

FEDERAL HOME LOAN MORTGAGE CORP

Form 10-Q

July 31, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-34139

Federal Home Loan Mortgage Corporation

(Exact name of registrant as specified in its charter)

Federally chartered corporation 52-0904874 8200 Jones Branch Drive McLean, Virginia 22102-3110 (703) 903-2000

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.) (Address of principal executive offices) (Zip Code) (Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 17, 2018, there were 650,058,775 shares of the registrant's common stock outstanding.

Table of Contents

Table of Contents

	Page
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	<u>1</u>
n Introduction	<u>1</u>
n Key Economic Indicators	<u>5</u>
n Consolidated Results of Operations	<u>9</u>
n Consolidated Balance Sheets Analysis	<u>18</u>
n Our Business Segments	<u>19</u>
n Risk Management	<u>57</u>
n Liquidity and Capital Resources	<u>64</u>
n Conservatorship and Related Matters	<u>72</u>
n Regulation and Supervision	<u>74</u>
n Off-Balance Sheet Arrangements	<u>77</u>
n Forward-Looking Statements	<u>78</u>
FINANCIAL STATEMENTS	<u>80</u>
OTHER INFORMATION	<u>157</u>
CONTROLS AND PROCEDURES	<u>160</u>
EXHIBIT INDEX	<u>162</u>
SIGNATURES	<u>163</u>
FORM 10-Q INDEX	<u>164</u>

Management's Discussion and Analysis Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q 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-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. 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 Forward-Looking Statements sections of this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2017, or 2017 Annual Report, and our Quarterly Report on Form 10-Q for the first quarter of 2018, and the Business and Risk Factors sections of our 2017 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the Glossary of our 2017 Annual Report.

You should read the following MD&A in conjunction with our 2017 Annual Report and our condensed consolidated financial statements and accompanying notes for the three and six months ended June 30, 2018 included in Financial Statements. Throughout this Form 10-Q, we refer to the three months ended June 30, 2018, the three months ended March 31, 2018, the three months ended December 31, 2017, the three months ended September 30, 2017 and the three months ended June 30, 2017 as "2Q 2018," "1Q 2018," "4Q 2017," "3Q 2017" and "2Q 2017," respectively. We refer to the six months ended June 30, 2018 and the six months ended June 30, 2017 as "YTD 2018" and "YTD 2017," respectively.

INTRODUCTION

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

We support the U.S. housing market and the overall economy by enabling America's families to access mortgage loan funding with better terms and by providing consistent liquidity to the multifamily mortgage market. We have helped many distressed borrowers keep their homes or avoid foreclosure. We are working with FHFA, our customers and the industry to build a better housing finance system for the nation.

Management's Discussion and Analysis Introduction

Business Results

Portfolio Balances

---

Guarantee Portfolios

Investments Portfolios

Total Guarantee Portfolio

Our total guarantee portfolio grew \$117 billion, or 6%, from June 30, 2017 to June 30, 2018, driven by a 4%<sup>n</sup> increase in our single-family credit guarantee portfolio and a 26% increase in our multifamily guarantee portfolio.

The growth in our single-family credit guarantee portfolio was primarily driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation. New business acquisitions had a higher average loan size compared to older vintages that continued to run off.

The growth in our multifamily guarantee portfolio was primarily driven by an increase in U.S. multifamily mortgage debt outstanding due to strong multifamily market fundamentals, coupled with the growth in our share of new<sup>1</sup> business volume due to our strategic pricing efforts, expansion of our new product offerings and an increase in purchase activity associated with certain targeted loans in underserved markets.

Management's Discussion and Analysis Introduction

Total Investments Portfolio

Our total investments portfolio declined \$56 billion, or 15%, from June 30, 2017 to June 30, 2018, primarily due to repayments and the active disposition of less liquid assets.

We continue to reduce the mortgage-related investments portfolio as required by the Purchase Agreement and FHFA.

Consolidated Financial Results

---

Comprehensive income (loss) was \$2.4 billion in 2Q 2018, compared to \$2.0 billion in 2Q 2017.

Key Drivers:

Net interest income declined, primarily driven by the continued reduction in the balance of our mortgage-related investments portfolio, partially offset by continued growth in our single-family credit guarantee portfolio.

Benefit for credit losses declined, primarily due to the impact of reclassifications of single-family seasoned mortgage loans between held-for-investment and held-for-sale.

Gain from final judgment against Nomura Holding America, Inc. in litigation involving certain of our non-agency mortgage-related securities (Nomura judgment) resulted in an increase in other income. We did not have any significant judgments or settlements in 2Q 2017.

Reduction in the statutory corporate income tax rate resulted in lower income tax expense.

Our total equity was \$4.6 billion at June 30, 2018. Because our net worth was positive, we are not requesting a draw from Treasury under the Purchase Agreement for 2Q 2018. Based on our Net Worth Amount at June 30, 2018 of \$4.6 billion and the applicable Capital Reserve Amount of \$3.0 billion, we will have a dividend requirement to Treasury in September 2018 of \$1.6 billion.

Our cumulative senior preferred stock dividend payments totaled \$112.4 billion as of June 30, 2018. Under the Purchase Agreement the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains at \$75.6 billion. In addition, the amount of available funding remaining under the Purchase Agreement is \$140.2 billion and will be reduced by any future draws.

Conservatorship and Government Support for Our Business

---

Since September 2008, we have been operating in conservatorship, with FHFA 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 also affect our business activities. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to have adequate liquidity to conduct normal business activities.

Management's Discussion and Analysis Introduction

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as and if declared by the Conservator, acting as successor to the rights, titles, powers and privileges of our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator.

Under the August 2012 amendment to the Purchase Agreement, our dividend requirement 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. Pursuant to the December 2017 Letter Agreement, the Capital Reserve Amount is \$3.0 billion. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement.

## KEY ECONOMIC INDICATORS

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

Single-Family Home Prices

National Home Prices

---

### Commentary

---

Home prices continued to appreciate, increasing by 3.0% and 3.7% during 2Q 2018 and 2Q 2017, respectively, and by 5.6% and 6.0% during YTD 2018 and YTD 2017, respectively, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.

We expect the rate of home price growth in the second half of 2018 to moderate, driven by a gradual increase in housing supply and higher mortgage interest rates.

Increases in home prices typically result in lower delinquency rates and lower loss severity, which generally reduce estimated credit losses on our total mortgage portfolio.

Higher single-family home prices may also contribute to an increase in potential multifamily renters.

Management's Discussion and Analysis | Key Economic Indicators | Interest Rates

Interest Rates

Key Market Interest Rates

---

Commentary

---

The quarterly ending and quarterly average 30-year Primary Mortgage Market Survey ("PMMS") interest rates were higher at June 30, 2018 than June 30, 2017. Increases in the PMMS rate typically result in decreases in refinance activity and U.S. single-family loan originations.

The 10-year LIBOR and 2-year LIBOR quarterly ending interest rates had larger fluctuations during the 2018 periods than during the 2017 periods. Changes in the 10-year and 2-year LIBOR interest rates affect the fair value of certain of our assets and liabilities, including derivatives, measured at fair value. A larger interest rate fluctuation from period to period generally results in larger fair value gains and losses, while a smaller fluctuation from period to period generally results in smaller fair



Management's Discussion and Analysis | Key Economic Indicators | Interest Rates

value gains and losses. However, the majority of these fair value changes are offset by our hedge accounting programs.

The quarterly ending and quarterly average short-term interest rates, as indicated by the 3-month LIBOR rate, were higher at June 30, 2018 than June 30, 2017. An increase in short-term interest rates generally increases the interest earned on our short-term investments and interest expense on our short-term funding.

For additional information on the effect of LIBOR rates on our financial results, see Our Business Segments -  
n Capital Markets - Market Conditions.

Management's Discussion and Analysis | Key Economic Indicators | Unemployment Rate

Unemployment Rate

Unemployment Rate and Job Creation<sup>(1)</sup>

---

Source: U.S. Bureau of Labor Statistics

(1) Excludes Puerto Rico and the U.S. Virgin Islands.

Commentary

---

n Average monthly net new jobs (non-farm) were higher in 2Q 2018 than 2Q 2017.

n The national unemployment rate was lower in 2Q 2018 than 2Q 2017.

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

n Decreases in the national unemployment rate typically result in lower levels of delinquencies, which generally result in a decrease in estimated credit losses on our total mortgage portfolio.

## Management's Discussion and Analysis Consolidated Results of Operations

## CONSOLIDATED RESULTS OF OPERATIONS

You should read this discussion of our consolidated results of operations in conjunction with our condensed consolidated financial statements and accompanying notes.

The table below compares our summarized consolidated results of operations.

(Dollars in millions)	2Q		Change		YTD		Change	
	2018	2017	\$	%	2018	2017	\$	%
Net interest income	\$3,003	\$3,379	(\$376)	(11)%	\$6,021	\$7,174	(\$1,153)	(16)%
Benefit (provision) for credit losses	60	422	(362)	(86)	(3)	538	(541)	(101)
Net interest income after benefit (provision) for credit losses	3,063	3,801	(738)	(19)	6,018	7,712	(1,694)	(22)
Non-interest income (loss):								
Gains (losses) on extinguishment of debt	147	50	97	194	257	268	(11)	(4)
Derivative gains (losses)	416	(1,096)	1,512	138	2,246	(1,398)	3,644	261
Net impairment of available-for-sale securities recognized in earnings	(1)	(3)	2	67	(1)	(16)	15	94
Other gains (losses) on investment securities recognized in earnings	(348)	61	(409)	(670)	(580)	117	(697)	(596)
Other income (loss)	1,011	694	317	46	1,132	1,109	23	2
Total non-interest income (loss)	1,225	(294)	1,519	517	3,054	80	2,974	3,718
Non-interest expense:								
Administrative expense	(558)	(513)	(45)	(9)	(1,078)	(1,024)	(54)	(5)
REO operations expense	(15)	(37)	22	59	(49)	(93)	44	47
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(366)	(330)	(36)	(11)	(725)	(651)	(74)	(11)
Other expense	(204)	(126)	(78)	(62)	(401)	(202)	(199)	(99)
Total non-interest expense	(1,143)	(1,006)	(137)	(14)	(2,253)	(1,970)	(283)	(14)
Income (loss) before income tax (expense) benefit	3,145	2,501	644	26	6,819	5,822	997	17
Income tax (expense) benefit	(642)	(837)	195	23	(1,390)	(1,947)	557	29
Net income (loss)	2,503	1,664	839	50	5,429	3,875	1,554	40
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(68)	322	(390)	(121)	(844)	345	(1,189)	(345)
Comprehensive income (loss)	\$2,435	\$1,986	\$449	23%	\$4,585	\$4,220	\$365	9%

## Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

## Net Interest Income

## Net Interest Yield Analysis

The tables below present an analysis of interest-earning assets and interest-bearing liabilities.

(Dollars in millions)	2Q 2018		2Q 2017		Interest Income (Expense) <sup>(1)</sup>	Average Rate
	Average Balance	Interest Income (Expense) <sup>(1)</sup>	Average Rate	Average Balance		
<b>Interest-earning assets:</b>						
Cash and cash equivalents	\$6,620	\$13	0.79 %	\$12,135	\$15	0.51 %
Securities purchased under agreements to resell	43,084	205	1.91	56,196	132	0.93
Advances to lenders and other secured lending	1,403	10	2.68	532	3	2.30
<b>Mortgage-related securities:</b>						
Mortgage-related securities	144,517	1,495	4.14	170,864	1,651	3.87
Extinguishment of PCs held by Freddie Mac	(88,792)	)(849)	)(3.83)	(89,913)	)(825)	)(3.67)
Total mortgage-related securities, net	55,725	646	4.64	80,951	826	4.08
<b>Non-mortgage-related securities:</b>						
Loans held by consolidated trusts <sup>(1)</sup>	1,787,242	15,290	3.42	1,723,103	14,594	3.39
Loans held by Freddie Mac <sup>(1)</sup>	100,239	1,054	4.20	118,012	1,254	4.25
Total interest-earning assets	2,008,789	17,302	3.45	2,008,886	16,900	3.36
<b>Interest-bearing liabilities:</b>						
Debt securities of consolidated trusts including PCs held by Freddie Mac	1,814,861	(13,504)	)(2.98)	1,746,474	(12,819)	)(2.94)
Extinguishment of PCs held by Freddie Mac	(88,792)	)(849)	3.83	(89,913)	)(825)	3.67
Total debt securities of consolidated trusts held by third parties	1,726,069	(12,655)	)(2.93)	1,656,561	(11,994)	)(2.90)
<b>Other debt:</b>						
Short-term debt	53,323	(242)	)(1.80)	74,540	(145)	)(0.77)
Long-term debt	221,222	(1,402)	)(2.53)	272,160	(1,382)	)(2.02)
Total other debt	274,545	(1,644)	)(2.38)	346,700	(1,527)	)(1.76)
Total interest-bearing liabilities	2,000,614	(14,299)	)(2.86)	2,003,261	(13,521)	)(2.70)
Impact of net non-interest-bearing funding	8,175	—	0.01	5,625	—	0.01
Total funding of interest-earning assets	\$2,008,789	(\$14,299)	)(2.85)%	\$2,008,886	(\$13,521)	)(2.69)%
Net interest income/yield		\$3,003	0.60 %		\$3,379	0.67 %

(1) Loan fees, primarily consisting of amortization of upfront fees, included in interest income were \$627 million and \$583 million for loans held by consolidated trusts and \$23 million and \$33 million for loans held by Freddie Mac during 2Q 2018 and 2Q 2017, respectively.

Freddie Mac Form 10-Q 10

---

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

(Dollars in millions)	YTD 2018			YTD 2017		
	Average Balance	Interest Income (Expense) <sup>(1)</sup>	Average Rate	Average Balance	Interest Income (Expense) <sup>(1)</sup>	Average Rate
<b>Interest-earning assets:</b>						
Cash and cash equivalents	\$6,818	\$24	0.69 %	\$12,094	\$24	0.40 %
Securities purchased under agreements to resell	47,408	403	1.70	55,301	220	0.79
Advances to lenders and other secured lending	1,197	16	2.65	574	7	2.36
<b>Mortgage-related securities:</b>						
Mortgage-related securities	147,391	3,074	4.17	173,410	3,314	3.82
Extinguishment of PCs held by Freddie Mac	(89,803)	)(1,692)	)(3.77)	(89,226)	)(1,645)	)(3.69)
Total mortgage-related securities, net	57,588	1,382	4.80	84,184	1,669	3.97
<b>Non-mortgage-related securities</b>						
Loans held by consolidated trusts <sup>(1)</sup>	1,781,975	30,149	3.38	1,715,571	29,193	3.40
Loans held by Freddie Mac <sup>(1)</sup>	101,845	2,146	4.21	121,115	2,620	4.33
Total interest-earning assets	2,011,457	34,277	3.41	2,008,348	33,880	3.37
<b>Interest-bearing liabilities:</b>						
<b>Debt securities of consolidated trusts including PCs held by Freddie Mac</b>						
Debt securities of consolidated trusts including PCs held by Freddie Mac	1,808,992	(26,861)	)(2.97)	1,738,601	(25,360)	)(2.92)
Extinguishment of PCs held by Freddie Mac	(89,803)	)(1,692)	3.77	(89,226)	)(1,645)	3.69
Total debt securities of consolidated trusts held by third parties	1,719,189	(25,169)	)(2.93)	1,649,375	(23,715)	)(2.88)
<b>Other debt:</b>						
Short-term debt	60,647	(471)	)(1.55)	74,003	(241)	)(0.65)
Long-term debt	225,101	(2,616)	)(2.32)	275,840	(2,750)	)(1.99)
Total other debt	285,748	(3,087)	)(2.16)	349,843	(2,991)	)(1.71)
Total interest-bearing liabilities	2,004,937	(28,256)	)(2.82)	1,999,218	(26,706)	)(2.67)
Impact of net non-interest-bearing funding	6,520	—	0.01	9,130	—	0.01
Total funding of interest-earning assets	\$2,011,457	(\$28,256)	)(2.81)%	\$2,008,348	(\$26,706)	)(2.66)%
Net interest income/yield		\$6,021	0.60 %		\$7,174	0.71 %

(1) Loan fees, primarily consisting of amortization of upfront fees, included in interest income were \$1.2 billion and \$1.1 billion for loans held by consolidated trusts and \$45 million and \$95 million for loans held by Freddie Mac during YTD 2018 and YTD 2017, respectively.

## Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

## Components of Net Interest Income

The table below presents the components of net interest income.

(Dollars in millions)			Change				Change	
	2Q 2018	2Q 2017	\$	%	YTD 2018	YTD 2017	\$	%
Contractual net interest income:								
Guarantee fee income	\$858	\$795	\$63	8 %	\$1,692	\$1,587	\$105	7 %
Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	356	325	31	10	703	641	62	10
Other contractual net interest income	1,386	1,637	(251)	(15 %)	2,843	3,396	(553)	(16 %)
Total contractual net interest income	2,600	2,757	(157)	(6 %)	5,238	5,624	(386)	(7 %)
Net amortization - loans and debt securities of consolidated trusts	701	667	34	5	1,449	1,620	(171)	(11 %)
Net amortization - other assets and debt	(84)	(3)	(81)	(2,700)	(79)	15	(94)	(627)
Hedge accounting impact	(214)	(42)	(172)	(410)	(587)	(85)	(502)	(591)
Net interest income	\$3,003	\$3,379	(\$376)	(11 %)	\$6,021	\$7,174	(\$1,153)	(16 %)

## Key Drivers:

## nGuarantee fee income

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - increased primarily due to the continued growth of the Core single-family loan portfolio.

## nOther contractual net interest income

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - decreased due to the continued reduction in the balance of our mortgage-related investments portfolio pursuant to the portfolio limits established by the Purchase Agreement and FHFA. See Conservatorship and Related Matters - Reducing Our Mortgage-Related Investments Portfolio Over Time for a discussion of the key drivers of the decline in our mortgage-related investments portfolio.

## nNet amortization of loans and debt securities of consolidated trusts

2Q 2018 vs. 2Q 2017 - remained relatively flat.

YTD 2018 vs. YTD 2017 - decreased primarily due to a decrease in amortization of debt securities of consolidated trusts driven by a decrease in prepayments as a result of higher interest rates, partially offset by an increase in amortization from higher upfront fees on mortgage loans.

## nNet amortization of other assets and debt

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - losses increased primarily due to less accretion of previously recognized other-than-temporary impairments on non-agency mortgage-related securities. The decrease in accretion was due to a decline in the population of impaired securities as a result of our active disposition of these securities and a decline in new other-than-temporary impairments recognized.

Management's Discussion and Analysis Consolidated Results of Operations | Net Interest Income

nHedge Accounting Impact

1 2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - losses increased primarily due to the inclusion of fair value hedge accounting results within net interest income during the 2018 periods. This activity was included in other income and derivative gains (losses) until the adoption of the amended hedge accounting guidance in 4Q 2017.

