face risk associated with our use of models for financial accounting and reporting purposes and for managing business risks. First, there is inherent uncertainty associated with model results. Second, we could fail to properly implement, operate, or use our models. Either of these situations could adversely affect our financial statements, financial and risk-related disclosures, and ability to manage risks.

Models are inherently imperfect predictors of actual results. We use market-based information to construct our models. However, it can take time for data providers to prepare information, and thus the most recent information may not be available for use with the model. When market conditions change quickly and in unforeseen ways, there is an increased risk that our models are not representative of current market conditions. For example, models may not fully capture the effect of certain economic events or government policies, which makes it more difficult to assess model performance and requires a higher degree of management judgment. Our models may not perform as well in situations for which there are few or no recent historical precedents. We have adjusted our models in response to recent events, but there remains considerable uncertainty about model results. Our models rely on various assumptions that may be invalid, including that historical experience can be used to predict future results.

We face the risk that we could fail to implement, operate, adjust or use our models properly. We may fail to code a model correctly or we could use incorrect data. The complexity and interconnectivity of our models create additional risk regarding the accuracy of model output.

We use third-party models for certain purposes. While the use of such models may reduce risk (e.g., where no internal model is available), it may expose us to additional risk, as third parties typically do not provide us with proprietary information regarding their models. We also may have little or no control over the process by which the models are adjusted or changed. As a result, we may not fully account for the risks associated with the use of such models.

Management often needs to exercise judgment to interpret or adjust modeled results to take into account new information or changes in conditions. The dramatic changes in the housing and credit capital markets in recent years have required frequent adjustments to our models and the application of greater management judgment in the interpretation and adjustment of the results produced by our models. This further increases both the uncertainty about model results and the risk of errors in the implementation, operation, or use of the models.

We face the risk that the valuations, risk metrics, amortization results, loan loss reserve estimations, and security impairment charges produced by our models may be different from actual results, which could adversely affect our business results, cash flows, net worth, business prospects, and future financial results.

We also face the risk that we could make poor business decisions in areas where model results are an important factor, including loan purchases, securitizations and sales of loans, purchases and sales of securities, funding strategy, management and guarantee fee pricing, interest-rate risk management, market risk management, credit risk management, quality-control sampling strategies for loans in our single-family credit guarantee portfolio, and representation and warranty and other settlements with our counterparties. Furthermore, any strategies we employ to attempt to manage the risks associated with our use of models may not be effective. See “MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES” and “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks” for more information on our use of models.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation, and cause losses.

We face significant levels of operational risk due to a variety of factors, including the complexity of our business operations and the amount of change to our core systems required to keep pace with regulatory and other requirements.

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial and economic loss, errors in our financial statements, disruption of our business, liability to customers, further legislative or regulatory intervention, or reputational damage. We have certain legacy systems that require manual support and intervention, which may lead to heightened risk of system failures.

Our business is highly dependent on our ability to process a large number of transactions on a daily basis and manage and analyze significant amounts of information, much of which is provided by third parties. The transactions we process are complex and are subject to various legal, accounting, and regulatory standards. The types of transactions we process and the standards relating to those transactions can change rapidly in response to external events, such as the implementation of government-mandated programs and changes in market conditions. Our financial, accounting, data processing, or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. Our systems may contain design flaws. The information provided by third parties may be incorrect, or we may fail to properly manage or analyze it. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives or improve existing business activities.

We also face increased operational risk due to the magnitude and complexity of the new initiatives we are undertaking, including our efforts to help build a new housing finance system (such as the development of the common securitization platform). Some of these initiatives require significant changes to our operational systems. In some cases, the changes must be implemented within a short period of time. Our legacy systems may also create increased operational risk for these new initiatives. Internal corporate reorganizations (e.g., relating to our implementation of an enhanced three-lines-of-defense risk management framework) may also increase our operational risk, particularly during the period of implementation.

Our employees could act improperly for their own gain and cause unexpected losses or reputational damage. While we have processes and systems in place designed to prevent and detect fraud, there can be no assurance that such processes and systems will be successful.

Most of our key business activities are conducted in our offices in Virginia and represent a concentrated risk of people, technology, and facilities. As a result, a power outage or other infrastructure disruption in the area near our offices could significantly adversely affect our ability to conduct normal business operations. A terrorist event or natural disaster in the area near our offices could have a similar impact. Any measures we take to mitigate this risk may not be sufficient to respond to the full range of events that may occur.

The threat landscape in cyber security is changing rapidly and growing in sophistication. We may not be able to protect our systems with complete assurance or fully protect the confidentiality of our information from cyber attack and other unauthorized access, disclosure, and disruption.

Our operations rely on the secure receipt, processing, storage, and transmission of confidential and other information in our computer systems and networks and with our business partners. Like many corporations and government entities, from time to time we have been, and likely will continue to be, the target of attempted cyber attacks. Although we devote significant resources to protecting our various systems and processes, there is no assurance that our security measures will provide fully effective security. Our computer systems, software, and networks may be vulnerable to cyber attack, unauthorized access, supply chain disruptions, computer viruses or other malicious code, or other attempts to harm them or misuse or steal confidential information. If one or more of such events were to occur, this potentially could jeopardize or result in the unauthorized disclosure, misuse or corruption of confidential and other information (including information of borrowers, our customers or our counterparties), or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. This could result in significant losses or reputational damage, adversely affect our relationships with our customers and counterparties, negatively affect our competitive position, and otherwise harm our business. We could also face regulatory action. We might be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we might be subject to litigation and financial losses that are not fully insured. In addition, there can be no assurance that business partners, counterparties and governmental organizations are adequately protecting the confidential and other information that we share with them. As a result, a cyber

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attack on their systems and networks, or breach of their security measures, may result in harm to our business and business relationships.

We rely on third parties for certain important functions. Any failures by those vendors and service providers could disrupt our business operations.

At times, we outsource certain key functions to external parties, including some that are critical to financial reporting, our mortgage-related investment activity, and mortgage loan underwriting. We may enter into other key outsourcing relationships in the future. If one or more of these key external parties were not able to perform their functions at all for a period of time, perform them at an acceptable service level, or handle increased volumes, our business operations could be constrained, disrupted, or otherwise negatively affected. Our use of vendors also exposes us to the risk of losing intellectual property or confidential information and to other harm. Our ability to monitor the activities or performance of vendors may be constrained, which makes it difficult for us to assess and manage the risks associated with these relationships.

Legal and Regulatory Risks

Legislative or regulatory actions could adversely affect our business activities and financial results.

We face significant risks related to legislative or regulatory actions, in addition to those discussed above in "Conservatorship and Related Matters — The future status and role of Freddie Mac are uncertain." We operate in a highly regulated industry and are subject to heightened supervision from FHFA, as our Conservator. Our compliance systems and programs may not be adequate to ensure that we are in compliance with all legal and other requirements. We could incur fines or other negative consequences for inadvertent or unintentional violations.

Our business may be directly adversely affected by future legislative and regulatory actions at the federal, state, and local levels. Legislative or regulatory actions, including actions by FHFA as Conservator, could affect us in a number of ways, including by imposing significant additional compliance and other costs on us, limiting our business activities and diverting management attention or other resources. Judicial actions at the federal, state, or local level could have a similar effect. For example, we could be negatively affected by legislative, regulatory or judicial action that: (a) changes the foreclosure process of any individual state; (b) limits or otherwise adversely affects the rights of a holder of a first lien on a mortgage (such as through granting priority rights in foreclosure proceedings for homeowner associations); (c) expands the responsibilities of (and costs to) servicers for maintaining vacant properties prior to foreclosure; or (d) permits or requires principal reductions, such as allowing local governments to use eminent domain to seize mortgage loans and forgive principal on the loans. Our business could also be adversely affected by any modification, reduction, or repeal of the federal income tax deductibility of mortgage interest payments.

The Dodd-Frank Act significantly changed the regulation of the mortgage and financial services industries and could continue to affect us in substantial ways. For example, the Dodd-Frank Act and related regulatory changes could cause or require us to make further changes to our business practices, such as practices related to mortgage underwriting and servicing. The Dodd-Frank Act establishes new standards and requirements related to asset-backed securities, including recently finalized rules requiring sponsors of securitization transactions to retain a portion of the underlying loans' credit risk. These standards and requirements could adversely affect us, including by establishing additional requirements for securitization structures that are not fully guaranteed.

Legislation or regulatory actions could indirectly adversely affect us to the extent such legislation or actions affect the activities of banks, savings institutions, insurance companies, derivative counterparties, securities dealers, and other regulated entities that constitute a significant portion of our customers or counterparties, or to the extent that they modify industry practices. Legislative or regulatory provisions that remove incentives for these entities to purchase our securities or enter into derivatives or other transactions with us could have a material adverse effect on our business results and financial condition. The Dodd-Frank Act and related current and future regulatory changes may continue to significantly change the business practices of our customers and counterparties, and it is possible that any such changes will adversely affect our business and financial results. For example, changes in business practices resulting from the Dodd-Frank Act and related regulatory changes could have a negative effect on the volume of mortgage originations or could modify or remove incentives for financial institutions to sell mortgage loans to us, either of which could adversely affect the number of mortgages available for us to purchase or guarantee.

U.S. banking regulators have substantially revised the capital and liquidity requirements applicable to banking organizations, based on the Basel III standards developed by the Basel Committee on Banking Supervision. Phase-in of the new bank capital and liquidity requirements will take several years and there is significant uncertainty about the extent to which implementation of the new requirements by banking organizations may affect us. For example, the emerging regulatory framework could decrease demand for our securities and/or affect competition in the market for mortgage originations and servicing, with possible adverse consequences for our business results and financial condition.

We may make certain changes to our business in an attempt to meet our housing goals and subgoals.

We may make adjustments to our mortgage loan sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including relaxing some of our underwriting standards and the expanded use of targeted initiatives to reach

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underserved populations. For example, we may purchase loans that offer lower expected returns on our investment and potentially increase our exposure to credit losses. Doing so could cause us to forgo other purchase opportunities that we would expect to be more profitable. If our current efforts to meet the goals and subgoals prove to be insufficient, we may need to take additional steps that could potentially adversely affect our profitability. FHFA has not yet published a final rule with respect to our duty to serve underserved markets. However, it is possible that we could also make changes to our business in the future in response to this duty. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could potentially adversely affect our profitability.

We are involved in legal proceedings that could result in the payment of substantial damages or otherwise harm our business.

We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in government investigations and regulatory proceedings and IRS examinations. In addition, certain of our former officers are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, proceedings, investigations or examinations. Any legal proceeding, governmental investigation, or IRS examination issue, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. Furthermore, the costs (including settlement costs) related to these legal proceedings and governmental investigations and examinations may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. These various matters could divert management's attention and other resources from the needs of the business. In addition, a number of lawsuits have been filed against the U.S. government relating to conservatorship and the Purchase Agreement that could adversely affect us. See "LEGAL PROCEEDINGS" and "NOTE 17: LEGAL CONTINGENCIES" for information about these various pending legal proceedings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal offices consist of four office buildings we own in McLean, Virginia, comprising approximately 1.3 million square feet.

ITEM 3. LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See "NOTE 17: LEGAL CONTINGENCIES" for more information regarding our involvement as a party to various legal proceedings.

Litigation Against the U.S. Government Concerning Conservatorship and the Purchase Agreement

Between June and September 2013, and in February 2014, a number of lawsuits were filed against the U.S. government and, in some cases, the Secretary of the Treasury and the then Acting Director of FHFA. These lawsuits challenge certain government actions related to the conservatorship (including actions taken in connection with the imposition of conservatorship) and the Purchase Agreement. Several of the lawsuits seek to invalidate the net worth sweep dividend provisions of the senior preferred stock, which were implemented pursuant to the August 2012 amendment to the Purchase Agreement. These cases were filed in the U.S. Court of Federal Claims, the U.S. District Court for the District of Columbia, and the U.S. District Court for the Southern District of Iowa. It is possible that additional similar lawsuits will be filed in the future.

On September 30, 2014, the U.S. District Court for the District of Columbia entered an order dismissing all but one of the cases in that Court. The plaintiffs subsequently filed notices of appeal of the Court's decision. In addition, on October 31, 2014, the plaintiffs in the one remaining case filed a notice of voluntary dismissal.

On February 3, 2015, the U.S. District Court for the Southern District of Iowa entered an order dismissing the case in that Court.

Freddie Mac is not a party to any of these lawsuits. However, a number of other lawsuits have been filed against Freddie Mac concerning the August 2012 amendment to the Purchase Agreement. See "NOTE 17: LEGAL CONTINGENCIES — Litigation Concerning the Purchase Agreement" for information on the lawsuits filed against

Freddie Mac. Pershing Square Capital Management, L.P. ("Pershing") is a plaintiff in one of the lawsuits filed against Freddie Mac. Pershing has filed reports with the SEC, most recently in March 2014, indicating that it beneficially owned more than 5% of our common stock. We do not know Pershing's current beneficial ownership of our common stock. For more information, see "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS — Security Ownership."

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It is not possible for us to predict the outcome of these lawsuits (including the outcome of any appeal), or the actions the U.S. government (including Treasury and FHFA) might take in response to any ruling or finding in any of these lawsuits or any future lawsuits. However, it is possible that we could be adversely affected by these events, including, for example, by changes to the Purchase Agreement, or any resulting actual or perceived changes in the level of U.S. government support for our business.

Litigation Concerning Housing Trust Fund

On July 9, 2013, plaintiffs filed a lawsuit in the U.S. District Court for the Southern District of Florida styled Samuels et al. vs. FHFA and DeMarco. Freddie Mac is not a party to this lawsuit. In the lawsuit, plaintiffs challenged FHFA's November 2008 decision to suspend Freddie Mac's and Fannie Mae's payments to an affordable housing trust fund managed by HUD. (In December 2014, FHFA terminated this suspension and directed Freddie Mac and Fannie Mae to begin making contributions to the fund, commencing with fiscal year 2015.) See "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Affordable Housing Allocations" for more information. In October 2013, FHFA moved to dismiss the complaint and shortly thereafter plaintiffs filed an amended complaint. Plaintiffs' amended complaint alleged that FHFA's actions in ordering Freddie Mac and Fannie Mae to suspend payments to the trust fund, and FHFA's failure to review its decision to suspend payments once Freddie Mac and Fannie Mae's financial circumstances changed, violated the Administrative Procedure Act. The plaintiffs asked that the Court, among other items, vacate and set aside FHFA's decision to indefinitely suspend payments by Fannie Mae and Freddie Mac to the trust fund, and order FHFA to instruct Freddie Mac and Fannie Mae to proceed as if FHFA's suspension of payments to the trust fund had never taken place. Plaintiffs also sought reasonable attorneys' fees and costs. On December 6, 2013, FHFA filed a motion to dismiss the plaintiffs' amended complaint, which plaintiffs opposed. On September 29, 2014, the Court issued an order granting FHFA's motion to dismiss the amended complaint. To our knowledge, none of the plaintiffs filed a timely notice of appeal of the District Court's decision.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock, par value $0.00 per share, trades on the OTCQB Marketplace, operated by the OTC Markets Group Inc., under the ticker symbol "FMCC." As of February 5, 2015, there were 650,043,899 shares of our common stock outstanding.

The table below sets forth the high and low bid information for our common stock on the OTCQB Marketplace for the indicated periods and reflects inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Table 5 — Quarterly Common Stock Information

	High	Low
2014 Quarter Ended		
December 31	$2.50	$1.44
September 30	4.58	2.56
June 30	4.78	3.63
March 31	6.00	2.63
2013 Quarter Ended		
December 31	$3.24	$1.26
September 30	1.65	0.98
June 30	5.00	0.67
March 31	1.44	0.27

Holders

As of February 5, 2015, we had 1,818 common stockholders of record.

Dividends and Dividend Restrictions

We did not pay any cash dividends on our common stock during 2014 or 2013. Our payment of dividends is subject to the following restrictions:

Restrictions Relating to the Conservatorship

The Conservator has prohibited us from paying any dividends on our common stock or on any series of our preferred stock (other than the senior preferred stock). FHFA has instructed our Board of Directors that it should consult with and obtain

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the approval of FHFA before taking actions involving dividends. In addition, FHFA has adopted a regulation prohibiting us from making capital distributions during conservatorship, except as authorized by the Director of FHFA.

Restrictions Under the Purchase Agreement

The Purchase Agreement prohibits us and any of our subsidiaries from declaring or paying any dividends on Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant) without the prior written consent of Treasury.

Restrictions Under the GSE Act

Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition. If FHFA classifies us as undercapitalized, we are not permitted to make a capital distribution that would result in our being reclassified as significantly undercapitalized or critically undercapitalized. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any capital distribution; the Director may approve a capital distribution only if the Director determines that the distribution will enhance the ability of the company to meet required capital levels promptly, will contribute to the long-term financial safety-and-soundness of the company, or is otherwise in the public interest. Our capital requirements have been suspended during conservatorship.

Restrictions Under our Charter

Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.

Restrictions Relating to Subordinated Debt

During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock. Our qualifying subordinated debt provides for the deferral of the payment of interest for up to five years if either: (a) our core capital is below 125% of our critical capital requirement; or (b) our core capital is below our statutory minimum capital requirement, and the Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 306(c) of our charter to purchase our debt obligations. FHFA has directed us to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable.

Restrictions Relating to Preferred Stock

Payment of dividends on our common stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of senior preferred stock, representing an aggregate of 464,170,000 shares and 1,000,000 shares, respectively, outstanding as of December 31, 2014. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is subject to the prior payment of dividends on the senior preferred stock. We paid dividends on the senior preferred stock during 2014 at the direction of the Conservator, as discussed in "MD&A — LIQUIDITY AND CAPITAL RESOURCES — Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock" and "NOTE 11: STOCKHOLDERS' EQUITY — Dividends Declared." We did not declare or pay dividends on any other series of preferred stock outstanding in 2014.

Recent Sales of Unregistered Securities

The securities we issue are "exempted securities" under the Securities Act of 1933. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

Following our entry into conservatorship, we suspended the operation of, and ceased making grants under, equity compensation plans. Previously, we had provided equity compensation under these plans to employees and members of our Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. No stock options were exercised during the three months ended December 31, 2014. See "NOTE 11: STOCKHOLDERS' EQUITY" for more information.

Issuer Purchases of Equity Securities

We did not repurchase any of our common or preferred stock during 2014. Additionally, we do not currently have any outstanding authorizations to repurchase common or preferred stock. Under the Purchase Agreement, we cannot repurchase our common or preferred stock without Treasury's prior consent, and we may only purchase or redeem the senior preferred stock in certain limited circumstances set forth in the certificate of designation of the senior preferred stock.

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Transfer Agent and Registrar
Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
Telephone: 781-575-2879
https://www-us.computershare.com/investor

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ITEM 6. SELECTED FINANCIAL DATA

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

Table 6 — Selected Financial Data

	At or For The Year Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in millions, except share-related amounts)				
Statements of Comprehensive Income Data					
Net interest income	$14,263	$16,468	$17,611	$18,397	$16,856
(Provision) benefit for credit losses	(58)	2,465	(1,890)	(10,702)	(17,218)
Non-interest income (loss)	(113)	8,519	(4,083)	(10,878)	(11,588)
Non-interest expense	(3,090)	(2,089)	(2,193)	(2,483)	(2,932)
Income tax (expense) benefit	(3,312)	23,305	1,537	400	856
Net income (loss)	7,690	48,668	10,982	(5,266)	(14,025)
Comprehensive income (loss)	9,426	51,600	16,039	(1,230)	282
Net loss attributable to common stockholders[1]	(2,336)	(3,531)	(2,074)	(11,764)	(19,774)
Net loss per common share – basic and diluted	(0.72)	(1.09)	(0.64)	(3.63)	(6.09)
Cash dividends per common share	—	—	—	—	—
Weighted average common shares outstanding (in millions) – basic and diluted	3,236	3,238	3,240	3,245	3,249
Balance Sheets Data					
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$1,558,094	$1,529,905	$1,495,932	$1,564,131	$1,646,172
Total assets	1,945,539	1,966,061	1,989,856	2,147,216	2,261,780
Debt securities of consolidated trusts held by third parties	1,479,473	1,433,984	1,419,524	1,471,437	1,528,648
Other debt	450,069	506,767	547,518	660,546	713,940
All other liabilities	13,346	12,475	13,987	15,379	19,593
Total stockholders' equity (deficit)	2,651	12,835	8,827	(146)	(401)
Portfolio Balances - UPB					
Mortgage-related investments portfolio	$408,414	$461,024	$557,544	$653,313	$696,874
Total Freddie Mac mortgage-related securities[2]	1,637,086	1,592,511	1,562,040	1,624,684	1,712,918
Total mortgage portfolio	1,910,106	1,914,661	1,956,276	2,075,394	2,164,859
TDRs on accrual status	82,908	78,708	66,590	45,254	27,517
Non-accrual loans	33,130	43,457	63,005	76,575	88,988
Ratios[3]					
Return on average assets[4]	0.4%	2.5%	0.5%	(0.2)%	(0.6)%
Allowance for loans losses as percentage of mortgage loans, held-for-investment[5]	1.3	1.4	1.8	2.2	2.1
Equity to assets ratio[6]	0.4	0.5	0.2	—	(0.2)

(1) For a discussion of the change in the manner in which the senior preferred stock dividend is determined and how it affects net income (loss) attributable to common stockholders beginning in the fourth quarter of 2012, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share."
(2) See ''Table 37 — Freddie Mac Mortgage-Related Securities'' for the composition of this line item.
(3) The dividend payout ratio on common stock is not presented because the amount of cash dividends per common share is zero for all periods presented. The return on common equity ratio is not presented because the simple average of the beginning and ending balances of total stockholders' equity, net of preferred stock (at redemption value) is less than zero for all periods presented.
(4) Ratio computed as net income (loss) divided by the simple average of the beginning and ending balances of total assets.
(5) Ratio computed as the allowance for loan losses divided by the total recorded investment of held-for-investment mortgage loans.
(6) Ratio computed as the simple average of the beginning and ending balances of total stockholders' equity (deficit) divided by the simple average of the beginning and ending balances of total assets.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this MD&A in conjunction with "BUSINESS" and our consolidated financial statements and related notes for the year ended December 31, 2014.

MORTGAGE MARKET AND ECONOMIC CONDITIONS, AND OUTLOOK

Mortgage Market and Economic Conditions

Overview

The U.S. real gross domestic product rose by 2.5% during 2014, measured on a fourth quarter to fourth quarter basis, compared to an increase of 3.1% in 2013, according to the Bureau of Economic Analysis. The national unemployment rate was 5.6% in December 2014, compared to 6.7% and 7.9% in December 2013 and December 2012, respectively, based on data from the U.S. Bureau of Labor Statistics. An average of approximately 246,000 and 194,000 monthly net new jobs (non-farm) were added to the economy during 2014 and 2013, respectively, which shows evidence of continued improvements in the economy and the labor market. The average interest rate on new 30-year fixed-rate conforming mortgages averaged 4.2% in 2014, compared to 4.0% in 2013, based on our weekly Primary Mortgage Market Survey. Average long-term mortgage interest rates were slightly higher in 2014 and led to a significant decline in the volume of single-family mortgage refinance activity in the market in 2014 compared to 2013.

Table 7 — Mortgage Market Indicators

	Year Ended December 31,					
	2014		2013		2012	
Home sale units (in thousands)(1)	5,365		5,519		5,028	
National home price change(2)	5.2	%	9.3	%	6.0	%
Single-family originations (in billions)(3)	$1,240		$1,890		$2,120	
ARM share(4)	18	%	14	%	11	%
Refinance share(5)	60	%	73	%	84	%
U.S. single-family mortgage debt outstanding (in billions)(6)	$9,855		$9,887		$9,983	
U.S. multifamily mortgage debt outstanding (in billions)(6)	$969		$932		$895	

(1) Consists of sales of new and existing homes in the U.S. Source: National Association of Realtors news release dated January 23, 2015 (sales of existing homes) and U.S. Census Bureau news release dated January 27, 2015 (sales of new homes).

(2) Calculated internally using estimates of changes in single-family home prices by state, which are weighted using the property values underlying our single-family credit guarantee portfolio to obtain a national index. The rate for each year presented incorporates property value information on loans purchased by both Freddie Mac and Fannie Mae through December 31, 2014. The percentage change will be subject to revision based on more recent purchase information. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions than our own.

(3) Source: Inside Mortgage Finance estimates of originations of single-family first-and second liens dated January 30, 2015.

(4) ARM share of the dollar amount of total mortgage applications. Source: Mortgage Bankers Association's Mortgage Applications Survey. Data reflect annual average of weekly figures.

(5) Refinance share of the number of conventional mortgage applications. Source: Mortgage Bankers Association's Mortgage Applications Survey. Data reflect annual average of weekly figures.

(6) Source: Federal Financial Accounts of the United States dated December 11, 2014. The outstanding amounts for 2014 presented above reflect balances as of September 30, 2014.

Single-Family Housing Market

Home prices increased on a national basis in 2014 and 2013 (based on our index), though some localities continued to be affected by weakness in their housing market and experienced declines in home values during these periods. Home price appreciation, on a national basis, moderated in 2014, with our nationwide index registering approximately a 5.2% increase from December 2013 to December 2014, compared to a 9.3% increase from December 2012 to

December 2013. These estimates were based on our own non-seasonally-adjusted price index of one-family homes funded by mortgage loans owned or guaranteed by us or Fannie Mae. Other indices of home prices may have different results, as they are determined using home prices relating to different pools of mortgage loans and calculated under different conventions than our own.

Based on data from the National Association of Realtors, sales of existing homes in 2014 were 4.93 million, decreasing 3% from 5.09 million in 2013. Based on data from the U.S. Census Bureau and HUD, sales of new homes in 2014 were approximately 435,000, increasing 1.4% from approximately 429,000 in 2013.

The serious delinquency rate of our single-family loans declined during both 2014 and 2013 and was 1.88% as of December 31, 2014. The Mortgage Bankers Association reported in its National Delinquency Survey that serious delinquency rates on all single-family loans in the survey declined to 4.65% as of September 30, 2014 (the latest information available), from 5.41% at December 31, 2013.

Based on the latest available National Delinquency Survey data, we estimate that we owned or guaranteed approximately 23% of the single-family mortgages outstanding in the U.S. at September 30, 2014, based on number of loans, and we estimate that we held or guaranteed approximately 10% of the seriously delinquent single-family mortgages in the market as of that date.

Multifamily Housing Market

The multifamily market continued to experience solid fundamentals during 2014. Recent data reported by Reis, Inc. indicated that the national apartment vacancy rate was 4.2% in 2014 and 4.1% in 2013 and remains low compared to the cyclical peak of 8% reached at the end of 2009. In addition, Reis, Inc. reported that 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) grew by 3.6% during 2014. Vacancy rates and effective rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property and these factors significantly influence those cash flows.

Outlook

Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. These statements are not historical facts, but 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. For example, a number of factors could cause the actual performance of the housing and mortgage markets and the U.S. economy in the near term to be significantly worse than we expect, including adverse changes in national or international economic conditions and changes in the federal government's fiscal or monetary policies. See "FORWARD-LOOKING STATEMENTS" for additional information.

National home prices have increased in recent years; however, home prices at December 31, 2014 remained approximately 11% below their June 2006 peak levels (based on our market index). Declines in the market's inventory of vacant housing have supported stabilization and increases in home prices in a number of metropolitan areas. We believe that home price growth rates will continue to moderate gradually during the near term and will return towards growth rates that are consistent with long-term historical averages (approximately 2 to 5 percent per year).

Single-Family

We continue to expect that key macroeconomic drivers of the economy, such as income growth, employment, and inflation, will affect the performance of the housing and mortgage markets during the near term. We expect that economic growth will continue and mortgage interest rates will remain relatively low compared to historical levels, although interest rates are expected to begin trending slowly upward. As a result, we believe that housing affordability for potential home buyers will remain relatively high in most metropolitan housing markets in the near term. We expect that the volume of home sales in 2015 will likely be slightly higher than in 2014. We believe that the relatively high unemployment rate in certain areas and relatively modest family income growth are important factors that will continue to have a negative effect on single-family housing demand.

We believe that total mortgage origination volume in the market in 2014 was at its lowest level since 2000. As a result, our loan purchase activity in 2014 declined to $255.3 billion in UPB compared to $422.7 billion in UPB during 2013. We expect total mortgage origination volume in the market in 2015 will be at a level similar to 2014. Consequently, we expect our purchase volume in 2015 will be at a level similar to 2014. During 2014, refinancings, including HARP, comprised approximately 48% of our single-family purchase and issuance volume compared with 73% in 2013. We expect HARP activity to continue to remain low during 2015 since the pool of borrowers eligible to participate in the program has declined.

Our guarantee fee rate charged on new acquisitions reflects two across-the-board increases in guarantee fees implemented in 2012. In June 2014, FHFA released a request for input on the guarantee fees that we and Fannie Mae charge lenders. We cannot predict what changes, if any, FHFA will require us to make to our guarantee fees as a result of the input received from this request.

Our charge-offs declined significantly during 2014 compared to 2013. We expect our charge-offs and credit losses to continue to be lower than the levels we experienced prior to 2014, but to remain elevated in the near term in part due to the substantial number of delinquent and underwater mortgage loans in our single-family credit guarantee portfolio that will likely be resolved. For the near term, we also expect:

- REO disposition and short sale severity ratios to remain high; and

- The number of seriously delinquent loans and the volume of our loan workouts to continue to decline.

Multifamily

We expect that the new supply of multifamily housing, at the national level, will be absorbed by market demand in the near term, driven by continued improvements in the economy and favorable demographics. However, new supply may outpace demand in certain local markets, which would be evidenced by excess supply and rising vacancy rates. As multifamily market fundamentals improved in recent years, other market participants, particularly banking institutions, increased their activities in the multifamily market. We expect that our new multifamily business activity will increase in 2015 compared to 2014, but will be below the cap of $30.0 billion in UPB as specified by the 2015 Conservatorship Scorecard.

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As a result of the solid market fundamentals and continuing strong portfolio performance, we expect our credit losses and delinquency rates to remain low in the near term. We expect the performance of the multifamily market to continue to be solid in the near term and believe the long-term outlook for the multifamily market continues to be favorable.

CONSOLIDATED RESULTS OF OPERATIONS

You should read this discussion of our consolidated results of operations in conjunction with our consolidated financial statements, including the accompanying notes. Also see "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" for information concerning certain significant accounting policies and estimates applied in determining our reported results of operations.

Table 8 — Summary Consolidated Statements of Comprehensive Income

	Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(in millions)				
Net interest income	$14,263	$16,468	$17,611	$(2,205)	$(1,143)
(Provision) benefit for credit losses	(58)	2,465	(1,890)	(2,523)	4,355
Net interest income after (provision) benefit for credit losses	14,205	18,933	15,721	(4,728)	3,212
Non-interest income (loss):					
Gains (losses) on extinguishment of debt securities of consolidated trusts	(451)	314	(58)	(765)	372
Gains (losses) on retirement of other debt	29	132	(77)	(103)	209
Derivative gains (losses)	(8,291)	2,632	(2,448)	(10,923)	5,080
Net impairment of available-for-sale securities recognized in earnings	(938)	(1,510)	(2,168)	572	658
Other gains (losses) on investment securities recognized in earnings	1,494	301	(1,522)	1,193	1,823
Other income (loss)	8,044	6,650	2,190	1,394	4,460
Total non-interest income (loss)	(113)	8,519	(4,083)	(8,632)	12,602
Non-interest expense:					
Administrative expense	(1,881)	(1,805)	(1,561)	(76)	(244)
REO operations (expense) income	(196)	140	(59)	(336)	199
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(775)	(533)	(108)	(242)	(425)
Other (expense) income	(238)	109	(465)	(347)	574
Total non-interest expense	(3,090)	(2,089)	(2,193)	(1,001)	104
Income before income tax (expense) benefit	11,002	25,363	9,445	(14,361)	15,918
Income tax (expense) benefit	(3,312)	23,305	1,537	(26,617)	21,768
Net income	7,690	48,668	10,982	(40,978)	37,686
Other comprehensive income (loss), net of taxes and reclassification adjustments	1,736	2,932	5,057	(1,196)	(2,125)
Comprehensive income	$9,426	$51,600	$16,039	$(42,174)	$35,561

Net Interest Income

Net interest income represents the difference between interest income (which includes income from guarantee fees) and interest expense and is a primary source of our revenue. The table below summarizes our net interest income and net interest yield and shows the extent to which changes in annual results are attributable to changes in interest rates or changes in volumes of our interest-earning assets and interest-bearing liabilities, based on their amortized cost. We present average balance sheet information because we believe end-of-period balances are not representative of activity throughout the periods presented. For most components of the average balances, a daily weighted average balance was calculated. When daily average balance information was not available, a simple monthly average balance was calculated.

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Table 9 — Net Interest Income/Yield, Average Balance, and Rate/Volume Analysis

	Years Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate
	(dollars in millions)								
Interest-earning assets:									
Cash and cash equivalents	$13,889	$4	0.03 %	$31,087	$15	0.05 %	$35,476	$20	0.06 %
Federal funds sold and securities purchased under agreements to resell	42,905	28	0.06	44,897	36	0.08	38,944	66	0.17
Mortgage-related securities:									
Mortgage-related securities	256,548	10,027	3.91	313,707	12,787	4.08	357,197	15,853	4.44
Extinguishment of PCs held by Freddie Mac	(111,545)	(4,190)	(3.76)	(127,999)	(5,045)	(3.94)	(119,181)	(5,328)	(4.47)
Total mortgage-related securities, net	145,003	5,837	4.03	185,708	7,742	4.17	238,016	10,525	4.42
Non-mortgage-related securities	9,983	6	0.06	21,385	26	0.12	23,763	58	0.25
Mortgage loans held by consolidated trusts(1)(2)	1,540,570	57,036	3.70	1,511,128	57,189	3.78	1,529,213	65,089	4.26
Unsecuritized mortgage loans(1)(3)	170,017	6,569	3.86	203,760	7,694	3.78	237,942	8,960	3.77
Total interest-earning assets	$1,922,367	$69,480	3.61	$1,997,965	$72,702	3.63	$2,103,354	$84,718	4.03
Interest-bearing liabilities:									
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,557,895	$(52,193)	(3.35)	$1,532,032	$(52,395)	(3.42)	$1,552,207	$(61,437)	(3.96)
Extinguishment of PCs held by Freddie Mac	(111,545)	4,190	3.76	(127,999)	5,045	3.94	(119,181)	5,328	4.47
Total debt securities of consolidated trusts held by third parties	1,446,350	(48,003)	(3.32)	1,404,033	(47,350)	(3.37)	1,433,026	(56,109)	(3.92)
Other debt:									
Short-term debt	118,211	(145)	(0.12)	132,674	(178)	(0.13)	129,504	(176)	(0.14)
Long-term debt	331,887	(6,768)	(2.04)	393,094	(8,251)	(2.10)	463,308	(10,217)	(2.21)

Total other debt	450,098	(6,913)	(1.54)	525,768	(8,429)	(1.60)	592,812	(10,393)	(1.75)
Total interest-bearing liabilities	1,896,448	(54,916)	(2.89)	1,929,801	(55,779)	(2.89)	2,025,838	(66,502)	(3.28)
Expense related to derivatives(4)	—	(301)	(0.02)	—	(455)	(0.02)	—	(605)	(0.03)
Impact of net non-interest-bearing funding	25,919	—	0.04	68,164	—	0.10	77,516	—	0.12
Total funding of interest-earning assets	$1,922,367	$(55,217)	(2.87)	$1,997,965	$(56,234)	(2.81)	$2,103,354	$(67,107)	(3.19)
Net interest income/yield		$14,263	0.74		$16,468	0.82		$17,611	0.84

	2014 vs. 2013 Variance Due to			2013 vs. 2012 Variance Due to		
	Rate(5)	Volume(5)	Total Change	Rate(5)	Volume(5)	Total Change
	(in millions)					
Interest-earning assets:						
Cash and cash equivalents	$(5)	$(6)	$(11)	$(8)	$3	$(5)
Federal funds sold and securities purchased under agreements to resell	(7)	(1)	(8)	(38)	8	(30)
Mortgage-related securities:						
Mortgage-related securities	(508)	(2,252)	(2,760)	(1,229)	(1,837)	(3,066)
Extinguishment of PCs held by Freddie Mac	229	626	855	659	(376)	283
Total mortgage-related securities, net	(279)	(1,626)	(1,905)	(570)	(2,213)	(2,783)
Non-mortgage-related securities	(10)	(10)	(20)	(27)	(5)	(32)
Mortgage loans held by consolidated trusts(2)(3)	(1,256)	1,103	(153)	(7,139)	(761)	(7,900)
Unsecuritized mortgage loans(1)(3)	175	(1,300)	(1,125)	24	(1,290)	(1,266)
Total interest-earning assets	$(1,382)	$(1,840)	$(3,222)	$(7,758)	$(4,258)	$(12,016)
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,079	$(877)	$202	$8,253	$789	$9,042
	(229)	(626)	(855)	(659)	376	(283)

Extinguishment of PCs held by Freddie Mac						
Total debt securities of consolidated trusts held by third parties	850	(1,503)	(653)	7,594	1,165	8,759
Other debt:						
Short-term debt	15	18	33	2	(4)	(2)
Long-term debt	229	1,254	1,483	474	1,492	1,966
Total other debt	244	1,272	1,516	476	1,488	1,964
Total interest-bearing liabilities	1,094	(231)	863	8,070	2,653	10,723
Expense related to derivatives(4)	154	—	154	150	—	150
Total funding of interest-earning assets	$1,248	$(231)	$1,017	$8,220	$2,653	$10,873
Net interest income	$(134)	$(2,071)	$(2,205)	$462	$(1,605)	$(1,143)

(1) Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in average balances.

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(2) Loan fees, primarily consisting of delivery fees, included in interest income for mortgage loans held by consolidated trusts were $1.4 billion, $1.2 billion, and $929 million for 2014, 2013, and 2012, respectively.

(3) Loan fees, primarily consisting of delivery fees and multifamily prepayment fees, included in unsecuritized mortgage loans interest income were $373 million, $294 million, and $446 million for 2014, 2013, and 2012, respectively.

(4) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the interest expense associated with the hedged forecasted issuance of debt affects earnings.

(5) Rate and volume changes are calculated on the individual financial statement line item level. Combined rate/volume changes were allocated to the individual rate and volume change based on their relative size.

The table below summarizes components of our net interest income.

Table 10 — Net Interest Income

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Contractual amounts of net interest income[1]	$12,229	$14,114	$16,162
Amortization income (expense), net:[2]			
Accretion of impairments on available-for-sale securities	798	521	214
Asset-related amortization income (expense), net:			
Mortgage loans held by consolidated trusts	(4,110)	(4,935)	(4,536)
Unsecuritized mortgage loans	235	266	156
Mortgage-related securities	(326)	(168)	(59)
Other assets	(73)	(282)	(281)
Asset-related amortization expense, net	(4,274)	(5,119)	(4,720)
Debt-related amortization income (expense), net:			
Debt securities of consolidated trusts	6,022	7,726	7,112
Other debt securities	(211)	(319)	(552)
Debt-related amortization income, net	5,811	7,407	6,560
Total amortization income, net	2,335	2,809	2,054
Expense related to derivatives[3]	(301)	(455)	(605)
Net interest income	$14,263	$16,468	$17,611

(1) Includes the reversal of interest income accrued, net of interest received on a cash basis, related to mortgage loans that are on non-accrual status.

(2) Represents amortization related to premiums, discounts, deferred fees and other adjustments to the carrying value of our financial instruments, and the reclassification of previously deferred balances from AOCI for certain derivatives in closed cash flow hedge relationships related to individual debt issuances and mortgage purchase transactions.

(3) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt affects earnings.

Net interest income decreased by $2.2 billion to $14.3 billion for 2014 compared to $16.5 billion for 2013. Net interest yield decreased by eight basis points to 74 basis points for 2014 compared to 82 basis points for 2013. The decrease in net interest income and net interest yield was primarily due to the reduction in the balance of higher-yielding mortgage-related assets in our mortgage-related investments portfolio due to continued liquidations, partially offset by lower funding costs. In addition, the costs of funding the senior preferred stock dividend payments to Treasury that resulted from non-cash increases in net worth (e.g., release of the valuation allowance against the net deferred tax assets) had a negative impact on net interest yield.

The percentage of our net interest income derived from guarantee fees has increased in recent periods. We estimate that approximately one-third of our net interest income for 2014 was derived from guarantee fees. As the size of our mortgage-related investments portfolio continues to decline, we expect that guarantee fees will account for an increasing portion of our net interest income.

Net interest income decreased by $1.1 billion to $16.5 billion for 2013 compared to $17.6 billion for 2012. Net interest yield decreased by two basis points to 82 basis points for 2013 compared to 84 basis points for 2012. The decrease in net interest income was primarily due to the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations. The decrease in net interest yield was primarily due to the reduction in higher-yielding mortgage-related assets, partially offset by the benefit of lower funding costs from the replacement of debt at lower rates.

Beginning in April 2012, net interest income includes the legislated 10 basis point increase in guarantee fees, which is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011. Net interest income includes $759 million, $519 million and $105 million for 2014, 2013 and 2012, respectively, related to this increase in guarantee fees.

Our net interest income will continue to be negatively affected by the objectives set for us under our charter and the conservatorship, the terms of the Purchase Agreement and restrictions imposed by FHFA. For example, our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the cap reaches $250 billion. The decline in the balance of this portfolio will cause a reduction in our interest income from this portfolio over time. For more information on the

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various restrictions and limitations on our investment activity and our mortgage-related investments portfolio, see "BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio."

(Provision) Benefit for Credit Losses

We maintain loan loss reserves at levels we believe are appropriate to absorb probable incurred losses on mortgage loans held-for-investment and loans underlying our financial guarantees. Our loan loss reserves are increased through the provision for credit losses and reduced by a benefit for credit losses and by net charge-offs. The provision for credit losses primarily reflects our estimate of incurred losses for newly impaired loans as well as changes in our estimates of incurred losses for previously impaired loans. Assuming that all other factors remain the same, home price growth may reduce the likelihood that loans will default and may also reduce the amount of credit losses on the loans that do default. Determining the loan loss reserves is complex and requires significant management judgment about matters that involve a high degree of subjectivity. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for information on our accounting policies for allowance for loan losses and reserve for guarantee losses and impaired loans.

Our (provision) benefit for credit losses was $(0.1) billion in 2014, $2.5 billion in 2013, and $(1.9) billion in 2012. These amounts are predominantly related to single-family mortgage loans. The provision for credit losses in 2014 reflects an increase in our loan loss reserve for newly impaired single-family loans that was substantially offset by benefits recognized for the positive payment performance of TDR loans. The (provision) benefit for credit losses in 2013 and 2012 reflect: (a) declines in the volume of newly delinquent single-family loans; (b) lower estimates of incurred loss due to the positive effect of an increase in national home prices; and (c) benefits associated with the positive payment performance of TDR loans. The benefit for credit losses in 2013 also reflects $1.7 billion 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 books. We do not expect any future settlements of representation and warranty claims related to our pre-conservatorship loan purchases to have a significant effect on our financial results.

Our provision for credit losses and amount of charge-offs in the future will be affected by a number of factors, including: (a) the actual level of mortgage defaults, including default rates among borrowers that participated in HARP and HAMP; (b) the effect of the MHA Program, the servicing alignment initiative, and other current and future loss mitigation efforts; (c) any government actions or programs that affect the ability of borrowers to refinance underwater mortgages or obtain modifications; (d) changes in property values; (e) regional economic conditions, including unemployment rates; (f) additional delays in the foreclosure process; and (g) third-party mortgage insurance coverage and recoveries.

The table below summarizes our loan loss reserves activity during the last five years.

Table 11 — Loan Loss Reserves Activity[1]

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in millions)				
Total loan loss reserves:					
Beginning balance	$24,729	$30,890	$39,461	$39,926	$33,857
Adjustments to beginning balance[2]	—	—	—	—	(186)
Provision (benefit) for credit losses	58	(2,465)	1,890	10,702	17,218
Charge-offs, gross	(4,895)	(9,002)	(13,556)	(14,810)	(16,322)
Recoveries	1,259	4,314	2,264	2,765	3,363
Transfers, net[3]	736	992	831	878	1,996
Ending balance	$21,887	$24,729	$30,890	$39,461	$39,926
Components of loan loss reserves:					
Single-family	$21,793	$24,578	$30,508	$38,916	$39,098
Multifamily	$94	$151	$382	$545	$828
	1.20%	1.37%	1.71%	2.08%	2.03%

Total loan loss reserve, as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities

(1) Consists of reserves for loans held-for-investment and loans underlying Freddie Mac mortgage-related securities and other guarantee commitments.
(2) Adjustments relate to the adoption of amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs.
(3) Consist primarily of net amounts attributable to recapitalization of past due interest on modified mortgage loans. Transfers in 2010 also include approximately $0.8 billion related to settlement agreements with certain sellers to compensate us for previously incurred and recognized losses.

Our single-family loan loss reserves declined from $24.6 billion at December 31, 2013 to $21.8 billion at December 31, 2014, reflecting continued high levels of loan charge-offs and continued improvement in loan performance (e.g., fewer single-family loans becoming seriously delinquent). For information about collectively evaluated and individually evaluated loans on our consolidated balance sheets, see "Table 4.4 — Net Investment in Mortgage Loans."

Our loan loss reserves reflect a significant amount of impairment associated with loans classified as TDRs. A TDR is a loan where we have granted a concession to a borrower who is experiencing financial difficulties. A concession generally

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occurs when the modification of a loan results in a reduction in the loan's interest rate. Due to the large number of modifications completed in recent years, the portion of our loan loss reserves attributable to TDRs remains high. The reserves associated with TDRs largely reflect interest rate concessions for the borrower. As of December 31, 2014, approximately 51% of the loan loss reserves for single-family loans relates to interest rate concessions associated with TDRs. Most of our modified loans (including TDRs) were current and performing at December 31, 2014. Loans that have been classified as TDRs remain categorized as such throughout the remaining life of the loan regardless of whether the borrower makes payments which return the loan to a current payment status. We maintain a loan loss reserve on TDRs until the loans are repaid or complete short sales or foreclosures. We expect the number of TDRs to remain at elevated levels for the foreseeable future. For information on our accounting for TDRs, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Troubled Debt Restructurings."

Although the housing market continued to improve in many geographic areas in 2014, we expect that our loan loss reserves may remain elevated for an extended period because: (a) a significant portion of our reserves is associated with individually impaired loans (e.g., modified loans) that are less than three months past due; and (b) the resolution of problem loans takes considerable time, often several years in the case of foreclosure.

Loans that have been individually evaluated for impairment generally have a higher associated loan loss reserve than loans that have been collectively evaluated for impairment. As of December 31, 2014 and 2013, the recorded investment of single-family impaired loans with specific reserves recorded was 95.1 billion and 93.7 billion, respectively, and the loan loss reserves associated with these loans were $17.8 billion and $18.6 billion, respectively.

The table below summarizes our net investment for individually impaired single-family mortgage loans on our consolidated balance sheets for which we have recorded a specific reserve.

Table 12 — Single-Family Impaired Loans with Specific Reserve Recorded

	2014		2013	
	Number of Loans	Amount	Number of Loans	Amount
	(dollars in millions)			
TDRs, at January 1,	514,497	$92,505	449,145	$83,484
New additions	84,334	12,581	129,428	20,234
Repayments and reclassifications to held-for-sale	(33,104)	(6,218)	(29,877)	(5,074)
Foreclosure transfers and foreclosure alternatives	(26,137)	(4,467)	(34,199)	(6,139)
TDRs, at December 31,	539,590	94,401	514,497	92,505
Loans impaired upon purchase	9,949	741	13,790	1,195
Total impaired loans with specific reserve	549,539	95,142	528,287	93,700
Total allowance for loan losses of individually impaired single-family loans		(17,837)		(18,554)
Net investment, at December 31,		$77,305		$75,146

We place loans, including TDRs, on non-accrual status when we believe the collectability of interest and principal on a loan is not reasonably assured, unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, interest income is recognized only upon receipt of cash payments and any interest income accrued but uncollected is reversed. See “RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile” for further information on our single-family credit guarantee portfolio, including credit performance, and seriously delinquent loans. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES” and “NOTE 5: IMPAIRED LOANS” for further information about our TDRs and non-accrual and other impaired loans.

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The table below provides information about the UPB of TDRs and non-accrual mortgage loans on our consolidated balance sheets.

Table 13 — TDRs and Non-Accrual Mortgage Loans

	December 31, 2014	2013	2012	2011	2010
	(in millions)				
TDRs on accrual status:					
Single-family	$82,373	$78,033	$65,784	$44,440	$26,612
Multifamily	535	675	806	814	905
Subtotal —TDRs on accrual status	82,908	78,708	66,590	45,254	27,517
Non-accrual loans:					
Single-family(1)	32,745	42,829	61,517	74,686	87,238
Multifamily(2)	385	628	1,488	1,889	1,750
Subtotal — non-accrual loans	33,130	43,457	63,005	76,575	88,988
Total TDRs and non-accrual mortgage loans	$116,038	$122,165	$129,595	$121,829	$116,505
Loan loss reserves associated with:					
TDRs on accrual status	$13,749	$14,254	$12,478	$11,640	$7,195
Non-accrual loans	6,966	8,870	14,759	20,971	23,493
Total loan loss reserves associated with TDRs and non-accrual loans	$20,715	$23,124	$27,237	$32,611	$30,688

	Year Ended December 31, 2014	2013	2012	2011	2010
	(in millions)				
Foregone interest income on TDR and non-accrual mortgage loans(3):					
Single-family	$3,235	$3,552	$4,126	$4,369	$4,159
Multifamily	4	8	11	15	12
Total foregone interest income on TDR and non-accrual mortgage loans	$3,239	$3,560	$4,137	$4,384	$4,171

(1) Includes $18.0 billion, $19.6 billion, $22.0 billion, $11.6 billion, and $3.1 billion in UPB of seriously delinquent loans classified as TDRs at December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(2) Includes $0.4 billion, $0.6 billion, $1.4 billion, $1.8 billion, and $1.6 billion in UPB of loans that were current as of December 31, 2014, 2013, 2012, 2011, and 2010, respectively.

(3) Represents the amount of interest income that we would have recognized for loans outstanding at the end of each period, had the loans performed according to their original contractual terms.

Credit Loss Performance

Our credit losses are generally measured at the conclusion of the loan and related collateral resolution process. Our expenses associated with home retention actions (e.g., loan modifications) are generally not reflected in our credit losses. There is also a significant lag in time from the start of loan workout activities by our servicers to the final resolution of those loans by the completion of foreclosures (and subsequent REO sales) or foreclosure alternatives (e.g., short sales).

Our single-family charge-offs, gross, for 2014 and 2013 were associated with approximately $11.0 billion and $21.2 billion in UPB of loans, respectively. Our single-family charge-offs, gross, were significantly lower in 2014 compared to 2013 primarily due to lower volumes of foreclosures and foreclosure alternatives. Single-family charge-offs, net, in 2014 and 2013 include recoveries of $0.3 billion and $2.1 billion, respectively, related to settlement agreements with

certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments.
We expect our charge-offs and credit losses in 2015 to be lower than in 2014, but to remain elevated due to the substantial number of delinquent and underwater single-family mortgage loans in our single-family credit guarantee portfolio that will likely be resolved. See "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments — FHFA Advisory Bulletin" for information about our adoption of an FHFA advisory bulletin and its effect on future charge-offs and credit losses.
The table below provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and loans underlying our non-consolidated mortgage-related financial guarantees.

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Table 14 — Credit Loss Performance

	Year Ended December 31,		
	2014	2013	2012
	(dollars in millions)		
REO			
REO balances, net:			
Single-family	$2,558	$4,541	$4,314
Multifamily	—	10	64
Total	$2,558	$4,551	$4,378
REO operations (income) expense:			
Single-family	$205	$(124)	$62
Multifamily	(9)	(16)	(3)
Total	$196	$(140)	$59
Charge-offs			
Single-family:			
Charge-offs, gross[1] (including $4.9 billion, $9.0 billion, and $13.5 billion relating to loan loss reserves, respectively)	$4,972	$9,225	$13,825
Recoveries[2]	(1,258)	(4,313)	(2,262)
Single-family, net	$3,714	$4,912	$11,563
Multifamily:			
Charge-offs, gross[1] (including $3 million, $7 million, and $36 million relating to loan loss reserves, respectively)	$3	$29	$39
Recoveries[2]	(1)	(1)	(2)
Multifamily, net	$2	$28	$37
Total Charge-offs:			
Charge-offs, gross[1] (including $4.9 billion, $9.0 billion, and $13.6 billion relating to loan loss reserves, respectively)	$4,975	$9,254	$13,864
Recoveries[2]	(1,259)	(4,314)	(2,264)
Total Charge-offs, net	$3,716	$4,940	$11,600
Credit Losses:			
Single-family	$3,919	$4,788	$11,625
Multifamily	(7)	12	34
Total	$3,912	$4,800	$11,659
Total (in bps)	21.6	26.7	63.8
Ratio of total loan loss reserves (excluding reserves for TDR concessions) to net charge-offs for single-family loans[3]	2.5	1.9	2.1
Ratio of total loan loss reserves to net charge-offs for single-family loans[3]	5.2	3.5	2.7

(1) Charge-offs include $80 million, $252 million, and $308 million for the years ended December 31, 2014, 2013 and 2012, respectively, related to: (a) losses on loans purchased that were recorded within other expenses on our consolidated statements of comprehensive income, which relate to certain loans purchased under financial guarantees; and (b) cumulative fair value losses recognized through the date of foreclosure for Multifamily loans we elected to carry at fair value at the time of our purchase.

(2) Includes $0.5 billion, $2.8 billion, and $0.7 billion in 2014, 2013, and 2012, respectively, related to repurchase requests made to our seller/servicers (including $0.3 billion, $2.1 billion, and $0 in 2014, 2013, and 2012, respectively, related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments).

(3) Excludes amounts associated with loans acquired with deteriorated credit quality (at the time of acquisition) and recoveries related to settlements.

Our 2005-2008 Legacy single-family book comprised approximately 13% of our single-family credit guarantee portfolio, based on UPB at December 31, 2014; however, these loans accounted for approximately 81% of our credit losses during 2014. Our single-family credit losses during 2014 were highest in Florida and Illinois. Collectively, these two states comprised approximately 38% of our total credit losses in 2014.

At December 31, 2014, loans in states with a judicial foreclosure process comprised 40% of our single-family credit guarantee portfolio, based on UPB, while loans in these states contributed to approximately 68% of our credit losses recognized in 2014. Foreclosures generally take longer to complete in states where a judicial foreclosure is required, compared to other states. We expect the portion of our credit losses related to loans in states with judicial foreclosure processes will remain high in the near term as the substantial backlog of loans awaiting court proceedings in those states transitions to REO or other loss events.

The table below provides information on the severity of losses we experienced on loans in our single-family credit guarantee portfolio.

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Table 15 — Severity Ratios for Single-Family Loans

	Year Ended December 31,		
	2014	2013	2012
REO disposition severity ratio:[1]			
Florida	37.4 %	41.9 %	48.9 %
Illinois	40.2	46.2	51.3
New Jersey	41.8	45.6	48.6
Maryland	36.9	38.7	47.6
California	25.2	30.4	44.0
Total U.S.	34.7	36.5	41.8
Short sale severity ratio	31.6	36.0	39.9

(1) States presented represent the five states where our credit losses were greatest during 2014.

As shown in the table above, our severity ratios associated with REO dispositions and short sales improved in 2014 and 2013, compared to the respective prior year, but remained high in several states. We believe this improvement was the result of: (a) improvements in home prices; (b) changes to our process for evaluating the market value of the property underlying our impaired loans; and (c) repairing a significant portion of our REO properties prior to listing them for sale.

The table below provides detail by region for charge-offs and recoveries.

Table 16 — Single-Family Charge-offs and Recoveries by Region[1]

	Year Ended December 31,								
	2014			2013			2012		
	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net
	(in millions)								
Northeast	$1,138	$(238)	$ 900	$1,357	$(656)	$ 701	$1,180	$(249)	$ 931
Southeast	1,703	(393)	1,310	3,015	(1,331)	1,684	3,530	(694)	2,836
North Central	1,018	(259)	759	1,870	(810)	1,060	2,726	(526)	2,200
Southwest	238	(85)	153	394	(245)	149	647	(160)	487
West	875	(283)	592	2,589	(1,271)	1,318	5,742	(633)	5,109
Total	$4,972	$(1,258)	$ 3,714	$9,225	$(4,313)	$ 4,912	$13,825	$(2,262)	$ 11,563

(1) Presentation with the following regional designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

As shown in the table above, our charge-offs declined in all regions of the U.S during 2014 compared to 2013. Charge-offs remained elevated in most regions during 2014 as we continued to experience a high volume of foreclosure activity, particularly in Florida, Illinois and Ohio. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for additional information about our credit losses.

Non-Interest Income (Loss)

Gains (Losses) on Extinguishment of Debt Securities of Consolidated Trusts

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish a pro rata portion of the outstanding debt securities of the related consolidated trusts. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to extinguish the debt security (i.e., the PC) differs from its carrying value. During 2014, 2013, and 2012, we extinguished debt securities of consolidated trusts with a UPB of $49.2 billion, $44.4 billion, and $13.5 billion, respectively (representing our purchase of single-family PCs with a corresponding

UPB amount). Gains (losses) on extinguishment of these debt securities of consolidated trusts were $(451) million, $314 million, and $(58) million during 2014, 2013, and 2012, respectively.

We recognized losses in 2014 and 2012 because interest rates decreased between the time of issuance and repurchase of these debt securities. Losses increased in 2014 because we repurchased, at premiums, seasoned debt securities of consolidated trusts with carrying values at par. We recognized gains in 2013 because interest rates increased between the time of issuance and repurchase of these debt securities.

See "Table 29 — Mortgage-Related Securities Purchase Activity" for additional information regarding purchases of mortgage-related securities, including those issued by consolidated PC trusts.

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Gains (Losses) on Retirement of Other Debt

We refer to the debt securities we issue to fund our business operations as other debt. We repurchase or call our outstanding other debt securities from time to time when we believe it is economically beneficial and to manage the mix of liabilities funding our assets. When we repurchase or call outstanding debt securities, or debt holders put outstanding debt securities to us, we recognize a gain or loss to the extent the amount paid to redeem the debt security differs from its carrying value. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for more information regarding our accounting policies related to debt retirements.

Gains (losses) on retirement of other debt were $29 million, $132 million, and $(77) million during 2014, 2013, and 2012, respectively.

We recognized gains on the retirement of other debt in 2014 and 2013 primarily as a result of exercising our call option for other debt held at premiums. Losses on the retirement of other debt in 2012 primarily resulted from write-offs of unamortized debt issuance costs related to calls of other debt securities.

For more information, see "LIQUIDITY AND CAPITAL RESOURCES — Liquidity — Other Debt Securities."

Derivative Gains (Losses)

The table below presents derivative gains (losses) reported in our consolidated statements of comprehensive income. See "NOTE 9: DERIVATIVES — Table 9.2 — Gains and Losses on Derivatives" for information about gains and losses related to specific categories of derivatives.

Derivatives that are not in hedge accounting relationships are accounted for differently than derivatives that are in hedge accounting relationships. For derivatives that are not in hedge accounting relationships, all fair value changes, as well as the accrual of periodic settlements, are recorded in current period income as derivative gains (losses). We did not have any derivatives in hedge accounting relationships at December 31, 2014 and 2013. However, AOCI includes amounts related to closed cash flow hedges. These amounts are reclassified to earnings when the forecasted transactions affect earnings. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the forecasted transaction is reclassified into earnings immediately.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they increase the volatility of reported comprehensive income because fair value changes on derivatives are included in comprehensive income, while fair value changes associated with several of the types of assets and liabilities being economically hedged are not. As a result, there can be timing mismatches affecting current period earnings, which may not be reflective of the underlying economics of our business. The mix of our derivative portfolio, in conjunction with the mix of our assets and liabilities, affects the volatility of comprehensive income.

Table 17 — Derivative Gains (Losses)

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Interest-rate swaps	$(7,294)	$8,598	$(204)
Option-based derivatives	1,437	(2,422)	1,250
Other derivatives[1]	191	(77)	308
Accrual of periodic settlements	(2,625)	(3,467)	(3,802)
Total	$(8,291)	$2,632	$(2,448)

(1) Primarily includes futures, foreign-currency swaps, commitments, credit derivatives and swap guarantee derivatives. Our last foreign-currency swaps matured in January 2014.

Gains (losses) on our derivative portfolio includes both derivative fair value changes and the accrual of periodic settlements. Gains (losses) on our derivative portfolio can change based on changes in: (a) interest rates, yield curves and implied volatility; and (b) the mix and balance of products in our derivative portfolio. The mix and balance of our derivatives change from period to period as we respond to changing interest rate environments and changes in our asset and liability balances and characteristics. A receive-fixed swap results in our receipt of a fixed interest-rate payment from our counterparty in exchange for a variable-rate payment. Conversely, a pay-fixed swap requires us to make a fixed interest-rate payment to our counterparty in exchange for a variable-rate payment. Receive-fixed swaps increase in value and pay-fixed swaps decrease in value when interest rates decrease (with the opposite being true when interest rates increase). The accrual of periodic settlements represents the net amount we accrue for interest-rate swap payments we will make or receive during a period. We record derivative losses when we are a net payer and record derivatives gains when we are a net receiver of swap payments.

Our option-based derivatives primarily include purchased call and put swaptions, and also include caps and floors, and options on exchange-traded futures. Purchased call and put swaptions, where we make premium payments when we purchase them, are options for us to enter into receive- and pay-fixed swaps, respectively. Conversely, written call and put swaptions, where we receive premium payments when our counterparty purchases them, are options for our counterparty to enter into receive and pay-fixed swaps, respectively. The fair values of both purchased and written call and put swaptions are sensitive to changes in interest rates and are also driven by the market's expectation of potential changes in future interest rates (referred to as "implied volatility"). Purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases. Recognized losses on purchased options in any given period are limited to the premium paid to purchase the option plus any unrealized gains previously recorded. Potential losses on written options are unlimited.

During 2014, we recognized net losses on derivatives of $8.3 billion primarily as a result of net fair value losses of $7.3 billion on our interest-rate swap portfolio as a result of a flattening of the yield curve as shorter-term interest rates increased and longer-term interest rates declined. Net losses on derivatives also resulted from the accrual of periodic settlements on interest-rate swaps, as we were a net payer on our interest-rate swaps based on the coupons of the instruments. These losses were partially offset by fair value gains on our option-based derivatives resulting from gains on our purchased call swaptions due to the decline in longer-term interest rates.

During 2013, we recognized a net gain on derivatives of $2.6 billion as net fair value gains of $8.6 billion on our interest-rate swap portfolio, primarily driven by an increase in longer-term interest rates, were partially offset by: (a) a net loss of $3.5 billion related to the accrual of periodic settlements on interest-rate swaps, as we were a net payer on our interest-rate swaps based on the coupons of the instruments; and (b) a fair value loss of $2.4 billion on our option-based derivatives.

During 2012, we recognized losses on derivatives of $2.4 billion, primarily due to losses related to the accrual of periodic settlements on interest-rate swaps, as we were a net payer on our interest-rate swaps based on the coupons of the instruments. We recognized fair value losses on our pay-fixed swaps, which were offset by: (a) fair value gains on our receive-fixed swaps; and (b) fair value gains on our option-based derivatives resulting from gains on our purchased call swaptions due to a decrease in interest rates. In 2012, the effect of the decline in interest rates and a steepening of the yield curve was coupled with a change in the mix of our derivative portfolio, as we increased our holdings of receive-fixed swaps relative to pay-fixed swaps to rebalance our portfolio during a period of steadily declining interest rates, and increased our issuances of debt with longer-term maturities.

Investment Securities-Related Activities

Impairments of Available-For-Sale Securities

We recorded net impairments of available-for-sale securities recognized in earnings of $938 million, $1.5 billion, and $2.2 billion during 2014, 2013, and 2012, respectively, related to non-agency mortgage-related securities. The impairments during 2014 were primarily driven by an increase in the population of available-for-sale securities in an unrealized loss position that we intend to sell. This generally reflects our efforts to reduce the balance of less liquid assets in the mortgage-related investments portfolio. During 2013, we recognized a benefit from improvements in forecasted home prices over the expected life of our available-for-sale securities, offset primarily by: (a) the incorporation in the fourth quarter of 2013 of new information, which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing non-agency mortgage-related securities for which actual data about those terms was unavailable to the market; and (b) an increase in the population of available-for-sale securities in an unrealized loss position which we intended to sell. During 2012, we recognized a benefit from improvements in forecasted home prices, which was offset by the impact of our implementation, in the fourth quarter of 2012, of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities. The decision to transition to a third-party model was made to increase the level of disaggregation for certain assumptions used in projecting cash flow estimates of these securities. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities — Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities," and "NOTE 7: INVESTMENTS IN SECURITIES" for additional information.

Other Gains (Losses) on Investment Securities Recognized in Earnings

Other gains (losses) on investment securities recognized in earnings consists of gains (losses) on trading securities and gains (losses) on sales of available-for-sale securities. Trading securities mainly consist of Treasury securities and agency mortgage-related securities, including inverse floating-rate, interest-only and principal-only securities. With the exception of principal-only securities, our agency securities, classified as trading, were valued at a net premium

(i.e., net fair value was higher than UPB) as of December 31, 2014.
Other gains (losses) on investment securities recognized in earnings does not include the interest earned on investment securities, which is recorded as part of net interest income. For information about our interest-rate risk management strategy and framework, see "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK."
We recognized $(218) million, $(1.6) billion, and $(1.7) billion related to losses on trading securities during 2014, 2013, and 2012, respectively. The losses on trading securities during all periods were primarily due to the movement of securities with unrealized gains towards maturity. The losses on trading securities during 2014 were partially offset by the effect of the decline in longer-term interest rates.

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We recognized $1.7 billion, $1.9 billion, and $152 million of gains on sales of available-for-sale securities during 2014, 2013, and 2012, respectively. The gains during 2014 primarily resulted from sales related to our structuring activity. The gains during 2013 primarily resulted from sales related to our 2013 Conservatorship Scorecard goal to sell 5% of less liquid mortgage-related assets.

Other Income (Loss)

The table below summarizes the significant components of other income (loss).

Table 18 — Other Income (Loss)

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Other income (loss):			
Non-agency mortgage-related securities settlements	$6,084	$5,501	$—
Gains (losses) on mortgage loans	731	(336)	1,010
Recoveries on loans acquired with deteriorated credit quality(1)	203	261	380
Guarantee-related income, net(2)	266	400	343
All other	760	824	457
Total other income (loss)	$8,044	$6,650	$2,190

(1) Primarily relates to loans acquired with deteriorated credit quality prior to 2010. Consequently, our recoveries on these loans will generally decline over time.

(2) Primarily relates to securitized mortgage loans where we have not consolidated the securitization trusts on our consolidated balance sheets.

Non-Agency Mortgage-Related Securities Settlements

Non-agency mortgage-related securities settlements were $6.1 billion, $5.5 billion, and $0 in 2014, 2013, and 2012, respectively. We received proceeds from ten settlements in 2014 and seven settlements in 2013. We had no settlements in 2012. For information on the settlements in 2014, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers.”