Freddie Mac Form 10-Q 13

---



## Management's Discussion and Analysis Consolidated Results of Operations | Derivative Gains (Losses)

## Derivative Gains (Losses)

## Components of Derivative Gains (Losses)

We continue to align our derivative portfolio with the changing duration of our assets and liabilities so as to economically hedge their interest-rate risk. We manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. We believe the impact of derivatives on our GAAP financial results should be considered in the context of our overall interest-rate risk profile, including our PMVS and duration gap results. For more information about our interest-rate risk management activities and the sensitivity of reported earnings to those activities, see Risk Management - Market Risk.

Derivative gains (losses) includes the fair value changes and the accrual of periodic cash settlements for derivatives while not designated in qualifying hedge relationships. In addition, prior to our adoption of amended hedge accounting guidance in 4Q 2017, we included the accrual of periodic cash settlements on derivatives in qualifying hedge relationships in derivatives gains (losses).

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

(Dollars in millions)	2Q 2018	2Q 2017	Change		YTD 2018	YTD 2017	Change	
			\$	%			\$	%
Fair value change in interest-rate swaps	\$583	(\$580 )	\$1,163	201 %	\$2,097	\$93	\$2,004	2,155 %
Fair value change in option-based derivatives	(259 )	109	(368 )	(338)	(714 )	(321 )	(393 )	(122 )
Fair value change in other derivatives	135	(196 )	331	169	1,051	(274 )	1,325	484
Accrual of periodic cash settlements	(43 )	(429 )	386	90	(188 )	(896 )	708	79
Derivative gains (losses)	\$416	(\$1,096)	\$1,512	138 %	\$2,246	(\$1,398)	\$3,644	261 %

## Key Drivers:

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - During the 2018 periods, increases in long-term rates resulted in derivative fair value gains compared to derivative fair value losses during the 2017 periods. The 10-year par swap rate increased 15 and 54 basis points during 2Q 2018 and YTD 2018, respectively, and declined 12 and 5 basis points during 2Q 2017 and YTD 2017, respectively. The interest rate increase during the 2018 periods resulted in fair value gains in our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures, partially offset by fair value losses in our receive-fixed swaps.

## Management's Discussion and Analysis Consolidated Results of Operations | Other Income (Loss)

## Other Income (Loss)

## Components of Other Income (Loss)

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

(Dollars in millions)	2Q		Change		YTD		Change	
	2018	2017	\$	%	2018	2017	\$	%
Other income (loss)								
Non-agency mortgage-related securities settlements and judgments	\$334	\$—	\$334	N/A	\$334	\$3	\$331	11,033 %
Gains (losses) on loans <sup>(1)</sup>	162	193	(31 )	(16 %)	(158 )	207	(365 )	(176 %)
Gains (losses) on held-for-sale loan purchase commitments <sup>(1)</sup>	192	331	(139 )	(42 %)	297	555	(258 )	(46 %)
Gains (losses) on debt <sup>(1)</sup>	19	(102 )	121	119 %	30	(191 )	221	116 %
All other	304	245	59	24 %	629	469	160	34 %
Fair value hedge accounting								
Change in fair value of derivatives in qualifying hedge relationships	—	(365 )	365	N/A	—	(300 )	300	N/A
Change in fair value of hedged items in qualifying hedge relationships	—	392	(392 )	N/A	—	366	(366 )	N/A
Total other income (loss)	\$1,011	\$694	\$317	46 %	\$1,132	\$1,109	\$23	2 %

<sup>(1)</sup> Includes fair value gains (losses) on loans, held-for-sale loan purchase commitments and debt for which we have elected the fair value option.

## Key Drivers:

In 2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - Other income (loss) increased primarily driven by:

1 Recognition of a \$0.3 billion gain from the Nomura judgment during 2Q 2018. See Note 14 for additional information on the Nomura judgment.

1 Small fair value gains on STACR debt notes in the 2018 periods compared to fair value losses in the 2017 periods as a result of market spreads between STACR yields and LIBOR remaining relatively unchanged in the 2018 periods, while spreads tightened during the 2017 periods.

1 Adoption of amended hedge accounting guidance in 4Q 2017, which resulted in fair value changes for derivatives and hedged items in qualifying hedge relationships no longer being recognized in other income (loss). See Note 9 for more information.

This increase was partially offset by:

1 Greater interest rate-related fair value losses on multifamily mortgage loans and commitments for which we have elected the fair value option due to a larger increase in long-term interest rates.

## Management's Discussion and Analysis Consolidated Results of Operations | Other Comprehensive Income (Loss)

## Other Comprehensive Income (Loss)

## Explanation of Key Drivers of Other Comprehensive Income (Loss)

The following table presents the attribution of total other comprehensive income (loss), net of taxes and reclassification adjustments reported in our condensed consolidated statements of comprehensive income.

(Dollars in millions)	2Q		Change		YTD		Change	
	2018	2017	\$	%	2018	2017	\$	%
Other comprehensive income (loss), excluding certain items	(\$93)	\$423	(\$516)	(122)%	(\$495)	\$586	(\$1,081)	(184)%
Excluded items:								
Accretion due to significant increases in expected cash flows on previously impaired available-for-sale securities	(20)	(49)	29	59	(108)	(103)	(5)	(5)
Realized (gains) losses reclassified from AOCI	45	(52)	97	187	(241)	(138)	(103)	(75)
Total excluded items	25	(101)	126	125	(349)	(241)	(108)	(45)
Total other comprehensive income (loss)	(\$68)	\$322	(\$390)	(121)%	(\$844)	\$345	(\$1,189)	(345)%

## Key Drivers:

## n Other comprehensive income, excluding certain items

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - decreased primarily due to higher fair value losses compared to fair value gains on agency and non-agency mortgage-related securities classified as available-for-sale as long-term interest rates increased more during the 2018 periods, coupled with smaller fair value gains from less market spread tightening on our non-agency mortgage-related securities.

## Excluded items:

## n Realized (gains) losses reclassified from AOCI

2Q 2018 vs. 2Q 2017 - reflected reclassified losses during 2Q 2018 compared to reclassified gains during 2Q 2017 due to sales of non-agency mortgage-related securities in an unrealized loss position during 2Q 2018.

YTD 2018 vs. YTD 2017 - reflected larger amounts of reclassified gains during YTD 2018 due to spread tightening on sales of non-agency mortgage-related securities classified as available-for-sale.

Management's Discussion and Analysis Consolidated Results of Operations | Other Key Drivers

Other Key Drivers

Explanation of Other Key Drivers

---

Key Drivers:

n Benefit (provision) for credit losses

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - decreased primarily due to the impact of loan reclassifications between held-for-investment and held-for-sale.

n Gains (losses) on extinguishment of debt

2Q 2018 vs. 2Q 2017 - improved primarily due to an increase in the amount of gains recognized from the extinguishment of certain fixed-rate debt securities of consolidated trusts (i.e., PCs), as market rates increased between the time of issuance and repurchase, combined with an increase in the amount of debt securities of consolidated trusts repurchased. The amount of extinguishment gains or losses may vary, as the type and amount of PCs selected for repurchase are based on our investment and funding strategies, including our efforts to support the liquidity and price performance of our PCs.

YTD 2018 vs. YTD 2017 - remained relatively flat.

n Other gains (losses) on investment securities recognized in earnings

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - decreased primarily driven by larger fair value losses on our mortgage and non-mortgage-related securities classified as trading as interest rates increased more during the 2018 periods, partially offset by lower fair value gains driven by less spread tightening on sales of our available-for-sale non-agency mortgage-related securities.

n Other expense

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - increased primarily due to recoveries in the 2017 periods of amounts previously recognized in other expense. This activity did not repeat in the 2018 periods.

n Income tax (expense) benefit

2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017 - decreased due to the lower statutory corporate income tax rate in the 2018 periods.

## Management's Discussion and Analysis Consolidated Balance Sheets Analysis

## CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

(Dollars in millions)	6/30/2018	12/31/2017	Change	
			\$	%
<b>Assets:</b>				
Cash and cash equivalents <sup>(1)</sup>	\$6,752	\$9,811	(\$3,059)	(31)%
Securities purchased under agreements to resell	41,769	55,903	(14,134)	(25)
Subtotal	48,521	65,714	(17,193)	(26)
Investments in securities, at fair value	77,710	84,318	(6,608)	(8)
Mortgage loans, net	1,884,851	1,871,217	13,634	1
Accrued interest receivable	6,470	6,355	115	2
Derivative assets, net	391	375	16	4
Deferred tax assets, net	8,299	8,107	192	2
Other assets	15,490	13,690	1,800	13
Total assets	\$2,041,732	\$2,049,776	(\$8,044)	—%
<b>Liabilities and Equity:</b>				
<b>Liabilities:</b>				
Accrued interest payable	\$6,377	\$6,221	\$156	3%
Debt, net	2,021,162	2,034,630	(13,468)	(1)
Derivative liabilities, net	409	269	140	52
Other liabilities	9,199	8,968	231	3
Total liabilities	2,037,147	2,050,088	(12,941)	(1)
Total equity	4,585	(312)	4,897	1,570
Total liabilities and equity	\$2,041,732	\$2,049,776	(\$8,044)	—%

(1) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.

## Key Drivers:

As of June 30, 2018 compared to December 31, 2017:

Cash and cash equivalents and securities purchased under agreements to resell affect one another and changes in the balances should be viewed together (e.g., cash and cash equivalents can be invested in securities purchased under agreements to resell or other investments). The decrease in the combined balance was primarily due to lower near term cash needs for fewer upcoming maturities and anticipated calls of other debt.

Investments in securities, at fair value decreased as we continued to reduce the mortgage-related investments portfolio during 2018 as required by the Purchase Agreement and FHFA.

Other Assets increased primarily due to the recognition of receivables on sales of securities which had traded but not settled as of June 30, 2018.

Total equity increased primarily as a result of higher comprehensive income in 2Q 2018 compared to 4Q 2017, combined with our ability to retain equity as a result of an increase in the applicable Capital Reserve Amount, which is \$3.0 billion as of January 1, 2018.

## OUR BUSINESS SEGMENTS

We have three reportable segments, which are based on the way we manage our business.

Single-family Guarantee - reflects results from our purchase, securitization and guarantee of single-family loans and the management of single-family mortgage credit risk.

Multifamily - reflects results from our purchase, sale, securitization and guarantee of multifamily loans and securities, our investments in those loans and securities and the management of multifamily mortgage credit risk and market spread risk.

Capital Markets - reflects results from managing our mortgage-related investments portfolio (excluding Multifamily segment investments, single-family seriously delinquent loans and the credit risk of single-family performing and reperforming loans), the treasury function, securitization activities and our interest-rate risk.

Certain activities that are not part of a reportable segment, such as material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments, are included in the All Other category.

### Segment Earnings

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP condensed consolidated statements of comprehensive income and allocating certain revenues and expenses to our three reportable segments. For more information on our segment reclassifications, see Note 13.

Segment Comprehensive Income

---

The graph below shows our comprehensive income by segment.  
(In millions)

Freddie Mac Form 10-Q 20

---

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Single-Family Guarantee  
Market Conditions

---

The graphs and related discussion below present certain market indicators that can significantly affect the business and financial results of our Single-family Guarantee segment.

U.S. Single-Family Originations

Source: Inside Mortgage Finance dated May 18, 2018 (latest available IMF purchase/refinance information).

Single-Family Serious Delinquency Rates

Source: National Delinquency Survey from the Mortgage Bankers Association. Data as of May 16, 2018 (latest available NDS information).

Commentary

---

n U.S. single-family loan origination volume decreased to \$445 billion in 2Q 2018 from \$455 billion in 2Q 2017, driven by lower refinance volume as a result of higher mortgage interest rates in 2Q 2018. Mortgage origination data is from Inside Mortgage Finance as of July 27, 2018.

n We expect continued growth in U.S. single-family home purchase volume due to a gradual increase in housing supply and home price appreciation, while a moderate increase in mortgage interest rates is expected to result in a lower refinance volume. Freddie Mac's single-family loan purchase volumes typically follow a similar trend.

n The single-family serious delinquency rate in the U.S. decreased during 1Q 2018 as the impacts from the hurricanes in 3Q 2017 subsided and the general economy continued to improve. Freddie Mac's serious delinquency rate typically follows a similar trend.



Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Business Results

---

The following tables, graphs and related discussion present the business results of our Single-family Guarantee segment.

New Business Activity

---

UPB of Single-Family Loan Purchases and Guarantees by Loan Purpose  
(In billions)

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Percentage of Single-Family Loan Purchases and Guarantees by Loan Purpose  
Commentary

---

n Our loan purchase and guarantee activity increased during 2Q 2018 compared to 2Q 2017 due to higher home purchase volume, primarily driven by an improving economy and a lower unemployment rate. However, the activity decreased during YTD 2018 primarily due to a decline in refinance activity as a result of higher average mortgage interest rates, partially offset by higher home purchase volume.

n Freddie Mac purchases loans originated by lenders using Fannie Mae's Automated Underwriting System (AUS). Fannie Mae announced changes to its AUS in July 2017, which led to an increase in eligibility for purchase of new loans with debt-to-income ratios between 45% and 50% (high DTI). These loans have minimal impact on our overall single-family credit guarantee portfolio, but we are monitoring the overall credit quality and performance of these loans. Although the purchase of these high DTI loans may increase over time, we expect to purchase fewer loans with high DTI ratios that have other high-risk characteristics.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Single-Family Credit Guarantee Portfolio

---

Single-Family Credit Guarantee Portfolio  
Commentary

---

The single-family credit guarantee portfolio increased at an annualized rate of approximately 3% from December 31, 2017 to June 30, 2018, driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation. New business acquisitions had a higher average loan size compared to older vintages that continued to run off.

The Core single-family loan portfolio grew to 80% of the single-family credit guarantee portfolio at June 30, 2018, compared to 78% at December 31, 2017.

The Legacy and relief refinance single-family loan portfolio declined to 20% of the single-family credit guarantee portfolio at June 30, 2018, compared to 22% at December 31, 2017, driven primarily by liquidations.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Guarantee Fees

---

We receive fees for guaranteeing the payment of principal and interest to investors in our mortgage-related securities. These fees consist primarily of a combination of base contractual guarantee fees paid on a monthly basis and initial upfront payments. The average portfolio Segment Earnings guarantee fee rate recognizes upfront fee income over the contractual life of the related loans (usually 30 years). If the related loans prepay, the remaining upfront fee income is recognized immediately. In contrast, the average guarantee fee rate charged on new acquisitions recognizes upfront fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations. See MD&A - Our Business Segments - Single-family Guarantee - Business Overview - Guarantee Fees in our 2017 Annual Report for more information on our guarantee fees.

Average Portfolio Segment Earnings Guarantee Fee Rate<sup>(1)(2)</sup>

(In bps)

Referenced footnotes are included after the next chart.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Average Guarantee Fee Rate<sup>(1)</sup> Charged on New Acquisitions  
(In bps)

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

(2) Reflects an average rate for our total single-family credit guarantee portfolio and is not limited to purchases in the applicable period.

Commentary

---

While the average portfolio Segment Earnings guarantee fee rate remained relatively unchanged during 2Q 2018 compared to 2Q 2017, the rate increased slightly during YTD 2018 compared to YTD 2017 due to older vintages being replaced by new loan acquisitions with higher guarantee fees.

<sup>n</sup> The average guarantee fee rate charged on new acquisitions decreased during the 2018 periods compared to the 2017 periods due to pricing competition pressures, while maintaining a minimum return threshold established by FHFA.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Credit Risk Transfer (CRT) Activities

We transfer credit risk on a portion of our single-family credit guarantee portfolio to the private market, which reduces the risk of future losses to us and taxpayers when borrowers go into default. Our primary CRT activities are our STACR debt note and ACIS transactions, in which we pay interest to investors or premiums to insurers in exchange for their taking on a portion of the credit risk on the mortgage loans in the related reference pool. These payments effectively reduce our guarantee fee income from the PCs backed by the mortgage loans in the related reference pools. See MD&A - Our Business Segments - Single-Family Guarantee - Business Overview - Credit Risk Transfer Transactions in our 2017 Annual Report for more information on our CRT transactions.

The following charts present the issuance amounts for the CRT transactions that occurred during 2Q 2018 and the cumulative issuance amounts for all CRT transactions as of June 30, 2018 by loss position and the party holding each loss position, excluding senior subordinate securitization structures.

New CRT Transactions during 2Q 2018<sup>(1)</sup>

(In billions)

Freddie Mac

Senior

\$96.2

Mezzanine

\$0.3

ACIS<sup>(3)</sup>

\$0.7

Other CRT

\$1.2

Reference Pool

\$99.8

First

Loss<sup>(4)</sup>

\$0.6

ACIS

\$0.1

Other CRT

\$0.7

Cumulative CRT Transactions as of June 30, 2018<sup>(1)(2)</sup>

(In billions)

Freddie Mac

Senior

\$996.3

Mezzanine

\$2.6

ACIS<sup>(3)</sup>

\$8.8

STACR Debt Notes

\$23.6

Other CRT

\$1.2

Reference Pool

\$1,042.2

First

Loss<sup>(4)</sup>

\$5.7

ACIS

\$1.1

STACR Debt Notes

\$2.2

Other CRT

\$0.7

- (1) The amounts represent the UPB upon issuance of CRT transactions.
- (2) For the current outstanding coverage provided by our CRT transactions, see Credit Enhancements.
- (3) Starting in 2Q 2018, ACIS transactions include Deep MI CRT transactions which were previously disclosed separately. The 2Q 2018 and Cumulative presentations have been modified to reflect this change.
- (4) First loss includes all B tranches in our STACR debt notes and their equivalent in ACIS and Other CRT transactions.

Commentary

---

During YTD 2018, we transferred a portion of credit risk associated with \$192.3 billion in UPB of loans in our single-family credit guarantee portfolio through STACR debt note, ACIS, senior subordinate securitization structures and other CRT transactions.

As of June 30, 2018, we had cumulatively transferred a portion of credit risk on more than \$1 trillion of our<sup>n</sup> single-family mortgages, based upon the UPB at issuance of the CRT transactions.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

For originations in the twelve months ended June 30, 2017, FHFA's Conservatorship Capital Framework (CCF) capital required for credit risk was reduced approximately 60% by CRT transactions; we plan similar risk reduction transactions for this quarter's originations.

The reduction in the amount of CCF capital required for credit risk on new originations is calculated as modeled conservatorship credit capital released from the underlying single-family CRT transaction reference pool divided by total modeled conservatorship credit capital on new originations at the time of purchase. For more information on the CCF and the calculation of modeled conservatorship capital required, see Risk Management - Conservatorship Capital Framework and Risk Management - Conservatorship Capital Framework - Return on Modeled Conservatorship Capital Required.

Our expected guarantee fee income on the PCs related to the STACR debt note, ACIS and other CRT transaction reference pool UPB has been effectively reduced by approximately 28%, on average, for all transactions executed through June 30, 2018.

As of June 30, 2018, we had experienced minimal write-downs on our STACR debt notes and have filed minimal claims for reimbursement of losses under our ACIS transactions.