Gains (Losses) on Mortgage Loans

We recognized gains (losses) on mortgage loans of $0.7 billion, $(0.3) billion, and $1.0 billion in 2014, 2013, and 2012, respectively. Gains (losses) on mortgage loans primarily represents fair value gains and losses on multifamily loans between the time we acquire them and the time we securitize them through K Certificate transactions. During that time, we carry the loans at fair value. The gains in 2014 and 2012 were mainly due to a decrease in interest rates and tightening spreads, while the losses in 2013 were primarily due to an increase in interest rates.

During 2014, 2013, and 2012 we sold $21.3 billion, $28.3 billion, and $20.8 billion, respectively, in UPB of multifamily loans primarily through K Certificate transactions. We also sold seriously delinquent single-family loans (with an aggregate UPB of $0.6 billion) in a pilot transaction completed in the third quarter of 2014. This sale did not have a material effect on our financial results. In January 2015, we received FHFA approval to execute additional such sales. In connection with this approval, we reclassified $1.4 billion in recorded investment of mortgage loans from held-for-investment to held-for-sale during the first quarter of 2015, which did not have a material effect on our financial results.

All Other

All other income (loss) includes income recognized from transactional fees, fees assessed to our servicers for technology use and late fees or other penalties, changes in fair value of STACR debt notes, and other miscellaneous income. All other income remained relatively unchanged from 2013 to 2014 as: (a) a decline in the compensatory fees we charged servicers that failed to meet our loan foreclosure timelines and higher costs associated with the common securitization platform in 2014; were offset by (b) gains on STACR debt notes carried at fair value in 2014, compared to losses in 2013. In November 2014, we announced an extension of foreclosure timelines in our guidelines for 47 states or other jurisdictions and temporarily suspended compensatory fee assessments in four jurisdictions. These changes will result in lower compensatory fees in the future. The increase in 2013 from 2012 was primarily due to higher compensatory fees assessed on servicers that failed to meet our loan foreclosure timelines.

Non-Interest Expense

The table below summarizes the components of non-interest expense.

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Table 19 — Non-Interest Expense

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Administrative expense:			
Salaries and employee benefits	$914	$833	$810
Professional services	527	543	361
Occupancy expense	58	54	57
Other administrative expense	382	375	333
Total administrative expense	1,881	1,805	1,561
REO operations expense (income)	196	(140)	59
Temporary Payroll Tax Cut Continuation Act of 2011 expense	775	533	108
Other expense (income)	238	(109)	465
Total non-interest expense	$3,090	$2,089	$2,193

Administrative Expense

Administrative expense increased in 2014 due to increases in salaries and employee benefits expense, mainly due to expenses associated with our terminated retirement plans, partially offset by declines in professional services expense related to: (a) FHFA-led lawsuits regarding our investments in certain non-agency mortgage-related securities; and (b) quality control reviews for single-family loans we acquired prior to being placed in conservatorship. Administrative expense increased in 2013 primarily due to an increase in professional services expense related to: (a) FHFA-led lawsuits; (b) quality control reviews; (c) Conservatorship Scorecard initiatives, including development of the common securitization platform; and (d) infrastructure improvement projects, including establishment of an off-site, back-up data facility.

REO Operations (Income) Expense

The table below presents the components of our REO operations (income) expense.

Table 20 — REO Operations (Income) Expense

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
REO operations (income) expense:			
Single-family:			
REO property expenses	$829	$962	$1,203
Disposition gains, net	(454)	(746)	(682)
Change in valuation allowance	75	23	(117)
Recoveries	(245)	(363)	(342)
Total single-family REO operations (income) expense	205	(124)	62
Multifamily REO operations (income) expense	(9)	(16)	(3)
Total REO operations (income) expense	$196	$(140)	$59

REO operations (income) expense was $196 million in 2014, as compared to $(140) million in 2013, and $59 million in 2012. The change from REO operations income in 2013 to REO operations expense in 2014 was primarily due to lower gains on the disposition of REO properties associated with a lower volume of REO sales. The improvement in 2013 compared to 2012 was primarily due to: (a) a decline in REO property expenses associated with a lower number of REO properties; and (b) improving home prices in certain geographic areas with significant REO activity. For more information on our REO activity, see "Segment Earnings — Segment Earnings — Results — Single-Family Guarantee," "CONSOLIDATED BALANCE SHEETS ANALYSIS — REO, Net," and "RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Managing REO Activity."

Temporary Payroll Tax Cut Continuation Act of 2011 Expense

Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, we increased the guarantee fee on single-family mortgages sold to us by 10 basis points in April 2012. We pay these fees to Treasury on a quarterly basis. We refer to this fee increase as the legislated 10 basis point increase in guarantee fees.

Expenses related to the legislated 10 basis point increase in guarantee fees were $775 million, $533 million, and $108 million during 2014, 2013, and 2012, respectively. As of December 31, 2014, loans with an aggregate UPB of $866.7 billion were subject to these fees, and the cumulative total of the amounts paid and due to Treasury for these fees was $1.4 billion. We

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expect these fees to continue to increase in the future as we add new business and increase the UPB of loans subject to these fees.

Other Expense (Income)

Other expense (income) was $238 million, $(109) million, and $465 million in 2014, 2013, and 2012, respectively. The income in 2013, compared to expense in 2014 and 2012, was primarily due to a settlement with Lehman Brothers Holdings Inc. to resolve our claims related to Lehman's bankruptcy, which reduced other expenses for 2013. Other expense for 2012 included expenses to establish legal reserves related to pending litigation. Other expense (income) also includes HAMP servicer incentive fees, costs related to terminations and transfers of mortgage servicing, and other miscellaneous expenses. FHFA has directed us to allocate funds to two housing funds managed by HUD and Treasury, beginning in 2015, as discussed in "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Affordable Housing Allocations." Amounts related to this allocation will be recorded in non-interest expense beginning in 2015, but we do not expect them to be material.

Income Tax (Expense) Benefit

We reported an income tax (expense) benefit of $(3.3) billion, $23.3 billion, and $1.5 billion for 2014, 2013, and 2012, respectively. The income tax benefit in 2013 primarily resulted from the release of the valuation allowance in the third quarter of 2013. See "NOTE 12: INCOME TAXES" for additional information.

Comprehensive Income

Our comprehensive income was $9.4 billion, $51.6 billion, and $16.0 billion for 2014, 2013, and 2012, respectively, consisting of: (a) $7.7 billion, $48.7 billion, and $11.0 billion of net income, respectively; and (b) $1.7 billion, $2.9 billion, and $5.1 billion of other comprehensive income, respectively. Other comprehensive income during 2014 primarily related to fair value gains on our available-for-sale securities resulting from the impact of spread tightening on our non-agency mortgage-related securities and the movement of these securities with unrealized losses towards maturity, coupled with the impact of a decline in longer-term interest rates. Other comprehensive income during 2013 was primarily due to fair value gains resulting from the impact of spread tightening on our non-agency mortgage-related securities and the movement of these securities with unrealized losses towards maturity.

Other comprehensive income in all periods also reflects the reversals of: (a) unrealized losses due to the recognition of other-than-temporary impairments in earnings; and (b) unrealized gains and losses related to available-for-sale securities sold during the respective period. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Total Equity" for additional information regarding total other comprehensive income.

Segment Earnings

We have three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily. Certain activities that are not part of a reportable segment are included in the All Other category.

The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market and we manage our seriously delinquent loans. In most instances, we use the mortgage securitization process to package the mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Segment Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront fees, less credit-related expenses, administrative expenses, allocated funding costs, and amounts related to net float benefits or expenses.

The Investments segment reflects results from three primary activities: (a) managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments and single-family seriously delinquent loans; (b) managing the treasury function for the entire company, including funding and liquidity; and (c) managing interest-rate risk for the entire company. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans. Segment Earnings for this segment consist primarily of the returns on these investments, less the related funding, hedging, and administrative expenses.

The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. In addition, we guarantee the payment of principal and interest on tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. Historically, we were primarily a buy-and-hold investor in multifamily assets (both loans held for investment and investment securities). While these legacy assets continue to be significant, we have not focused on this investment strategy since 2009. Segment Earnings for this segment consist primarily of returns on assets related to multifamily investment activities and management and guarantee fee income, less credit-related expenses, administrative expenses, and allocated funding costs.

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We evaluate segment performance and allocate resources based on a Segment Earnings approach. The financial performance of our Single-family Guarantee segment is measured based on its contribution to GAAP net income (loss). Our Investments segment and Multifamily segment are measured based on each segment's contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes. The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss). Likewise, the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive income (loss).

The All Other category consists of material corporate level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods. Segment Earnings for the All Other category was $(13) million, $23.9 billion, and $788 million for 2014, 2013, and 2012, respectively. Segment Earnings 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. Segment Earnings for the All Other category for 2012 primarily reflects an agreement in principle we reached with the IRS regarding litigation related to various uncertain tax positions. Based on the favorable resolution of the matters in dispute, the previously unrecognized tax benefits were reduced to zero in the fourth quarter of 2012. For more information regarding the litigation with the IRS, see "NOTE 17: LEGAL CONTINGENCIES — IRS Litigation."

In presenting Segment Earnings, we make significant reclassifications among certain financial statement line items to reflect measures of management and guarantee income on guarantees and net interest income on investments that are in line with how we manage our business. We also allocate certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments.

As a result of these reclassifications and allocations, Segment Earnings for our reportable segments 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. However, we believe that Segment Earnings provides us with meaningful metrics to assess the financial performance of each segment and our company as a whole.

In the first quarter of 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. As a result of this change, the Multifamily segment reflects the entire change in fair value of these assets in its financial results, and the Investments segment transfers the change in fair value of the derivatives associated with the Multifamily segment's investments securities and held-for-sale loans to the Multifamily segment. The purpose of this change is to better reflect the operations of the Multifamily segment on a stand-alone basis. Prior period results have been revised to conform with the current period presentation.

See "BUSINESS — Our Business — Our Business Segments" for further information regarding our segments, including the descriptions and activities of our segments, and "NOTE 13: SEGMENT REPORTING" for further information regarding the reclassifications, reconciliations and allocations used to present Segment Earnings.

The table below provides UPB information about our various segment mortgage and credit risk portfolios at December 31, 2014 and 2013. For a discussion of each segment's portfolios, see "Segment Earnings — Results."

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Table 21 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios

	December 31, 2014	2013
	(in millions)	
Segment mortgage portfolios:		
Single-family Guarantee — Managed loan portfolio:[1]		
Single-family unsecuritized seriously delinquent mortgage loans	$28,738	$37,726
Single-family Freddie Mac mortgage-related securities held by us	158,215	165,247
Single-family Freddie Mac mortgage-related securities held by third parties	1,397,050	1,361,972
Single-family other guarantee commitments	16,806	19,872
Total Single-family Guarantee — Managed loan portfolio	1,600,809	1,584,817
Investments — Mortgage investments portfolio:		
Single-family unsecuritized performing mortgage loans	82,778	84,411
Freddie Mac mortgage-related securities	158,215	165,247
Non-agency mortgage-related securities	44,230	64,524
Non-Freddie Mac agency mortgage-related securities	16,341	16,889
Total Investments — Mortgage investments portfolio	301,564	331,071
Multifamily — Guarantee portfolio:		
Multifamily Freddie Mac mortgage-related securities held by us	3,326	2,787
Multifamily Freddie Mac mortgage-related securities held by third parties	78,495	62,505
Multifamily other guarantee commitments	9,341	9,288
Total Multifamily — Guarantee portfolio	91,162	74,580
Multifamily — Mortgage investments portfolio:		
Multifamily investment securities portfolio	25,156	33,056
Multifamily unsecuritized loan portfolio	52,956	59,171
Total Multifamily — Mortgage investments portfolio	78,112	92,227
Total Multifamily portfolio	169,274	166,807
Less: Freddie Mac single-family and multifamily securities held by us	(161,541)	(168,034)
Total mortgage portfolio	$1,910,106	$1,914,661
Credit risk portfolios:		
Single-family credit guarantee portfolio:[1]		
Single-family mortgage loans, on-balance sheet	$1,645,872	$1,630,859
Non-consolidated Freddie Mac mortgage-related securities	6,233	6,961
Other guarantee commitments	16,806	19,872
Less: HFA initiative-related guarantees	(3,357)	(4,051)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates	(433)	(541)
Total single-family credit guarantee portfolio	$1,665,121	$1,653,100
Multifamily mortgage portfolio:		
Multifamily mortgage loans, on-balance sheet	$53,480	$59,615
Non-consolidated Freddie Mac mortgage-related securities	81,296	64,848
Other guarantee commitments	9,341	9,288
Less: HFA initiative-related guarantees	(772)	(905)
Total multifamily mortgage portfolio	$143,345	$132,846

(1)

The balances of the mortgage-related securities in the Single-family Guarantee managed loan portfolio are based on the UPB of the security, whereas the balances of our single-family credit guarantee portfolio presented in this report are based on the UPB of the mortgage loans underlying the related security.

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Segment Earnings — Results

Single-Family Guarantee

The table below presents the Segment Earnings of our Single-family Guarantee segment.

Table 22 — Segment Earnings and Key Metrics — Single-Family Guarantee

	Year Ended December 31,		
	2014	2013	2012
	(dollars in millions)		
Segment Earnings:			
Net interest income (expense)[1]	$(111)	$320	$(147)
(Provision) benefit for credit losses	(982)	1,409	(3,168)
Non-interest income:			
Management and guarantee income	5,172	4,930	4,389
Other non-interest income	712	1,162	931
Total non-interest income	5,884	6,092	5,320
Non-interest expense:			
Administrative expense	(1,170)	(1,025)	(890)
REO operations (expense) income	(205)	124	(62)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(775)	(533)	(108)
Other non-interest expense	(191)	(179)	(285)
Total non-interest expense	(2,341)	(1,613)	(1,345)
Segment adjustments	(303)	(694)	(832)
Segment Earnings before income tax (expense) benefit	2,147	5,514	(172)
Income tax (expense) benefit	(600)	282	8
Segment Earnings (loss), net of taxes	1,547	5,796	(164)
Total other comprehensive income (loss), net of taxes	(10)	49	(63)
Total comprehensive income (loss)	$1,537	$5,845	$(227)
Key metrics:			
Balances and Volume (in billions, except rate):			
Average balance of single-family credit guarantee portfolio and HFA guarantees	$1,655	$1,644	$1,692
Issuance — Single-family credit guarantees[2]	$260	$435	$446
Fixed-rate products — Percentage of purchases	94%	96%	96%
Liquidation rate — Single-family credit guarantees[3]	15%	28%	33%
Average Management and Guarantee Rate (in bps)			
Segment Earnings management and guarantee income[4]	31.2	30.0	25.9
Guarantee fee charged on new acquisitions[5]	57.4	51.4	38.3
Credit:			
Serious delinquency rate, at end of period	1.88%	2.39%	3.25%
REO inventory, at end of period (number of properties)	25,768	47,307	49,071
Single-family credit losses, in bps	23.4	28.8	68.3
Market:			
Single-family mortgage debt outstanding (total U.S. market, in billions)[6]	$9,855	$9,887	$9,983

(1) Includes interest expense associated with our STACR debt notes that we began issuing in July 2013.

(2) Includes conversions of previously issued other guarantee commitments into Freddie Mac mortgage-related securities.

(3) Calculated based on principal repayments relating to loans underlying Freddie Mac mortgage-related securities and other guarantee commitments, including those related to our removal of seriously delinquent and modified

mortgage loans and balloon/reset mortgage loans from PC pools. Also includes terminations of other guarantee commitments.

(4) Calculated based on the contractual management and guarantee fee rate as well as amortization of delivery and other upfront fees (using the original contractual maturity date of the related loans) for the entire single-family credit guarantee portfolio.

(5) Represents the estimated average rate of management and guarantee fees for new acquisitions during the period assuming amortization of delivery fees using the estimated life of the related loans rather than the original contractual maturity date of the related loans.

(6) Source: Federal Reserve Financial Accounts of the United States of America dated December 11, 2014. The outstanding amounts reflect the balances as of September 30, 2014.

Segment Earnings (loss) for the Single-family Guarantee segment is largely driven by management and guarantee fee income and the (provision) benefit for credit losses. Segment Earnings (loss) for our Single-family Guarantee segment was $1.5 billion in 2014 compared to $5.8 billion in 2013, and $(0.2) billion in 2012. The decline in 2014 compared to 2013 was primarily due to: (a) changes in our provision for credit losses in 2014; and (b) an income tax expense in 2014, compared to an income tax benefit in 2013. The improvement in 2013 compared to 2012 was primarily due to changes in our provision for credit losses in 2013 due to improvements in home prices and counterparty settlements for representation and warranty violations.

We maintain a consistent market presence by providing lenders with a constant source of liquidity for conforming mortgage products. Issuances of our guarantees were $260 billion and $435 billion in 2014 and 2013, respectively. Origination volumes in the U.S. residential mortgage market declined significantly during 2014 compared to 2013, driven by a significant decline in the volume of refinance mortgages. We attribute this decline to higher average mortgage interest rates in 2014 compared to 2013. Many borrowers have already refinanced their loans in recent years at relatively low interest rates, and thus may be less likely to do so in the future.

The UPB of the single-family credit guarantee portfolio was $1.7 trillion at both December 31, 2014 and 2013. Our purchase activity in 2014 declined to $255.3 billion in UPB compared to $422.7 billion in UPB during 2013 and $426.8 billion during 2012. The liquidation rate on our single-family credit guarantees also declined to approximately 15% in 2014 compared to 28% in 2013 and 33% in 2012. At December 31, 2014 and 2013, there were approximately 10.6 million and 10.7 million loans, respectively, in our single-family credit guarantee portfolio, including 2.1 million and 2.0 million relief refinance mortgages, respectively. The average UPB of loans in our single-family credit guarantee portfolio was approximately $156,000 and $155,000 at December 31, 2014 and 2013, respectively.

We refer to single-family loans we acquired beginning in 2009, excluding HARP and other relief refinance mortgages, as our New single-family book. We do not include HARP and other relief refinance mortgages in our New single-family book, since underwriting procedures for these mortgages are limited, and as a result, we believe that, in many cases, these mortgages generally reflect many of the credit risk attributes of the original loans (many of which were originated between 2005 and 2008).

Our New single-family book continues to represent an increasing share of our overall single-family credit guarantee portfolio and comprised 60% of this portfolio as of December 31, 2014. The serious delinquency rate for the New single-family book was 0.24% as of December 31, 2014 and its credit losses were $97 million in 2014. As of December 31, 2014, loans originated after 2008 have, on a cumulative basis, provided management and guarantee income that has exceeded the credit-related and administrative expenses associated with these loans. We expect these loans to continue to provide management and guarantee income that exceeds credit-related and administrative expenses over the long term, in aggregate. For more information on the composition of our single-family credit guarantee portfolio, see "Table 43 — Single-Family Credit Guarantee Portfolio Data by Year of Origination."

Segment Earnings management and guarantee income was $5.2 billion in 2014, compared to $4.9 billion in 2013 and $4.4 billion in 2012. The increase in 2014 from 2013 was primarily due to a higher average guarantee fee rate and a higher average balance of the single-family credit guarantee portfolio. The increase in 2013 from 2012 was primarily due to an increase in amortization of buy-down fees (which we began recording in the Single-family Guarantee segment during the fourth quarter of 2012). Segment Earnings management and guarantee income also benefited in 2013 from a higher average guarantee fee rate compared to 2012.

At the direction of FHFA, we implemented two across-the-board increases in guarantee fees in 2012. The average management and guarantee fee we charged for new acquisitions in 2014 was 57.4 basis points, compared to 51.4 basis points in 2013. The guarantee fee we charge on new acquisitions generally consists of a combination of up front delivery fees and a base monthly fee. The higher average guarantee fees charged on new acquisitions in 2014 were primarily due to higher levels of home purchase loans combined with a change in the characteristics of the mortgages we purchased in 2014, including loans with higher LTV ratios and borrowers with lower average credit scores than in 2013. The average Segment Earnings management and guarantee income was 31.2 basis points in 2014 and 30.0 basis points in 2013. The difference between the average guarantee fee charged on new acquisitions and the average Segment Earnings management and guarantee income, in basis points, reflects different methodologies for recognizing up-front delivery fee income. The average guarantee fee rate charged on new acquisitions recognizes up-front delivery fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations, whereas the Segment Earnings rate recognizes these amounts over the contractual life of the related loans (usually 30 years). In addition, the average Segment Earnings management and guarantee income reflects an average of our total mortgage portfolio and is not limited to 2014 purchases. Loans acquired prior to 2012 have lower contractual management and guarantee fee rates than loans we acquired in 2014 and 2013. We seek to issue guarantees with fee terms that we believe are commensurate with the risks assumed and that will, over the long-term: (a) provide management and guarantee fee income that, in aggregate, exceeds our anticipated credit-related and administrative expenses on the single-family credit guarantee portfolio; and (b) provide a return on the capital that would be needed to support the related credit risk.

Our Segment Earnings management and guarantee fee income is influenced by our PC price performance because we adjust our fees based on the relative price performance of our PCs compared to comparable Fannie Mae securities. A decline in this price performance could adversely affect our segment financial results. See "RISK FACTORS — Competitive and Market 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 K Certificates" for additional information.

We met the 2014 Conservatorship Scorecard goal for us to complete credit risk transfer transactions for at least $90 billion in UPB using at least one transaction type in addition to STACR debt note transactions. In 2014, we executed ten transactions that transfer a portion of the mezzanine credit loss position on certain groups of loans in our New single-family book from us to third-party investors. The transactions consisted of: (a) seven STACR debt note transactions; and (b) three ACIS transactions. These transactions transferred a portion of the credit losses that could occur under adverse home price scenarios associated with $147.5 billion in principal of loans in our New single-family book. The 2015 Conservatorship Scorecard sets a goal for us to complete credit risk transfer transactions for at least $120 billion in UPB using at least two transaction types. We will continue to seek to expand and refine our offerings of credit risk transfer transactions in the future. For more information, see "BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Credit Enhancements" and "RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Transferring a Portion of our Mortgage Credit Risk."

Segment Earnings (provision) benefit for credit losses for the Single-family Guarantee segment was $(1.0) billion, $1.4 billion, and $(3.2) billion in 2014, 2013, and 2012, respectively. The provision for credit losses in 2014 reflects an increase in our loan loss reserve for newly impaired single-family loans. The (provision) benefit for credit losses in 2013 and 2012 reflect: (a) declines in the volume of newly delinquent single-family loans; and (b) lower estimates of incurred losses due to the positive effect of an increase in national home prices. The benefit for credit losses in 2013 also reflects $1.7 billion 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 books. Assuming that all other factors remain the same, an increase in home prices may reduce the likelihood that loans will default and may also reduce the amount of credit losses on the loans that do default.

Segment Earnings other non-interest income was $0.7 billion in 2014, compared to $1.2 billion in 2013 and $0.9 billion in 2012. Other non-interest income includes resecuritization fees, compensatory fees assessed on servicers that failed to meet foreclosure timelines and gains or losses related to certain assets that are carried at fair value. The decrease in 2014 was primarily due to losses in 2014 on certain assets carried at fair value due to a decline in interest rates during the year, compared to gains on certain of these assets in 2013 due to an increase in interest rates during that year. In 2014, we also charged fewer compensatory fees to servicers that failed to meet our loan foreclosure timelines. The increase in 2013 from 2012 was primarily due to higher compensatory fees assessed on servicers that failed to meet our loan foreclosure timelines.

The serious delinquency rate on our single-family credit guarantee portfolio was 1.88%, 2.39%, and 3.25% at December 31, 2014, 2013, and 2012, respectively. In 2014, our serious delinquency rate continued the decline that began in 2010, primarily due to lower volumes of single-family loans becoming seriously delinquent and continued loss mitigation and foreclosure activities for loans in the Legacy single-family books. Our loss mitigation efforts in 2014 included the sale of certain seriously delinquent unsecuritized single-family loans (with an aggregate UPB of $0.6 billion) in a pilot transaction completed in the third quarter of 2014. In January 2015, we received FHFA approval to execute additional such sales, which would further reduce our serious delinquency rate. For more information on this transaction, see "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES."

Charge-offs, net of recoveries, associated with single-family loans were $3.7 billion, $4.9 billion, and $11.6 billion in 2014, 2013, and 2012, respectively. Our recoveries in 2014, 2013, and 2012 included approximately $0.5 billion, $2.8 billion, and $0.7 billion, respectively, related to repurchase requests made to our seller/servicers (including amounts related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments). See "RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile" and "(Provision) Benefit for Credit Losses" for further information on our single-family credit guarantee portfolio, including credit performance, serious delinquency rates, charge-offs, REO assets and non-accrual loans.

Administrative expense for the Single-family Guarantee segment increased 14% and 15% in 2014 and 2013, respectively, compared to the level in the prior year. These increases result, in part, from our efforts to meet

Conservatorship Scorecard initiatives, including development of the common securitization platform, as well as other infrastructure improvement projects. We expect this trend to continue in 2015.

REO operations (expense) income for the Single-family Guarantee segment was $(205) million in 2014, compared to $124 million in 2013 and $(62) million in 2012. The change from REO operations income in 2013 to REO operations expense in 2014 was primarily due to lower gains on the disposition of REO properties associated with a lower volume of REO sales. The improvement in 2013 compared to 2012 was primarily due to: (a) a decline in REO property expenses associated with a lower number of REO properties; and (b) improving home prices in certain geographic areas with significant REO activity.

Our single-family REO inventory (measured in number of properties) declined 46% and 4% in 2014 and 2013, respectively. Our REO acquisition activity has declined in recent periods as a result of: (a) our loss mitigation efforts; (b) a larger proportion of property sales to third parties at foreclosure; and (c) a declining number of new seriously delinquent loans. See “RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile —

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Managing REO Activities" and "CONSOLIDATED BALANCE SHEET ANALYSIS — REO, Net" for additional information about our REO activity.

Expenses related to the legislated 10 basis point increase in guarantee fees were $775 million, $533 million, and $108 million in 2014, 2013, and 2012, respectively. We recognized a similar amount of associated management and guarantee income in each period. As of December 31, 2014, loans with an aggregate UPB of $866.7 billion were subject to these fees, and the cumulative total of the amounts paid and due to Treasury was $1.4 billion.

Segment Earnings income tax (expense) benefit for the Single-family Guarantee segment was $(600) million, $282 million, and $8 million in 2014, 2013, and 2012, respectively. The income tax benefit in 2013 resulted from the release of the valuation allowance on our deferred tax asset.

Investments

The table below presents the Segment Earnings of our Investments segment. In the first quarter of 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. Prior period results have been revised to conform with the current period presentation. For additional information about this change, see "NOTE 13: SEGMENT REPORTING — Segment Earnings" and "Table 13.2 — Segment Earnings and Reconciliation to GAAP Results."

Table 23 — Segment Earnings and Key Metrics — Investments

	Year Ended December 31,		
	2014	2013	2012
	(dollars in millions)		
Segment Earnings:			
Net interest income	$2,966	$3,525	$5,726
Non-interest income (loss):			
Net impairment of available-for-sale securities recognized in earnings	(140)	(974)	(1,831)
Derivative gains (losses)	(5,158)	5,543	1,034
Gains (losses) on trading securities	(276)	(1,466)	(1,794)
Non-agency mortgage-related securities settlements	6,084	5,501	—
Other non-interest income	2,797	3,401	2,719
Total non-interest income (loss)	3,307	12,005	128
Non-interest expense:			
Administrative expense	(437)	(523)	(430)
Other non-interest expense (income)	(6)	349	(1)
Total non-interest expense	(443)	(174)	(431)
Segment adjustments	635	1,037	799
Segment Earnings before income tax (expense) benefit	6,465	16,393	6,222
Income tax (expense) benefit	(1,945)	(463)	1,145
Segment Earnings, net of taxes	4,520	15,930	7,367
Total other comprehensive income, net of taxes	1,951	4,357	4,030
Comprehensive income	$6,471	$20,287	$11,397
Key metrics:			
Portfolio balances:			
Average balances of interest-earning assets (based on amortized cost):			
Mortgage-related securities(1)	$235,847	$278,200	$308,698
Non-mortgage-related investments(2)	63,408	97,070	98,176
Single-family unsecuritized performing loans	83,023	88,827	97,951
Total average balances of interest-earning assets	$382,278	$464,097	$504,825
Return:			
Net interest yield — Segment Earnings basis	0.78 %	0.76 %	1.13 %

(1) Includes our investments in single-family PCs and certain Other Guarantee Transactions, which are consolidated under GAAP on our consolidated balance sheets.

(2) Includes the average balances of interest-earning cash and cash equivalents, non-mortgage-related securities, and federal funds sold and securities purchased under agreements to resell.

2014 vs. 2013

Comprehensive income for our Investments segment decreased by $13.8 billion to $6.5 billion in 2014 compared to $20.3 billion in 2013. The drivers of comprehensive income primarily consist of: (a) net interest income generated on our investments; (b) settlement income associated with our investments in non-agency mortgage-related securities; (c) derivative- and investments-related fair value gains and losses; and (d) income taxes.

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Segment Earnings for our Investments segment decreased by $11.4 billion to $4.5 billion in 2014 compared to $15.9 billion in 2013. The decrease in Segment Earnings in 2014 compared to 2013 was primarily due to: (a) derivative-related fair value losses recorded during 2014 compared to gains in 2013; and (b) an entire year of tax expense in 2014 compared to a partial year of tax expense following the release of the valuation allowance against our deferred tax assets in the second half of 2013.

During 2014, the UPB of the Investments segment mortgage investments portfolio decreased by 9%. We held $174.6 billion and $182.1 billion of agency securities, $44.2 billion and $64.5 billion of non-agency mortgage-related securities, and $82.8 billion and $84.4 billion of single-family unsecuritized mortgage loans at December 31, 2014 and 2013, respectively. The decline in UPB of agency securities was due mainly to liquidations. The decline in UPB of non-agency mortgage-related securities was due mainly to liquidations and sales consistent with our efforts to reduce the amount of less liquid assets. The decline in the UPB of single-family unsecuritized mortgage loans was primarily related to borrower remittances and prepayments of mortgage loans, and the securitization of mortgage loans that we had purchased for cash (including the securitization of reperforming loans and modified loans). See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities" and "— Mortgage Loans" for additional information regarding our mortgage-related securities and mortgage loans.

Segment Earnings net interest income was $3.0 billion in 2014 compared to $3.5 billion in 2013. The decline in net interest income resulted from continued reduction in the balance of mortgage-related assets.

Segment Earnings non-interest income (loss) was $3.3 billion in 2014 compared to $12.0 billion in 2013. The decline during 2014 was primarily due to derivative-related fair value losses recorded during 2014 compared to derivative-related fair value gains recorded during 2013.

Segment Earnings non-interest income includes income from settlements associated with our investments in certain non-agency mortgage-related securities of $6.1 billion in 2014 compared to $5.5 billion during 2013. For information on the settlements in 2014, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers."

We incurred derivative gains (losses) for this segment of $(5.2) billion during 2014 compared to $5.5 billion during 2013. The change to losses was primarily a result of the impact of a flattening of the yield curve as shorter-term interest rates increased and longer-term interest rates declined during 2014, compared to an increase in longer-term interest rates during 2013. See "Non-Interest Income (Loss) — Derivative Gains (Losses)" for additional information on our derivatives.

Our Investments segment's other comprehensive income was $2.0 billion during 2014 compared to $4.4 billion during 2013. The decrease in other comprehensive income during 2014 compared to 2013 was primarily due to lower fair value gains on our non-agency mortgage-related securities as spreads tightened less during 2014 compared to 2013, partially offset by lower fair value losses on agency securities as interest rates decreased in 2014. Other comprehensive income in all periods also reflects the reversals of: (a) unrealized losses due to the recognition of other-than-temporary impairments in earnings; and (b) unrealized gains and losses related to available-for-sale securities sold during the respective period.

2013 vs. 2012

Comprehensive income for our Investments segment increased by $8.9 billion to $20.3 billion in 2013 compared to $11.4 billion in 2012, primarily due to higher Segment Earnings.

Segment Earnings for our Investments segment increased by $8.6 billion to $15.9 billion in 2013 compared to $7.4 billion in 2012, primarily due to derivative-related gains in 2013.

During 2013, the UPB of the Investments segment mortgage investments portfolio decreased by 12%. We held $182.1 billion and $208.1 billion of agency securities, $64.5 billion and $76.5 billion of non-agency mortgage-related securities, and $84.4 billion and $91.4 billion of single-family unsecuritized mortgage loans at December 31, 2013 and 2012, respectively. The decline in UPB of agency securities was due mainly to liquidations. The decline in UPB of non-agency mortgage-related securities was due mainly to liquidations and sales. The decline in the UPB of single-family unsecuritized mortgage loans was primarily related to prepayments of mortgage loans held and the securitization of mortgage loans that we had purchased for cash, and includes the securitization of reperforming loans and modified loans, partially offset by the addition of newly performing loans from the Single-family Guarantee segment.

Segment Earnings net interest income decreased by $2.2 billion and Segment Earnings net interest yield decreased by 37 basis points during 2013 compared to 2012. The primary drivers of the decreases were the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations coupled with purchases at lower yields. These factors were partially offset by lower funding costs primarily due to the replacement of debt at lower rates.

Segment Earnings non-interest income was $12.0 billion in 2013 compared to $128 million in 2012. The improvement was primarily due to increases in other non-interest income and derivative gains and a decrease in net impairments of available-for-sale securities recognized in earnings, partially offset by losses on mortgage loans.

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We incurred derivative gains for this segment of $5.5 billion during 2013 compared to $1.0 billion during 2012. The increase in derivative gains was primarily due to an increase in longer-term interest rates during 2013, compared to a decrease in longer-term interest rates during 2012, coupled with a change in the mix of our derivatives. See "Non-Interest Income (Loss) — Derivative Gains (Losses)" for additional information on our derivatives.
Income from settlements associated with our investments in certain non-agency mortgage-related securities was $5.5 billion in 2013 compared to $0 million during 2012.
Net impairment of available-for-sale securities recognized in earnings in our Investments segment was $1.0 billion during 2013 compared to $1.8 billion during 2012. The decrease in net impairments was primarily due to improvements in forecasted home prices over the expected life of the available-for-sale securities during 2013. During 2013, benefits from improvements in forecasted home prices were offset primarily by the impact of two changes: (a) the incorporation in the fourth quarter of 2013 of new information, which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing non-agency mortgage-related securities for which actual data about those terms was unavailable to the market; and (b) an increase in the population of available-for-sale securities in an unrealized loss position which we intend to sell. In the fourth quarter of 2012, we implemented the use of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities. The decision to transition to a third-party model was made to increase the level of disaggregation for certain assumptions used in projecting cash flow estimates of these securities. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities — Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities," as well as "NOTE 7: INVESTMENTS IN SECURITIES" for additional information on our impairments.
Our Investments segment's other comprehensive income was $4.4 billion during 2013 compared to $4.0 billion during 2012. The increase in other comprehensive income was primarily due to higher fair values on our single-family non-agency mortgage-related securities, as these securities were affected by spread tightening in 2013, partially offset by losses on our agency mortgage-related securities resulting from the increase in longer-term interest rates.
For a discussion of items that have affected our Investments segment net interest income over time, and can be expected to continue to do so, see "BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio."

Multifamily

The table below presents the Segment Earnings of our Multifamily segment. In the first quarter of 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. Prior period results have been revised to conform with the current period presentation. For additional information about this change, see "NOTE 13: SEGMENT REPORTING — Segment Earnings" and "Table 13.2 — Segment Earnings and Reconciliation to GAAP Results."

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Table 24 — Segment Earnings and Key Metrics — Multifamily

	Year Ended December 31,		
	2014	2013	2012
	(dollars in millions)		
Segment Earnings:			
Net interest income	$948	$1,186	$1,291
Benefit for credit losses	55	218	123
Non-interest income:			
Management and guarantee income	254	206	151
Gains (losses) on mortgage loans	870	(336)	1,010
Derivative gains	335	1,281	943
Other non-interest income	234	1,203	294
Total non-interest income	1,693	2,354	2,398
Non-interest expense:			
Administrative expense	(274)	(257)	(241)
REO operations income	9	16	3
Other non-interest expense	(23)	(24)	(129)
Total non-interest expense	(288)	(265)	(367)
Segment Earnings before income tax expense	2,408	3,493	3,445
Income tax expense	(772)	(443)	(454)
Segment Earnings, net of taxes	1,636	3,050	2,991
Total other comprehensive income (loss), net of taxes	(177)	(1,595)	1,090
Total comprehensive income	$1,459	$1,455	$4,081
Key metrics:			
New Business Activity:			
Multifamily new business activity	$28,336	$25,872	$28,774
Multifamily units financed from new business activity	413,367	387,940	435,653
Securitization Activity:(1)			
Multifamily securitization transactions — guaranteed portion	$19,219	$24,554	$17,922
Multifamily securitization transactions — unguaranteed portion(2)	$3,152	$4,588	$3,281
Average subordination, at issuance	14.1%	15.7%	15.5%
K Certificate guarantees:			
Average guarantee fee rate, in bps	21.0	19.7	19.0
Average K Certificate guaranteed UPB	$67,025	$49,197	$28,154
Credit:			
Multifamily mortgage portfolio delinquency rate (at period end):			
K Certificates	0.01%	0.07%	0.07%
All other	0.07%	0.11%	0.25%
Total	0.04%	0.09%	0.19%
REO inventory, at period end (number of properties)	—	1	6

(1) Consists primarily of K Certificate transactions.
(2) Represents subordinated securities (i.e., CMBS), which are not issued or guaranteed by us.

Comprehensive income for our Multifamily segment was $1.5 billion for both 2014 and 2013, and $4.1 billion in 2012. Comprehensive income for the segment consists of Segment Earnings and other comprehensive income or loss. Total other comprehensive loss of $0.2 billion recognized in 2014 for our Multifamily segment was primarily due to fair value losses on available-for-sale securities. Total other comprehensive loss of $1.6 billion recognized in 2013 for our Multifamily segment was primarily related to the realization of fair value gains (recognized in Segment Earnings other non-interest income) that were previously deferred in AOCI associated with certain available-for-sale securities

that were sold during 2013.
Segment Earnings for our Multifamily segment was $1.6 billion in 2014, compared to $3.1 billion in 2013 and $3.0 billion in 2012. The decline in 2014 compared to 2013 was primarily due to decreased net interest income, a lower benefit for credit losses and lower non-interest income. Segment Earnings for our Multifamily segment remained relatively unchanged in 2013 compared to 2012.
In 2014, we continued to provide liquidity to the multifamily market and support affordable rental housing by acquiring and securitizing multifamily mortgages. Our total new business activity increased from $25.9 billion in 2013 to $28.3 billion in 2014. In order to expand liquidity and affordable housing in the multifamily mortgage market, we began purchasing mortgage loans of manufactured housing communities as well as smaller balance loans in 2014. Over 90% of the loans purchased in 2014

were designated for securitization, and we continue to pursue strategies to transfer credit risk for loans that are not designated for securitization. We sold $21.3 billion in UPB of multifamily loans in 2014 primarily through K Certificate transactions, compared to $28.3 billion in 2013.

We met our 2014 Conservatorship Scorecard goal of maintaining the dollar volume of new multifamily business activity at or below the 2013 cap of $25.9 billion in UPB. For purposes of determining our performance under the goal, we exclude business activity associated with certain targeted loan types (i.e., affordable housing loans, loans for smaller multifamily properties, and loans for manufactured housing rental communities). The 2015 Conservatorship Scorecard set a goal for us to maintain new multifamily business activity (excluding the targeted loan types) at or below $30.0 billion in UPB.

The UPB of the total multifamily portfolio increased to $169.3 billion as of December 31, 2014 from $166.8 billion as of December 31, 2013, primarily due to an increase in our guarantee portfolio, partially offset by liquidations of our legacy portfolio. The percentage of our total multifamily mortgage portfolio protected by subordination increased from 48% at December 31, 2013 to 56% at December 31, 2014. The average subordination level at issuance of our multifamily securitizations for 2014 and 2013 was 14.1% and 15.7%, respectively. This subordination is primarily provided by the unguaranteed securities sold to third parties in K Certificate transactions, which absorb first losses.

Segment Earnings net interest income was $0.9 billion in 2014 compared to $1.2 billion in 2013 and $1.3 billion in 2012. The declines in both 2014 and 2013 were primarily due to lower average balances of the multifamily unsecuritized loan and investment securities portfolios.

Segment Earnings non-interest income was $1.7 billion in 2014 compared to $2.4 billion in both 2013 and 2012. Lower gains on derivatives used to economically hedge our CMBS in 2014 were substantially offset by favorable changes in market value of the assets they hedged. Segment Earnings other non-interest income was higher in 2013 than both 2014 and 2012, primarily due to significant sales of investment securities (primarily CMBS) in 2013. We sold $2.6 billion in UPB of investment securities in 2014 compared to $13.6 billion in UPB during 2013. Segment Earnings non-interest income remained relatively unchanged in 2013 compared to 2012, as higher gains on sales of available-for-sale securities were offset by lower gains on mortgage loans.

Derivative gains (losses) for the Multifamily segment are offset by fair value changes of the corresponding assets that the derivatives economically hedge. The fair value changes of these hedged assets are included in gains (losses) on mortgage loans, other non-interest income and total other comprehensive income. As a result, there is no net impact on total comprehensive income for the Multifamily segment from interest rate-related derivatives.

Segment Earnings management and guarantee income increased to $254 million in 2014, compared to $206 million in 2013, and $151 million in 2012. The increase in both 2014 and 2013, compared to the preceding year, was primarily due to the higher average balance of the multifamily guarantee portfolio, which was primarily due to ongoing issuances of K Certificates. Our guarantees of K Certificates have lower fees than our other multifamily guarantee activities as a result of our limited credit risk exposure due to the use of subordination.

Segment Earnings benefit for credit losses was $55 million, $218 million, and $123 million in 2014, 2013, and 2012, respectively. The recognition of a benefit for credit losses in these periods was primarily due to continued improvement in the expected performance of the underlying loans.

As a result of our prudent underwriting standards and practices, and the continued solid multifamily market fundamentals, we believe that the credit quality of the multifamily mortgage portfolio remains strong. Multifamily credit losses (gains) as a percentage of the combined average balance of our multifamily loan and guarantee portfolios were (0.5) basis points, 0.9 basis points, and 2.8 basis points in 2014, 2013, and 2012, respectively, and our delinquency rate of 0.04% as of December 31, 2014 continues to be among the industry's lowest. See "RISK MANAGEMENT — Credit Risk Overview — Multifamily Mortgage Credit Risk Profile" for further information about the credit performance, including delinquency rates, of our multifamily mortgage portfolio.

CONSOLIDATED BALANCE SHEETS ANALYSIS

You should read this discussion of our consolidated balance sheets in conjunction with our consolidated financial statements, including the accompanying notes. Also, see "CRITICAL ACCOUNTING POLICIES AND ESTIMATES" for information concerning certain significant accounting policies and estimates applied in determining our reported financial position.

Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell

Cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, and other liquid assets discussed in “Investments in Securities — Non-Mortgage-Related Securities,” are important to our cash flow and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. We use these assets to help manage recurring cash flows and meet our other cash management needs. Securities purchased under agreements to resell principally consist of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities.

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The short-term assets on our consolidated balance sheets also include those related to our consolidated VIEs, which consisted primarily of restricted cash and cash equivalents and securities purchased under agreements to resell at December 31, 2014. These assets related to our consolidated VIEs increased by $6.7 billion from December 31, 2013 to December 31, 2014. Our consolidated VIEs include the trusts that issue our single-family PCs. The short-term assets held by these trusts primarily relate to payments of principal and interest received on the loans underlying the PCs that are held pending distribution to the investors in those PCs.

Excluding amounts related to our consolidated VIEs, we held $10.9 billion and $11.3 billion of cash and cash equivalents (including non-interest bearing deposits of $6.5 billion and $7.2 billion at the Federal Reserve Bank of New York), no federal funds sold, and $38.4 billion and $59.2 billion of securities purchased under agreements to resell at December 31, 2014 and 2013, respectively. The decrease in these liquid assets at December 31, 2014 compared to December 31, 2013 was due in part to the increase in the U.S. statutory debt limit in 2014, abating concerns that the U.S. would exhaust its borrowing authority.

Excluding amounts related to our consolidated VIEs, we held on average $11.0 billion and $11.6 billion of cash and cash equivalents and $30.1 billion and $29.5 billion of federal funds sold and securities purchased under agreements to resell during the three and twelve months ended December 31, 2014, respectively. In recent periods, our use of federal funds sold transactions has been minimal.

For information regarding our liquidity management practices and policies, see “LIQUIDITY AND CAPITAL RESOURCES.”

Investments in Securities

The two tables below provide detail regarding our investments in securities. The tables do not include our holdings of single-family PCs and certain Other Guarantee Transactions. For information on our holdings of such securities, see “Table 21 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.”

Table 25 — Investments in Available-For-Sale Securities

	December 31, 2014 Amortized Cost (in millions)	Fair Value	2013 Amortized Cost	Fair Value	2012 Amortized Cost	Fair Value
Available-for-sale mortgage-related securities:						
Freddie Mac	$37,710	$39,099	$39,001	$40,659	$53,965	$58,515
Fannie Mae	10,860	11,313	10,140	10,797	14,183	15,280
Ginnie Mae	183	199	149	167	183	209
CMBS	20,988	21,822	29,151	30,338	47,606	51,307
Subprime	20,210	20,589	29,897	27,499	35,503	26,457
Option ARM	5,460	5,649	6,617	6,574	7,454	5,717
Alt-A and other	4,500	5,043	8,322	8,706	11,861	10,904
Obligations of states and political subdivisions	2,166	2,198	3,533	3,495	5,647	5,798
Manufactured housing	556	638	629	684	716	709
Total investments in available-for-sale mortgage-related securities	$102,633	$106,550	$127,439	$128,919	$177,118	$174,896

Table 26 — Investments in Trading Securities

	December 31, 2014 (in millions)	2013	2012
Trading mortgage-related securities:			
Freddie Mac	$17,469	$9,349	$10,354

Fannie Mae	6,099	7,180	10,338
Ginnie Mae	16	98	131
Other	171	141	156
Total trading mortgage-related securities	23,755	16,768	20,979
Trading non-mortgage-related securities:			
Asset-backed securities	—	—	292
U.S. Treasury securities	6,682	6,636	20,221
Total trading non-mortgage-related securities	6,682	6,636	20,513
Total fair value of investments in trading securities	$30,437	$23,404	$41,492

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Non-Mortgage-Related Securities

Our investments in non-mortgage-related securities provide an additional source of liquidity. We held investments in non-mortgage-related securities with a fair value of $6.7 billion and $6.6 billion as of December 31, 2014 and 2013, respectively. For more information on liquid assets, see "Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell."

Mortgage-Related Securities

Our investments in mortgage-related securities consist of securities issued by Fannie Mae, Ginnie Mae, other financial institutions, and our own mortgage-related securities. When we purchase certain REMICs and Other Structured Securities and certain Other Guarantee Transactions, we account for these securities as investments in debt securities as we are investing in the debt securities of a non-consolidated entity. We do not consolidate our resecuritization trusts unless we are deemed to be the primary beneficiary of such trusts. We are subject to the credit risk associated with the mortgage loans underlying our Freddie Mac mortgage-related securities. Mortgage loans underlying our issued single-family PCs and certain Other Guarantee Transactions are recognized on our consolidated balance sheets as held-for-investment mortgage loans, at amortized cost. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Investments in Securities” for further information.

The table below provides information regarding our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets, based on UPB. The table does not include our holdings of our own single-family PCs and certain Other Guarantee Transactions. For information on our holdings of such securities, see “Table 21 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.”

Table 27 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	December 31, 2014			December 31, 2013		
	Fixed Rate	Variable Rate(1)	Total	Fixed Rate	Variable Rate(1)	Total
	(in millions)					
Freddie Mac mortgage-related securities:						
Single-family	$41,340	$6,552	$47,892	$38,472	$4,401	$42,873
Multifamily	1,897	1,429	3,326	1,318	1,469	2,787
Total Freddie Mac mortgage-related securities	43,237	7,981	51,218	39,790	5,870	45,660
Non-Freddie Mac mortgage-related securities:						
Agency securities:(2)						
Fannie Mae:						
Single-family	6,852	9,303	16,155	7,240	9,421	16,661
Multifamily	—	—	—	3	—	3
Ginnie Mae:						
Single-family	119	67	186	150	78	228
Multifamily	12	—	12	15	—	15
Total Non-Freddie Mac agency securities	6,983	9,370	16,353	7,408	9,499	16,907
Non-agency mortgage-related securities:						
Single-family:(3)						
Subprime	11	27,675	27,686	116	39,583	39,699
Option ARM	—	8,287	8,287	—	10,426	10,426
Alt-A and other	955	5,035	5,990	1,417	9,594	11,011
CMBS(3)	9,326	11,886	21,212	13,069	16,254	29,323
Obligations of states and political subdivisions(4)	2,157	12	2,169	3,524	14	3,538
Manufactured housing	521	183	704	577	201	778
Total non-agency mortgage-related securities	12,970	53,078	66,048	18,703	76,072	94,775
Total UPB of mortgage-related securities	$63,190	$70,429	133,619	$65,901	$91,441	157,342
Premiums, discounts, deferred fees, impairments of UPB and other basis adjustments			(8,187)			(14,036)

Net unrealized gains (losses) on mortgage-related securities, pre-tax	4,873	2,381
Total carrying value of mortgage-related securities	$130,305	$145,687

(1) Variable-rate mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or subject to change based on changes in the composition of the underlying collateral.

(2) Agency securities are generally not separately rated by nationally recognized statistical rating organizations, but have historically been viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

(3) For information about how these securities are rated, see ''Table 32 — Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS.''

(4) Consists of housing revenue bonds. Approximately 31% and 28% of these securities held at December 31, 2014 and 2013, respectively, were AAA-rated as of those dates, based on the UPB and the lowest rating available.

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The table below provides the UPB and fair value of our investments in agency and non-agency mortgage-related securities on our consolidated balance sheets.

Table 28 — Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	December 31, 2014		December 31, 2013	
	UPB	Fair Value	UPB	Fair Value
	(in millions)			
Agency pass-through securities	$11,289	$12,196	$12,951	$13,867
Other agency securities:				
Interest-only securities	—	2,093	—	1,966
Principal-only securities	2,427	2,086	2,724	2,252
Inverse floating-rate securities[1]	1,156	1,619	1,594	2,280
REMICs and Other Structured Securities	52,699	56,201	45,298	47,885
Total agency securities	67,571	74,195	62,567	68,250
Non-agency securities	66,048	56,110	94,775	77,437
Total mortgage-related securities	$133,619	$130,305	$157,342	$145,687

(1) Represents securities where the holder receives interest cash flows that change inversely with the reference rate (i.e., higher cash flows when reference rates are low and lower cash flows when reference rates are high). Additionally, these securities receive a portion of principal cash flows associated with the underlying collateral.

The total UPB of our investments in mortgage-related securities on our consolidated balance sheets decreased from $157.3 billion at December 31, 2013 to $133.6 billion at December 31, 2014, while the fair value of these investments decreased from $145.7 billion at December 31, 2013 to $130.3 billion at December 31, 2014. The reduction in non-agency mortgage-related securities was due to liquidations and sales, consistent with our efforts to reduce the amount of less liquid assets in our mortgage-related investments portfolio, as described in "BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio."

The table below summarizes the UPB of our mortgage-related securities purchase activity.

Table 29 — Mortgage-Related Securities Purchase Activity

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Non-Freddie Mac mortgage-related securities purchased for resecuritization:			
Ginnie Mae Certificates	$—	$26	$21
Non-Freddie Mac mortgage-related securities purchased as investments in securities:			
Agency securities:			
Fannie Mae:			
Fixed-rate	2,695	4,251	—
Variable-rate	5,005	50	170
Total Fannie Mae	7,700	4,301	170
Ginnie Mae:			
Variable-rate	73	—	—
Total non-Freddie Mac agency securities	7,773	4,301	170
Non-agency mortgage-related securities:			
CMBS:[1]			
Variable-rate	35	—	—
Total non-agency mortgage-related securities	35	—	—
Total non-Freddie Mac mortgage-related securities purchased as investments in securities	7,808	4,301	170
Total non-Freddie Mac mortgage-related securities purchased	$7,808	$4,327	$191

Freddie Mac mortgage-related securities purchased:(2)			
Single-family:			
Fixed-rate	$43,922	$44,760	$13,272
Variable-rate	7,568	296	3,045
Multifamily:			
Fixed-rate	392	—	119
Total Freddie Mac mortgage-related securities purchased	$51,882	$45,056	$16,436

(1) Consists of our purchases of subordinated tranches issued in K Certificate transactions.
(2) Primarily consists of purchases of Freddie Mac mortgage-related securities from third parties.

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Our purchases of Freddie Mac mortgage-related securities during 2014, as reflected in the table above, primarily consisted of purchases of single-family PCs related to our investment activities. Our purchases of single-family PCs and certain Other Guarantee Transactions issued by consolidated trusts are recorded on our consolidated balance sheets as an extinguishment of debt securities of consolidated trusts held by third parties. For more information, see "BUSINESS — Our Business — Our Business Segments — Investments Segment — Market Presence and PC Support Activities" and "RISK FACTORS — Competitive and Market 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 K Certificates."

Unrealized Losses on Available-For-Sale Mortgage-Related Securities

At December 31, 2014, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were $0.9 billion compared to $3.9 billion at December 31, 2013. The decrease was largely the result of fair value gains related to our investments in single-family non-agency mortgage-related securities primarily due to the impact of spread tightening and the movement of these securities with unrealized losses towards maturity. We believe the unrealized losses related to these securities at December 31, 2014 were mainly attributable to poor underlying collateral performance, limited liquidity and risk premiums in the market for residential non-agency mortgage-related securities. All available-for-sale securities in an unrealized loss position are evaluated to determine if the impairment is other-than-temporary. See "Total Equity" and "NOTE 7: INVESTMENTS IN SECURITIES" for additional information regarding unrealized losses on our available-for-sale securities.

Higher-Risk Components of Our Investments in Mortgage-Related Securities

We have exposure to subprime, option ARM, interest only, and Alt-A and other loans as part of our investments in mortgage-related securities as follows:

- Single-family non-agency mortgage-related securities: We hold non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans.
- Single-family Freddie Mac mortgage-related securities: We hold certain Other Guarantee Transactions as part of our investments in securities. There are subprime and option ARM loans underlying some of these Other Guarantee Transactions. For more information on single-family loans with certain higher-risk characteristics underlying our issued securities, see "RISK MANAGEMENT — Mortgage Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Monitoring Loan Performance."

Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. Since the first quarter of 2008, we have not purchased any non-agency mortgage-related securities backed by subprime, option ARM, or Alt-A loans. The table below presents information about our holdings of available-for-sale non-agency mortgage-related securities backed by subprime, option ARM and Alt-A loans.

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Table 30 — Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans and Certain Related Credit Statistics

	As of 12/31/2014	9/30/2014	6/30/2014	3/31/2014	12/31/2013
	(dollars in millions)				
UPB:(1)					
Subprime	$27,682	$30,706	$34,083	$37,958	$39,694
Option ARM	8,287	8,493	9,716	10,197	10,426
Alt-A	4,549	4,995	6,339	7,904	9,147
Gross unrealized losses, pre-tax:					
Subprime	$610	$880	$1,577	$2,037	$2,780
Option ARM	183	223	346	381	381
Alt-A	32	30	59	83	135
Present value of expected future credit losses:(2)(3)					
Subprime	$4,262	$4,568	$4,954	$6,024	$6,400
Option ARM	987	1,161	1,470	1,651	1,802
Alt-A	457	546	785	1,084	1,165
Collateral delinquency rate:(4)					
Subprime	32 %	32 %	33 %	34 %	35 %
Option ARM	27	27	29	31	32
Alt-A	20	20	21	22	22
Average credit enhancement:(5)					
Subprime	9 %	9 %	6 %	7 %	9 %
Option ARM	—	—	(2)	(1)	—
Alt-A	2	2	(1)	(1)	—
Cumulative collateral loss:(6)					
Subprime	32 %	32 %	32 %	31 %	30 %
Option ARM	25	25	25	24	24
Alt-A	15	15	15	15	13

(1) Not affected by settlement amounts we received related to our investments in certain non-agency mortgage-related securities. For more information, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers."

(2) Represents our estimate of the present value of future contractual cash flows that we do not expect to collect, discounted at the effective interest rate determined based on the security's contractual cash flows and the initial acquisition costs. This discount rate is only utilized to analyze the cumulative credit deterioration for securities since acquisition and may be lower than the discount rate used to measure ongoing other-than-temporary impairment to be recognized in earnings for securities that have experienced a significant improvement in expected cash flows since the last recognition of other-than-temporary impairment recognized in earnings.

(3) We regularly evaluate the underlying estimates and models we use when determining the present value of expected future credit losses and update our assumptions to reflect our historical experience and current view of economic factors. As a result, data in different periods may not be comparable.

(4) Determined based on the number of loans that are two monthly payments or more past due that underlie the securities using information obtained from a third-party data provider.

(5) Reflects the ratio of the current principal amount of the securities issued by a trust that will absorb losses in the trust before any losses are allocated to securities that we own. Percentage generally calculated based on: (a) the total UPB of securities subordinate to the securities we own, divided by (b) the total UPB of all of the securities issued by the trust (excluding notional balances). Only includes credit enhancement provided by subordinated

securities; excludes credit enhancement provided by bond insurance. Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment. Average credit enhancements increased at September 30, 2014 primarily due to sales of non-agency mortgage-related securities included as part of a settlement agreement in the third quarter of 2014.

(6) Based on the actual losses incurred on the collateral underlying these securities. Actual losses incurred on the securities that we hold are significantly less than the losses on the underlying collateral as presented in this table, as non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements.

Our estimate of the present value of expected future credit losses on our available-for-sale non-agency mortgage-related securities decreased to $5.8 billion at December 31, 2014 from $6.4 billion at September 30, 2014. All of these amounts have been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decrease in the present value of expected future credit losses on our available-for-sale securities was primarily driven by: (a) sales of non-agency mortgage-related securities; and (b) a decline in interest rates.

The investments we hold in non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements. Bond insurance is an additional credit enhancement covering some of the non-agency mortgage-related securities. These credit enhancements are the primary reason we expect our actual losses, through principal or interest shortfalls, to be less than the underlying collateral losses in the aggregate. In most cases, we continued to experience the

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erosion of structural credit enhancements on securities backed by subprime, option ARM, and Alt-A loans due to poor performance of the underlying collateral. There is also substantial uncertainty surrounding certain bond insurers' ability to pay our future claims on expected credit losses related to our non-agency mortgage-related security investments. For more information, see "NOTE 7: INVESTMENTS IN SECURITIES — Table 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities." For more information on bond insurance coverage, see “RISK MANAGEMENT — Institutional Credit Risk Profile — Bond Insurers.”

Since the beginning of 2007, we have incurred actual principal cash shortfalls of $4.2 billion on impaired available-for-sale non-agency mortgage-related securities, including $76 million and $436 million related to the three and twelve months ended December 31, 2014, respectively. The timing of our recognition of principal cash shortfalls is based on the structure of our investments, as many of the trusts that issued non-agency mortgage-related securities we hold were structured so that realized collateral losses in excess of structural credit enhancements are not passed on to investors until the investment matures.

The table below provides principal repayments, including voluntary repayments, and cash shortfalls for our investments in non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans. Principal cash shortfalls are presented net of amounts received related to insurance recoveries.

Table 31 — Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans

	Three Months Ended				
	12/31/2014	9/30/2014	6/30/2014	3/31/2014	12/31/2013
	(in millions)				
Principal repayments and cash shortfalls:[1]					
Subprime:					
Principal repayments	$770	$845	$877	$889	$1,021
Principal cash shortfalls	2	5	3	(4)	8
Option ARM:					
Principal repayments	$154	$158	$157	$142	$192
Principal cash shortfalls	52	74	93	88	100
Alt-A and other:					
Principal repayments	$199	$225	$285	$247	$324
Principal cash shortfalls	21	25	31	41	43

(1) Not affected by settlement amounts we received related to our investments in certain non-agency mortgage-related securities.

We and FHFA, as Conservator, are involved in various efforts to mitigate or recover our losses as an investor with respect to certain of the non-agency mortgage-related securities we hold. For more information regarding settlements related to some of these securities, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers.”

Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities

We recorded net impairment of available-for-sale securities recognized in earnings of $938 million, $1.5 billion, and $2.2 billion during 2014, 2013, and 2012, respectively. For information about the mortgage-related securities for which we recognized other-than-temporary impairments in earnings, see "Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings." At December 31, 2014, our gross unrealized losses, pretax, on available-for-sale mortgage-related securities were $0.9 billion.

We review our investments in available-for-sale securities that are in an unrealized loss position to determine which securities, if any, we intend to sell, given market conditions and other information as of the balance sheet date. For any available-for-sale security for which we concluded we had the intent to sell as of December 31, 2014, we recorded the unrealized loss as a net impairment of available-for-sale securities recognized in earnings. We determine the population of securities we intend to sell using management judgment based on a variety of factors, including economics and our current operational plans, models and strategies and, in the case of single-family non-agency mortgage-related securities, whether such securities are subject to FHFA-led lawsuits or other loss mitigation measures. The population of securities that we intend to sell may change from period to period. During 2014, 2013, and 2012, net impairment of available-for-sale securities recognized in earnings included $817 million, $568 million, and $0 million, respectively, due to an increase in the population of available-for-sale securities in an unrealized loss position that we intend to sell. This generally reflects our efforts to reduce the balance of less liquid assets in the mortgage-related investments portfolio. We recorded the remaining impairments because of increases in our estimate of the present value of expected future credit losses on certain individual available-for-sale securities. Changes in our operational plans, models or strategies could change the population of securities we intend to sell and thereby have a potentially significant impact on earnings. For more information, see "CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss) — Investment Securities-Related Activities," as well as “NOTE 7: INVESTMENTS IN SECURITIES — Other-Than-Temporary Impairments on Available-for-Sale Securities.”

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While it is reasonably possible that collateral losses on our available-for-sale securities where we have not recorded an impairment charge in earnings could exceed our credit enhancement levels, we do not believe that those conditions were likely at December 31, 2014. As a result, we have concluded that the reduction in fair value of these securities was temporary at December 31, 2014 and have recorded these unrealized losses in AOCI.

The credit performance of loans underlying our holdings of non-agency mortgage-related securities has declined since 2007 and, although it has stabilized in recent periods, it remains weak. This decline has been particularly severe for subprime, option ARM, and Alt-A and other loans. Our investments in non-agency mortgage-related securities have at times been adversely affected by high unemployment, a large inventory of seriously delinquent mortgage loans and unsold homes, tight credit conditions, and weak consumer confidence. In addition, the loans which serve as collateral for the securities we hold have significantly greater concentrations in the states that have undergone the greatest economic stress during the housing crisis that began in 2006, such as California and Florida.

Our assessments concerning other-than-temporary impairment involve the use of models, require significant judgment and are subject to potentially significant change as conditions evolve. In addition, changes in the performance of the individual securities and in mortgage market conditions may also affect our impairment assessments. Depending on the structure of the individual mortgage-related security and our estimate of collateral losses relative to the amount of credit support expected to be available for the tranches we own, a change in collateral loss estimates can have a disproportionate impact on the loss estimate for the security. Servicer performance, loan modification programs and backlogs, and various forms of government intervention in the housing market can significantly affect the performance of these securities, including the timing of loss recognition of the underlying loans and thus the timing of losses we recognize on our securities. Impacts related to changes in interest rates may affect our losses due to the structural credit enhancements on our investments in non-agency mortgage-related securities. The lengthening of the foreclosure timelines that has occurred in recent years can also affect our losses. For example, while defaulted loans remain in the trusts prior to completion of the foreclosure process, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments, rather than absorbing default losses. This may reduce the amount of funds available for the tranches we own. Given the uncertainty and volatility of the economic environment, it is difficult to estimate the future performance of mortgage loans and mortgage-related securities with high assurance, and actual results could differ materially from our expectations. Furthermore, various market participants could arrive at materially different conclusions regarding estimates of future principal cash shortfalls.

For more information on risks associated with the use of models, see “RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties.”

Ratings of Non-Agency Mortgage-Related Securities

The table below shows the ratings of non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans, and CMBS held at December 31, 2014 based on their ratings as of December 31, 2014, as well as those held at December 31, 2013 based on their ratings as of December 31, 2013. Ratings presented represent the lower of S&P, Fitch and Moody's credit ratings, with Fitch and Moody's stated in terms of the S&P equivalent.

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Table 32 — Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS

Credit Ratings as of December 31, 2014	UPB	Percentage of UPB	Amortized Cost	Gross Unrealized Losses	Bond Insurance Coverage[1]
	(dollars in millions)				
Subprime, option ARM, Alt-A and other loans:					
AAA-rated	$21	— %	$20	$—	$7
Other investment grade	1,456	3	1,378	(10)	390
Below investment grade[2]	40,486	97	28,773	(818)	2,349
Total	$41,963	100 %	$30,171	$(828)	$2,746
CMBS:					
AAA-rated	$8,998	42 %	$9,003	$—	$40
Other investment grade	10,512	50	10,459	(11)	1,639
Below investment grade[2]	1,702	8	1,686	(45)	1,546
Total	$21,212	100 %	$21,148	$(56)	$3,225
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$9,019	14 %	$9,023	$—	$47
Other investment grade	11,968	19	11,837	(21)	2,029
Below investment grade[2]	42,188	67	30,459	(863)	3,895
Total	$63,175	100 %	$51,319	$(884)	$5,971
Total investments in mortgage-related securities	$133,619				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	47 %				
Credit Ratings as of December 31, 2013					
Subprime, option ARM, Alt-A and other loans:					
AAA-rated	$114	— %	$110	$(1)	$7
Other investment grade	2,417	4	2,308	(39)	582
Below investment grade[2]	58,605	96	42,420	(3,263)	2,936
Total	$61,136	100 %	$44,838	$(3,303)	$3,525
CMBS:					
AAA-rated	$14,286	49 %	$14,299	$—	$41
Other investment grade	12,786	43	12,740	(131)	1,653
Below investment grade[2]	2,251	8	2,239	(206)	1,557
Total	$29,323	100 %	$29,278	$(337)	$3,251
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$14,400	16 %	$14,409	$(1)	$48
Other investment grade	15,203	17	15,048	(170)	2,235
Below investment grade[2]	60,856	67	44,659	(3,469)	4,493
Total	$90,459	100 %	$74,116	$(3,640)	$6,776
Total investments in mortgage-related securities	$157,342				

Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	57	%

(1) Represents the amount of UPB covered by bond insurance. This amount does not represent the maximum amount of losses we could recover, as the bond insurance also covers interest.
(2) Includes securities with S&P equivalent credit ratings below BBB– and certain securities that are no longer rated.

Mortgage Loans

The UPB of mortgage loans on our consolidated balance sheets was $1.7 trillion at both December 31, 2014 and 2013. Most of the loans on our consolidated balance sheets are securitized (e.g., held in PC trusts). The unsecuritized loans on our consolidated balance sheets generally consist of loans held for investment purposes, loans that are awaiting securitization, or delinquent or modified loans that we removed from PC trusts.