We continue to evaluate our credit risk transfer strategy and to make changes depending on market conditions and our business strategy. The aggregate cost of our credit risk transfer activity will continue to increase as we continue to transfer credit risk on new originations.



## Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

## Credit Enhancements

The table below provides information on the total current and protected UPB and maximum coverage associated with credit enhanced loans in our single-family credit guarantee portfolio as of June 30, 2018 and December 31, 2017, respectively. The table includes all types of single-family credit enhancements. See Note 6 for additional information about our single-family credit enhancements.

(In millions)	June 30, 2018		December 31, 2017	
	Total Current and Maximum Protected UPB <sup>(1)</sup>	Coverage <sup>(2)</sup>	Total Current and Maximum Protected UPB <sup>(1)</sup>	Coverage <sup>(2)</sup>
Primary mortgage insurance	\$351,776	\$90,085	\$334,189	\$85,429
STACR debt note	641,850	18,670	604,356	17,788
ACIS transactions <sup>(3)</sup>	698,012	7,873	625,082	6,933
Senior subordinate securitization structures	24,684	2,860	12,283	1,913
Other <sup>(3)(4)</sup>	88,554	8,173	8,623	6,282
Less: UPB with more than one type of credit enhancement	(866,047)	—	(775,751)	—
Single-family credit guarantee portfolio with credit enhancement	938,829	127,661	808,782	118,345
Single-family credit guarantee portfolio without credit enhancement	916,618	—	1,020,098	—
Total	\$1,855,447	\$127,661	\$1,828,880	\$118,345

Except for the majority of our STACR debt notes and ACIS transactions, our credit enhancements generally provide protection for the first, or initial, credit losses associated with the related loans. For STACR debt notes and

(1) ACIS transactions, total current and protected UPB represents the UPB of the assets included in the reference pool.

For senior subordinate securitization structures, total current and protected UPB represents the UPB of the guaranteed securities.

Except for senior subordinate securitization structures, this represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements. Specifically, for STACR debt notes, this represents the outstanding balance of STACR debt notes held by third parties, and for ACIS

(2) transactions, this represents the remaining aggregate limit of insurance purchased from third parties. For senior subordinate securitization structures, this represents the UPB of the securities that are subordinate to our guarantee and held by third parties, which could provide protection by absorbing first losses.

(3) Starting in 2Q 2018, ACIS transactions include Deep MI CRT transactions which were previously disclosed under "Other" transactions. The current and prior period presentation has been modified to reflect this change.

(4) Includes seller indemnification, lender recourse and indemnification agreements, pool insurance, HFA indemnification and other credit enhancements.

## Commentary

n We had coverage remaining of \$127.7 billion and \$118.3 billion on our single-family credit guarantee portfolio as of June 30, 2018 and December 31, 2017, respectively. Credit risk transfer transactions provided 24.5% and 22.4% of the coverage remaining at those dates, respectively.

## Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

## Mortgage Loan Credit Risk

Certain combinations of loan attributes can indicate a higher degree of credit risk, such as loans with both higher LTV ratios and lower credit scores. The following table presents the combination of credit score and current LTV (CLTV) ratio attributes of loans in our single-family credit guarantee portfolio.

June 30, 2018

(Credit score)	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		% Modified
	% Portfolio	SDQ Rate <sup>(1)</sup>	% Portfolio	SDQ Rate <sup>(1)</sup>	% Portfolio	SDQ Rate <sup>(1)</sup>	% Portfolio	SDQ Rate <sup>(1)</sup>	
Core single-family loan portfolio:									
< 620	0.3	2.23	—	NM	—	NM	0.3	2.39	3.5
620 to 659	2.0	1.21	0.3	1.36	—	NM	2.3	1.23	1.7
≥ 660	68.2	0.2	9.0	0.28	—	NM	77.2	0.21	0.3
Not available	0.1	1.74	—	NM	—	NM	0.1	3.25	3.6
Total	70.6	0.24	9.3	0.35	—	NM	79.9	0.25	0.3

## Legacy and relief refinance single-family loan portfolio:

< 620	1.2	4.44	0.2	8.77	0.1	14.67	1.5	5.32	23.4
620 to 659	1.9	3.41	0.3	7.13	0.2	12.01	2.4	4.07	20.3
≥ 660	14.0	1.25	1.6	3.83	0.5	6.25	16.1	1.51	7.4
Not available	0.1	4.87	—	NM	—	NM	0.1	5.21	18.9
Total	17.2	1.76	2.1	4.93	0.8	8.46	20.1	2.14	10.2

(1)NM - Not meaningful due to the percentage of the portfolio rounding to zero.

## Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

## Alt-A and Subprime Loans

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

Participants in the mortgage market have characterized single-family loans based upon their overall credit quality at the time of origination, including as prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately \$0.9 billion and \$1.1 billion of security collateral underlying our other securitization products at June 30, 2018 and December 31, 2017, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between the prime and subprime categories, if they are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continue to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, as part of our relief refinance initiative, or as part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-Q 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 June 30, 2018, we have purchased approximately \$36.2 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including \$0.1 billion in 2Q 2018.

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

	June 30, 2018			December 31, 2017		
	UPB	CLTV <sup>%</sup>	SDQ Modified Rate	UPB	CLTV <sup>%</sup>	SDQ Modified Rate
(Dollars in billions)						
Alt-A	\$25.364	% 24.1	% 4.83%	\$27.167	% 24.1	% 5.62%

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during YTD 2018 primarily due to borrowers refinancing into other mortgage products, foreclosure sales and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida and Nevada.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Single-Family Loan Performance

---

Serious Delinquency Rates

Delinquency Rates for Loans One Month and Two Months Past Due

Commentary

---

Total serious delinquency rate on our single-family credit guarantee portfolio was lower as of June 30, 2018 compared to June 30, 2017 due to our continued loss mitigation efforts, sales of certain seriously delinquent loans from our legacy and relief refinance single-family portfolio, home price appreciation and a low unemployment rate, npartially offset by the impact of the hurricanes in 3Q 2017. This improvement was also driven by the continued shift in the single-family credit guarantee portfolio mix, as the Legacy and relief refinance single-family loan portfolio runs off and we add higher credit quality loans to our Core single-family loan portfolio. Delinquency rates for both loans one month past due and loans two months past due were similarly affected.

## Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

## Credit Performance

The table below contains certain credit performance metrics for our single-family credit guarantee portfolio.

(Dollars in millions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Charge-offs, gross	\$599	\$2,153	\$971	\$2,893
Recoveries	(126)	(85)	(222)	(182)
Charge-offs, net	473	2,068	749	2,711
REO operations expense	15	37	49	93
Total credit losses	\$488	\$2,105	\$798	\$2,804

Total credit losses (in bps) 10.5 46.7 8.6 31.2

The table below summarizes the carrying value for individually impaired single-family loans on our condensed consolidated balance sheets for which we have recorded an allowance determined on an individual basis.

(Dollars in millions)	June 30, 2018		June 30, 2017	
	Loan Count	Amount	Loan Count	Amount
TDRs, at January 1	364,704	\$54,415	485,709	\$78,869
New additions	36,796	5,819	20,641	2,851
Repayments and reclassifications to held-for-sale	(27,650)	(4,532)	(72,254)	(14,776)
Foreclosure sales and foreclosure alternatives	(4,203)	(566)	(5,514)	(751)
TDRs, at June 30	369,647	55,136	428,582	66,193
Loans impaired upon purchase	4,031	265	6,615	443
Total impaired loans with an allowance recorded	373,678	55,401	435,197	66,636
Allowance for loan losses		(6,592)		(8,846)
Net investment, at June 30		\$48,809		\$57,790

The tables below present information about the UPB of single-family TDRs and non-accrual loans on our condensed consolidated balance sheets.

(In millions)	June 30, December	
	2018	31, 2017
TDRs on accrual status	\$54,406	\$51,644
Non-accrual loans	13,301	17,748
Total TDRs and non-accrual loans	\$67,707	\$69,392

Allowance for loan losses associated with:

TDRs on accrual status	\$5,393	\$5,257
Non-accrual loans	1,510	1,883
Total	\$6,903	\$7,140

(In millions)	YTD 2018	YTD 2017
Foregone interest income on TDRs and non-accrual loans <sup>(1)</sup>	\$742	\$988

Represents the amount of interest income that we did not recognize but would have recognized during the period (1) for loans outstanding at the end of each period had the loans performed according to their original contractual terms.

Commentary

---

As of June 30, 2018, 52% of the allowance for loan losses for single-family mortgage loans related to interest rate concessions provided to borrowers as part of loan modifications.

Most of our modified single-family loans, including TDRs, were current and performing at June 30, 2018.

We expect our allowance for loan losses associated with existing single-family TDRs to decline over time as we continue to sell reperforming loans. In addition, the allowance for loan losses will decline as borrowers continue to make monthly payments under the modified terms and interest rate concessions are amortized into earnings.

See Note 4 for information on our single-family allowance for loan losses.

Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

Loss Mitigation Activities

---

Loan Workout Activity<sup>(1)</sup>

(UPB in billions, number of loan workouts in thousands)

(1) Foreclosure alternatives consist of short sales and deeds in lieu of foreclosure. Home retention actions consist of forbearance agreements, repayment plans and loan modifications.

Commentary

---

nOur loan workout activity increased in the 2018 periods, driven by the impact of the hurricanes in 3Q 2017.

nWe continue our loss mitigation efforts through our relief refinance, modification and other initiatives.

## Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

## REO Activity

The table below presents a summary of our single-family REO activity.

	2Q 2018		2Q 2017		YTD 2018		YTD 2017	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
(Dollars in millions)	of		of		of		of	
	Properties		Properties		Properties		Properties	
Beginning balance — REO	7,718	\$840	10,938	\$1,162	8,299	\$900	11,418	\$1,215
Additions	2,744	266	3,299	321	5,364	512	6,844	667
Dispositions	(3,327)	(329 )	(4,322)	(437 )	(6,528)	(635 )	(8,347)	(836 )
Ending balance — REO	7,135	777	9,915	1,046	7,135	777	9,915	1,046
Beginning balance, valuation allowance		(9 )		(19 )		(14 )		(17 )
Change in valuation allowance		3		9		8		7
Ending balance, valuation allowance		(6 )		(10 )		(6 )		(10 )
Ending balance — REO, net		\$771		\$1,036		\$771		\$1,036
Commentary								

Our REO ending inventory declined in the 2018 periods primarily due to a decrease in REO acquisitions driven by <sup>n</sup> fewer loans in foreclosure and a large proportion of property sales to third parties at foreclosure.



## Management's Discussion and Analysis Our Business Segments | Single-Family Guarantee

## Financial Results

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

(Dollars in millions)	2Q	2Q	Change		YTD	YTD	Change	
	2018	2017	\$	%	2018	2017	\$	%
Guarantee fee income	\$1,571	\$1,506	\$65	4 %	\$3,084	\$2,924	\$160	5 %
Benefit (provision) for credit losses	103	12	91	758	131	51	80	157
Other non-interest income (loss)	119	359	(240)	(67 )	213	678	(465 )	(69 )
Administrative expense	(363 )	(332 )	(31 )	(9 )	(699 )	(665 )	(34 )	(5 )
REO operations expense	(20 )	(41 )	21	51	(59 )	(100 )	41	41
Other non-interest expense	(400 )	(335 )	(65 )	(19 )	(779 )	(653 )	(126 )	(19 )
Segment Earnings before income tax expense	1,010	1,169	(159)	(14 )	1,891	2,235	(344)	(15 )
Income tax expense	(207 )	(391 )	184	47	(386 )	(747 )	361	48
Segment Earnings, net of taxes	803	778	25	3	1,505	1,488	17	1
Total other comprehensive income (loss), net of tax	(2 )	—	(2 )	N/A	(6 )	(2 )	(4 )	(200)
Total comprehensive income	\$801	\$778	\$23	3 %	\$1,499	\$1,486	\$13	1 %

## Key Business Drivers:

n 2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017

l Continued growth in our single-family credit guarantee portfolio and higher upfront fee amortization income resulted in increased guarantee fee income.

l Benefit for credit losses remained relatively unchanged.

l Losses in the 2018 periods compared to gains in the 2017 periods on single-family seasoned loan reclassifications between held-for-investment and held-for-sale.

l Small fair value gains on STACR debt notes in the 2018 periods compared to fair value losses in the 2017 periods as a result of market spreads between STACR yields and LIBOR remaining relatively unchanged in the 2018 periods, while spreads tightened during the 2017 periods.

Management's Discussion and Analysis Our Business Segments | Multifamily

Multifamily  
Market Conditions

---

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

Change in Effective Rents Source: REIS, Inc.

Apartment Vacancy Rates  
Source: REIS, Inc.

Commentary

---

Growth in effective rent (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) for 2Q 2018 remained strong relative to the long-term average, primarily due to an increase in potential renters driven by healthy employment, higher single-family home prices and a growing demand for rental housing due to lifestyle changes and demographic trends.

While vacancy rates rose slightly during 2Q 2018 compared to 1Q 2018, these rates remain well below the long-term average. Net absorptions continued to lag new apartment completions in 2Q 2018. Although we expect continued strong demand, it may take longer to absorb new units compared to prior quarters.

Our financial results for 2Q 2018 were not significantly affected by these relatively stable market conditions.

### K Certificate Benchmark Spreads

Source: Independent dealers

#### Commentary

---

The valuation of our securitization pipeline and the profitability of our primary risk transfer securitization product, the K Certificate, are affected by both changes in K Certificate benchmark spreads and deal-specific attributes, such as tranche size, risk distribution and collateral characteristics (loan term, coupon type, prepayment restrictions and underlying property type). These market spread movements and deal-specific attributes contribute to our earnings volatility, which we manage by controlling the size of our securitization pipeline and by entering into certain spread-related derivatives. Spread tightening generally results in fair value gains, while spread widening generally results in fair value losses.

K Certificate benchmark spreads are market-quoted spreads over the U.S. swap curve. The 10-year fixed-rate spread represents the spread for the largest guaranteed class of a typical fixed-rate K Certificate, while the 7-year floating-rate spread represents the spread for the largest guaranteed class of a typical floating-rate K Certificate.

Management's Discussion and Analysis Our Business Segments | Multifamily

Business Results

---

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

New Business Activity

---

Multifamily New Business Activity  
(UPB in billions)

Commentary

---

The 2018 Conservatorship Scorecard annual production cap was \$35.0 billion, unchanged from 1Q 2018. The production cap is subject to reassessment throughout the year by FHFA to determine whether an increase in the cap is appropriate based on a stronger than expected overall market. Reclassifications between new business activity subject to the production cap and new business activity not subject to the production cap may occur during 2018.

Outstanding purchase commitments were \$20.9 billion and \$19.0 billion as of June 30, 2018 and June 30, 2017, respectively. Both periods include purchase commitments for which we have elected the fair value option.

Management's Discussion and Analysis Our Business Segments | Multifamily

Our new business activity and outstanding purchase commitments were higher for the 2018 periods than the 2017 periods due to continued strong demand for multifamily loan products and our strategic pricing efforts.

Approximately 32% and 39% of our multifamily new business activity during 2Q 2018 and YTD 2018, respectively, counted towards the 2018 Conservatorship Scorecard production cap, while the remaining 68% and 61% was considered uncapped.

Our uncapped new business activity increased during the 2018 periods compared to the 2017 periods as we continued our efforts to support borrowers in certain property types and communities that meet the criteria for affordability and Green Advantage loans.

Approximately 92% of our 2Q 2018 new business activity compared to 91% of our 2Q 2017 new business activity was intended for our securitization pipeline. Combined with market demand for our securities, our 2Q 2018 new business activity will be a driver for securitizations in the second half of 2018.

## Management's Discussion and Analysis Our Business Segments | Multifamily

## Multifamily Portfolio and Market Support

## Total Multifamily Portfolio

## Multifamily Mortgage Investments Portfolio

## Multifamily Market Support

The following table summarizes our support of the multifamily market.

(UPB in millions)	June 30, 2018	December 31, 2017
Unsecuritized mortgage loans held-for-sale	\$16,752	\$20,537
Unsecuritized mortgage loans held-for-investment	14,531	17,702
Unsecuritized non-mortgage loans <sup>(1)</sup>	564	473
Mortgage-related securities <sup>(2)</sup>	7,214	7,451
Guarantee portfolio	220,212	203,074
Total multifamily portfolio	259,273	249,237
Add: Unguaranteed securities <sup>(3)</sup>	33,475	30,890
Less: Acquired mortgage-related securities <sup>(4)</sup>	(6,957)	(7,109)
Total multifamily market support	\$285,791	\$273,018

(1) Reflects the UPB of financing provided to investment funds.

(2) Includes mortgage-related securities acquired by us from our securitizations. We have not invested in unguaranteed securities that are in a first loss position.

(3) Reflects the UPB of unguaranteed securities issued as part of our securitizations and amounts related to loans sold to investment funds that were not financed by Freddie Mac.

(4) Reflects the UPB of mortgage-related securities that were both issued and acquired by us. This UPB must be removed to avoid double-counting the exposure, as it is already reflected within the guarantee portfolio and/or unguaranteed securities.

Commentary

---

Our total multifamily portfolio increased during YTD 2018 primarily due to new loan purchases. The vast majority of the growth in our guarantee portfolio was associated with ongoing securitizations, primarily K Certificates and SB Certificates.

At June 30, 2018, the UPB of our unsecuritized held-for-sale loans, which are measured at fair value or lower-of-cost-or-fair-value, decreased from December 31, 2017. The decrease was primarily driven by ongoing securitizations, partially offset by new held-for-sale loan purchases.

At June 30, 2018, approximately 71% of our held-for-sale loans and held-for sale loan commitments were fixed-rate, while the remaining 29% were floating rate.

We expect our guarantee portfolio to continue to grow as a result of ongoing securitizations, which we expect to be driven by continued strong new business activity.

Net Interest Yield and Weighted Average Portfolio Balance

---

Net Interest Yield Earned  
(Weighted average balance in billions)

Commentary

---

Net interest yield increased during the 2018 periods compared to the 2017 periods primarily due to higher prepayment income received from interest-only securities, coupled with an increase in our interest-only security holdings which generally have higher yields relative to our non-interest-only securities.

The weighted average portfolio balance of interest-earning assets decreased during the 2018 periods due to the run-off of our legacy held-for-investment loans.



Credit Risk Transfer Activity

---

Credit Risk Transfer Activity and New Business Activity  
(UPB in billions)

Freddie Mac Form 10-Q 45

---

Management's Discussion and Analysis Our Business Segments | Multifamily

Credit Risk Transfer Activity<sup>(1)</sup>  
(UPB in billions)

(1)The amounts disclosed in the bar graph above represent the UPB of credit risk transferred to third parties.  
Commentary

---

The structures for credit risk transfer transactions, primarily the K Certificate and SB Certificate structures, vary by deal. Structural deal features such as term, type of underlying loan product, and subordination levels generally influence the deal's size and risk profile, which ultimately affect the guarantee fee rate set by Freddie Mac, as Guarantor, at the time of securitization.