Based on the amount of the recorded investment of single-family loans classified as held-for-investment on our consolidated balance sheets, approximately $31.8 billion, or 1.9%, of these loans were seriously delinquent or in foreclosure as of December 31, 2014, compared to $41.5 billion, or 2.5%, as of December 31, 2013. The majority of these loans are unsecuritized and were removed by us from our PC trusts. As guarantor, we have the right to remove mortgages that back our PCs from the underlying loan pools under certain circumstances. See “NOTE 5: IMPAIRED LOANS” for more information on our removal of single-family loans from PC trusts.

The UPB of unsecuritized single-family mortgage loans declined by $10.6 billion to $111.5 billion at December 31, 2014 from $122.1 billion at December 31, 2013, primarily due to: (a) loan prepayments, foreclosure transfers, and foreclosure alternative activities; (b) securitization of reperforming and modified loans; (c) securitization of loans through our PC cash auction process, net of related purchases; and to a lesser extent (d) sales of seriously delinquent loans. This decline was partially offset by our removal of seriously delinquent single-family loans from PC trusts. As of December 31, 2014 and 2013, the balance of unsecuritized single-family mortgage loans included $82.4 billion and $78.0 billion, respectively, in UPB of mortgage loans classified as TDRs that were no longer seriously delinquent.

The UPB of unsecuritized multifamily mortgage loans was $53.0 billion at December 31, 2014 and $59.2 billion at December 31, 2013. This decline was primarily due to principal repayments and our securitization of loans through K Certificates.

We maintain an allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets. We also maintain a reserve for guarantee losses that is associated with Freddie Mac mortgage-related securities backed by multifamily loans, certain single-family Other Guarantee Transactions, and other guarantee commitments for which we have incremental credit risk. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves. Our loan loss reserves were $21.9 billion and $24.7 billion at December 31, 2014 and 2013, respectively, including $21.8 billion and $24.6 billion, respectively, related to single-family loans. At December 31, 2014 and 2013, our allowance for loan losses, as a percentage of mortgage loans, held-for-investment, on our consolidated balance sheets was 1.3% and 1.4%, respectively. See "CONSOLIDATED RESULTS OF OPERATIONS — (Provision) Benefit for Credit Losses," “RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile,” and “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for information on seriously delinquent single-family loans as well as further detail about the mortgage loans and associated allowance for loan losses recorded on our consolidated balance sheets.

The table below summarizes the principal amount of mortgages we purchased and the amount of guarantees we issued in the applicable periods. The activity presented in the table consists of: (a) mortgage loans in consolidated PCs issued in the period (regardless of whether the PCs are held by us or third parties); (b) single-family and multifamily mortgage loans purchased, but not securitized, in the period; and (c) mortgage loans underlying our mortgage-related financial guarantees issued in the period, which are not consolidated on our balance sheets.

Table 33 — Mortgage Loan Purchases and Other Guarantee Commitment Issuances[1]

	Year Ended December 31,					
	2014		2013		2012	
	Amount	% of Total[2]	Amount	% of Total[2]	Amount	% of Total[2]
	(dollars in millions)					
Mortgage loan purchases and other guarantee commitment issuances:						
Single-family:						
30-year or more amortizing fixed-rate	$192,458	68%	$287,773	63%	$275,632	60%
20-year amortizing fixed-rate	8,677	3	21,658	5	29,614	7
15-year amortizing fixed-rate	38,200	13	97,025	22	103,141	23
Adjustable-rate	15,711	6	16,007	4	18,075	4
FHA/VA and other governmental	207	—	279	—	387	—
Total single-family[3]	255,253	90	422,742	94	426,849	94
Multifamily:						
10-year[4]	11,069	4	14,977	3	16,223	3
7-year[4]	11,773	4	7,393	2	8,045	2
Other[5]	5,494	2	3,502	1	4,506	1
Total multifamily[6]	28,336	10	25,872	6	28,774	6
Total mortgage loan purchases and other guarantee commitment issuances	$283,589	100%	$448,614	100%	$455,623	100%
Percentage of mortgage loan purchases and other guarantee commitment	23%		16%		12%	

issuances with credit enhancements(7)

(1) Excludes the removal of seriously delinquent loans and balloon/reset mortgages from PC trusts. Includes purchases of mortgage loans for securitization that were previously associated with other guarantee commitments.
(2) Within these columns, "—" represents less than 0.5%.
(3) Includes $21.1 billion, $29.0 billion, and $32.6 billion of conforming jumbo loan purchases and $0.3 billion, $1.0 billion, and $0.9 billion of conforming jumbo loans underlying other guarantee commitment issuances for the years ended December 31, 2014, 2013, and 2012, respectively. The UPB of conforming jumbo loans in our single-family credit guarantee portfolio as of December 31, 2014 and 2013 was $79.1 billion and $69.0 billion, respectively. Includes issuances of other guarantee commitments on single-family loans of $2.6 billion, $9.9 billion, and $6.8 billion during the years ended December 31, 2014, 2013, and 2012, respectively.
(4) Includes interest-only and amortizing loans that may either be fixed or adjustable-rate.
(5) Includes other guarantee commitments on multifamily loans and multifamily mortgage loans with original maturities other than 10 years and 7 years.
(6) Includes loans and bonds underlying tax-exempt securitization transactions.

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(7) Excludes credit enhancement coverage occurring subsequent to our purchase or guarantee, such as through STACR debt notes or other risk transfer transactions (e.g., K Certificate transactions).

Our single-family purchase activity declined in 2014 compared to 2013 primarily due to reduced refinancing volume. In 2014, refinancings comprised approximately 48% of our single-family purchase and issuance volume, compared with 73% in 2013. We attribute this decline to higher average mortgage interest rates in 2014 compared to 2013. Many borrowers have already refinanced their loans in recent years at relatively low interest rates, and thus may be less likely to do so in the future.

See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Table 15.2 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio" for information about certain mortgage loans in our single-family credit guarantee portfolio that, we believe, have higher-risk characteristics.

Derivative Assets and Liabilities, Net

The composition of our derivative portfolio changes from period to period as a result of purchases and terminations of derivatives, assignments of derivatives prior to their contractual maturity, and expiration of derivatives at their contractual maturity.

At December 31, 2014, the net fair value of our total derivative portfolio was $(1.1) billion compared to $883 million at December 31, 2013. See "NOTE 9: DERIVATIVES" for information regarding our derivatives, and the notional or contractual amounts and related fair values of our total derivative portfolio by product type at December 31, 2014 and 2013, as well as "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged" for information about derivative collateral held and posted.

See "CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss) — Derivative Gains (Losses)" for a description of gains (losses) on our derivative positions.

REO, Net

We typically acquire properties as a result of borrower defaults (and subsequent foreclosures) on mortgage loans that we own or guarantee. These properties are recorded as REO assets on our consolidated balance sheets. The balance of our REO, net, declined to $2.6 billion at December 31, 2014 from $4.6 billion at December 31, 2013. The volume of our single-family REO acquisitions has been significantly affected by: (a) the length of the foreclosure process, which extends the time it takes for loans to be foreclosed upon and the underlying properties to transition to REO; (b) the volume of our foreclosure alternatives, which result in fewer loans proceeding to foreclosures, and thus fewer properties transitioning to REO; and (c) a large proportion of property sales to third parties at foreclosure. We expect that the length of the foreclosure process will continue to remain above historical levels and may increase further. Additionally, we expect our REO dispositions to remain at elevated levels in the near term, as we have a large REO inventory and a significant number of seriously delinquent loans that are in the process of foreclosure.

The table below provides detail by region for REO activity. Our REO activity consists almost entirely of single-family residential properties.

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Table 34 — REO Activity by Region[(1)]

	December 31, 2014	2013	2012
	(number of properties)		
REO Inventory			
Single-family:			
Inventory, beginning of period	47,307	49,071	60,535
Acquisitions, by region:			
Northeast	7,657	10,023	7,352
Southeast	15,183	23,827	23,906
North Central	10,662	20,834	27,586
Southwest	3,721	6,996	10,197
West	5,042	9,001	13,771
Total single-family acquisitions	42,265	70,681	82,812
Dispositions, by region:			
Northeast	(9,435)	(7,071)	(7,544)
Southeast	(21,969)	(20,956)	(25,803)
North Central	(18,785)	(25,946)	(28,137)
Southwest	(5,905)	(8,395)	(12,134)
West	(7,710)	(10,077)	(20,658)
Total single-family dispositions	(63,804)	(72,445)	(94,276)
Inventory, end of year	25,768	47,307	49,071
Multifamily:			
Inventory, beginning of period	1	6	20
Acquisitions	1	4	6
Dispositions	(2)	(9)	(20)
Inventory, end of year	—	1	6
Total inventory, end of year	25,768	47,308	49,077

(1) See endnote (1) to “Table 16 — Single-Family Charge-offs and Recoveries by Region” for a description of these regions.

See “RISK MANAGEMENT — Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Managing REO Activity” for additional information about our REO management activities.

Deferred Tax Assets

We had a net deferred tax asset of $19.5 billion and $22.7 billion as of December 31, 2014 and 2013, respectively. We determined that a valuation allowance against our net deferred tax asset was not necessary at both December 31, 2014 and 2013. See "NOTE 12: INCOME TAXES" and "CRITICAL ACCOUTING POLICIES AND ESTIMATES — Realizability of Deferred Tax Assets, Net" for additional information.

On a quarterly basis, we determine whether a valuation allowance is necessary on our net deferred tax asset. In doing so, we consider all evidence available, both positive and negative, in determining whether, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. If evidence in future periods changes such that it is more likely than not that part or all of the net deferred tax asset will not be realized, we will reestablish a valuation allowance at that time. Examples of factors that could affect our assessment are: (a) a significant downturn in the housing markets or economy that negatively affects our future financial results; (b) changes to our business operations resulting from enacted legislation; and (c) a change in corporate legal structure that would limit our ability to realize the assets under existing tax laws. A determination that it is appropriate to establish a valuation allowance in the future would result in an additional income tax expense and could require additional draws under the Purchase Agreement.

Other Assets

Other assets consist of accounts and other receivables, the guarantee asset related to non-consolidated trusts and other guarantee commitments, and other miscellaneous assets. Other assets decreased to $7.7 billion as of December 31, 2014 from $8.5 billion as of December 31, 2013 due to a decrease in mortgage insurance and other credit enhancement receivables primarily resulting from decreased REO volume and a decrease in mortgage loans acquired with credit enhancements. For more information on other assets, see “NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS.”

Total Debt, Net

Total debt, net on our consolidated balance sheets consists of: (a) debt securities of consolidated trusts held by third parties; and (b) other debt.

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- PCs and Other Guarantee Transactions issued by our consolidated trusts and held by third parties are recognized as debt securities of consolidated trusts held by third parties on our consolidated balance sheets. Debt securities of consolidated trusts held by third parties represent our liability to third parties that hold beneficial interests in our consolidated trusts. The debt securities of our consolidated trusts may be prepaid at any time, as the loans that collateralize the debt may be prepaid without penalty at any time.
- Other debt consists of unsecured short-term and long-term debt securities we issue to third parties to fund our business activities. It is classified as either short-term or long-term based on the contractual maturity of the debt instrument. See "LIQUIDITY AND CAPITAL RESOURCES" for information about our other debt.

The table below reconciles the par value of other debt and the UPB of debt securities of consolidated trusts held by third parties to the amounts shown in our consolidated balance sheets.

Table 35 — Reconciliation of the Par Value and UPB to Total Debt, Net

	December 31, 2014	2013
	(in millions)	
Total debt:		
Other debt:		
Par value	$454,029	$511,345
Unamortized balance of discounts and premiums	(3,918)	(4,667)
Hedging-related and other basis adjustments	(42)	89
Subtotal	450,069	506,767
Debt securities of consolidated trusts held by third parties:		
UPB	1,440,325	1,399,456
Unamortized balance of discounts and premiums	39,148	34,528
Subtotal	1,479,473	1,433,984
Total debt, net	$1,929,542	$1,940,751

The table below summarizes our other short-term debt.

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Table 36 — Other Short-Term Debt

	2014					
	December 31,		Average Outstanding During the Year			Maximum Carrying Value Outstanding at Any Month End
	Carrying Value	Weighted Average Effective Rate	Carrying Value(1)	Weighted Average Effective Rate		
	(dollars in millions)					
Reference Bills® securities and discount notes	$134,619	0.12 %	$116,388	0.12 %		$ 134,619
Medium-term notes	—	—	750	0.16		4,000
Federal funds purchased and securities sold under agreements to repurchase	—	—	15	0.11		—
Other short-term debt	$134,619	0.12				

	2013				
	December 31,		Average Outstanding During the Year		Maximum Carrying Value Outstanding at Any Month End
	Carrying Value	Weighted Average Effective Rate	Carrying Value(1)	Weighted Average Effective Rate	
	(dollars in millions)				
Reference Bills® securities and discount notes	$137,712	0.13 %	$130,919	0.13 %	$ 140,082
Medium-term notes	4,000	0.16	2,291	0.16	4,000
Federal funds purchased and securities sold under agreements to repurchase	—	—	15	0.16	—
Other short-term debt	$141,712	0.13			

	2012				
	December 31,		Average Outstanding During the Year		Maximum Carrying Value Outstanding at Any Month End
	Carrying Value	Weighted Average Effective Rate	Carrying Value(1)	Weighted Average Effective Rate	
	(dollars in millions)				
Reference Bills® securities and discount notes	$117,889	0.15 %	$126,919	0.14 %	$ 155,285
Medium-term notes	—	—	21	0.44	250
Federal funds purchased and securities sold under agreements to repurchase	—	—	12	0.28	—
Other short-term debt	$117,889	0.15			

(1) Includes issuance costs which are reported within other assets on our consolidated balance sheets.

The table below presents the UPB for Freddie Mac-issued mortgage-related securities by the underlying mortgage product type.

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Table 37 — Freddie Mac Mortgage-Related Securities

	December 31, 2014			December 31, 2013		
	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total
	(in millions)					
PCs and Other Structured Securities:						
Single-family:						
30-year or more amortizing fixed-rate	$1,088,340	$ —	$1,088,340	$1,040,602	$ —	$1,040,602
20-year amortizing fixed-rate	78,603	—	78,603	81,214	—	81,214
15-year amortizing fixed-rate	278,282	—	278,282	291,347	—	291,347
Adjustable-rate(1)	69,683	—	69,683	66,250	—	66,250
Interest-only	23,941	—	23,941	29,083	—	29,083
FHA/VA and other governmental	3,154	—	3,154	3,366	—	3,366
Total single-family	1,542,003	—	1,542,003	1,511,862	—	1,511,862
Multifamily	84	4,846	4,930	—	4,778	4,778
Total single-family and multifamily	1,542,087	4,846	1,546,933	1,511,862	4,778	1,516,640
Other Guarantee Transactions:						
Non-HFA bonds:						
Single-family(2)	7,030	2,760	9,790	8,396	3,079	11,475
Multifamily	440	75,730	76,170	444	59,326	59,770
Total Non-HFA bonds	7,470	78,490	85,960	8,840	62,405	71,245
HFA Initiative Bonds:						
Single-family	—	3,040	3,040	—	3,341	3,341
Multifamily	—	720	720	—	744	744
Total HFA Initiative Bonds	—	3,760	3,760	—	4,085	4,085
Total Other Guarantee Transactions	7,470	82,250	89,720	8,840	66,490	75,330
REMICs and Other Structured Securities backed by Ginnie Mae certificates	—	433	433	—	541	541
Total Freddie Mac Mortgage-Related Securities	$1,549,557	$ 87,529	$1,637,086	$1,520,702	$ 71,809	$1,592,511
Less: Repurchased Freddie Mac Mortgage-Related Securities(3)	(109,232)			(121,246)		
Total UPB of debt securities of consolidated trusts held by third parties	$1,440,325			$1,399,456		

(1) Includes $0.8 billion and $0.9 billion in UPB of option ARM mortgage loans as of December 31, 2014 and 2013, respectively.

(2) Backed by non-agency mortgage-related securities that include prime, FHA/VA, and subprime mortgage loans and also include $4.9 billion and $5.5 billion in UPB of securities backed by option ARM mortgage loans at December 31, 2014 and 2013, respectively.

(3) Our holdings of non-consolidated Freddie Mac mortgage-related securities are presented in “Table 27 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets.”

Excluding Other Guarantee Transactions, the percentage of amortizing fixed-rate single-family loans underlying our consolidated trust debt securities, based on UPB, was approximately 94% at both December 31, 2014 and 2013. The UPB of multifamily Other Guarantee Transactions, excluding HFA initiative-related bonds, increased to $76.2 billion as of December 31, 2014 from $59.8 billion as of December 31, 2013, due to K Certificate issuances.

The table below shows issuances and extinguishments of the debt securities of our consolidated trusts during 2014 and 2013, as well as the debt securities of consolidated trusts held by third parties, based on UPB.

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Table 38 — Issuances and Extinguishments of Debt Securities of Consolidated Trusts

	Year Ended December 31,	
	2014	2013
	(in millions)	
Beginning balance of debt securities of consolidated trusts held by third parties	$1,399,456	$1,387,259
Issuances of debt securities of consolidated trusts	257,293	425,619
Debt securities of consolidated trusts retained by us at issuance[1]	(47,792)	(38,390)
Net issuances of debt securities of consolidated trusts	209,501	387,229
Reissuances of debt securities of consolidated trusts previously held by us[2]	92,053	55,704
Total issuances to third parties of debt securities of consolidated trusts	301,554	442,933
Extinguishments, net[3]	(260,685)	(430,736)
Ending balance of debt securities of consolidated trusts held by third parties	$1,440,325	$1,399,456

(1) Represents mortgage loans that we had purchased for cash, subsequently securitized, and retained in our mortgage-related investments portfolio.

(2) Represents sales of PCs and certain Other Guarantee Transactions previously held by us.

(3) Includes: (a) purchases of PCs and certain Other Guarantee Transactions from third parties; and (b) principal repayments related to PCs and certain Other Guarantee Transactions issued by our consolidated trusts.

Total issuances to third parties of debt securities of consolidated trusts and extinguishments, net decreased during 2014 compared to 2013 primarily due to a decrease in refinance activity resulting from higher average mortgage interest rates in 2014 compared to 2013.

Other Liabilities

Other liabilities consist of servicer liabilities, the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts and other mortgage-related financial guarantees, accounts payable and accrued expenses, and other miscellaneous liabilities. Other liabilities decreased to $5.1 billion as of December 31, 2014 from $5.5 billion as of December 31, 2013 primarily due to a decrease in our liability to servicers for advanced interest due to a decline in the seriously delinquent loan population. See “NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS” for additional information.

Total Equity

The table below presents the changes in total equity and certain capital-related disclosures.

Table 39 — Changes in Total Equity

	Three Months Ended					Year Ended
	12/31/2014	9/30/2014	6/30/2014	3/31/2014	12/31/2013	12/31/2014
	(in millions)					
Beginning balance	$5,186	$4,290	$6,899	$12,835	$33,436	$12,835
Net income	227	2,081	1,362	4,020	8,613	7,690
Other comprehensive income (loss), net of taxes:						
Changes in unrealized gains (losses) related to available-for-sale securities	22	656	479	427	970	1,584
Changes in unrealized gains (losses) related to cash flow hedge relationships	46	50	49	52	66	197
Changes in defined benefit plans	(44)	(1)	—	—	186	(45)
Comprehensive income	251	2,786	1,890	4,499	9,835	9,426
Capital draw funded by Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	(2,786)	(1,890)	(4,499)	(10,435)	(30,436)	(19,610)
Total equity/Net worth	$2,651	$5,186	$4,290	$6,899	$12,835	$2,651
	$71,336	$71,336	$71,336	$71,336	$71,336	$71,336

Aggregate draws under the Purchase Agreement (as of period end)[1]						
Aggregate senior preferred stock dividends paid to Treasury in cash (as of period end)	$90,955	$88,169	$86,279	$81,780	$71,345	$90,955

(1) Does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference.

At December 31, 2014, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the fourth quarter of 2014. We paid cash dividends to Treasury of $19.6 billion during 2014. Based on our Net Worth Amount at December 31, 2014 and the 2015 Capital Reserve Amount of $1.8 billion, our dividend obligation to Treasury in March 2015 will be $851 million.

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Our available-for-sale securities net unrealized gains (losses) recorded in AOCI was $2.5 billion and $1.0 billion at December 31, 2014 and 2013, respectively. This improvement in AOCI was primarily due to fair value gains resulting from the impact of spread tightening on our non-agency mortgage-related securities and the movement of these securities with unrealized losses towards maturity.

RISK MANAGEMENT

Risk Management

Overview

Our investment and credit guarantee activities expose us to three broad categories of risk: (a) credit risk; (b) interest-rate and other market risks; and (c) operational risk.

Risk management is a critical aspect of our business. Our ability to identify, measure, mitigate, and report risk is critical to our ability to maintain risk at an appropriate level.

See "RISK FACTORS" for additional information regarding certain risks material to our business. See "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" for information about our interest rate and other market risks.

Risk Management Framework

We manage risk using a three-lines-of-defense risk management framework. The first line of defense, defined generally as our business units, is responsible for identifying, assessing, measuring, mitigating and reporting the risks in their business. In the first line of defense role, each business unit is responsible for managing its risks in conformance with the risk guidelines, risk policies and risk limits approved by the Board, the Risk Committee of our Board and executive management. The second line of defense, our Enterprise Risk Management and Compliance divisions, is accountable for: (a) reporting risk to senior management and, as needed, the Board; (b) managing risks at the corporate level and setting the overall risk appetite and framework for monitoring risk; and (c) providing oversight of the first line. The second line of defense provides company-wide leadership and oversight to help ensure effective and consistent understanding and management of risks by our business units. The third line of defense, our Internal Audit division, provides independent assurance related to the design and effectiveness of the company's risk management, internal control and governance processes through its audit, assurance, and advisory work. The Internal Audit division reports independently to the Audit Committee of the Board. For more information about our Board's role in oversight of risk management, see "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE — Board Leadership Structure and Role in Risk Oversight."

The company has in place a governance structure including enterprise wide oversight provided by the Board, CERO and CCO, as well as our Enterprise Risk Management Committee, chaired by the CERO, which is responsible for overseeing the establishment of enterprise risk policies; monitoring risk through risk reporting and analysis; and the development and execution of the framework for managing market, operational, counterparty and credit risk.

We utilize an internal economic capital framework and models in our risk management process. Our economic capital framework provides a risk-based measurement of capital which reflects relevant market, credit, counterparty, and operational risks. We assign economic capital internally to asset classes based on their respective risks. We consider economic capital an input when we make economic decisions, establish risk limits and measure profitability.

Risk Profile

The following risk profile sections describe our current risk environment and include a discussion of quantitative and/or qualitative assessments of specific risks. During 2014, we made enhancements to our risk management framework. These enhancements are designed to strengthen risk ownership in our business units and add clarity to risk management roles and responsibilities. We believe these enhancements will improve our risk management effectiveness. As part of this effort, we are re-organizing certain activities across the company. During our transition, we may experience elevated operational risks. We are actively managing this risk.

Credit Risk Overview

We are subject primarily to two types of credit risk: (a) mortgage credit risk; and (b) institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage 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 to us.

Mortgage Credit Risk Overview

We are exposed to mortgage credit risk principally in our single-family credit guarantee and multifamily mortgage portfolios because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a Freddie Mac mortgage-related security, or other guarantee commitment. All mortgages that we purchase or guarantee have an inherent risk of default. We are also exposed to mortgage credit risk related to our investments in non-Freddie Mac mortgage-

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related securities. For information about our holdings of these securities, see “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities - Mortgage-Related Securities.”

Conditions in the single-family mortgage market improved in most geographic areas during the last two years. The balance of non-performing single-family loans in our single-family credit guarantee portfolio declined in both 2014 and 2013, but remains at elevated levels compared to our historical experience.

Single-Family Mortgage Credit Risk Framework and Profile

Our risk exposure to single-family loans is represented by all loans we either purchase or guarantee, which we refer to as our single-family credit guarantee portfolio. Our principal strategies for managing single-family mortgage credit risk are: (a) maintaining policies and procedures, including underwriting and servicing standards, that govern new business activity and our portfolio; (b) monitoring the characteristics of the loans that we purchase or guarantee; (c) transferring a portion of our mortgage credit risk through credit enhancements, including insurance and other risk transfer transactions; (d) monitoring loan performance and making adjustments to our standards and policies, if necessary; (e) managing problem loans, including early intervention through loan workouts and foreclosures; and (f) managing REO activities.

Maintaining Policies and Procedures for our New Business Activity

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, our contracts with sellers describe mortgage eligibility and underwriting standards, and the sellers represent and warrant to us that the mortgages sold to us meet these standards. Through our delegated underwriting process, mortgage loans and the borrowers’ ability to repay the loans are evaluated using a number of critical risk characteristics, including but not limited to, the credit profile of the borrower, the features of the mortgage, and the LTV ratio.

As part of our quality control process, we review the underwriting documentation for a sample of loans we have purchased for compliance with our standards. We give our sellers an opportunity to appeal ineligible loan determinations in response to our request for the repurchase of the loan. The loan review and appeal process is lengthy. Although we are still reviewing 2014 originations, we have completed a substantial number of reviews and compiled results of our review of 2013 originations. Based on reviews completed through December 31, 2014, the average aggregate ineligible loan rate across all sellers for loans funded during 2013, 2012, and 2011 (excluding HARP and other relief refinance loans) was approximately 1.4%, 3.0%, and 5.7%, respectively. These rates may change in the future as our sellers may appeal our findings. The most common underwriting defect found in our review of loans funded during 2013 (excluding HARP and other relief refinance loans) related to the delivery of inaccurate income data. In recent periods, we also made revisions to our loan review process that are designed to standardize the process and facilitate more timely review of loans we purchase.

We do not have our own mortgage loan servicing operation. Instead, our servicers perform the primary servicing function on our loans on our behalf. This includes performing the loan workout and foreclosure activities described below in "Managing Problem Loans." We have contractual arrangements with our servicers under which they represent and warrant that they will service our loans in accordance with our standards. We monitor our servicers' compliance with our servicing standards and periodically review their servicing operations process.

If we discover that representations and warranties were breached in either underwriting or servicing a loan (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses on the loans. These contractual remedies may include the ability to require the seller or the servicer to repurchase the loan at its current UPB.

For more information, see “BUSINESS — Our Business Segments — Single-Family Guarantee Segment — Underwriting Requirements, Quality Control Standards and the Representation and Warranty Framework” and “Institutional Credit Risk Profile — Single-family Mortgage Seller/Servicers.”

Monitoring the Characteristics of the Loans that We Purchase or Guarantee

We actively monitor the characteristics of loans we purchase, and our Enterprise Risk Management division establishes limits on the quantity of loans we purchase that have certain higher risk characteristics. These limits are designed to help us balance the amount of risk we can accept in our portfolio with the facilitation of affordable housing in a responsible manner.

The following are some of the loan and borrower characteristics we monitor.

- Original LTV Ratio: We use the original LTV ratio to measure the ability of the underlying property to protect our interests in the loan. The higher the LTV ratio, the greater the risk we could incur a loss if the borrower defaults on the loan, as the proceeds we could obtain on the sale of the underlying property might not be enough to cover our exposure on the loan. We require credit enhancement on loans with an original LTV ratio greater than 80%. Due to our participation in HARP, we have purchased a significant number of loans that have LTV ratios over 100% in the last several years. HARP loans with LTV ratios over 100% represented 3% and 8% of our single-family mortgage purchases in 2014 and 2013, respectively.

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- Credit Score: We use credit scores as one measure for assessing the credit quality of a borrower. We primarily use FICO scores, which are currently the most commonly used credit scores. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores. Credit scores presented in this Form 10-K are at the time of origination and may not be indicative of the borrowers' creditworthiness at December 31, 2014.
- Loan Purpose: We use loan purpose to measure credit risk. Loan purpose indicates how the borrower intends to use the funds from a mortgage loan. For example, in a purchase transaction, the funds are used to acquire a property. Cash-out refinancings generally have had a higher risk of default than mortgages originated in other refinance or purchase transactions. In 2014, the portion of home purchase loans in our loan acquisition volume increased (and refinancing loans declined) compared to 2013.
- Property and Occupancy Type: We use the property type and occupancy type to measure credit risk. Detached single-family houses and townhomes are the predominant type of single-family property. Condominiums are a property type that historically has experienced greater volatility in home prices than detached single-family residences. Condominium loans in our single-family credit guarantee portfolio have a higher percentage of first-time homebuyers and homebuyers whose purpose is for investment or a second home. Our single-family credit guarantee portfolio consists predominantly of first-lien mortgage loans secured by the borrower's primary residence. Mortgage loans on properties occupied by the borrower as a primary residence tend to have a lower credit risk than mortgages on investment properties or second homes.
- Geographic Concentration: We also monitor geographic concentrations. Local economic conditions can affect borrowers' ability to repay loans and the value of the collateral underlying the loans. Because our business involves purchasing mortgages from every geographic region in the U.S., we maintain a geographically diverse single-family credit guarantee portfolio. In recent years, our credit losses have been greatest in those states that experienced significant cumulative declines in property values since 2006, such as California, Florida, Nevada and Arizona. See "Table 47 — Credit Concentrations in the Single-Family Credit Guarantee Portfolio," and "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for more information concerning the distribution of our single-family credit guarantee portfolio by geographic region.
- Mortgages with Second Liens: We monitor mortgages with identified second liens at origination. The presence of a second lien can increase the risk that a borrower will default. Based on data collected by us at loan delivery, approximately 14% of the loans in our single-family credit guarantee portfolio, as of both December 31, 2014 and 2013, had second-lien financing by third parties at origination of the first mortgage. As of December 31, 2014 and 2013, we estimate that these loans comprised 18% and 17% of our seriously delinquent loans based on UPB, respectively. Borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgages.
- Attribute Combinations: We monitor certain combinations of loan characteristics that often can indicate a higher degree of credit risk. For example, single-family mortgages with both high LTV ratios and borrowers who have lower credit scores typically experience higher rates of serious delinquency and default. We estimate that there were $12.5 billion and $12.8 billion of UPB at December 31, 2014 and 2013, respectively, of loans in our single-family credit guarantee portfolio with both original LTV ratios greater than 90% and credit scores less than 620 at the time of loan origination, and that $0.4 billion and $0.3 billion, respectively, of the UPB of such loans was in our New single-family book. We continue to purchase certain of these loans if they are covered by credit enhancements for the UPB in excess of 80% or if they are HARP loans. See "Table 48 — Single-Family Credit Guarantee Portfolio by Attribute Combinations" for information about certain attribute combinations of our single-family mortgage loans.

Risk Profile

We believe the credit quality of the single-family loans in our New single-family book reflects sound underwriting standards as evidenced by their average original LTV ratios, credit scores, and credit performance through 2014. However, in 2014 and 2013, as refinancing volumes declined, the composition of our loan purchase activity has shifted to a higher proportion of home purchase loans, which generally have higher original LTV ratios than loans sold to us during 2010 through 2012. During 2014, refinancings comprised approximately 48% of our single-family purchase and issuance volume, compared with 73% in 2013 and 83% in 2012. Approximately 11% and 23% of our single-family purchase and issuance volume in 2014 and 2013, respectively, were relief refinance mortgages.

We purchased loans or issued other guarantee commitments for approximately 1,214,000 and 2,070,000 single-family loans totaling $255.3 billion and $422.7 billion of UPB during 2014 and 2013, respectively. During 2014 and 2013, we purchased or guaranteed more than 607,000 and 1.5 million refinance mortgages, totaling $121.0 billion and $308.7 billion in UPB, respectively. We attribute the decline in our purchases of refinance mortgages to higher average mortgage interest rates in 2014 compared to 2013. Approximately 94% of the single-family mortgages we purchased or guaranteed in 2014 were fixed-rate amortizing mortgages, based on UPB, and the remainder were ARMs.

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The table below provides characteristics of single-family mortgage loans purchased or covered by other guarantee commitments during 2014, 2013, and 2012, based on UPB.

Table 40 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio[1]

	Percent of Purchases During the Year Ended December 31,								
	2014			2013			2012		
	Relief Refi	All Other	Total	Relief Refi	All Other	Total	Relief Refi	All Other	Total
Original LTV Ratio Range									
60% and below	2 %	14 %	16 %	3 %	19 %	22 %	4 %	21 %	25 %
Above 60% to 70%	1	11	12	2	12	14	2	12	14
Above 70% to 80%	2	40	42	3	33	36	3	29	32
Above 80% to 100%	3	24	27	7	13	20	8	9	17
Above 100% to 125%	2	—	2	5	—	5	7	—	7
Above 125%	1	—	1	3	—	3	5	—	5
Total	11 %	89 %	100 %	23 %	77 %	100 %	29 %	71 %	100 %
Weighted average original LTV ratio	82 %	76 %	76 %	91 %	71 %	75 %	97 %	68 %	76 %
Credit Score									
740 and above	5 %	56 %	61 %	11 %	55 %	66 %	17 %	55 %	72 %
700 to 739	2	20	22	5	15	20	6	11	17
660 to 699	2	10	12	4	6	10	4	4	8
620 to 659	1	3	4	2	1	3	1	1	2
Less than 620	1	—	1	1	—	1	1	—	1
Total	11 %	89 %	100 %	23 %	77 %	100 %	29 %	71 %	100 %
Weighted average credit score:									
Total mortgages	713	748	744	727	756	749	740	762	756

	Percent of Purchases During the Year Ended December 31,		
	2014	2013	2012
Loan Purpose			
Purchase	52 %	27 %	18 %
Cash-out refinance	17	16	15
Other refinance[2]	31	57	67
Total	100 %	100 %	100 %
Property Type			
Detached/townhome[3]	92 %	93 %	94 %
Condo/Co-op	8	7	6
Total	100 %	100 %	100 %
Occupancy Type			
Primary residence	88 %	88 %	91 %
Second/vacation home	4	4	4
Investment	8	8	5
Total	100 %	100 %	100 %

(1) Within this table, "—" represents less than 0.5%.
(2) Other refinance loans include: (a) refinance mortgages with “no cash out” to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a

cash-out or a no cash-out refinance transaction.

(3) Includes manufactured housing and homes within planned unit development communities.

Transferring a Portion of our Mortgage Credit Risk

As guarantor, we remain responsible for the payment of principal and interest on our PCs regardless of whether the borrower performs on the underlying mortgage loan. We also are subject to mortgage credit risk for unsecuritized loans. We use credit enhancements to transfer a portion of our mortgage credit risk and mitigate some of our potential credit losses. By transferring a portion of the credit risk associated with mortgage loans in our single-family credit guarantee portfolio, we reduce our exposure to loss and, consequently, the amount of capital that would be required to operate our business. Credit enhancements include: (a) primary mortgage insurance; (b) STACR and ACIS risk transfer transactions; (c) pool insurance; and (d) recourse to lenders.

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements. Our sellers require the borrower to purchase primary mortgage insurance at the origination of the mortgage if the LTV ratio is above 80% in order to meet our requirements (subject to certain exceptions, such as HARP).

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Under HARP, we allow eligible borrowers who have mortgages with current LTV ratios over 80% to refinance their mortgages without obtaining new mortgage insurance in excess of the insurance coverage, if any, that was already in place.
We use our risk transfer and other credit enhancement transactions to distribute some of our exposure across multiple counterparties. We use STACR and ACIS risk transfer transactions to transfer a portion of credit losses that could occur under adverse home price scenarios (through a mezzanine credit loss position) on certain groups of loans in our New single-family book from us to third-party investors. In these transactions, we first create a reference pool consisting of single-family mortgage loans. We then create a hypothetical securitization structure with notional credit risk positions (e.g., first, mezzanine, and senior loss positions). The credit risk related to the mezzanine loss position is typically divided as follows:

- We transfer a portion of the credit risk on the position to investors through the issuance of STACR debt notes;
- We may insure an additional portion of the position through an ACIS transaction; and
- We retain the remaining credit risk related to the position.

Our STACR and ACIS transactions generally have terms of ten years since, for a performing loan, our loss exposure generally declines over time. Although we only completed STACR debt note and ACIS transactions related to mezzanine loss positions in 2014 and 2013, we began issuing STACR debt note transactions in 2015 that transfer some of the first loss positions. For further information about STACR and ACIS transactions, see "BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Credit Enhancements."
Prior to 2008, we also purchased pool insurance, which provides insurance on a group of mortgage loans up to a stated aggregate limit. The majority of these policies will expire within the next five years.
Although the financial condition of certain of our mortgage insurers has improved in recent years, some have failed to fully meet their obligations and there remains a significant risk that others may fail to do so. See "Institutional Credit Risk Profile" for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio, including information about our mortgage loan insurers.

Risk Profile

The portion of our single-family mortgage purchases in 2014 and 2013 that had credit enhancements was 25% and 17%, respectively. This increase is primarily due to a higher composition of home purchase loans and a lower volume of refinancings, particularly relief refinance loans, in 2014 compared to 2013. Home purchase loans typically have higher LTV ratios than refinance loans, and therefore are more likely to require mortgage insurance.
Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio and is typically provided on a loan-level basis. As of December 31, 2014 and 2013, approximately \$227.5 billion and \$203.5 billion, respectively, in UPB of loans in our single-family credit guarantee portfolio were covered by primary mortgage insurance, and we had coverage on these loans totaling \$57.9 billion and \$50.8 billion, respectively.
We recognized recoveries from credit enhancements (excluding recoveries that represent reimbursements for our expenses, such as REO operations expenses) of \$0.7 billion and \$1.5 billion that reduced our charge-offs of single-family loans during 2014 and 2013, respectively. Substantially all of these amounts represent recoveries associated with our primary mortgage insurance policies. We also recognized recoveries from credit enhancements of \$194 million and \$196 million during 2014 and 2013, respectively, as part of REO operations income (expense). These recoveries were also primarily associated with our primary mortgage insurance policies.
We executed ten credit risk transfer transactions during 2014. Since 2013, we have completed STACR transactions covering \$205.4 billion in principal of the mortgage loans in our New single-family book.
The table below provides information about: (a) the UPB of STACR transactions and the notional amount of ACIS transactions completed during 2014 and 2013; and (b) balances of STACR and ACIS related amounts as of December 31, 2014 and 2013.

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Table 41 — Risk Transfer Transactions

	Year Ended December 31,					
	2014			2013		
	Retained by Freddie Mac (in millions)	Transferred to Third Parties	Total	Retained by Freddie Mac	Transferred to Third Parties	Total
Issuance information:						
First loss positions	$683	$—	$683	$174	$—	$174
Mezzanine loss positions:						
STACR debt notes	—	4,916	4,916	—	1,130	1,130
Non-issued (and ACIS)[1]	1,623	439	2,062	356	78	434
Subtotal mezzanine loss positions	$1,623	$5,355	6,978	$356	$1,208	1,564
Senior (remaining) loss positions	$139,823	$—	139,823	$56,174	$—	56,174
Total reference pools			$147,484			$57,912
Additional ACIS transactions[2]			$270			$—

	As of December 31, 2014			As of December 31, 2013		
	Retained by Freddie Mac (in millions)	Transferred to Third Parties	Total	Retained by Freddie Mac	Transferred to Third Parties	Total
Remaining balance information:						
First loss positions	$853	$—	$853	$174	$—	$174
Mezzanine loss positions:						
STACR debt notes	—	5,896	5,896	—	1,107	1,107
Non-issued (and ACIS)[1]	1,680	761	2,441	350	76	426
Subtotal mezzanine loss positions	$1,680	$6,657	8,337	$350	$1,183	1,533
Senior (remaining) loss positions	$183,336	$—	183,336	$55,196	$—	55,196
Total reference pools			$192,526			$56,903

(1) Amounts retained by Freddie Mac represent the balance of our mezzanine loss positions in STACR transactions reduced by coverage under ACIS transactions. Amounts transferred to third parties represent coverage under ACIS transactions, and are the maximum amount of coverage provided by insurance counterparties to absorb a portion of our mezzanine losses. Not all of our non-issued, mezzanine positions had coverage under ACIS transactions at December 31, 2014.

(2) Represents an ACIS transaction during 2014 that relates to the mezzanine loss position of a STACR transaction completed in 2013.

For loans in our New single-family book that are covered by credit enhancement in the form of STACR debt notes and ACIS transactions, we may receive recoveries when the loans experience a credit event, which includes a loan becoming 180 days delinquent. We would receive such recoveries by writing down the principal in STACR debt notes transactions and through the payment of insurance claims in ACIS transactions. However, we retained all of the first loss position for loans covered by STACR transactions completed in 2014 and 2013. As shown in the table above, as of December 31, 2014, we are exposed to the first $853 million of losses on the $192.5 billion total reference pools of covered loans. As of December 31, 2014 there has not been a significant amount of loans in our STACR debt note reference pools that had experienced a credit event. As a result, we have not recognized any credit-related write downs on any of our STACR debt notes nor have we made any claims for loss recoveries under our ACIS transactions.

As of December 31, 2014 and 2013, approximately $3.2 billion and $6.5 billion, respectively, in UPB of loans in our single-family credit guarantee portfolio were covered by pool insurance, and we had coverage on these loans totaling $0.9 billion and $1.2 billion, respectively. We may exhaust the insurance coverage on the contracts before the policies expire.

Certain of our single-family Other Guarantee Transactions use subordinated security structures as a form of credit enhancement. At December 31, 2014 and 2013, the UPB of single-family Other Guarantee Transactions with subordination coverage at origination was $2.4 billion and $2.6 billion, respectively, and the subordination coverage on these securities was $339 million and $399 million, respectively. At December 31, 2014 and 2013, the serious delinquency rate on single-family Other Guarantee Transactions with subordination coverage was 17.1% and 19.0%, respectively.

See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for additional information about credit protection and other forms of credit enhancements covering loans in our single-family credit guarantee portfolio. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities” for credit enhancement and other information about our investments in non-Freddie Mac mortgage-related securities.

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Monitoring Loan Performance

A number of factors influence loan performance and single-family mortgage credit risk, including loan and borrower characteristics (such as those described in “Monitoring the Characteristics of the Loans that We Purchase or Guarantee”) and local and regional economic conditions (such as home prices and unemployment rates).

We monitor the performance of our single-family credit guarantee portfolio using a variety of metrics, including delinquency statistics and estimated current LTV ratios. Our single-family business unit reviews performance, in conjunction with housing market and economic conditions, to determine if our pricing and loan eligibility standards reflect the risk associated with the loans we purchase and guarantee. We also review the payment performance of our loans in order to help identify potential problem loans early and inform our loss mitigation strategies. We periodically make changes to our seller/servicer guidelines if warranted.

We review additional performance metrics within certain groupings of loan and product types that may expose us to concentrations of risk. As a result of our review, we fully discontinued purchases of Alt-A (effective March 1, 2009), interest-only (effective September 1, 2010), and option ARM (since 2007) loans.

Risk Profile

A higher estimated current LTV ratio can indicate that the borrower’s equity in the home has declined. Based on our historical experience, there is an increase in borrower default risk and in severity of losses as LTV ratios increase. The percentage of mortgages in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 100% was 6% and 10% at December 31, 2014 and 2013, respectively, and the serious delinquency rate for these loans was 9.06% and 9.94%, respectively. Loans with current LTV ratios greater than 100% comprised approximately 61% and 68% of our credit losses recognized in 2014 and 2013, respectively. The portion of our single-family credit guarantee portfolio with current LTV ratios greater than 100% declined in 2014 primarily due to foreclosures, short sales, and improving home prices in many geographic areas.

Improvement in home prices in many areas of the U.S. during 2014 generally led to improved estimated current LTV ratios of the loans in our portfolio as of December 31, 2014. For the loans in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 80%, the borrowers had a weighted average credit score at origination of 721 and 722 at December 31, 2014 and 2013, respectively. We continue to purchase non-HARP mortgage loans with original LTV ratios greater than 80% if they are covered by credit enhancements for the UPB in excess of 80%.

The table below provides characteristics of single-family mortgage loans in our single-family credit guarantee portfolio at December 31, 2014, 2013, and 2012, based on UPB.

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Table 42 — Characteristics of the Single-Family Credit Guarantee Portfolio[1]

	Portfolio Balance at December 31,[2]					
	2014		2013		2012	
Original LTV Ratio Range						
60% and below	21	%	22	%	22	%
Above 60% to 70%	14		15		15	
Above 70% to 80%	38		38		40	
Above 80% to 100%	21		19		18	
Above 100%	6		6		5	
Total	100	%	100	%	100	%
Weighted average original LTV ratio	75	%	75	%	74	%
Estimated Current LTV Ratio Range[3]						
60% and below	39	%	33	%	28	%
Above 60% to 70%	18		18		14	
Above 70% to 80%	19		20		21	
Above 80% to 90%	12		12		13	
Above 90% to 100%	6		7		9	
Above 100% to 120%	4		6		8	
Above 120%	2		4		7	
Total	100	%	100	%	100	%
Weighted average estimated current LTV ratio:						
Relief refinance mortgages	75	%	81	%	83	%
All other mortgages	64		66		74	
Total mortgages	66		69		75	
Credit Score[4]						
740 and above	58	%	58	%	56	%
700 to 739	20		20		21	
660 to 699	13		13		14	
620 to 659	6		6		6	
Less than 620	3		3		3	
Total	100	%	100	%	100	%
Weighted average credit score:						
Relief refinance mortgages	733		735		741	
All other mortgages	742		740		736	
Total mortgages	740		739		737	
Loan Purpose						
Purchase	30	%	26	%	27	%
Cash-out refinance	21		22		24	
Other refinance[5]	49		52		49	
Total	100	%	100	%	100	%
Property Type						
Detached/townhome[6]	93	%	93	%	92	%
Condo/Co-op	7		7		8	
Total	100	%	100	%	100	%
Occupancy Type						
Primary residence	90	%	90	%	90	%
Second/vacation home	4		4		5	
Investment	6		6		5	

Total	100 %	100 %	100 %

(1) Other Guarantee Transactions with ending balances of $1 billion at December 31, 2014, 2013 and 2012, respectively, are excluded since these securities are backed by non-Freddie Mac issued securities for which the loan characteristics data was not available.

(2) Includes loans acquired under our relief refinance initiative, which comprised approximately 20%, 21%, and 18% of our single-family credit guarantee portfolio based on UPB as of December 31, 2014, 2013, and 2012, respectively.

(3) The current LTV ratios are management estimates, which are updated on a monthly basis. Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographic area since that time.

(4) Credit score data was not available for less than 0.5% of loans in the single-family credit guarantee portfolio at December 31, 2014, 2013, and 2012.

(5) Other refinance loans include: (a) refinance mortgages with “no cash out” to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction.

(6) Includes manufactured housing and homes within planned unit development communities.

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The table below presents certain credit information about loans in our single-family credit guarantee portfolio by year of origination as of December 31, 2014 and for the year then ended.

Table 43 — Single-Family Credit Guarantee Portfolio Data by Year of Origination[1]

	December 31, 2014							Year Ended December 31, 2014
	Percent of Portfolio	Average Credit Score[2]	Original LTV Ratio	Current LTV Ratio[3]	Current LTV Ratio >100%[3][4]	Serious Delinquency Rate	Foreclosure and Short Sale Rate[5]	Percent of Credit Losses[4]
Year of Origination								
2014	12 %	748	76 %	75 %	— %	0.02 %	— %	— %
2013	16	754	71	63	—	0.06	—	—
2012	14	761	69	56	—	0.09	0.01	—
2011	6	757	69	54	—	0.26	0.06	—
2010	6	754	69	56	—	0.46	0.15	1
2009	6	751	68	59	1	0.92	0.42	2
Subtotal - New single-family book	60	755	71	62	—	0.24	0.14	3
HARP and other relief refinance loans[6]	20	733	89	75	15	0.75	0.75	8
2005-2008 Legacy single-family book	13	702	75	83	24	7.59	8.62	81
Pre-2005 Legacy single-family book	7	709	73	47	2	3.10	1.42	8
Total	100 %	740	75	66	6	1.88		100 %

(1) Except for the foreclosure and short sale rate, the data presented is based on the loans remaining in the portfolio at December 31, 2014, which totaled $1.7 trillion.

(2) Excludes less than 0.5% of loans in the portfolio because the credit scores at origination were not available.

(3) See endnote (3) to "Table 42 — Characteristics of the Single-Family Credit Guarantee Portfolio" for information about current LTV ratios.

(4) Within these columns, "—" represents less than 0.5%.

(5) Calculated for each year of origination as the number of loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, during the period from origination to December 31, 2014, divided by the number of loans originated in that year that were acquired in our single-family credit guarantee portfolio. The foreclosure and short sale rate presented for the Pre-2005 Legacy single-family book represents the rate associated with loans originated in 2000 through 2004.

(6) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2014). All other refinance loans are presented in the year that the refinancing occurred.

Serious Delinquency Rates

We monitor the single-family serious delinquency rates of our portfolio, which are based on the number of loans that are three monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Single-family loans for which the borrower is subject to a forbearance agreement or a repayment plan will continue to reflect the past due status of the borrower. Our single-family delinquency rates include all single-family loans that we own, that back Freddie Mac securities, and that are covered by our other guarantee commitments, except Freddie Mac financial guarantees that are backed by either Ginnie Mae Certificates or HFA bonds due to the credit enhancements provided on them by the U.S. government.

Some of our workout and other loss mitigation activities create fluctuations in our delinquency statistics. For example, single-family loans that we report as seriously delinquent before they enter a modification trial period continue to be reported as seriously delinquent for purposes of our delinquency reporting until the modifications become effective and the loans are removed from delinquent status by our servicers. Consequently, the volume and timing of loan modifications affect our reported serious delinquency rate. In addition, there may be temporary lags in the reporting of payment status and modification completion due to differing practices of our servicers that can affect our delinquency reporting.

In 2014, the serious delinquency rate of our single-family credit guarantee portfolio continued the trend of improvement of the past several years, declining to 1.88% as of December 31, 2014 (which is the lowest level since January 2009) from 2.39% as of December 31, 2013. The improvement in our serious delinquency rate in 2014 is primarily due to lower volumes of single-family loans becoming seriously delinquent, continued loss mitigation and foreclosure activities for loans in the Legacy single-family books, and the sale of certain seriously delinquent loans. See "Managing Problem Loans" for additional information about delinquency rates and concentrations of risk for loans in our single-family credit guarantee portfolio.

Although the serious delinquency rate for all our single-family loans was 1.88% at December 31, 2014, the rate for our New single-family book was 0.24% at that date, which we believe reflects both improvements in underwriting and relatively stable and improving economic conditions in recent years. Approximately one-half of our seriously delinquent single-family loans were greater than one year past due at December 31, 2014. The gradual reduction of our 2005-2008 Legacy single-family book has contributed to the improvement in the payment performance of our single-family credit guarantee portfolio.

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The table below presents serious delinquency rates and information about other problem loans in our single-family credit guarantee portfolio.

Table 44 — Single-Family Serious Delinquency Statistics

	As of December 31, 2014		As of December 31, 2013		As of December 31, 2012	
	Percentage	Serious Delinquency Rate[1]	Percentage	Serious Delinquency Rate[1]	Percentage	Serious Delinquency Rate[1]
Credit Protection:						
Non-credit-enhanced	77 %	1.74 %	83 %	2.09 %	87 %	2.66 %
Credit-enhanced:[2]						
Primary mortgage insurance	14 %	3.10 %	12 %	4.40 %	12 %	7.08 %
Other[3]	12 %	1.21 %	5 %	3.66 %	1 %	8.56 %
Total[4]		1.88 %		2.39 %		3.25 %

	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate	# of Seriously Delinquent Loans	Percent	Serious Delinquency Rate
State:[5][6]									
Florida	25,656	13 %	3.92 %	42,948	17 %	6.44 %	69,034	20 %	9.87 %
New York	19,462	10	4.06	21,459	8	4.41	22,592	6	4.59
New Jersey	16,960	8	5.49	19,306	8	6.20	21,742	6	6.87
Illinois	11,902	6	2.17	15,521	6	2.79	22,923	7	4.08
California	11,386	6	0.92	15,620	6	1.30	27,620	8	2.34
All others	112,700	57	1.52	137,907	55	1.85	185,683	53	2.45
Total	198,066	100 %		252,761	100 %		349,594	100 %	

	# of Seriously Delinquent Loans	Percent	# of Seriously Delinquent Loans	Percent	# of Seriously Delinquent Loans	Percent
Aging, by locality:[6]						
Judicial states:[7]						
Less than or equal to 1 year	50,138	25 %	59,129	23 %	79,422	23 %
More than 1 year and less than or equal to 2 years	21,919	11	30,604	12	50,506	14
More than 2 years	48,984	25	65,154	26	77,766	22
Non-judicial states:[7]						
Less than or equal to 1 year	49,657	25	60,175	24	87,641	25
More than 1 year and less than or equal to 2 years	12,989	7	17,968	7	30,435	9
More than 2 years	14,379	7	19,731	8	23,824	7
Combined:[7]						
	99,795	50	119,304	47	167,063	48

Less than or equal to 1 year								
More than 1 year and less than or equal to 2 years	34,908	18		48,572	19		80,941	23	
More than 2 years	63,363	32		84,885	34		101,590	29	
Total	198,066	100	%	252,761	100	%	349,594	100	%
Payment Status:									
One month past due	1.52	%		1.73	%		1.85	%	
Two months past due	0.49	%		0.57	%		0.66	%	

(1) In the third quarter of 2014, we revised our presentation of single-family non-credit enhanced and credit-enhanced serious delinquency rates. As part of this revision, we began categorizing loans covered by our STACR and ACIS risk transfer transactions as credit-enhanced, whereas they had previously been categorized as non-credit-enhanced. This revision did not affect our total single-family serious delinquency rate. Prior periods have been revised to conform with the current presentation.

(2) The credit enhanced categories are not mutually exclusive as a single loan may be covered by both primary mortgage insurance and other credit protection. See “Institutional Credit Risk Profile” for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio.

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(3) Consists of single-family mortgage loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure, including loans in reference pools covered by STACR transactions as well as other forms of credit protection.
(4) As of December 31, 2014, 2013, and 2012, approximately 53%, 61%, and 68%, respectively, of the single-family loans reported as seriously delinquent were in the process of foreclosure.
(5) States presented have the highest number of seriously delinquent loans as of December 31, 2014.
(6) Excludes loans underlying certain single-family Other Guarantee Transactions since the geographic information is not available to us for these loans. The serious delinquency rate for all single-family Other Guarantee Transactions was 10.11%, 10.91%, and 10.60% as of December 31, 2014, 2013, and 2012, respectively. Single-family Other Guarantee Transactions generally have underlying mortgage loans with higher risk characteristics.
(7) The states and territories classified as having a judicial foreclosure process consist of: CT, DC, DE, FL, HI, IA, IL, IN, KS, KY, LA, ME, ND, NE, NJ, NM, NY, OH, OK, OR, PA, PR, SC, SD, VI, VT, and WI. All other states are classified as having a non-judicial foreclosure process.

Higher-Risk Loans

We also monitor certain higher-risk loans in our portfolio. The table below presents information about certain categories of single-family mortgage loans in our single-family credit guarantee portfolio that we believe have certain higher-risk characteristics. These loans include categories based on product type and borrower characteristics present at origination. The table includes a presentation of each higher risk category in isolation. A single loan may fall within more than one category (for example, an interest-only loan may also have an original LTV ratio greater than 90%). Loans with a combination of these characteristics will have an even higher risk of default than those with a single characteristic.

Table 45 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio[1]

	As of December 31, 2014			
	UPB	Estimated Current LTV[2]	Percentage Modified	Serious Delinquency Rate
	(dollars in billions)			
Loans with one or more specified characteristics	$364.3	88 %	8.5 %	4.16 %
Categories (individual characteristics):				
Alt-A	48.3	82	19.9	8.53
Interest-only[3]	27.8	87	0.2	9.36
Option ARM[4]	5.7	79	12.5	9.87
Original LTV ratio greater than 90%, non-HARP mortgages	123.2	87	9.4	3.97
Original LTV ratio greater than 90%, HARP mortgages	149.0	96	0.8	1.18
Lower credit scores at origination (less than 620)	44.9	79	19.2	8.57

	As of December 31, 2013			
	UPB	Estimated Current LTV[2]	Percentage Modified	Serious Delinquency Rate
	(dollars in billions)			
Loans with one or more specified characteristics	$364.5	94 %	8.1 %	5.31 %
Categories (individual characteristics):				
Alt-A	56.9	87	16.3	10.06
Interest-only[3]	34.7	93	0.2	12.51
Option ARM[4]	6.4	86	11.0	12.30
Original LTV ratio greater than 90%, non-HARP mortgages	103.4	91	10.1	5.66

Original LTV ratio greater than 90%, HARP mortgages	154.3	103	0.5	0.97
Lower credit scores at origination (less than 620)	47.8	83	17.4	9.99

(1) Categories are not additive and a single loan may be included in multiple categories if more than one characteristic is associated with the loan. Excludes loans underlying certain Other Guarantee Transactions for which data was not available.
(2) See endnote (3) to "Table 42 — Characteristics of the Single-Family Credit Guarantee Portfolio" for information about current LTV ratios.
(3) When an interest-only loan is modified to require repayment of principal, the loan is removed from the interest-only category. The percentages of interest-only loans which have been modified at period end reflect loans that have not yet been assigned to their new product category (post-modification), primarily due to delays in processing.
(4) For reporting purposes, loans in the option ARM category continue to be reported in that category following modification, even though the modified loan no longer provides for optional payment provisions.

A significant portion of the loans in the higher-risk categories presented in the table above (other than HARP loans) are included in our 2005-2008 Legacy single-family book. The UPB of loans with one or more of these higher-risk characteristics in our single-family credit guarantee portfolio was $364.3 billion and $364.5 billion at December 31, 2014 and 2013, respectively. Additional information about certain of these categories is provided below.

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Loans with Payment Changes

There are several types of mortgage products that contain terms which result in scheduled changes in the borrower's monthly payments after specified initial periods. In most cases, the change will result in an increase in the borrower's monthly payment, which may increase the risk that the borrower will default on the loan.

The table below presents information for mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, at December 31, 2014 that contain terms that will result in payment changes for the borrower. The UPB 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 2014 or prior have already had one or more payment changes as of December 31, 2014; loans where the year of first payment change is 2015 or later have not yet had a payment change as of December 31, 2014 and will not experience a payment change until a future period.

Table 46 — Single-Family Loans with Scheduled Payment Changes by Year at December 31, 2014[1]

	2014 and Prior	2015	2016	2017	2018	2019	Thereafter	Total
	(in millions)							
ARM/interest-only[2]	$9,343	$2,371	$3,512	$5,634	$2,261	$132	$ 311	$23,564
Fixed/interest-only[2]	7	125	588	2,731	587	7	192	4,237
ARM/amortizing[3]	17,897	2,559	5,078	5,470	6,097	10,333	21,714	69,148
Step-rate modified[4]	3,724	19,708	27,851	29,037	18,876	6,360	3,480	42,255
								$139,204

(1) Excludes mortgage loans underlying Other Guarantee Transactions (such as option ARM loans), since the payment change information is not available to us for these loans.

(2) Categorized by the year in which the loan begins requiring payment of principal.

(3) Categorized by the year of next scheduled contractual reset date.

(4) Represents modified loans that are scheduled to experience an increase in their contractual interest rate in a given year. Individual loans will appear in each year for which they are scheduled to experience a rate increase. As such, individual years will not sum to the total. Includes the portion, if any, of UPB that is non-interest bearing under the terms of the modification.

Interest-Only Loans

Interest-only loans have an initial period during which the borrower pays only interest, and at a specified date the monthly payment increases to begin reflecting repayment of principal. Interest-only loans represented approximately 2% of the UPB of our single-family credit guarantee portfolio at both December 31, 2014 and 2013. We discontinued purchasing such loans on September 1, 2010. The balance of these loans has declined significantly in recent years as many of these borrowers have repaid their loans, completed foreclosure transfers or foreclosure alternatives, refinanced, or received loan modifications into an amortizing loan product (and thus these loans are no longer classified as interest-only loans).

We believe that the serious delinquency rates of interest-only loans during the last two years have been more affected by macro-economic 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 are scheduled to begin amortizing in 2015 and 2016, which will subject the borrowers to higher monthly payments. As of December 31, 2014, approximately 66% of all interest-only loans in our single-family credit guarantee portfolio had not yet begun amortization of principal and 28% had current LTV ratios greater than 100%. 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 interest-only loans will remain high in 2015.

Adjustable-Rate Mortgage Loans

Adjustable-rate mortgage loans may have initial periods during which the interest rate and monthly payment remains fixed, until a specified date, when the interest rate begins to adjust, or they may adjust at regular intervals after

origination (typically annually). In a rising interest rate environment, ARM borrowers typically default at a higher rate than fixed-rate borrowers.
Excluding loans underlying Other Guarantee Transactions, there was $92.7 billion in UPB of ARM loans in our single-family credit guarantee portfolio as of December 31, 2014. Approximately 29% of these loans experienced an interest rate change in 2014 and prior and approximately 5% will experience an interest rate change in 2015. We believe that the serious delinquency rates of adjustable-rate loans that experienced an interest rate reset during the last two years have not been significantly affected by the change in the interest rate of the loan. Except for interest-only loans that began to amortize at the reset date, there were not significant increases in the borrowers' payments when these loans reached their first reset dates because market interest rates have generally declined in recent years. In recent years, ARM loans have experienced high serious

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delinquency rates well before reaching the dates at which the loans have reached their first rate reset. We believe that serious delinquency rates of ARM loans during the last two years have been more affected by macro-economic conditions, such as unemployment rates and cumulative home price declines in many geographic areas since 2006, than by changes in the interest rates of the loans. Since a substantial portion of ARM loans were originated in 2005 through 2008 and are located in geographic areas that have been most affected by declines in home prices since 2006, we believe that the serious delinquency rate for ARM loans will continue to remain high in 2015.

Step-Rate Modified Loans

Many of our HAMP loans have provisions for reduced interest rates that remain fixed for the first five years of the modification and then increase at a rate of up to one percent per year until the interest rate has been adjusted to the market rate that was in effect at the time of the modification. We refer to these types of HAMP loans as “step-rate modified loans.” The risk of default may increase for borrowers with step-rate modified loans due to the increase in monthly payments resulting from these scheduled increases in the interest rate of the loans. In January 2015, we implemented an additional principal reduction incentive for borrowers who continue to perform on their HAMP loans. This incentive is designed to reduce the risk that these borrowers will default on their loans. For more information, see “BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Single-Family Loan Workouts and the MHA Program — HAMP and Non-HAMP Modifications.”

We had $42.3 billion in UPB of step-rate modified loans in our single-family credit guarantee portfolio at December 31, 2014. Approximately 9% of these loans experienced interest rate resets in 2014, and approximately 47% will experience rate resets in 2015. As of December 31, 2014, the average current interest rate for all step-rate modified loans was 2.30%, and the average final interest rate that these loans are scheduled to reach in the future was 4.48%. As of December 31, 2014, the serious delinquency rate for step-rate modified loans completed in 2010, 2011, 2012, and 2013 or after was 9.67%, 9.52%, 8.89%, and 7.51%, respectively.

Option ARM Loans

Most option ARM loans have initial periods during which the borrower has various options as to the amount of each monthly payment, until a specified date, when the terms are recast. We have not purchased option ARM loans in our single-family credit guarantee portfolio since 2007. At both December 31, 2014 and 2013, option ARM loans represented less than 1% of the UPB of our single-family credit guarantee portfolio. This exposure included $4.9 billion and $5.5 billion in UPB of option ARM securities underlying certain of our Other Guarantee Transactions at December 31, 2014 and 2013, respectively. While we have not categorized these option ARM securities as either subprime or Alt-A securities 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. As of December 31, 2014 and 2013, approximately 12.5% and 11.0%, respectively, of the option ARM loans within our single-family credit guarantee portfolio had been modified. For information on our exposure to option ARM loans through our holdings of non-agency mortgage-related securities, see “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities.”

Other Categories of Single-Family Mortgage Loans

While we have classified 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 our classification of such loans may differ from those used by other companies. For example, some financial institutions may use credit scores to delineate certain residential mortgages as subprime. In addition, we do not rely primarily on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio. For a definition of the subprime and Alt-A single-family loans and securities in this Form 10-K, see “GLOSSARY.”

Subprime Loans

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 (see “Risk Profile — Higher-Risk Loans in the Single-Family Credit Guarantee Portfolio” and “Table 48 — Single-Family Credit Guarantee Portfolio by

Attribute Combinations" for further information). In addition, we estimate that approximately $1.7 billion and $1.8 billion in UPB of security collateral underlying our Other Guarantee Transactions at December 31, 2014 and 2013, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions. At December 31, 2014 and 2013, we held $27.7 billion and $39.7 billion, respectively, in UPB of non-agency mortgage-related securities backed by subprime loans. Approximately 4% and 5% of these securities were investment grade at December 31, 2014 and 2013, respectively. The credit

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performance of loans underlying these securities deteriorated significantly since 2008. For information on our exposure to subprime loans through our holdings of non-agency mortgage-related securities, see "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities."

Alt-A Loans

Although there is no universally accepted definition of Alt-A, 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 mortgage loan, or both. Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009, we continued to purchase certain amounts of these mortgages in cases where the loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance initiative; or (c) part of another refinance mortgage initiative and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage 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 mortgage 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, 2014, we have purchased approximately $31.2 billion of relief refinance mortgages that were previously categorized as Alt-A loans in our portfolio, including $2.4 billion in 2014.

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined to $48.3 billion as of December 31, 2014 from $56.9 billion as of December 31, 2013 primarily due to borrowers refinancing into other mortgage products, foreclosure transfers, and other liquidation events. For reporting purposes, loans within the Alt-A category continue to be reported in that category following a modification of the loan, even though the borrower may have provided full documentation of assets and income before completing the modification. As of December 31, 2014 and 2013, approximately 19.9% and 16.3%, respectively, of the Alt-A loans within our single-family credit guarantee portfolio had completed a modification. As of December 31, 2014, for Alt-A loans in our single-family credit guarantee portfolio, the average credit score at origination was 709. Although Alt-A mortgage loans comprised approximately 3% of our single-family credit guarantee portfolio as of December 31, 2014, these loans represented approximately 16% of our credit losses during 2014.

The table below presents credit loss and portfolio concentration information and indicates that certain concentrations of loans, including Alt-A loans, have been more adversely affected by declines in home prices and weak economic conditions during the housing crisis that began in 2006.

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Table 47 — Credit Concentrations in the Single-Family Credit Guarantee Portfolio

	As of December 31,					
	2014			2013		
	Alt-A UPB	Non Alt-A UPB	Total UPB	Alt-A UPB	Non Alt-A UPB	Total UPB
	(in billions)					
Geographic distribution:						
Arizona, California, Florida, and Nevada(1)	$21	$413	$434	$23	$399	$422
Illinois, Michigan, and Ohio(2)	3	169	172	4	172	176
New York and New Jersey(3)	7	138	145	7	138	145
All other states	19	895	914	23	887	910
Book year category(4):						
New single-family book	—	994	994	—	888	888
HARP and other relief refinance loans(4)	—	331	331	—	342	342
2005-2008 Legacy single-family book	42	176	218	48	220	268
Pre-2005 Legacy single-family book	8	114	122	9	146	155

	Year Ended December 31,					
	2014			2013		
	Alt-A	Non Alt-A	Total	Alt-A	Non Alt-A	Total
	(in millions)					
Credit Losses						
Geographic distribution:						
Arizona, California, Florida, and Nevada(1)	$275	$1,145	$1,420	$802	$1,438	$2,240
Illinois, Michigan, and Ohio(2)	80	582	662	158	773	931
New York and New Jersey(3)	102	313	415	56	106	162
All other states	170	1,252	1,422	231	1,224	1,455
Book year category(4):						
New single-family book	—	97	97	—	135	135
HARP and other relief refinance loans(4)	—	299	299	—	348	348
2005-2008 Legacy single-family book	597	2,596	3,193	1,190	2,688	3,878
Pre-2005 Legacy single-family book	30	300	330	57	370	427

(1) Represents the four states that had the largest cumulative declines in home prices during the housing crisis that began in 2006, as measured using Freddie Mac's home price index.