We executed \$14.2 billion in UPB of credit risk transfer transactions during 2Q 2018 and \$278.9 billion in UPB since 2009. Through these transactions, we transferred a large majority of the expected and stress credit risk of the underlying assets, primarily by issuing unguaranteed subordinated securities, as part of our K Certificate and SB Certificate transactions. Also, we began selling certain of our loans to investment funds in 3Q 2017, resulting in the transfer of the associated credit risk of those loans to third parties.

Freddie Mac Form 10-Q 46

---

Management's Discussion and Analysis Our Business Segments | Multifamily

The UPB of our credit risk transfer transactions was higher during 2Q 2018 compared to 2Q 2017, primarily due to a larger average balance in our securitization pipeline, which was driven by strong new loan purchase activity during the latter part of 2017.

As of June 30, 2018, we had cumulatively transferred a large majority of credit risk on the multifamily guarantee portfolio.

For originations in the twelve months ended June 30, 2017, CCF capital required for credit risk was reduced approximately 90% by CRT transactions; we plan similar risk reduction transactions for this quarter's originations. The reduction in the amount of CCF capital required for credit risk on new originations is calculated as modeled conservatorship credit capital released from CRT transactions (primarily through K Certificates and SB Certificates) divided by total modeled conservatorship credit capital on new originations at the time of purchase. For more information on the CCF and the calculation of modeled conservatorship capital required, see Risk Management - Conservatorship Capital Framework and Risk Management - Conservatorship Capital Framework - Return on Modeled Conservatorship Capital Required.

In addition to transferring a large majority of the expected and stress credit risk, nearly all of our credit risk transfer transactions also shifted certain non-credit risks associated with the underlying assets, such as interest-rate risk and liquidity risk, away from Freddie Mac to third-party investors.

Based on the strength of our new business activity and our outstanding purchase commitments for YTD 2018, we expect our credit risk transfer activity for the full year 2018 to exceed our full year 2017 activity.

While our K Certificate and SB Certificate issuances continue to be our primary mechanism to transfer multifamily mortgage credit and certain non-credit risk, we expect to continue to develop new risk transfer initiatives throughout 2018.

Financial Guarantee Activity

---

Unearned Guarantee Fees on New Guarantee Contracts  
(Dollars in millions)

Remaining Unearned Guarantee Fees

Freddie Mac Form 10-Q 48

---

Commentary

---

We earn guarantee fees in exchange for providing our guarantee of some or all of the securities we issue as part of our securitization products. Each time we enter into a financial guarantee contract, we initially recognize unearned guarantee fees on our balance sheet, which represent the present value of future guarantee fees we expect to receive in cash. We recognize these fees in segment earnings over the expected remaining guarantee term. While we expect to collect these future fees based on historical performance, the actual amount collected will depend on the performance of the underlying collateral subject to our financial guarantee.

n New unearned guarantee fees increased during the 2018 periods compared to the 2017 periods primarily due to an increase in the UPB of our securitizations, offset by lower average guarantee fee rates due to underlying loan products that, by their nature and design, have less risk and for which we therefore set a lower guarantee fee rate.

The remaining balance of unearned guarantee fees increased slightly during YTD 2018, as the increase attributable to the growth of our securitization volume outpaced the decrease due to seasoning and run-off of prior securitizations.

## Management's Discussion and Analysis Our Business Segments | Multifamily

## Financial Results

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

(Dollars in millions)	2Q		Change		YTD		Change		
	2018	2017	\$	%	2018	2017	\$	%	
Net interest income	\$293	\$292	\$1	—	% \$564	\$563	\$1	—	%
Guarantee fee income	204	162	42	26	399	313	86	27	
Benefit (provision) for credit losses	2	6	(4)	(67)	18	12	6	50	
Gains (losses) on loans and other non-interest income	75	412	(337)	(82)	(355)	648	(1,003)	(155)	
Derivative gains (losses)	224	(180)	404	224	879	(53)	932	1,758	
Administrative expense	(106)	(95)	(11)	(12)	(206)	(190)	(16)	(8)	
Other non-interest expense	(4)	(12)	8	67	(18)	(33)	15	45	
Segment Earnings before income tax expense	688	585	103	18	1,281	1,260	21	2	
Income tax expense	(140)	(196)	56	29	(261)	(422)	161	38	
Segment Earnings, net of taxes	548	389	159	41	1,020	838	182	22	
Total other comprehensive income (loss), net of tax	(24)	73	(97)	(133)	(92)	69	(161)	(233)	
Total comprehensive income (loss)	\$524	\$462	\$62	13	% \$928	\$907	\$21	2	%

## Key Business Drivers:

<sup>n</sup> 2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017

<sup>1</sup> Higher net interest yields, offset by a decline in our weighted average portfolio balance of interest-earning assets, resulted in relatively flat net interest income.

<sup>1</sup> Continued growth in our multifamily guarantee portfolio resulted in increased guarantee fee income.

<sup>1</sup> Derivative gains (losses) are largely offset by interest rate-related fair value changes on the loans and investment securities being economically hedged, resulting in interest rate changes having a minimal net impact on total comprehensive income.

<sup>1</sup> Spread widening on non-agency CMBS, coupled with the effects of strategic pricing, resulted in lower fair value gains for our securitization pipeline and investment securities.

Capital Markets

Market Conditions

---

The following graphs and related discussion present the par swap rate curves as of the end of each comparative period. Changes in par swap rates can significantly affect the fair value of our debt, derivatives and mortgage and non-mortgage-related securities. However, the majority of these fair value changes recorded in the financial statements are offset by our hedge accounting programs.

Par Swap Rate Curves

Source: BlackRock

Commentary

---

The par swap curve flattened during 2018 as short-term interest rates increased more than long-term interest rates. Long-term interest rates increased during the 2018 periods compared to small decreases during the 2017 periods. The increases resulted in larger fair value gains for our pay-fixed interest rate swaps, forward commitments to issue<sup>n</sup> PCs, and futures, partially offset by larger fair value losses for our receive-fixed interest rate swaps and the vast majority of our investments in securities. The net amount of these changes in fair value was mostly offset by the change in fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs.

## Business Results

---

The graphs and related discussion below present the business results of our Capital Markets segment.

### Investing Activity

---

The following graphs present the Capital Markets segment's total investments portfolio and the composition of its mortgage investments portfolio by liquidity category.

### Investments Portfolio

#### Mortgage Investments Portfolio

#### Commentary

---

We continue to reduce the size of our mortgage investments portfolio in order to comply with the mortgage-related investments portfolio year-end limits. The balance of our mortgage investments portfolio declined 3.8% from December 31, 2017 to June 30, 2018.

The balance of our other investments and cash portfolio declined by 18.0%, primarily due to reduced near term cash needs as of June 30, 2018 compared to December 31, 2017. As part of our secured lending activities, in 2Q 2018, we began providing secured term financing through revolving lines of credit collateralized by the value of contractual mortgage servicing rights on certain mortgages we own.

The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 28.4% at December 31, 2017 to 27.2% at June 30, 2018, primarily due to our active disposition of less liquid assets and repayments. We continued to actively reduce our holdings of less liquid assets during YTD 2018 by selling \$3.9 billion of reperforming loans and \$1.7 billion of non-agency mortgage-related securities. Our sales of reperforming loans involved securitization of the loans using senior subordinate structures.



<sup>n</sup> The overall liquidity of our mortgage investments portfolio continued to improve as our less liquid assets decreased at a faster pace than the overall decline of our mortgage investments portfolio.

Net Interest Yield and Average Balances

---

Net Interest Yield & Average Investments Portfolio Balances

(UPB in billions)

Commentary

---

Net interest yield increased 26 and 16 basis points during 2Q 2018 and YTD 2018, respectively, primarily due to changes in our investment mix as we reduced our less liquid assets and our other investments and cash portfolio, coupled with an increase in the yield on our newly acquired mortgage-related assets and other investments and cash portfolio as interest rates increased. These increased yields were partially offset by an increase in our funding costs. n Capital Markets segment net interest yield in the graph above is not affected by our hedge accounting programs. See Note 13 in our 2017 Annual Report for more information.

## Management's Discussion and Analysis Our Business Segments | Capital Markets

## Financial Results

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

(Dollars in millions)	2Q		Change		YTD		Change	
	2018	2017	\$	%	2018	2017	\$	%
Net interest income	\$862	\$875	(\$13)	(1)%	\$1,679	\$1,804	(\$125)	(7)%
Net impairment of available-for-sale securities recognized in earnings	26	71	(45)	(63)	137	144	(7)	(5)
Derivative gains (losses)	309	(485)	794	164	1,611	(433)	2,044	472
Gains (losses) on trading securities	(232)	(46)	(186)	(404)	(703)	(181)	(522)	(288)
Other non-interest income	571	418	153	37	1,096	1,162	(66)	(6)
Administrative expense	(89)	(86)	(3)	(3)	(173)	(169)	(4)	(2)
Segment Earnings before income tax expense	1,447	747	700	94	3,647	2,327	1,320	57
Income tax expense	(295)	(250)	(45)	(18)	(743)	(778)	35	4
Segment Earnings, net of taxes	1,152	497	655	132	2,904	1,549	1,355	87
Total other comprehensive income (loss), net of tax	(42)	249	(291)	(117)	(746)	278	(1,024)	(368)
Total comprehensive income (loss)	\$1,110	\$746	\$364	49%	\$2,158	\$1,827	\$331	18%

The portion of total comprehensive income (loss) driven by interest rate-related and market spread-related fair value changes, after-tax, is presented in the table below. These amounts affect various line items in the table above, including net interest income, derivative gains (losses), gains (losses) on trading securities, other non-interest income, income tax expense and total other comprehensive income (loss), net of tax.

(Dollars in billions)	2Q		Change		YTD		Change	
	2018	2017	\$	%	2018	2017	\$	%
Interest rate-related	(\$0.1)	(\$0.1)	\$—	%	(\$0.1)	(\$0.1)	\$—	%
Market spread-related	—	0.2	(0.2)	(100)	0.2	0.3	(0.1)	(33)

## Key Business Drivers:

n 2Q 2018 vs. 2Q 2017 and YTD 2018 vs. YTD 2017

1. The continued reduction in the balance of our mortgage-related investments portfolio resulted in a decrease in net interest income.

1 Interest rate-related fair value changes remained relatively flat. Long-term interest rates increased during the 2018 periods compared to small decreases during the 2017 periods, resulting in higher fair value losses for the vast majority of our investments in securities (some of which are recorded in other comprehensive income) and our receive-fixed interest rate swaps, and higher fair value gains for our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures. The net amount of these changes in fair value was mostly offset by the change in fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs. The remaining amount of interest rate-related fair value changes was primarily attributable to the reversal of previously recognized derivative gains and losses and the implied net cost on instruments such as swaptions, futures, and forward purchase and sale commitments from our

hedging and interest-rate risk management activities. See Market Risk for additional information on the effect of market-related items on our comprehensive income.

1 Decreased spread related gains during the 2018 periods compared to the 2017 periods due to lower non-agency mortgage-related securities balances and less spread tightening.

1 Recognition of a \$0.3 billion gain from the Nomura judgment during 2Q 2018. See Note 14 for additional information on the Nomura judgment.

1 Increase in gains on sales of single-family reperforming loans due to a higher volume of loans sold into senior subordinate securitization structures, partially offset by lower execution margin in the 2018 periods.

## RISK MANAGEMENT

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, operational risk, market risk and liquidity risk.

For more discussion of these and other risks facing our business and our risk management framework, see MD&A - Risk Management and Risk Factors in our 2017 Annual Report and Liquidity and Capital Resources in this report and in our 2017 Annual Report. See below for updates since our 2017 Annual Report.

### Conservatorship Capital Framework

In May 2017, FHFA, as Conservator, issued guidance to us to evaluate and manage our financial risk and to make economic business decisions, while in conservatorship, utilizing a newly-developed Conservatorship Capital Framework (CCF), an economic capital system with detailed formulae provided by FHFA. The CCF also provides the foundation for the risk-based component of the proposed Enterprise Capital Rule published by FHFA in the Federal Register in July 2018. For more information on the proposed rule, see Regulation and Supervision - Legislative and Regulatory Developments - Proposed Enterprise Capital Rule. The CCF assesses capital required under a severe stress event and includes credit, market, counterparty and operational risks, as well as a "going concern" buffer. This severe stress event is generally consistent with the 2016 Dodd-Frank Act Stress Test "severely adverse" scenario, which was publicly reported on August 7, 2017.

The CCF is used to establish the modeled capital required to evaluate business decisions and ensure the company makes such decisions prudently when pricing transactions and managing its businesses. This risk-versus-return framework focuses on the profits earned versus an estimated cost of equity capital required to support the risk assumed to generate those profits. Management relies upon this framework in its decision-making.

For several years, we have used an internal economic capital model to similarly support our risk-versus-return framework for decision making and analysis. As our internal model was largely based upon the same principles used in the development of the CCF, the impact of the implementation of the CCF in 2017 was not significant to our decision-making.

Under the CCF, hypothetical common equity is considered the only type of capital for our risk-versus-return decision-making. We use the estimated cost of equity capital to evaluate returns on transactions and business portfolios.

In addition, under the Purchase Agreement, we are not able to permanently retain capital in excess of the \$3.0 billion Capital Reserve Amount. As a result, we do not have capital sufficient to support our aggregate risk-taking activities. Instead, we rely upon the Purchase Agreement to maintain market confidence.

The existing regulatory capital requirements have been suspended by FHFA during conservatorship. Consequently, we refer to the capital required by the CCF for analysis of transactions and businesses as "modeled conservatorship capital required" or simply "CCF capital required."

## Return on Modeled Conservatorship Capital Required

The table below provides the return on CCF capital required, calculated as (1) annualized comprehensive income for the period divided by (2) average CCF capital required during the period. We calculate the return using both (1) GAAP comprehensive income and (2) comprehensive income excluding significant items, a non-GAAP financial measure which excludes from our GAAP comprehensive income significant items that are not indicative of our on-going operations. We believe that this non-GAAP financial measure provides a more useful measure of our return on modeled conservatorship capital required as it better reflects our on-going financial results.

All modeled conservatorship capital required figures presented below are based on the CCF as of June 30, 2018. The CCF has been and may be further revised by FHFA from time to time, and may be revised specifically in connection with FHFA's consideration and adoption of a final Enterprise Capital Rule, which can result in changes, possibly material, in our modeled conservatorship capital required. For example, the proposed Enterprise Capital Rule includes capital for deferred tax assets, which is not included in the CCF currently, but which is already scheduled to be included beginning in 2019.

The return on CCF capital required shown in the table below is not based on our actual equity capital and does not reflect actual returns on equity capital.

(Dollars in billions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
GAAP comprehensive income	\$2.4	\$2.0	\$4.6	\$4.2
Significant items:				
Non-agency mortgage-related securities judgment <sup>(1)</sup>	(0.3)	—	(0.3)	—
Tax effect related to judgment <sup>(1)</sup>	0.1	—	0.1	—
Total significant items	(0.2)	—	(0.2)	—
Comprehensive income, excluding significant items	\$2.2	\$2.0	\$4.4	\$4.2
CCF capital required (average)	\$53.1	\$61.6	\$54.3	\$62.8
Return on CCF capital required, based on GAAP comprehensive income	18.3%	12.9%	16.9%	13.4%
Adjusted return on CCF capital required, based on comprehensive income excluding significant items	16.4%	12.9%	15.9%	13.4%

2Q 2018 GAAP comprehensive income included a benefit of \$334 million (pre-tax) from a final judgment against (1) Nomura Holding America, Inc. in litigation involving certain of our non-agency mortgage-related securities. The tax effect related to this judgment was (\$70) million.

Our returns on CCF capital required increased over the last several quarters due to our decreasing level of CCF capital required, resulting from home price improvements, the efficient disposition of legacy assets and the increasing credit risk transfer activity in both our Single-family Guarantee and Multifamily businesses.

Our three business segments have different capital requirements, returns and profitability. The return on CCF capital required for our Single-family Guarantee business, which has FHFA-prescribed guidance on guarantee fee levels, is generally lower than the company's overall return, while the returns in our Multifamily and Capital Markets businesses are generally higher.

We find the returns calculated above, as well as the returns calculated on specific transactions and individual business lines, to be a reasonable measure of risk-versus-return to support our decision-

making while we remain in conservatorship. These returns may not be indicative of the returns that would be generated if we were to exit conservatorship, especially as the terms and timing of any such exit are not currently known and will depend upon future actions by the U.S. government. Our belief, should we leave conservatorship, is that returns at that time would most likely be below the levels calculated above, assuming the same portfolio of risk assets, as we expect that we would hold capital post-conservatorship above the minimum required regulatory capital. It is also likely the we would be required to pay fees for federal government support, thereby reducing our total comprehensive income.

## Management's Discussion and Analysis Risk Management | Market Risk

## Market Risk

Our business segments have embedded exposure to market risk, including interest-rate and spread risks. Interest-rate risk is consolidated and primarily managed by the Capital Markets segment, while spread risk is owned and managed by each individual business segment. Market risk can adversely affect future cash flows, or economic value, as well as earnings and net worth.

## Economic Market Risk

The majority of our interest-rate risk comes from our investments in mortgage-related assets (securities and loans) and the debt we issue to fund them. Our primary goal in managing interest-rate risk is to reduce the amount of change in the value of our future cash flows due to future changes in interest rates. We use models to analyze possible future interest-rate scenarios, along with the cash flows of our assets and liabilities over those scenarios.

Our primary interest-rate risk measures are duration gap and PMVS. 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. PMVS is our estimate of the change in the market value of our financial assets and liabilities from an instantaneous shock to interest rates, assuming spreads are held constant and no rebalancing actions are undertaken. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to a 50 basis point parallel movement in interest rates (PMVS-L) and the other to a non-parallel movement resulting from a 25 basis point change in slope of the LIBOR yield curve (PMVS-YC). While we believe that duration gap and PMVS are useful risk management tools, they should be understood as estimates rather than as precise measurements. The following tables provide our 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. The tables below also provide PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. The interest-rate sensitivity of a mortgage portfolio varies across a wide range of interest rates.

(In millions)	June 30, 2018			December 31, 2017		
	PMVS-L	PMVS-L	PMVS-L	PMVS-L	PMVS-L	PMVS-L
	25 bps	50 bps	100 bps	25 bps	50 bps	100 bps
Assuming shifts of the LIBOR yield curve, (gains) losses on: <sup>(1)</sup>						
Assets	(\$513)	(\$5,590)	(\$11,003)	\$463	\$5,587	\$11,446
Liabilities	(156 )	2,176	4,234	185	(2,377)	(4,968 )
Derivatives	684	3,443	6,863	(646 )	(3,200)	(6,477 )
Total	\$15	\$29	\$94	\$2	\$10	\$1
PMVS	\$15	\$29	\$94	\$2	\$10	\$1

The categorization of the PMVS impact between assets, liabilities and derivatives on this table is based upon the economic characteristics of those assets and liabilities, not their accounting classification. For example, purchase and sale commitments of mortgage-related securities and debt securities of consolidated trusts held by the mortgage-related investments portfolio are both categorized as assets on this table.



## Management's Discussion and Analysis Risk Management | Market Risk

(Duration gap in months, dollars in millions)	2Q 2018		2Q 2017	
	Duration	PMVS-YCPMVS-L	Duration	PMVS-YCPMVS-L
Average	Gap 25 bps	50 bps	Gap 25 bps	50 bps
Minimum	(0.1)	\$12	0.1	\$5
Maximum	(0.4)	—	(0.2)	—
Standard deviation	0.2	31	0.3	19
	0.1	7	0.1	4
		21		13

(Duration gap in months, dollars in millions)	YTD 2018		YTD 2017	
	Duration	PMVS-YCPMVS-L	Duration	PMVS-YCPMVS-L
Average	Gap 25 bps	50 bps	Gap 25 bps	50 bps
Minimum	(0.1)	\$10	0.1	\$6
Maximum	(0.4)	—	(0.2)	—
Standard deviation	0.2	31	0.8	22
	0.1	7	0.2	5
		18		14

Derivatives enable us to reduce our economic interest-rate risk exposure as we continue to align our derivative portfolio with the changing duration of our economically hedged assets and liabilities. The table below shows that the PMVS-L risk levels, assuming a 50 basis point shift in the LIBOR yield curve for the periods presented, would have been higher if we had not used derivatives.

(In millions)	PMVS-L (50 bps)		
	Before Derivatives	After Derivatives	Effect of Derivatives
June 30, 2018	\$3,472	\$29	(\$3,443 )
December 31, 2017	3,210	10	(3,200 )

The GAAP accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates and spreads change. This variability of GAAP earnings, which may not reflect the economics of our business, increases the risk of our having a negative net worth and thus being required to draw from Treasury.

**Interest-rate Volatility**

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, our GAAP financial results are still subject to significant earnings variability from period to period. Based upon the composition of our financial assets and liabilities, including derivatives, at June 30, 2018, we generally recognize fair value losses in GAAP earnings when interest rates decline.

In an effort to reduce our GAAP earnings variability and better align our GAAP results with the economics of our business, we elect hedge accounting for certain single-family mortgage loans and certain debt instruments. See Note 9 for additional information on hedge accounting.

The table below presents the effect of derivatives used in our interest-rate risk management activities on our comprehensive income (loss), net of tax, after considering any offsetting interest rate effects related to financial instruments measured at fair value and the effects of fair value hedge accounting.

## Management's Discussion and Analysis Risk Management | Market Risk

(In billions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Interest-rate effect on derivative fair values	\$1.1	(\$1.1)	\$4.1	(\$0.6)
Estimate of offsetting interest-rate effect related to financial instruments measured at fair value <sup>(1)</sup>	(0.7)	0.5	(2.6)	—
Gains (losses) on mortgage loans and debt in fair value hedge relationships	(0.6)	0.4	(1.8)	0.4
Amortization of deferred hedge accounting gains and losses	0.1	—	0.1	—
Income tax (expense) benefit	—	0.1	—	0.1
Estimated net interest rate effect on comprehensive income (loss)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.1)

Includes the interest-rate effect on our trading securities, available-for-sale securities, mortgage loans held-for-sale and other assets and debt for which we elected the fair value option, which is reflected in other non-interest income (1) (loss) and total other comprehensive income (loss) on our condensed consolidated statements of comprehensive income.

The effect from the change in interest rates on derivative fair values is mostly offset by the effect from the change in interest rates related to financial instruments measured at fair value and gains and losses on mortgage loans and debt in fair value hedging relationships. The remaining net interest-rate effect on comprehensive income is largely attributable to the reversal of previously recognized derivative gains and losses and the implied net cost on instruments such as swaptions, futures, and forward purchase and sale commitments from our hedging and interest-rate risk management activities. These remaining effects are recognized in GAAP earnings over time as a component of derivative gains and losses as the instruments approach maturity and are partially offset by the amortization of previously deferred hedge accounting gains and losses.

We evaluate the potential benefits of fair value hedge accounting by evaluating a range of interest rate scenarios and identifying which of those scenarios produces the most adverse GAAP earnings outcome. The interest rate scenarios evaluated include parallel shifts in the yield curve of plus and minus 100 basis points, non-parallel yield curve shifts in which long-term interest rates increase or decrease by 100 basis points and non-parallel yield curve shifts in which short-term and medium-term interest rates increase or decrease by 100 basis points.

At June 30, 2018 and June 30, 2017, the GAAP adverse scenario before and after fair value hedge accounting was a non-parallel shift in which long-term rates decrease by 100 basis points.

The results of this evaluation are shown in the table below.

(Dollars in billions)	GAAP Adverse Scenario (Before-Tax)		%
	Before Hedge Accounting	After Hedge Accounting Change	
June 30, 2018	(\$3.4)	(\$0.5)	86 %
June 30, 2017	(3.3)	(1.5)	55

## Spread Volatility

We have limited ability to manage our spread risk exposure in a cost beneficial manner and therefore the volatility of market spreads may contribute to significant GAAP earnings variability. For financial assets measured at fair value, we generally recognize fair value losses when market spreads widen. Conversely, for financial liabilities measured at fair value, we generally recognize fair value gains when market spreads widen.

## Management's Discussion and Analysis Risk Management | Market Risk

The table below shows the estimated effect of spreads on our comprehensive income (loss), after tax, by segment.

(In billions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Capital Markets	\$—	\$0.2	\$0.2	\$0.3
Multifamily	0.1	—	0.1	0.1
Single-family Guarantee <sup>(1)</sup>	—	(0.1)	—	(0.2)
Spread effect on comprehensive income (loss)	\$0.1	\$0.1	\$0.3	\$0.2

(1) Represents spread exposure on certain STACR debt securities for which we have elected the fair value option.

## Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

## LIQUIDITY AND CAPITAL RESOURCES

## Sources of Liquidity and Capital

Our business activities require that we maintain adequate liquidity to fund our operations. We also must maintain adequate capital resources to avoid being placed into receivership by FHFA. For further discussion of our liquidity framework and profile, see MD&A - Liquidity and Capital Resources in our 2017 Annual Report.

## Primary Sources of Liquidity, Funding and Capital

The following table lists the sources of our liquidity, funding and capital, the balances as of 2Q 2018 and a brief description of their importance to Freddie Mac.

Source	Balance <sup>(1)</sup> (In billions)	Description
<b>Liquidity</b>		
Other Investments and Cash Portfolio - Liquidity and Contingency Operating Portfolio	\$50.3	The liquidity and contingency operating portfolio, included within our other investments and cash portfolio, is primarily used for short-term liquidity management.
Liquid Portion of the Mortgage-Related Investments Portfolio	\$130.1	The liquid portion of our mortgage-related investments portfolio can be pledged or sold for liquidity purposes. The amount of cash we may be able to successfully raise may be substantially less than the balance.
Other Debt	\$278.2	Other debt is used to fund our business activities, including Single-family guarantee activities not funded by debt securities of consolidated trusts. Debt securities of consolidated trusts are used primarily to fund our Single-family guarantee activities. This type of debt is principally repaid by the cash flows of the associated mortgage loans. As a result, our repayment obligation is limited to amounts paid pursuant to our guarantee of principal and interest and to purchase modified or seriously delinquent loans from the trusts.
Debt Securities of Consolidated Trusts	\$1,746.3	
<b>Capital</b>		
Net Worth	\$4.6	GAAP net worth represents capital available prior to our dividend requirement to Treasury under the Purchase Agreement.
Available Funding under Purchase Agreement	\$140.2	FHFA may request that available funding under the Purchase Agreement be drawn on our behalf from Treasury.

Represents carrying value for the liquidity and contingency operating portfolio, included within our other (1) investments and cash portfolio, and net worth. Represents UPB for the liquid portion of the mortgage-related investments portfolio and debt balances.

## Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

## Other Investments and Cash Portfolio

The investments in our other investments and cash portfolio are important to our cash flow, collateral management, asset and liability management, and our ability to provide liquidity and stability to the mortgage market. The table below summarizes the balances in our other investments and cash portfolio, which includes the liquidity and contingency operating portfolio.

(In billions)	June 30, 2018				December 31, 2017			
	Liquidity and Contingency Operating Portfolio	Custodial Account	Other	Total Other Investments and Cash Portfolio	Liquidity and Contingency Operating Portfolio	Custodial Account	Other	Total Other Investments and Cash Portfolio
Cash and cash equivalents <sup>(1)</sup>	\$6.2	\$0.6	\$—	\$6.8	\$9.3	\$0.5	\$—	\$9.8
Securities purchased under agreements to resell	23.4	16.4	2.0	41.8	38.9	16.8	0.2	55.9
Non-mortgage-related securities	20.7	—	2.8	23.5	22.2	—	0.6	22.8
Advances to lenders and other secured lending	—	—	1.7	1.7	—	—	1.3	1.3
Total	\$50.3	\$17.0	\$6.5	\$73.8	\$70.4	\$17.3	\$2.1	\$89.8

(1) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance and re-designation of cash collateral posted to us as part of the liquidity and contingency operating portfolio.

Our non-mortgage-related investments in the liquidity and contingency operating portfolio consist of U.S. Treasury securities and other investments that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintain non-interest-bearing deposits at the Federal Reserve Bank of New York. The liquidity and contingency operating portfolio also includes collateral posted to us in the form of cash by derivatives counterparties of \$2.3 billion and \$2.4 billion as of June 30, 2018 and December 31, 2017, respectively. We have invested this collateral in securities purchased under agreements to resell and non-mortgage-related securities as part of our liquidity and contingency operating portfolio, although the collateral may be subject to return to our counterparties based on the terms of our master netting and collateral agreements.

## Mortgage-Related Investments Portfolio

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and 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. Our ability to pledge certain of these assets as collateral or sell them enhances our liquidity profile, although the amount of cash we may be able to successfully raise in the event of a liquidity crisis or significant market disruption may be substantially less than the amount of mortgage-related assets we hold. See Conservatorship and Related Matters for additional details on the liquidity of our mortgage-related investments portfolio.

## Other Debt Activities

We issue other debt to fund our operations. Competition for funding can vary with economic, financial market and regulatory environments. We issue other debt based on a variety of factors including market

## Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

conditions and our liquidity requirements. We currently favor a mix of derivatives and shorter- and medium-term debt to fund our business and manage interest-rate risk. This funding mix is a less expensive method than relying more extensively on long-term debt.

The tables below summarize the par value and the average rate of other debt securities we issued or paid off, including regularly scheduled principal payments, payments resulting from calls and payments for repurchases. We call, exchange or repurchase our outstanding debt securities from time to time for a variety of reasons, including managing our funding composition and supporting the liquidity of our debt securities.

(Dollars in millions)	2Q 2018			
	Short-term	Average Rate <sup>(1)</sup>	Long-term	Average Rate <sup>(1)</sup>
Discount notes and Reference Bills:				
Beginning balance	\$26,958	1.40 %	\$—	— %
Issuances	96,181	1.66	—	—
Repurchases	—	—	—	—
Maturities	(88,368)	1.52	—	—
Ending Balance	34,771	1.83	—	—
Securities sold under agreements to repurchase:				
Beginning balance	9,745	1.38	—	—
Additions	38,766	1.74	—	—
Repayments	(36,792)	1.60	—	—
Ending Balance	11,719	1.87	—	—
Callable debt:				
Beginning balance	—	—	113,552	1.66
Issuances	—	—	8,199	3.19
Repurchases	—	—	(167)	1.86
Calls	—	—	(1,790)	1.95
Maturities	—	—	(7,059)	1.09
Ending Balance	—	—	112,735	1.81
Non-callable debt: <sup>(2)</sup>				
Beginning balance	17,612	1.12	113,064	2.90
Issuances	—	—	5,000	2.69
Repurchases	—	—	(1,300)	1.99
Maturities	(7,150)	0.99	(8,300)	3.47
Ending Balance	10,462	1.21	108,464	2.96
Total other debt	\$56,952	1.73 %	\$221,199	2.37 %

Referenced footnotes are included after the next table.



## Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

(Dollars in millions)	YTD 2018			
	Short-term	Average Rate <sup>(1)</sup>	Long-term	Average Rate <sup>(1)</sup>
Discount notes and Reference Bills:				
Beginning balance	\$45,717	1.19 %	\$—	— %
Issuances	170,296	1.50	—	—
Repurchases	—	—	—	—
Maturities	(181,242)	1.36	—	—
Ending Balance	34,771	1.83	—	—
Securities sold under agreements to repurchase:				
Beginning balance	9,681	1.06	—	—
Additions	80,560	1.52	—	—
Repayments	(78,522)	1.41	—	—
Ending Balance	11,719	1.87	—	—
Callable debt:				
Beginning balance	—	—	113,822	1.58
Issuances	—	—	13,750	3.04
Repurchases	—	—	(722)	2.07
Calls	—	—	(2,682)	1.96
Maturities	—	—	(11,434)	1.07
Ending Balance	—	—	112,734	1.81
Non-callable debt: <sup>(2)</sup>				
Beginning balance	17,792	1.03	129,094	2.52
Issuances	1,825	1.44	13,375	2.42
Repurchases	—	—	(1,300)	1.99
Maturities	(9,155)	0.94	(32,704)	1.50
Ending Balance	10,462	1.21	108,465	2.96
Total other debt	\$56,952	1.73 %	\$221,199	2.37 %

(1) Average rate is weighted based on par value.

Includes STACR and SCR debt notes and certain multifamily other debt. STACR and SCR debt notes are subject (2) to prepayment risk as their payments are based upon the performance of a reference pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty.

During the 2018 periods, our outstanding other debt balance continued to decline as we reduced our indebtedness along with the decline in our mortgage-related investments portfolio. As a result, our total issuances, excluding securities sold under agreements to repurchase, decreased.



Management's Discussion and Analysis Liquidity and Capital Resources | Sources of Liquidity and Capital

The following graphs present our other debt by contractual maturity date and earliest redemption date. The earliest redemption date refers to the earliest call date for callable debt and the contractual maturity date for all other debt. Contractual Maturity Date as of June 30, 2018<sup>(1)</sup>

Earliest Redemption Date as of June 30, 2018<sup>(1)</sup>

STACR and SCR debt notes are subject to prepayment risk as their payments are based upon the performance of a (1)reference pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty and are therefore included as a separate category in the graphs.

Freddie Mac Form 10-Q 68

---

## Debt Securities of Consolidated Trusts

The largest component of debt on our condensed consolidated balance sheets is debt securities of consolidated trusts, which relates to securitization transactions that we consolidated for accounting purposes. We issue this type of debt by securitizing mortgage loans primarily to fund the majority of our single-family guarantee activities. When we consolidate securitization trusts, we recognize the following on our condensed consolidated balance sheets:

The assets held by the securitization trusts, the majority of which are mortgage loans. We recognized \$1,795.5 billion and \$1,774.3 billion of mortgage loans, which represented 87.9% and 86.6% of our total assets, as of 2Q 2018 and 4Q 2017, respectively.

The debt securities issued by the securitization trusts, the majority of which are PCs. PCs are pass-through securities, where the cash flows of the mortgage loans held by the securitization trust are passed through to the holders of the PCs. We recognized \$1,746.3 billion and \$1,721.0 billion of debt securities of consolidated trusts, which represented 86.4% and 84.6% of our total debt, as of 2Q 2018 and 4Q 2017, respectively.

Debt securities of consolidated trusts are principally repaid from the cash flows of the mortgage loans held by the securitization trusts that issued the debt securities. In circumstances when the cash flows of the mortgage loans are not sufficient to repay the debt, we make up the shortfall because we have guaranteed the payment of principal and interest on the debt. In certain circumstances, we have the right and/or obligation to purchase the loan from the trust prior to its contractual maturity.

The table below shows the issuance and extinguishment activity for the debt securities of our consolidated trusts.

(In millions)	2Q 2018	YTD 2018
Beginning balance	\$1,679,968	\$1,672,605
Issuances:		
New issuances to third parties	48,620	85,936
Additional issuances of securities	49,075	89,275
Total issuances	97,695	175,211
Extinguishments:		
Purchases of debt securities from third parties	(10,785)	(19,613)
Debt securities received in settlement of advances to lenders	(6,775)	(11,500)
Repayments of debt securities	(59,623)	(116,223)
Total extinguishments	(77,183)	(147,336)
Ending balance	1,700,480	1,700,480
Unamortized premiums and discounts	45,818	45,818
Debt securities of consolidated trusts held by third parties	\$1,746,298	\$1,746,298

## Management's Discussion and Analysis Liquidity and Capital Resources | Capital

## Capital

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. Under the Purchase Agreement, Treasury made a commitment to provide us with equity funding, under certain conditions, to eliminate deficits in our net worth. As of June 30, 2018, our net worth was \$4.6 billion and the amount of available funding remaining under the Purchase Agreement was \$140.2 billion. See Note 2 for details of the support we receive from Treasury.

The table below presents activity related to our net worth during 2Q 2018 and YTD 2018.

(In millions)	2Q 2018	YTD 2018
Beginning balance	\$2,150	(\$312 )
Comprehensive income (loss)	2,435	4,585
Capital draw from Treasury	—	312
Senior preferred stock dividends declared	—	—
Total equity / net worth	\$4,585	\$4,585
Aggregate draws under Purchase Agreement	\$71,648	\$71,648
Aggregate cash dividends paid to Treasury	112,393	112,393

Management's Discussion and Analysis Liquidity and Capital Resources | Cash Flows

Cash Flows

We evaluate our cash flow performance by comparing the net cash flows from operating and investing activities to the net cash flows required to finance those activities. The following graphs present the results of these activities for YTD 2017 and YTD 2018.

Operating Cash Flows Commentary	Investing Cash Flows	Financing Cash Flows
------------------------------------	----------------------	----------------------

---

nCash provided by operating activities increased \$3.2 billion primarily due to:

lAn increase in net sales of held-for-sale loans, driven by an increase in the volume of our multifamily securitizations.

nCash provided by investing activities decreased \$2.4 billion primarily due to:

lA decrease in net proceeds received from sales and maturities of investment securities due to our continued reduction of the mortgage-related investments portfolio as required by the Purchase Agreement and FHFA; and

l An increase in purchases of single-family loans.

This decrease was partially offset by:

lA larger decrease in securities purchased under agreements to resell in 2018, driven by lower near-term cash needs for fewer upcoming maturities and anticipated calls of other debt.

nCash used in financing activities decreased \$7.2 billion primarily due to:

lAn increase in proceeds from issuance of debt securities of consolidated trusts held by third parties, driven by an increase in the volume of single-family PC issuances for cash; and

lA decrease in payments of cash dividends on senior preferred stock.

This decrease was partially offset by:

lAn increase in net repayments of other debt as we continued to reduce our indebtedness along with the mortgage-related investments portfolio.

Management's  
Discussion  
and  
Analysis

## CONSERVATORSHIP AND RELATED MATTERS

### Reducing Our Mortgage-Related Investments 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. The cap for this portfolio will decrease to \$250 billion at December 31, 2018.