(2) Represents selected states in the North Central region that have experienced adverse economic conditions since 2006.

(3) Represents two states with a judicial foreclosure process in which there are a significant number of seriously delinquent loans within our single-family credit guarantee portfolio.

(4) The New single-family book reflects loans originated since 2008. HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2014). All other refinance loans are presented in the year that the refinancing occurred.

We also hold investments in non-agency mortgage-related securities backed by single-family Alt-A loans. At December 31, 2014 and 2013, we held investments of $6.0 billion and $11.0 billion in UPB, respectively, of non-agency mortgage-related securities backed by Alt-A and other mortgage loans. Approximately 4% and 5% of these securities were categorized as investment grade at December 31, 2014 and 2013, respectively. The credit performance of loans underlying these securities deteriorated significantly since 2008. We categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. For more information on our exposure to Alt-A mortgage loans through our investments in non-agency mortgage-related securities, see "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities."

Managing Problem Loans

Our single-family loss mitigation strategy emphasizes early intervention by servicers in delinquent mortgages and provides alternatives to foreclosure. Our servicers have an active role in our efforts to manage problem loans, as we rely on them to perform loan workout activities as well as foreclosures on loans that they service for us. Our single-family loss mitigation activities include providing our servicers with default management programs designed to help them manage non-performing loans more effectively and to assist borrowers in maintaining home ownership, or facilitate foreclosure alternatives. We require our servicers first to evaluate problem loans for a repayment or forbearance plan before considering modification. If a borrower is not eligible for a modification, our seller/servicers pursue other borrower-assistance options before considering foreclosure. Our servicers may also contact borrowers that are eligible for the relief refinance initiative, particularly where we believe the borrowers have been adversely affected by declines in home prices, to provide assistance in initiating the refinance process.

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Our relief refinance initiative (which includes HARP, the portion of our relief refinance initiative for loans with LTV ratios above 80%) gives eligible homeowners with existing loans that are owned or guaranteed by us an opportunity to refinance into loans with more affordable monthly payments and/or fixed-rate terms. Although our relief refinance initiative (including HARP) is a one of our more significant borrower assistance programs, the program is scheduled to end in December 2015.

Relief refinance mortgages (including HARP loans) generally have performed better than loans with similar characteristics remaining in our single-family credit guarantee portfolio that were originated prior to 2009 primarily because the new mortgage results in one or more of the following borrower benefits compared to the original loan: (a) a reduced monthly payment; (b) a lower interest rate; (c) a shorter loan term; or (d) replacement of an adjustable interest rate with a fixed interest rate. As of December 31, 2014, the borrower's monthly payment for all of our completed HARP loans was reduced on average by an estimated $205 at the time of refinance.

When a struggling borrower cannot qualify for a relief refinance mortgage, our servicers may consider a workout option, including a loan modification. Our primary loan modification initiatives are HAMP and our non-HAMP standard loan modification initiatives. Under these programs, we offer loan modifications to eligible borrowers that reduce the monthly payments on their mortgages. These initiatives require that the borrower complete at least a three month trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. In 2013, we implemented a streamlined modification initiative, which provides an additional modification opportunity to certain borrowers. The modification that borrowers receive under this initiative has the same mortgage terms as our non-HAMP standard modification. This modification initiative is scheduled to end in December 2015.

If a borrower is unable to use other borrower assistance programs, our servicers may pursue a short sale or foreclosure. Our servicing guidelines require that our servicers refrain from starting the foreclosure process on a primary residence until a loan is at least 121 days delinquent, regardless of where the property is located. However, we evaluate the timeliness of foreclosure completion by our servicers based on the state where the property is located. In November 2014, we announced an extension of foreclosure timelines in our guidelines for 47 states or other jurisdictions. Our servicing guide provides for instances of allowable foreclosure delays in excess of the expected timelines for specific situations involving delinquent loans, such as when the borrower files for bankruptcy or appeals a denial of a loan modification.

In 2012, we began to facilitate the transfer of servicing for certain groups of loans that were delinquent or were deemed at risk of default to servicers that we believe have capabilities and resources necessary to improve the loss mitigation associated with the loans. Depending on our experience with the results of these transfers and specific servicer experience and capacity, we may permit additional transfers in the future (subject to FHFA approval).

For more information about our workout programs and the role of our servicers in managing problem loans, see "BUSINESS — Our Business —Our Business Segments — Single-Family Guarantee Segment — Single-Family Loan Workou and the MHA Program" and "Institutional Credit Risk Profile — Single-family Mortgage Seller/Servicers."

Risk Profile

During 2014, we helped approximately 120,000 borrowers either stay in their homes or sell their properties and avoid foreclosures through our various loan workout programs, and we completed approximately 52,000 foreclosures. We bear the full costs associated with our loan workouts on mortgages that we own or guarantee, and do not receive any reimbursement from Treasury (except as discussed below). These costs include borrower and servicer incentive fees as well as the cost of any monthly payment reductions.

In January 2015, at the instruction of FHFA, we implemented a new $5,000 principal reduction incentive payable to eligible borrowers who remain in good standing on their HAMP modified loans through the sixth anniversary of their modification. Treasury will pay the $5,000 incentive for certain of our eligible HAMP modified loans, and we will pay the $5,000 incentive on our other eligible HAMP modified loans. For additional information, see "BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Single-Family Loan Workouts and the MHA Program — HAMP and Non-HAMP Modifications."

Our ability to manage problem loans has been adversely affected by delays, including those due to increases in foreclosure process timeframes, general constraints on servicer capacity (which affects the rate at which servicers modify or foreclose upon loans), and court backlogs (in states that require a judicial foreclosure process). These situations generally extend the time it takes for the loans to be modified, foreclosed upon, or otherwise resolved, and thus transition out of serious delinquency. As of December 31, 2014 and 2013, the percentage of seriously delinquent loans that have been delinquent for more than six months was 69% and 71%, respectively, and most of these loans have been delinquent for longer than one year.

The following tables include information about our relief refinance loans that we either purchased or guaranteed as well as information about: (a) the composition of these loans in our portfolio; and (b) the serious delinquency rates of these loans.

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Table 48 — Single-Family Credit Guarantee Portfolio by Attribute Combinations

	As of December 31, 2014								
	Current LTV Ratio ≤ 80[1]		Current LTV Ratio of > 80 to 100[1]		Current LTV > 100[1]		Current LTV Ratio All Loans[1]		
	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate[2]	Percentage of Portfolio[2]	Percentage Modified	Serious Delinquency Rate
New single-family book									
By Credit score:									
Credit scores < 620	0.2 %	2.77 %	— %	5.05 %	— %	16.43 %	0.2 %	2.5 %	3.34 %
Credit scores of 620 to 659	1.0	1.21	0.2	2.11	—	7.48	1.2	1.1	1.38
Credit scores ≥ 660	50.3	0.16	7.9	0.39	0.1	2.14	58.3	0.1	0.19
Credit scores not available	0.1	1.64	—	3.93	—	10.06	0.1	2.1	3.77
Total New single-family book	51.6	0.19	8.1	0.47	0.1	3.75	59.8	0.2	0.24
By Region:[3]									
North Central	8.2	0.16	1.7	0.41	—	2.25	9.9	0.1	0.20
Northeast	13.6	0.28	2.3	0.73	—	4.41	15.9	0.2	0.34
Southeast	6.9	0.24	1.6	0.45	—	5.45	8.5	0.2	0.29
Southwest	6.8	0.18	1.2	0.30	—	3.48	8.0	0.1	0.20
West	16.1	0.13	1.3	0.33	0.1	1.76	17.5	0.1	0.15
Total New single-family book	51.6	0.19	8.1	0.47	0.1	3.75	59.8	0.2	0.24
HARP and other relief refinance loans									
By Credit score:									
Credit scores < 620	0.4	1.85	0.3	3.10	0.2	4.15	0.9	2.3	2.63
Credit scores of 620 to 659	0.7	1.12	0.4	2.02	0.3	2.86	1.4	1.3	1.71
Credit scores ≥ 660	10.5	0.28	4.5	0.90	2.6	1.53	17.6	0.4	0.58
Total HARP and other relief refinance loans	11.6	0.38	5.2	1.11	3.1	1.83	19.9	0.5	0.75
By Region:[3]									
North Central	2.1	0.37	1.2	1.03	0.7	1.91	4.0	0.5	0.77
Northeast	2.6	0.55	1.4	1.60	0.7	2.88	4.7	0.8	1.11
Southeast	1.8	0.38	1.0	0.91	0.7	1.33	3.5	0.4	0.68
Southwest	1.4	0.26	0.2	1.06	0.1	1.44	1.7	0.3	0.43
West	3.7	0.34	1.4	0.94	0.9	1.52	6.0	0.6	0.61
Total HARP and other relief refinance loans	11.6	0.38	5.2	1.11	3.1	1.83	19.9	0.5	0.75
Legacy single-family book									
By Credit score:									
Credit scores < 620	0.8	7.93	0.4	15.58	0.4	23.56	1.6	27.1	11.29

Credit scores of 620 to 659	1.6	5.71	0.7	12.36	0.6	20.05	2.9	21.7	8.66
Credit scores ≥ 660	10.2	2.26	3.2	8.11	2.2	14.31	15.6	9.6	3.90
Credit scores not available	0.2	5.75	—	18.51	—	25.47	0.2	11.4	6.96
Total Legacy single-family book	12.8	3.13	4.3	9.62	3.2	16.56	20.3	12.5	5.13
By Region:(3)									
North Central	2.0	2.42	0.8	7.18	0.5	13.23	3.3	11.3	4.08
Northeast	3.3	4.63	1.2	15.87	0.8	26.95	5.3	12.7	7.77
Southeast	2.5	3.39	0.9	8.59	0.9	16.14	4.3	12.6	5.63
Southwest	1.9	2.48	0.2	8.76	0.1	15.68	2.2	7.0	3.12
West	3.1	2.26	1.2	7.23	0.9	11.08	5.2	17.6	3.91
Total Legacy single-family book	12.8	3.13	4.3	9.62	3.2	16.56	20.3	12.5	5.13
Total single-family credit guarantee portfolio	76.0 %	1.13 %	17.6 %	3.21 %	6.4 %	9.06 %	100.0 %	4.1 %	1.88 %

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	As of December 31, 2013								
	Current LTV Ratio ≤ 80[1]		Current LTV Ratio of > 80 to 100[1]		Current LTV > 100[1]		Current LTV Ratio All Loans[1]		
	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Serious Delinquency Rate	Percentage of Portfolio[2]	Percentage Modified	Serious Delinquency Rate
New single-family book									
By Credit score:									
Credit scores < 620	0.1 %	2.74 %	0.1 %	6.69 %	— %	15.66 %	0.2 %	1.9 %	3.75 %
Credit scores of 620 to 659	0.8	1.40	0.2	2.79	—	6.33	1.0	0.8	1.65
Credit scores ≥ 660	45.2	0.15	7.3	0.45	0.1	2.10	52.6	0.1	0.19
Credit scores not available	—	1.43	—	3.58	—	11.74	—	1.2	4.28
Total New single-family book	46.1	0.18	7.6	0.54	0.1	3.58	53.8	0.1	0.24
By Region:[3]									
North Central	7.4	0.14	1.7	0.49	0.1	2.46	9.2	0.1	0.22
Northeast	12.6	0.26	2.2	0.71	—	4.05	14.8	0.1	0.33
Southeast	6.0	0.22	1.5	0.51	—	5.28	7.5	0.1	0.31
Southwest	5.8	0.16	1.3	0.40	—	2.71	7.1	0.1	0.21
West	14.3	0.13	0.9	0.59	—	3.57	15.2	0.1	0.16
Total New single-family book	46.1	0.18	7.6	0.54	0.1	3.58	53.8	0.1	0.24
HARP and other relief refinance loans									
By Credit score:									
Credit scores < 620	0.3	1.83	0.3	2.75	0.2	3.23	0.8	1.3	2.45
Credit scores of 620 to 659	0.5	0.94	0.4	1.63	0.4	2.14	1.3	0.7	1.46
Credit scores ≥ 660	9.5	0.24	5.3	0.71	3.8	1.03	18.6	0.2	0.50
Total HARP and other relief refinance loans	10.3	0.33	6.0	0.87	4.4	1.25	20.7	0.3	0.64
By Region:[3]									
North Central	1.7	0.28	1.4	0.74	1.0	1.41	4.1	0.3	0.66
Northeast	2.4	0.44	1.5	1.30	0.9	1.95	4.8	0.4	0.91
Southeast	1.5	0.32	1.1	0.69	1.0	0.88	3.6	0.2	0.56
Southwest	1.2	0.19	0.4	0.58	0.2	0.99	1.8	0.1	0.33
West	3.5	0.35	1.6	0.88	1.3	1.05	6.4	0.3	0.60
Total HARP and other relief refinance loans	10.3	0.33	6.0	0.87	4.4	1.25	20.7	0.3	0.64
Legacy single-family book									
By Credit score:									
Credit scores < 620	0.9	8.36	0.5	16.38	0.5	25.42	1.9	23.1	12.67
	1.8	5.90	0.9	12.71	0.9	21.45	3.6	17.9	9.71

Credit scores of 620 to 659									
Credit scores ≥ 660	12.0	2.25	4.2	8.19	3.6	15.55	19.8	7.6	4.44
Credit scores not available	0.2	5.82	—	18.34	—	27.12	0.2	9.7	7.45
Total Legacy single-family book	14.9	3.13	5.6	9.73	5.0	17.72	25.5	10.0	5.75
By Region:(3)									
North Central	2.3	2.34	1.1	6.95	0.8	13.00	4.2	9.0	4.48
Northeast	4.0	4.46	1.5	15.90	1.0	26.52	6.5	9.9	7.90
Southeast	2.8	3.66	1.2	9.27	1.4	20.18	5.4	10.0	7.15
Southwest	2.3	2.33	0.4	7.59	0.2	13.78	2.9	5.6	3.15
West	3.5	2.31	1.4	8.21	1.6	13.18	6.5	14.5	4.78
Total Legacy single-family book	14.9	3.13	5.6	9.73	5.0	17.72	25.5	10.0	5.75
Total single-family credit guarantee portfolio	71.3 %	1.28 %	19.2 %	3.75 %	9.5 %	9.95 %	100.0 %	3.8 %	2.39 %

(1) The current LTV ratios are our estimates. See endnote (3) to “Table 42 — Characteristics of the Single-Family Credit Guarantee Portfolio” for further information.

(2) Based on UPB. Within these columns, "—" represents less than 0.05%.

(3) See endnote (1) to "Table 16 — Single-Family Charge-offs and Recoveries by Region " for a description of these regions.

Table 49 — Single-Family Relief Refinance Loans[1]

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	UPB	Number of Loans	Average Loan Balance[2]	UPB	Number of Loans	Average Loan Balance[2]
	(dollars in millions, except for average loan balances)					
Purchases of relief refinance mortgages:						
HARP:						
Above 125% LTV ratio	$1,439	8,794	$164,000	$11,574	62,652	$185,000
Above 100% to 125% LTV ratio	4,295	24,113	178,000	21,005	110,302	190,000
Above 80% to 100% LTV ratio	8,356	49,340	169,000	29,958	167,420	179,000
Other (80% and below LTV ratio)	13,204	96,409	137,000	36,658	270,138	136,000
Total relief refinance mortgages	$27,294	178,656	153,000	$99,195	610,512	162,000

	As of December 31, 2014			As of December 31, 2013		
	UPB	Number of Loans	Serious Delinquency Rate	UPB	Number of Loans	Serious Delinquency Rate
	(dollars in millions)					
Balance of relief refinance mortgages:						
HARP:						
Above 125% LTV ratio	$30,233	162,299	1.36 %	$30,579	158,531	0.90 %
Above 100% to 125% LTV ratio	66,091	346,220	1.19	68,416	344,832	1.01
Above 80% to 100% LTV ratio	109,618	609,239	0.93	114,688	610,128	0.85
Other (80% and below LTV ratio)	125,158	957,435	0.36	127,991	936,038	0.32
Total relief refinance mortgages	$331,100	2,075,193	0.75	$341,674	2,049,529	0.64

(1) Includes purchases of mortgage loans for securitization that were previously associated with other guarantee commitments.
(2) Rounded to the nearest thousand.

For more information on relief refinance loans, including HARP, in our single-family credit guarantee portfolio, see "Table 43 — Single-Family Credit Guarantee Portfolio Data by Year of Origination," and "Table 40 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio."

The UPB of loans in our single-family credit guarantee portfolio for which we have completed a loan modification increased to $85.1 billion as of December 31, 2014 from $81.7 billion as of December 31, 2013, and such loans comprised approximately 4.1% and 3.8% of the portfolio at those dates. For the year ended December 31, 2014, approximately 44% of our loan modifications were related to loans which were 180 days or more delinquent prior to the modification effective date. The estimated weighted average current LTV ratio for all modified loans in our single-family credit guarantee portfolio was 93% at December 31, 2014. The serious delinquency rate on these loans was 12.28% as of December 31, 2014.

During 2014, approximately 67,000 borrowers (including 15,000 borrowers in the fourth quarter of 2014) having loans with aggregate UPB of $12.8 billion completed modifications under all of our programs, and as of December 31, 2014, approximately 24,000 borrowers were in the modification trial period. Both our loan modification volume and the number of seriously delinquent loans remaining in the portfolio declined during 2014 compared to 2013, primarily due to lower volumes of single-family loans becoming seriously delinquent in 2014.

In recent years, our non-HAMP modifications have represented the majority of our modification volume. The portion of our modification volume that is HAMP-related continued to decline in 2014 primarily due to the decline in the number of borrowers eligible for HAMP.

During 2014, approximately 55,000 borrowers completed a non-HAMP loan modification. As of December 31, 2014, the percentage of our non-HAMP modifications that were completed in 2012 and 2013 that were seriously delinquent, proceeded to foreclosure transfer, completed a short sale, or were remodified was approximately 23% and 16%, respectively.

We incurred $112 million and $153 million of servicer incentive expenses on modified loans (both HAMP and non-HAMP) during 2014 and 2013, respectively. We also pay certain incentives to borrowers who continue to perform under their HAMP modifications, which are included within our provision for credit losses on our consolidated statements of comprehensive income.

The table below presents volumes of completed loan workouts, seriously delinquent loans, and foreclosures in our single-family credit guarantee portfolio for 2014, 2013, and 2012.

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Table 50 — Single-Family Loan Workout, Serious Delinquency, and Foreclosure Volumes[1]

	Years Ended December 31,					
	2014		2013		2012	
	Number of Loans	Loan Balances	Number of Loans	Loan Balances	Number of Loans	Loan Balances
	(dollars in millions)					
Home retention actions:						
Loan modifications						
with no change in terms[2]	320	$41	213	$25	533	$95
with term extension	15,781	2,311	6,645	700	3,894	313
with change in interest rate and, in certain cases, term extension	34,191	6,579	46,739	7,314	38,871	6,246
with change in interest rate, term extension and principal forbearance	16,860	3,864	29,591	9,368	26,283	8,483
Total loan modifications[3]	67,152	12,795	83,188	17,407	69,581	15,137
Repayment plans[4]	25,219	3,551	28,610	4,016	33,350	4,746
Forbearance agreements	8,553	1,587	12,019	2,331	13,026	2,557
Total home retention actions	100,924	17,933	123,817	23,754	115,957	22,440
Foreclosure alternatives:						
Short sale	15,382	3,281	41,362	9,016	51,972	11,626
Deed in lieu of foreclosure transactions	3,634	575	2,720	437	1,036	179
Total foreclosure alternatives	19,016	3,856	44,082	9,453	53,008	11,805
Total single-family loan workouts[5]	119,940	$21,789	167,899	$33,207	168,965	$34,245
Single-family foreclosures[6]	52,168		81,605		105,060	
Seriously delinquent loan additions	193,000		237,580		305,449	
Seriously delinquent loans, at period end[7]	200,069		255,325		352,860	

(1) Excludes those modification, repayment and forbearance activities for which the borrower has started the required process, but the actions have not become effective, such as loans in modification trial periods. These categories are not mutually exclusive, and a loan in one category may also be included in another category in the same period.

(2) Under this modification type, past due amounts are added to the principal balance and amortized based on the original contractual loan terms.

(3) Includes completed loan modifications under HAMP; however, the number of such completions differs from that reported by the MHA Program administrator, in part, due to differences in the timing of recognizing the completions by us and the administrator.

(4) Represents the number of borrowers as reported by our seller/servicers that have completed the full term of a repayment plan for past due amounts. Excludes borrowers that are actively repaying past due amounts under a repayment plan.

(5) Workouts relate to borrowers with financial hardship, regardless of the payment status (i.e., less than seriously delinquent).

(6) Includes third-party sales at foreclosure auction in which ownership of the property is transferred directly to a third party rather than to us.

(7) The number of seriously delinquent loans is also reduced when borrowers resume scheduled payments and the loans return to performing status.

The volume of foreclosures has moderated in recent periods and reflects a 36% decline in 2014 compared to 2013. The volume of short sale transactions declined significantly in 2014 compared to 2013. Our short sale activity has declined for the last seven consecutive quarters. Similarly, the volume of short sales in the overall market also declined in the last two years.

Based on information provided by the MHA Program administrator, our servicers had completed approximately 251,000 loan modifications under HAMP from the introduction of the initiative in 2009 through December 31, 2014. According to the administrator, nearly 2,500 of our loans were in the HAMP trial period as of December 31, 2014. As of December 31, 2014, the percentage of our HAMP modifications that were completed in 2012 and 2013 that were seriously delinquent, proceeded to foreclosure transfer, completed a short sale, or were remodified was approximately 16% and 11%, respectively.

As of December 31, 2014, the borrower's monthly payment for all of our completed HAMP modifications was reduced on average by an estimated $500 at the time of modification, which amounts to an average of $6,000 per year, and a total of $1.6 billion in annual reductions (these amounts are calculated by multiplying the number of completed modifications by the average reduction in monthly payment, and have not been adjusted to reflect the actual performance of the loans following modification).

The table below presents: (a) the percentage of modified single-family loans completed between the first quarter of 2012 and the fourth quarter of 2013 that were current or paid off one year after modification; and (b) the percentage of modified single-family loans completed between the first quarter of 2012 and the fourth quarter of 2012 that were current or paid off two years after modification.

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Table 51 — Quarterly Percentages of Modified Single-Family Loans — Current or Paid Off[1]

	Quarter of Loan Modification Completion[2]							
	4Q 2013	3Q 2013	2Q 2013	1Q 2013	4Q 2012	3Q 2012	2Q 2012	1Q 2012
One Year Post-Modification								
HAMP modifications	81 %	80 %	80 %	82 %	80 %	80 %	81 %	81 %
Non-HAMP modifications	70	73	74	76	72	72	74	62
Total	72	75	76	78	75	76	78	76
Two Years Post-Modification								
HAMP modifications	N/A	N/A	N/A	N/A	77 %	76 %	78 %	77 %
Non-HAMP modifications	N/A	N/A	N/A	N/A	68	67	69	57
Total	N/A	N/A	N/A	N/A	71	71	75	73

(1) Represents the percentage of loans that were current and performing or had been paid in full. For loans modified in a quarterly period, the reperformance rates for one year and two years post-modification represent the percentage of loans that were current or paid off after 12 to 14 months and 24 to 26 months, respectively.

(2) For loans that have been remodified (e.g., where a borrower has received a new modification after defaulting on the prior modification) the rates reflect the status of each modification separately. For example, in the case of a remodified loan where the borrower is performing, the previous modification would be presented as being in default in the applicable period.

Loans that remain delinquent for more than a year are more challenging to resolve as many of these borrowers: (a) may not be in contact with the servicer; (b) may not be eligible for modifications; (c) are in geographic areas where the foreclosure process has lengthened or is subject to judicial review; or (d) may determine that it is not economically beneficial for them to enter into a modification due to the amount of costs incurred on their behalf while the loan was delinquent. The longer a loan remains delinquent, the greater the associated costs we incur, in part due to expenses associated with loss mitigation and foreclosure. Foreclosures generally take longer to complete in states where a judicial foreclosure is required, compared to other states.

The table below presents the average completion times in certain states for foreclosures completed during 2014, 2013, and 2012.

Table 52 — Foreclosure Timelines for Single-Family Loans[1]

	Year Ended December 31,		
	2014	2013	2012
	(average days)		
Judicial states:			
Florida	1,312	1,231	1,026
New Jersey	1,373	1,224	873
New York	1,299	1,123	720
All other judicial states	779	770	686
Judicial states, in aggregate	1,018	943	773
Non-judicial states, in aggregate	663	567	475
Total	870	773	611

(1) All averages exclude those loans underlying our Other Guarantee Transactions.

During 2014, a significant number of loans that had been subject to delays (and that had been delinquent for more than a year) completed the foreclosure process, which caused the nationwide average time for foreclosure completions to increase compared to 2013. The UPB of loans that have been delinquent for over one year declined from $25.0 billion at December 31, 2013 to $18.2 billion as of December 31, 2014. The number of loans in the process of foreclosure declined approximately 32% in 2014 to the lowest level in several years, with most states experiencing a decline. The number of loans in the process of foreclosure in Florida declined 48% during 2014, and as of December 31, 2014 comprised approximately 17% of such loans. As of December 31, 2014, loans in New York, New Jersey, Massachusetts and the District of Columbia collectively comprised approximately 28% of the total number of our single-family loans in the process of foreclosure.

Our servicing guide states that for loans beginning the foreclosure process since November 2014, the expected timeline to complete foreclosure, excluding allowable delays, ranges from 300 days in three states and the District of Columbia to 840 days in Hawaii.

Managing REO Activities

Our problem loan workouts are providing borrowers with viable alternatives to foreclosure. As a result of the continued high level of loss mitigation efforts, fewer of our loans are proceeding through foreclosure to REO acquisition.

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We evaluate the condition of and market for newly acquired REO properties to determine pre-listing needs, such as: (a) whether repairs are needed; (b) whether we need to consider occupancy (by tenant or owner), borrower redemption, or other issues; and (c) the sale or disposition strategy. Often we will need to complete the eviction process or await tenant vacancy before determining if repairs are needed. When we list a REO property for sale, we typically provide a first look opportunity, which is an initial period where we consider offers on the property by owner occupants and non-profits dedicated to neighborhood stabilization before we consider offers from investors. We may also consider alternative disposition processes, such as REO auctions, bulk sales channels, and partnering with locally-based private entities to facilitate dispositions.

During the third quarter of 2014, we began to increase the number of auction sales of our occupied REO properties that are unable to be marketed in a more traditional sales channel. We believe our REO disposition severity ratios in 2014 benefited from improved market conditions as well as changes we have made to our process for evaluating the market value of impaired loan collateral and determining the list price for our REO properties when we offer them for sale. In addition, we believe that our REO disposition ratios have benefited from our efforts to repair a significant portion of these properties prior to listing them for sale.

Risk Profile

Our REO inventory (measured in number of properties) declined 46% from December 31, 2013 to December 31, 2014 primarily due to: (a) REO dispositions exceeding our acquisitions; (b) a declining number of seriously delinquent loans; and (c) a larger proportion of property sales to third parties at foreclosure. We continued to experience a relatively high volume of REO dispositions during 2014, which we believe was driven by significant demand for single-family homes from both investors and owner-occupant buyers. We expect our REO dispositions to remain at elevated levels in the near term, as we have a large REO inventory and a significant number of seriously delinquent loans that are in the process of foreclosure. We expect our REO acquisitions to continue to decline, due primarily to the continued improvement in the serious delinquency rate of loans in our single-family credit guarantee portfolio.

Our single-family REO acquisition activity in the Southeast and North Central regions was high during 2014, in part because a significant number of loans that had experienced significant delays within these regions completed the foreclosure process. Our single-family REO acquisitions in 2014 were highest in Florida, Illinois, Ohio, and Michigan which collectively represented 40% of total single-family REO acquisitions during that period, based on the number of properties, and comprised 39% of our total single-family REO property inventory at December 31, 2014.

Our REO acquisition activity is disproportionately high for certain types of loans, including loans with certain higher-risk characteristics. For example, the percentage of interest-only and Alt-A loans in our single-family credit guarantee portfolio, based on UPB, was approximately 2% and 3%, respectively, at December 31, 2014. The percentage of our REO acquisitions in 2014 that had been financed by either of these loan types represented approximately 22% of our total REO acquisitions, based on loan amount prior to acquisition. In addition, loans from our 2005-2008 Legacy single-family book comprised approximately 76% of our REO acquisition activity during 2014.

The North Central region comprised 30% and 33% of our single-family REO property inventory, based on the number of properties, as of December 31, 2014 and 2013, respectively, and the Southeast region comprised 29% and 30%, respectively, at those dates. The North Central region generally has experienced more challenging economic conditions, includes a number of states with longer foreclosure timelines due to local laws and foreclosure processes, and has housing markets with generally lower demand and lower home values than other regions. In the Southeast region, Florida comprised 17% of our total single-family REO inventory at December 31, 2014 and has been one of the states with high REO severity rates in the last several years. See "NOTE 6: REAL ESTATE OWNED" and "CONSOLIDATED BALANCE SHEET ANALYSIS — REO, Net" for more information on our REO properties.

The table below provides information about the status of our REO properties at December 31, 2014 and 2013.

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Table 53 — Single-Family REO Property Status

	As of December 31,	
	2014	2013
	(percent of properties)	
Available for sale	28 %	30 %
Pending settlement of sale[1]	15	14
Pre-listing[2]	11	10
Unable to market:		
Redemption period	12	11
Occupied (waiting for eviction or vacancy)	15	18
Under repair and other[3]	19	17
Subtotal — unable to market	46	46
Total	100 %	100 %

(1) Consists of properties where we have an executed sales contract and settlement has not yet occurred.
(2) Consists of properties that are not being actively marketed because we are evaluating the property condition or determining our sale strategy.
(3) Includes properties where we are preparing the property for sale and properties where marketing is on hold, including where we are involved in litigation or other legal and regulatory issues concerning the property.

As shown in the table above, a significant portion of the properties in our REO inventory is unable to be marketed because the properties are in the process of being repaired, remain occupied, or are located in states with a redemption period (particularly in the states of Illinois, Michigan, and Minnesota). A redemption period is a post-foreclosure period during which borrowers may reclaim a foreclosed property. This can increase the average holding period of our inventory. Though it varied significantly in different states, the average holding period of our single-family REO properties, excluding any redemption period, was 226 days and 209 days for our REO dispositions during 2014 and 2013, respectively. Our expanded use of auction sales in 2014 helped to reduce the portion of our inventory that is unable to be marketed.

Multifamily Mortgage Credit Risk Framework

To manage the credit risk in our multifamily mortgage portfolio, we focus on several key areas: (a) using prudent standards and processes with a prior approval underwriting approach on the substantial majority of loans we purchase or guarantee; (b) selling the expected credit risk to private investors that hold the subordinated tranches in our multifamily K Certificate and similar transactions; (c) portfolio diversification, particularly by product and geographic area; and (d) portfolio management activities, including loss mitigation. We monitor the loan performance, the underlying properties and a variety of mortgage loan characteristics that may affect the default experience on our multifamily mortgage portfolio, such as DSCR, LTV ratio, geographic location, payment type, and loan maturity. For more information on our underwriting standards for multifamily loans we acquire or guarantee, see "BUSINESS — Our Business — Our Business Segments — Multifamily Segment — Underwriting Requirements and Quality Control Standards." See “NOTE 5: IMPAIRED LOANS” for information about loss mitigation activities that we have classified as TDRs and the subsequent performance of these loans.

Multifamily Mortgage Credit Risk Profile

The table below provides certain attributes of our multifamily mortgage portfolio at December 31, 2014 and 2013.

Table 54 — Multifamily Mortgage Portfolio — by Attribute

	UPB at		Delinquency Rate[1] at	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(dollars in billions)			
Mortgage Portfolio:				
Legal Structure:				
Unsecuritized loans	$53.0	$59.2	0.02 %	0.08 %

K-Certificates	76.2	59.8	0.01	0.07
Other Freddie Mac mortgage-related securities	4.8	4.8	0.66	0.59
Other guarantee commitments	9.3	9.0	—	—
Total	$143.3	$132.8	0.04 %	0.09 %
Unsecuritized loans, excluding held-for-sale loans:(2)				
Original LTV ratio:				
Below 75%	$30.3	$36.7	0.04 %	0.09 %
75% to 80%	9.8	13.0	—	0.10
Above 80%	0.7	0.7	—	—
Total	$40.8	$50.4	0.03 %	0.09 %
Weighted average LTV ratio at origination	68 %	68 %		

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Maturity Dates:						
2014	N/A	$1.8	N/A		—	%
2015	$3.0	6.5	—	%	—	
2016	5.8	8.5	—		—	
2017	5.8	7.1	—		0.23	
2018	8.4	9.1	—		—	
2019	7.4	7.4	0.15		0.17	
Beyond 2019	10.4	10.0	—		0.17	
Total	$40.8	$50.4	0.03	%	0.09	%
Year of Acquisition:						
2010 and prior	$35.5	$46.7	0.03	%	0.10	%
2011	1.1	1.5	—		—	
2012	0.7	0.8	—		—	
2013	1.5	1.4	—		—	
2014	2.0	N/A	—		N/A	
Total	$40.8	$50.4	0.03	%	0.09	%
Current Loan Size:						
Above $25 million	$16.3	$19.1	—	%	—	%
Above $15 million to $25 million	7.5	10.4	—		0.32	
Above $5 million to $15 million	12.4	15.6	0.09		0.06	
$5 million and below	4.6	5.3	—		0.07	
Total	$40.8	$50.4	0.03	%	0.09	%
Freddie Mac Mortgage-Related Securities:(3)						
Year of Issuance:(4)						
2009 and prior	$5.6	$5.7	0.61	%	0.93	%
2010	5.4	5.5	0.14		0.20	
2011	11.2	11.4	—		0.05	
2012	16.5	17.3	—		—	
2013	23.9	24.7	—		—	
2014	18.5	N/A	—		N/A	
Total	$81.1	$64.6	0.05	%	0.12	%
Subordination Level at Issuance:						
No subordination	$0.8	$0.8	0.06	%	0.09	%
Below 10%	4.4	3.0	—		—	
10% to 15%	32.0	25.0	0.14		0.29	
Above 15%	43.9	35.8	—		—	
Total	$81.1	$64.6	0.05	%	0.12	%
Year of Underlying Loan Maturity						
2014	N/A	$—	N/A		—	%
2015	$0.1	0.1	—	%	2.16	
2016	1.3	1.6	—		—	
2017	2.5	2.6	—		1.01	
2018	7.6	7.5	—		—	
2019	10.0	9.3	—		—	
Beyond 2019	59.6	43.5	0.07		0.10	
Total	$81.1	$64.6	0.05	%	0.12	%

(1) Within these columns, "—" represents less than 0.005%.

(2) Multifamily held-for-sale loans are primarily those awaiting securitization, and were $12.1 billion and $8.7 billion as of December 31, 2014 and 2013, respectively.
(3) Consists of loans and bonds underlying Freddie Mac mortgage-related securities, which are primarily our K Certificates. Excludes other guarantee commitments.
(4) Based on the year that we issued our guarantee.
Multifamily Product Types
Most multifamily loans require a significant lump sum (i.e., balloon) payment of unpaid principal at maturity. Therefore, the borrower's potential inability to refinance or pay off the loan at maturity is a key loan attribute we monitor. Borrowers may be less able to refinance their obligations during periods of rising interest rates or adverse market conditions, which could lead to default if the borrower is unable to find affordable refinancing before the loan matures. Of the $40.8 billion in UPB of our

unsecuritized held-for-investment multifamily loans as of December 31, 2014, approximately 22% will mature during 2015 and 2016, and the remaining 78% will mature in 2017 and beyond.

Our multifamily mortgage portfolio consists of product types that are categorized based on loan terms. Multifamily loans may: (a) be amortizing or interest-only (for the full term or a portion thereof); and (b) have a fixed or variable rate of interest. Our multifamily loans generally have shorter terms than single-family mortgages and typically have balloon maturities ranging from five to ten years.

Multifamily Credit Enhancements

Our primary business model in the Multifamily segment is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. With this model, we have securitized $92.8 billion in UPB of multifamily loans between 2009 and 2014 and have attracted private capital to the multifamily market from investors who purchase subordinated securities that we do not issue or guarantee. These securities are backed by loans that are sourced by our seller/servicers and directly underwritten by us. Our K Certificate transactions are structured such that private investors that hold unguaranteed subordinated securities are the first to absorb losses on the underlying loans. The amount of subordination to the guaranteed certificates is set at a level that we believe is sufficient to cover the expected credit losses on the loans. As a result, we believe private investors will absorb the expected credit risk in these transactions and thereby reduce the loss exposure to us and U.S. taxpayers. At December 31, 2014 and 2013, the UPB of K Certificates with subordination coverage was $75.5 billion and $59.3 billion, respectively, and the average subordination coverage on these securities was 18% at both dates. See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for additional information about credit protections and other forms of credit enhancements covering loans in our multifamily mortgage portfolio.

Multifamily Delinquencies

We report multifamily delinquency rates based on UPB of mortgage loans in our multifamily mortgage portfolio that are two monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Mortgage loans that have been modified are not counted as delinquent as long as the borrower is less than two monthly payments past due under the modified terms.

Our delinquency rates continue to be among the lowest in the industry. There were 8 and 16 delinquent loans in our multifamily mortgage portfolio at December 31, 2014 and 2013, respectively. Our multifamily mortgage portfolio delinquency rate of 0.04% and 0.09% at December 31, 2014 and 2013, respectively, reflects continued strong portfolio performance and positive market fundamentals. Our delinquency rate for credit-enhanced loans was 0.05% and 0.11% at December 31, 2014 and 2013, respectively, and for non-credit-enhanced loans was 0.02% and 0.07% at December 31, 2014 and 2013, respectively. The delinquency rate on loans underlying our K Certificates transactions was 0.01% and 0.07% at December 31, 2014 and 2013, respectively. Since we began issuing K Certificates, we have experienced no credit losses associated with our guarantees on these securities. As of December 31, 2014, approximately 80% of the loans in our multifamily mortgage portfolio that were two or more monthly payments past due, measured on a UPB basis, had credit enhancements that we currently believe will mitigate our expected losses on those loans and guarantees.

See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for more information about the loans in our multifamily mortgage portfolio, including geographic and other concentrations of risk associated with these loans.

Institutional Credit Risk Overview

We have exposure to many types of institutional counterparties, including; (a) seller/servicers; (b) mortgage insurers; (c) bond insurers; (d) cash and other investments counterparties; (e) agency and non-agency mortgage-related security issuers; (f) document custodians; and (g) derivative counterparties. The failure of any of our significant counterparties to meet their obligations to us could have a material adverse effect on our results of operations, financial condition, and our ability to conduct future business. Our credit losses could increase if an entity that provides credit enhancement fails to fulfill its obligation (e.g., a mortgage insurer fails to pay a claim), as this would reduce the amount of our credit loss recoveries. For more information, see “RISK FACTORS — Competitive and Market Risks — We depend on our institutional counterparties to provide services that are critical to our business, and our results of operations or financial condition may be adversely affected if one or more of our counterparties do not meet their obligations to us.”

Institutional Credit Risk Management Framework

Our principal strategies for managing institutional credit risk are: (a) maintaining policies and procedures, including eligibility standards that govern our business with our counterparties; (b) evaluating counterparty financial strength and performance; (c) monitoring our exposure to our counterparties; and (d) actively engaging underperforming counterparties and limiting our losses from nonperformance of obligations, when possible.

In 2014, we developed internal evaluation models that we use to monitor the financial strength of our counterparties. These models determine probabilities of default that we use to assess and classify each of our counterparties. We assign risk or exposure limits to each counterparty based on this classification. We apply this risk management approach to the major types of our counterparties discussed below.

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Institutional Credit Risk Profile

Single-family Mortgage Seller/Servicers

We are exposed to institutional credit risk related to the potential insolvency of, or non-performance by, our sellers and servicers. If our servicers lack appropriate controls, experience a failure in their controls, or experience an operating disruption, including as a result of legal or regulatory actions or ratings downgrades, our business and financial results could be adversely affected.

We have contractual arrangements with our sellers under which they agree to sell us mortgage loans, and represent and warrant that those loans meet specified eligibility and underwriting standards. Our servicers represent and warrant to us that those loans will be serviced in accordance with our servicing contract. In January 2015, FHFA proposed new minimum financial eligibility requirements for Freddie Mac and Fannie Mae seller/servicers. For more information on these requirements, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Proposed Financial Eligibility Requirements for Seller/Servicers."

Risk Management Framework

We maintain eligibility standards for our seller/servicers. These standards include having: (a) a demonstrated operating history in residential mortgage origination and servicing (or use of an eligible servicing agent acceptable to us); (b) adequate insurance coverage; (c) a quality control program that meets our standards; and (d) sufficient net worth, liquidity and funding sources to support the operations of its business as well as its commitments to us. Seller/servicers approved to do business with us are subject to our ongoing monitoring and review, which requires regular financial reporting to us.

Based on our monitoring procedures, we may disqualify or suspend a seller or servicer with or without cause at any time. Once a seller is deemed ineligible, we no longer accept mortgages originated by that counterparty and we seek to terminate outstanding commitments. Similarly, when a servicer is deemed ineligible, we no longer allow additional loans to be serviced by that servicer and we seek to transfer pre-existing servicing contracts to eligible institutions.

We maintain a quality control process under which we review loans for compliance with our standards. If we discover that representations and warranties 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 may include the ability to require the seller or the 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. For certain servicing violations, we typically first issue a notice of defect and allow the servicer a period of time to correct the problem. If the servicing violation is not corrected, we may issue a repurchase request. In recent years, we have required certain of our larger sellers to maintain ineligible loan rates below a stated threshold, with financial consequences for non-compliance. In addition, for our largest sellers, we actively manage the current quality of loan originations by providing monthly communications regarding loan defect rates and the causes of those defects as identified in our performing loan quality control sampling reviews. If necessary, we work with seller/servicers to develop an appropriate plan of corrective action.

For additional information about our single-family seller/servicers, see “BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment,” "Single-Family Mortgage Credit Risk Framework and Profile — Managing Problem Loans," "RISK FACTORS — Competitive and Market Risks — We face significant risks related to our delegated underwriting process for single-family mortgages, including risks related to data accuracy and fraud. Recent changes to the process could increase our risks," and "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Seller/Servicers."

Risk Profile

We acquire a significant portion of our single-family mortgage purchase volume from several large lenders. Although our business with our mortgage sellers is concentrated, a number of our largest single-family mortgage seller counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we are acquiring a greater portion of our business volume directly from non-depository and smaller depository financial institutions that may not have the same financial strength or operational capacity as our largest mortgage seller counterparties. We could be required to absorb losses on defaulted loans that a failed mortgage seller is obligated to repurchase from us if we determine there was an underwriting or eligibility breach. For more information about the risk of our reliance on larger mortgage sellers, see "RISK FACTORS — Competitive and Market Risks — The loss of business volume could result in a decline in our market share and revenues."

Our exposure to single-family mortgage seller/servicers for repurchase obligations declined in 2014. The UPB of loans subject to open repurchase requests (both seller and servicer related) declined to $0.7 billion at December 31, 2014 from $2.2 billion at December 31, 2013 as we completed and resolved many of the requests related to pre-conservatorship loan purchases. During 2014, we recovered amounts from seller/servicers with respect to $2.0 billion in UPB of loans subject to our repurchase requests, including $0.4 billion in UPB related to settlement agreements to release specified loans from certain repurchase obligations in exchange for one-time cash payments. The seller or servicer resolved the request by reimbursing us for losses with respect to approximately 19% of the $2.0 billion in UPB (excluding amounts related to settlement agreements).

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The amount we expect to collect on the outstanding repurchase requests is significantly less than the UPB of the related loans primarily because many will likely be satisfied by reimbursement of our realized credit losses by seller/servicers, instead of repurchase of loans at their UPB.

We continue to face challenges with respect to the performance of certain of our servicers in managing our seriously delinquent loans. We also continue to be adversely affected by the length of the foreclosure timeline, particularly in states that require a judicial foreclosure process, which has provided challenges to our seller/servicers because they have had to change their processes for compliance with the requirements of each jurisdiction. We seek remedies from servicers such as compensatory fees for failure to perform certain requirements with respect to the servicing of delinquent loans.

During 2014, excluding transfers between affiliated companies and assignments of servicing for newly originated loans, approximately $9.7 billion in UPB of loans in our single-family credit guarantee portfolio were transferred from our primary servicers to specialty servicers, which are non-depository financial institutions that specialize in workouts of problem loans. Transfers involving approximately $5.8 billion in UPB of such loans were facilitated by us as part of our efforts to assist troubled borrowers, increase problem loan workouts, and mitigate our credit losses. Some of these non-depository specialty servicers have grown rapidly in recent years and now service a large share of our loans. These non-depository specialty servicers may not have the same financial strength, internal controls, or operational capacity as our depository servicers. Certain specialty servicers have recently been the subject of significant adverse scrutiny from regulators. As of both December 31, 2014 and 2013, approximately 10% of our total single-family credit guarantee portfolio was serviced by our three largest non-depository specialty servicers. Several of these specialty servicers also service a large share of the loans underlying our investments in non-agency mortgage-related securities, as discussed in "Agency and Non-Agency Mortgage-Related Security Issuers."

Our non-depository specialty servicers include subsidiaries and/or affiliates of Ocwen Financial Corp. (Ocwen). Ocwen and its subsidiaries and/or affiliates have recently been the subject of significant adverse regulatory scrutiny, including in New York and California, and Ocwen’s credit rating and servicer rating have been downgraded. In December 2014, the New York State Department of Financial Services (NYDFS) entered into a consent order with Ocwen that provided for, among other items, changes in Ocwen’s board of directors. Ocwen is not permitted to acquire additional mortgage servicing rights until it receives prior approval from the NYDFS, and meets certain conditions set forth in the consent agreement. In January 2015, the California Department of Business Oversight (CDBO) announced that it had entered into a settlement with Ocwen Loan Servicing, LLC related to the company’s failure to provide certain loan information to the regulator. Among other items, the settlement prohibits Ocwen Loan Servicing, LLC from acquiring any additional mortgage servicing rights for loans secured by properties in California until the CDBO determines the firm can fully respond in a timely manner to future requests for information. As of December 31, 2014, approximately 3% of our total single-family credit guarantee portfolio was serviced by subsidiaries and/or affiliates of Ocwen. We are taking steps designed to reduce our exposure to Ocwen and its subsidiaries and/or affiliates with respect to the servicing of our single-family loans.

For more information about our seller/servicers, including concentration information about these counterparties and settlement agreements associated with pre-conservatorship loan purchase activity, see “RISK FACTORS — Competitive and Market Risks — Our financial results may be adversely affected if mortgage seller/servicers fail to perform their repurchase and other obligations to us," and "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Seller/Servicers."

Multifamily Mortgage Seller/Servicers

In our multifamily business, we are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property’s financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements or other credit enhancements, where applicable. This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk.

Similar to the single-family business, we maintain eligibility standards for institutions that sell or deliver us multifamily mortgage loans for purchase or securitization. We monitor the status of our multifamily seller/servicers in accordance with our counterparty credit risk management framework.

We acquire a significant portion of our multifamily new business volume from several large sellers. A significant portion of our multifamily mortgage portfolio, excluding loans underlying K Certificates, is serviced by several large multifamily servicers. For more information about our multifamily seller/servicers, including concentration information about these counterparties, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Seller/Servicers."

Mortgage Insurers

We are exposed to institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family mortgages we purchase or guarantee. As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. If any of our mortgage insurers fails to fulfill its obligations, we could experience increased credit losses.

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Risk Management Framework

We attempt to manage this risk by establishing eligibility standards for mortgage insurers and by monitoring our exposure to individual mortgage insurers. Our monitoring includes performing periodic analysis of the financial capacity of individual mortgage insurers under various adverse economic conditions.

At the direction of FHFA, we are developing counterparty risk management standards for mortgage insurers, in conjunction with Fannie Mae. These standards consist of: (a) revised eligibility requirements that include financial requirements under a risk-based framework; and (b) revised master policies that provide greater certainty of coverage and facilitate timely claims processing. The revised standards are designed to promote the ability of mortgage insurers to fulfill their intended role of providing private capital to the mortgage market even under a stressful economic scenario. The revised master policies were implemented in October 2014. FHFA published the draft eligibility requirements for public input during a comment period that concluded in September 2014. We expect to publish the new eligibility requirements in early 2015, to become effective 180 days after the publication date. Approved insurers that do not fully comply with the new financial requirements will be given a transition period of up to two years from the publication date.

Risk Profile

The majority of our mortgage insurance exposure is concentrated with four mortgage insurers, certain of which have been under financial stress during the last several years. Some of our eligible mortgage insurers have, in the past, exceeded risk to capital ratios required by their state insurance regulators. Although the financial condition of these mortgage insurers has improved in recent years, there is still a significant risk that some of these counterparties may fail to fully meet their obligations. Except for those insurers in rehabilitation or under regulatory supervision, which no longer issue new coverage, we continue to acquire new loans with mortgage insurance from the mortgage insurers shown in the table below, many of which have credit ratings below investment grade. Our ability to manage our exposure to mortgage insurers is limited, as our mortgage insurers are operating below our eligibility thresholds, and we generally cannot revoke a mortgage insurer's status as an eligible insurer without FHFA approval. In addition, we do not select the insurer that will provide the insurance on a specific loan. Instead, the selection is made by the lender at the time the loan is originated. However, in recent years, new entrants have emerged that will likely diversify a concentrated industry over time.

The table below summarizes our exposure to mortgage insurers as of December 31, 2014. In the event that a mortgage insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses resulting from such failure. Our most significant exposure to these insurers is through primary mortgage insurance. As of December 31, 2014, we had primary mortgage insurance coverage on loans that represented approximately 14% of the UPB of our single-family credit guarantee portfolio. This table does not include our exposure to counterparties in ACIS transactions, since these contracts are considered derivative instruments. For more information on ACIS transactions, see "Single-Family Mortgage Credit Risk Framework and Profile — Transferring a Portion of our Mortgage Credit Risk."

Table 55 — Mortgage Insurance by Counterparty[1]

			As of December 31, 2014			
			UPB of Covered Loans		Coverage Outstanding	
Counterparty Name	Credit Rating	Credit Rating Outlook	Primary Insurance[2]	Pool Insurance[2]	Primary Insurance[3]	Pool Insurance[3]
			(in millions)			
Radian Guaranty Inc. (Radian)	BB-	Positive	$50,524	$ 2,358	$12,861	$ 764
United Guaranty Residential Insurance Company	BBB+	Stable	49,013	115	12,603	31
Mortgage Guaranty Insurance Corporation (MGIC)	BB-	Stable	48,718	226	12,495	3
Genworth Mortgage Insurance Corporation	BB-	Positive	31,940	200	8,112	39
Essent Guaranty, Inc.	BBB	Stable	17,106	—	4,363	—

PMI Mortgage Insurance Co. (PMI)(4)	Not Rated	N/A	11,843	126	2,929	68
Republic Mortgage Insurance Company (RMIC)(5)	Not Rated	N/A	9,382	117	2,338	36
Triad Guaranty Insurance Corporation (Triad)(6)	Not Rated	N/A	4,359	55	1,098	6
Arch Mortgage Insurance Company (Arch)(7)	BBB+	Positive	3,299	1	821	—
Others	N/A	N/A	1,311	—	318	—
Total			$227,495	$ 3,198	$57,938	$ 947

(1) Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of February 5, 2015. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

(2) These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Table 4.5 — Recourse and Other Forms of Credit Protection" for further information.

(3) Represents the remaining aggregate contractual limit for reimbursement of losses under the respective policy type. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance.

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(4) In March 2014, PMI began paying valid claims 67% in cash and 33% in deferred payment obligations and made a one-time cash payment to us for claims that were previously settled for 55% in cash.
(5) In June 2014, RMIC announced it would resume paying valid claims at 100% for claims settled on or after July 1, 2014 and pay, in full, all deferred payment obligations outstanding as of June 30, 2014.
(6) In December 2013, Triad began paying valid claims 75% in cash and 25% in deferred payment obligations and made a one-time cash payment to us for claims that were previously settled for 60% in cash.
(7) In January 2014, Arch announced it had completed the acquisition of CMG Mortgage Insurance Company (CMG) and the purchase of the mortgage insurance operating platform of PMI. Arch assumed the obligations of CMG in that transaction.

PMI and Triad are both in rehabilitation, and a substantial portion of their claims are recorded by us as deferred payment obligations. These insurers no longer issue new insurance but continue to pay a portion of their respective claims in cash. If, as we currently expect, these insurers do not pay the full amount of their deferred payment obligations in cash, we would lose a portion of the coverage from these insurers shown in the table above. As of December 31, 2014, we had cumulative unpaid deferred payment obligations of $0.4 billion from these insurers. We reserved for all of these unpaid amounts as collectability is uncertain.

RMIC is under regulatory supervision and is no longer issuing new insurance. For more information on our mortgage insurers, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers."

Bond Insurers

We are exposed to institutional credit risk related to the potential insolvency of bond insurers. Bond insurance is a credit enhancement covering certain of the non-agency mortgage-related securities we hold. Some policies were acquired by the securitization trust that issued the securities we purchased, while others were acquired by us. Bond insurance exposes us to the risk that the bond insurer will be unable to satisfy claims. We acquired these coverages when purchasing these securities and thus, we have not obtained any new bond insurance coverage in many years.

Risk Management Framework

We monitor the financial strength of bond insurers. Some of our bond insurers are in runoff mode and not writing new business. In the event one or more of our remaining bond insurers were to become subject to a regulatory order or insolvency proceeding, our ability to recover certain unrealized losses on our non-agency mortgage-related securities would be negatively affected. We consider our expectations regarding our bond insurers' ability to meet their obligations in making our impairment determinations on our non-agency mortgage-related securities. See "NOTE 7: INVESTMENTS IN SECURITIES — Other-Than-Temporary Impairments on Available-For-Sale Securities" for additional information regarding impairment losses on securities covered by bond insurers.

Risk Profile

The table below presents our coverage amounts of bond insurance for the non-agency mortgage-related securities we hold. In the event a bond insurer fails to perform, the coverage outstanding represents our maximum principal exposure to credit losses related to such a failure.

Table 56 — Bond Insurance by Counterparty[1]

Counterparty Name	Credit Rating	Credit Rating Outlook	As of December 31, 2014 Gross Unrealized Losses	Coverage Outstanding	Percent of Total Coverage Outstanding[2]	
			(dollars in millions)			
Ambac Assurance Corporation (Ambac)[3]	Not Rated	N/A	$50	$3,371	50	%
National Public Finance Guarantee Corp.	A-	Negative	4	1,054	15	
Financial Guaranty Insurance Company (FGIC)[3]	Not Rated	N/A	5	1,051	15	
MBIA Insurance Corp.	B	Stable	2	798	12	
Assured Guaranty Municipal Corp.	A	Stable	1	455	7	

Syncora Guarantee Inc. (Syncora)[3]	Not Rated	N/A	—	40	1	
CIFG Assurance North America, Inc.	Not Rated	N/A	4	30	—	
Total			$66	$6,799	100	%

(1) Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest ratings available as of February 5, 2015. Represents the lower of S&P and Moody's credit ratings stated in terms of the S&P equivalent.

(2) Within this column, "—" represents less than 0.5%.

(3) Ambac, FGIC, and Syncora are currently operating under regulatory or court-ordered supervision.

We expect to receive substantially less than full payment of our claims from Ambac and FGIC as these companies are either insolvent or in rehabilitation. We believe that we will also likely receive substantially less than full payment of our claims from some of our other bond insurers because we believe they also lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge. For more information on our bond insurers, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Bond Insurers."

Cash and Other Investments Counterparties

We are exposed to institutional credit risk arising from the potential insolvency or non-performance of counterparties of non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts.

Our policies require that the counterparty be evaluated using our internal counterparty rating model prior to the time a financial instrument is purchased. We base the permitted term and dollar limits for each of these transactions on the counterparty's financial strength in order to further mitigate our risk.

Our cash and other investments (including cash equivalents) counterparties are primarily major financial institutions, Treasury, and the Federal Reserve Bank of New York. As of December 31, 2014 and 2013, including amounts related to our consolidated VIEs, there were $71.4 billion and $85.9 billion, respectively, of: (a) cash and securities purchased under agreements to resell invested with institutional counterparties; (b) Treasury securities classified as cash equivalents; and (c) cash deposited with the Federal Reserve Bank of New York. Although we monitor the financial strength of our counterparties to these transactions and have collateral maintenance requirements for our securities purchased under agreements to resell, we have exposure to loss should any of our counterparties fail. See "RISK FACTORS — Competitive and Market Risks — Our business could be adversely affected if counterparties to derivatives and short-term lending and other transactions fail to meet their obligations to us" for further information. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for further information on counterparty credit ratings and concentrations within our cash and other investments.

Our investments in non-mortgage-related securities at December 31, 2014 and 2013 were in U.S. Treasury securities.

Agency and Non-Agency Mortgage-Related Security Issuers

Our investments in securities expose us to institutional credit risk to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform their obligations.

Risk Management Framework

Our investments in non-Freddie Mac mortgage-related securities include both agency and non-agency securities. Agency securities have historically presented minimal institutional credit risk due to the guarantee provided by, and the U.S. government’s support of, those institutions. Our investments in non-agency mortgage-related securities were principally made prior to 2009. Since 2009, our efforts to manage risk on these legacy investments have included sales of certain assets as well as litigation and other loss recovery efforts.

At the direction of our Conservator, we are working to enforce our rights as an investor with respect to the non-agency mortgage-related securities we hold, and are engaged in various efforts, in some cases in conjunction with other investors, to mitigate or recover losses on our investments in these securities. The effectiveness of our efforts is uncertain and any potential recoveries may take significant time to realize.

Our loss mitigation activities include litigation against the issuers of certain of these securities. During 2014, we and FHFA reached settlements with certain parties pursuant to which we received an aggregate of approximately $6.1 billion. Lawsuits against a number of other parties are currently pending. For more information on our loss mitigation efforts related to the non-agency mortgage-related securities we hold, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers.”

There is a general lack of transparency in the market for the non-agency mortgage-related securities we hold, and the information disclosed by the trustees of the trusts that issued these securities is often not sufficient to allow us to adequately analyze decisions made by servicers that may directly impact the cash flows on such securities. As a result, as part of our loss mitigation efforts and in the exercise of our rights as an investor, we seek to obtain information from servicers and trustees related to the performance and servicing of the loans underlying the securities. Certain of this information may not be publicly available. While our ability to influence servicing performance is limited, it is possible that our loss mitigation activities may, in some cases, influence the performance of these securities. The quality of the servicing performed on the underlying loans can significantly affect the performance of these securities, including the timing and amount of losses incurred on the underlying loans and thus the timing and amount of losses we recognize on our securities. We may cease our loss mitigation activities at any time, including in connection with sales of these securities as we continue to reduce the size of our mortgage-related investments portfolio. However, a number of other parties (including other investors, regulators, or the mortgage servicers themselves) may also take actions that could also affect the performance of these securities.

We have continued to recognize impairment charges in recent years related to certain of our investments in non-agency mortgage-related securities. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities” for further information about these securities, including a discussion of the higher-risk components of these investments.

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Risk Profile

A significant portion of single-family mortgages underlying our investments in non-agency mortgage-related securities is serviced by specialty servicers. As of December 31, 2014, approximately 43% of our investments in single-family non-agency mortgage-related securities, based on UPB, were serviced by subsidiaries and/or affiliates of Ocwen, and Ocwen was the only non-depository specialty servicer who serviced 10% or more of the UPB underlying our investments in non-agency mortgage-related securities at that date. The expansion of these specialty servicers' portfolios could adversely affect these securities in the event that the transfers of loan servicing to these parties introduce operational and capacity challenges. If these servicers do not perform their obligations, it can result in credit losses, impairments and declines in the fair value of our non-agency mortgage-related securities. Several of these specialty servicers also service a large share of our loans, as discussed in "Single-family Mortgage Seller/Servicers." In addition, as of December 31, 2014, approximately 14% of our investments in single-family non-agency mortgage-related securities, based on UPB, were serviced by JPMorgan Chase Bank, N.A.

Document Custodians

We use third-party document custodians to provide loan document certification and custody services for the loans that we purchase and securitize. In many cases, our seller/servicer customers or their affiliates also serve as document custodians for us. Our ownership rights to the mortgage loans that we own or that back our PCs and REMICs and Other Structured Securities could be challenged if a seller/servicer intentionally or negligently pledges or sells the loans that we purchased or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us.

When a seller/servicer or one of its affiliates acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely affected is increased, particularly in the event the seller/servicer were to become insolvent. We seek to mitigate these risks through legal and contractual arrangements with these custodians that identify our ownership interest, as well as by establishing qualifying standards for document custodians and requiring transfer of the documents to our possession or to an independent third-party document custodian if we have concerns about the solvency or competency of the document custodian. The qualifying standards for our document custodians include that they: (a) maintain certain insurance coverages; (b) be a regulated financial institution or subsidiary thereof; (c) document and maintain internal controls over document storage; and (d) have an investment grade credit rating or maintain net worth of at least $500 million. Our qualifying standards and oversight procedures may not eliminate all of the risk associated with using third-party document custodians.

Derivative Counterparties

Overview

We use cleared derivatives, exchange-traded derivatives, and OTC derivatives, and are exposed to institutional credit risk with respect to our derivative counterparties.

Risk Management Framework

We seek to manage our exposure to institutional credit risk related to our derivative counterparties using several tools, including:

- master netting agreements and collateral agreements;
- review and analysis of external credit ratings;
- internal standards for approving new derivative counterparties, clearinghouses, and clearing members;
- ongoing monitoring of our positions with each counterparty, clearinghouse, and clearing member;
- managing diversification mix among counterparties; and
- stress-testing to evaluate potential exposure under possible adverse market scenarios.

On an ongoing basis, we review the credit fundamentals of all of our derivative counterparties, clearinghouses, and clearing members to confirm that they continue to meet our internal standards. We assign internal ratings, credit capital, and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or certain events affecting an individual counterparty occur. These activities may not eliminate all of the risks associated with derivative counterparties.

We use cleared derivatives, exchange-traded derivatives and OTC derivatives.

- Cleared derivatives: Beginning with contracts executed or modified on or after June 10, 2013, the types of interest-rate swaps that we use most frequently became subject to a central clearing requirement. We refer to these interest-rate swaps as cleared derivatives. We are required to post initial and variation margin with our clearing member in connection with such transactions. As a result, our exposure to the clearinghouses we use to clear such interest-rate derivatives, and to the clearing members that administer our transactions once accepted for clearing, has increased and may become more concentrated over time. However, the use of cleared derivatives (interest-rate swaps), as a whole, mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted

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for individual counterparties. Our exposure to individual counterparties associated with interest-rate swaps should decrease over time due to the central clearing requirement.

- Exchange-traded derivatives: We are an active user of exchange-traded derivatives, such as Treasury and Eurodollar futures, and options on futures, and are required to post initial and variation margin with our clearing member in connection with such transactions. The posting of this margin exposes us to institutional credit risk in the event that our clearing member or the exchange's clearinghouse fail to meet their obligations. However, the use of exchange-traded derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded contracts are settled daily via payments made through the financial clearinghouse established by each exchange.
- OTC derivatives: OTC derivatives refer to those derivatives that are neither cleared derivatives nor exchange-traded derivatives. OTC derivatives expose us to institutional credit risk to individual counterparties, because these transactions are executed and settled directly between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its contractual obligations. When our net position with a counterparty in OTC derivatives subject to a master netting agreement has a market value above zero (i.e., it would be an asset reported as derivative assets, net on our consolidated balance sheets), the counterparty is obligated to deliver collateral in the form of cash, securities, or a combination of both, in an amount equal to that market value (less a small unsecured "threshold" amount in most cases) as necessary to satisfy its net obligation to us under the master netting agreement. The collateral posting thresholds assigned to these counterparties depend on the credit rating of the counterparty and are based on our credit risk policies.

Risk Profile

The table below reconciles the net asset fair value of derivative contracts on our consolidated balance sheets to our net exposure after considering non-cash collateral held, which is not netted on our consolidated balance sheets.

Table 57 — Derivative Counterparty Credit Exposure

Ratings of OTC interest-rate swaps and swaptions counterparties	As of December 31, 2014 Number of Counter-parties[1]	Net Derivative Asset on the Consolidated Balance Sheets[2]	Non-Cash Collateral Held by Us[3]	Net Derivative Asset Less Non-Cash Collateral Held by Us	Cleared and Exchange-Traded Initial Margin and OTC Non-Cash Collateral Posted by Us in Excess of Exposure
	(dollars in millions)				
AA- or above	4	$175	$(159)	$16	$ —
A+, A or A-	11	452	(294)	158	386
BBB+ or below	2	—	—	—	4
Total OTC	17	627	(453)	174	390
Cleared and exchange-traded derivatives[4]		128	—	128	2,269
Other derivatives[5]		67	—	67	—
Total		$822	$(453)	$369	$ 2,659

(1) Based on legal entities. We use the lower of S&P and Moody's ratings to manage collateral requirements. In this table, the Moody's rating of the legal entity is stated in terms of the S&P equivalent.
(2) Includes cash collateral posted by us in excess of exposure.
(3) Does not include the fair value amount of non-cash collateral held by us that exceeds the associated net asset presented on the consolidated balance sheets.
(4) The ultimate parent entities of the clearinghouses we use were rated AA- and BBB as of December 31, 2014.
(5) Consists primarily of commitments and ACIS insurance contracts.

Over time, our exposure to individual derivative counterparties varies depending on changes in fair values, which are affected by changes in interest rates, yield curves, the implied volatility of interest rates, and the amount of derivatives held.

Approximately 94% of our exposure at fair value for OTC interest-rate swap and option-based derivatives was collateralized at December 31, 2014 (excluding amounts related to our posting of cash collateral in excess of our derivative liability as determined at the counterparty level). The remaining exposure was primarily due to market movements during the time period between when a derivative was measured at fair value and when we received the related collateral, as well as exposure amounts below the applicable counterparty collateral posting threshold. In some instances, these market movements result in us having provided collateral that has fair value in excess of our obligation, which represents our overcollateralization exposure. Collateral is typically transferred within one business day based on the values of the related derivatives.

The concentration of our derivative exposure among our primary OTC derivative counterparties remains high. This concentration could further increase. Three counterparties each accounted for greater than 10% and collectively accounted for

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81% of our net uncollateralized exposure to derivative counterparties, excluding cleared and exchange-traded derivatives, commitments, swap guarantee derivatives, certain written options, and certain credit derivatives at December 31, 2014. All three of these counterparties, JP Morgan Chase Bank, Barclays Bank PLC, and UBS AG, were rated "A" or above using the lower of S&P's or Moody's rating stated in terms of the S&P equivalent as of February 5, 2015.