(Dollars in millions)	June 30, 2018				December 31, 2017			
	Liquid	Securitization Pipeline	Unsecuritized	Total	Liquid	Securitization Pipeline	Unsecuritized	Total
Capital Markets segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	\$—	\$13,161	\$—	\$13,161	\$—	\$9,999	\$—	\$9,999
Reperforming loans	—	—	44,538	44,538	—	—	46,666	46,666
Total single-family unsecuritized loans	—	13,161	44,538	57,699	—	9,999	46,666	56,665
Freddie Mac mortgage-related securities	118,620	—	3,452	122,072	123,905	—	3,817	127,722
Non-agency mortgage-related securities	718	—	3,177	3,895	749	—	5,152	5,901
Other Non-Freddie Mac agency mortgage-related securities	4,452	—	—	4,452	5,211	—	—	5,211
Total Capital Markets segment - Mortgage investments portfolio	123,790	13,161	51,167	188,118	129,865	9,999	55,635	195,499
Single-family Guarantee segment - Single-family unsecuritized seriously delinquent loans	—	—	9,778	9,778	—	—	12,267	12,267
Multifamily segment:								
Unsecuritized loans	—	15,987	15,296	31,283	—	19,653	18,585	38,238
Mortgage-related securities	6,286	—	928	7,214	6,181	—	1,270	7,451
Total Multifamily segment	6,286	15,987	16,224	38,497	6,181	19,653	19,855	45,689
Total mortgage-related investments portfolio	\$130,076	\$29,148	\$77,169	\$236,393	\$136,046	\$29,652	\$87,757	\$253,455

Percentage of total mortgage-related investments portfolio	55	% 12	% 33	% 100	% 54	% 12	% 34	% 100	%
Mortgage-related investments portfolio cap at December 31, 2018 and December 31, 2017				\$250,000				\$288,408	
90% of mortgage-related investments portfolio cap at December 31, 2018 and December 31, 2017 <sup>(1)</sup>				\$225,000				\$259,567	

(1) Represents the amount to which we manage under our Retained Portfolio Plan, subject to certain exceptions. The decline in our mortgage-related investments portfolio during YTD 2018 was primarily due to the active disposition of less liquid assets and repayments.

Management's  
Discussion  
and  
Conservatorship and Related Matters  
Analysis

While we continued to purchase new single-family seriously delinquent loans and multifamily unsecuritized loans, which are classified as held-for-investment, our active disposition of less liquid assets included the following:

- n Sales of \$5.9 billion of less liquid assets, including \$3.9 billion in UPB of single-family reperforming loans, \$1.7 billion in UPB of single-family non-agency mortgage-related securities, and \$0.3 billion in UPB of seriously delinquent unsecuritized single-family loans;
- n Securitizations of \$0.5 billion in UPB of less liquid multifamily loans; and
- n Transfers of \$0.5 billion in UPB of less liquid multifamily loans to the securitization pipeline.

Freddie Mac Form 10-Q 73

---

Management's  
Discussion  
Regulation and Supervision  
and  
Analysis

## 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 and to certain regulation by other government agencies. Furthermore, regulatory activities by other government agencies can affect us indirectly, even if we are not directly subject to such agencies' regulation or oversight. For example, regulations that modify requirements applicable to the purchase or servicing of mortgages can affect us.

### Federal Housing Finance Agency Affordable Housing Goals

---

In our Form 10-Q for 1Q 2018, we indicated that we expected to achieve all five of our single-family affordable housing goals and all three of our multifamily goals for 2017. With respect to our single-family low-income purchase and very low-income purchase goals, we indicated that we expected to meet those goals based on meeting or exceeding the actual share of the market that meets the criteria for those goals once such market information is published in late 2018. Recent preliminary market data suggests that the market share for these goals is higher than expected and we now anticipate that we may not meet these two single-family goals. FHFA will ultimately make the determination as to whether we achieved compliance with the housing goals for 2017, based on the published market information.

### Affordable Housing Fund 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 total new business purchases and pay this amount to certain housing funds. During 2Q 2018 and YTD 2018, we completed \$100 billion and \$179 billion, respectively, of new business purchases subject to this requirement and accrued \$42 million and \$75 million, respectively, of related expense. We expect to pay the YTD 2018 expense amount (and any additional amounts accrued based on our new business purchases during the remainder of 2018) in February 2019. We are prohibited from passing through these costs to the originators of the loans that we purchase.

### Legislative and Regulatory Developments Proposed Enterprise Capital Rule

---

On July 17, 2018, FHFA published in the Federal Register a proposed rule that would, if adopted, establish post-conservatorship capital requirements for Freddie Mac and Fannie Mae. The proposed rule would implement both risk-based and leverage ratio capital requirements.

FHFA's predecessor agency, the Office of Federal Housing Enterprise Oversight, implemented risk-based and leverage ratio regulatory capital requirements for the Enterprises during the years before conservatorship. FHFA suspended these requirements after placing the Enterprises into conservatorship in 2008. See Note 17 - Regulatory Capital for further information about these requirements. In 2017, FHFA implemented the CCF as an aligned risk management framework to evaluate Enterprise business decisions in conservatorship and ensure the Enterprises make prudent decisions when pricing



Management's  
Discussion  
Regulation and Supervision  
and  
Analysis

transactions and managing their books of business. See Risk Management - Conservatorship Capital Framework for further information about the CCF.

FHFA indicates that the proposed rule is generally consistent with the regulatory capital framework for large banks, but reflects differences in the charters, business operations and risk profiles of the Enterprises. FHFA notes that the Enterprises are monoline businesses with assets and guarantees heavily concentrated in residential mortgages and with risk profiles that differ from large diversified banks.

The risk-based provisions of the proposed rule, for which the CCF is the foundation, would create capital requirements for specified categories of Enterprise guarantees and portfolio holdings. These requirements would address credit risk and market risk and would also include a risk-invariant requirement for operational risk, as well as a going-concern buffer across all categories. FHFA indicates that these requirements are designed to establish the necessary capital for the Enterprises to continue operating and maintain market confidence after a stress event comparable to the recent financial crisis.

The proposed rule also includes two alternatives for a leverage ratio. The first option would require the Enterprises to hold capital equal to 2.5% of total assets and off-balance sheet guarantees. The second option would require the Enterprises to hold capital equal to 1.5% of "trust assets" (Enterprise mortgage - related securities held by third parties and off-balance sheet guarantees related to securitization activities) and 4% of "non-trust assets" (total assets in accordance with GAAP, plus off-balance sheet guarantees related to securitization activities, less "trust assets"). FHFA requests comment on which of these options best balances the benefit of having a backstop to the risk-based capital requirement against the downside of a leverage requirement that could influence how the Enterprises evaluate risk. The proposed capital requirements would be suspended after adoption of a final rule while the Enterprises remain in conservatorship. FHFA indicates that it is proposing post-conservatorship capital requirements at this time in order to:

- n Communicate its views as a financial regulator about capital adequacy;
- n Update the existing capital rule by drawing on regulatory developments in response to the recent financial crisis;
- n Permit market participants to comment on proposed capital requirements for the Enterprises; and
- n Inform FHFA's views about possible refinements to the CCF, which will continue to apply to the Enterprises in conservatorship.

The comment process on FHFA's rule proposal could result in material changes to both the proposed capital requirements and the CCF.

#### Proposed Amendment to Corporate Governance Regulation

---

On April 6, 2018, FHFA published in the Federal Register a proposed rule to amend its corporate governance regulation. The amendment would require the board of directors to adopt a strategic business plan describing how Freddie Mac's business activities will achieve its statutory purposes. Among other things, the plan would address any significant activities Freddie Mac is planning to undertake, as well as current and emerging risks. The board would be required to review the plan annually, re-adopt it every three years, and monitor its implementation. We submitted a comment letter on this proposal on June 5, 2018, the end of the comment period.

Management's  
Discussion  
Regulation and Supervision  
and  
Analysis

Credit Score Legislation

---

On May 24, 2018, the President signed the Economic Growth, Regulatory Relief, and Consumer Protection Act, which amends Freddie Mac's charter to allow Freddie Mac's continued use of third-party credit scores, in purchasing a residential mortgage, if certain procedural requirements are met with respect to the solicitation, validation and approval of third-party credit scoring models. Freddie Mac is permitted to continue to use a credit score model that is in use before November 20, 2018 for two years after that date without validation and approval. After November 20, 2020, if Freddie Mac conditions a purchase on the provision of a credit score, the credit score must have been validated and approved. On July 23, 2018, FHFA announced that, pursuant to this law, it will undertake rulemaking to define the standards and criteria that Freddie Mac will use to validate credit score models.

OMB Reform Plan and Reorganization Recommendations

---

On June 21, 2018, the Office of Management and Budget released a plan titled Delivering Government Solutions in the 21st Century: Reform Plan and Reorganization Recommendations that includes proposed changes in the government's role in housing finance, including ending the conservatorships of Freddie Mac and Fannie Mae, reducing the role of the Enterprises in the housing market, and providing an explicit, limited federal backstop that is separate from the federal support for low- and moderate-income homebuyers. OMB indicates that its proposed changes would require broader policy and legislative reforms beyond restructuring federal agencies and programs.

Management's Discussion and Analysis Off-Balance Sheet Arrangements

**OFF-BALANCE SHEET ARRANGEMENTS**

We enter into certain off-balance sheet arrangements related to our securitization activities involving guaranteed loans and mortgage-related securities, though most of our securitization activities are on-balance sheet. For a description of our off-balance sheet arrangements, see MD&A - Off-Balance Sheet Arrangements in our 2017 Annual Report. See Note 3 and Note 5 for more information on our off-balance sheet securitization and guarantee activities.

Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and guarantees is primarily represented by the UPB of the underlying loans and securities, which was \$233.7 billion and \$215.7 billion at June 30, 2018 and December 31, 2017, respectively.

Management's Discussion and Analysis Forward-Looking  
Statements

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-Q, contain "forward-looking statements." Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily and Capital Markets segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, the costs and benefits of our credit risk transfer transactions 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 "could," "may," "will," "believe," "expect," "anticipate," "forecast" and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the Risk Factors section of our 2017 Annual Report, and:

The actions the U.S. government (including FHFA, Treasury and Congress) may take, or require us to take, including to support the housing markets or to implement FHFA's Conservatorship Scorecards and other objectives for us;

The effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend requirement on the senior preferred stock;

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 the balance sheet normalization program announced in October 2017 to reduce the Federal Reserve's holdings of mortgage-related securities;

Changes in tax laws, including those made by the Tax Cuts and Jobs Act enacted in December 2017;

Changes in accounting policies, practices or guidance (e.g., FASB's accounting standards update related to the measurement of credit losses of financial instruments);

Changes in economic and market conditions, including changes in employment rates, interest rates, spreads and home prices;

Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance vs. purchase and fixed-rate vs. ARM);

The success of our efforts to mitigate our losses on our Legacy and relief refinance single-family loan portfolio;

The success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS, K Certificate, SB Certificate and other credit risk transfer transactions;

Our ability to maintain adequate liquidity to fund our operations;

Our ability to maintain the security and resiliency of our operational systems and infrastructure (e.g.,

Management's Discussion and Analysis Forward-Looking  
Statements

against cyberattacks);

n Our ability to effectively execute our business strategies, implement new initiatives and improve efficiency;

n The adequacy of our risk management framework, including the adequacy of the CCF and our internal capital methodologies for measuring risk;

n Our ability to manage mortgage credit risk, including the effect of changes in underwriting and servicing practices;

n Our ability to limit or manage our economic exposure and GAAP earnings exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;

n Our operational ability to issue new securities, make timely and correct payments on securities and provide initial and ongoing disclosures;

n Changes or errors in the methodologies, models, assumptions and estimates we use to prepare our financial statements, make business decisions and manage risks;

n Changes in investor demand for our debt or mortgage-related securities;

n Changes in the practices of loan originators, servicers, investors and other participants in the secondary mortgage market;

n The occurrence of a major natural or other disaster in areas in which our offices or significant portions of our total mortgage portfolio are located; and

n Other factors and assumptions described in this Form 10-Q and our 2017 Annual Report, including in the MD&A section.

Forward-looking statements are made only as of the date of this Form 10-Q, 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-Q.

Financial  
Statements

Financial  
Statements

Freddie Mac Form 10-Q 80

---

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Condensed Consolidated Statements of Comprehensive Income

FREDDIE MAC

Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In millions, except share-related amounts)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Interest income				
Mortgage loans	\$16,344	\$15,848	\$32,295	\$31,813
Investments in securities	730	902	1,540	1,816
Other	228	150	442	251
Total interest income	17,302	16,900	34,277	33,880
Interest expense	(14,299)	(13,521)	(28,256)	(26,706)
Net interest income	3,003	3,379	6,021	7,174
Benefit (provision) for credit losses	60	422	(3)	)538
Net interest income after benefit (provision) for credit losses	3,063	3,801	6,018	7,712
Non-interest income (loss)				
Gains (losses) on extinguishment of debt	147	50	257	268
Derivative gains (losses)	416	(1,096)	)2,246	(1,398)
Net impairment of available-for-sale securities recognized in earnings	(1)	)(3)	)(1)	)(16)
Other gains (losses) on investment securities recognized in earnings	(348)	)61	(580)	)117
Other income (loss)	1,011	694	1,132	1,109
Non-interest income (loss)	1,225	(294)	)3,054	80
Non-interest expense				
Salaries and employee benefits	(303)	)(266)	(589)	)(541)
Professional services	(113)	)(118)	(215)	)(230)
Other administrative expense	(142)	)(129)	(274)	)(253)
Total administrative expense	(558)	)(513)	(1,078)	)(1,024)
Real estate owned operations expense	(15)	)(37)	(49)	)(93)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(366)	)(330)	(725)	)(651)
Other expense	(204)	)(126)	(401)	)(202)
Non-interest expense	(1,143)	)(1,006)	(2,253)	)(1,970)
Income (loss) before income tax (expense) benefit	3,145	2,501	6,819	5,822
Income tax (expense) benefit	(642)	)(837)	(1,390)	)(1,947)
Net income (loss)	2,503	1,664	5,429	3,875
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	(96)	)295	(896)	)293
Changes in unrealized gains (losses) related to cash flow hedge relationships	32	27	62	55
Changes in defined benefit plans	(4)	)—	(10)	)(3)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(68)	)322	(844)	)345
Comprehensive income (loss)	\$2,435	\$1,986	\$4,585	\$4,220
Net income (loss)	\$2,503	\$1,664	\$5,429	\$3,875
Undistributed net worth sweep and senior preferred stock dividends	(1,585)	)(1,986)	(1,585)	)(4,220)
Net income (loss) attributable to common stockholders	\$918	\$(322)	\$3,844	\$(345)
Net income (loss) per common share — basic and diluted	\$0.28	\$(0.10)	\$1.19	\$(0.11)
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,234	3,234	3,234

The accompanying notes are an integral part of these condensed consolidated financial statements.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Condensed Consolidated Balance Sheets

FREDDIE MAC

Condensed Consolidated Balance Sheets (Unaudited)

	June 30,	December
(In millions, except share-related amounts)	2018	31, 2017
<b>Assets</b>		
Cash and cash equivalents (Notes 1, 3 and 14) (includes \$536 and \$2,963 of restricted cash and cash equivalents)	\$6,752	\$9,811
Securities purchased under agreements to resell (Notes 3, 10)	41,769	55,903
Investments in securities, at fair value (Note 7)	77,710	84,318
Mortgage loans held-for-sale (Notes 3, 4) (includes \$16,621 and \$20,054 at fair value)	26,277	34,763
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of \$8,397 and \$8,966)	1,858,574	1,836,454
Accrued interest receivable (Note 3)	6,470	6,355
Derivative assets, net (Notes 9, 10)	391	375
Deferred tax assets, net (Note 12)	8,299	8,107
Other assets (Notes 3, 18) (includes \$3,598 and \$3,353 at fair value)	15,490	13,690
<b>Total assets</b>	<b>\$2,041,732</b>	<b>\$2,049,776</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Accrued interest payable (Note 3)	\$6,377	\$6,221
Debt, net (Notes 3, 8) (includes \$5,423 and \$5,799 at fair value)	2,021,162	2,034,630
Derivative liabilities, net (Notes 9, 10)	409	269
Other liabilities (Notes 3, 18)	9,199	8,968
<b>Total liabilities</b>	<b>2,037,147</b>	<b>2,050,088</b>
<b>Commitments and contingencies (Notes 5, 9 and 16)</b>		
<b>Equity (Note 11)</b>		
Senior preferred stock (redemption value of \$75,648 and \$75,336)	72,648	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 650,058,775 shares and 650,054,731 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(77,922)	(83,261)
<b>AOCI, net of taxes, related to:</b>		
Available-for-sale securities (includes \$350 and \$593, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	(91)	)662
Cash flow hedge relationships	(367)	)(356)
Defined benefit plans	92	83
<b>Total AOCI, net of taxes</b>	<b>(366)</b>	<b>)389</b>
Treasury stock, at cost, 75,805,111 shares and 75,809,155 shares	(3,884)	)(3,885)
<b>Total equity (See Note 11 for information on our dividend requirement to Treasury)</b>	<b>4,585</b>	<b>(312)</b>
<b>Total liabilities and equity</b>	<b>\$2,041,732</b>	<b>\$2,049,776</b>

The table below presents the carrying value and classification of the assets and liabilities of consolidated VIEs on our condensed consolidated balance sheets.

	June 30,	December
(In millions)	2018	31, 2017
<b>Consolidated Balance Sheet Line Item</b>		
<b>Assets: (Note 3)</b>		



Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Mortgage loans held-for-investment	\$1,795,534	\$1,774,286
All other assets	25,044	25,753
Total assets of consolidated VIEs	\$1,820,578	\$1,800,039
Liabilities: (Note 3)		
Debt, net	\$1,746,298	\$1,720,996
All other liabilities	5,124	5,030
Total liabilities of consolidated VIEs	\$1,751,422	\$1,726,026

The accompanying notes are an integral part of these condensed consolidated financial statements.