Our net derivative asset on our consolidated balance sheets related to cleared and exchange-traded derivatives was $128 million as of December 31, 2014, which includes the cash collateral that we have posted for initial and variation margin. In addition, we have posted non-cash collateral of $2.3 billion for initial margin as of December 31, 2014. We net our exposure to cleared derivatives by clearinghouse and clearing member. Exchange-traded derivatives are settled on a daily basis through the payment of variation margin. The net amount of our exposure to cleared and exchange-traded derivatives relates to our posting of initial margin. The amount of initial margin we must post for cleared and exchange-traded derivatives may be based, in part, on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The lowering or withdrawal of our credit rating by S&P or Moody's may increase our obligation to post margin collateral, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions. For information about margin we have posted in connection with cleared and exchange-traded derivatives and our other derivatives, see "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged."

In the event an OTC derivative or cleared derivative counterparty defaults, our economic loss may be higher than the uncollateralized exposure of our derivatives if we are not able to replace the defaulted derivatives in a timely and cost-effective fashion (e.g., due to a significant interest rate movement during the period or other factors). We could also incur economic loss if non-cash collateral posted to us by the defaulting counterparty and held by the custodian cannot be liquidated at prices that are sufficient to recover the amount of such exposure. We regularly review the market values of the securities pledged to us to manage our exposure to loss. When non-cash collateral is posted to us, we require collateral in excess of our exposure to satisfy the net obligation to us in accordance with the counterparty agreement. See "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Derivative Portfolio — Master Netting and Collateral Agreements" for more information about our maximum loss for accounting purposes and concentrations of counterparty risk related to derivative counterparties.

In addition, we have OTC interest-rate swap and option-based derivative liabilities where we post collateral to counterparties in accordance with agreed upon thresholds. Pursuant to certain collateral agreements we have with these counterparties, the collateral posting threshold we are assigned is based on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The lowering or withdrawal of our credit rating by S&P or Moody's may increase our obligation to post collateral, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions. For information about margin we have posted in connection with OTC derivatives, see "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES — Collateral Pledged."

Operational Risk

Overview

We define operational risk as the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. Operational risk is inherent in all of our activities. Events that may evidence operational risk include: (a) accounting or operational errors; (b) business interruptions; (c) fraudulent acts; (d) inappropriate acts by employees; (e) information security incidents; or (f) vendors who do not perform in accordance with their contracts. These events could result in financial loss, legal and regulatory fines, and reputational harm.

Operational Risk Management Framework

Our operational risk management framework includes risk identification, assessment, measurement, mitigation and reporting. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in our systems and/or processes to further mitigate the risk of future events. For more information, see "Risk Management — Risk Management Framework."

We have made and are making considerable enhancements to our risk management framework. During 2013, we adopted an integrated enterprise risk management framework that enables us to place more focus on high risk business processes and activities. During 2014, we leveraged this enterprise risk management framework to implement a redesigned and enhanced three-lines-of-defense methodology. We plan to use this redesigned and enhanced three-lines-of-defense methodology to both strengthen risk ownership in our business units and add clarity to risk management roles and responsibilities. As part of this effort, we have moved or are moving several key functions within the organization to better align business decision-making with the first line of defense. We believe these enhancements will improve our risk management effectiveness. During our implementation period, we may experience elevated operational risks. We are actively managing this risk.

To ensure the continued operating effectiveness of the risk management program, the company has in place a governance structure including enterprise wide oversight provided by the Board, CERO and CCO, as well as the following management committees: (a) the Enterprise Risk Management Committee, chaired by the CERO; (b) the Operational Risk Subcommittee, chaired by the CERO, which provides an advisory, information sharing and governance forum to oversee operational risks; and (c) the Remediation Committee, chaired by the CCO, which provides governance and oversight of management activities to

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remediate significant issues identified by FHFA, Internal Audit, management and our external auditors, including control issues related to internal control over financial reporting.

For more information about our Board's role in oversight of risk management, see "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE — Board Leadership Structure and Role in Risk Oversight."

In order to evaluate and monitor operational risk, each business unit completes a quarterly assessment using the Risk and Control Self-Assessment (RCSA) framework. The framework is designed to identify and assess the business unit's exposure to operational risk and determines if additional action is required to manage the risk to a prudent level.

In addition to the RCSA process, we employ several tools to identify and measure operational risks, including: (a) loss event data; (b) key risk indicators; (c) root cause analysis; and (d) testing. While our operational risk framework includes tools to support effective management of operational risk, the responsibility for managing both the day-to-day risk and longer-term or emerging risks lies with the business units.

Operational Risk Profile

We continue to strengthen operational controls. During 2014, we improved our operational risk framework to focus on high risk activities and reduced our outstanding control issues to relatively low levels. Additionally, we improved our out-of-region disaster recovery capabilities. In 2014, our out-of-region data center became operational, which improved our ability to recover our business systems in the event of a catastrophic regional business event (e.g., a disaster that affects our Northern Virginia production data centers).

However, we continue to face significant levels of operational risks, including those discussed in "RISK FACTORS — Operational Risks."

We face increased operational risk due to the magnitude and complexity of FHFA and other new initiatives we are undertaking, including initiatives we are pursuing under the Conservatorship Scorecard. Some of these initiatives will result in changes to our systems that could also introduce increased operational risk. In addition, under the direction of FHFA, we continue to make various multi-year investments to build the infrastructure for a future housing finance system, including the development of the common securitization platform and a single security. If any of these initiatives are not successful, we may not recover our investments.

The threat landscape in cyber security is changing rapidly and growing in sophistication. We may not be able to protect our systems with complete assurance or fully protect the confidentiality of our information from a cyber-attack or other unauthorized access, disclosure, or disruption.

We continue to invest in the information security area to strengthen our capabilities and help us defend against advanced threats. In 2014, we launched a multi-year data protection initiative designed to mitigate this risk.

Management, including the company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2014. As of December 31, 2014, we had one material weakness related to conservatorship, which remained unremediated, causing us to conclude that our disclosure controls and procedures were not effective at a reasonable level of assurance. For additional information, see "CONTROLS AND PROCEDURES."

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to fund our operations, which include the following:

- principal payments due to the maturity, redemption or repurchase of our other debt securities;
- interest payments on our other debt securities;
- dividend obligations on our senior preferred stock;
- cash purchases of single-family and multifamily loans;
- purchases of mortgage-related securities and non-mortgage investments;
- removal of modified or seriously delinquent loans from PC trusts;
- any shortfall related to the payments of principal and interest on our mortgage-related securities (i.e., debt securities issued by consolidated trusts), and any other payments related to our guarantees of mortgage assets;
- any disposition costs related to our REO;

- depending on market conditions and the mix of derivatives we employ in connection with our ongoing risk management activities, our derivative portfolio can be either a net source or a net use of cash. For example, depending on the prevailing interest-rate environment, interest-rate swap agreements could cause us either to make interest payments to counterparties or to receive interest payments from counterparties. Purchased options require us to pay a premium while written options allow us to receive a premium;

collateral that we are required to pledge to third parties in connection with secured financing and daily trade activities.

- In accordance with contracts with certain derivative counterparties, we post collateral for derivatives in a net loss position, after netting by counterparty, above agreed-upon posting thresholds. See "NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES" for information about assets we pledge as collateral; and
- administrative expenses.

We fund our cash needs primarily by issuing short-term and long-term debt. Other sources of cash include:

- interest and principal payments on and sales of securities or mortgage loans that we hold in our mortgage-related investments portfolio or cash and other investments portfolio;
- repurchase transactions with counterparties;
- management and guarantee fees we receive in connection with our guarantee activities (excluding those fees associated with the legislated 10 basis point increase we remit to Treasury); and
- quarterly draws from Treasury under the Purchase Agreement, which are made if we have a quarterly deficit in our net worth.

In addition to the uses and sources of cash described above, we are involved in various legal proceedings, including those discussed in "LEGAL PROCEEDINGS," which may result in a need to use cash to settle claims or pay certain costs or receipt of cash from settlements.

We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities. However, the costs and availability of our debt funding could vary for a number of reasons, including the uncertainty about the future of the GSEs and any future downgrades in our credit ratings or the credit ratings of the U.S. government. For more information, see "Other Debt Securities — Credit Ratings."

We make extensive use of the Federal Reserve's payment system in our business activities. The Federal Reserve requires that we fully fund our accounts at the Federal Reserve Bank of New York to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. Although we seek to maintain sufficient intraday liquidity to fund our activities through the Federal Reserve's payment system, we have limited access to cash once the debt markets are closed for the day. Insufficient cash may cause our account to be overdrawn, potentially resulting in penalties and reputational harm.

For more information on our short- and long-term liquidity needs, see "CONTRACTUAL OBLIGATIONS."

Our securities and other obligations are not guaranteed by the U.S. government and do not constitute a debt or obligation of the U.S. government or any agency or instrumentality thereof, other than Freddie Mac. We continue to manage our debt issuances to remain in compliance with the aggregate indebtedness limits set forth in the Purchase Agreement.

Liquidity Management

Maintaining sufficient liquidity is of primary importance to and a cost of our business. Under our liquidity management practices and policies, we:

- manage intraday cash needs and provide for the contingency of an unexpected cash demand (e.g., we do not have access to the Federal Reserve's discount window);
- maintain cash and non-mortgage investments to enable us to meet ongoing cash obligations for a limited period of time, assuming no access to unsecured debt markets;
- maintain unencumbered securities with a value greater than or equal to the largest projected daily cash shortfall for an extended period of time, assuming no access to unsecured debt markets; and
- manage the maturity of our unsecured debt based on our asset profile.

To facilitate cash management, we forecast cash outflows and inflows using assumptions and models. These forecasts help us to manage our liabilities with respect to asset purchases and runoff. Differences between actual and forecast cash outflows and inflows could result in higher costs, as we could issue a higher amount of debt than needed, unexpectedly need to issue debt, or overdraw our accounts at the Federal Reserve Bank of New York. We maintain daily cash reserves to manage this risk.

During 2014, the majority of the funds in our liquidity and contingency operating portfolio was deposited with the Federal Reserve Bank of New York, invested in U.S. Treasury securities, or invested in securities purchased under agreements to resell. In the event of a downgrade of a position or counterparty, as applicable, below minimum rating requirements, we make an assessment whether to exit the existing position or continue to do business with the counterparty.

Our ability to maintain sufficient liquidity, including by pledging mortgage-related and other securities as collateral to other institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market interest rates, market confidence, operational risks, and other factors. For more information, see "RISK

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FACTORS — Competitive and Market Risks — Our activities may be adversely affected by limited availability of financing and increased funding costs."

Other Debt Securities

We fund our business activities primarily through the issuance of short- and long-term debt. Competition for funding can vary with economic, financial market, and regulatory environments. Historically, we have mainly competed for funds in the debt issuance markets with Fannie Mae and the FHLBs.

To fund our business activities, we depend on the continuing willingness of investors to purchase our debt securities. The reduction in our mortgage-related investments portfolio has reduced our funding needs. We expect that this trend will continue over time as the mortgage-related investments portfolio shrinks. Changes or perceived changes in the government's support of us could have a severe negative effect on our access to the debt markets and on our debt funding costs. Prolonged wide spreads on long-term debt could cause us to reduce our long-term debt issuances and increase our reliance on short-term and callable debt issuances. This increased reliance could increase rollover risk (i.e., the risk that we may be unable to refinance our debt when it becomes due) resulting in a greater use of derivatives. This greater use of derivatives could increase the volatility of our comprehensive income.

In addition, any change in applicable legislative or regulatory exemptions, including those described in "BUSINESS — Regulation and Supervision," could adversely affect our access to some debt investors, thereby potentially increasing our debt funding costs.

During the three months and year ended December 31, 2014, we had sufficient access to the debt markets due largely to support from the U.S. government. Our effective short-term debt was 43% of outstanding other debt at both December 31, 2014 and 2013. Effective short-term debt is the aggregate of short-term debt and the current portion of long-term debt (the portion due within one year). The categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt. We rely significantly on our ability to issue debt on an on-going basis to refinance our effective short-term debt.

Our debt cap under the Purchase Agreement was $663.0 billion in 2014 and declined to $563.6 billion on January 1, 2015. As of December 31, 2014, our aggregate indebtedness was $454.0 billion. Our aggregate indebtedness is calculated as the par value of other debt. We disclose the amount of our indebtedness on this basis monthly under the caption "Other Debt Activities — Total Debt Outstanding" in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com and in current reports on Form 8-K we file with the SEC.

Other Debt Activities

The table below summarizes the par value of other debt securities we issued or paid off, including regularly scheduled principal payments, payments resulting from calls, and payments for repurchases, during 2014 and 2013. We repurchase, call, or exchange our outstanding debt securities from time to time for a variety of reasons, including: (a) for economic reasons; (b) to manage the composition of liabilities funding our assets; or (c) to help support the liquidity of our other debt securities.

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Table 58 — Activity in Other Debt

	For the Year Ended December 31,			
	2014		2013	
	(dollars in millions)			
Beginning balance	$511,345		$552,472	
Issued during the period:				
Short-term:				
Amount	$217,716		$297,349	
Weighted-average effective interest rate	0.11	%	0.12	%
Long-term:				
Amount	$92,641		$112,220	
Weighted-average effective interest rate	1.16	%	0.98	%
Total issued:				
Amount	$310,357		$409,569	
Weighted-average effective interest rate	0.42	%	0.35	%
Paid off during the period:(1)				
Short-term:				
Amount	$(224,814	)	$(273,513	)
Weighted-average effective interest rate	0.12	%	0.13	%
Long-term:				
Amount	$(142,859	)	$(177,183	)
Weighted-average effective interest rate	1.61	%	1.57	%
Total paid off:				
Amount	$(367,673	)	$(450,696	)
Weighted-average effective interest rate	0.70	%	0.70	%
Ending balance	$454,029		$511,345	

(1) Calls and repurchases of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Other Short-Term Debt

We fund our operating cash needs, in part, by issuing Reference Bills® securities and other discount notes, which are short-term instruments with maturities of one year or less that are sold on a discounted basis, paying only principal at maturity. Our Reference Bills securities program consists of issues of short-term debt that we auction to dealers on a regular schedule. We issue discount notes with maturities ranging from one day to one year in response to investor demand and our cash needs. For purposes of presentation in this report, short-term debt also includes certain medium-term notes that have original maturities of one year or less.

See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Total Debt, Net" for more information about our other short-term debt.

Other Long-Term Debt

We issue debt with maturities greater than one year primarily through our medium-term notes program and our Reference Notes® securities program. Since 2013, we have been issuing STACR debt notes.

Medium-term Notes

We issue a variety of fixed- and variable-rate medium-term notes, including callable and non-callable fixed-rate securities, zero-coupon securities and variable-rate securities, with various maturities ranging up to 30 years. However, in 2014 we did not issue medium-term notes with maturities longer than 15 years. For purposes of presentation in this report, medium-term notes with original maturities of one year or less are classified as short-term debt. Medium-term notes typically contain call provisions, effective as early as three months after the securities are issued.

Reference Notes Securities

Reference Notes securities are, U.S. dollar denominated, non-callable fixed-rate securities, which we generally issue with original maturities ranging from two through ten years.

STACR

In 2014, as part of our credit risk management strategy, we completed seven STACR debt note transactions in which we issued $4.9 billion of STACR debt notes, in aggregate. For more information, see "RISK MANAGEMENT — Credit Risk Overview — Mortgage Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile — Transferring a Portion of Mortgage Credit Risk" and "NOTE 8: DEBT AND SUBORDINATED BORROWNGS — Table 8.2 — Other Long-Term Debt."

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Subordinated Debt

During 2014 and 2013, we did not call or issue any Freddie SUBS® securities. At both December 31, 2014 and 2013, the balance of our subordinated debt outstanding was $0.4 billion. Our subordinated debt in the form of Freddie SUBS securities is a component of our risk management and disclosure commitments with FHFA. See “BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Subordinated Debt” for a discussion of changes affecting our subordinated debt as a result of our placement into conservatorship and the Purchase Agreement, and the Conservator’s suspension of certain requirements relating to our subordinated debt. Under the Purchase Agreement, we may not issue subordinated debt without Treasury’s consent.

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent upon our credit ratings. The table below indicates our credit ratings as of February 5, 2015.

Table 59 — Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody’s	Fitch
Senior long-term debt(1)	AA+	Aaa	AAA
Short-term debt(2)	A-1+	P-1	F1+
Subordinated debt(3)	AA-	Aa2	AA-
Preferred stock(4)	D	Ca	C/RR6
Outlook	Stable	Stable	Stable

(1) Consists of medium-term notes and U.S. dollar Reference Notes securities.

(2) Consists of Reference Bills securities and discount notes.

(3) Consists of Freddie SUBS securities.

(4) Does not include senior preferred stock issued to Treasury.

Our credit ratings and outlooks are primarily based on the support we receive from Treasury, and therefore, are affected by changes in the credit ratings and outlooks of the U.S. government. In March 2014, Fitch affirmed our debt ratings, removed the ratings from Ratings Watch Negative (RWN) and assigned a Rating Outlook of Stable. This action followed Fitch’s affirmation of the U.S. government’s debt ratings with a Stable Outlook, resolving the RWN placed on the ratings in October 2013.

For information about factors that could lead to future ratings actions, and the potential impact of a downgrade in our credit ratings, see “RISK FACTORS — Competitive and Market Risks — Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business.”

A security rating is not a recommendation to buy, sell or hold securities. It may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Cash and Cash Equivalents, Federal Funds Sold, Securities Purchased Under Agreements to Resell, and Non-Mortgage-Related Securities

Excluding amounts related to our consolidated VIEs, we held $56.0 billion and $77.1 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at December 31, 2014 and 2013, respectively. These investments are important to our cash flow and asset and liability management and our ability to provide liquidity and stability to the mortgage market. At December 31, 2014, our non-mortgage-related securities consisted of U.S. Treasury securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintained non-interest-bearing deposits at the Federal Reserve Bank of New York, which are included in cash and cash equivalents on our consolidated balance sheets. For additional information on these assets, see “CONSOLIDATED BALANCE SHEETS ANALYSIS — Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell” and “— Investments in Securities — Non-Mortgage-Related Securities.”

Mortgage Loans and Mortgage-Related Securities

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and highly liquid. Our primary source of liquidity among these mortgage assets is our holdings of single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities). We hold other mortgage assets that are also potential sources of liquidity; however, we consider them to be less liquid than agency securities. These assets consist of certain structured agency securities collateralized by non-agency mortgage-related securities, unsecuritized performing single-family mortgage loans, CMBS, non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans, and unsecuritized seriously delinquent and modified single-family mortgage loans.

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We are subject to limits on the amount of mortgage assets we can sell in any calendar month without review and approval by FHFA and, if FHFA so determines, Treasury. See "BUSINESS — Conservatorship and Related Matters — Limits on Investment Activity and Our Mortgage-Related Investments Portfolio" for more information on the relative liquidity of our mortgage assets.

Cash Flows

Our cash and cash equivalents decreased by $0.4 billion to $10.9 billion during 2014, as compared to an increase of $2.8 billion to $11.3 billion during 2013 and a decrease of $19.9 billion to $8.5 billion during 2012. Cash flows provided by operating activities during 2014, 2013 and 2012 were $8.9 billion, $16.6 billion and $5.2 billion, respectively, primarily driven by cash proceeds from net interest income. Cash flows provided by investing activities during 2014, 2013 and 2012 were $205.3 billion, $391.3 billion, and $494.4 billion, respectively, primarily resulting from net proceeds received as a result of repayments of single-family held-for-investment mortgage loans. Cash flows used for financing activities during 2014, 2013 and 2012 were $214.5 billion, $405.0 billion, and $519.6 billion, respectively, largely attributable to funds used to repay debt securities of consolidated trusts held by third parties and other debt.

Beginning in the first quarter of 2014, we reclassified net discounts paid on retirements of other debt and net premiums received from issuance of debt securities of consolidated trusts and other debt from cash flows from operating activities to cash flows from financing activities on our consolidated statements of cash flows. This reclassification resulted in a decrease of $2.0 billion and $3.2 billion to net cash provided by operating activities for 2013 and 2012, respectively, and an increase of $2.0 billion and $3.2 billion to net cash used in financing activities for 2013 and 2012, respectively.

Capital Resources, the Purchase Agreement, and the Dividend Obligation on the Senior Preferred Stock

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. FHFA has suspended capital classification of us during conservatorship. FHFA continues to monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. See "NOTE 18: REGULATORY CAPITAL" for our minimum capital requirement, core capital, and GAAP net worth results as of December 31, 2014 and 2013. In addition, notwithstanding our failure to maintain required capital levels, FHFA directed us to continue to make interest and principal payments on our subordinated debt. For more information, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Subordinated Debt."

Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements. The conservatorship, and the resulting support we have received from Treasury, has enabled us to access debt funding on terms sufficient for our needs. Under the Purchase Agreement, Treasury made a commitment to provide us with funding, under certain conditions, to eliminate deficits in our net worth. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. In each case, the amount of the draw cannot exceed the maximum aggregate amount that may be funded under the Purchase Agreement. The amount of available funding remaining under the Purchase Agreement is currently $140.5 billion. This amount will be reduced by any future draws.

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are and have been less than our obligations for a period of 60 days. Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA. See "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Receivership" for additional information on mandatory receivership.

In addition, the GSE Act requires us to set aside or allocate monies each year to certain funds managed by HUD and Treasury. For more information, see "BUSINESS — Regulation and Supervision — Federal Housing Finance Agency — Affordable Housing Allocations."

At December 31, 2014, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. In future periods, we may experience variability in our net income and/or comprehensive income due to changes in factors such as interest rates, yield curves, implied volatility, home prices, and mortgage spreads. Such changes could adversely affect our net worth and result in additional draws under the Purchase Agreement. For more information, see "RISK FACTORS — Conservatorship and Related Matters — We may request additional draws under the Purchase Agreement in future periods."

Based on our Net Worth Amount at December 31, 2014 and the 2015 Capital Reserve Amount of $1.8 billion (which will be reduced by $600 million each year thereafter until it reaches zero on January 1, 2018), our dividend obligation to Treasury in March 2015 will be $851 million. We paid dividends of $19.6 billion in cash on the senior preferred stock during 2014, based on our Net Worth Amounts at September 30, 2014, June 30, 2014, March 31, 2014, and December 31, 2013. Through December 31, 2014, we have paid aggregate cash dividends to Treasury of $91.0 billion, an amount that is $19.6 billion more than our aggregate draws received under the Purchase Agreement. As a result of the net worth sweep dividend we pay to Treasury, we cannot retain capital from the earnings generated by our business operations.

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At December 31, 2014, our aggregate funding received from Treasury under the Purchase Agreement was $71.3 billion. This aggregate funding amount does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. In addition, under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference. Accordingly, while we have paid aggregate cash dividends to Treasury of $91.0 billion, the liquidation preference on the senior preferred stock remains $72.3 billion.

For more information on these matters, see "BUSINESS — Conservatorship and Related Matters" and "— Regulation and Supervision."

FAIR VALUE HIERARCHY AND VALUATIONS

The three levels of the fair value hierarchy under the accounting guidance for fair value measurements and disclosures are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2: Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

We categorize assets and liabilities recorded or disclosed at fair value within the fair value hierarchy based on the valuation processes used to derive their fair values and our judgment regarding the observability of the related inputs. Those judgments are based on our knowledge and observations of the markets relevant to the individual assets and liabilities and may vary based on market conditions. We review ranges of third-party prices and transaction volumes, and hold discussions with dealers and pricing service vendors to understand and assess the extent of market benchmarks available and the judgments or modeling required in their processes. Based on these factors, we determine whether the inputs are observable and whether the principal markets are active or inactive. For additional information regarding our classification of assets and liabilities within the fair value hierarchy, the valuation techniques and processes used to measure fair value, and controls over fair value measurement, see "NOTE 16: FAIR VALUE DISCLOSURES."

Level 3 Recurring Fair Value Measurements

The process for determining fair value using unobservable inputs (Level 3) is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. At December 31, 2014 and 2013, we measured and recorded 28% and 31%, respectively, of total assets carried at fair value on our consolidated balance sheets on a recurring basis using unobservable inputs. At December 31, 2014 and 2013, we measured and recorded less than 1% and 11%, respectively, of total liabilities carried at fair value on our consolidated balance sheets on a recurring basis using unobservable inputs. These percentages were calculated before the impact of counterparty and cash collateral netting. See "NOTE 16: FAIR VALUE DISCLOSURES — Changes in Fair Value Levels" for a discussion of changes in our Level 3 assets and liabilities and "— Table 16.2 — Assets and Liabilities on Our Consolidated Balance Sheets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs" for the Level 3 reconciliation.

Consideration of Credit Risk in Our Valuation

We consider credit risk in the valuation of our assets and liabilities through consideration of credit risk of the counterparty in asset valuations and through consideration of our own institutional credit risk in liability valuations on our GAAP consolidated balance sheets.

We consider credit risk in our valuation of investments in mortgage-related securities based on fair value measurements that are largely the result of price quotes received from multiple dealers or pricing services. Some of the key valuation drivers of such fair value measurements include the collateral type, collateral performance, credit quality of the issuer, tranche type, weighted average life, vintage, coupon, and interest rates. We also make adjustments for items such as subordination or other types of credit enhancements and liquidity, where applicable. In cases where internally developed models are used, we use market-based inputs or calibrate such inputs to market data.

For a discussion of types and characteristics of mortgage loans underlying our mortgage-related securities, see "Table 27 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets" and "RISK MANAGEMENT — Credit Risk Overview — Mortgage Credit Risk Overview — Single-Family Mortgage Credit Risk Framework and Profile."

We also consider credit risk when we evaluate the valuation of our derivative positions, including the impact of institutional credit risk in the event that the counterparty does not honor its payment obligation. However, our fair value of derivatives is not adjusted for credit risk because we obtain collateral from, or post collateral to, counterparties, typically within one business day of the daily market value calculation. See “RISK MANAGEMENT — Credit Risk Overview — Institutional Credit Risk Profile — Derivative Counterparties” for a discussion of our counterparty credit risk.

See “NOTE 16: FAIR VALUE DISCLOSURES — Valuation Techniques for Assets and Liabilities Measured on Our Consolidated Balance Sheets at Fair Value” for additional information regarding the valuation of our assets and liabilities.

Valuation Processes and Controls over Fair Value Measurement

We designed our control processes so that: (a) our fair value measurements are appropriate and reliable; (b) fair value measurements are based on observable inputs where possible; and (c) our valuation approaches are consistently applied and the assumptions and inputs are reasonable. Our control processes provide a framework for segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

See “NOTE 16: FAIR VALUE DISCLOSURES — Valuation Processes and Controls Over Fair Value Measurement” for additional information.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or that may be recorded in amounts that differ from the full contract or notional amount of the transaction and that may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Housing Finance Agency Initiative” and “NOTE 14: FINANCIAL GUARANTEES” for more information on our off-balance sheet securitization activities and other guarantee commitments.

Securitization Activities and Other Guarantee Commitments

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed mortgages and mortgage-related securities, though most of our securitization activities are on-balance sheet. Our off-balance sheet arrangements related to these securitization activities primarily consist of: (a) Freddie Mac mortgage-related securities backed by multifamily loans (e.g., K Certificates); and (b) certain single-family Other Guarantee Transactions. We also have off-balance sheet arrangements related to other guarantee commitments, including long-term standby commitments and liquidity guarantees.

We guarantee the payment of principal and interest on non-consolidated Freddie Mac guaranteed mortgage-related securities we issue and on mortgage loans covered by our other guarantee commitments. Our maximum potential off-balance sheet exposure to credit losses relating to these guarantees is primarily represented by the UPB of the underlying loans and securities, which was $113.7 billion and $101.0 billion at December 31, 2014 and 2013, respectively.

As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as “liquidity guarantees,” which were $9.6 billion and $10.0 billion at December 31, 2014 and 2013, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. In addition, as part of the HFA initiative, we, together with Fannie Mae, provide liquidity guarantees for certain variable-rate single-family and multifamily housing revenue bonds, under which Freddie Mac generally is obligated to purchase 50% of any tendered bonds that cannot be remarketed within five business days. At both December 31, 2014 and 2013, there were no liquidity guarantee advances outstanding.

Our exposure to losses on the transactions described above would be partially mitigated by the recovery we would receive through exercising our rights to the collateral backing the underlying loans and the available credit enhancements, which may include recourse and primary mortgage insurance with third parties. In addition, we provide for incurred losses each period on these guarantees within our provision for credit losses.

Other Agreements

We own interests in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets and non-mortgage assets, and include LIHTC partnerships and certain Other Guarantee Transactions. Our consolidated balance sheets reflect only our investment in the VIEs, rather than the full amount of the VIEs’ assets and liabilities. See “NOTE 3: VARIABLE INTEREST

ENTITIES” for additional information related to our variable interests in these VIEs.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. For more information, see “RISK MANAGEMENT — Institutional Credit Risk Profile — Derivative Counterparties.” We also enter into purchase commitments primarily related to future guarantor swap transactions for single-family loans, and, to a lesser extent, commitments to purchase or guarantee multifamily mortgage loans. These non-derivative commitments totaled $271.2 billion and $289.7 billion in notional value at December 31, 2014 and 2013, respectively.

In connection with the execution of the Purchase Agreement, we, through FHFA, in its capacity as Conservator, issued a warrant to Treasury to purchase 79.9% of our common stock outstanding on a fully diluted basis on the date of exercise. See “NOTE 11: STOCKHOLDERS’ EQUITY” for further information.

CONTRACTUAL OBLIGATIONS

Our contractual obligations affect our short- and long-term liquidity and capital resource needs. The table below provides aggregated information about the listed categories of our contractual obligations as of December 31, 2014. The table includes information about undiscounted future cash payments due under these contractual obligations, aggregated by type of contractual obligation, including the contractual maturity profile of our debt securities (other than debt securities of consolidated trusts held by third parties). The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases.

The amounts of future interest payments on debt securities outstanding at December 31, 2014 are based on the contractual terms of our debt securities at that date. These amounts were determined using certain assumptions including that: (a) variable-rate debt continues to accrue interest at the contractual rates in effect at December 31, 2014 until maturity; and (b) callable debt continues to accrue interest until its contractual maturity. The amounts of future interest payments on debt securities do not reflect certain factors that will change the amounts of interest payments on our debt securities after December 31, 2014, such as: (a) changes in interest rates; (b) the call or retirement of any debt securities; and (c) the issuance of new debt securities. Accordingly, the amounts presented in the table do not represent a forecast of our future cash interest payments or interest expense.

Our contractual obligations include other purchase obligations that are enforceable and legally binding, and exclude contracts that we may cancel at will without penalty. We include our purchase obligations through the termination date specified in the respective agreement, even if the contract is renewable.

The table excludes certain obligations that could significantly affect our short- and long-term liquidity and capital resource needs. These items, which are listed below, have generally been excluded because the amount and timing of the related future cash payments are uncertain:

- future payments related to debt securities of consolidated trusts held by third parties, because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain. These payments generally include payments of principal and interest we make to the holders of our guaranteed mortgage-related securities in the event a loan underlying a security becomes delinquent. We also remove mortgages from pools underlying our PCs in certain circumstances, including when loans are 120 days or more delinquent, and retire the associated PC debt;
- any future cash payments associated with the liquidation preference of the senior preferred stock, as well as the quarterly commitment fee (which has been suspended) and the dividends on the senior preferred stock because the timing and amount of any such future cash payments are uncertain. As of December 31, 2014, the aggregate liquidation preference of the senior preferred stock was $72.3 billion. See “BUSINESS — Conservatorship and Related Matters — Treasury Agreements and Senior Preferred Stock” for additional information;
- future cash settlements on derivative agreements not yet accrued, because the amount and timing of such payments are dependent upon changes in the underlying financial instruments in response to items such as changes in interest rates and are therefore uncertain;
- future dividends on the preferred stock we have issued (other than the senior preferred stock), because dividends on these securities are non-cumulative and because we are currently prohibited from paying dividends on these securities;
- the guarantee arrangements pertaining to multifamily housing revenue bonds, where we provided commitments to advance funds, commonly referred to as “liquidity guarantees,” because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain; and
- future cash contributions to our Pension Plan, as the plan is currently over-funded and benefit accruals ceased at the end of 2013. See "EXECUTIVE COMPENSATION — Pension Plan" and "EXECUTIVE COMPENSATION — Supplemental Executive Retirement Plan — Pension SERP Benefit" for additional information on our Pension Plan.

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Table 60 — Contractual Obligations by Year at December 31, 2014

	Total	2015	2016	2017	2018	2019	Thereafter
	(in millions)						
Long-term debt(1)	$319,359	$58,841	$72,503	$77,482	$30,850	$30,671	$49,012
Short-term debt(1)	134,670	134,670	—	—	—	—	—
Interest payable(2)	34,124	11,498	4,927	3,535	2,261	1,849	10,054
Other liabilities reflected on our consolidated balance sheet:							
Other contractual liabilities(3)(4)	1,756	935	10	8	7	6	790
Purchase obligations:							
Purchase commitments(5)	19,764	19,764	—	—	—	—	—
Other purchase obligations(6)	407	119	59	52	50	47	80
Operating lease obligations	29	9	7	4	3	3	3
Total specified contractual obligations	$510,109	$225,836	$77,506	$81,081	$33,171	$32,576	$59,939

(1) Represents par value. Callable debt is included in this table at its contractual maturity. For additional information about our debt, see "NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS."

(2) Includes estimated future interest payments on our short-term and long-term debt securities as well as the accrual of periodic cash settlements of derivatives, netted by counterparty. Also includes accrued interest payable recorded on our consolidated balance sheet.

(3) Includes obligations related to our qualified and non-qualified defined contribution plans, retiree medical plan, and other benefit plans.

(4) Other contractual liabilities include future cash payments due under our contractual obligations to make delayed equity contributions to LIHTC partnerships and payables to the consolidated trusts established for the administration of cash remittances received related to the underlying assets of Freddie Mac mortgage-related securities.

(5) Purchase commitments represent our obligations to purchase mortgage loans and mortgage-related securities from third parties, most of which are accounted for as derivatives in accordance with the accounting guidance for derivatives and hedging.

(6) Primarily includes unconditional purchase obligations that are legally binding and that are subject to a cancellation penalty.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make a number of judgments, estimates, and assumptions that affect the reported amounts within our consolidated financial statements. Certain of our accounting policies, as well as estimates we make, are critical, as they are both important to the presentation of our financial condition and results of operations and require management to make difficult, complex, or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) the single-family allowance for loan losses; (b) fair value measurements; (c) impairment recognition on investments in securities; and (d) our ability to realize net deferred tax assets. For additional information about our critical accounting policies and estimates and other significant accounting policies, as well as recently issued accounting guidance, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

Single-Family Allowance for Loan Losses

The single-family allowance for loan losses represents an estimate of probable incurred credit losses. The single-family allowance for loan losses pertains to all single-family loans classified as held-for-investment on our consolidated balance sheets.

Determining the appropriateness of the single-family allowance for loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant management judgment about matters that involve a high degree of subjectivity. This process involves the use of models that require us to make judgments about matters that are difficult to predict, the most significant of which are the probability of default and loss severity. We regularly evaluate the underlying estimates and models we use when determining the single-family allowance for loan losses and update our assumptions to reflect our historical experience and current view of economic factors. See "RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties."

We believe the level of our single-family allowance for loan losses is appropriate based on internal reviews of the factors and methodologies used. No single statistic or measurement determines the appropriateness of the loan loss reserves. Changes in one or more of the estimates or assumptions used to calculate the single-family allowance for loan losses could have a material impact on the loan loss reserves and provision for credit losses.

Most single-family loans are aggregated into pools based on similar risk characteristics and measured collectively using a statistically based model that evaluates a variety of factors affecting collectability, including but not limited to: (a) estimated current LTV ratios; (b) loan product type; (c) delinquency/default status and history; and (d) geographic location. Inputs used by the model are regularly updated for changes in the underlying data, assumptions, and market conditions. We consider the output of this model, together with other information such as our expectations with respect to the following: (a) future levels of loan modifications; (b) future loan repurchases by seller/servicers; (c) the adequacy of third-party credit enhancements; (d) the effects of changes in government policies and programs; (e) the effects of macroeconomic variables such as rates of unemployment; and (f) the effects of home price changes on borrower behavior. The inability to realize the benefits of our loss mitigation activities, a lower realized rate of seller/servicer repurchases, declines in home prices, deterioration in the financial condition of our mortgage insurance counterparties, or increases in delinquency rates would cause our losses to be significantly higher than those currently estimated.

Individually impaired single-family loans include loans that have undergone a TDR and are measured for impairment as the excess of our recorded investment in the loan over the present value of the expected future cash flows. Our expectation of future cash flows incorporates many of the judgments indicated above.

Fair Value Measurements

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis. Assets and liabilities within our consolidated financial statements measured at fair value include: (a) mortgage-related and non-mortgage related securities; (b) mortgage loans held-for-sale; (c) derivative instruments; (d) certain debt securities of consolidated trusts held by third parties and certain other debt; and (e) REO. The accounting guidance for fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This accounting guidance also establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the assumptions a market participant would use at the measurement date. Fair value measurements under this hierarchy are distinguished among quoted market prices, observable inputs, and unobservable inputs. The measurement of fair value requires management to make judgments and assumptions. The process for determining fair value using unobservable inputs is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. These judgments and assumptions may have a significant effect on our measurements of fair value, and the use of different judgments and assumptions, as well as changes in market conditions, could have a material effect on our consolidated statements of comprehensive income and consolidated balance sheets. See "FAIR VALUE HIERARCHY AND VALUATIONS" and "NOTE 16: FAIR VALUE DISCLOSURES" for additional information regarding fair value hierarchy and measurements.

Impairment Recognition on Investments in Securities

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. An unrealized loss exists when the fair value of an individual security is less than its amortized cost basis. As discussed further below, certain other-than-temporary impairment losses are recognized in earnings.

If we intend to sell the security or believe it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the security's entire decline in fair value is deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings. If we do not intend to sell the security and we believe it is not more likely than not that we will be required to sell prior to recovery of the security's unrealized loss, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recorded in AOCI. The credit component represents the amount by which the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. See "NOTE 7: INVESTMENTS IN SECURITIES — Impairment Recognition on Investments in Securities" and "CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities" for more information on impairment recognition on securities.

We believe our judgments and assumptions used in our evaluation of other-than-temporary impairment are reasonable. However, different judgments or assumptions could have resulted in materially different recognition of other-than-temporary impairment. It is possible that the losses we ultimately realize could be significantly higher or lower than the losses we have recognized to date in our consolidated statements of comprehensive income.

Deferred Tax Assets, Net

Deferred tax assets reflect timing differences between the recognition of income/expenses for financial reporting purposes and the recognition of income/expenses for tax reporting purposes. Deferred tax assets are created when: (a) expenses are recognized for financial reporting purposes prior to the corresponding recognition of expenses for tax reporting purposes; and/or (b) income is recognized for tax reporting purposes prior to the corresponding recognition of income for financial reporting purposes. Deferred tax assets are measured using enacted tax rates and are adjusted as required for the effect of changes in tax laws or rates. When a change in tax laws or rates occurs, the effect of the change is included in income in the period that includes the enactment date. The realization of these net deferred tax assets is dependent upon the generation of sufficient taxable income of the appropriate character (i.e., ordinary income or capital gains) in the available carryback and carryforward years under the tax law, which would include reversals of existing taxable temporary differences and liabilities associated with unrecognized tax benefits. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that all or part of our tax benefits will not be realized.

On a quarterly basis, we determine whether a valuation allowance is necessary on our net deferred tax asset. In doing so, we consider all evidence available, both positive and negative, in determining whether, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. In conducting our assessment, we evaluate all available objective evidence including, but not limited to: (a) our three-year cumulative income position; (b) the trend of our financial and tax results; (c) the amount of taxable income reported in our federal income tax return; (d) our tax credit carryforward and the length of the carryforward period available to utilize this asset under current tax law; and (e) our access to capital under the agreements associated with conservatorship. Furthermore, we evaluate all available subjective evidence including, but not limited to: (a) difficulty in predicting unsettled circumstances related to the conservatorship; (b) our estimated taxable income; and (c) forecasts of future book and tax income. Our consideration of the evidence requires significant judgment regarding estimates and assumptions that are inherently uncertain, particularly about our future business structure and financial results.

We are not permitted to consider the impacts proposed legislation may have on our business operations or the mortgage industry in our valuation allowance assessment because the timing and certainty of those actions are unknown and beyond our control. On February 2, 2015, the Administration submitted the full year 2016 U.S. budget to Congress. Included within the budget is a proposal to reduce the top U.S. corporate tax rate. If enacted, a reduction in the corporate tax rate would result in a charge representing the reduction in the realizable value of our net deferred tax asset.

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we adopted a series of commitments designed to enhance our market discipline, liquidity and capital. In September 2005, we updated these commitments and set forth a process for implementing them. A copy of the written agreement between us and OFHEO dated September 1, 2005 has been filed as an exhibit to our Registration Statement on Form 10, filed with the SEC on July 18, 2008, and is available on the Investor Relations page of our web site at www.freddiemac.com/investors/sec_filings/index.html.

FHFA suspended the disclosure commitments under the September 1, 2005 agreement until further notice, except that: (a) FHFA will continue to monitor our adherence to the substance of the liquidity management and contingency planning commitment through normal supervision activities; and (b) we are required to continue providing interest-rate and credit risk disclosures in our periodic public reports. In January 2015, FHFA suspended the commitment that we provide credit risk disclosures in our periodic public reports.

Our monthly average PMVS results, duration gap, and related disclosures are provided in our Monthly Volume Summary reports, which are available on our web site, www.freddiemac.com and in current reports on Form 8-K we file with the SEC. For disclosures concerning our PMVS and duration gap, see “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK — Interest-Rate Risk and Other Market Risks — PMVS and Duration Gap.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest-Rate Risk and Other Market Risks

Our mortgage-related investments portfolio (i.e., mortgage loans and mortgage-related securities), non-mortgage investments, and unsecured debt expose us to interest-rate risk and other market risks, including spread risk, and prepayment risk arising from credit risk primarily from: (a) the uncertainty as to when borrowers will pay the outstanding principal balance of mortgage loans and mortgage-related securities; and (b) unexpected prepayments or differences in expected cash flows due to default of the underlying borrower or modification of loan terms by the servicer. For a majority of our mortgage-related investments, the mortgage borrower has the option to make unscheduled payments of additional principal or to completely pay off a mortgage loan at any time before its scheduled maturity date (without having to pay a prepayment penalty) or make principal payments in accordance with the contractual obligation. For more information on credit risk, see "MD&A — RISK MANAGEMENT — Credit Risk

Overview."

Our credit guarantee activities expose us to interest-rate and other market risks because changes in interest rates can cause fluctuations in the fair value of our existing credit guarantees. We generally do not hedge these changes in fair value except for interest-rate exposure related to buy-ups and float. Float, which arises from timing differences between the borrower's principal payments on the loan and the reduction of the PC balance, can lead to significant interest expense if the interest rate paid to a PC investor is higher than the reinvestment rate earned by the securitization trusts on payments received from borrowers and paid to us as trust management income. Changes in prepayments, defaults, spreads, or unexpected prepayments can adversely affect our earnings and net worth. In addition, these risks could result in realized losses upon the sale of assets. While we manage interest-rate risk, we have limited ability to manage spread risk. We use derivatives as an important part of our strategy to manage interest-rate risk. When deciding to use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risks, and our overall risk management strategy. See

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"MD&A — RISK MANAGEMENT — Institutional Credit Risk Profile" and "RISK FACTORS" for a discussion of our market risk exposures, including those related to derivatives, institutional counterparties, and other market risks.

Interest-Rate Risk Management Strategy and Framework

We employ a risk management framework, using the fair value of financial instruments, that seeks to maintain certain interest rate characteristics of our assets and liabilities within our risk limits through a number of different strategies, including:

- asset selection and structuring: We may acquire or structure mortgage-related securities with certain expected prepayment and other characteristics;
- callable and non-callable unsecured debt; and
- interest rate derivatives, including swaptions and swaps.

To maintain our interest-rate risk exposure across a range of interest-rate scenarios within our risk limits, we analyze the interest-rate sensitivity of financial assets and liabilities at the instrument level on a daily basis and across a variety of interest rate scenarios. For risk management purposes, the interest-rate characteristics of each instrument are determined daily based on market prices and models. The fair values of our assets, liabilities and derivatives are primarily based on either third-party prices, or observable market-based inputs. For more information, see "NOTE 16: FAIR VALUE DISCLOSURES — Valuation Processes and Controls over Fair Value Measurement."

Annually, the Risk Committee of our Board of Directors establishes certain Board limits for interest-rate risk measures, and if we exceed these limits we are required to notify the Risk Committee and address the limit breach. These limits encompass a range of interest-rate risks that include duration risk, convexity risk, volatility risk, and yield curve risk associated with our use of various financial instruments, including derivatives. Also, on an annual basis, our Enterprise Risk Management division establishes management limits and makes recommendations with respect to the limits to be established at the Board level. These limits are reviewed by our Enterprise Risk Management Committee, which is responsible for reviewing performance as compared to the established limits. The management limits are set at values below those set at the Board level, which is intended to allow us to follow a series of predetermined actions in the event of a breach of the management limits and helps ensure proper oversight to reduce the possibility of exceeding the Board limits.

The principal types of interest-rate risk and other market risks to which we are exposed are described below.

Duration Risk and Convexity Risk

Duration is a measure of a financial instrument's price sensitivity to a 100 basis point change in interest rates along the yield curve (expressed in percentage terms). Convexity is a measure of how much a financial instrument's duration changes as interest rates change. Similar to the duration calculation, we compute each instrument's convexity by applying the shock, both upward and downward, to the LIBOR curve and evaluating the impact on the duration. We are exposed to convexity risk in both our mortgage-related investments portfolio and our callable debt portfolio.

Yield Curve Risk

Yield curve risk is the risk that non-parallel shifts in the yield curve (such as a flattening or steepening) will adversely affect the fair value of net assets and ultimately adversely affect our net worth. Because changes in the shape, or slope, of the yield curve often arise due to changes in the market's expectation of future interest rates at different points along the yield curve, we evaluate our exposure to yield curve risk by examining potential reshaping scenarios at various points along the yield curve. Our yield curve risk under a specified yield curve scenario is reflected in our PMVS-YC disclosure.

Volatility Risk

Volatility risk is the risk that changes in the market's expectation of the magnitude of future variations in interest rates will affect the fair value of our financial assets and liabilities and ultimately affect our net worth. We are exposed to volatility risk in both our mortgage-related investments portfolio and our callable debt portfolio. We actively manage our volatility risk exposure over a range of interest rate scenarios by using option-based interest-rate derivatives.

Spread Risk

Spread risk is the risk that interest rates in different market sectors will not move in tandem and will adversely affect the fair value of net assets and ultimately adversely affect our net worth. This risk arises principally because the mortgage-related investments generally do not move in tandem with our financial liabilities and derivatives. We are continually exposed to significant spread risk, also referred to as mortgage-to-debt OAS risk, arising from funding mortgage-related investments with debt securities. We also incur spread risk when we use LIBOR- or Treasury-based instruments in our risk management activities.

Model Risk

Models, including mortgage prepayment models, interest rate models, home price models, mortgage default models, and model adjustments based on new information or changes in conditions, are an integral part of our investment framework. As market conditions change rapidly, the assumptions that we use in our models for our sensitivity analyses (including PMVS and duration gap measures) may not keep pace with these market changes. These analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair values of our assets. We manage our model risk by reviewing the performance of our models and making changes to the underlying assumptions or modeling techniques when warranted. Model development and model testing are reviewed and approved independently by our Enterprise Risk Management division. Model performance is also reported regularly through a series of internal management committees. For more information about the risks associated with our use of models, see "MD&A — RISK MANAGEMENT — Operational Risk Profile" and "RISK FACTORS — Operational Risks — face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties." Given the importance of models to our investment management practices, model changes undergo a rigorous review process. As a result, it is common for model changes to take several months to complete, which could affect our estimation of risk metrics.

Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk

PMVS and Duration Gap

Our primary interest-rate risk measures are PMVS and duration gap.

PMVS is an estimate of the change in the market value of our financial assets and liabilities from an instantaneous 50 basis point shock to interest rates, assuming no rebalancing actions are undertaken and assuming the mortgage-to-LIBOR basis does not change. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to parallel movements in interest rates (PMVS-Level or PMVS-L) and the other to nonparallel movements (PMVS-YC).

- We calculate our exposure to changes in interest rates using effective duration. Effective duration measures the percentage change in the price of financial instruments from a 1% change in interest rates. Financial instruments with positive duration increase in value as interest rates decline. Conversely, financial instruments with negative duration increase in value as interest rates rise.
- Together, duration and convexity provide a measure of an instrument's overall price sensitivity to changes in interest rates. We utilize the aggregate duration and convexity risk of all interest-rate sensitive instruments on a daily basis to estimate the two PMVS metrics. The duration and convexity measures are used to estimate PMVS under the following formula:

PMVS = –[Duration] multiplied by [rate shock] plus [0.5 multiplied by Convexity] multiplied by [rate shock^2]

In the equation, [rate shock] represents the interest-rate change expressed in fair value terms. Assuming an adverse 50 basis point change, the result of this formula is the fair value of sensitivity to the change in rate, which is expressed as: PMVS = (0.5 absolute value of duration) + (0.125 convexity), assuming convexity is negative.

- To estimate PMVS-L, an instantaneous parallel 50 basis point shock is applied to the yield curve, as represented by the US swap curve, holding all spreads to the swap curve constant. This shock is applied to the duration and convexity of all interest-rate sensitive financial instruments. The resulting change in market value for the aggregate portfolio is computed for both the up rate and down rate shock and the change in market value in the more adverse scenario of the up and down rate shocks is the PMVS. In cases where both the up rate and down rate shock results in a positive impact, the PMVS is zero. Because this process uses a parallel, or level, shock to interest rates, we refer to this measure as PMVS-L.
- To estimate sensitivity related to the shape of the yield curve, a yield curve steepening and flattening of 25 basis points is applied to the duration of all interest-rate sensitive instruments. The resulting change in market value for the aggregate portfolio is computed for both the steepening and flattening yield curve scenarios. The more adverse yield curve scenario is then used to determine the PMVS-yield curve. Because this process uses a non-parallel shock to interest rates, we refer to this measure as PMVS-YC.
- The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures reflect reasonably possible near-term changes that we believe provide a meaningful measure of our interest-rate risk sensitivity. Our PMVS measures assume instantaneous shocks. Therefore, these PMVS measures do not consider the effects on fair value of any rebalancing actions that we would typically expect to take to reduce our risk exposure.

Duration gap measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities, and is expressed in months relative to the market value of assets. For example, assets with a six month duration and liabilities with a five month duration would result in a positive duration gap of one month. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities. As a result, the change in the value of assets from an instantaneous move in interest rates, either up or down, would be expected to be accompanied by an equal and offsetting change in the value of liabilities, thus leaving the fair value of net assets unchanged. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities which, from a net perspective, implies that the fair value of net assets will increase in value when interest rates fall and decrease in value when interest rates rise. A negative duration gap indicates that the duration of our liabilities exceeds the duration of our assets which, from a net perspective, implies that the fair value of net assets will increase in value when interest rates rise and decrease in value when interest rates fall.

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We estimate the sensitivity to changes in interest rates of the fair value of all financial assets, liabilities, and derivatives on a pre-tax basis. We also take into account the cash flows related to certain credit guarantee-related items, including buy-ups and expected gains or losses due to net interest from float. In making these calculations, we do not consider the sensitivity to interest-rate changes of the following assets and liabilities:

- Credit guarantee activities. We do not consider the sensitivity of the fair value of credit guarantee activities to changes in interest rates except for the guarantee-related items mentioned above (i.e., buy-ups and float), because we do not actively manage the change in the fair value of our guarantee business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates are the best indication of the long-term value of our guarantee business because these changes do not take into account the potential for new future guarantee business activity.
- Other assets with minimal interest-rate sensitivity. We do not include other assets, primarily non-financial instruments such as fixed assets and REO, because we estimate their impact on PMVS and duration gap to be minimal.

Limitations of Market Risk Measures

Our PMVS and duration gap estimates are determined using models that involve our judgment of interest-rate and prepayment assumptions. While we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements. There could be times when we hedge differently than our model estimates during the period (i.e., when we are making changes or market updates to these models). While PMVS and duration gap estimate our exposure to changes in interest rates, they do not capture the potential effect of certain other market risks, such as changes in volatility and spread risk. The effect of these other market risks can be significant.

There are inherent limitations in any methodology used to estimate exposure to changes in market interest rates. Our sensitivity analyses for PMVS and duration gap contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio. These sensitivity analyses do not consider other factors that may have a significant effect on our financial instruments, most notably business activities and strategic actions that management may take in the future to manage interest-rate risk. These analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair value of our net assets.

In addition, it has been more difficult in recent years to measure and manage the interest-rate risk related to mortgage assets as risk for prepayment model error remains high due to the low interest rate environment and uncertainty regarding default rates, unemployment, government policy changes and programs, loan modifications, and the volatility and impact of home price movements on mortgage durations. Misestimation of prepayments, resulting in over or under hedging of interest-rate risk, could result in significant economic losses and have an adverse impact on earnings. In addition, this misestimation could result in realized losses upon the sale of assets.

Duration Gap and PMVS Results

The table below provides duration gap, estimated point-in-time and minimum and maximum PMVS-L and PMVS-YC results, and an average of the daily values and standard deviation for the years ended December 31, 2014 and 2013. The table below also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. We do not hedge the entire prepayment risk exposure embedded in our mortgage assets. The interest-rate sensitivity of a mortgage portfolio varies across a wide range of interest rates. Therefore, the difference between PMVS at 50 basis points and 100 basis points is non-linear.

Our PMVS-L (50 basis points) exposure at December 31, 2014 was $102 million, which decreased compared to December 31, 2013 primarily due to a decrease in our duration exposure. On an average basis for the year ended December 31, 2014, our PMVS-L (50 basis points) was $69 million, primarily resulting from our duration exposure.

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Table 61 — PMVS and Duration Gap Results

	PMVS-YC 25 bps	PMVS-L 50 bps	100 bps
	(in millions)		
Assuming shifts of the LIBOR yield curve:			
December 31, 2014	$—	$102	$396
December 31, 2013	$—	$176	$368

	Year Ended December 31,					
	2014			2013		
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps
Average	(0.1)	$14	$69	0.2	$21	$235
Minimum	(2.4)	$—	$—	(1.2)	$—	$—
Maximum	0.7	$65	$509	2.0	$78	$673
Standard deviation	0.4	$14	$79	0.5	$16	$121

Derivatives have historically enabled us to reduce our interest-rate risk exposure, which could have been higher without the use of derivatives. The table below shows that the PMVS-L risk levels for the periods presented would have been higher if we had not used derivatives. The derivative impact on our PMVS-L (50 basis points) was $(3.1) billion at December 31, 2014, an increase of $1.1 billion from December 31, 2013.

Table 62 — Derivative Impact on PMVS-L (50 bps)

	Before Derivatives	After Derivatives	Effect of Derivatives
	(in millions)		
At:			
December 31, 2014	$3,226	$102	$(3,124)
December 31, 2013	$2,166	$176	$(1,990)

Duration Gap Results

We actively measure and manage our duration gap exposure on a daily basis. In addition to duration gap management, we also measure and manage the price sensitivity of our portfolio to a number of different specific interest rate changes along the yield curve. The price sensitivity of an instrument to specific changes in interest rates is known as the instrument's key rate duration risk. By managing our duration exposure both in aggregate through duration gap and to specific changes in interest rates through key rate duration, we expect to limit our fair value exposure to interest rate changes for a wide range of interest rate yield curve scenarios. However, hedging our overall duration gap exposure could result in increased volatility in our financial results, as our derivatives and several types of our financial assets are measured at fair value, while our financial liabilities are generally not measured at fair value. Our average duration gap, rounded to the nearest month, for the months of December 2014 and 2013 was zero months in both periods. Our average duration gap, rounded to the nearest month, during the years ended December 31, 2014 and 2013 was zero months in both periods.

The disclosure in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com and in current reports on Form 8-K we file with the SEC, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year).

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm
To the Board of Directors and Stockholders of Freddie Mac
In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Freddie Mac, a stockholder-owned government sponsored enterprise, and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to disclosure controls and procedures that do not provide adequate mechanisms for information known to the Federal Housing Finance Agency ("FHFA") that may have financial statement disclosure ramifications to be communicated to management of Freddie Mac existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control Over Financial Reporting, appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
As discussed in "Note 2: Conservatorship and Related Matters", in September 2008, the Company was placed into conservatorship by the FHFA. The U.S. Department of Treasury ("Treasury") has committed financial support to the Company and management continues to conduct business operations pursuant to the delegated authorities from FHFA during conservatorship. The Company is dependent upon the continued support of Treasury and FHFA.
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 19, 2015

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2014	2013	2012
	(in millions, except share-related amounts)		
Interest income			
Mortgage loans:			
Held by consolidated trusts	$57,036	$57,189	$65,089
Unsecuritized	6,569	7,694	8,960
Total mortgage loans	63,605	64,883	74,049
Investments in securities	5,843	7,768	10,583
Other	32	51	86
Total interest income	69,480	72,702	84,718
Interest expense			
Debt securities of consolidated trusts	(48,003)	(47,350)	(56,109)
Other debt:			
Short-term debt	(145)	(178)	(176)
Long-term debt	(6,768)	(8,251)	(10,217)
Total interest expense	(54,916)	(55,779)	(66,502)
Expense related to derivatives	(301)	(455)	(605)
Net interest income	14,263	16,468	17,611
(Provision) benefit for credit losses	(58)	2,465	(1,890)
Net interest income after (provision) benefit for credit losses	14,205	18,933	15,721
Non-interest income (loss)			
Gains (losses) on extinguishment of debt securities of consolidated trusts	(451)	314	(58)
Gains (losses) on retirement of other debt	29	132	(77)
Derivative gains (losses)	(8,291)	2,632	(2,448)
Impairment of available-for-sale securities:			
Total other-than-temporary impairment of available-for-sale securities	(860)	(763)	(1,236)
Portion of other-than-temporary impairment recognized in AOCI	(78)	(747)	(932)
Net impairment of available-for-sale securities recognized in earnings	(938)	(1,510)	(2,168)
Other gains (losses) on investment securities recognized in earnings	1,494	301	(1,522)
Other income (loss)	8,044	6,650	2,190
Non-interest income (loss)	(113)	8,519	(4,083)
Non-interest expense			
Salaries and employee benefits	(914)	(833)	(810)
Professional services	(527)	(543)	(361)
Occupancy expense	(58)	(54)	(57)
Other administrative expense	(382)	(375)	(333)
Total administrative expense	(1,881)	(1,805)	(1,561)
Real estate owned operations (expense) income	(196)	140	(59)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(775)	(533)	(108)
Other (expense) income	(238)	109	(465)
Non-interest expense	(3,090)	(2,089)	(2,193)
Income before income tax (expense) benefit	11,002	25,363	9,445
Income tax (expense) benefit	(3,312)	23,305	1,537
Net income	7,690	48,668	10,982

Other comprehensive income (loss), net of taxes and reclassification adjustments:			
Changes in unrealized gains (losses) related to available-for-sale securities	1,584	2,406	4,769
Changes in unrealized gains (losses) related to cash flow hedge relationships	197	316	414
Changes in defined benefit plans	(45)	210	(126)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	1,736	2,932	5,057
Comprehensive income	$9,426	$51,600	$16,039
Net income	$7,690	$48,668	$10,982
Undistributed net worth sweep and senior preferred stock dividends	(10,026)	(52,199)	(13,056)
Net income (loss) attributable to common stockholders	$(2,336)	$(3,531)	$(2,074)
Net income (loss) per common share — basic and diluted	$(0.72)	$(1.09)	$(0.64)
Weighted average common shares outstanding (in millions) — basic and diluted	3,236	3,238	3,240

The accompanying notes are an integral part of these consolidated financial statements.

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FREDDIE MAC
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents (includes $2 and $1, respectively, related to our consolidated VIEs)	$10,928	$11,281
Restricted cash and cash equivalents (includes $8,532 and $12,193, respectively, related to our consolidated VIEs)	8,535	12,265
Federal funds sold and securities purchased under agreements to resell (includes $13,500 and $3,150, respectively, related to our consolidated VIEs)	51,903	62,383
Investments in securities:		
Available-for-sale, at fair value (includes $9 and $70, respectively, pledged as collateral that may be repledged)	106,550	128,919
Trading, at fair value (includes $1,884 and $365, respectively, pledged as collateral that may be repledged)	30,437	23,404
Total investments in securities	136,987	152,323
Mortgage loans:		
Held-for-investment, at amortized cost:		
By consolidated trusts (net of allowances for loan losses of $2,884 and $3,006, respectively)	1,558,094	1,529,905
Unsecuritized (net of allowances for loan losses of $18,877 and $21,612, respectively)	130,118	146,158
Total held-for-investment mortgage loans, net	1,688,212	1,676,063
Held-for-sale, at lower-of-cost-or-fair-value (includes $12,130 and $8,727 at fair value, respectively)	12,368	8,727
Total mortgage loans, net	1,700,580	1,684,790
Accrued interest receivable (includes $5,124 and $5,111, respectively, related to our consolidated VIEs)	6,034	6,150
Derivative assets, net	822	1,063
Real estate owned, net (includes $44 and $49, respectively, related to our consolidated VIEs)	2,558	4,551
Deferred tax assets, net	19,498	22,716
Other assets (Note 19) (includes $2,596 and $2,172, respectively, related to our consolidated VIEs)	7,694	8,539
Total assets	$1,945,539	$1,966,061
Liabilities and equity		
Liabilities		
Accrued interest payable (includes $4,702 and $4,702, respectively, related to our consolidated VIEs)	$6,325	$6,803
Debt, net:		
Debt securities of consolidated trusts held by third parties (includes $42 and $59 at fair value, respectively)	1,479,473	1,433,984
Other debt (includes $5,820 and $2,683 at fair value, respectively)	450,069	506,767
Total debt, net	1,929,542	1,940,751
Derivative liabilities, net	1,963	180
	5,058	5,492

Other liabilities (Note 19) (includes $1 and $6, respectively, related to our consolidated VIEs)		
Total liabilities	1,942,888	1,953,226
Commitments and contingencies (Notes 9, 14, and 17)		
Equity		
Senior preferred stock, at redemption value	72,336	72,336
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,043,899 shares and 650,039,533 shares outstanding, respectively	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(81,639)	(69,719)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $839 and ($1,100), respectively, related to net unrealized gains (losses) on securities for which other-than-temporary impairment has been recognized in earnings)	2,546	962
Cash flow hedge relationships	(803)	(1,000)
Defined benefit plans	(13)	32
Total AOCI, net of taxes	1,730	(6)
Treasury stock, at cost, 75,819,987 shares and 75,824,353 shares, respectively	(3,885)	(3,885)
Total equity (See NOTE 11: STOCKHOLDERS' EQUITY for information on our dividend obligation to Treasury)	2,651	12,835
Total liabilities and equity	$1,945,539	$1,966,061

The accompanying notes are an integral part of these consolidated financial statements.

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF EQUITY

	Shares Outstanding (in millions)										
	Senior Preferred Stock	Preferred Stock	Common Stock	Senior Preferred Stock, at Redemption Value	Preferred Stock, at Redemption Value	Common Stock, at Par Value	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	AOCI, Net of Tax	Treasury Stock, at Cost	Total Equity
Balance as of December 31, 2011	1	464	650	$ 72,171	$ 14,109	$ —	$ 3	$ (74,525)	$(7,995)	$(3,909)	$(146)
Comprehensive income:											
Net income	—	—	—	—	—	—	—	10,982	—	—	10,982
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	5,057	—	5,057
Comprehensive income	—	—	—	—	—	—	—	10,982	5,057	—	16,039
Increase in liquidation preference	—	—	—	165	—	—	—	—	—	—	165
Stock-based compensation	—	—	—	—	—	—	2	—	—	—	2
Income tax benefit from stock-based compensation	—	—	—	—	—	—	1	—	—	—	1
Common stock issuances	—	—	—	—	—	—	(24)	—	—	24	—
Transfer from retained earnings (accumulated deficit) to additional paid-in capital	—	—	—	—	—	—	19	(19)	—	—	—
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(7,233)	—	—	(7,233)
Dividend equivalent payments on expired stock options	—	—	—	—	—	—	—	(1)	—	—	(1)
Ending balance as of December 31, 2012	1	464	650	$ 72,336	$ 14,109	$ —	$ 1	$ (70,796)	$(2,938)	$(3,885)	$8,827
	1	464	650	$ 72,336	$ 14,109	$ —	$ 1	$ (70,796)	$(2,938)	$(3,885)	$8,827

Balance as of December 31, 2012											
Comprehensive income:											
Net income	—	—	—	—	—	—	—	48,668	—	—	48,668
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	2,932	—	2,932
Comprehensive income	—	—	—	—	—	—	—	48,668	2,932	—	51,600
Common stock issuances	—	—	—	—	—	—	(1)	—	—	—	(1)
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(47,591)	—	—	(47,591)
Ending balance at December 31, 2013	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (69,719)	$(6)	$(3,885)	$12,835
Balance as of December 31, 2013	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (69,719)	$(6)	$(3,885)	$12,835
Comprehensive income:											
Net income	—	—	—	—	—	—	—	7,690	—	—	7,690
Other comprehensive income, net of taxes	—	—	—	—	—	—	—	—	1,736	—	1,736
Comprehensive income	—	—	—	—	—	—	—	7,690	1,736	—	9,426
Senior preferred stock dividends declared	—	—	—	—	—	—	—	(19,610)	—	—	(19,610)
Ending balance at December 31, 2014	1	464	650	$ 72,336	$ 14,109	$ —	$ —	$ (81,639)	$1,730	$(3,885)	$2,651

The accompanying notes are an integral part of these consolidated financial statements.

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Cash flows from operating activities			
Net income	$7,690	$48,668	$10,982
Adjustments to reconcile net income to net cash provided by operating activities:			
Derivative losses (gains)	5,652	(6,097)	(1,350)
Asset related amortization — premiums, discounts, and basis adjustments	3,518	4,627	4,624
Debt related amortization — premiums and discounts on certain debt securities and basis adjustments	(5,368)	(6,779)	(5,782)
Losses (gains) on extinguishment of debt securities of consolidated trusts and other debt	422	(446)	135
Provision (benefit) for credit losses	58	(2,465)	1,890
(Gains) losses on investment activity	(1,287)	1,545	2,680
Deferred income tax expense (benefit)	2,284	(23,422)	3
Purchases of held-for-sale mortgage loans	(24,593)	(23,103)	(25,340)
Sales of mortgage loans acquired as held-for-sale	21,995	28,123	21,764
Repayments of mortgage loans acquired as held-for-sale	67	167	59
Payments to servicers for pre-foreclosure expense and servicer incentive fees	(932)	(1,302)	(1,269)
Change in:			
Accrued interest receivable	116	725	1,187
Accrued interest payable	(440)	(849)	(1,094)
Income taxes receivable	268	117	(1,523)
Other, net	(565)	(2,957)	(1,722)
Net cash provided by operating activities	8,885	16,552	5,244
Cash flows from investing activities			
Purchases of trading securities	(42,477)	(53,753)	(33,880)
Proceeds from sales of trading securities	18,513	57,380	17,641
Proceeds from maturities of trading securities	17,118	12,542	31,106
Purchases of available-for-sale securities	(25,290)	(9,681)	(3,252)
Proceeds from sales of available-for-sale securities	32,062	24,675	1,729
Proceeds from maturities of available-for-sale securities	20,734	33,630	38,517
Purchases of held-for-investment mortgage loans	(75,298)	(79,028)	(79,492)
Proceeds from sales of mortgage loans acquired as held-for-investment	454	196	5
Repayments of mortgage loans acquired as held-for-investment	241,552	410,455	522,242
Decrease in restricted cash	3,730	2,327	13,471
Net proceeds from dispositions of real estate owned and other recoveries	7,712	11,274	11,265
Net decrease (increase) in federal funds sold and securities purchased under agreements to resell	10,480	(24,820)	(25,519)
Derivative premiums and terminations and swap collateral, net	(3,888)	6,062	569
Other investing activities, net	(134)	—	—
Net cash provided by investing activities	205,268	391,259	494,402
Cash flows from financing activities			
Proceeds from issuance of debt securities of consolidated trusts held by third parties	124,887	113,841	95,601

Repayments of debt securities of consolidated trusts held by third parties	(262,920)	(430,118)	(494,275)
Proceeds from issuance of other debt	451,854	701,342	718,731
Repayments of other debt	(508,710)	(742,510)	(832,552)
Increase in liquidation preference of senior preferred stock	—	—	165
Payment of cash dividends on senior preferred stock	(19,610)	(47,591)	(7,233)
Other financing activities, net	(7)	(7)	(12)
Net cash used in financing activities	(214,506)	(405,043)	(519,575)
Net (decrease) increase in cash and cash equivalents	(353)	2,768	(19,929)
Cash and cash equivalents at beginning of year	11,281	8,513	28,442
Cash and cash equivalents at end of year	$10,928	$11,281	$8,513
Supplemental cash flow information			
Cash paid (received) for:			
Debt interest	$62,257	$65,614	75,328
Net cash settlement on interest rate swaps	2,537	3,701	4,044
Income taxes	760	—	(18)
Non-cash investing and financing activities (Notes 3, 4, 6 and 7)			

The accompanying notes are an integral part of these consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 are regulated by FHFA, the SEC, HUD, the CFPB and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS."

We perform our mission by participating in the secondary mortgage market. Our participation in the secondary mortgage market includes providing our credit guarantee for mortgages originated by mortgage lenders in the primary mortgage market and investing in mortgage loans and mortgage-related securities. We do not participate directly in the primary mortgage market.

We have three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily. Our Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market and we manage our seriously delinquent loans. In most instances, we use the mortgage securitization process to package the loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Our Investments segment reflects results from three primary activities: (a) managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments and single-family seriously delinquent loans; (b) managing the treasury function for the entire company, including funding and liquidity; and (c) managing interest-rate risk for the entire company. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans. Our Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. In our Multifamily segment, our primary business model is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. See "NOTE 13: SEGMENT REPORTING" for additional information.

Our primary business objectives are: (a) to support U.S. homeowners and renters by maintaining mortgage availability even when other sources of financing are scarce and by providing struggling homeowners with alternatives that allow them to stay in their homes or avoid foreclosure; (b) to reduce taxpayer exposure to losses by increasing the role of private capital in the mortgage market and reducing our overall risk profile; (c) to build a commercially strong and efficient business enterprise to succeed in a to-be-determined "future state;" and (d) to support and improve the secondary mortgage market. For information regarding our objectives, see "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Business Objectives."

Throughout our consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the "GLOSSARY."

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP and include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated.

Our current accounting policies are described below. We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with the delegation of authority from FHFA to our Board of Directors and management. Certain amounts in prior periods' consolidated financial statements have been reclassified to conform to the current presentation.

We evaluate the materiality of identified errors in the financial statements using both an income statement, or "rollover," and a balance sheet, or "iron curtain," approach, based on relevant quantitative and qualitative factors. Net income includes certain adjustments to correct immaterial errors related to previously reported periods.

Beginning in the first quarter of 2014, we reclassified net discounts paid on retirements of other debt and net premiums received from issuance of debt securities of consolidated trusts and other debt from cash flows from operating activities to cash flows from financing activities on our consolidated statements of cash flows. This reclassification resulted in a decrease of $2.0 billion and $3.2 billion to net cash provided by operating activities, and an increase of $2.0 billion and $3.2 billion to net cash used in financing activities for 2013 and 2012, respectively.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect: (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (b) the reported amounts of revenues and expenses and gains and losses during the reporting period. Management has made significant estimates in preparing the financial statements for establishing the allowance for loan losses and reserve for guarantee losses, valuing financial instruments and other assets and liabilities, assessing impairments on investments, and assessing our ability to realize net deferred tax assets. Actual results could be different from these estimates.

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Consolidation and Equity Method of Accounting

The consolidated financial statements include our accounts and those of our subsidiaries. We consolidate entities in which we have a controlling financial interest. All intercompany transactions have been eliminated in consolidation. For each entity with which we are involved, we determine whether the entity should be consolidated in our financial statements. The method for determining whether a controlling financial interest exists varies depending on whether the entity is a VIE or non-VIE. A VIE is an entity: (a) that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by another party; (b) where the group of equity holders does not have: (i) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance; (ii) the obligation to absorb the entity's expected losses; or (iii) the right to receive the entity's expected residual returns; or (c) where the voting rights of some investors are disproportionate to their obligation to absorb expected losses or their right to expected residual returns (or both) and substantially all of the entity's activities are conducted on behalf of an investor that has disproportionately few voting rights.

We consolidate VIEs in which we hold a controlling financial interest and are therefore deemed to be the primary beneficiary. An enterprise has a controlling financial interest in, and thus is deemed to be the primary beneficiary of, a VIE if it has both: (a) the power to direct the activities of the VIE that most significantly impact its economic performance; and (b) exposure to losses or benefits of the VIE that could potentially be significant to the VIE. We perform ongoing assessments to determine if we are the primary beneficiary of the VIEs with which we are involved and, as such, conclusions may change over time as the nature and extent of our involvement changes.

We use securitization trusts, which are VIEs, in our securities issuance process. We are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions. See "NOTE 3: VARIABLE INTEREST ENTITIES" for more information. When we transfer assets into a VIE that we consolidate at the time of the transfer (or shortly thereafter), we recognize the assets and liabilities of the VIE at the amounts that they would have been recognized if they had not been transferred, and no gain or loss is recognized on these transfers. For all other VIEs that we consolidate, we recognize the assets and liabilities of the VIE at fair value, and we recognize a gain or loss for the difference between: (a) the sum of the fair value of the consideration paid, the fair value of any noncontrolling interests held by third parties and the reported amount of any previously held interests; and (b) the net amount, measured on a fair value basis, of the assets and liabilities consolidated.

For entities that are not VIEs, the usual condition of a controlling financial interest is ownership of a majority voting interest in an entity. We use the equity method of accounting for entities over which we have the ability to exercise significant influence, but not control.

Fair Value Measurements

Consistent with the accounting guidance for fair value measurements and disclosures, we use a three-level fair value hierarchy that prioritizes the inputs to the valuation techniques used to measure the fair value of assets and liabilities, giving highest priority to quoted prices in active markets and lowest priority to unobservable inputs. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements under this hierarchy are distinguished among three levels: quoted market prices, observable inputs, and unobservable inputs. We use quoted market prices and valuation techniques that seek to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs. Our inputs are based on the assumptions a market participant would use in valuing the asset or liability. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. When assets and liabilities are transferred between levels, we recognize the transfer as of the beginning of the period. See "NOTE 16: FAIR VALUE DISCLOSURES" for additional information regarding the fair value measurements and the hierarchy.

Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities

Overview

When we securitize mortgages that we purchase, we issue mortgage-related securities such as PCs that can be sold to investors or held by us. We issue mortgage-related securities in the form of PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions. Guarantor swaps are transactions where financial institutions exchange mortgage loans for PCs backed by these mortgage loans. Multilender swaps are similar to guarantor swaps, except that the formed PC pools include loans that are contributed by more than one party. We issue PCs through various swap-based exchanges significantly more often than through cash-based transfers. We issue REMICs and Other Structured Securities in transactions in which securities dealers or investors sell us mortgage-related assets in exchange for REMICs and Other Structured Securities. We also issue Other Guarantee Transactions to third parties in exchange for non-Freddie Mac mortgage-related securities.

PCs

Our PCs are pass-through debt securities that represent undivided beneficial interests in a pool of mortgages held by a securitization trust. For our fixed-rate PCs, we guarantee the timely payment of interest and principal. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans. We do not guarantee the timely payment of principal for ARM PCs; however, we do guarantee the full and final payment of principal.

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In return for providing our guarantee of the payment of principal and interest, we earn a management and guarantee fee that is paid to us over the life of an issued PC, representing a portion of the interest collected on the underlying loans.

PC Trusts

We are the primary beneficiary of securitization trusts that issue our single-family PCs and therefore consolidate the assets and liabilities of these trusts at either their: (a) carrying value, if the underlying assets are contributed by us to the trust; or (b) fair value, for those securitization trusts established for our guarantor swap program. Mortgage loans underlying our issued single-family PCs are recognized on our consolidated balance sheets as mortgage loans held-for-investment by consolidated trusts, at amortized cost. The corresponding single-family PCs held by third parties are recognized on our consolidated balance sheets as debt securities of consolidated trusts held by third parties. Refer to "Mortgage Loans" and "Debt Securities Issued" below for further information on the subsequent accounting treatment of these assets and liabilities, respectively.

REMICs and Other Structured Securities

Our single-family REMICs and Other Structured Securities use resecuritization trusts and represent beneficial interests in groups of PCs and other types of mortgage-related assets. We create these securities primarily by using PCs or previously issued REMICs and Other Structured Securities as collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of the tranches of our REMICs and Other Structured Securities. However, for REMICs and Other Structured Securities where we have already guaranteed the underlying assets, there is no incremental exposure to credit loss assumed by us.

With respect to the resecuritization trusts used for our single-family REMICs and Other Structured Securities whose underlying assets are PCs or previously issued REMICs and Other Structured Securities, we do not have rights to receive benefits or obligations to absorb losses that could potentially be significant to the trusts because we have already provided a guarantee on the underlying assets. Additionally, our involvement with these trusts does not provide us with any power that would enable us to direct the significant economic activities of these entities. Although we may be exposed to prepayment risk through our ownership of the securities issued by these trusts, we do not have the ability through our involvement with the trust to affect the economic risks to which we are exposed. As a result, we are not the primary beneficiary of, and therefore do not consolidate, the resecuritization trusts used for REMICs and Other Structured Securities whose underlying assets are PCs or previously issued REMICs and Other Structured Securities, unless we hold substantially all of the outstanding beneficial interests that have been issued by the trust.

We receive a transaction fee from third parties for issuing our single-family REMICs and Other Structured Securities whose underlying assets are PCs or previously issued REMICs and Other Structured Securities. We defer the portion of the transaction fee that is equal to the estimated value of our future administrative responsibilities for these issued REMICs and Other Structured Securities. These responsibilities include ongoing trustee services, administration of pass-through amounts, paying agent services, tax reporting, and other required services. We estimate the value of these future responsibilities based on quotes from third-party vendors who perform each type of service and, where quotes are not available, based on our estimates of what those vendors would charge. The remaining portion of the transaction fee relates to compensation earned in connection with structuring-related services we rendered to third parties and is allocated between REMICs and Other Structured Securities we retain, if any, and the REMICs and Other Structured Securities acquired by third parties, based on the relative fair value of the securities. The portion of the fee allocated to any REMICs and Other Structured Securities we retain is deferred as a carrying value adjustment and is amortized into interest income using the effective interest method over the contractual lives of these securities. The fee allocated to REMICs and Other Structured Securities acquired by third parties is recognized immediately in earnings as other income.

Our multifamily Other Structured Securities use securitization trusts that meet the definition of a VIE. Our multifamily Other Structured Securities typically involve our acquisition of tax-exempt multifamily housing revenue bonds, placement of those bonds in a securitization trust, and issuance of tax-exempt senior certificates as well as subordinate certificates that provide structural credit protection. The housing revenue bonds are collateralized by low- and moderate-income multifamily housing developments. We guarantee the principal and interest on the senior certificates and, because the underlying collateral is not already guaranteed by us, we receive a management and

guarantee fee.
Our involvement with the securitization trusts used for our multifamily Other Structured Securities whose underlying assets are multifamily housing revenue bonds does not provide us with power that would enable us to direct the significant economic activities of these entities. As a result, we are not the primary beneficiary of, and therefore do not consolidate, these entities.

Other Guarantee Transactions

Other Guarantee Transactions are mortgage-related securities that we issue to third parties in exchange for non-Freddie Mac mortgage-related securities. Other Guarantee Transactions typically involve us purchasing either the senior tranches from a non-Freddie Mac senior-subordinated securitization or single-class pass-through securities, placing the acquired assets into a securitization trust, providing a guarantee of the principal and interest of the acquired assets and issuing securities backed by these assets. To the extent that we are deemed to be the primary beneficiary of such a securitization trust, we recognize the mortgage loans underlying the Other Guarantee Transaction as mortgage loans held-for-investment, at amortized cost. Correspondingly, we recognize the issued securities held by third parties as debt securities of consolidated trusts. However, to the extent we are not deemed to be the primary beneficiary of such a securitization trust, we initially recognize a guarantee asset and a guarantee obligation at fair value to the extent a management and guarantee fee is charged. We do not receive transaction fees, apart from our management and guarantee fee, for these transactions.

Our primary Other Guarantee Transactions are issuances of multifamily K Certificates. In substantially all of these transactions, we guarantee only the most senior tranches of the securities and our initial involvement with the trusts that issue the K Certificates does not provide us with any power that would enable us to direct the significant economic activities of these entities. As a result, we are not the primary beneficiary of, and therefore do not consolidate, these trusts when K Certificates are initially issued. To the extent that our involvement with the trusts changes, we evaluate whether we have become the primary beneficiary.

Purchases and Sales of Freddie Mac Mortgage-Related Securities

PCs

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish the outstanding debt securities of the related consolidated trust. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to redeem the debt differs from its carrying value, adjusted for any related purchase commitments accounted for as derivatives.

When we sell PCs that have been issued by consolidated PC trusts, we recognize a liability to the third-party beneficial interest holders of the related consolidated trust as debt securities of consolidated trusts held by third parties. That is, our sale of PCs issued by consolidated PC trusts is accounted for as the issuance of debt.

Single-Class REMICs and Other Structured Securities

The collateral for our single-class REMICs and Other Structured Securities includes PCs and previously issued single-class REMICs and Other Structured Securities. We do not consolidate these resecuritization trusts as we are not deemed to be the primary beneficiary of the trusts. Our single-class REMICs and Other Structured Securities pass through all of the cash flows of the underlying PCs directly to the holders of the securities and are deemed to be substantially the same as the underlying PCs. As a result, when we purchase single-class REMICs and Other Structured Securities, we extinguish a pro rata portion of the outstanding debt securities of the related PC trust on our consolidated balance sheets.

When we sell single-class REMICs and Other Structured Securities, we recognize a liability to the third-party beneficial interest holders of the related consolidated PC trust as debt securities of consolidated trusts held by third parties. That is, our sale of single-class REMICs and Other Structured Securities is accounted for as the issuance of debt.

Multiclass REMICs and Other Structured Securities

The collateral for our single-family multiclass REMICs and Other Structured Securities includes PCs and previously issued REMICs and Other Structured Securities. We do not consolidate most of these resecuritization trusts as we are not deemed to be the primary beneficiary of the trusts unless we hold substantially all of the outstanding beneficial interests that have been issued by the trust. In our single-family multiclass REMICs and Other Structured Securities, the cash flows of the underlying PCs are divided (e.g., stripped and/or time tranched). Due primarily to this division of cash flows, these securities are not deemed to be substantially the same as the underlying PCs. As a result, when we purchase single-family multiclass REMICs and Other Structured Securities, we record these securities as investments in debt securities rather than as the extinguishment of debt since we are investing in the debt securities of a non-consolidated entity. See “Investments in Securities” for further information regarding our accounting for investments in multiclass REMICs and Other Structured Securities.

We recognize, as assets, both the investment in single-family multiclass REMICs and Other Structured Securities and the mortgage loans backing the PCs held by the trusts which underlie the single-family multiclass REMICs and Other Structured Securities. Additionally, we recognize, as liabilities, the unsecured debt issued to third parties to fund the purchase of the single-family multiclass REMICs and Other Structured Securities as well as the debt issued to third parties of the PC trusts we consolidate which underlie the single-family multiclass REMICs and Other Structured Securities. This results in recognition of interest income from both assets and interest expense from both liabilities. The collateral for our multifamily multiclass Other Structured Securities typically includes multifamily housing revenue bonds which are collateralized by low- and moderate-income multifamily housing developments. We do not consolidate the securitization trusts that issue these securities as we are not deemed to be the primary beneficiary of the trusts. When we purchase multifamily multiclass Other Structured Securities, we record them as investments in debt securities. See "Investments in Securities" for further information regarding our accounting for investments in multiclass REMICs and Other Structured Securities.

When we sell multiclass REMICs and Other Structured Securities in which we are not the primary beneficiary of the resecuritization trust, we account for the transfer in accordance with the accounting guidance for transfers of financial assets.

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To the extent the transfer of multiclass REMICs and Other Structured Securities qualifies as a sale, we de-recognize all assets sold and recognize all assets obtained and liabilities incurred. Any gain (loss) on the sale of multiclass REMICs and Other Structured Securities is reflected in our consolidated statements of comprehensive income as a component of other gains (losses) on investment securities recognized in earnings. To the extent the transfer of multiclass REMICs and Other Structured Securities does not qualify as a sale, we account for the transfer as a financing transaction and recognize a liability for the proceeds received from third parties in the transfer.

Other Guarantee Commitments

In certain circumstances, we also provide a guarantee of mortgage-related assets held by third parties, in exchange for a guarantee fee, without securitizing those assets. For example, we provide long-term standby commitments to certain of our single-family customers, which obligate us to purchase seriously delinquent loans that are covered by those commitments. We also provide guarantee commitments on multifamily housing revenue bonds that were issued by HFAs as well as guarantees under the TCLFP on securities backed by HFA bonds.

Cash and Cash Equivalents

Highly liquid investment securities that have an original maturity of three months or less are accounted for as cash equivalents. In addition, cash collateral that we have the right to use for general corporate purposes and that we obtain from counterparties to derivative contracts is recorded as cash and cash equivalents.

Restricted Cash and Cash Equivalents

Cash collateral accepted from counterparties that we do not have the right to use for general corporate purposes is recorded as restricted cash in our consolidated balance sheets. Restricted cash includes cash remittances received on the underlying assets of our consolidated trusts, which are deposited into a separate custodial account. We invest the cash held in the custodial account in short-term investments and are entitled to the interest income earned on these short-term investments, which is recorded as interest income, other on our consolidated statements of comprehensive income.

Mortgage Loans

Upon acquisition, we classify a loan as either held-for-sale or held-for-investment. Mortgage loans that we have the ability and intent to hold for the foreseeable future are classified as held-for-investment. Loans we acquire and which we intend to securitize using an entity we will consolidate will be classified as held-for-investment both prior to and subsequent to their securitization, in accordance with our intent and ability to hold such loans for the foreseeable future.

Held-for-investment mortgage loans are reported in our consolidated balance sheets at their outstanding UPB, net of deferred fees and other cost basis adjustments (including unamortized premiums and discounts, delivery fees and other pricing adjustments). These deferred items are amortized into interest income over the contractual lives of the loans using the effective interest method. We recognize interest income on an accrual basis except when we believe the collection of principal and interest in full is not reasonably assured. If the collection of principal and interest in full is not reasonably assured, we cease the accrual of interest income and any interest income accrued but uncollected is reversed.

Mortgage loans not classified as held-for-investment are classified as held-for-sale. Held-for-sale loans are reported at lower-of-cost-or-fair-value on our consolidated balance sheets. Any excess of a held-for-sale loan’s cost over its fair value is recognized as a valuation allowance in other income on our consolidated statements of comprehensive income, with changes in this valuation allowance also being recorded in other income. Premiums, discounts, and other cost basis adjustments recognized upon acquisition on single-family loans classified as held-for-sale are deferred and not amortized. We elected the fair value option for multifamily mortgage loans held for sale that we intend to securitize and sell to investors. See “NOTE 16: FAIR VALUE DISCLOSURES — Fair Value Option — Multifamily Held-For-Sale Mortgage Loans” and “NOTE 16: FAIR VALUE DISCLOSURES — Fair Value Option — Changes in Fair Value under the Fair Value Option Election.” Thus, these multifamily mortgage loans are measured at fair value on a recurring basis, with subsequent gains or losses related to changes in fair value reported in other income in our consolidated statements of comprehensive income.

Cash flows related to mortgage loans originally classified as held-for-investment are classified as either investing activities (e.g., principal repayments) or operating activities (e.g., interest payments received from borrowers included within net income (loss)). Cash flows related to mortgage loans originally classified as held-for-sale are classified in operating activities.

Non-Accrual Loans

We place mortgage loans on non-accrual status when we believe collectability of principal and interest in full is not reasonably assured, which generally occurs when a loan is three monthly payments past due, unless the loan is well secured and in the process of collection based upon an individual loan assessment. A loan is considered past due if a full payment of principal and interest is not received within one month of its due date. When a loan is placed on non-accrual status, any interest income accrued but uncollected is reversed. Thereafter, interest income is recognized only upon receipt of cash payments.

A non-accrual mortgage loan may be returned to accrual status when the collectability of principal and interest in full is reasonably assured. For single-family loans, we determine that collectability is reasonably assured when we have received

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payment of principal and interest such that the loan becomes less than three monthly payments past due. For multifamily loans, the collectability of principal and interest is considered reasonably assured based on a quantitative and qualitative analysis of the factors specific to the loan being assessed. Upon a loan's return to accrual status, all previously reversed interest income is recognized and amortization of any basis adjustments into interest income is resumed.

Allowance for Loan Losses and Reserve for Guarantee Losses

The allowance for loan losses and the reserve for guarantee losses represent estimates of probable incurred credit losses. The allowance for loan losses pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets whereas the reserve for guarantee losses relates to single-family and multifamily loans underlying our non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments. Total held-for-investment mortgage loans, net are shown net of the allowance for loan losses on our consolidated balance sheets. The reserve for guarantee losses is included within other liabilities on our consolidated balance sheets. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves. We recognize probable incurred losses by recording a charge to the provision for credit losses in our consolidated statements of comprehensive income. Determining the appropriateness of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant judgment about matters that involve a high degree of subjectivity.

We estimate credit losses related to homogeneous pools of loans in accordance with the accounting guidance for contingencies. Accordingly, we maintain an allowance for loan losses on mortgage loans held-for-investment when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Loans that we evaluate for individual impairment are measured in accordance with the accounting guidance for receivables. For more information, refer to "Impaired Loans" below.

For both the single-family and multifamily portfolios, we charge off (in full or in part) our recorded investment in a loan in the period it is determined that the loan (or a portion thereof) is uncollectible, which generally occurs at final disposition of the loan through foreclosure or other loss event. However, if losses are evident prior to final disposition, earlier recognition of a charge-off is required by our policies. A charge-off is also recorded if we realize a specific credit loss upon the modification of a loan in a TDR. We do not have any established threshold in terms of days past due beyond which we partially or fully charge-off loans.

Single-Family Loans

We determine single-family loan loss reserves both on a collective and individual basis. For further discussion on individually impaired single-family loans, refer to "Impaired Loans" below.

We estimate loan loss reserves on homogeneous pools of single-family loans using a statistically based model that evaluates a variety of factors affecting collectability. The homogeneous pools of single-family mortgage loans are determined based on common underlying characteristics, including estimated current LTV ratios, trends in home prices, loan product type, and geographic region. In determining the loan loss reserves for single-family loans at the balance sheet date, we evaluate key inputs and factors including, but not limited to:

- estimated current LTV ratios and historical trends in home prices;
- loan product type;
- delinquency/default status and history;
- actual and estimated rates of collateral loss severity for similar loans;
- geographic location;
- loan age;
- sourcing channel;
- occupancy type;
- UPB at origination;
- expected ability to partially mitigate losses through loan modification or other alternatives to foreclosure;
- expected proceeds from mortgage insurance contracts that are contractually attached to a loan or other credit enhancements that were entered into contemporaneously with and in contemplation of a guarantee or loan purchase transaction;

- expected repurchases of mortgage loans by seller/servicers;
- counterparty credit of mortgage insurers and seller/servicers;
- pre-foreclosure real estate taxes and insurance;
- estimated selling costs should the underlying property ultimately be sold; and
- trends in the timing of foreclosures.

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For additional information on estimated current LTV ratios and single-family loan loss reserves, see "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Credit Quality of Mortgage Loans."

We rely upon third-parties to provide primary servicing for the performing and non-performing loan portfolios. At loan delivery, the seller provides us with the loan data, which includes loan characteristics and underwriting information. Each month, the servicers provide us with monthly loan level servicing data, including delinquency and loss information.

Certain loan servicing data is reported to us on a real-time basis, such as loan pay-offs and foreclosure events. However, certain monthly servicing data, including delinquency status, is delivered on a one-month delay. For example, December loan delinquency data delivered to us at the end of December or beginning of January reflects the loan delinquency status related to the December 1 payment cycle. We incorporate the delinquency status data into our allowance for loan loss calculation generally without adjustment for the one-month delay.

Our single-family loan loss reserve default models are estimated based on 12 months of actual loan performance data, including loan status and delinquency data reported by our servicers. The loan performance data provides a loan level history of delinquency, foreclosures, foreclosure alternatives and modifications. Our single-family loan loss reserve severity is based on the repeat housing sales index and actual REO dispositions, short sale and third-party values that incorporates the most recent: (a) six months of sales experience realized on our distressed property dispositions; and (b) twelve months of pre-foreclosure expenses on our distressed properties including REO, short sales, and third-party sales. Our single-family loan loss severity estimate also captures current business area practices and expectations about recoveries from mortgage insurance or due to seller/servicer repurchases. We use historical trends in home prices in our single-family loan loss reserve process, primarily through the use of estimated current total LTV ratios in our default models and through the use of recent home price sales experience in our severity estimate. However, we do not use a forecast of trends in home prices in our single-family loan loss reserve process. See endnote (1) to "Table 4.2 — Recorded Investment of Held-for-Investment Mortgage Loans, by LTV Ratio" for more information about the repeat housing sales index.

Our loan loss reserves reflect our best current estimates of incurred losses. Our loan loss reserve estimate includes projections related to loss mitigation activities, including loan modifications for troubled borrowers, and projections of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at the time of the loan origination. These projections are based on our recent historical experience and current business practices and require significant management judgment. We monitor our projections of recoveries through seller/servicer repurchases to ensure that these projections are reasonable and consistent with our assessment of the credit capacity of our seller/servicer counterparties. For loans where foreclosure is probable, impairment is measured based upon an estimate of the fair value of the underlying collateral less estimated disposition costs. Our estimate also considers the effect of historical home price changes on borrower behavior.

Our reserve estimate also reflects our best projection of defaults we believe are likely to occur as a result of loss events that have occurred through December 31, 2014 and 2013, respectively. However, fluctuations in the U.S. housing market, the uncertainty in other macroeconomic factors, and variations in success rates of modification efforts under HAMP and other loan workout programs, make estimating loss events inherently imprecise.

We validate and update our models and factors to capture changes in actual loss experience, as well as the effects of changes in underwriting practices and in our loss mitigation strategies. We also consider macroeconomic and other factors that impact the quality of the loans underlying our portfolio including regional housing trends, applicable home price indices, unemployment and employment dislocation trends, the effects of changes in government policies and programs, consumer credit statistics, and the extent of third-party insurance. We consider our assessment of these factors in determining our loan loss reserves.

We apply proceeds from primary mortgage insurance that is contractually attached to a loan and from other credit enhancements, including repurchase recoveries, entered into contemporaneously with and in contemplation of a guarantee or loan purchase transaction, as a recovery of our recorded investment in a charged-off loan, up to the amount of loss recognized as a charge-off. Proceeds received in excess of our recorded investment in charged-off loans are recorded as a decrease to REO operations expense in our consolidated statements of comprehensive income. We record receivables for proceeds from primary mortgage insurance and other credit enhancements, including repurchase recoveries, when the proceeds are estimable and collectability is reasonably assured. We generally accrue receivables for primary mortgage insurance, pool insurance, and most other types of credit enhancements at the time of final disposition of the loan as we have a history of collection of these types of recoveries and the amounts are estimable based on the contractual terms of the agreements. However, due to the uncertainty of the timing and amount of collections of repurchase recoveries, we generally do not accrue receivables for repurchase recoveries and instead record repurchase recoveries received on a cash basis.

Multifamily Loans

For multifamily loans identified as impaired, we individually determine the loan loss reserves. Refer to "Impaired Loans" below for further discussion on individually impaired multifamily loans. Multifamily loans evaluated collectively for impairment are aggregated into book year vintages and measured by benchmarking published historical commercial mortgage

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data to those vintages based upon available economic data related to multifamily real estate, including apartment vacancy and rental rates.

Impaired Loans

We consider a loan to be impaired when it is probable, based on current information, that we will not receive all amounts due (including both principal and interest) in accordance with the contractual terms of the original loan agreement. Delays in the timing of our expected receipt of these amounts that are more than insignificant are considered in making this assessment.

Single-Family Loans

Individually impaired single-family loans primarily include loans that have undergone a TDR. These loans are measured individually for impairment as discussed below in "Troubled Debt Restructurings." If we determine that foreclosure on the underlying collateral is probable, we measure impairment based upon the fair value of the collateral, as reduced by estimated disposition costs and adjusted for estimated proceeds from insurance and similar sources.

Multifamily Loans

Multifamily impaired loans include TDRs, loans three monthly payments or more past due, and loans that are deemed impaired based on management judgment. Factors considered by management in determining whether a loan is impaired include, but are not limited to, the underlying property's operating performance as represented by its current DSCR, available credit enhancements, estimated current LTV ratio, management of the underlying property, and the property's geographic location.

Multifamily loans are generally measured individually for impairment based on the fair value of the underlying collateral, as reduced by estimated disposition costs, as the repayment of these loans is generally provided from the cash flows of the underlying collateral and any associated credit-enhancement. Except for cases of fraud and certain other types of borrower defaults, most multifamily loans are non-recourse to the borrower. As a result, the cash flows of the underlying property (including any associated credit enhancements) serve as the source of funds for repayment of the loan. Interest income recognition on multifamily impaired loans is subject to our non-accrual policy as discussed in “Mortgage Loans — Non-Accrual Loans.”

Troubled Debt Restructurings

Single-family and multifamily loans which experience a modification to their contractual terms which results in a concession being granted to a borrower experiencing financial difficulties are considered TDRs. A concession is deemed granted when, as a result of the restructuring, we do not expect to collect all amounts due, including interest accrued, at the original contractual interest rate. As appropriate, we also consider other qualitative factors in determining whether a concession is deemed granted, including whether the borrower's modified interest rate is consistent with that of a non-troubled borrower. We do not consider restructurings that result in a delay in payment that is insignificant to be a concession. We generally consider a delay in monthly amortizing payments of three months or less to be insignificant. We generally consider all other delays to be more than insignificant. A concession typically includes one or more of the following being granted to the borrower: (a) a trial period where the expected permanent modification will change our expectation of collecting all amounts due at the original contract rate; (b) a delay in payment that is more than insignificant; (c) a reduction in the contractual interest rate; (d) interest forbearance for a period of time that is not insignificant or forgiveness of accrued but uncollected interest amounts; (e) principal forbearance that is more than insignificant or a reduction in the principal amount of the loan; and (f) discharge of the borrower's obligation in Chapter 7 bankruptcy.

Impairment of a loan having undergone a TDR is generally measured as the excess of our recorded investment in the loan over the present value of the expected future cash flows, discounted at the loan's original effective interest rate for fixed-rate loans or at the loan's effective interest rate prior to the restructuring for ARM loans. Our expectation of future cash flows incorporates, among other items, an estimated probability of default which is based on a number of market factors as well as the characteristics of the loan, such as past due status. Subsequent to the restructuring date, interest income is recognized at the modified interest rate, subject to our non-accrual policy as discussed in “Mortgage Loans — Non-Accrual Loans” above, with all other changes in the present value of expected future cash flows being recognized as a component of the provision for credit losses in our consolidated statements of comprehensive income.

Investments in Securities

Investments in securities consist primarily of mortgage-related securities. We classify securities as “available-for-sale” or “trading.” As of December 31, 2014 and 2013, we did not classify any securities as “held-to-maturity,” although we may elect to do so in the future. Securities classified as available-for-sale and trading are reported at fair value with changes in fair value included in AOCI and other gains (losses) on investment securities recognized in earnings, respectively. See “NOTE 16: FAIR VALUE DISCLOSURES” for more information on how we determine the fair value of securities.

We elected the fair value option for certain available-for-sale mortgage-related securities, including investments in securities that: (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our initial recorded investment; or (b) are not of high credit quality at the acquisition date and are identified as within the scope

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of the accounting guidance for investments in beneficial interests in securitized financial assets. These securities are classified as trading securities. By electing the fair value option for these instruments, we reflect valuation changes through our consolidated statements of comprehensive income in the period they occur. For additional information on our election of the fair value option, see "NOTE 16: FAIR VALUE DISCLOSURES."

We record purchases and sales of securities that are exempt from the accounting guidance for derivatives and hedge accounting on a trade date basis. Securities underlying forward purchases and sales contracts that are not exempt from the requirements of derivatives and hedge accounting are recorded on the expected settlement date with a corresponding commitment recorded on the trade date.

For most of our investments in securities, interest income is recognized using the effective interest method. Deferred items, including premiums, discounts, and other basis adjustments, are amortized into interest income over the contractual lives of the securities.

For certain investments in securities, interest income is recognized using the prospective effective interest method. We specifically apply this accounting to beneficial interests in securitized financial assets that: (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment; (b) are not of high credit quality at the acquisition date; or (c) have been determined to be other-than-temporarily impaired. We recognize as interest income (over the life of these securities) the excess of all estimated cash flows attributable to these interests over their book value using the effective interest method. We update our estimates of expected cash flows periodically and recognize changes in the calculated effective interest rate on a prospective basis.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. An unrealized loss exists when the fair value of an individual security is less than its amortized cost basis. As discussed further below, certain other-than-temporary impairment losses are recognized in earnings.

If we intend to sell the security or believe it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the security's entire decline in fair value is deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings. If we do not intend to sell the security and we believe it is not more likely than not that we will be required to sell prior to recovery of the security's unrealized loss, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recorded in AOCI. The credit component represents the amount by which the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. The present value of expected future cash flows represents our estimate of future contractual cash flows that we expect to collect, discounted at the original effective interest rate or the effective interest rate determined based on significantly improved cash flows subsequent to initial impairment.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. For information regarding important factors, judgments and assumptions, see "NOTE 7: INVESTMENTS IN SECURITIES — Impairment Recognition on Investments in Securities."

Gains and losses on the sale of securities are included in other gains (losses) on investment securities recognized in earnings, including those gains (losses) reclassified into earnings from AOCI. We use the specific identification method for determining the cost basis of a security in computing the gain or loss.

For securities classified as trading or available-for-sale, we classify the cash flows as investing activities because we hold these securities for investment purposes. In cases where the transfer of available-for-sale securities represents a secured borrowing, we classify the related cash flows as financing activities.

Repurchase and Resale Agreements and Dollar Roll Transactions

We enter into repurchase and resale agreements primarily as an investor or to finance certain of our security positions. Such transactions are accounted for as secured financings because the transferor does not relinquish control over the transferred assets.

We also engage in dollar roll transactions whereby we enter into an agreement to sell and subsequently repurchase (or purchase and subsequently resell) agency securities. When these transactions involve securities issued by consolidated entities, they are treated as issuances and extinguishments of debt. When these transactions involve securities issued by entities we do not consolidate, they are treated as purchases and sales as the security initially transferred is not required to be the same or substantially the same as the security subsequently returned.

Debt Securities Issued

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. The debt securities of our consolidated trusts are prepayable without penalty at any time. Other debt represents short-term and long-term debt securities that we issue to third parties to fund our general business activities.

Both debt of our consolidated trusts and other debt, except for certain debt for which we elected the fair value option, are reported at amortized cost. Deferred items, including premiums, discounts, and hedging-related basis adjustments are reported as a component of total debt, net. Issuance costs are reported as a component of other assets. These items are amortized and reported through interest expense using the effective interest method over the contractual life of the related indebtedness. Amortization of premiums, discounts, and issuance costs begins at the time of debt issuance. Amortization of hedging-related basis adjustments begins upon the discontinuation of the related hedge relationship.

We elected the fair value option on certain debt securities of consolidated trusts held by third parties and certain other debt. The change in fair value for debt recorded at fair value is reported as other income in our consolidated statements of comprehensive income. For debt where we have elected the fair value option, upfront costs and fees are recognized in earnings as incurred and not deferred. For additional information on our election of the fair value option, see "NOTE 16: FAIR VALUE DISCLOSURES."

When we repurchase or call outstanding debt securities, we recognize a gain or loss related to the difference between the amount paid to redeem the debt security and the carrying value in earnings as a component of gains (losses) on retirement of other debt. Contemporaneous transfers of cash between us and a creditor in connection with the issuance of a new debt security and satisfaction of an existing debt security are accounted for as either an extinguishment or a modification of an existing debt security. If the debt securities have substantially different terms, the transaction is accounted for as an extinguishment of the existing debt security. The issuance of a new debt security is recorded at fair value, fees paid to the creditor are expensed as incurred and fees paid to third parties are deferred and amortized into interest expense over the life of the new debt security using the effective interest method. If the terms of the existing debt security and the new debt security are not substantially different, the transaction is accounted for as a modification of the existing debt. Fees paid to the creditor are deferred and amortized into interest expense over the life of the modified unsecured debt security using the effective interest method and fees paid to third parties are expensed as incurred.

Cash flows related to debt securities issued by our consolidated trusts are classified as either financing activities (e.g., repayment of principal to PC holders) or operating activities (e.g., interest payments to PC holders included within net income (loss)). Other than interest paid, cash flows related to other debt are classified as financing activities. Interest paid on other debt is classified as operating activities.

Derivatives

Derivatives are reported at their fair value on our consolidated balance sheets. Derivatives in a net asset position, including net derivative interest receivable or payable, are reported as derivative assets, net. Similarly, derivatives in a net liability position, including net derivative interest receivable or payable, are reported as derivative liabilities, net. We offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. Changes in fair value and interest accruals on derivatives are recorded as derivative gains (losses) in our consolidated statements of comprehensive income. Non-cash collateral held is not recognized on our consolidated balance sheets as we do not obtain effective control over the collateral, and non-cash collateral posted is not de-recognized from our consolidated balance sheets as we do not relinquish effective control over the collateral. Therefore, non-cash collateral held or posted is not presented as an offset against derivative assets or derivative liabilities on our consolidated balance sheets.

We evaluate whether financial instruments that we purchase or issue contain embedded derivatives. We elected to measure newly acquired or issued financial instruments that contain embedded derivatives at fair value, with changes in fair value recorded in our consolidated statements of comprehensive income.

At December 31, 2014 and 2013, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. If it becomes probable the originally forecasted transaction will not occur, the associated deferred gain or loss in AOCI would be reclassified to earnings immediately.

In the consolidated statements of cash flows, cash flows related to the acquisition and termination of derivatives, other than forward commitments, are generally classified in investing activities. Cash flows related to forward commitments are classified within the section of the consolidated statements of cash flows in accordance with the cash flows of the financial instruments to which they relate.

REO

REO is initially recorded at fair value less costs to sell and is subsequently carried at the lower of cost or fair value less costs to sell. When we acquire REO, losses arise when the recorded investment in the loan (including accrued interest) exceeds the fair value of the foreclosed property, net of estimated costs to sell and expected recoveries through credit enhancements. Losses are charged off against the allowance for loan losses at the time of REO acquisition. REO gains arise and are recognized

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immediately in earnings when the fair value of the foreclosed property less costs to sell plus expected recoveries through credit enhancements exceeds the recorded investment in the loan (including all amounts due from the borrower).

Amounts we expect to receive from third-party insurance (primary mortgage insurance and pool insurance) and most other credit enhancements are recorded as receivables when REO is acquired. The receivable is adjusted when the actual claim is filed and is reported as a component of other assets on our consolidated balance sheets. We do not record receivables for repurchase recoveries. We record these on a cash basis due to uncertainty of the timing and amount of collections.

Material development and improvement costs relating to REO are capitalized. Operating expenses specifically identifiable with an REO property are included in REO operations income (expense) in our consolidated statements of comprehensive income; all other expenses are recognized within other administrative expenses in our consolidated statements of comprehensive income. Declines in the fair value of REO are provided for and charged to REO operations income (expense). Any gains and losses from REO dispositions are included in REO operations income (expense).

Income Taxes

We use the asset and liability method of accounting for income taxes for financial reporting purposes. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates as well as tax net operating loss and tax credit carryforwards. To the extent tax laws change, deferred tax assets and liabilities are adjusted, when necessary, in the period that the tax change is enacted. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that all or part of our tax benefits will not be realized. The realization of these net deferred tax assets is dependent upon the generation of sufficient taxable income from current operations and from unrecognized tax benefits.

Income tax benefit (expense) includes: (a) deferred tax benefit (expense), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance; and (b) current tax benefit (expense), which represents the amount of tax currently payable to or receivable from a tax authority including any related interest and penalties plus amounts accrued for unrecognized tax benefits (also including any related interest and penalties). Income tax benefit (expense) excludes the tax effects related to adjustments recorded to equity, such as unrealized gains and losses related to available-for-sale securities.

Regarding tax positions taken or expected to be taken (and any associated interest and penalties), we recognize a tax position so long as it is more likely than not that it will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We measure the tax position at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. See “NOTE 12: INCOME TAXES” for additional information.

Earnings Per Common Share

The August 2012 amendment to the Purchase Agreement changed the manner in which the dividend on the senior preferred stock is determined. For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. See "NOTE 11: STOCKHOLDERS' EQUITY — Senior Preferred Stock" for additional information regarding the Capital Reserve Amount. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero. The dividend is presented in the period in which it is determinable for the senior preferred stock as a reduction to net income (loss) available to common stockholders and net income (loss) per common share. The dividend is declared and paid in the following period and recorded as a reduction to equity in the period declared.

We have participating securities related to options and restricted stock units with dividend equivalent rights that receive dividends as declared on an equal basis with common shares but are not obligated to participate in undistributed net losses. These participating securities consist of: (a) vested options to purchase common stock; and (b) vested and unvested restricted stock units that earn dividend equivalents at the same rate when and as declared on common stock. Consequently, in accordance with accounting guidance, we use the "two-class" method of computing earnings per common share. The "two-class" method is an earnings allocation formula that determines earnings per share for common stock and participating securities based on dividends declared and participation rights in undistributed earnings.

Basic earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding for the period. The weighted average common shares outstanding for the period includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury pursuant to the Purchase Agreement. These shares are included since the warrant is unconditionally exercisable by the holder at a minimal cost. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS" for further information.

Diluted earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding during the period adjusted for the dilutive effect of common equivalent shares outstanding. For periods with net income attributable to common stockholders, the calculation includes the effect of the

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following common stock equivalent shares outstanding: (a) weighted average shares related to stock options if the average market price during the period exceeds the exercise price; and (b) the weighted-average of unvested restricted stock units. During periods in which a net loss attributable to common stockholders has been incurred, potential common equivalent shares outstanding are not included in the calculation because it would have an antidilutive effect. See "NOTE 11: STOCKHOLDERS' EQUITY — Stock-Based Compensation" for additional information on our earnings-per-share calculation.

Comprehensive Income

Comprehensive income includes all changes in equity during a period, except those resulting from investments by stockholders. We define comprehensive income as consisting of net income (loss) plus after-tax changes in: (a) the unrealized gains and losses on available-for-sale securities; (b) the effective portion of derivatives accounted for as cash flow hedge relationships; and (c) defined benefit plans.

Recent Accounting Guidance

The following table provides a brief description of recent accounting pronouncements that could affect our financial statements.

Standard	Description	Date of Adoption	Effect on the financial statements
Recently Adopted Accounting Guidance			
ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects (Topic 323)	The amendment permits entities to elect to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met.	January 1, 2014	The adoption of this amendment did not have a material impact on our consolidated financial statements.
ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (Topic 820)	This amendment provided: (a) clarification about the application of existing fair value measurement and disclosure requirements; and (b) changes to the guidance for measuring fair value and disclosing information about fair value measurements.	January 1, 2012	The adoption of this amendment did not have a material impact on our consolidated financial statements.
ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements (Topic 860)	This amendment removed the criterion related to collateral maintenance from the transferor's assessment of effective control. It focuses the assessment of effective control on the transferor's rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations.	January 1, 2012	The adoption of this amendment did not have a material impact on our consolidated financial statements.
Recently Issued Accounting Guidance, Not Yet Adopted Within our Consolidated Financial Statements			
ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (Topic 310)	The amendment clarifies that a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property	January 1, 2015	We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.

	upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.		
ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (Topic 860)	The amendment requires repurchase-to-maturity transactions to be accounted for as secured borrowings and requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty.	January 1, 2015	We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	The amendment requires entities to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.	January 1, 2017	We are evaluating the impact that the adoption of this amendment will have on our consolidated financial statements
ASU 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (Topic 310)	The amendment requires that a mortgage loan be de-recognized and a separate receivable be recognized upon foreclosure if certain conditions are met. If those conditions are met and such a receivable is recognized, the receivable should be measured based on the amount of principal and interest related to the loan expected to be recovered from the guarantor.	January 1, 2015	We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.

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NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

Business Objectives

We operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA, as our Conservator. The conservatorship and related matters continue to have wide-ranging effects on us, including on our management, business activities, financial condition and results of operations. Upon its appointment, FHFA, as Conservator, immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director thereof, with respect to the company and its assets. The Conservator also succeeded to the title to all books, records, and assets of Freddie Mac held by any other legal custodian or third party. The Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct, business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

We are also subject to certain constraints on our business activities under the Purchase Agreement. However, we believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities, although the costs of our debt funding could vary. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent.

Our current business objectives reflect direction we have received from the Conservator (including the Conservatorship Scorecards). At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability. Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. Some of these initiatives impact our near- and long-term financial results. Given our public mission and the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions, we may be required to take actions that could have a negative impact on our business, operating results or financial condition, and thus contribute to a need for additional draws under the Purchase Agreement.

In May 2014, FHFA issued its 2014 Strategic Plan, which updated FHFA's vision for implementing its obligations as Conservator of Freddie Mac and Fannie Mae and established three reformulated strategic goals. FHFA has also issued its Conservatorship Scorecards for 2014 and 2015. The Conservatorship Scorecards establish objectives and performance targets and measures for Freddie Mac and Fannie Mae (the “Enterprises”) related to the strategic goals set forth in the Strategic Plan.

The 2014 Strategic Plan established three reformulated strategic goals for the conservatorships of Freddie Mac and Fannie Mae:

- Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.
- Reduce taxpayer risk through increasing the role of private capital in the mortgage market.
- Build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future.

As part of the first goal, the 2014 Strategic Plan describes various steps related to increasing access to mortgage credit for credit-worthy borrowers. The 2014 Strategic Plan provides for the Enterprises to continue to play an ongoing role in supporting multifamily housing needs, particularly for low-income households. The plan states that FHFA will continue to impose a production cap on Freddie Mac’s and Fannie Mae’s multifamily businesses.

The second goal focuses on ways to transfer risk to private market participants and away from the Enterprises in a responsible way that does not reduce liquidity or adversely impact the availability of mortgage credit. The second goal provides for us to increase the use of single-family credit risk transfer transactions, continue using credit risk transfer transactions in the multifamily business and continue shrinking our mortgage-related investments portfolio consistent with the requirements in the Purchase Agreement, with a focus on selling less liquid assets.

The third goal includes the continued development of the Common Securitization Platform. FHFA refined the scope of this project to focus on making the new shared system operational for Freddie Mac’s and Fannie Mae’s existing single-family securitization activities. The third goal also provides for the Enterprises to work towards the development of a single (common) security.

We continue to align our resources and internal business plans to meet the goals and objectives provided to us by FHFA.

As a result of the net worth sweep dividend provisions of the senior preferred stock, we cannot retain capital from the earnings generated by our business operations or return capital to stockholders other than Treasury, the holder of our senior preferred stock. 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. We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near term. Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near term. We have no ability to predict the outcome of these deliberations.

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Purchase Agreement and Warrant

Overview

On September 7, 2008, we, through FHFA, in its capacity as Conservator, entered into the Purchase Agreement with Treasury. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, and August 17, 2012. The amount of available funding remaining under the Purchase Agreement was $140.5 billion as of December 31, 2014. This amount will be reduced by any future draws.

The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). In addition, the Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us if the Conservator determines, at any time, that it will be mandated by law to appoint a receiver for us unless we receive these funds from Treasury. In exchange for Treasury's funding commitment, we issued to Treasury, as an aggregate initial commitment fee: (a) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (b) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We received no other consideration from Treasury for issuing the senior preferred stock or the warrant.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013.

For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The term Net Worth Amount is defined as: (a) the total assets of Freddie Mac (excluding Treasury's commitment and any unfunded amounts thereof), less; (b) our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in accordance with GAAP. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend will accrue or be payable for that quarter. The applicable Capital Reserve Amount was $2.4 billion for 2014, will be $1.8 billion for 2015, and will be reduced by $600 million each year thereafter until it reaches zero on January 1, 2018. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero. The amounts payable for dividends on the senior preferred stock could be substantial and will have an adverse impact on our financial position and net worth. To the extent we draw on Treasury's funding commitment, the liquidation preference of the senior preferred stock is increased by the amount of funds we receive. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock.

In addition to the issuance of the senior preferred stock and warrant, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. Under the Purchase Agreement, the fee is to be determined in an amount mutually agreed to by us and Treasury with reference to the market value of Treasury's funding commitment as then in effect. However, pursuant to the August 2012 amendment to the Purchase Agreement, for each quarter commencing January 1, 2013, and for as long as the net worth sweep dividend provisions remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue or be payable. Treasury had previously waived the fee for all prior quarters.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock will increase further if we receive additional draws under the Purchase Agreement or if any dividends or quarterly commitment fees payable under the Purchase Agreement are not paid in cash (this quarterly commitment fee has been suspended). We may need to make additional draws in future periods due to a variety of factors that could adversely affect our net worth.

The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur and capping the size of our mortgage-related investments portfolio. While the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury’s consent.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends. However, Treasury's consent is required for a termination of conservatorship other than in connection with receivership. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028.

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Purchase Agreement Covenants

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);
- redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);
- sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);
- terminate the conservatorship (other than in connection with a receivership);
- sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) of assets and properties having fair market value individually or in aggregate less than $250 million in one transaction or a series of related transactions; (d) in connection with our liquidation by a receiver; (e) of cash or cash equivalents for cash or cash equivalents; or (f) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio;
- issue any subordinated debt;
- enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
- engage in transactions with affiliates unless the transaction is: (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant; (b) upon arm’s length terms; or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The covenants generally also apply to our subsidiaries.

The Purchase Agreement also requires us to reduce the amount of mortgage assets we own. The Purchase Agreement, as revised in the August 2012 amendment, provides that we could not own mortgage assets with UPB in excess of $650 billion on December 31, 2012 and on December 31 of each year thereafter, may not own mortgage assets with UPB in excess of 85% of the aggregate amount of mortgage assets we are permitted to own as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. Under the Purchase Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. The mortgage asset and indebtedness limitations are determined without giving effect to the changes to the accounting guidance for transfers of financial assets and consolidation of VIEs, under which we consolidated our single-family PC trusts and certain of our Other Guarantee Transactions in our financial statements as of January 1, 2010.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

The Purchase Agreement also provides that, on an annual basis, we are required to deliver a risk management plan to Treasury setting out our strategy for reducing our enterprise-wide risk profile and the actions we will take to reduce the financial and operational risk associated with each of our reportable business segments.

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants: (a) our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder; (b) without the prior written consent of Treasury, we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights to any person other than Freddie Mac or its wholly-owned subsidiaries; (c) we may not take any action that will result in an increase in the par value of our common stock;

(d) unless waived or consented to in writing by Treasury, we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and (e) we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

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Termination Provisions

The Purchase Agreement provides that the Treasury's funding commitment will terminate under any of the following circumstances: (a) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time; (b) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (c) the funding by Treasury of the maximum amount of the commitment under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

Waivers and Amendments

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations.

Third-party Enforcement Rights

In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (a) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (b) the lesser of: (i) the deficiency amount; and (ii) the maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

Impact of Conservatorship and Related Developments on the Mortgage-Related Investments Portfolio

For purposes of the limit imposed by the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio could not exceed $470 billion at December 31, 2014 and was $408 billion at that date. Our 2014 Retained Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement (subject to certain exceptions). The annual 15% reduction in our mortgage-related investments portfolio cap until it reaches $250 billion is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual UPB of the mortgage-related investments portfolio, as of December 31 of the preceding year. Our ability to acquire and sell mortgage assets is significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA.

Government Support for our Business

We receive substantial support from Treasury and FHFA, as our Conservator and regulator, and are dependent upon their continued support in order to continue operating our business. This support includes our ability to access funds from Treasury under the Purchase Agreement, which is critical to: (a) keeping us solvent; (b) allowing us to focus on our primary business objectives under conservatorship; and (c) avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. At September 30, 2014, our assets exceeded our liabilities under GAAP; therefore FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during the three months ended December 31, 2014. Since conservatorship began through December 31, 2014, we have paid cash dividends of $91.0 billion to Treasury at the direction of the Conservator.

See "NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS" and "NOTE 11: STOCKHOLDERS' EQUITY" for more information on the conservatorship and the Purchase Agreement.

Housing Finance Agency Initiative

In 2009, we entered into a Memorandum of Understanding with Treasury, FHFA, and Fannie Mae, which sets forth the terms under which Treasury and, as directed by FHFA, we and Fannie Mae, would provide assistance to state and local HFAs so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. FHFA directed us and Fannie Mae to participate in the HFA initiative on a basis that is consistent with the goals of being commercially reasonable and safe and sound. Treasury's participation in these assistance initiatives does not affect the amount of funding that Treasury can provide to Freddie Mac under the Purchase Agreement.

The primary initiatives are as follows:

- TCLFP — In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to provide $8.2 billion of credit and liquidity support, including outstanding interest at the date of the guarantee, for variable rate demand

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obligations, or VRDOs, previously issued by HFAs. This support was provided through the issuance of guarantees, which provide credit enhancement to the holders of such VRDOs and also create an obligation to provide funds to purchase any VRDOs that are put by their holders and are not remarketed. Treasury provided a credit and liquidity backstop on the TCLFP. These guarantees replaced existing liquidity facilities from other providers. The guarantees were scheduled to expire on December 31, 2012. However, Treasury gave TCLFP participants the option to extend their individual TCLFP facilities to December 31, 2015. Certain participants elected to extend their TCLFP facilities to December 2015.

- NIBP — In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to issue in total $15.3 billion of partially guaranteed pass-through securities backed by new single-family and certain new multifamily housing bonds issued by HFAs. Treasury purchased all of the pass-through securities issued by Freddie Mac and Fannie Mae. This initiative provided financing for HFAs to issue new housing bonds.

Treasury will bear the initial losses of principal up to 35% of total principal for these two initiatives combined, and thereafter Freddie Mac and Fannie Mae each will be responsible only for losses of principal on the securities that it issues to the extent that such losses are in excess of 35% of all losses under both initiatives. Treasury will bear all losses of unpaid interest. Under both initiatives, we and Fannie Mae were paid fees at the time bonds were securitized and are also paid ongoing fees for as long as the bonds remain outstanding.

Related Parties as a Result of Conservatorship

As a result of our issuance to Treasury of the warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis, we are deemed a related party to the U.S. government. Except for the transactions with Treasury discussed above in “Business Objectives,” “Government Support for our Business” and “Housing Finance Agency Initiative” as well as in “NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS” and “NOTE 11: STOCKHOLDERS’ EQUITY,” no transactions outside of normal business activities have occurred between us and the U.S. government (or any of its related parties) during the years ended December 31, 2014, 2013 and 2012. In addition, we are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. All transactions between us and Fannie Mae have occurred in the normal course of business in conservatorship. In October 2013, FHFA announced the formation of Common Securitization Solutions, LLC℠ (CSS). CSS is equally-owned by Freddie Mac and Fannie Mae. In connection with the formation of CSS, we entered into a limited liability company agreement with Fannie Mae. For the year ended December 31, 2014, we contributed $43 million of capital to CSS. In November 2014, we and Fannie Mae announced that a chief executive officer has been named for CSS. Additionally, we and Fannie Mae each appointed two executives to the CSS Board of Managers and signed governance and operating agreements for CSS.

NOTE 3: VARIABLE INTEREST ENTITIES

We have interests in various entities that are considered to be VIEs, including securitization trusts we use in our securities issuance process. We are required to evaluate VIEs at inception and on an ongoing basis. When we determine that we are the primary beneficiary of a VIE, we consolidate the assets and liabilities of the trust on our balance sheets. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Consolidation and Equity Method of Accounting” for more information about VIEs.

VIEs for which We are the Primary Beneficiary

See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities” for information on the nature of single-family PC trusts, REMICs and Other Structured Securities, and Other Guarantee Transactions.

Single-family PC Trusts

Our single-family PC trusts issue pass-through securities that represent undivided beneficial interests in pools of mortgages held by these trusts. PCs are designed so that we bear the credit risk inherent in the loans underlying the PCs through our guarantee of principal and interest payments on the PCs. The PC holders bear the interest rate or prepayment risk on the mortgage loans and the risk that we will not perform on our obligation as guarantor. For purposes of our consolidation assessments, our evaluation of power and economic exposure with regard to PC trusts focuses on credit risk because we identified the credit performance of the underlying mortgage loans as the activity that most significantly impacts the economic performance of these entities. We have the power to impact the activities

related to this risk in our role as guarantor and master servicer.
Specifically, in our role as master servicer, we establish requirements for how mortgage loans are serviced and what steps are to be taken to mitigate credit losses (e.g., modification, foreclosure). Additionally, in our capacity as guarantor, we have the ability to remove defaulted mortgage loans out of the PC trust to help mitigate credit losses. See "NOTE 5: IMPAIRED LOANS" for further information regarding our removal of mortgage loans out of PC trusts. These powers allow us to direct the activities of the VIE (i.e., the PC trust) that most significantly impact its economic performance. In addition, we determined that our guarantee to each PC trust to provide principal and interest payments obligates us to absorb losses that could

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potentially be significant to the PC trusts. Accordingly, we concluded that we are the primary beneficiary of our single-family PC trusts.

At both December 31, 2014 and 2013, we were the primary beneficiary of, and therefore consolidated, single-family PC trusts with assets totaling $1.5 trillion, as measured using the UPB of issued PCs. The assets of each PC trust can be used only to settle obligations of that trust. In connection with many of our PC trusts, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, credit risk transfer transactions, and other forms of credit enhancement. We also have credit protection for certain of our PC trusts that issue PCs backed by loans or certificates of federal agencies (such as FHA, VA, and USDA). See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES — Credit Protection and Other Forms of Credit Enhancement” for additional information regarding third-party credit enhancements related to our PC trusts.

REMICs and Other Structured Securities

REMICs and Other Structured Securities are mortgage-related securities that we issue to third parties. We do not consolidate the trusts that issue these securities unless we hold substantially all of the beneficial interests in the trust and are therefore considered to be the primary beneficiary. We had investments of approximately $1.4 billion and $3.5 billion in UPB, as of December 31, 2014 and 2013, respectively, where we held substantially all the outstanding beneficial interests in the trusts and consolidated them on our balance sheets.

Other Guarantee Transactions

In Other Guarantee Transactions, we issue mortgage-related securities to third parties in exchange for non-Freddie Mac mortgage-related securities. The degree to which our involvement with securitization trusts that issue Other Guarantee Transactions provides us with the power to direct the activities that most significantly impact the economic performance of these VIEs (e.g., the ability to direct the servicing of the underlying assets of these entities) and the obligation to absorb losses that could potentially be significant to the VIEs varies by transaction. For all Other Guarantee Transactions, our variable interest in these VIEs represents some form of credit guarantee.

We consolidate Other Guarantee Transactions when: (a) we have the obligation to absorb credit losses through our financial guarantee; and (b) we also have the ability to direct the loss mitigation activities of the underlying assets, which is the power to direct the activities that most significantly impact the economic performance of these VIEs. We do not consolidate the Other Guarantee Transactions that do not meet these conditions. As a result, we have concluded that we are the primary beneficiary of Other Guarantee Transactions with underlying assets totaling $7.4 billion and $8.9 billion at December 31, 2014 and 2013, respectively.

VIEs for which We are not the Primary Beneficiary

The table below presents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs. Our involvement with VIEs for which we are not the primary beneficiary generally takes one of two forms: (a) purchasing an investment in these entities; or (b) providing a guarantee to these entities. Our maximum exposure to loss for those VIEs in which we have purchased an investment is calculated as the maximum potential charge that we would recognize in earnings if that investment were to become worthless. This amount does not include other-than-temporary impairments or other write-downs that we previously recognized through earnings. Our maximum exposure to loss for those VIEs for which we have provided a guarantee represents the contractual amounts that could be lost under the guarantees if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements. We do not believe the maximum exposure to loss disclosed in the table below is representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancement arrangements.

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Table 3.1 — Variable Interests in VIEs for which We are not the Primary Beneficiary

	December 31, 2014			
	Mortgage-Related Security Trusts			
	Freddie Mac Securities[1]	Non-Freddie Mac Securities[2]	Unsecuritized Multifamily Loans [3]	Other[2]
	(in millions)			
Assets and Liabilities Recorded on our Consolidated Balance Sheets				
Assets:				
Restricted cash and cash equivalents	$—	$ —	$—	$3
Investments in securities:				
Available-for-sale, at fair value	39,099	65,253	—	—
Trading, at fair value	17,469	6,282	—	—
Mortgage loans:				
Held-for-investment, unsecuritized	—	—	40,753	—
Held-for-sale	—	—	12,368	—
Accrued interest receivable	236	165	221	7
Other assets	914	2	369	495
Liabilities:				
Derivative liabilities, net	—	—	—	(30)
Other liabilities	(1,005)	—	(10)	(560)
Maximum Exposure to Loss	$87,529	$ 69,206	$53,711	$10,419
Total Assets of Non-Consolidated VIEs[4]	$103,253	$ 390,515	$95,874	$22,855

	December 31, 2013			
	Mortgage-Related Security Trusts			
	Freddie Mac Securities[1]	Non-Freddie Mac Securities[2]	Unsecuritized Multifamily Loans[3]	Other[2]
	(in millions)			
Assets and Liabilities Recorded on our Consolidated Balance Sheets				
Assets:				
Restricted cash and cash equivalents	$6	$ —	$8	$58
Investments in securities:				
Available-for-sale, at fair value	40,659	84,765	—	—
Trading, at fair value	9,349	7,414	—	—
Mortgage loans:				
Held-for-investment, unsecuritized	—	—	50,306	—
Held-for-sale	—	—	8,727	—
Accrued interest receivable	232	226	261	7
Other assets	833	14	407	477
Liabilities:				
Derivative liabilities, net	(3)	—	—	(35)
Other liabilities	(875)	(2)	(12)	(558)
Maximum Exposure to Loss	$72,072	$ 92,559	$59,710	$10,415
Total Assets of Non-Consolidated VIEs[4]	$84,731	$ 506,699	$105,120	$23,707

(1) Freddie Mac securities include our variable interests in single-family multiclass REMICs and Other Structured Securities, multifamily PCs, multifamily Other Structured Securities, and Other Guarantee Transactions that we do not consolidate. Our maximum exposure to loss includes guaranteed UPB of assets held by the non-consolidated VIEs related to multifamily PCs, multifamily Other Structured Securities, and Other Guarantee Transactions. Our maximum exposure to loss on Freddie Mac securities excludes investments in single-family multiclass REMICs and Other Structured Securities, because we already consolidate the collateral of these trusts on our consolidated balance sheets.

(2) Our maximum exposure to loss for non-Freddie Mac security trusts and certain other VIEs is computed as the carrying amount if the security is classified as trading or the amortized cost if the security is classified as available-for-sale for our investments recorded on our consolidated balance sheets.

(3) Our maximum exposure to loss includes accrued interest receivable associated with these loans.

(4) Except for unsecuritized multifamily loans, this represents the UPB of assets held by non-consolidated VIEs using the most current information available. For unsecuritized multifamily loans, this represents the fair value of the property serving as collateral for the loan.

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Mortgage-Related Security Trusts

Freddie Mac Securities

Freddie Mac securities related to our variable interests in non-consolidated VIEs primarily consist of our REMICs and Other Structured Securities and Other Guarantee Transactions. At both December 31, 2014 and 2013, our involvement with most of our REMICS and Other Structured Securities as well as certain Other Guarantee Transactions does not provide us with the power to direct the activities that most significantly impact the economic performance of these VIEs. As a result, we hold a variable interest in, but are not the primary beneficiary of those securitization trusts. For non-consolidated REMICs and Other Structured Securities and Other Guarantee Transactions, our investments are primarily included in either available-for-sale securities or trading securities on our consolidated balance sheets. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Non-Freddie Mac Securities

We invest in a variety of mortgage-related securities issued by third-parties, including non-Freddie Mac agency securities, CMBS, other private-label securities backed by various mortgage-related assets, and obligations of states and political subdivisions. These investments typically represent interests in trusts that consist of a pool of mortgage-related assets and act as vehicles to allow originators to securitize those assets. Securities are structured from the underlying pool of assets to provide for varying degrees of risk, including potential loss from the credit risk and interest-rate risk of the assets. The originators of the financial assets or the underwriters of the securities offering create the trusts and typically own the residual interest in the trust assets. See "NOTE 7: INVESTMENTS IN SECURITIES" for additional information regarding our non-Freddie Mac securities.

We are not generally the primary beneficiary of non-Freddie Mac securities trusts because our investments are passive in nature and do not provide us with the power to direct the activities of the trusts that most significantly impact their economic performance. We were not the primary beneficiary of any significant non-Freddie Mac securities trusts as of December 31, 2014 or 2013. At both December 31, 2014 and 2013, our exposure was limited to the amount of our investment. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Unsecuritized Multifamily Loans

We purchase loans made to various multifamily real estate entities. We primarily purchase such loans for securitization. The loans we acquire usually are, at origination, equal to 80% or less of the value of the related underlying property. The remaining 20% of value is typically funded through equity contributions by the partners or members of the borrower entity. In a few cases, the 20% not funded through the loan we acquire also includes subordinate loans or mezzanine financing from third-party lenders.