Freddie Mac Form 10-Q 82

---

## Financial Statements Condensed Consolidated Statements of Cash Flows

## FREDDIE MAC

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)	YTD 2018	YTD 2017
Net cash provided by operating activities	\$3,494	\$299
Cash flows from investing activities		
Purchases of trading securities	(64,979)	(92,192)
Proceeds from sales of trading securities	61,764	84,766
Proceeds from maturities and repayments of trading securities	3,007	4,867
Purchases of available-for-sale securities	(8,938)	(4,100)
Proceeds from sales of available-for-sale securities	10,750	8,266
Proceeds from maturities and repayments of available-for-sale securities	3,250	7,045
Purchases of held-for-investment mortgage loans	(71,978)	(57,373)
Proceeds from sales of mortgage loans held-for-investment	4,817	1,559
Repayments of mortgage loans held-for-investment	126,205	133,221
Advances to lenders and other secured lending arrangements	(12,237)	(16,251)
Net proceeds from dispositions of real estate owned and other recoveries	752	989
Net (increase) decrease in securities purchased under agreements to resell	14,134	3,757
Derivative premiums and terminations, swap collateral, and exchange settlement payments, net	4,037	(1,663)
Changes in other assets	(249)	(160)
Net cash provided by investing activities	70,335	72,731
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	96,888	83,908
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(136,131)	(145,505)
Proceeds from issuance of other debt	279,522	321,018
Repayments of other debt	(317,477)	(336,829)
Increase in liquidation preference of senior preferred stock	312	—
Payment of cash dividends on senior preferred stock	—	(6,709)
Changes in other liabilities	(2)	(3)
Net cash used in financing activities	(76,888)	(84,120)
Net (decrease) increase in cash and cash equivalents (includes restricted cash and cash equivalents)	(3,059)	(11,090)
Cash and cash equivalents (includes restricted cash and cash equivalents) at beginning of year	9,811	22,220
Cash and cash equivalents (includes restricted cash and cash equivalents) at end of period	\$6,752	\$11,130
Supplemental cash flow information		
Cash paid for:		
Debt interest	\$32,336	\$31,970
Income taxes	2,125	487
Non-cash investing and financing activities (Note 4 and 7)		

The accompanying notes are an integral part of these condensed consolidated financial statements.

Notes to Condensed 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 and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see Note 2 in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017, or 2017 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the Glossary of our 2017 Annual Report. Throughout this Form 10-Q, we refer to the three months ended June 30, 2018, the three months ended March 31, 2018, the three months ended December 31, 2017, the three months ended September 30, 2017, the three months ended June 30, 2017 and the three months ended March 31, 2017 as "2Q 2018," "1Q 2018," "4Q 2017," "3Q 2017," "2Q 2017" and "1Q 2017," respectively. We refer to the six months ended June 30, 2018 and the six months ended June 30, 2017 as "YTD 2018" and "YTD 2017," respectively.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2017 Annual Report.

Basis of Presentation

---

The accompanying unaudited condensed 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.

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 as authorized by FHFA through our Board of Directors and management. Certain amounts in prior periods' condensed consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, our unaudited condensed consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary for a fair statement of our results.

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.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 1

## Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains and losses during the reporting period. Management has made significant estimates in preparing the financial statements for establishing the allowance for credit losses, valuing financial instruments and other assets and liabilities and assessing impairments on investments. Actual results could be different from these estimates.

## Recently Issued Accounting Guidance

## Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Condensed Consolidated Financial Statements
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2015-14, Topic 606: Deferral of the Effective Date	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. ASU 2015-14 defers the effective date of ASU 2014-09 for all entities by one year.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)	The amendment addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-08, Topic 606: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	The amendments in this Update do not change the core principle of the guidance in Topic 606. The amendments clarify the implementation guidance on principal versus agent considerations.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial

ASU 2016-10, Topic 606: Identifying Performance Obligations and Licensing	The amendments in this Update do not change the core principle of the guidance in Topic 606, but they clarify two issues: i) identifying performance obligations; and ii) licensing. These clarifications are intended to reduce diversity in practice and to reduce the cost and complexity of Topic 606 at transition and on an ongoing basis.	January 1, 2018	statements or on our disclosures.  The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-12, Topic 606: Narrow-Scope Improvements and Practical Expedients	The amendments in this Update do not change the core principle of the guidance in Topic 606, but affect aspects of the guidance and technical corrections.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 1

## Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Condensed Consolidated Financial Statements
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	The main objective of this Update is to address the diversity in practice that currently exists in regards to how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	Upon adoption, the portion of the cash payment attributable to the accreted interest related to zero-coupon debt is presented in the operating activities section, a classification change from the financing activities section where this item was previously presented. As a result, we reclassified approximately \$1.0 billion of cash payments from financing activities to operating activities on our condensed consolidated statements of cash flows for YTD 2017.
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	The amendments in this Update address the diversity in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. Specifically, this amendment dictates that the statement of cash flows should explain the change in the period of the total of cash, cash equivalents and restricted cash balances.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements; however, we modified the presentation of restricted cash and cash equivalent balances on our condensed consolidated balance sheets. The presentation of our condensed consolidated statements of cash flows has also been revised to reflect the change of total cash and cash equivalents and restricted cash and cash equivalents balances.
ASU 2016-20, Technical Corrections and Improvements to Topic 606	The amendments in this Update are of a similar nature to the items typically addressed in the Technical Corrections and Improvements project. However, the Board decided to issue a separate Update for technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to Update 2014-09.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from	The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from	January 1, 2018	Upon adoption, we reclassified approximately \$89 million from accumulated other comprehensive income to retained earnings on our condensed consolidated financial

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Accumulated Other Comprehensive Income ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities	the Tax Cuts and Jobs Act. The amendments clarify certain aspects of the guidance issued in Update 2016-01 and address six specific issues.	statements. January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
---	---	-----------------------------	---

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 1

## Recently Issued Accounting Guidance, Not Yet Adopted Within Our Condensed Consolidated Financial Statements

Standard	Description	Date of Planned Adoption	Effect on Consolidated Financial Statements
ASU 2016-02, Leases (Topic 842)	The amendment addresses the accounting for lease arrangements.	January 1, 2019	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	January 1, 2020	We are developing our models to estimate lifetime expected credit losses on our financial instruments measured at amortized cost using discounted cash flow methodology. The amendment will be applied through a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. While we are not able to reasonably estimate the effect that the adoption of this amendment will have on our consolidated financial statements, it may increase (perhaps substantially) our allowance for credit losses in the period of adoption.



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 significantly affect 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 provided for the Board of Directors to perform certain functions and to oversee management, and the board delegated to management authority to conduct business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and perform such functions as provided by, the Conservator.

We are also subject to certain constraints on our business activities under the Purchase Agreement. However, 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.

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 cannot exceed \$250 billion at December 31, 2018 and was \$236.4 billion at June 30, 2018. Our 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 cap established by the Purchase Agreement (subject to certain exceptions). 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 are dependent upon its continued support in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to:

- n Keeping us solvent;
- n Allowing us to focus on our primary business objectives under conservatorship; and
- n Avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

At March 31, 2018, our assets exceeded our liabilities under GAAP; therefore, FHFA, as Conservator, 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 2Q 2018. The amount of available funding remaining under the Purchase Agreement is \$140.2 billion and will be reduced by any future draws.

See Note 8 and Note 11 for more information on the conservatorship and the Purchase Agreement.

#### Related Parties as a Result of Conservatorship

---

We are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. CSS was formed in 2013 as a limited liability company equally-owned by Freddie Mac and Fannie Mae. Therefore, CSS is also deemed a related party. During YTD 2018, we contributed \$76 million of capital to CSS, and we have contributed \$405 million since the fourth quarter of 2014.

## NOTE 3

## Securitization Activities and Consolidation

Our primary business activities in our Single-family Guarantee and Multifamily segments involve the securitization of loans or other mortgage-related assets using trusts that are VIEs. These trusts issue beneficial interests in the loans or other mortgage-related assets that they own. We guarantee the principal and interest payments on some or all of the issued beneficial interests in substantially all of our securitization transactions. We consolidate VIEs when we have a controlling financial interest in the VIE and are therefore considered the primary beneficiary of the VIE. See Note 5 for additional information on our guarantee activities.

## Consolidated VIEs

The table below presents the carrying value and classification of the assets and liabilities of consolidated VIEs on our condensed consolidated balance sheets.

(In millions)	June 30, 2018	December 31, 2017
Consolidated Balance Sheet Line Item		
Assets:		
Restricted cash and cash equivalents	\$500	\$518
Securities purchased under agreements to resell	16,435	16,750
Mortgage loans held-for-investment	1,795,534	1,774,286
Accrued interest receivable	5,664	5,747
Other assets	2,445	2,738
Total assets of consolidated VIEs	\$1,820,578	\$1,800,039
Liabilities:		
Accrued interest payable	\$5,122	\$5,028
Debt, net	1,746,298	1,720,996
Other liabilities	2	2
Total liabilities of consolidated VIEs	\$1,751,422	\$1,726,026

## Non-Consolidated VIEs

Our involvement with VIEs for which we are not the primary beneficiary takes one or both of two forms - purchasing an investment in these entities or providing a guarantee to these entities. The following table presents the carrying amounts and classification of the assets and liabilities recorded on our condensed consolidated balance sheets related to our variable interests in non-consolidated VIEs with which we were involved in the design and creation and have a significant continuing involvement, as well as our maximum exposure to loss. 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. See Note 6 for additional information on credit enhancement arrangements.

(In millions)	June 30, 2018	December 31, 2017
Assets and Liabilities		
Recorded on our		
Condensed Consolidated		
Balance Sheets <sup>(1)</sup>		
Assets:		
Investments in securities	\$46,869	\$51,494
Accrued interest	228	233
receivable		
Derivative assets, net	22	7
Other assets	2,754	2,591
Liabilities:		
Derivative liabilities, net	60	—
Other liabilities	2,683	2,489
Maximum Exposure to		
Loss <sup>(2)(3)</sup>	219,637	200,196
Total Assets of		
Non-Consolidated VIEs <sup>(3)</sup>	255,124	232,762

(1) Includes our variable interests in REMICs and Stripped Giant PCs, K Certificates, SB Certificates, senior subordinate securitization structures and other securitization products that we do not consolidate.

(2) Our maximum exposure to loss includes the guaranteed UPB of assets held by the non-consolidated VIEs, the UPB of unguaranteed securities that we acquired from these securitization transactions and the UPB of guarantor advances made to the holders of the guaranteed securities.

(3) Our maximum exposure to loss and total assets of non-consolidated VIEs exclude our investments in and obligations to REMICs and Stripped Giant PCs, because we already consolidate the underlying collateral of these trusts on our condensed consolidated balance sheets. In addition, our maximum exposure to loss excludes other guarantees measured at fair value related to certain of our REMICs where our exposure may be unlimited. We generally reduce our exposure to these guarantees with unlimited exposure through separate contracts with third parties.

We also obtain interests in various other VIEs created by third parties through the normal course of business. To the extent that we were not involved in the design and creation of these VIEs, they are excluded from the table above. Our interests in these VIEs are generally passive in nature and are not expected to result in us obtaining a controlling financial interest in these VIEs in the future.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

## NOTE 4

## Mortgage Loans and Allowance for Credit Losses

The table below provides details of the loans on our condensed consolidated balance sheets.

(In millions)	June 30, 2018			December 31, 2017		
	Held by Freddie Mac	Held by Consolidated Trusts	Total	Held by Freddie Mac	Held by Consolidated Trusts	Total
<b>Held-for-sale:</b>						
Single-family	\$11,528	\$—	\$11,528	\$17,039	\$—	\$17,039
Multifamily	16,752	—	16,752	20,537	—	20,537
Total UPB	28,280	—	28,280	37,576	—	37,576
Cost basis and fair value adjustments, net	(2,003 )	—	(2,003 )	(2,813 )	—	(2,813 )
Total held-for-sale loans, net	26,277	—	26,277	34,763	—	34,763
<b>Held-for-investment:</b>						
Single-family	55,948	1,767,684	1,823,632	51,893	1,742,736	1,794,629
Multifamily	14,531	3,990	18,521	17,702	3,747	21,449
Total UPB	70,479	1,771,674	1,842,153	69,595	1,746,483	1,816,078
Cost basis adjustments	(2,541 )	27,359	24,818	(2,148 )	31,490	29,342
Allowance for loan losses	(4,898 )	(3,499 )	(8,397 )	(5,279 )	(3,687 )	(8,966 )
Total held-for-investment loans, net	63,040	1,795,534	1,858,574	62,168	1,774,286	1,836,454
Total loans, net	\$89,317	\$1,795,534	\$1,884,851	\$96,931	\$1,774,286	\$1,871,217

The table below provides details of the UPB of loans we purchased, reclassified from held-for-investment to held-for-sale, and sold.

(In billions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Single-family:				
Purchases				
Held-for-investment loans	\$84.4	\$73.3	\$149.9	\$158.9
Reclassified from held-for-investment to held-for-sale <sup>(1)</sup>	2.6	11.1	4.3	12.8
Sale of held-for-sale loans <sup>(2)</sup>	2.4	1.6	4.2	1.6
Multifamily:				
Purchases				
Held-for-investment loans	0.7	0.6	1.7	1.9
Held-for-sale loans	14.4	12.8	26.2	24.0
Reclassified from held-for-investment to held-for-sale <sup>(1)</sup>	0.2	0.7	0.5	0.7
Sale of held-for-sale loans <sup>(3)</sup>	14.2	12.8	30.4	22.7

(1) We reclassify loans from held-for-investment to held-for-sale when we no longer have the intent or ability to hold for the foreseeable future.

(2) Our sales of single-family loans reflect the sale of seasoned single-family loans. The sale of seasoned single-family mortgage loans is part of our strategy to mitigate and reduce our holdings of less liquid assets.

(3) Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates and SB Certificates. See Note 3 for more information on our K Certificates and SB Certificates.

#### Credit Quality

##### Single-Family

The current LTV ratio is one key factor we consider when estimating our allowance for credit losses for single-family loans. As current LTV ratios increase, the borrower's equity in the home decreases, which may negatively affect the borrower's ability to refinance or to sell the property for an amount at or above the balance of the outstanding loan. A second-lien loan 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 loans. As of both June 30, 2018 and December 31, 2017, based on data collected by us at loan delivery, approximately 9% of loans in our single-family credit guarantee portfolio had second-lien financing by third parties at origination of the first loan. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. For further information about concentrations of risk associated with our single-family and multifamily loans, see Note 14.

The table below presents the recorded investment of single-family held-for-investment loans by current LTV ratios. Our current LTV ratios are estimates based on available data through the end of each respective period presented.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

(In millions)	June 30, 2018				December 31, 2017			
	Current LTV Ratio		> 100 <sup>(1)</sup>	Total	Current LTV Ratio		> 100 <sup>(1)</sup>	Total
	≤ 80	> 80 to 100			≤ 80	> 80 to 100		
20 and 30-year or more, amortizing fixed-rate <sup>(2)</sup>	\$1,299,704	\$199,269	\$9,861	\$1,508,834	\$1,240,224	\$214,177	\$13,303	\$1,467,704
15-year amortizing fixed-rate <sup>(2)</sup>	262,507	5,356	243	268,106	270,266	7,351	381	277,998
Adjustable-rate	45,634	2,195	13	47,842	48,596	2,963	28	51,587
Alt-A, interest-only, and option ARM	19,601	3,078	1,008	23,687	21,013	4,256	1,429	26,698
Total single-family loans	\$1,627,446	\$209,898	\$11,125	\$1,848,469	\$1,580,099	\$228,747	\$15,141	\$1,823,987

(1) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with current LTV ratios in excess of 100% was 7.79% and 8.43% as of June 30, 2018 and December 31, 2017, respectively.

As of June 30, 2018 and December 31, 2017, \$14.4 billion and \$22.2 billion, respectively, in UPB of modified loans were categorized as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans (2) have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust, such rates and the timing of the adjustment are determined at the time of modification rather than at a subsequent date.

For reporting purposes:

n 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

n 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 or adjustable interest-rate provisions.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

## Multifamily

The table below presents the recorded investment in our multifamily held-for-investment loans, by credit quality indicator based on available data through the end of each period presented. These indicators involve significant management judgment.

(In millions)	June 30, December	
	2018	31, 2017
Credit risk profile by internally assigned grade: <sup>(1)</sup>		
Pass	\$17,991	\$20,963
Special mention	301	301
Substandard	210	169
Doubtful	—	—
Total	\$18,502	\$21,433

A loan categorized as: "Pass" is current and adequately protected by the current financial strength and debt service capacity of the borrower; "Special mention" has administrative issues that may affect future repayment prospects (1) but does not have current credit weaknesses; "Substandard" has a weakness that jeopardizes the timely full repayment; and "Doubtful" has a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions.

## Mortgage Loan Performance

The tables below present the recorded investment of our single-family and multifamily loans, held-for-investment, by payment status.

(In millions)	June 30, 2018					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure <sup>(1)</sup>	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	\$1,481,467	\$14,664	\$3,718	\$8,985	\$1,508,834	\$8,982
15-year amortizing fixed-rate	266,621	978	158	349	268,106	349
Adjustable-rate	47,323	306	60	153	47,842	153
Alt-A, interest-only, and option ARM	21,027	1,041	383	1,236	23,687	1,236
Total single-family	1,816,438	16,989	4,319	10,723	1,848,469	10,720
Total multifamily	18,493	—	—	9	18,502	49
Total single-family and multifamily	\$1,834,931	\$16,989	\$4,319	\$10,732	\$1,866,971	\$10,769

(In millions)	December 31, 2017					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure <sup>(1)</sup>	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	\$1,431,342	\$18,297	\$5,660	\$12,405	\$1,467,704	\$12,401
15-year amortizing fixed-rate	275,864	1,288	290	556	277,998	556
Adjustable-rate	50,915	383	84	205	51,587	205
Alt-A, interest-only, and option ARM	23,235	1,297	509	1,657	26,698	1,656
Total single-family	1,781,356	21,265	6,543	14,823	1,823,987	14,818
Total multifamily	21,414	—	—	19	21,433	64



Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Total single-family and multifamily \$1,802,770 \$21,265 \$6,543 \$14,842 \$1,845,420 \$14,882

(1) Includes \$3.5 billion and \$4.1 billion of loans that were in the process of foreclosure as of June 30, 2018 and December 31, 2017, respectively.

Freddie Mac Form 10-Q 95

---

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

The table below summarizes the delinquency rates of loans within our single-family credit guarantee and multifamily mortgage portfolios.

(Dollars in millions)	June 30, 2018	December 31, 2017
Single-family:		
Non-credit-enhanced portfolio		
Serious delinquency rate	0.96%	1.16 %
Total number of seriously delinquent loans	62,145 81,668	
Credit-enhanced portfolio: <sup>(1)</sup>		
Primary mortgage insurance:		
Serious delinquency rate	1.04%	1.43 %
Total number of seriously delinquent loans	17,417 23,275	
Other credit protection: <sup>(2)</sup>		
Serious delinquency rate	0.33%	0.53 %
Total number of seriously delinquent loans	12,322 16,259	
Total single-family:		
Serious delinquency rate	0.82%	1.08 %
Total number of seriously delinquent loans	88,407 116,662	
Multifamily: <sup>(3)</sup>		
Non-credit-enhanced portfolio:		
Delinquency rate	0.03%	0.06 %
UPB of delinquent loans	\$9	\$24
Credit-enhanced portfolio:		
Delinquency rate	0.01%	0.01 %
UPB of delinquent loans	\$18	\$16
Total multifamily:		
Delinquency rate	0.01%	0.02 %
UPB of delinquent loans	\$27	\$40

(1) The credit-enhanced categories are not mutually exclusive, as a single loan may be covered by both primary mortgage insurance and other credit protection.

(2) Consists of single-family loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See Note 6 for additional information on our credit enhancements.

(3) Multifamily delinquency performance is based on UPB of loans that are two monthly payments or more past due or those in the process of foreclosure.