We held more than 4,400 and 5,000 unsecuritized multifamily loans at December 31, 2014 and 2013, respectively. The UPB of our investments in these loans was $53.0 billion and $59.2 billion as of December 31, 2014 and 2013, respectively, and was included in unsecuritized held-for-investment mortgage loans, at amortized cost, and held-for-sale mortgage loans at fair value on our consolidated balance sheets. We are not generally the primary beneficiary of the multifamily real estate borrowing entities because the loans we acquire are passive in nature and do not provide us with the power to direct the activities of these entities that most significantly impact their economic performance. However, when a multifamily loan becomes delinquent, we may become the primary beneficiary of the borrowing entity depending upon the structure of this entity and the rights granted to us under the governing legal documents. At both December 31, 2014 and 2013, the amount of unsecuritized multifamily loans for which we could be considered the primary beneficiary of the underlying borrowing entity was not material. See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" for more information.

Other

Our involvement with other VIEs primarily includes certain of our other mortgage-related guarantees and other guarantee commitments that we account for as derivatives.

At December 31, 2014 and 2013, we were the primary beneficiary of zero and one, respectively, real estate entities that invest in multifamily property, related to credit-enhanced multifamily housing revenue bonds that were not deemed to be material. We were not the primary beneficiary of the remainder of other VIEs because our involvement in these VIEs is passive in nature and does not provide us with the power to direct the activities of the VIEs that most significantly impact their economic performance. See “Table 3.1 — Variable Interests in VIEs for which We are not the Primary Beneficiary” for the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our other variable interests in non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs.

Non-Cash Investing and Financing Activities

We consolidate certain of our multiclass REMIC and Other Structured Securities trusts when we hold substantially all of the beneficial interests issued by the trust. Upon consolidation of a multiclass REMIC and Other Structured Securities trust, we

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derecognize our investments in the beneficial interests issued by the trust and recognize the assets and liabilities of the trust at fair value. During the years ended December 31, 2014, 2013, and 2012, this activity resulted in a decrease in investment securities and a decrease in debt securities of consolidated trusts of $0.4 billion, $2.2 billion, and $4.6 billion, respectively.

NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

We own both single-family mortgage loans, which are secured by one to four unit residential properties, and multifamily mortgage loans, which are secured by properties with five or more residential rental units. Our single-family loans are predominantly first lien, fixed-rate mortgages secured by the borrower's primary residence. For a discussion of our significant accounting policies regarding our mortgage loans and loan loss reserves, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

The table below summarizes the types of loans on our consolidated balance sheets as of December 31, 2014 and 2013.

Table 4.1 — Mortgage Loans

	December 31, 2014			December 31, 2013		
	Unsecuritized	Held By Consolidated Trusts	Total	Unsecuritized	Held By Consolidated Trusts	Total
	(in millions)					
Single-family:						
Fixed-rate						
Amortizing	$105,560	$1,431,872	$1,537,432	$113,597	$1,402,841	$1,516,438
Interest-only	939	3,298	4,237	1,476	4,826	6,302
Total fixed-rate	106,499	1,435,170	1,541,669	115,073	1,407,667	1,522,740
Adjustable-rate						
Amortizing	1,353	68,632	69,985	1,935	65,429	67,364
Interest-only	3,191	20,373	23,564	4,576	23,841	28,417
Total adjustable-rate	4,544	89,005	93,549	6,511	89,270	95,781
Other Guarantee Transactions	—	7,042	7,042	—	8,431	8,431
FHA/VA and other governmental	473	3,139	3,612	553	3,354	3,907
Total single-family	111,516	1,534,356	1,645,872	122,137	1,508,722	1,630,859
Multifamily:						
Fixed-rate	43,632	524	44,156	50,701	444	51,145
Adjustable-rate	9,321	—	9,321	8,467	—	8,467
Other governmental	3	—	3	3	—	3
Total multifamily	52,956	524	53,480	59,171	444	59,615
Total UPB of mortgage loans	164,472	1,534,880	1,699,352	181,308	1,509,166	1,690,474
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(3,366)	26,098	22,732	(4,817)	23,745	18,928
Fair value adjustments on loans held-for sale	257	—	257	6	—	6
Allowance for loan losses on mortgage loans held-for-investment	(18,877)	(2,884)	(21,761)	(21,612)	(3,006)	(24,618)
Total mortgage loans, net	$142,486	$1,558,094	$1,700,580	$154,885	$1,529,905	$1,684,790
Mortgage loans, net:						
Held-for-investment	$130,118	$1,558,094	$1,688,212	$146,158	$1,529,905	$1,676,063
Held-for-sale	12,368	—	12,368	8,727	—	8,727
Total mortgage loans, net	$142,486	$1,558,094	$1,700,580	$154,885	$1,529,905	$1,684,790

During 2014 and 2013, we purchased $252.7 billion and $412.9 billion, respectively, in UPB of single-family mortgage loans, and $2.4 billion and $1.3 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment.

Our sales of multifamily mortgage loans occur primarily through the issuance of multifamily K Certificates, which we categorize as Other Guarantee Transactions. During 2014 and 2013, we sold $21.3 billion and $28.3 billion, respectively, of held-for-sale multifamily mortgage loans. See “NOTE 14: FINANCIAL GUARANTEES” for more information on our issuances of Other Guarantee Transactions.

In April 2014, we received FHFA's approval for a pilot transaction to sell certain seriously delinquent unsecuritized single-family loans held on our consolidated balance sheet. In connection with this transaction, during the second quarter of 2014, we reclassified $0.9 billion in recorded investment of mortgage loans from held-for-investment to held-for-sale. We subsequently reclassified certain of these loans back to held-for-investment during the second and third quarters of 2014. We completed the sale in the third quarter of 2014. In January 2015, we received FHFA approval to execute additional such sales. In connection with this approval, we reclassified $1.4 billion in recorded investment of mortgage loans from held-for-investment to held-for-sale during the first quarter of 2015, which did not have a material effect on our financial results. For

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additional information regarding the fair value of our loans classified as held-for-sale, see "NOTE 16: FAIR VALUE DISCLOSURES."

Credit Quality of Mortgage Loans

We evaluate the credit quality of single-family loans using different criteria than the criteria we use to evaluate multifamily loans. The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As estimated current LTV ratios increase, the borrower's equity in the home decreases, which negatively affects the borrower's ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding mortgage loan. A second-lien mortgage also reduces the borrower's equity in the home, and has a similar negative effect on the borrower's ability to refinance or sell the property for an amount at or above the combined balances of the first and second mortgages. As of both December 31, 2014 and 2013, based on data collected by us at loan delivery, approximately 14% of loans in our single-family credit guarantee portfolio had second-lien financing by third parties at origination of the first mortgage. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgages. For further information about concentrations of risk associated with our single-family and multifamily mortgage loans, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS."

We have discontinued our purchases of Alt-A, interest-only, and option ARM loans. For reporting purposes: (a) loans within the Alt-A category continue to be presented in that category following modification, even though the borrower may have provided full documentation of assets and income to complete the modification; and (b) loans within the option ARM category continue to be presented in that category following modification, even though the modified loan no longer provides for optional payment provisions.

The table below presents information on the estimated current LTV ratios of single-family held-for-investment loans on our consolidated balance sheets. Our current LTV ratio estimates are based on available data through the end of each respective period presented.

Table 4.2 — Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio

	As of December 31, 2014				As of December 31, 2013			
	Estimated Current LTV Ratio[1]				Estimated Current LTV Ratio[1]			
	≤ 80	> 80 to 100	> 100[2]	Total	≤ 80	> 80 to 100	> 100[2]	Total
	(in millions)							
Single-family loans:								
20 and 30-year or more, amortizing fixed-rate[3]	$911,071	$258,126	$85,398	$1,254,595	$819,509	$269,110	$124,491	$1,213,110
15-year amortizing fixed-rate[3]	265,098	14,101	3,338	282,537	270,211	19,658	5,748	295,617
Adjustable-rate	60,463	6,701	709	67,873	56,208	6,714	1,578	64,500
Alt-A, interest-only, and option ARM	28,935	18,232	16,448	63,615	29,927	21,564	25,089	76,580
Total single-family loans	$1,265,567	$297,160	$105,893	1,668,620	$1,175,855	$317,046	$156,906	1,649,807
Multifamily loans				41,353				50,874
Total recorded investment of held-for-investment loans				$1,709,973				$1,700,681

(1) The current LTV ratios are management estimates, which are updated on a monthly basis. Market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographic area since that time. Changes in market value are derived from our internal index which

measures price changes for repeat sales and refinancing activity on the same properties using Freddie Mac and Fannie Mae single-family mortgage acquisitions, including foreclosure sales. Estimates of the current LTV ratio include the credit-enhanced portion of the loan and exclude any secondary financing by third parties.

(2) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with estimated current LTV ratios in excess of 100% was 9.01% and 9.89% as of December 31, 2014 and 2013, respectively.

(3) The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of December 31, 2014 and 2013, we have categorized UPB of approximately $42.3 billion and $43.8 billion, respectively, of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust in the future, such future rates are determined at the time of modification rather than at a subsequent date.

For information about the payment status of single-family and multifamily mortgage loans, including the amount of such loans we deem impaired, see “NOTE 5: IMPAIRED LOANS.” For a discussion of certain indicators of credit quality for the multifamily loans on our consolidated balance sheets, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Multifamily Mortgage Portfolio.”

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Allowance for Loan Losses and Reserve for Guarantee Losses, or Loan Loss Reserves

Our loan loss reserves consist of our: (a) allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets; and (b) reserve for guarantee losses associated with Freddie Mac mortgage-related securities backed by multifamily loans, certain single-family Other Guarantee Transactions, and other guarantee commitments, for which we have incremental credit risk.

A significant portion of the unsecuritized single-family loans on our consolidated balance sheets are seriously delinquent and/or TDR loans that we previously removed from our PC pools. These seriously delinquent and TDR loans typically have a higher associated allowance for loan loss than loans that remain in consolidated trusts.

The table below presents our loan loss reserves activity for the single-family and multifamily loans that we own or guarantee.

Table 4.3 — Detail of Loan Loss Reserves

	Year Ended December 31,							
	2014				2013			
	Allowance for Loan Losses		Reserve for Guarantee Losses	Total	Allowance for Loan Losses		Reserve for Guarantee Losses	Total
	Unsecuritized	Held By Consolidated Trusts			Unsecuritized	Held By Consolidated Trusts		
	(in millions)							
Single-family:								
Beginning balance	$21,487	$ 3,006	$ 85	$24,578	$25,449	$ 4,918	$ 141	$30,508
Provision (benefit) for credit losses	(864)	947	30	113	(3,995)	1,790	(42)	(2,247)
Charge-offs	(4,510)	(376)	(6)	(4,892)	(8,181)	(804)	(10)	(8,995)
Recoveries	998	260	—	1,258	3,810	503	—	4,313
Transfers, net[1]	1,689	(953)	—	736	4,404	(3,401)	(4)	999
Ending balance	$18,800	$ 2,884	$ 109	$21,793	$21,487	$ 3,006	$ 85	$24,578
Multifamily:								
Beginning balance	$125	$ —	$ 26	$151	$339	$ 1	$ 42	$382
Provision (benefit) for credit losses	(46)	—	(9)	(55)	(208)	(1)	(9)	(218)
Charge-offs	(3)	—	—	(3)	(7)	—	—	(7)
Recoveries	1	—	—	1	1	—	—	1
Transfers, net[1]	—	—	—	—	—	—	(7)	(7)
Ending balance	$77	$ —	$ 17	$94	$125	$ —	$ 26	$151
Total:								
Beginning balance	$21,612	$ 3,006	$ 111	$24,729	$25,788	$ 4,919	$ 183	$30,890
Provision (benefit) for credit losses	(910)	947	21	58	(4,203)	1,789	(51)	(2,465)
Charge-offs	(4,513)	(376)	(6)	(4,895)	(8,188)	(804)	(10)	(9,002)
Recoveries	999	260	—	1,259	3,811	503	—	4,314
Transfers, net[1]	1,689	(953)	—	736	4,404	(3,401)	(11)	992
Ending balance	$18,877	$ 2,884	$ 126	$21,887	$21,612	$ 3,006	$ 111	$24,729

	2014	2013
Ratio of total loan loss reserves (excluding TDR concessions) to net charge-offs for single-family loans[2]	2.5	1.9
Ratio of total loan loss reserves to net charge-offs for single-family loans[2]	5.2	3.5

(1) For the years ended December 31, 2014 and 2013, consists of: (a) approximately $1.0 billion and $3.4 billion, respectively, of reclassified single-family reserves related to our removal of loans previously held by consolidated trusts, net of reclassifications for single-family loans subsequently resecuritized after such removal; and (b) approximately $0.7 billion and $1.0 billion, respectively, attributable to capitalization of past due interest on modified mortgage loans.

(2) Excludes amounts associated with loans acquired with deteriorated credit quality (at the time of our acquisition) and recoveries related to settlements.

The table below presents our allowance for loan losses and our recorded investment in mortgage loans, held-for-investment, by impairment evaluation methodology.

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Table 4.4 — Net Investment in Mortgage Loans

	December 31, 2014			December 31, 2013		
	Single-family	Multifamily	Total	Single-family	Multifamily	Total
	(in millions)					
Recorded investment:						
Collectively evaluated	$1,568,237	$40,451	$1,608,688	$1,551,667	$49,598	$1,601,265
Individually evaluated	100,383	902	101,285	98,140	1,276	99,416
Total recorded investment	1,668,620	41,353	1,709,973	1,649,807	50,874	1,700,681
Ending balance of the allowance for loan losses:						
Collectively evaluated	(3,847)	(25)	(3,872)	(5,939)	(45)	(5,984)
Individually evaluated	(17,837)	(52)	(17,889)	(18,554)	(80)	(18,634)
Total ending balance of the allowance	(21,684)	(77)	(21,761)	(24,493)	(125)	(24,618)
Net investment in mortgage loans	$1,646,936	$41,276	$1,688,212	$1,625,314	$50,749	$1,676,063

A significant number of unsecuritized single-family mortgage loans on our consolidated balance sheets are individually evaluated for impairment while substantially all single-family mortgage loans held by our consolidated trusts are collectively evaluated for impairment. The ending balance of the allowance for loan losses associated with our held-for-investment unsecuritized mortgage loans represented approximately 12.7% and 12.9% of the recorded investment in such loans at December 31, 2014 and 2013, respectively, and a substantial portion of the allowance associated with these loans represented interest rate concessions provided to borrowers as part of loan modifications. The ending balance of the allowance for loan losses associated with mortgage loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such loans as of both December 31, 2014 and 2013.

Credit Protection and Other Forms of Credit Enhancement

In connection with many of our mortgage loans and other mortgage-related guarantees, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, credit risk transfer transactions, and other forms of credit enhancements.

The table below presents the UPB of loans on our consolidated balance sheets or underlying our financial guarantees with credit protection and the maximum amounts of potential loss recovery by type of credit protection.

Table 4.5 — Recourse and Other Forms of Credit Protection[1]

	UPB at		Maximum Coverage[2] at	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(in millions)			
Single-family:				
Primary mortgage insurance	$227,495	$203,470	$57,938	$50,823
Other credit protection:				
Credit risk transfer transactions[3]	144,272	56,903	6,657	1,183
Lender recourse and indemnifications	6,527	7,119	6,092	6,726
Pool insurance[4]	2,284	4,683	947	1,186
HFA indemnification	3,357	4,051	3,324	3,323
Subordination[5]	2,377	2,644	339	399
Other credit enhancements	20	38	18	38
Total	$386,332	$278,908	$75,315	$63,678
Multifamily:				
K Certificates	$75,541	$59,326	$13,576	$10,601
Subordination[5]	4,724	4,435	796	756
HFA indemnification	772	905	699	699
Other credit enhancements	5,706	6,666	1,685	1,834

Total	$86,743	$71,332	$16,756	$13,890

(1) Except for our credit risk transfer transactions, our credit enhancements generally provide protection for the first, or initial credit losses associated with the related loans. Excludes: (a) FHA/VA and other governmental loans; (b) purchased credit protection associated with $9.8 billion and $11.5 billion in UPB of single-family loans underlying Other Guarantee Transactions as of December 31, 2014 and 2013, respectively; and (c) repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite loans and service them in accordance with our standards.

(2) Except for subordination and K Certificates, this represents the remaining amount of loss recovery that is available subject to terms of counterparty agreements. For subordination and K Certificates coverage, this represents the UPB of the securities that are subordinate to our guarantee, which could provide protection by absorbing first losses.

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(3) Excludes $48.3 billion in UPB at December 31, 2014 where the related loans are also covered by primary mortgage insurance. Maximum coverage amounts presented represent the outstanding balance of STACR debt securities held by third parties as well as the remaining aggregate limit of insurance purchased from third parties in ACIS transactions.

(4) Excludes approximately $0.9 billion and $1.8 billion in UPB at December 31, 2014 and 2013, respectively, where the related loans are also covered by primary mortgage insurance.

(5) Represents Freddie Mac issued mortgage-related securities with subordination protection, excluding multifamily K Certificates and those securities backed by state and local HFA bonds related to the HFA initiative.

Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is provided on a loan-level basis. Pool insurance contracts provide insurance on a group of mortgage loans up to a stated aggregate loss limit. We have not purchased pool insurance on single-family loans since March 2008. For information about counterparty risk associated with mortgage insurers, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Mortgage Insurers."

Our credit risk transfer transactions include structured agency credit risk (STACR) debt note transactions and agency credit insurance structures (ACIS), and provide credit enhancement by transferring a portion of credit losses on single-family loans that could occur under adverse home price scenarios. In a STACR debt note transaction, we create a reference pool consisting of a large group of recently acquired single-family mortgage loans. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (e.g., first loss, mezzanine, and senior). We issue STACR debt notes that relate to the mezzanine tranches, though the notes are not backed or collateralized by mortgage loans in the reference pool. The principal balance of the STACR debt notes is reduced (based on a fixed severity schedule) when certain specified credit events (such as a loan becoming 180 days delinquent) occur on the loans in the reference pool. In turn, this may reduce the total amount of payments we ultimately make on the STACR debt notes. We retained the first loss position for loans covered by STACR transactions completed in 2014 and 2013. We executed seven and two STACR debt note transactions in 2014 and 2013, respectively.

In an ACIS transaction, we purchase one or more insurance policies (typically underwritten by a panel of insurers and reinsurers) that obligate the counterparties to reimburse us for specified credit events (based on a fixed severity schedule up to an aggregate limit) that are incurred on our mezzanine loss positions associated with STACR debt note transactions in exchange for our payment of periodic premiums. We executed three and one ACIS transactions during 2014 and 2013, respectively.

We also have credit enhancements protecting our multifamily mortgage portfolio. Subordination, primarily through our K Certificates, is the most prevalent type, whereby we mitigate our credit risk exposure by structuring our securities to sell the expected credit risk to private investors who purchase the subordinate tranches.

We also have credit protection for certain mortgage loans on our consolidated balance sheets that are covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA, and USDA). The total UPB of these loans was $3.6 billion and $3.9 billion as of December 31, 2014 and 2013, respectively.

Non-Cash Investing and Financing Activities

During the years ended December 31, 2014, 2013, and 2012, we acquired $187.1 billion, $340.9 billion, and $358.1 billion, respectively, of mortgage loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts.

NOTE 5: IMPAIRED LOANS

Individually Impaired Loans

Individually impaired single-family loans include TDRs, as well as loans acquired under our financial guarantees with deteriorated credit quality. Individually impaired multifamily loans include TDRs, loans three monthly payments or more past due, and loans that are impaired based on management judgment. For a discussion of our significant accounting policies regarding impaired and non-accrual mortgage loans, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

Total loan loss reserves consist of a specific valuation allowance related to individually impaired mortgage loans, and a general reserve for other probable incurred losses. Our recorded investment in individually impaired mortgage loans and the related specific valuation allowance are summarized in the table below by product class (for single-family loans).

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Table 5.1 — Individually Impaired Loans

	Balance at December 31, 2014				For the Year Ended December 31, 2014		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis[1]
	(in millions)						
Single-family —							
With no specific allowance recorded[2]:							
20 and 30-year or more, amortizing fixed-rate	$6,041	$4,007	N/A	$ 4,007	$3,727	$ 376	$33
15-year amortizing fixed-rate	63	44	N/A	44	39	10	1
Adjustable-rate	27	22	N/A	22	17	1	—
Alt-A, interest-only, and option ARM	1,717	1,168	N/A	1,168	1,133	81	6
Total with no specific allowance recorded	7,848	5,241	N/A	5,241	4,916	468	40
With specific allowance recorded:[3]							
20 and 30-year or more, amortizing fixed-rate	77,798	76,708	$(14,051)	62,657	75,773	2,357	279
15-year amortizing fixed-rate	1,226	1,233	(40)	1,193	1,242	54	10
Adjustable-rate	868	866	(65)	801	881	23	6
Alt-A, interest-only, and option ARM	16,734	16,335	(3,681)	12,654	16,476	380	58
Total with specific allowance recorded	96,626	95,142	(17,837)	77,305	94,372	2,814	353
Combined single-family:							
20 and 30-year or more, amortizing fixed-rate	83,839	80,715	(14,051)	66,664	79,500	2,733	312
15-year amortizing fixed-rate	1,289	1,277	(40)	1,237	1,281	64	11
Adjustable-rate	895	888	(65)	823	898	24	6
Alt-A, interest-only, and option ARM	18,451	17,503	(3,681)	13,822	17,609	461	64
Total single-family	$104,474	$100,383	$(17,837)	$ 82,546	$99,288	$ 3,282	$393
Multifamily —							
With no specific allowance recorded[4]	$440	$431	N/A	$ 431	$659	$ 29	$9
With specific allowance recorded	480	471	$(52)	419	535	26	16
Total multifamily	$920	$902	$(52)	$ 850	$1,194	$ 55	$25
Total single-family and multifamily	$105,394	$101,285	$(17,889)	$ 83,396	$100,482	$ 3,337	$418

	Balance at December 31, 2013				For the Year Ended December 31, 2013	
	UPB		Associated	Net	Average	Interest

(in millions)		Recorded Investment	Allowance	Investment	Recorded Investment	Income Recognized	Interest Income Recognized On Cash Basis[1]
Single-family —							
With no specific allowance recorded[2]:							
20 and 30-year or more, amortizing fixed-rate	$5,927	$ 3,355	N/A	$ 3,355	$3,370	$ 394	$34
15-year amortizing fixed-rate	62	34	N/A	34	31	6	1
Adjustable rate	19	13	N/A	13	13	1	—
Alt-A, interest-only, and option ARM	1,758	1,038	N/A	1,038	978	72	6
Total with no specific allowance recorded	7,766	4,440	N/A	4,440	4,392	473	41
With specific allowance recorded:[3]							
20 and 30-year or more, amortizing fixed-rate	75,633	74,554	$(14,431)	60,123	69,922	2,127	282
15-year amortizing fixed-rate	1,324	1,324	(43)	1,281	1,109	50	11
Adjustable rate	967	962	(84)	878	855	22	6
Alt-A, interest-only, and option ARM	17,210	16,860	(3,996)	12,864	16,526	369	69
Total with specific allowance recorded	95,134	93,700	(18,554)	75,146	88,412	2,568	368
Combined single-family:							
20 and 30-year or more, amortizing fixed-rate	81,560	77,909	(14,431)	63,478	73,292	2,521	316
15-year amortizing fixed-rate	1,386	1,358	(43)	1,315	1,140	56	12
Adjustable rate	986	975	(84)	891	868	23	6
Alt-A, interest-only, and option ARM	18,968	17,898	(3,996)	13,902	17,504	441	75
Total single-family	$102,900	$ 98,140	$(18,554)	$ 79,586	$92,804	$ 3,041	$409
Multifamily —							
With no specific allowance recorded[4]	$694	$ 681	N/A	$ 681	$1,108	$ 48	$20
With specific allowance recorded	608	595	$(80)	515	891	41	31
Total multifamily	$1,302	$ 1,276	$(80)	$ 1,196	$1,999	$ 89	$51
Total single-family and multifamily	$104,202	$ 99,416	$(18,634)	$ 80,782	$94,803	$ 3,130	$460

(1) Consists of income recognized during the period related to loans on non-accrual status.

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(2) Individually impaired single-family loans with no specific related valuation allowance primarily represent mortgage loans removed from PC pools and accounted for in accordance with the accounting guidance for loans and debt securities acquired with deteriorated credit quality that have not experienced further deterioration.
(3) Consists primarily of mortgage loans classified as TDRs.
(4) Individually impaired multifamily loans with no specific related valuation allowance primarily represent those loans for which the collateral value is sufficiently in excess of the loan balance to result in recovery of the entire recorded investment if the property were foreclosed upon or otherwise subject to disposition.

Mortgage Loan Performance

The table below presents the recorded investment of our single-family and multifamily mortgage loans, held-for-investment, by payment status.

Table 5.2 — Payment Status of Mortgage Loans

	December 31, 2014					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure	Total	Non-accrual
	(in millions)					
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,207,826	$17,516	$5,817	$ 23,436	$1,254,595	$23,433
15-year amortizing fixed-rate	280,629	1,010	216	682	282,537	682
Adjustable-rate	66,737	406	118	612	67,873	612
Alt-A, interest-only, and option ARM	53,251	2,368	948	7,048	63,615	7,045
Total single-family	1,608,443	21,300	7,099	31,778	1,668,620	31,772
Total multifamily	41,335	7	11	—	41,353	385
Total single-family and multifamily	$1,649,778	$21,307	$7,110	$ 31,778	$1,709,973	$32,157

	December 31, 2013					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure	Total	Non-accrual
	(in millions)					
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,157,057	$19,743	$6,675	$ 29,635	$1,213,110	$29,620
15-year amortizing fixed-rate	293,286	1,196	271	864	295,617	863
Adjustable-rate	62,987	495	147	871	64,500	871
Alt-A, interest-only, and option ARM	62,356	2,898	1,157	10,169	76,580	10,162
Total single-family	1,575,686	24,332	8,250	41,539	1,649,807	41,516
Total multifamily	50,827	—	21	26	50,874	627
Total single-family and multifamily	$1,626,513	$24,332	$8,271	$ 41,565	$1,700,681	$42,143

We have the option under our PC master trust agreement to remove mortgage loans that underlie our PCs under certain circumstances to resolve an existing or impending delinquency or default. Our practice generally has been to remove loans from PC trusts when the loans have been delinquent for 120 days or more. As of December 31, 2014, there were $0.8 billion in UPB of loans underlying our PCs that were 120 days or more delinquent, and that met our criteria for removing the loan from the PC trust. Generally, we remove these delinquent loans from the PC trust, and

thereby extinguish the related PC debt at the next scheduled PC payment date, unless the loans proceed to foreclosure transfer, complete a foreclosure alternative or are paid in full by the borrower before such date.
When we remove mortgage loans from PC trusts, we reclassify the loans from mortgage loans held-for-investment by consolidated trusts to unsecuritized mortgage loans held-for-investment and record an extinguishment of the corresponding portion of the debt securities of the consolidated trusts. We removed $11.2 billion and $18.2 billion in UPB of loans from PC trusts (or purchased delinquent loans associated with other guarantee commitments) during the years ended December 31, 2014 and 2013, respectively.
The table below summarizes the delinquency rates of mortgage loans within our single-family credit guarantee and multifamily mortgage portfolios.

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Table 5.3 — Delinquency Rates

	December 31, 2014		December 31, 2013	
Single-family:[1]				
Non-credit-enhanced portfolio				
Serious delinquency rate	1.74	%	2.09	%
Total number of seriously delinquent loans	150,300		190,119	
Credit-enhanced portfolio:[2]				
Primary mortgage insurance:				
Serious delinquency rate	3.10	%	4.40	%
Total number of seriously delinquent loans	38,595		51,600	
Other credit protection:[3]				
Serious delinquency rate	1.21	%	3.66	%
Total number of seriously delinquent loans	12,175		15,828	
Total single-family:				
Serious delinquency rate	1.88	%	2.39	%
Total number of seriously delinquent loans	200,069		255,325	
Multifamily:[4]				
Non-credit-enhanced portfolio:				
Delinquency rate	0.02	%	0.07	%
UPB of delinquent loans (in millions)	$11		$46	
Credit-enhanced portfolio:				
Delinquency rate	0.05	%	0.11	%
UPB of delinquent loans (in millions)	$44		$75	
Total Multifamily:				
Delinquency rate	0.04	%	0.09	%
UPB of delinquent loans (in millions)	$55		$121	

(1) Serious delinquencies on single-family mortgage loans underlying certain REMICs and Other Structured Securities, Other Guarantee Transactions, and other guarantee commitments may be reported on a different schedule due to variances in industry practice. In the third quarter of 2014, we revised our presentation of single-family non-credit enhanced and credit-enhanced serious delinquency rates. This revision did not impact our total single-family serious delinquency rate. Prior periods have been revised to conform with the current presentation.

(2) The credit enhanced categories are not mutually exclusive as a single loan may be covered by both primary mortgage insurance and other credit protection.

(3) Consists of single-family mortgage loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See "Table 4.5 — Recourse and Other Forms of Credit Protection" for more information.

(4) Multifamily delinquency performance is based on UPB of mortgage loans that are two monthly payments or more past due or those in the process of foreclosure and includes multifamily Other Guarantee Transactions (e.g., K Certificates).

We continue to implement a number of initiatives to refinance and modify loans, including the MHA Program and the servicing alignment initiative. Our implementation of the MHA Program, for our loans, includes the following: (a) an initiative to allow mortgages currently owned or guaranteed by us to be refinanced without obtaining additional credit enhancement beyond that already in place for the loan (i.e., our relief refinance mortgage, which is our implementation of HARP); (b) an initiative to modify mortgages for both homeowners who are in default and those who are at risk of imminent default (i.e., HAMP); and (c) an initiative designed to permit borrowers who meet basic HAMP eligibility requirements to sell their homes in short sales or to complete a deed in lieu of foreclosure transaction. As part of accomplishing certain of these initiatives, we pay various incentives to servicers and borrowers.

Except as described below, we bear the full costs associated with these loan workout and foreclosure alternatives on mortgages that we own or guarantee, including the cost of any monthly payment reductions, and do not receive any reimbursement from Treasury. In addition, in January 2015, at the instruction of FHFA, we implemented a new $5,000 principal reduction incentive payable to eligible borrowers who remain in good standing on their HAMP modified loans through the sixth anniversary of their modification. Treasury will pay the $5,000 incentive for certain of our eligible HAMP modified loans, and we will pay the $5,000 incentive on our other eligible HAMP modified loans.

HAMP and HARP are scheduled to end in December 2015. In June 2014, Treasury announced that HAMP would be extended for at least another year. However, it is still not known if FHFA will direct us to extend our version of HAMP as well.

Troubled Debt Restructurings

Single-Family TDRs

We require our single-family servicers to contact borrowers who are in default and to evaluate loan workout options in accordance with our requirements. We establish guidelines for our servicers to follow and provide them default management programs designed to help them manage non-performing loans more effectively and to assist borrowers in maintaining home ownership, or facilitate foreclosure alternatives when continued homeownership is not practicable. We require our single-family servicers first to evaluate problem loans for a repayment or forbearance plan before considering modification. If a borrower is not eligible for a modification, our seller/servicers pursue other workout options before considering foreclosure. We receive information related to loan workouts, such as completed modifications and loans in a modification trial period, and other alternatives to foreclosure from our servicers at the loan level on at least a monthly basis. For loans in a modification trial period, we do not receive the terms of the expected completed modification until the modification is completed. For these loans, we only receive notification that they are in a modification trial period.

Repayment plans are agreements with the borrower that give the borrower a defined period of time to reinstate the mortgage by paying regular payments plus an additional agreed upon amount in repayment of the past due amount. These agreements are considered TDRs if they result in a delay in payment that is considered to be more than insignificant.

Forbearance agreements are agreements between the servicer and the borrower where reduced payments or no payments are required during a defined period. These agreements are considered TDRs if they result in a delay in payment that is considered to be more than insignificant.

For HAMP loan modifications, our servicers typically obtain information on income, assets, and other borrower obligations to consider eligibility for modification and determine modified loan terms. Under HAMP, the goal of a single-family loan modification is to reduce the borrower’s monthly mortgage payments to a specified percentage of the borrower’s gross monthly income, which may be achieved through a combination of methods, including: (a) interest rate reduction; (b) term extension; and (c) principal forbearance. Principal forbearance is when a portion of the principal is made non-interest-bearing and non-amortizing, but this does not represent principal forgiveness. Although HAMP contemplates that some servicers will also make use of principal forgiveness to achieve reduced payments for borrowers, we have only used forbearance of principal and have not used principal forgiveness in modifying our loans.

We implemented a non-HAMP standard loan modification initiative, which replaced our previous non-HAMP modification initiative beginning January 1, 2012. Our HAMP and non-HAMP modification initiatives are available for borrowers experiencing what is generally expected to be a longer-term financial hardship. In July 2013, we implemented a streamlined (non-HAMP) modification initiative, which provides an additional modification opportunity to certain borrowers, and is scheduled to end in December 2015. The modification that borrowers receive under this initiative will have the same mortgage terms as our non-HAMP standard modification. Borrowers are not required to apply for assistance or provide income or hardship documentation for this type of modification.

Both HAMP and our non-HAMP standard modification require a three month trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. After the final trial-period payment is received by our servicer, the borrower and servicer enter into the modification. We consider restructurings under these initiatives as TDRs at the inception of the trial period if the expected modification will result in a change in our expectation to collect all amounts due at the original contract rate. Since we do not receive the terms of the modification until completion of the trial period, we estimate the impairment for loans in a modification trial period that are considered TDRs using the average impairment recorded for completed modifications and the estimated likelihood of completion of the trial period. If the borrower fails to successfully complete the trial period, the impairment for the loan is then based on the original terms of the loan. If the borrower successfully completes the trial period, the impairment for the loan is then based on the modified terms of the loan. These subsequent adjustments to impairment are based on the success or failure of the borrower to complete the trial period and are recorded through the provision for credit losses.

During 2014, approximately 51% of completed single-family loan modifications that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions and approximately 25% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During 2014, the average term extension was 184 months and the average interest rate reduction was 1.3% on completed single-family loan modifications classified as TDRs.

Multifamily TDRs

The assessment as to whether a multifamily loan restructuring is considered a TDR contemplates the unique facts and circumstances of each loan. This assessment considers qualitative factors such as whether the borrower’s modified interest rate is consistent with that of a borrower having a similar credit profile at the time of modification. In certain cases, for maturing loans we may provide short-term loan extensions of up to one year with no changes to the effective borrowing rate. In other cases, we may make more significant modifications of terms for borrowers experiencing financial difficulty, such as reducing the interest rate or extending the maturity for longer than one year. In cases where we do modify the contractual terms of the loan, the changes in terms may be similar to those of single-family loans, such as an extension of the term, reduction of contractual rate, principal forbearance, or some combination of these features.

TDR Activity and Performance

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs during the years ended December 31, 2014 and 2013, based on the original category of the loan before the loan was classified as a TDR. Loans classified as a TDR in one period may be subject to further action (such as a modification or remodification) in a subsequent period. In such cases, the subsequent action would not be reflected in the table below since the loan would already have been classified as a TDR.

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Table 5.4 — TDR Activity, by Segment

	Year Ended December 31, 2014		2013	
	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
	(dollars in millions)			
Single-family:[1]				
20 and 30-year or more, amortizing fixed-rate	68,186	$10,172	101,538	$16,014
15-year amortizing fixed-rate	7,189	528	11,671	825
Adjustable-rate	1,849	285	3,604	574
Alt-A, interest-only, and option ARM	9,112	1,865	17,770	3,941
Total Single-family	86,336	12,850	134,583	21,354
Multifamily	2	15	8	98
Total	86,338	$12,865	134,591	$21,452

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during the years ended December 31, 2014 and 2013 was $12.8 billion and $21.2 billion, respectively.

The measurement of impairment for single-family TDRs is based on the excess of our recorded investment in the loan over the present value of the loan's expected future cash flows. For multifamily loans, we use an estimate of the fair value of the loan's collateral rather than the present value of expected future cash flows to determine the amount of impairment. Our process for determining the appropriate allowance for loan losses for both single-family and multifamily loans considers the impact that our loss mitigation activities, such as loan restructurings, have on probabilities of default. For single-family loans evaluated individually and collectively for impairment that have been modified, the probability of default is affected by the incidence of redefault that we have experienced on similar loans that have completed a modification. For multifamily loans, the incidence of redefault on loans that have been modified does not directly affect the allowance for loan losses as our multifamily loans are generally evaluated individually for impairment based on the fair value of the underlying collateral.

The table below presents the volume of our TDR modifications that experienced payment defaults (i.e., loans that became two months delinquent or completed a loss event) during the applicable periods and had completed a modification during the year preceding the payment default. The table presents loans based on their original product category before modification and excludes loans subject to other loss mitigation activity. Substantially all of our completed single-family loan modifications classified as a TDR during 2014 resulted in a modified loan with a fixed interest rate. However, many of these fixed-rate loans include provisions for the reduced interest rates to remain fixed for the first five years of the modification and then increase at a rate of up to one percent per year until the interest rate has been adjusted to the market rate that was in effect at the time of the modification.

Table 5.5 — Payment Defaults of Completed TDR Modifications, by Segment[1]

	Year Ended December 31, 2014		2013	
	Number of Loans	Post-TDR Recorded Investment[2]	Number of Loans	Post-TDR Recorded Investment[2]
	(dollars in millions)			
Single-family:				
20 and 30-year or more, amortizing fixed-rate	19,101	$3,384	14,964	$2,766
15-year amortizing fixed-rate	645	62	471	52
Adjustable-rate	332	61	237	50
Alt-A, interest-only, and option ARM	2,357	564	2,256	587
Total single-family	22,435	$4,071	17,928	$3,455

Multifamily	—	$—	—	$—

(1) Represents TDR loans that experienced a payment default during the period and had completed a modification during the year preceding the payment default.
(2) Represents the recorded investment at the end of the period in which the loan was modified and does not represent the recorded investment as of December 31.

In addition to modifications, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or trial period modifications). During the years ended December 31, 2014 and 2013, 9,538 and 8,473, respectively, of such loans (with a post-TDR recorded investment of $1.4 billion for both periods) experienced a payment default within a year after the loss mitigation activity occurred.

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Loans may also be initially classified as TDRs because the borrowers' debts were discharged in Chapter 7 bankruptcy (and the loan was not already classified as a TDR for other reasons). During the years ended December 31, 2014 and 2013, 4,206 and 17,225, respectively, of such loans (with a post-TDR recorded investment of $0.6 billion and $2.8 billion, respectively) experienced a payment default within a year after the borrowers' bankruptcy.

NOTE 6: REAL ESTATE OWNED

We obtain REO properties: (a) when we are the highest bidder at foreclosure sales of properties that collateralize single-family and multifamily mortgage loans owned by us; or (b) when a delinquent borrower chooses to transfer the mortgaged property to us in lieu of going through the foreclosure process (i.e., deed in lieu of foreclosure). Upon acquiring single-family properties, we evaluate their marketability, including determining an estimated market value, and then select an appropriate disposition path (e.g., listing for sale with a real estate broker, or auction). Upon acquiring multifamily properties, we may operate them using third-party property management firms for a period to stabilize value and then sell the properties through commercial real estate brokers. However, certain jurisdictions require a period of time after foreclosure during which the borrower may reclaim the property. During the period when the borrower may reclaim the property, or we are completing the eviction process, we are not able to market the property and this extends our holding period for these properties. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for a discussion of our significant accounting policies for REO.

The table below provides a summary of the change in the carrying value of our combined single-family and multifamily REO balances. For the periods presented in the table below, the weighted average holding period for our disposed properties was less than one year.

Table 6.1 — REO

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Beginning balance — REO	$4,602	$4,407	$5,827
Additions	4,110	6,498	7,029
Dispositions	(6,028)	(6,303)	(8,449)
Ending balance — REO	2,684	4,602	4,407
Beginning balance, valuation allowance	(51)	(29)	(147)
Change in valuation allowance	(75)	(22)	118
Ending balance, valuation allowance	(126)	(51)	(29)
Ending balance — REO, net	$2,558	$4,551	$4,378

The REO balance, net at December 31, 2014 and 2013 associated with single-family properties was $2.6 billion and $4.5 billion, respectively, and the balance associated with multifamily properties was $0 and $10 million, respectively. The Southeast region represented approximately 36% and 34% of our single-family REO additions during 2014 and 2013, respectively, based on the number of properties, and the North Central region represented approximately 25% and 29% of our single-family REO additions during these periods. Our single-family REO inventory consisted of 25,768 properties and 47,307 properties at December 31, 2014 and 2013, respectively. In recent years, the foreclosure process has been significantly slowed in many geographic areas, particularly in states that require a judicial foreclosure process, which extends the time it takes for loans to be foreclosed upon and the underlying property to transition to REO. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for additional information about regional concentrations in our investments in mortgage loans.

Our REO operations expenses include: (a) REO property expenses; (b) net gains or losses incurred on disposition of REO properties; (c) adjustments to the holding period allowance associated with REO properties to record them at the lower of their carrying amount or fair value less the estimated costs to sell; and (d) recoveries from insurance and other credit enhancements. An allowance for estimated declines in the REO fair value during the period properties are held reduces the carrying value of REO property. Excluding holding period valuation adjustments and recoveries, we recognized gains of $461 million, $761 million, and $693 million on REO dispositions during 2014, 2013, and 2012, respectively. We increased (decreased) our valuation allowance for properties in our REO inventory by $176 million, $58 million, and $(7) million in 2014, 2013, and 2012, respectively.

Non-cash Investing and Financing Activities

REO property acquisitions as a result of the derecognition of mortgage loans held on our consolidated balance sheets upon foreclosure of the underlying collateral or deed in lieu of foreclosure represent non-cash transfers. During the years ended December 31, 2014, 2013, and 2012, we had transfers of $3.8 billion, $6.1 billion, and $6.8 billion, respectively, from mortgage loans to REO.

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NOTE 7: INVESTMENTS IN SECURITIES

The table below summarizes amortized cost, estimated fair values, and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities by major security type. At December 31, 2014 and 2013, all available-for-sale securities are mortgage-related securities.

Table 7.1 — Available-For-Sale Securities

			Gross Unrealized Losses		
December 31, 2014	Amortized Cost	Gross Unrealized Gains	Other-Than-Temporary Impairment[1]	Temporary Impairment[2]	Fair Value
	(in millions)				
Available-for-sale securities:					
Freddie Mac	$37,710	$1,435	$—	$(46)	$39,099
Fannie Mae	10,860	463	—	(10)	11,313
Ginnie Mae	183	16	—	—	199
CMBS	20,988	890	(2)	(54)	21,822
Subprime	20,210	989	(518)	(92)	20,589
Option ARM	5,460	372	(179)	(4)	5,649
Alt-A and other	4,500	578	(29)	(6)	5,043
Obligations of states and political subdivisions	2,166	34	—	(2)	2,198
Manufactured housing	556	84	(2)	—	638
Total available-for-sale securities	$102,633	$4,861	$(730)	$(214)	$106,550
December 31, 2013					
Available-for-sale securities:					
Freddie Mac	$39,001	$1,847	$—	$(189)	$40,659
Fannie Mae	10,140	660	—	(3)	10,797
Ginnie Mae	149	18	—	—	167
CMBS	29,151	1,524	(23)	(314)	30,338
Subprime	29,897	382	(2,467)	(313)	27,499
Option ARM	6,617	338	(376)	(5)	6,574
Alt-A and other	8,322	526	(118)	(24)	8,706
Obligations of states and political subdivisions	3,533	23	(7)	(54)	3,495
Manufactured housing	629	61	(4)	(2)	684
Total available-for-sale securities	$127,439	$5,379	$(2,995)	$(904)	$128,919

(1) Represents the gross unrealized losses for securities for which we have previously recognized other-than-temporary impairments in earnings.

(2) Represents the gross unrealized losses for securities for which we have not previously recognized other-than-temporary impairments in earnings.

Available-For-Sale Securities in a Gross Unrealized Loss Position

The table below shows the fair value of available-for-sale securities in a gross unrealized loss position, and whether they have been in that position less than 12 months, or 12 months or greater.

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Table 7.2 — Available-For-Sale Securities in a Gross Unrealized Loss Position

	Less than 12 Months		12 Months or Greater	
December 31, 2014	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)			
Available-for-sale securities:				
Freddie Mac	$2,531	$(14)	$936	$(32)
Fannie Mae	2,693	(9)	5	(1)
Ginnie Mae	66	—	—	—
CMBS	184	(5)	1,149	(51)
Subprime	286	(3)	6,533	(607)
Option ARM	77	—	1,490	(183)
Alt-A and other	185	(5)	499	(30)
Obligations of states and political subdivisions	48	—	28	(2)
Manufactured housing	42	—	15	(2)
Total available-for-sale securities in a gross unrealized loss position	$6,112	$(36)	$10,655	$(908)
December 31, 2013				
Available-for-sale securities:				
Freddie Mac	$7,957	$(144)	$649	$(45)
Fannie Mae	248	(2)	19	(1)
CMBS	1,147	(85)	1,992	(252)
Subprime	472	(19)	19,103	(2,761)
Option ARM	77	(2)	2,608	(379)
Alt-A and other	262	(5)	1,854	(137)
Obligations of states and political subdivisions	1,885	(56)	24	(5)
Manufactured housing	—	—	65	(6)
Total available-for-sale securities in a gross unrealized loss position	$12,048	$(313)	$26,314	$(3,586)

At December 31, 2014, total gross unrealized losses on available-for-sale securities were $0.9 billion. The gross unrealized losses relate to 385 individual lots representing 364 separate securities. We purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically evaluating investment positions at the lot level; therefore, some of the lots we hold for an individual security may be in an unrealized gain position while other lots for that security may be in an unrealized loss position, depending upon the amortized cost of the specific lot.

Impairment Recognition on Investments in Securities

We recognize impairment losses on available-for-sale securities within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings when we conclude that a decrease in the fair value of a security is other-than-temporary. For information regarding our evaluation of our available-for-sale securities for impairment, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Investments in Securities."

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. Important factors include, but are not limited to:

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whether we intend to sell the security or it is more likely than not that we will be required to sell the security before sufficient time elapses to recover all unrealized losses;

- the use of a third-party model for single-family non-agency mortgage-related securities that considers the credit performance of the underlying collateral, including current LTV ratio, delinquency status, servicer performance, loan modification terms and status, and borrower credit information. The model also incorporates assumptions about the economic environment, including future home prices, unemployment, and interest rates to project underlying collateral prepayment speeds, default rates, loss severities, and delinquency rates. Our estimation approach for CMBS includes the use of a separate third-party model that utilizes underlying collateral performance, current and expected credit enhancements, and incorporates assumptions about the underlying collateral cash flows; and
- the incorporation of security-level subordination information and the priority of cash flow payments by the models to project and estimate cash flows expected to be collected for each security.

See “Table 7.2 — Available-For-Sale Securities in a Gross Unrealized Loss Position” for the length of time our available-for-sale securities have been in an unrealized loss position. Also see “Table 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities” for the modeled default rates and severities that were used to determine whether our senior interests in certain non-agency mortgage-related securities would experience a cash shortfall.

As noted in “Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings,” our net impairment on available-for-sale securities during 2014 includes certain securities that we have the intent to sell prior to the recovery of the unrealized loss. In cases where we have the intent to sell or it is more likely than not that we will be required to sell the security before recovery of its amortized cost, the security’s entire decline in fair value would be deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings. For the remaining available-for-sale securities in an unrealized loss position at December 31, 2014, we have asserted that we have no intent to sell and that we believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis.

Freddie Mac and Fannie Mae Securities

We record the purchase of mortgage-related securities issued by Fannie Mae as investments in securities in accordance with the accounting guidance for investments in debt and equity securities. In contrast, our purchase of mortgage-related securities that we issued (e.g., PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions) is recorded as either investments in securities or extinguishment of debt securities of consolidated trusts depending on the nature of the mortgage-related security that we purchase. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities” for additional information.

We hold these investments in securities that are in an unrealized loss position at least to recovery and typically to maturity. As the principal and interest on these securities are guaranteed and we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before a recovery of the securities' amortized cost basis, we consider these unrealized losses to be temporary.

Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans

We believe the unrealized losses on the non-agency mortgage-related securities we hold are mainly attributable to poor underlying collateral performance, limited liquidity, and risk premiums. Our review of the securities backed by subprime, option ARM, and Alt-A and other loans includes the third-party loan level default modeling and analyses of the individual securities based on underlying collateral performance, including the collectability of amounts from bond insurers. In evaluating collectability from bond insurers, we consider factors that affect both the bond insurers’ financial performance and ability to pay their obligations. We consider loan level information including estimated current LTV ratios, credit scores, and other loan level characteristics. For additional information regarding bond insurers, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Bond Insurers.”

The table below presents the modeled attributes, including default rates, prepayment rates, and severities, without regard to subordination, that are used to determine whether our interests in certain available-for-sale non-agency mortgage-related securities will experience a cash shortfall.

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Table 7.3 — Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities

	December 31, 2014				
			Alt-A		
	Subprime	Option ARM	Fixed Rate	Variable Rate	Hybrid Rate
	(dollars in millions)				
Issuance Date					
2004 and prior:					
UPB	$534	$38	$335	$258	$189
Weighted average collateral defaults[1]	33%	19%	13%	30%	15%
Weighted average collateral severities[2]	61%	46%	45%	42%	38%
Weighted average voluntary prepayment rates[3]	7%	11%	13%	8%	10%
Average credit enhancements[4]	31%	—%	14%	11%	13%
2005:					
UPB	$2,667	$1,743	$479	$374	$1,107
Weighted average collateral defaults[1]	43%	26%	18%	37%	21%
Weighted average collateral severities[2]	63%	47%	45%	52%	41%
Weighted average voluntary prepayment rates[3]	4%	10%	12%	8%	11%
Average credit enhancements[4]	48%	1%	(1)%	17%	2%
2006:					
UPB	$11,204	$4,063	$226	$418	$422
Weighted average collateral defaults[1]	49%	35%	25%	38%	30%
Weighted average collateral severities[2]	63%	47%	44%	48%	41%
Weighted average voluntary prepayment rates[3]	3%	8%	10%	8%	10%
Average credit enhancements[4]	7%	(3)%	(2)%	1%	(4)%
2007:					
UPB	$13,277	$2,443	$118	$458	$165
Weighted average collateral defaults[1]	49%	34%	40%	38%	29%
Weighted average collateral severities[2]	63%	48%	51%	49%	43%
Weighted average voluntary prepayment rates[3]	3%	8%	7%	8%	10%
Average credit enhancements[4]	1%	3%	(1)%	(19)%	—%
Total:					
UPB	$27,682	$8,287	$1,158	$1,508	$1,883
Weighted average collateral defaults[1]	48%	33%	20%	36%	23%
Weighted average collateral severities[2]	63%	47%	46%	48%	41%
	3%	8%	12%	8%	11%

Weighted average voluntary prepayment rates(3)					
Average credit enhancements(4)	9 %	— %	3 %	1 %	2 %

(1) The expected cumulative default rate is expressed as a percentage of the current collateral UPB.

(2) The expected average loss given default is calculated as the ratio of cumulative loss over cumulative default for each security.

(3) The security's voluntary prepayment rate represents the average of the monthly voluntary prepayment rate weighted by the security's outstanding UPB.

(4) Positive values reflect the amount of subordination and other financial support (excluding credit enhancement provided by bond insurance) that will incur losses in the securitization structure before any losses are allocated to securities that we own. Percentage generally calculated based on: (a) the total UPB of securities subordinate to the securities we own; divided by (b) the total UPB of all of the securities issued by the trust (excluding notional balances). Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment.

In evaluating the non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans for other-than-temporary impairment, we noted that the percentage of securities that were AAA-rated and the percentage that were investment grade declined significantly since acquisition. While these ratings have declined, the ratings themselves are not determinative that a loss is more or less likely. While we may consider credit ratings in our analysis, we believe that our detailed security-by-security analyses provide a more comprehensive view of the ultimate collectability of contractual amounts due to us.

Our analysis is subject to change as new information regarding delinquencies, severities, loss timing, prepayments, and other factors becomes available. While it is possible that, under certain conditions, collateral losses on our remaining available-for-sale securities for which we have not recorded an impairment charge could exceed our credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were likely as of December 31, 2014.

Commercial Mortgage-Backed Securities

CMBS are exposed to stresses in the commercial real estate market. We use an external model to identify securities that may have an increased risk of failing to make their contractual payments. We then perform an analysis of the underlying

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collateral on a security-by-security basis to determine whether we expect to receive all of the contractual payments due to us. While it is possible that, under certain conditions, collateral losses on our CMBS for which we have not recorded an impairment charge could exceed our credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were likely as of December 31, 2014.

Obligations of States and Political Subdivisions

These investments consist of housing revenue bonds. We believe the unrealized losses on obligations of states and political subdivisions are primarily a result of movements in interest rates and liquidity and risk premiums. We believe that any credit risk related to these securities is minimal because of the issuer guarantees provided on these securities.

Bond Insurance

We rely on bond insurance to provide credit protection on some of our non-agency mortgage-related securities. Circumstances in which: (a) it is expected that a principal and interest shortfall will occur; and (b) there is substantial uncertainty surrounding a bond insurer's ability to pay all future claims can give rise to recognition of other-than-temporary impairment recognized in earnings. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Bond Insurers" for additional information.

Other-Than-Temporary Impairments on Available-for-Sale Securities

The table below summarizes our net impairment of available-for-sale securities recognized in earnings by security type.

Table 7.4 — Net Impairment of Available-For-Sale Securities Recognized in Earnings

	Net Impairment of Available-For-Sale Securities Recognized in Earnings For the Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Available-for-sale securities:[1]			
CMBS	$—	$(14)	$(138)
Subprime	(794)	(1,258)	(1,274)
Option ARM	(101)	(58)	(556)
Alt-A and other	(42)	(179)	(196)
Manufactured housing	(1)	(1)	(4)
Total net impairment of available-for-sale securities recognized in earnings	$(938)	$(1,510)	$(2,168)

(1) Includes $817 million, $568 million, and $0 million of other-than-temporary impairments recognized in earnings for the years ended December 31, 2014, 2013, and 2012, respectively, as we had the intent to sell the related securities before recovery of their amortized cost basis.

The table below presents the changes in the unrealized credit-related other-than-temporary impairment component of the amortized cost related to available-for-sale securities: (a) that we have written down for other-than-temporary impairment; and (b) for which the credit component of the loss has been recognized in earnings. The credit-related other-than-temporary impairment component of the amortized cost represents the difference between: (a) the present value of expected future cash flows at the time of impairment, including the estimated proceeds from bond insurance; and (b) the amortized cost basis of the security prior to considering credit losses. The beginning balances represent the other-than-temporary impairment credit loss components related to available-for-sale securities for which other-than-temporary impairment occurred prior to January 1, 2014 and January 1, 2013, respectively, but will not be realized until the securities are sold, written off, or mature. Net impairment of available-for-sale securities recognized in earnings is presented as additions in two components based upon whether the current period is: (a) the first time the debt security was credit-impaired; or (b) not the first time the debt security was credit-impaired. The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired available-for-sale securities. Additionally, the credit loss component is reduced by the amortization resulting from significant increases in cash flows expected to be collected that are recognized over the remaining life of the security.

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Table 7.5 — Other-Than-Temporary Impairments Related to Credit Losses on Available-For-Sale Securities

	Year Ended December 31, 2014	2013
	(in millions)	
Credit-related other-than-temporary impairments on available-for-sale securities recognized in earnings:		
Beginning balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings	$14,463	$16,745
Additions:		
Amounts related to credit losses for which an other-than-temporary impairment was not previously recognized	—	46
Amounts related to credit losses for which an other-than-temporary impairment was previously recognized	121	896
Reductions:		
Amounts related to securities which were sold, written off, or matured	(1,188)	(1,193)
Amounts for which we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis	(6,113)	(1,536)
Amounts related to amortization resulting from significant increases in cash flows expected to be collected and/or due to the passage of time that are recognized over the remaining life of the security	(485)	(495)
Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings[1]	$6,798	$14,463

(1) Excludes other-than-temporary impairments on securities that we intend to sell or it is more likely than not that we will be required to sell before recovery of the unrealized losses.

Realized Gains and Losses on Sales of Available-For-Sale Securities

The table below illustrates the gross realized gains and gross realized losses from the sale of available-for-sale securities.

Table 7.6 — Gross Realized Gains and Gross Realized Losses on Sales of Available-For-Sale Securities

	Year Ended December 31, 2014	2013	2012
	(in millions)		
Gross realized gains	$1,897	$1,950	$152
Gross realized losses	(185)	(51)	—
Net realized gains (losses)	$1,712	$1,899	$152

Maturities of Available-For-Sale Securities

The table below summarizes the remaining contractual maturities of available-for-sale securities.

Table 7.7 — Contractual Maturities of Available-For-Sale Securities

	As of December 31, 2014									
	Total Amortized Cost	Total Fair Value	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
			Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(dollars in millions)									
Available-for-sale securities:										

Freddie Mac	$37,710	$39,099	$—	$—	$300	$309	$526	$559	$36,884	$38,231
Fannie Mae	10,860	11,313	1	1	61	64	108	120	10,690	11,128
Ginnie Mae	183	199	—	—	4	4	22	26	157	169
CMBS	20,988	21,822	—	—	316	330	8	8	20,664	21,484
Subprime	20,210	20,589	—	—	—	—	—	—	20,210	20,589
Option ARM	5,460	5,649	—	—	—	—	—	—	5,460	5,649
Alt-A and other	4,500	5,043	1	1	31	31	2	2	4,466	5,009
Obligations of states and political subdivisions	2,166	2,198	—	—	40	43	48	49	2,078	2,106
Manufactured housing	556	638	—	—	—	—	9	11	547	627
Total available-for-sale securities	$102,633	$106,550	$2	$2	$752	$781	$723	$775	$101,156	$104,992
Weighted Average Yield[1]	2.65 %		7.63 %		5.04 %		5.10 %		2.61 %	

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(1) The weighted average yield is calculated based on a yield for each individual lot held at December 31, 2014 excluding any fully taxable-equivalent adjustments related to tax exempt sources of interest income. The numerator for the individual lot yield consists of the sum of: (a) the year-end interest coupon rate multiplied by the year-end UPB; and (b) the amortization income or expense calculated for December 2014 (excluding the accretion of non-credit-related other-than-temporary impairments and any adjustments recorded for changes in the effective rate). The denominator for the individual lot yield consists of the year-end amortized cost of the lot excluding effects of other-than-temporary impairments on the UPB of impaired lots.

Trading Securities

The table below summarizes the estimated fair values by major security type for trading securities. Our trading securities mainly consist of Treasury securities, agency fixed-rate and variable-rate pass-through mortgage-related securities, and agency REMICs, including inverse floating rate, interest-only and principal-only securities.

Table 7.8 — Trading Securities

	December 31, 2014	December 31, 2013
	(in millions)	
Mortgage-related securities:		
Freddie Mac	$17,469	$9,349
Fannie Mae	6,099	7,180
Ginnie Mae	16	98
Other	171	141
Total mortgage-related securities	23,755	16,768
U.S. Treasury securities	6,682	6,636
Total fair value of trading securities	$30,437	$23,404

With the exception of principal-only securities, our agency securities, classified as trading, were valued at a net premium (i.e., net fair value was higher than UPB) as of December 31, 2014.

For the years ended December 31, 2014, 2013, and 2012, we recorded net unrealized gains (losses) on trading securities held at those dates of $(88) million, $(1.6) billion, and $(1.7) billion, respectively.

Non-Cash Investing and Financing Activities

From time to time, beginning in 2014, we contribute PCs, single-class REMICs and Other Structured Securities held in our mortgage-related investments portfolio as collateral for a multiclass REMIC and Other Structured Securities trust in exchange for beneficial interests in the multiclass REMIC and Other Structured Securities trust. We do not consolidate the multiclass REMIC and Other Structured Securities trust unless we hold substantially all of the beneficial interests issued by the trust. As a result, if we do not hold substantially all of the beneficial interests issued by the multiclass REMIC and Other Structured Securities trust, we account for this type of transaction as the acquisition of investment securities and issuance of debt securities of consolidated trusts. During 2014, we received investment securities as consideration for the issuance of debt securities of consolidated trusts of $1.8 billion as a result of these transactions.

NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations.

Under the Purchase Agreement, without the prior written consent of Treasury, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. Because of this debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Under the Purchase Agreement, the amount of our "indebtedness" is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs. Therefore, "indebtedness" does not include debt securities of consolidated trusts held by third parties. We also cannot become liable for any subordinated indebtedness without the prior consent of Treasury. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS" for information regarding restrictions on the amount of mortgage-related securities that we may own.

Our debt cap under the Purchase Agreement was $663.0 billion in 2014 and declined to $563.6 billion on January 1, 2015. As of December 31, 2014, our aggregate indebtedness was $454.0 billion. Our aggregate indebtedness is calculated as the par value of other short- and long-term debt.

In the tables below, the categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt.

Other Short-Term Debt

As indicated in "Table 8.1 — Other Short-Term Debt", a majority of other short-term debt consisted of Reference Bills® securities and discount notes, paying only principal at maturity. Reference Bills® securities, discount notes, and medium-term

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notes are unsecured general corporate obligations. Certain medium-term notes that have original maturities of one year or less are classified as other short-term debt for purposes of this presentation.

The table below summarizes the balances and effective interest rates for other short-term debt.

Table 8.1 — Other Short-Term Debt

	December 31, 2014				December 31, 2013			
	Par Value	Carrying Amount	Weighted Average Effective Rate		Par Value	Carrying Amount	Weighted Average Effective Rate	
	(dollars in millions)							
Other short-term debt:								
Reference Bills® securities and discount notes	$134,670	$134,619	0.12	%	$137,767	$137,712	0.13	%
Medium-term notes	—	—	—		4,000	4,000	0.16	
Total other short-term debt	$134,670	$134,619	0.12		$141,767	$141,712	0.13	

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

We had no balances in federal funds purchased and securities sold under agreements to repurchase at either December 31, 2014 or 2013.

Other Long-Term Debt

The table below summarizes our other long-term debt.

Table 8.2 — Other Long-Term Debt

	December 31, 2014					December 31, 2013			
	Contractual Maturity	Par Value	Carrying Amount[1]	Weighted Average Effective Rate		Par Value	Carrying Amount[1]	Weighted Average Effective Rate	
	(dollars in millions)								
Other long-term debt:									
Other senior debt:									
Fixed-rate:									
Medium-term notes — callable	2015 - 2037	$98,860	$98,856	1.35	%	$101,190	$101,236	1.51	%
Medium-term notes — non-callable	2015 - 2028	20,059	20,383	0.86		37,878	38,107	0.99	
U.S. dollar Reference Notes securities — non-callable	2015 - 2032	151,701	151,751	2.80		190,371	190,406	2.71	
€Reference Notes securities — non-callable		—	—			528	529	4.38	
Variable-rate:									
Medium-term notes — callable	2015 - 2029	7,210	7,210	2.00		6,001	6,001	1.66	
Medium-term notes — non-callable	2015 - 2026	23,971	23,971	0.19		18,533	18,533	0.22	
STACR	2023 - 2024	5,896	5,820	3.16		1,107	1,155	4.29	
Zero-coupon:									
Medium-term notes — callable	2037	1,000	264	6.17		1,200	311	5.82	

Medium-term notes — non-callable	2015 - 2039	10,109	6,739	2.53		12,217	8,334	3.08	
Hedging-related basis adjustments		N/A	34			N/A	41		
Total other senior debt		318,806	315,028			369,025	364,653		
Other subordinated debt:									
Fixed-rate	2016 - 2018	221	219	6.60		221	218	6.60	
Zero-coupon	2019	332	203	10.51		332	184	10.51	
Total other subordinated debt		553	422			553	402		
Total other long-term debt		$319,359	$315,450	2.02	%	$369,578	$365,055	2.08	%

(1) Includes $5.8 billion and $2.6 billion, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected at December 31, 2014 and 2013.

A portion of our other long-term debt is callable. Callable debt gives us the option to redeem the debt security at par on one or more specified call dates or at any time on or after a specified call date.

Debt Securities of Consolidated Trusts Held by Third Parties

Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts (i.e., single-family PC trusts and certain single-family and multifamily Other

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Guarantee Transactions). Debt securities of consolidated trusts held by third parties are prepayable as the loans that collateralize the debt may prepay without penalty at any time.

The table below summarizes the debt securities of consolidated trusts held by third parties based on underlying mortgage product type.

Table 8.3 — Debt Securities of Consolidated Trusts Held by Third Parties

	December 31, 2014				December 31, 2013			
	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon(1)	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon(1)
	(dollars in millions)				(dollars in millions)			
Single-family:								
30-year or more, fixed-rate	2015 - 2053	$1,018,357	$1,047,302	4.04 %	2014 - 2052	$969,270	$993,683	4.14 %
20-year fixed-rate	2015 - 2035	71,545	73,764	3.74	2014 - 2034	75,910	78,252	3.81
15-year fixed-rate	2015 - 2030	266,117	272,538	3.13	2014 - 2029	270,513	277,018	3.23
Adjustable-rate	2015 - 2047	65,082	66,518	2.62	2014 - 2047	60,683	61,830	2.64
Interest-only	2026 - 2041	17,474	17,524	3.29	2026 - 2041	21,352	21,390	3.70
FHA/VA	2015 - 2044	1,226	1,250	5.42	2014 - 2041	1,284	1,303	5.67
Total single-family		1,439,801	1,478,896			1,399,012	1,433,476	
Multifamily(2)	2017 - 2019	524	577	4.93	2018 - 2019	444	508	4.96
Total debt securities of consolidated trusts held by third parties		$1,440,325	$1,479,473			$1,399,456	$1,433,984	

(1) The effective rate for debt securities of consolidated trusts held by third parties was 3.19% and 3.39% as of December 31, 2014 and 2013, respectively.
(2) Carrying amount includes interest-only securities recorded at fair value.

The table below summarizes the contractual maturities of other long-term debt securities and debt securities of consolidated trusts held by third parties at December 31, 2014.

Table 8.4 — Contractual Maturity of Other Long-Term Debt and Debt Securities of Consolidated Trusts Held by Third Parties

Annual Maturities	Par Value (in millions)
Other long-term debt:	
2015	$58,841
2016	72,503
2017	77,482
2018	30,850
2019	30,671
Thereafter	49,012
Debt securities of consolidated trusts held by third parties(1)	1,440,325
Total	1,759,684
Net discounts, premiums, hedge-related and other basis adjustments(2)	35,239

Total debt securities of consolidated trusts held by third parties and other long-term debt	$1,794,923

(1) Contractual maturities of debt securities of consolidated trusts held by third parties may not represent expected maturity as they are prepayable at any time without penalty.
(2) Other basis adjustments primarily represent changes in fair value attributable to instrument-specific credit risk.

Subordinated Debt Interest and Principal Payments

The terms of certain of our subordinated debt securities provide for us to defer payments of interest in the event we fail to maintain specified capital levels. However, in a September 23, 2008 statement concerning the conservatorship, the Director of FHFA stated that we would continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels.

NOTE 9: DERIVATIVES

Use of Derivatives

We use derivatives primarily to manage the interest rate risk associated with our investments in financial assets and related liabilities. We analyze the interest-rate sensitivity of financial assets and liabilities on a daily basis across a variety of interest-rate scenarios based on market prices, models and economics. We use derivatives to hedge interest-rate sensitivity mismatches between our assets and liabilities. For example, if rates increase and the duration of our assets extends more than the duration of our liabilities, we would rebalance our interest-rate exposure by entering into pay-fixed interest-rate swaps or

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selling Treasury-derivatives. If rates decrease and the duration of our assets shortens more than the duration of our liabilities, we would rebalance our interest-rate exposure by entering into receive-fixed interest-rate swaps or purchasing Treasury-derivatives. When we use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risk, and our overall risk management strategy.

We classify derivatives into three categories: (a) exchange-traded derivatives; (b) cleared derivatives; and (c) OTC derivatives. Exchange-traded derivatives include standardized interest-rate futures contracts and options on futures contracts. Cleared derivatives refer to those interest-rate swaps that the U.S. Commodity Futures Trading Commission has determined are subject to the central clearing requirement of the Dodd-Frank Act. OTC derivatives refer to those derivatives that are neither exchange-traded derivatives nor cleared derivatives.

Types of Derivatives

We principally use the following types of derivatives:

- LIBOR-based interest-rate swaps;
- LIBOR- and Treasury-based options (including swaptions); and
- LIBOR- and Treasury-based exchange-traded futures.

In addition to swaps, futures, and purchased options, our derivative positions include written options and swaptions, commitments, swap guarantees, and credit derivatives.

Written Options and Swaptions

Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed interest rate swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We may, from time to time, write other derivative contracts such as interest-rate futures.

Commitments

We routinely enter into commitments that include our: (a) commitments to purchase and sell investments in securities; (b) commitments to purchase mortgage loans; and (c) commitments to purchase and extinguish or issue debt securities of our consolidated trusts. Most of these commitments are considered derivatives and therefore are subject to the accounting guidance for derivatives and hedging.

Swap Guarantee Derivatives

In connection with some of the guarantee arrangements pertaining to multifamily housing revenue bonds and multifamily pass-through certificates, we may also guarantee the sponsor’s or the borrower’s obligations as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk, which are accounted for as swap guarantee derivatives.

Credit Derivatives

We entered into credit-risk sharing agreements for certain credit enhanced multifamily housing revenue bonds held by third parties in exchange for a monthly fee. In addition, we have purchased mortgage loans containing debt cancellation contracts, which provide for mortgage debt or payment cancellation for borrowers who experience unanticipated losses of income dependent on a covered event. The rights and obligations under these agreements have been assigned to the servicers. However, in the event the servicer does not perform as required by contract we would be obligated under our guarantee to make the required contractual payments.

For a discussion of our significant accounting policies related to derivatives, see “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Derivatives.”

Derivative Assets and Liabilities at Fair Value

The table below presents the notional value and fair value of derivatives reported on our consolidated balance sheets.

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Table 9.1 — Derivative Assets and Liabilities at Fair Value

	December 31, 2014			December 31, 2013		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
		Assets	Liabilities		Assets	Liabilities
	(in millions)					
Total derivative portfolio						
Derivatives not designated as hedging instruments under the accounting guidance for derivatives and hedging						
Interest-rate swaps:						
Receive-fixed	$205,219	$5,243	$(487)	$281,727	$4,475	$(2,438)
Pay-fixed	213,325	408	(12,829)	242,597	5,540	(10,879)
Basis (floating to floating)	300	2	—	300	4	—
Total interest-rate swaps	418,844	5,653	(13,316)	524,624	10,019	(13,317)
Option-based:						
Call swaptions						
Purchased	56,390	3,315	—	59,290	2,373	—
Written	10,660	—	(90)	5,945	—	(201)
Put Swaptions						
Purchased	22,125	179	—	33,410	698	—
Written	3,560	—	(9)	—	—	—
Other option-based derivatives(1)	19,733	730	(28)	23,365	1,041	(3)
Total option-based	112,468	4,224	(127)	122,010	4,112	(204)
Futures	40,263	—	—	50,270	—	—
Foreign-currency swaps	—	—	—	528	39	—
Commitments	27,054	40	(79)	18,731	61	(69)
Credit derivatives	5,207	27	(11)	5,386	—	(6)
Swap guarantee derivatives	3,204	—	(27)	3,477	—	(31)
Total derivatives not designated as hedging instruments	607,040	9,944	(13,560)	725,026	14,231	(13,627)
Derivative interest receivable (payable)		817	(1,500)		1,243	(1,835)
Netting adjustments(2)		(9,939)	13,097		(14,411)	15,282
Total derivative portfolio, net	$607,040	$822	$(1,963)	$725,026	$1,063	$(180)

(1) Primarily includes purchased interest-rate caps and floors and options on Treasury futures.

(2) Represents counterparty netting and cash collateral netting. Net cash collateral posted was $3.2 billion and $871 million at December 31, 2014 and 2013, respectively.

The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable and net trade/settle receivable or payable, and is net of cash collateral held or posted, where allowable. Derivatives in a net asset position are reported as derivative assets, net. Similarly, derivatives in a net liability position are reported as derivative liabilities, net.

See “NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES” for information related to our derivative counterparties and collateral held and posted.

Gains and Losses on Derivatives

The table below presents the gains and losses on derivatives, including the accrual of periodic cash settlements, reported in our consolidated statements of comprehensive income as derivate gains (losses).

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Table 9.2 — Gains and Losses on Derivatives

Derivatives not designated as hedging instruments under the accounting guidance for derivatives and hedging	Derivative Gains (Losses) Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Interest-rate swaps:			
Receive-fixed			
Foreign-currency denominated	$(1)	$(21)	$(33)
U.S. dollar denominated	4,074	(10,400)	2,686
Total receive-fixed swaps	4,073	(10,421)	2,653
Pay-fixed	(11,366)	19,021	(2,865)
Basis (floating to floating)	(1)	(2)	8
Total interest-rate swaps	(7,294)	8,598	(204)
Option based:			
Call swaptions			
Purchased	2,355	(2,547)	1,365
Written	(168)	546	(38)
Put swaptions			
Purchased	(1,006)	(8)	(273)
Written	8	—	6
Other option-based derivatives[1]	248	(413)	190
Total option-based	1,437	(2,422)	1,250
Futures	(54)	21	12
Foreign-currency swaps	(7)	30	(8)
Commitments	239	(131)	298
Credit derivatives	8	(3)	—
Swap guarantee derivatives	8	9	7
Other	(3)	(3)	(1)
Subtotal	(5,666)	6,099	1,354
Accrual of periodic settlements:			
Receive-fixed interest-rate swaps	3,033	3,764	3,511
Pay-fixed interest-rate swaps	(5,660)	(7,233)	(7,318)
Foreign-currency swaps	—	—	4
Other	2	2	1
Total accrual of periodic settlements	(2,625)	(3,467)	(3,802)
Total	$(8,291)	$2,632	$(2,448)

(1) Primarily includes purchased interest-rate caps and floors and options on Treasury futures.

Hedge Designation of Derivatives

At December 31, 2014 and 2013, we did not have any derivatives in hedge accounting relationships; however, there are deferred net losses recorded in AOCI related to closed cash flow hedges. Net deferred gains and losses on closed cash flow hedges (i.e., where the derivative is either terminated or redesignated) are included in AOCI until the related forecasted transaction affects earnings or is determined to be probable of not occurring. Amounts reclassified from AOCI linked to interest payments on other debt are recorded in other debt interest expense and amounts not linked to interest payments on other debt are recorded in expense related to derivatives. In the years ended December 31, 2014 and 2013, we reclassified from AOCI into earnings, losses of $303 million and $460 million, respectively, related to closed cash flow hedges. See "NOTE 11: STOCKHOLDERS' EQUITY — Accumulated Other Comprehensive Income — Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges" for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

NOTE 10: COLLATERAL AND OFFSETTING OF ASSETS AND LIABILITIES

Derivative Portfolio

Derivative Counterparties

Our use of cleared derivatives, exchange-traded derivatives, and OTC derivatives exposes us to institutional credit risk. The requirement that we post initial and variation margin in connection with cleared and exchange-traded derivatives, such as cleared interest-rate swaps and futures contracts, exposes us to institutional credit risk in the event that our clearing members or the financial clearinghouses fail to meet their obligations. The use of cleared and exchange-traded derivatives decreases our credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties. OTC

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derivatives expose us to the credit risk of individual counterparties because transactions are executed and settled between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its obligations.

Our use of interest rate swaps and option-based derivatives is subject to internal credit and legal reviews. On an ongoing basis, we review the credit fundamentals of all of our derivative counterparties, clearinghouses, and clearing members to confirm that they continue to meet our internal risk management standards.

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our derivative counterparties for interest-rate swap and option-based derivatives. Master netting agreements provide for the netting of amounts receivable and payable from an individual counterparty, which reduces our exposure to a single counterparty in the event of default. On a daily basis, the market value of each counterparty's derivatives outstanding is calculated to determine the amount of our net credit exposure, which is equal to derivatives in a net gain position by counterparty after giving consideration to collateral posted.

Our collateral agreements require most counterparties to post collateral to us for the amount of our net exposure to them above the counterparty's collateral posting threshold. Collateral posting thresholds are tied to a counterparty's credit rating. Bilateral collateral agreements are in place for all of our active OTC derivative counterparties. For OTC derivatives, we are subject to collateral posting thresholds based on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The amount of margin we must post for cleared and exchange-traded derivatives may be based, in part, on S&P or Moody's credit rating of our long-term senior unsecured debt securities. The lowering or withdrawal of our credit rating by S&P or Moody's may increase our obligation to post collateral, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions. Collateral is typically transferred within one business day based on the values of the related derivatives. This time lag in posting collateral can affect our net uncollateralized exposure to derivative counterparties.

Collateral posted by a derivative counterparty is typically in the form of cash, although U.S. Treasury securities and Freddie Mac mortgage-related securities may also be posted. In the event a counterparty defaults on its obligations under the derivatives agreement and the default is not remedied in the manner prescribed in the agreement, we have the right under the agreement to direct the custodian bank to transfer the collateral to us or to sell the collateral and transfer the proceeds to us. At December 31, 2014 and 2013, all amounts of cash collateral related to derivatives with master netting and collateral agreements were offset against derivative assets, net or derivative liabilities, net, as applicable.

Our net uncollateralized exposure to derivative counterparties for OTC interest-rate swap, option-based, and foreign-currency swap derivatives was $174 million and $188 million at December 31, 2014 and 2013, respectively. In the event that all of our counterparties for these derivatives were to have defaulted simultaneously on December 31, 2014, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately $174 million. Three counterparties each accounted for greater than 10% and collectively accounted for 81% of our net uncollateralized exposure to derivative counterparties, excluding cleared and exchange-traded derivatives, commitments, swap guarantee derivatives, certain written options, and certain credit derivatives at December 31, 2014. All three of these counterparties, JP Morgan Chase Bank, Barclays Bank PLC, and UBS AG, were rated "A" or above using the lower of S&P's or Moody's rating stated in terms of the S&P equivalent as of December 31, 2014.

Beginning with contracts executed or modified on or after June 10, 2013, the types of interest-rate swaps that we use most frequently became subject to the central clearing requirement. Our exposure to cleared and exchange-traded derivatives was $128 million and $382 million as of December 31, 2014 and 2013, respectively, which includes consideration of the cash collateral that has been posted for initial and variation margin. We net our exposure to cleared derivatives by clearinghouse and clearing member. Exchange-traded derivatives are settled on a daily basis through the payment of variation margin. We post initial and variation margin in connection with our cleared and exchange-traded derivatives. For information about margin we have posted in connection with cleared and exchange-traded derivatives, see "— Collateral Pledged."

The total exposure on our forward purchase and sale commitments, which are treated as derivatives, was $40 million and $61 million at December 31, 2014 and 2013, respectively. Many of our transactions involving forward purchase and sale commitments of mortgage-related securities, including our dollar roll transactions, utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation ("MBSD/FICC") as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization.

The table below displays information related to derivatives and securities purchased under agreements to resell on our consolidated balance sheets.

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Table 10.1 — Offsetting of Financial Assets and Liabilities

	December 31, 2014				
	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets[1]	Gross Amount Not Offset in the Consolidated Balance Sheets[2]	Net Amount
	(in millions)				
Assets:					
Derivatives:					
Over-the-counter interest-rate swaps and option-based derivatives	$10,315	$ (9,688)	$ 627	$ (453)	$174
Cleared and exchange-traded derivatives	379	(251)	128	—	128
Other	67	—	67	—	67
Total derivatives	10,761	(9,939)	822	(453)	369
Securities purchased under agreements to resell	51,903	—	51,903	(51,903)	—
Total	$62,664	$ (9,939)	$ 52,725	$ (52,356)	$369
Liabilities:					
Derivatives:					
Over-the-counter interest-rate swaps and option-based derivatives	$(10,666)	$ 8,845	$ (1,821)	$ 1,743	$(78)
Cleared and exchange-traded derivatives	(4,277)	4,252	(25)	—	(25)
Other	(117)	—	(117)	—	(117)
Total	$(15,060)	$ 13,097	$ (1,963)	$ 1,743	$(220)

	December 31, 2013				
	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets[1]	Gross Amount Not Offset in the Consolidated Balance Sheets[2]	Net Amount
	(in millions)				
Assets:					
Derivatives:					
Over-the-counter interest-rate and foreign-currency swaps, and option-based derivatives	$13,886	$ (13,266)	$ 620	$ (432)	$188
Cleared and exchange-traded derivatives	1,527	(1,145)	382	—	382
Other	61	—	61	—	61
Total derivatives	15,474	(14,411)	1,063	(432)	631
Securities purchased under agreements to resell	62,383	—	62,383	(62,383)	—
Total	$77,857	$ (14,411)	$ 63,446	$ (62,815)	$631
Liabilities:					
Derivatives:					

Over-the-counter interest-rate and foreign-currency swaps, and option-based derivatives	$(14,616)	$ 14,545	$ (71)	$ —	$(71)
Cleared and exchange-traded derivatives	(737)	737	—	—	—
Other	(109)	—	(109)	—	(109)
Total	$(15,462)	$ 15,282	$ (180)	$ —	$(180)

(1) For derivatives, includes cash collateral posted or held in excess of exposure.

(2) Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability presented on the consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us with an aggregate fair value of $2.3 billion and $0.6 billion as of December 31, 2014 and 2013, respectively.

Collateral Pledged

Collateral Pledged to Freddie Mac

Our counterparties are required to pledge collateral for transactions involving securities purchased under agreements to resell. Also, most derivative instruments are subject to collateral posting thresholds as prescribed by the collateral agreements with our counterparties. Under the derivative collateral agreements, U.S. Treasury securities, Freddie Mac mortgage-related securities, and cash may be pledged. We consider the types of securities being pledged to us as collateral when determining how much we lend in transactions involving securities purchased under agreements to resell. Additionally, we regularly review the market values of these securities compared to amounts loaned and derivative counterparty collateral posting thresholds in an effort to manage our exposure to losses.

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We had cash and cash equivalents pledged to us related to OTC derivative instruments of $2.1 billion and $1.9 billion at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, we had $453 million and $432 million, respectively, of collateral in the form of securities pledged to and held by us related to OTC derivative instruments. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master netting agreements related to our derivative instruments. In addition, we had $0 million and $646 million of cash pledged to us related to cleared derivatives at December 31, 2014 and 2013, respectively.

Also, at December 31, 2014 and 2013, we had $0 billion and $5 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell that we had the right to repledge. From time to time we may obtain pledges of collateral from certain seller/servicers as additional security for certain of their obligations to us, including their obligations to repurchase mortgages sold to us in breach of representations and warranties. This collateral may, at our discretion, take the form of cash, cash equivalents, or agency securities.

We did not hold any federal funds sold at December 31, 2014 and 2013.

Collateral Pledged by Freddie Mac

We are required to pledge collateral for margin requirements with third-party custodians in connection with secured financings and derivative transactions with some counterparties. The amount of collateral pledged related to our derivative instruments is determined after giving consideration to our credit rating.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on December 31, 2014, was $3.0 billion for which we posted cash and non-cash collateral of $3.0 billion in the normal course of business. Since we were fully collateralized as of December 31, 2014, we would not have been required to post additional collateral on that day if the credit-risk-related contingent features underlying these agreements were triggered.

The table below summarizes all securities pledged as collateral by us, including assets that the secured party may repledge.

Table 10.2 — Collateral in the Form of Securities Pledged

	December 31, 2014	December 31, 2013
	(in millions)	
Securities pledged with the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties[1]	$2,539	$10,654
Available-for-sale securities	9	70
Trading securities	1,884	365
Total securities pledged	$4,432	$11,089

(1) Represents PCs held by us in our Investments segment mortgage investments portfolio and pledged as collateral which are recorded as a reduction to debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

Securities Pledged with the Ability of the Secured Party to Repledge

At December 31, 2014, we pledged securities with the ability of the secured party to repledge of $4.4 billion in connection with derivatives and securities transactions.

At December 31, 2013, we pledged securities with the ability of the secured party to repledge of $11.1 billion, of which $10.5 billion was collateral posted in connection with our secured uncommitted intraday line of credit with a third party. This line of credit expired in July 2014. Of the remainder at December 31, 2013, we pledged $0.6 billion in connection with derivative transactions.

Cash Pledged

At December 31, 2014, we pledged $5.4 billion of collateral in the form of cash and cash equivalents, of which $1.2 billion related to our OTC derivative agreements as we had $3.0 billion of such derivatives in a net loss position. The remaining $4.2 billion was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at December 31, 2014.

At December 31, 2013, we pledged $3.4 billion of collateral in the form of cash and cash equivalents, of which $3.2 billion related to our OTC derivative agreements as we had $3.2 billion of such derivatives in a net loss position. The remaining $275 million was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at December 31, 2013.

NOTE 11: STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income

The table below presents changes in AOCI after the effects of our 35% federal statutory tax rate related to available-for-sale securities, closed cash flow hedges, and our defined benefit plans.

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Table 11.1 — Changes in AOCI by Component, Net of Tax

	Year Ended December 31, 2014			
	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
	(in millions)			
Beginning balance	$962	$(1,000)	$32	$(6)
Other comprehensive income before reclassifications[1]	2,087	—	(43)	2,044
Amounts reclassified from accumulated other comprehensive income	(503)	197	(2)	(308)
Changes in AOCI by component	1,584	197	(45)	1,736
Ending balance	$2,546	$(803)	$(13)	$1,730

	Year Ended December 31, 2013			
	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
	(in millions)			
Beginning balance	$(1,444)	$(1,316)	$(178)	$(2,938)
Other comprehensive income before reclassifications[1]	2,659	—	169	2,828
Amounts reclassified from accumulated other comprehensive income	(253)	316	41	104
Changes in AOCI by component	2,406	316	210	2,932
Ending balance	$962	$(1,000)	$32	$(6)

(1) For the years ended December 31, 2014 and 2013, net of tax expense of $1.1 billion and $1.4 billion, respectively, for AOCI related to available-for-sale securities.

Reclassifications from AOCI to Net Income

The table below presents reclassifications from AOCI to net income, including the affected line item in our consolidated statements of comprehensive income.

Table 11.2 — Reclassifications from AOCI to Net Income

Details about Accumulated Other Comprehensive Income Components	Three Months Ended December 31,		Year Ended December 31,		Affected Line Item in the Consolidated Statements of Comprehensive Income
	2014	2013	2014	2013	
	(in millions)				
AOCI related to available-for-sale securities					
	$500	$717	$1,712	$1,899	Other gains (losses) on investment securities recognized in earnings
	(251)	(1,297)	(938)	(1,510)	Net impairment of available-for-sale securities recognized in earnings
	249	(580)	774	389	Total before tax
	(87)	203	(271)	(136)	Tax (expense) or benefit
	162	(377)	503	253	Net of tax
AOCI related to cash flow hedge relationships					

	—	—	(2)	(5)	Interest expense — Other debt
	(71)	(95)	(301)	(455)	Expense related to derivatives
	(71)	(95)	(303)	(460)	Total before tax
	25	29	106	144	Tax (expense) or benefit
	(46)	(66)	(197)	(316)	Net of tax
AOCI related to defined benefit plans					
	1	8	4	2	Salaries and employee benefits
	(1)	(43)	(2)	(43)	Tax (expense) or benefit
	—	(35)	2	(41)	Net of tax
Total reclassifications in the period	$116	$(478)	$308	$(104)	Net of tax

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Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges

As shown in "Table 11.1 — Changes in AOCI by Component, Net of Tax," the total AOCI related to derivatives designated as cash flow hedges was a loss of \$0.8 billion and \$1.0 billion at December 31, 2014 and 2013, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges. The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately \$166 million, net of taxes, of the \$0.8 billion of cash flow hedge losses in AOCI at December 31, 2014 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 19 years.

Issuance of Senior Preferred Stock

Pursuant to the Purchase Agreement described in "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS," we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury's commitment to provide funds to us under the Purchase Agreement.

Shares of the senior preferred stock have a par value of \$1, and have a stated value and initial liquidation preference equal to \$1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances. As discussed in "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Purchase Agreement," the quarterly commitment fee has been suspended.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013. Total dividends paid in cash during 2014, 2013, and 2012 at the direction of the Conservator were \$19.6 billion, \$47.6 billion, and \$7.2 billion, respectively. See "NOTE 2: CONSERVATORSHIP AND RELATED MATTERS" for a discussion of our net worth sweep dividend.

The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless: (a) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (b) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of: (a) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (b) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

The table below provides a summary of our senior preferred stock outstanding at December 31, 2014.

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Table 11.3 — Senior Preferred Stock

Draw Date	Shares Authorized	Shares Outstanding	Total Par Value	Initial Liquidation Preference Price per Share	Total Liquidation Preference
	(in millions, except initial liquidation preference price per share)				
September 8, 2008	1.00	1.00	$1.00	$1,000	$1,000
November 24, 2008	—	—	—	N/A	13,800
March 31, 2009	—	—	—	N/A	30,800
June 30, 2009	—	—	—	N/A	6,100
June 30, 2010	—	—	—	N/A	10,600
September 30, 2010	—	—	—	N/A	1,800
December 30, 2010	—	—	—	N/A	100
March 31, 2011	—	—	—	N/A	500
September 30, 2011	—	—	—	N/A	1,479
December 30, 2011	—	—	—	N/A	5,992
March 30, 2012	—	—	—	N/A	146
June 29, 2012	—	—	—	N/A	19
Total, senior preferred stock	1.00	1.00	$1.00		$72,336

No cash was received from Treasury under the Purchase Agreement in 2014, because we had positive net worth at December 31, 2013, March 31, 2014, June 30, 2014, and September 30, 2014 and, consequently, FHFA did not request a draw on our behalf. At December 31, 2014, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. Our quarterly senior preferred stock dividend is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds the applicable Capital Reserve Amount, which was established at $3 billion for 2013 and declines to zero in 2018. Based on our Net Worth Amount at December 31, 2014 and the Capital Reserve Amount of $1.8 billion in 2015, our dividend obligation to Treasury in March 2015 will be $851 million. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS — Government Support for our Business” for additional information. The aggregate liquidation preference on the senior preferred stock owned by Treasury was $72.3 billion and $72.3 billion as of December 31, 2014 and 2013, respectively. See “NOTE 18: REGULATORY CAPITAL” for additional information.

Common Stock Warrant

Pursuant to the Purchase Agreement described in “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS,” on September 7, 2008, we issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial consideration of Treasury’s commitment to provide funds to us under the terms set forth in the Purchase Agreement.

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person.

We account for the warrant in permanent equity. At issuance on September 7, 2008, we recognized the warrant at fair value, and we do not recognize subsequent changes in fair value while the warrant remains classified in equity. We recorded an aggregate fair value of $2.3 billion for the warrant as a component of additional paid-in-capital. We derived the fair value of the warrant using a modified Black-Scholes model. If the warrant is exercised, the stated value of the common stock issued will be reclassified to common stock in our consolidated balance sheets. The warrant was determined to be in-substance non-voting common stock, because the warrant's exercise price of $0.00001 per share is considered non-substantive (compared to the market price of our common stock). As a result, the shares associated with the warrant are included in the computation of basic and diluted earnings (loss) per share. The weighted average shares of common stock outstanding for the years ended December 31, 2014, 2013, and 2012, respectively, included shares of common stock that would be issuable upon full exercise of the warrant issued to Treasury.

Preferred Stock

The table below provides a summary of our preferred stock outstanding at their redemption values at December 31, 2014. We have the option to redeem our preferred stock on specified dates, at their redemption price plus dividends accrued through the redemption date. However, without the consent of Treasury, we are restricted from making payments to purchase or redeem

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preferred stock as well as paying any preferred dividends, other than dividends on the senior preferred stock. In addition, all 24 classes of preferred stock are perpetual and non-cumulative, and carry no significant voting rights or rights to purchase additional Freddie Mac stock or securities. Costs incurred in connection with the issuance of preferred stock are charged to additional paid-in capital.

Table 11.4 — Preferred Stock

	Issue Date	Shares Authorized	Shares Outstanding	Total Par Value	Redemption Price per Share	Total Outstanding Balance	Redeemable On or After	OTCQB Symbol
Preferred stock:		(in millions, except redemption price per share)						
1996 Variable-rate(1)	April 26, 1996	5.00	5.00	$ 5.00	$ 50.00	$ 250	June 30, 2001	FMCCI
5.81%	October 27, 1997	3.00	3.00	3.00	50.00	150	October 27, 1998	(2)
5%	March 23, 1998	8.00	8.00	8.00	50.00	400	March 31, 2003	FMCKK
1998 Variable-rate(3)	September 23 and 29, 1998	4.40	4.40	4.40	50.00	220	September 30, 2003	FMCCG
5.10%	September 23, 1998	8.00	8.00	8.00	50.00	400	September 30, 2003	FMCCH
5.30%	October 28, 1998	4.00	4.00	4.00	50.00	200	October 30, 2000	(2)
5.10%	March 19, 1999	3.00	3.00	3.00	50.00	150	March 31, 2004	(2)
5.79%	July 21, 1999	5.00	5.00	5.00	50.00	250	June 30, 2009	FMCCK
1999 Variable-rate(4)	November 5, 1999	5.75	5.75	5.75	50.00	287	December 31, 2004	FMCCL
2001 Variable-rate(5)	January 26, 2001	6.50	6.50	6.50	50.00	325	March 31, 2003	FMCCM
2001 Variable-rate(6)	March 23, 2001	4.60	4.60	4.60	50.00	230	March 31, 2003	FMCCN
5.81%	March 23, 2001	3.45	3.45	3.45	50.00	173	March 31, 2011	FMCCO
6%	May 30, 2001	3.45	3.45	3.45	50.00	173	June 30, 2006	FMCCP
2001 Variable-rate(7)	May 30, 2001	4.02	4.02	4.02	50.00	201	June 30, 2003	FMCCJ
5.70%	October 30, 2001	6.00	6.00	6.00	50.00	300	December 31, 2006	FMCKP
5.81%	January 29, 2002	6.00	6.00	6.00	50.00	300	March 31, 2007	(2)
2006 Variable-rate(8)	July 17, 2006	15.00	15.00	15.00	50.00	750	June 30, 2011	FMCCS
6.42%	July 17, 2006	5.00	5.00	5.00	50.00	250	June 30, 2011	FMCCT
5.90%	October 16, 2006	20.00	20.00	20.00	25.00	500	September 30, 2011	FMCKO
5.57%	January 16, 2007	44.00	44.00	44.00	25.00	1,100	December 31, 2011	FMCKM
5.66%	April 16, 2007	20.00	20.00	20.00	25.00	500	March 31, 2012	FMCKN
6.02%	July 24, 2007	20.00	20.00	20.00	25.00	500	June 30, 2012	FMCKL

6.55%	September 28, 2007	20.00	20.00	20.00	25.00	500	September 30, 2017	FMCKI
2007 Fixed-to-floating rate(9)	December 4, 2007	240.00	240.00	240.00	25.00	6,000	December 31, 2012	FMCKJ
Total, preferred stock		464.17	464.17	$464.17		$14,109		

(1) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 9.00%.
(2) Issued through private placement.
(3) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 7.50%.
(4) Dividend rate resets on January 1 every five years after January 1, 2005 based on a five-year Constant Maturity Treasury rate, and is capped at 11.00%. Optional redemption on December 31, 2004 and on December 31 every five years thereafter.
(5) Dividend rate resets on April 1 every two years after April 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.10%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every two years thereafter.
(6) Dividend rate resets on April 1 every year based on 12-month LIBOR minus 0.20%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every year thereafter.
(7) Dividend rate resets on July 1 every two years after July 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.20%, and is capped at 11.00%. Optional redemption on June 30, 2003 and on June 30 every two years thereafter.
(8) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 0.50% but not less than 4.00%.
(9) Dividend rate is set at an annual fixed rate of 8.375% from December 4, 2007 through December 31, 2012. For the period beginning on or after January 1, 2013, dividend rate resets quarterly and is equal to the higher of: (a) the sum of three-month LIBOR plus 4.16% per annum; or (b) 7.875% per annum. Optional redemption on December 31, 2012, and on December 31 every five years thereafter.

Stock-Based Compensation

Following the implementation of the conservatorship in September 2008, we suspended the operation of our ESPP, and are no longer making grants under our 2004 Employee Plan or our Directors' Plan. We collectively refer to the 2004 Employee Plan and the 1995 Employee Plan as the Employee Plans. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2014 and 2013, except for issuances of treasury stock as reported on our consolidated statements of equity relating to stock-based compensation granted prior to conservatorship. Common stock delivered under these stock-based compensation plans consists of treasury stock or shares acquired in market transactions on behalf of the participants. During 2014, restrictions lapsed on 6,610

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restricted stock units. At December 31, 2014, 13,731 restricted stock units remained outstanding. There are no remaining restrictions on outstanding restricted stock units. In addition, there were 41,160 shares of restricted stock outstanding at both December 31, 2014 and 2013. No stock options were exercised and 457,430 stock options were forfeited or expired during 2014. At December 31, 2014, 359,005 stock options were outstanding.

For purposes of the earnings-per-share calculation, antidilutive potential common shares excluded from the computation of dilutive potential common shares were 494,227, 998,707, and 1,606,097 at December 31, 2014, 2013, and 2012, respectively.

Dividends Declared

No common dividends were declared in 2014. During the three months ended March 31, 2014, June 30, 2014, September 30, 2014, and December 31, 2014 we paid dividends of $10.4 billion, $4.5 billion, $1.9 billion, and $2.8 billion, respectively, in cash on the senior preferred stock at the direction of our Conservator. We did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during 2014.

Delisting of Common Stock and Preferred Stock from NYSE

On July 8, 2010, we delisted our common and 20 previously listed classes of preferred stock from the NYSE pursuant to a directive by our Conservator.

Our common stock and the classes of preferred stock that were previously listed on the NYSE are traded exclusively in the OTCQB Marketplace. Shares of our common stock now trade under the ticker symbol FMCC. We expect that our common stock and the previously listed classes of preferred stock will continue to trade in the OTCQB Marketplace so long as market makers demonstrate an interest in trading the common and preferred stock.

NOTE 12: INCOME TAXES

Income Tax (Expense) Benefit

The table below presents the components of our federal income tax (expense) benefit for 2014, 2013, and 2012. We are exempt from state and local income taxes.

Table 12.1 — Federal Income Tax (Expense) Benefit

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Current income tax (expense) benefit	$(1,028)	$(117)	$1,540
Deferred income tax (expense) benefit	(2,284)	23,422	(3)
Total income tax (expense) benefit	$(3,312)	$23,305	$1,537

Our income tax benefit for 2013 primarily relates to the release of the valuation allowance against our net deferred tax assets.

The table below presents a reconciliation between our federal statutory income tax rate and our effective tax rate for 2014, 2013 and 2012.

Table 12.2 — Reconciliation of Statutory to Effective Tax Rate

	Year Ended December 31,					
	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in millions)					
Statutory corporate tax rate	$(3,851)	35.0 %	$(8,877)	35.0 %	$(3,306)	35.0 %
Tax-exempt interest	73	(0.7)	101	(0.4)	133	(1.4)
Tax credits	438	(4.0)	495	(2.0)	536	(5.7)
Valuation allowance:						
Current year activity	—	—	5,156	(20.3)	2,637	(27.9)
Release of valuation allowance	—	—	26,369	(104.0)	—	—
Unrecognized tax benefits	—	—	—	—	1,205	(12.8)
Other	—	—	138	(0.5)	45	(0.5)
Total valuation allowance	—	—	31,663	(124.8)	3,887	(41.2)

Other	28	(0.2)	(77)	0.3	287	(3.0)
Effective tax rate	$(3,312)	30.1 %	$23,305	(91.9)%	$1,537	(16.3)%

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In 2014, our effective tax rate differed from the statutory rate of 35% primarily due to our recognition of low income housing tax credits. In 2013, our effective tax rate differed from the statutory rate primarily due to the release of the valuation allowance against our net deferred tax assets. In 2012, our effective tax rate differed from the statutory tax rate primarily due to the valuation allowance on a portion of our net deferred tax assets and the recognition of uncertain tax positions.

Deferred Tax Assets and Liabilities

The table below presents the balance of significant deferred tax assets and liabilities at December 31, 2014 and 2013.

Table 12.3 — Deferred Tax Assets and Liabilities

	2014	2013
	(in millions)	
Deferred tax assets:		
Deferred fees	$6,245	$5,035
Basis differences related to derivative instruments	7,059	6,946
Credit related items and allowance for loan losses	2,311	3,648
Basis differences related to assets held for investment(1)	1,902	—
LIHTC and AMT credit carryforward	3,465	3,997
Net operating loss carryforward	—	3,978
Other items, net	10	40
Total deferred tax assets	20,992	23,644
Deferred tax liabilities:		
Basis differences related to assets held for investment(1)	—	(375)
Unrealized gains related to available-for-sale securities	(1,371)	(518)
Basis differences related to debt	(123)	(35)
Total deferred tax liabilities	(1,494)	(928)
Deferred tax assets, net	$19,498	$22,716

(1) Includes a basis adjustment on seriously delinquent loans, which offsets a portion of the deferred tax asset for credit related items and the allowance for loan losses.

During 2013, we released our valuation allowance previously recorded on our net deferred tax asset.

As of December 31, 2014, we had a LIHTC carryforward of $3.0 billion that will expire over multiple years beginning in 2028. Our AMT credit carryforward of $433 million will not expire.

Valuation Allowance

On a quarterly basis, we determine whether a valuation allowance is necessary on our net deferred tax asset. In doing so, we consider all evidence available, both positive and negative, in determining whether, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. In conducting our assessment at December 31, 2014, we evaluated all available objective evidence including, but not limited to: (a) our three-year cumulative income position; (b) the trend of our financial and tax results; (c) the amount of taxable income reported in our 2013 federal income tax return; (d) our tax credit carryforward and the length of the carryforward period available to utilize this asset under current tax law; and (e) our access to capital under the agreements associated with conservatorship. Furthermore, we evaluated all available subjective evidence, including but not limited to: (a) difficulty in predicting unsettled circumstances related to the conservatorship; (b) our estimated 2014 taxable income; and (c) forecasts of future book and tax income. Our consideration of the evidence requires significant judgment regarding estimates and assumptions that are inherently uncertain, particularly about our future business structure and financial results.

We are not permitted to consider the impacts proposed legislation may have on our business operations or the mortgage industry in our analysis because the timing and certainty of those actions are unknown and beyond our control.

The positive evidence at December 31, 2014, that outweighed the negative evidence included the following:

- Our three-year cumulative income position;
- The 2013 taxable income reported in our federal tax return which was filed in 2014;

- Our forecasted 2014 and future period taxable income;
- Our LIHTC carryforwards do not begin to expire until 2028; and
- The continuing positive trend in the housing market.

At December 31, 2014, we determined that the positive evidence related to the realizability of our deferred tax assets, particularly the evidence that was objectively verifiable, outweighed the negative evidence. Accordingly, we concluded that it is

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more likely than not that our deferred tax assets will be realized and determined that a valuation allowance against our net deferred tax asset was not necessary at December 31, 2014.

On February 2, 2015, the Administration submitted the full year 2016 U.S. budget to Congress. Included within the budget is a proposal to reduce the top U.S. corporate tax rate. If enacted, a reduction in the corporate tax rate would result in a charge representing the reduction in the realizable value of our net deferred tax asset.

In future quarters we will continue to evaluate our ability to realize the net deferred tax asset. If evidence in future periods changes such that it is more likely than not that part or all of the net deferred tax asset will not be realized, we will reestablish a valuation allowance at that time.

Unrecognized Tax Benefits and IRS Examinations

We have evaluated all income tax positions and determined that there are no uncertain tax positions that require reserves as of December 31, 2014.

The IRS has examined our income tax returns for tax years 2008 through 2011. We are currently working with the IRS to finalize the stipulation of settled issues and closing agreement for years 1998 through 2010 related to our tax accounting method for certain hedging transactions, and expect that a final decision can be entered within the next 12 months. For additional information, see “NOTE 17: LEGAL CONTINGENCIES.”

We have accrued gross interest receivable of $535 million and $529 million as of December 31, 2014 and 2013, respectively, related to payments on account with the IRS. We anticipate refunds of accrued interest receivable upon final settlement of the Statutory Notices for the 1998 to 2005 tax years.

For a discussion of our significant accounting policies related to income taxes, please see “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

NOTE 13: SEGMENT REPORTING

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. See “NOTE 2: CONSERVATORSHIP AND RELATED MATTERS” for additional information about the conservatorship.

We present Segment Earnings by: (a) reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP consolidated statements of comprehensive income; and (b) allocating certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments. The reclassifications and the allocations are described below.

We do not consider our assets by segment when evaluating segment performance or allocating resources. We operate our business solely in the U.S. and its territories. Therefore, we do not generate any revenue from and do not have any long-lived assets other than financial instruments in geographic locations outside of the U.S. and its territories.

Segments

We have three reportable segments, which are based on the type of business activities each performs — Single-family Guarantee, Investments, and Multifamily. The chart below provides a summary of our three reportable segments and the All Other category as of December 31, 2014. Certain immaterial changes were made to our Segment Earnings definitions in 2014. As reflected in the chart, certain activities that are not part of a reportable segment are included in the All Other category. The All Other category consists of material corporate level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods.

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Segment	Description	Activities/Items
Single-family Guarantee	The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase and guarantee single-family mortgage loans originated by our seller/servicers in the primary mortgage market and manage our seriously delinquent loans. In most instances, we use the mortgage securitization process to package the mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Segment Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront fees, less credit-related expenses, administrative expenses, allocated funding costs, and amounts related to net float benefits or expenses.	• Management and guarantee fees on PCs, including those retained by us, and single-family mortgage loans in the mortgage investments portfolio, inclusive of up-front credit delivery and buy-down fees • Recognition and remittance to Treasury of guarantee fees resulting from the 10 basis point legislated increase • Adjustments for the price performance of our PCs relative to comparable Fannie Mae securities • Costs and recoveries of risk transfer transactions • Credit losses on all single-family assets • Guarantee buy-downs • Expected net float income or expense on the single-family credit guarantee portfolio • Tax expense/benefit and changes in the deferred tax asset valuation allowance (if any) • Allocated debt costs, administrative expenses and taxes • Representation and warranty settlements
Investments	The Investments segment reflects results from three primary activities: (a) managing the company's mortgage-related investments portfolio, excluding Multifamily segment investments and single-family seriously delinquent loans; (b) managing the treasury function for the entire company, including funding and liquidity; and (c) managing interest-rate risk for the entire company. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans. Segment Earnings for this segment consist primarily of the returns on these investments, less the related funding, hedging, and administrative expenses.	• Investments in mortgage-related securities and single-family performing mortgage loans • All other traded instruments / securities, excluding CMBS and multifamily housing revenue bonds • Debt issuances • Interest rate risk management returns • Guarantee buy-ups, net of execution gains / losses • Cash and liquidity management • Tax expense/benefit and changes in the deferred tax asset valuation allowance (if any) • Allocated administrative expenses and taxes • Non-agency mortgage-related securities settlements
Multifamily	The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates. To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. In addition, we guarantee the payment of principal and interest on tax-exempt	• Multifamily mortgage loans held-for-sale and associated securitization activities • Investments in CMBS, multifamily housing revenue bonds, and multifamily mortgage loans held-for-investment • Allocated debt costs, administrative expenses and taxes • Other guarantee commitments on multifamily housing revenue bonds • Other Structured Securities of multifamily housing revenue bonds • Tax expense/benefit and changes in the deferred tax asset valuation allowance (if any)

	multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. Segment Earnings for this segment consist primarily of returns on assets related to multifamily investment activities and management and guarantee fee income, less credit-related expenses, administrative expenses, and allocated funding costs.	
All Other	The All Other category consists of material corporate-level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments.	• Tax settlements, as applicable • Legal settlements, as applicable • Tax expense/benefit and changes in the deferred tax asset valuation allowance (if any), including the release of the deferred tax asset valuation allowance • Termination of our pension plan

Segment Earnings

The financial performance of our Single-family Guarantee segment is measured based on its contribution to GAAP net income (loss). Our Investments segment and Multifamily segment are measured based on each segment's contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes. Taxes for the reportable segments are generally calculated by applying our corporate annual effective tax rate to each segment's pre-tax income.

The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss). Likewise, the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive income (loss). However, the accounting principles we apply to present certain financial statement line items in Segment Earnings for our reportable segments, in particular Segment Earnings management and guarantee income and net interest income, differ significantly from those applied in preparing the comparable line items in our consolidated financial statements prepared in accordance with GAAP. Accordingly, the results of such line items differ significantly from, and should not be used as a substitute for, the comparable line items as determined in accordance with GAAP. For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see “Table 13.2 — Segment Earnings and Reconciliation to GAAP Results.”

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In 2014, we revised our inter-segment allocations between the Multifamily and the Investments segments for the Multifamily segment's investment securities and held-for-sale loans. As a result of this change, the Multifamily segment reflects the entire change in fair value of these assets in its financial results, and the Investments segment transfers the change in fair value of the derivatives associated with the Multifamily segment's investments securities and held-for-sale loans to the Multifamily segment. The purpose of this change is to better reflect the operations of the Multifamily segment on a stand-alone basis. Prior period results have been revised to conform with the current period presentation.

Many of the reclassifications, adjustments and allocations described below relate to the amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs, which we adopted effective January 1, 2010. These amendments require us to consolidate our single-family PC trusts and certain Other Guarantee Transactions, which makes it difficult to view the results of the three operating segments from a GAAP perspective. For example, as a result of the amendments, the net guarantee fee earned on mortgage loans held by our consolidated trusts is included in net interest income on our GAAP consolidated statements of comprehensive income. Through the reclassifications described below, we move the net guarantee fees earned on mortgage loans into Segment Earnings management and guarantee income.

Credit Guarantee Activity-Related Reclassifications

In preparing certain line items within Segment Earnings, we make various reclassifications to earnings determined under GAAP related to our credit-guarantee activities, including those described below. All credit guarantee-related income and costs are included in Segment Earnings management and guarantee income.

- Net guarantee fee is reclassified in Segment Earnings from net interest income to management and guarantee income.
- Implied management and guarantee fee related to unsecuritized mortgage loans held in the mortgage investments portfolio is reclassified in Segment Earnings from net interest income to management and guarantee income.
- The portion of the amount reversed for accrued but uncollected interest upon placing loans on a non-accrual status that relates to guarantee fees is reclassified in Segment Earnings from net interest income to management and guarantee income. The remaining portion of the allowance for lost interest is reclassified in Segment Earnings from net interest income to provision for credit losses.

Investment Activity-Related Reclassifications

In preparing certain line items within Segment Earnings, we make various reclassifications to earnings determined under GAAP related to our investment activities, including those described below. Through these reclassifications, we move certain items into or out of net interest income so that, on a Segment Earnings basis, net interest income reflects how we measure the effective yield earned on securities held in our mortgage investments portfolio and our cash and other investments portfolio.

We use derivatives extensively in our investment activity. The reclassifications described below allow us to reflect, in Segment Earnings net interest income, the costs associated with this use of derivatives.

- The accrual of periodic cash settlements of all derivatives is reclassified in Segment Earnings from derivative gains (losses) into net interest income to fully reflect the periodic cost associated with the protection provided by these contracts.
- Up-front cash paid or received upon the purchase or writing of swaptions and other option contracts is reclassified in Segment Earnings prospectively on a straight-line basis from derivative gains (losses) into net interest income over the contractual life of the instrument to fully reflect the periodic cost associated with the protection provided by these contracts.

Amortization related to certain items is not relevant to how we measure the effective yield earned on the securities held in our investments portfolios. Therefore, as described below, we reclassify these items in Segment Earnings from net interest income to non-interest income.

- Amortization related to derivative commitment basis adjustments associated with mortgage-related and non-mortgage-related securities.
- Amortization related to accretion of other-than-temporary impairments on available-for-sale securities held.
- Amortization related to premiums and discounts associated with PCs and Other Guarantee Transactions issued by our consolidated trusts that we previously held and subsequently transferred to third parties. The amortization is related to

deferred gains (losses) on transfers of these securities.

Segment Adjustments

In presenting Segment Earnings management and guarantee income and net interest income, we make adjustments to better reflect how management measures and assesses the performance of each segment and the company as a whole. These adjustments relate to amounts that are not reflected in net income (loss) as determined in accordance with GAAP. These adjustments are reversed through the segment adjustments line item within Segment Earnings, so that Segment Earnings (loss) for each segment equals GAAP net income (loss) for each segment. Segment adjustments consist of the following:

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- We adjust our Segment Earnings management and guarantee income for the Single-family Guarantee segment to include the amortization of buy-down fees and credit delivery fees recorded in periods prior to the January 1, 2010 adoption of accounting guidance for the transfers of financial assets and the consolidation of VIEs. As of December 31, 2014, the unamortized balance of buy-down fees was $0.3 billion and the unamortized balance of credit delivery fees was $0.7 billion. We consider such fees to be part of the effective rate of the guarantee fee on guaranteed mortgage loans. These adjustments are necessary to better reflect the realization of revenue associated with guarantee contracts over the life of the underlying loans.
- We adjust our Segment Earnings net interest income for the Investments segment to include the amortization of cash premiums and discounts, as well as buy-up fees, on the consolidated Freddie Mac mortgage-related securities we purchase as investments. As of December 31, 2014, the unamortized balance of such premiums and discounts, net was $3.5 billion and the unamortized balance of buy-up fees was $0.4 billion. These adjustments are necessary to reflect the effective yield realized on investments in consolidated Freddie Mac mortgage-related securities purchased at a premium or discount or with buy-up fees.

Segment Allocations

The results of each reportable segment include directly attributable revenues and expenses. Administrative expenses that are not directly attributable to a segment are allocated to our segments using various methodologies, depending on the nature of the expense (i.e., semi-direct versus indirect). Net interest income for each segment includes allocated debt funding and hedging costs related to certain assets of each segment. The Investments segment manages the funding and interest rate risk for all business segments. In connection with this activity, the Investments segment transfers a cost to the other segments. The actual costs may vary relative to these intra-company transfers. In addition, the financial statement volatility associated with the use of derivatives to hedge certain assets outside the Investments segment is not fully allocated to other segments. These allocations do not include the effects of dividends paid on our senior preferred stock. The release of the deferred tax asset valuation allowance, termination of our pension plan, and legal and tax settlements, as applicable, are allocated to the All Other category.

The table below presents Segment Earnings by segment.

Table 13.1 — Summary of Segment Earnings and Comprehensive Income (Loss)

	Year Ended December 31,		
	2014	2013	2012
	(in millions)		
Segment Earnings (loss), net of taxes:			
Single-family Guarantee	$1,547	$5,796	$(164)
Investments	4,520	15,930	7,367
Multifamily	1,636	3,050	2,991
All Other	(13)	23,892	788
Total Segment Earnings, net of taxes	7,690	48,668	10,982
Net income	$7,690	$48,668	$10,982
Comprehensive income (loss) of segments:			
Single-family Guarantee	$1,537	$5,845	$(227)
Investments	6,471	20,287	11,397
Multifamily	1,459	1,455	4,081
All Other	(41)	24,013	788
Comprehensive income of segments	9,426	51,600	16,039
Comprehensive income	$9,426	$51,600	$16,039

The table below presents detailed reconciliations between our GAAP financial statements and Segment Earnings by financial statement line item for our reportable segments and All Other.

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Table 13.2 — Segment Earnings and Reconciliation to GAAP Results

	Year Ended December 31, 2014								
					Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income			Total per Consolidated Statements of Comprehensive Income
	Single-family Guarantee	Investments	Multifamily	All Other		Reclassifications	Segment Adjustments	Total Reconciling Items	
	(in millions)								
Net interest income	$(111)	$ 2,966	$ 948	$—	$ 3,803	$9,825	$ 635	$ 10,460	$ 14,263
(Provision) benefit for credit losses	(982)	—	55	—	(927)	869	—	869	(58)
Non-interest income (loss):									
Management and guarantee income[1]	5,172	—	254	—	5,426	(4,794)	(303)	(5,097)	329
Net impairment of available-for-sale securities recognized in earnings	—	(140)	—	—	(140)	(798)	—	(798)	(938)
Derivative gains (losses)	7	(5,158)	335	—	(4,816)	(3,475)	—	(3,475)	(8,291)
Gains (losses) on trading securities	—	(276)	58	—	(218)	—	—	—	(218)
Gains (losses) on mortgage loans	(139)	—	870	—	731	—	—	—	731
Other non-interest income	844	8,881	176	—	9,901	(1,627)	—	(1,627)	8,274
Non-interest expense:									
Administrative expense	(1,170)	(437)	(274)	—	(1,881)	—	—	—	(1,881)
REO operations income (expense)	(205)	—	9	—	(196)	—	—	—	(196)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(775)	—	—	—	(775)	—	—	—	(775)
Other non-interest expense	(191)	(6)	(23)	(18)	(238)	—	—	—	(238)
Segment adjustments	(303)	635	—	—	332	—	(332)	(332)	—
Income tax (expense) benefit	(600)	(1,945)	(772)	5	(3,312)	—	—	—	(3,312)
Net income (loss)	1,547	4,520	1,636	(13)	7,690	—	—	—	7,690
Changes in unrealized gains (losses) related to	—	1,759	(175)	—	1,584	—	—	—	1,584

available-for-sale securities									
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	197	—	—	197	—	—	—	197
Changes in defined benefit plans	(10)	(5)	(2)	(28)	(45)	—	—	—	(45)
Total other comprehensive income (loss), net of taxes	(10)	1,951	(177)	(28)	1,736	—	—	—	1,736
Comprehensive income (loss)	$1,537	$ 6,471	$ 1,459	$(41)	$ 9,426	$—	$ —	$ —	$ 9,426

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	Year Ended December 31, 2013								
						Reconciliation to Consolidated Statements of Comprehensive Income			
	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reclassifications	Segment Adjustments	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$ 320	$ 3,525	$ 1,186	$—	$ 5,031	$ 10,400	$ 1,037	$ 11,437	$ 16,468
Benefit for credit losses	1,409	—	218	—	1,627	838	—	838	2,465
Non-interest income (loss):									
Management and guarantee income[1]	4,930	—	206	—	5,136	(4,171)	(694)	(4,865)	271
Net impairment of available-for-sale securities recognized in earnings	—	(974)	(15)	—	(989)	(521)	—	(521)	(1,510)
Derivative gains (losses)	(3)	5,543	1,281	—	6,821	(4,189)	—	(4,189)	2,632
Gains (losses) on trading securities	—	(1,466)	(132)	—	(1,598)	—	—	—	(1,598)
Gains (losses) on mortgage loans	—	—	(336)	—	(336)	—	—	—	(336)
Other non-interest income	1,165	8,902	1,350	—	11,417	(2,357)	—	(2,357)	9,060
Non-interest expense:									
Administrative expense	(1,025)	(523)	(257)	—	(1,805)	—	—	—	(1,805)
REO operations income (expense)	124	—	16	—	140	—	—	—	140
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(533)	—	—	—	(533)	—	—	—	(533)
Other non-interest expense (income)	(179)	349	(24)	(37)	109	—	—	—	109
Segment adjustments	(694)	1,037	—	—	343	—	(343)	(343)	—
Income tax (expense) benefit	282	(463)	(443)	23,929	23,305	—	—	—	23,305
Net income (loss)	5,796	15,930	3,050	23,892	48,668	—	—	—	48,668
Changes in unrealized gains (losses) related to	—	4,010	(1,604)	—	2,406	—	—	—	2,406

available-for-sale securities									
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	316	—	—	316	—	—	—	316
Changes in defined benefit plans	49	31	9	121	210	—	—	—	210
Total other comprehensive income (loss), net of taxes	49	4,357	(1,595)	121	2,932	—	—	—	2,932
Comprehensive income	$5,845	$ 20,287	$ 1,455	$24,013	$ 51,600	$—	$ —	$ —	$ 51,600

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Year Ended December 31, 2012

	Single-family Guarantee	Investments	Multifamily	All Other	Total Segment Earnings (Loss), Net of Tax	Reconciliation to Consolidated Statements of Comprehensive Income: Reclassifications	Segment Adjustments	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$(147)	$ 5,726	$ 1,291	$—	$ 6,870	$9,942	$ 799	$ 10,741	$ 17,611
Benefit (provision) for credit losses	(3,168)	—	123	—	(3,045)	1,155	—	1,155	(1,890)
Non-interest income (loss):									
Management and guarantee income[1]	4,389	—	151	—	4,540	(3,507)	(832)	(4,339)	201
Net impairment of available-for-sale securities recognized in earnings	—	(1,831)	(123)	—	(1,954)	(214)	—	(214)	(2,168)
Derivative gains (losses)	—	1,034	943	—	1,977	(4,425)	—	(4,425)	(2,448)
Gains (losses) on trading securities	—	(1,794)	120	—	(1,674)	—	—	—	(1,674)
Gains (losses) on mortgage loans	—	—	1,010	—	1,010	—	—	—	1,010
Other non-interest income	931	2,719	297	—	3,947	(2,951)	—	(2,951)	996
Non-interest expense:									
Administrative expense	(890)	(430)	(241)	—	(1,561)	—	—	—	(1,561)
REO operations income (expense)	(62)	—	3	—	(59)	—	—	—	(59)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(108)	—	—	—	(108)	—	—	—	(108)
Other non-interest expense	(285)	(1)	(129)	(50)	(465)	—	—	—	(465)
Segment adjustments	(832)	799	—	—	(33)	—	33	33	—
Income tax (expense) benefit	8	1,145	(454)	838	1,537	—	—	—	1,537
Net income (loss)	(164)	7,367	2,991	788	10,982	—	—	—	10,982
Changes in unrealized gains (losses) related to available-for-sale	—	3,666	1,103	—	4,769	—	—	—	4,769

securities									
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	414	—	—	414	—	—	—	414
Changes in defined benefit plans	(63)	(50)	(13)	—	(126)	—	—	—	(126)
Total other comprehensive income (loss), net of taxes	(63)	4,030	1,090	—	5,057	—	—	—	5,057
Comprehensive income (loss)	$(227)	$ 11,397	$ 4,081	$788	$ 16,039	$—	$ —	$ —	$ 16,039

(1) Management and guarantee income is included in other income on our GAAP consolidated statements of comprehensive income.

NOTE 14: FINANCIAL GUARANTEES

We provide financial guarantees to securitization trusts that issue mortgage-related securities backed by single-family mortgage loans, which we consolidate. During the years ended December 31, 2014 and 2013, we issued approximately $257.2 billion and $425.6 billion, respectively, in UPB of Freddie Mac mortgage-related securities backed by single-family mortgage loans (excluding those backed by HFA bonds). For guarantees to consolidated securitization trusts, our exposure to these guarantees is generally the UPB of the loans recorded on our consolidated balance sheets.

We also provide guarantees to non-consolidated securitization trusts that issue mortgage-related securities as well as in other guarantee commitments. If we are exposed to incremental credit risk by providing these guarantees, we charge a management and guarantee fee and recognize a guarantee asset, guarantee obligation, and a reserve for guarantee losses, as necessary.

The table below presents our maximum potential exposure, our recognized liability, and the maximum remaining term of our financial guarantees that are not consolidated on our balance sheets.

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Table 14.1 — Financial Guarantees

	December 31, 2014			December 31, 2013		
	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term
	(dollars in millions, terms in years)					
Non-consolidated Freddie Mac securities	$87,529	$861	39	$71,809	$731	40
Other guarantee commitments	26,147	772	39	29,160	791	36
Derivative instruments	21,336	154	31	9,856	239	32

(1) The maximum exposure represents the contractual amounts that could be lost if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements, such as recourse provisions, third-party insurance contracts, or from collateral held or pledged. The maximum exposure disclosed above is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation. The maximum exposure for our liquidity guarantees is not mutually exclusive of our default guarantees on the same securities; therefore, these amounts are included within the maximum exposure of non-consolidated Freddie Mac securities and other guarantee commitments.

(2) For non-consolidated Freddie Mac securities and other guarantee commitments, this amount represents the guarantee obligation on our consolidated balance sheets. This amount excludes our reserve for guarantee losses, which totaled $126 million and $111 million as of December 31, 2014 and 2013, respectively, and is included within other liabilities on our consolidated balance sheets.

Non-Consolidated Freddie Mac Securities

We issue three types of mortgage-related securities: (a) PCs; (b) REMICs and Other Structured Securities; and (c) Other Guarantee Transactions. We guarantee the payment of principal and interest to the trusts which issue these securities, which are backed by pools of mortgage-related assets, irrespective of the cash flows received from the borrowers.

Our single-family securities issued in resecuritizations of our PCs and other previously issued REMICs and Other Structured Securities are not consolidated unless we hold substantially all of the beneficial interests of the trust and are therefore considered the primary beneficiary of the trust. Our resecuritizations of PCs and other previously issued REMICs and Structured Securities do not give rise to any additional exposure to credit loss as we already consolidate the underlying collateral. The securities issued in these resecuritizations consist of single-class and multiclass securities backed by PCs, REMICs, interest-only strips, and principal-only strips. Since these resecuritizations do not increase our credit-risk, no guarantee asset or guarantee obligation is recognized for these transactions and they are excluded from the table above.

During 2014 and 2013, we issued approximately $18.5 billion and $23.7 billion, respectively, in UPB of Other Guarantee Transactions, all of which were backed by multifamily mortgage loans, for which a guarantee asset and guarantee obligation were recognized.

For many of the loans underlying our non-consolidated guarantees, there are credit protections from third parties, including subordination, covering a portion of our exposure. See “NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES” for information about credit protections on loans we guarantee.

Other Guarantee Commitments

We provide long-term standby commitments to certain of our customers, which obligate us to purchase seriously delinquent loans that are covered by those agreements. During 2014 and 2013, we issued and guaranteed $2.6 billion and $9.9 billion, respectively, in UPB of long-term standby commitments. These long-term standby commitments totaled $16.5 billion and $19.2 billion in UPB at December 31, 2014 and December 31, 2013, respectively. Periodically, certain of our customers seek to terminate long-term standby commitments and simultaneously enter into guarantor swap transactions to obtain our PCs backed by many of the same mortgage loans.

We also had other guarantee commitments on multifamily housing revenue bonds that were issued by HFAs of $9.3 billion and $9.1 billion in UPB at December 31, 2014 and December 31, 2013, respectively. In addition, as of December 31, 2014 and December 31, 2013, we had issued guarantees under the TCLFP on securities backed by HFA bonds with UPB of $0.4 billion and $0.9 billion, respectively.

Derivative Instruments

Derivative instruments include written options, written swaptions, interest-rate swap guarantees, and short-term default guarantee commitments accounted for as credit derivatives. See “NOTE 9: DERIVATIVES” for further discussion of these derivative guarantees.

We guarantee the performance of interest-rate swap contracts in two circumstances. First, in connection with certain other guarantee commitments, we guarantee that a multifamily borrower will perform under an interest-rate swap contract linked to the borrower’s ARM. And second, in connection with our issuance of certain REMICs and Other Structured Securities, which are backed by tax-exempt bonds, we guarantee that the sponsor of the transaction will perform under the interest-rate swap contract linked to the senior variable-rate certificates that we issued.

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We also have issued certain REMICs and Other Structured Securities with stated final maturities that are shorter than the stated maturity of the underlying mortgage loans. If the underlying mortgage loans to these securities have not been purchased by a third party or fully matured as of the stated final maturity date of such securities, we will sponsor an auction of the underlying assets. To the extent that purchase or auction proceeds are insufficient to cover unpaid principal amounts due to investors in such REMICs and Other Structured Securities, we are obligated to fund such principal. Our maximum exposure on these derivative guarantees represents the outstanding UPB of the REMICs and Other Structured Securities subject to stated final maturities.

Other Indemnifications

In connection with certain business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (e.g., those arising from representations and warranties) in contracts entered into in the normal course of business. Our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no significant probable and estimable losses associated with these contracts. In addition, we provided indemnification for litigation defense costs to certain former officers who are subject to ongoing litigation. See “NOTE 17: LEGAL CONTINGENCIES” for further information on ongoing litigation. The recognized liabilities on our consolidated balance sheets related to indemnifications were not significant at December 31, 2014 and 2013.

As part of the guarantee arrangements pertaining to multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as “liquidity guarantees.” These guarantees require us to advance funds to enable others to repurchase any tendered tax-exempt and related taxable bonds that are unable to be remarketed. Any such advances are treated as loans and are secured by a pledge to us of the repurchased securities until the securities are remarketed. No advances under these liquidity guarantees were outstanding at December 31, 2014 and 2013.

NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS

Single-Family Credit Guarantee Portfolio

The table below summarizes the concentration by year of origination and geographic area of the approximately $1.7 trillion UPB of our single-family credit guarantee portfolio at both December 31, 2014 and 2013. See “NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,” "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES,” and “NOTE 7: INVESTMENTS IN SECURITIES” for more information about credit risk associated with loans and mortgage-related securities that we hold or guarantee.

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Table 15.1 — Concentration of Credit Risk — Single-Family Credit Guarantee Portfolio

	December 31, 2014		December 31, 2013		Percent of Credit Losses[1] Twelve Months Ended	
	Percentage of Portfolio[1]	Serious Delinquency Rate	Percentage of Portfolio[1]	Serious Delinquency Rate	December 31, 2014	December 31, 2013
Year of Origination						
2014	12 %	0.02 %	N/A	N/A	— %	N/A
2013	16	0.06	16 %	0.01 %	—	— %
2012	14	0.09	16	0.04	—	—
2011	6	0.26	8	0.18	—	—
2010	6	0.46	7	0.39	1	1
2009	6	0.92	7	0.88	2	2
Subtotal - New single-family book	60	0.24	54	0.24	3	3
HARP and other relief refinance loans[2]	20	0.75	21	0.64	8	7
2005 to 2008 Legacy single-family book	13	7.59	16	8.77	81	81
Pre-2005 Legacy single-family book	7	3.10	9	3.24	8	9
Total	100 %	1.88 %	100 %	2.39 %	100 %	100 %
Region[3]						
West	29 %	1.23 %	28 %	1.73 %	13 %	24 %
Northeast	26	2.81	26	3.23	26	15
North Central	17	1.48	18	1.81	22	23
Southeast	16	2.40	16	3.42	35	35
Southwest	12	1.16	12	1.36	4	3
Total	100 %	1.88 %	100 %	2.39 %	100 %	100 %
State						
Arizona, California, Florida, and Nevada[4]	26 %	1.91 %	26 %	3.01 %	36 %	47 %
Illinois, Michigan, and Ohio[5]	10	1.70	11	2.11	17	19
New York and New Jersey[6]	9	4.62	9	5.11	11	3
All other	55	1.53	54	1.85	36	31
Total	100 %	1.88 %	100 %	2.39 %	100 %	100 %

(1) Within these columns, "—" represents less than 0.5%.

(2) HARP and other relief refinance loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2014). All other refinance loans are presented in the year that the refinancing occurred.

(3) Region designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

(4) Represents the four states that had the largest cumulative declines in home prices during the housing crisis that began in 2006, as measured using Freddie Mac's home price index.

(5) Represents selected states in the North Central region that have experienced adverse economic conditions since 2006.

(6) Represents two states with a judicial foreclosure process in which there are a significant number of seriously delinquent loans within our single-family credit guarantee portfolio.

Credit Performance of Certain Higher Risk Single-Family Loan Categories

Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. 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 mortgage loan, or both. However, there is no universally accepted definition of subprime or Alt-A. Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009, we continued to purchase certain amounts of these mortgages in cases where the loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance initiative; or (c) in another refinance mortgage initiative and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as Alt-A in the table below 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. Although we do not categorize single-family mortgage loans we purchase or guarantee as prime or subprime, we recognize that there are a number of mortgage loan types with certain characteristics that indicate a higher degree of credit risk.

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For example, a borrower's credit score is a useful measure for assessing the credit quality of the borrower. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores.

Presented below is a summary of the serious delinquency rates of certain higher-risk categories (based on characteristics of the loan at origination) of single-family loans in our single-family credit guarantee portfolio based on UPB. The table includes a presentation of each higher-risk category in isolation. A single loan may fall within more than one category (for example, an interest-only loan may also have an original LTV ratio greater than 90%). Loans with a combination of these attributes will have an even higher risk of delinquency than those with an individual attribute.

Table 15.2 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio(1)

	Percentage of Portfolio(2)		Serious Delinquency Rate	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Interest-only	2 %	2 %	9.36 %	12.51 %
Option ARM(3)	—	—	9.87	12.30
Alt-A	3	3	8.53	10.06
Original LTV ratio greater than 90%(4)	16	16	2.58	3.22
Lower credit scores at origination (less than 620)	3	3	8.57	9.99

(1) Excludes loans underlying certain Other Guarantee Transactions for which data was not available.
(2) Within these columns, "—" represents less than 0.5%.
(3) For reporting purposes, loans within the option ARM category continue to be reported in that category following modification, even though the modified loan no longer provides for optional payment provisions.
(4) Includes HARP loans, which we are required to purchase as part of our participation in the MHA Program.

The percentage of borrowers in our single-family credit guarantee portfolio, based on UPB, with estimated current LTV ratios greater than 100% was 6% and 10% at December 31, 2014 and 2013, respectively. An increase in the estimated current LTV ratio of a loan indicates that the borrower's equity in the home has declined, and can negatively affect the borrower's ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding mortgage loan. The serious delinquency rate for single-family loans with estimated current LTV ratios greater than 100% was 9.06% and 9.94% as of December 31, 2014 and 2013, respectively. Loans in our 2005-2008 Legacy single-family book have been more affected by declines in home prices that have occurred since 2006 than loans originated in other years. Our 2005-2008 Legacy single-family book comprised approximately 13% of our single-family credit guarantee portfolio, based on UPB at December 31, 2014, and these loans accounted for approximately 81% of our credit losses during 2014.

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. See "NOTE 7: INVESTMENTS IN SECURITIES" for further information on these categories and other concentrations in our investments in securities.

Multifamily Mortgage Portfolio

The table below summarizes the concentration of multifamily mortgages in our multifamily mortgage portfolio by certain attributes based on UPB. Information presented for multifamily mortgage loans includes certain categories based on loan or borrower characteristics present at origination. The table includes a presentation of each category in isolation. A single loan may fall within more than one category (for example, a loan with an original LTV ratio greater than 80% may also have an original DSCR below 1.10).

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Table 15.3 — Concentration of Credit Risk — Multifamily Mortgage Portfolio

	December 31, 2014			December 31, 2013		
	UPB	Delinquency Rate[1]		UPB	Delinquency Rate[1]	
	(dollars in billions)					
State[2]						
California	$23.2	—	%	$22.4	0.03	%
Texas	18.3	0.06		16.7	0.02	
New York	12.1	—		11.4	0.12	
Florida	10.0					