#### Allowance for Credit Losses

The allowance for credit losses represents estimates of probable incurred credit losses which we recognize by recording a charge to the provision for credit losses in our condensed consolidated statements of comprehensive income. The allowance for credit losses includes:

n Our allowance for loan losses, which pertains to all single-family and multifamily loans classified as held-for-investment on our condensed consolidated balance sheets; and

n Our reserve for guarantee losses, which pertains to single-family and multifamily loans underlying our K Certificates, SB Certificates, senior subordinate securitization structures, other securitization products and other mortgage-related guarantees.



## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

The tables below summarize changes in our allowance for credit losses.

(In millions)	2Q 2018				2Q 2017			
	Allowance for Loan Losses		Reserve for Guarantee Losses	Total	Allowance for Loan Losses		Reserve for Guarantee Losses	Total
	Held by Freddie Mac	Held By Consolidated Trusts			Held by Freddie Mac	Held By Consolidated Trusts		
Single-family:								
Beginning balance	\$5,305	\$3,524	\$48	\$8,877	\$9,866	\$2,854	\$54	\$12,774
Provision (benefit) for credit losses	(205 )	144	3	(58 )	(512 )	94	2	(416 )
Charge-offs	(581 )	(16 )	(2 )	(599 )	(2,119 )	(33 )	(1 )	(2,153 )
Recoveries	124	2	—	126	84	1	—	85
Transfers, net <sup>(1)</sup>	165	(165 )	—	—	163	(163 )	—	—
Other <sup>(2)</sup>	79	8	—	87	59	2	—	61
Single-family ending balance	4,887	3,497	49	8,433	7,541	2,755	55	10,351
Multifamily ending balance	11	2	7	20	14	1	7	22
Total ending balance	\$4,898	\$3,499	\$56	\$8,453	\$7,555	\$2,756	\$62	\$10,373

(In millions)	YTD 2018				YTD 2017			
	Allowance for Loan Losses		Reserve for Guarantee Losses	Total	Allowance for Loan Losses		Reserve for Guarantee Losses	Total
	Held by Freddie Mac	Held By Consolidated Trusts			Held by Freddie Mac	Held By Consolidated Trusts		
Single-family:								
Beginning balance	\$5,251	\$3,680	\$48	\$8,979	\$10,442	\$2,969	\$54	\$13,465
Provision (benefit) for credit losses	(107 )	123	5	21	(728 )	200	2	(526 )
Charge-offs	(936 )	(31 )	(4 )	(971 )	(2,816 )	(76 )	(1 )	(2,893 )
Recoveries	219	3	—	222	179	3	—	182
Transfers, net <sup>(1)</sup>	291	(291 )	—	—	344	(344 )	—	—
Other <sup>(2)</sup>	169	13	—	182	120	3	—	123
Single-family ending balance	4,887	3,497	49	8,433	7,541	2,755	55	10,351
Multifamily ending balance	11	2	7	20	14	1	7	22
Total ending balance	\$4,898	\$3,499	\$56	\$8,453	\$7,555	\$2,756	\$62	\$10,373

(1) Relates to removal of delinquent single-family loans from consolidated trusts and securitization after such removal.

(2) Primarily includes capitalization of past due interest on modified loans.

A significant number of unsecuritized single-family loans on our condensed consolidated balance sheets are individually evaluated for impairment while substantially all single-family loans held by our consolidated trusts are collectively evaluated for impairment. The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 7.2% and 7.8% of the recorded investment in such loans at June 30, 2018 and December 31, 2017, 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 allowance for loan losses associated with loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such loans as of both June 30, 2018 and December 31, 2017.



## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

The table below presents our allowance for loan losses and our recorded investment in loans, held-for-investment, by impairment evaluation methodology.

(In millions)	June 30, 2018			December 31, 2017		
	Single-family	Multifamily	Total	Single-family	Multifamily	Total
Recorded investment:						
Collectively evaluated	\$1,787,602	\$18,384	\$1,805,986	\$1,764,750	\$21,301	\$1,786,051
Individually evaluated	60,867	118	60,985	59,237	132	59,369
Total recorded investment	1,848,469	18,502	1,866,971	1,823,987	21,433	1,845,420
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,792)	(11)	(1,803)	(2,301)	(28)	(2,329)
Individually evaluated	(6,592)	(2)	(6,594)	(6,630)	(7)	(6,637)
Total ending balance of the allowance	(8,384)	(13)	(8,397)	(8,931)	(35)	(8,966)
Net investment in loans	\$1,840,085	\$18,489	\$1,858,574	\$1,815,056	\$21,398	\$1,836,454

Freddie Mac Form 10-Q 98

---

## Allowance for Loan Losses Determined on an Individual Basis

## Impaired Loans

The tables below present the UPB, recorded investment, related allowance for loan losses, average recorded investment and interest income recognized for individually impaired loans.

(In millions)	June 30, 2018			December 31, 2017		
	UPB	Recorded Investment	Associated Allowance	UPB	Recorded Investment	Associated Allowance
Single-family:						
With no allowance recorded: <sup>(1)</sup>						
20 and 30-year or more, amortizing fixed-rate	\$4,790	\$3,748	N/A	\$3,768	\$2,908	N/A
15-year amortizing fixed-rate	24	22	N/A	24	21	N/A
Adjustable-rate	265	262	N/A	259	256	N/A
Alt-A, interest-only, and option ARM	1,742	1,434	N/A	1,558	1,297	N/A
Total with no allowance recorded	6,821	5,466	N/A	5,609	4,482	N/A
With an allowance recorded: <sup>(2)</sup>						
20 and 30-year or more, amortizing fixed-rate	48,938	47,749	(\$5,509 )	47,897	46,783	(\$5,505 )
15-year amortizing fixed-rate	890	901	(43 )	752	757	(24 )
Adjustable-rate	230	227	(13 )	232	228	(14 )
Alt-A, interest-only, and option ARM	6,988	6,524	(1,027 )	7,407	6,987	(1,087 )
Total with an allowance recorded	57,046	55,401	(6,592 )	56,288	54,755	(6,630 )
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	53,728	51,497	(5,509 )	51,665	49,691	(5,505 )
15-year amortizing fixed-rate	914	923	(43 )	776	778	(24 )
Adjustable-rate	495	489	(13 )	491	484	(14 )
Alt-A, interest-only, and option ARM	8,730	7,958	(1,027 )	8,965	8,284	(1,087 )
Total single-family	63,867	60,867	(6,592 )	61,897	59,237	(6,630 )
Multifamily:						
With no allowance recorded <sup>(1)</sup>						
With an allowance recorded	124	115	N/A	106	97	N/A
Total multifamily	3	3	(2 )	35	35	(7 )
Total single-family and multifamily	127	118	(2 )	141	132	(7 )
Total single-family and multifamily	\$63,994	\$60,985	(\$6,594 )	\$62,038	\$59,369	(\$6,637 )

Referenced footnotes are included after the last table in the Impaired Loans section.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

(In millions)	2Q 2018			2Q 2017		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis <sup>(3)</sup>	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis <sup>(3)</sup>
<b>Single-family:</b>						
With no allowance recorded: <sup>(1)</sup>						
20 and 30-year or more, amortizing fixed-rate	\$3,700	\$91	\$3	\$3,801	\$101	\$5
15-year amortizing fixed-rate	22	2	—	27	—	—
Adjustable rate	264	3	—	306	3	—
Alt-A, interest-only, and option ARM	1,427	24	1	1,509	27	1
Total with no allowance recorded	5,413	120	4	5,643	131	6
With an allowance recorded: <sup>(2)</sup>						
20 and 30-year or more, amortizing fixed-rate	48,070	509	82	59,482	643	60
15-year amortizing fixed-rate	882	6	3	803	5	1
Adjustable rate	219	—	1	259	2	—
Alt-A, interest-only, and option ARM	6,579	53	8	9,446	100	8
Total with an allowance recorded	55,750	568	94	69,990	750	69
<b>Combined single-family:</b>						
20 and 30-year or more, amortizing fixed-rate	51,770	600	85	63,283	744	65
15-year amortizing fixed-rate	904	8	3	830	5	1
Adjustable rate	483	3	1	565	5	—
Alt-A, interest-only, and option ARM	8,006	77	9	10,955	127	9
Total single-family	61,163	688	98	75,633	881	75
<b>Multifamily:</b>						
With no allowance recorded: <sup>(1)</sup>						
With an allowance recorded	3	—	—	23	—	1
Total multifamily	118	1	—	164	2	1
Total single-family and multifamily	\$61,281	\$689	\$98	\$75,797	\$883	\$76

Referenced footnotes are included after the last table in the Impaired Loans section.



## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

(In millions)	YTD 2018			YTD 2017		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis <sup>(3)</sup>	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis <sup>(3)</sup>
Single-family —						
With no allowance recorded: <sup>(1)</sup>						
20 and 30-year or more, amortizing fixed-rate	\$3,506	\$185	\$10	\$3,916	\$210	\$9
15-year amortizing fixed-rate	21	3	—	27	1	—
Adjustable rate	264	6	—	308	6	—
Alt-A, interest-only, and option ARM	1,392	47	2	1,582	56	2
Total with no allowance recorded	5,183	241	12	5,833	273	11
With an allowance recorded: <sup>(2)</sup>						
20 and 30-year or more, amortizing fixed-rate	47,969	1,101	165	62,287	1,313	130
15-year amortizing fixed-rate	876	14	6	814	17	3
Adjustable rate	223	2	2	266	5	1
Alt-A, interest-only, and option ARM	6,707	133	17	10,431	207	19
Total with an allowance recorded	55,775	1,250	190	73,798	1,542	153
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	51,475	1,286	175	66,203	1,523	139
15-year amortizing fixed-rate	897	17	6	841	18	3
Adjustable rate	487	8	2	574	11	1
Alt-A, interest-only, and option ARM	8,099	180	19	12,013	263	21
Total single-family	60,958	1,491	202	79,631	1,815	164
Multifamily:						
With no allowance recorded: <sup>(1)</sup>						
With an allowance recorded	124	3	1	284	5	1
Total multifamily	3	—	—	27	1	1
Total single-family and multifamily	127	3	1	311	6	2
Total single-family and multifamily	\$61,085	\$1,494	\$203	\$79,942	\$1,821	\$166

Individually impaired loans with no allowance primarily represent those loans for which the collateral value is (1) 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.

(2) Consists primarily of loans classified as TDRs.

(3) Consists of income recognized during the period related to loans on non-accrual status.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

## Troubled Debt Restructurings

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs, based on the original product 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.

(Dollars in millions)	2Q 2018		2Q 2017		YTD 2018		YTD 2017	
	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
Single-family: <sup>(1)</sup>								
20 and 30-year or more, amortizing fixed-rate	10,991	\$1,763	8,019	\$1,151	30,690	\$5,068	16,983	\$2,434
15-year amortizing fixed-rate	1,469	139	1,090	88	4,285	431	2,282	176
Adjustable-rate	257	38	215	32	576	95	465	67
Alt-A, interest-only, and option ARM	641	111	601	111	1,880	314	1,281	225
Total single-family	13,358	2,051	9,925	1,382	37,431	5,908	21,011	2,902
Multifamily	1	\$15	—	\$—	1	\$15	—	\$—

The pre-TDR recorded investment for single-family loans initially classified as TDR during 2Q 2018 and YTD (1)2018 was \$2.1 billion and \$6.0 billion, respectively, compared to \$1.4 billion and \$2.9 billion during 2Q 2017 and YTD 2017, respectively.

Of the single-family loans that were newly classified as TDRs during 2Q 2018, 2Q 2017, YTD 2018 and YTD 2017 respectively:

- n 11%, 41%, 14% and 42% involved interest rate reductions and, in certain cases, term extensions;
- n 22%, 12%, 25% and 13% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions;
- n The average term extension was 116, 174, 137 and 173 months; and
- n The average interest rate reduction was 0.3%, 0.7%, 0.3% and 0.8%.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 4

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.

(Dollars in millions)	2Q 2018		2Q 2017		YTD 2018		YTD 2017	
	Post-TDR		Post-TDR		Post-TDR		Post-TDR	
	Number	Recorded Investment	Number	Recorded Investment	Number	Recorded Investment	Number	Recorded Investment
Single-family:								
20 and 30-year or more, amortizing fixed-rate	3,131	\$480	3,301	\$534	6,087	\$923	6,657	\$1,087
15-year amortizing fixed-rate	149	11	146	13	319	26	314	26
Adjustable-rate	42	5	53	8	86	12	109	16
Alt-A, interest-only, and option ARM	250	45	283	62	525	99	588	126
Total single-family	3,572	541	3,783	617	7,017	1,060	7,668	1,255
Multifamily	—	\$—	—	\$—	—	\$—	—	\$—

In addition, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or loans in modification trial periods). During YTD 2018 and YTD 2017, 4,467 and 3,502, respectively, of such loans (with a post-TDR recorded investment of \$0.6 billion and \$0.4 billion, respectively) experienced a payment default within a year after the loss mitigation activity occurred.

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 YTD 2018 and YTD 2017, 289 and 465, respectively, of such loans (with a post-TDR recorded investment of \$33 million and \$54 million, respectively) experienced a payment default within a year after the borrowers' Chapter 7 bankruptcy.

#### Non-Cash Investing and Financing Activities

During YTD 2018 and YTD 2017, we acquired \$80.9 billion and \$106.3 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. We received approximately \$11.8 billion and \$16.3 billion of loans from sellers during YTD 2018 and YTD 2017, respectively, to satisfy advances to lenders that were recorded in other assets on our condensed consolidated balance sheets. These loans were primarily included in the guarantor swap transactions. In addition, we acquire REO properties through foreclosure sales or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During YTD 2018 and YTD 2017, we had transfers of \$0.5 billion and \$0.6 billion, respectively, from loans to REO.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 5

## NOTE 5

## Guarantee Activities

We generate revenue through our guarantee activities by agreeing to absorb the credit risk associated with certain financial instruments that are owned or held by third parties. In exchange for providing this guarantee, we receive an ongoing guarantee fee that is commensurate with the risks assumed and that will, over the long-term, provide us with cash flows that are expected to exceed the credit-related and administrative expenses of the underlying financial instruments. The profitability of our guarantee activities may vary and will be dependent on our guarantee fee and the actual credit performance of the underlying financial instruments that we have guaranteed.

The table below shows our maximum exposure, recognized liability and maximum remaining term of our recognized guarantees to non-consolidated VIEs and other third parties. This table does not include our unrecognized guarantees, such as guarantees to consolidated VIEs or to securitization trusts that do not expose us to incremental credit risk. The maximum exposure disclosed in the table 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, including possible recoveries under credit enhancement arrangements. See Note 6 for additional information on our credit enhancement arrangements.

(Dollars in millions, terms in years)	June 30, 2018			December 31, 2017		
	Maximum Exposure	Recognized Liability <sup>(2)</sup>	Maximum Remaining Term	Maximum Exposure	Recognized Liability <sup>(2)</sup>	Maximum Remaining Term
Single-family:						
Securitization activity guarantees	\$13,587	\$160	40	\$10,817	\$120	40
Other mortgage-related guarantees	6,015	173	30	6,264	190	31
Total single-family	\$19,602	\$333		\$17,081	\$310	
Multifamily:						
Securitization activity guarantees	\$203,994	\$2,451	39	\$188,768	\$2,305	40
Other mortgage-related guarantees	10,138	469	36	9,888	466	36
Total multifamily	\$214,132	\$2,920		\$198,656	\$2,771	
Other guarantees measured at fair value	\$13,322	\$186	28	\$9,661	\$141	28

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. For other guarantees measured at fair (1) value, this amount represents the notional value if it relates to our market value guarantees or guarantees of third party derivative instruments; or the UPB if it relates to a guarantee of a mortgage-related asset. For certain of our other guarantees measured at fair value, our exposure may be unlimited. We generally reduce our exposure to these guarantees with unlimited exposure through separate contracts with third parties.

For securitization activity guarantees and other mortgage-related guarantees, this amount represents the guarantee obligation on our condensed consolidated balance sheets. This amount excludes our reserve for guarantee losses, (2) which totaled \$56 million and \$57 million as of June 30, 2018 and December 31, 2017, respectively, and is included within other liabilities on our condensed consolidated balance sheets. For other guarantees measured at fair value, this amount represents the fair value of the contract.

## NOTE 6

## Credit Enhancements

In connection with many of our mortgage loans, securitization activity guarantees, other mortgage-related guarantees and other credit risk transfer transactions, we obtain various forms of credit enhancements that reduce our exposure to credit losses. These credit enhancements may be attached to the underlying mortgage loans, freestanding or embedded in debt instruments.

## Attached Credit Enhancements

The table below presents the total current and protected UPB and maximum coverage provided by our attached credit enhancements. For information about counterparty credit risk associated with mortgage insurers, see Note 14.

(In millions)	June 30, 2018		December 31, 2017	
	Total Current and Protected UPB <sup>(1)</sup>	Maximum Coverage <sup>(2)</sup>	Total Current and Protected UPB <sup>(1)</sup>	Maximum Coverage <sup>(2)</sup>
Single-family:				
Primary mortgage insurance	\$351,776	\$90,085	\$334,189	\$85,429

(1) Underlying loans may be covered by more than one form of credit enhancement, including freestanding credit enhancements and debt with embedded credit enhancements.

(2) Represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements.

## Freestanding Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to our single-family and multifamily freestanding credit enhancements.

(In millions)	June 30, 2018		December 31, 2017	
	Total Current and Protected UPB <sup>(1)</sup>	Maximum Coverage <sup>(2)</sup>	Total Current and Protected UPB <sup>(1)</sup>	Maximum Coverage <sup>(2)</sup>
<b>Single-family:</b>				
Subordination (non-consolidated VIEs)	\$11,962	\$2,308	\$8,953	\$1,734
ACIS <sup>(3)(4)</sup>	698,012	7,873	625,086	8,933
Other <sup>(4)(5)</sup>	88,554	8,173	8,623	6,282
Total single-family		18,354		14,949
<b>Multifamily:</b>				
Subordination (non-consolidated VIEs)	204,157	33,150	187,299	30,689
Other <sup>(6)</sup>	1,667	717	1,833	726
Total multifamily		33,867		31,415
Total single-family and multifamily freestanding credit enhancements		\$52,221		\$46,364

(1) Underlying loans may be covered by more than one form of credit enhancement, including attached credit enhancements and debt with embedded credit enhancements. For subordination, total current and protected UPB includes the UPB of the guaranteed securities and the UPB of guarantor advances made to the holders of the guaranteed securities.

(2) For subordination, maximum coverage represents the UPB of the securities that are subordinate to our guarantee and held by third parties. For all other freestanding credit enhancements, maximum coverage represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements.

(3) As of June 30, 2018 and December 31, 2017, our counterparties posted collateral on our ACIS transactions of \$1.4 billion and \$1.1 billion, respectively.

(4) Starting in 2Q 2018, ACIS transactions include Deep MI CRT transactions which were previously disclosed under "Other" transactions. The current and prior period presentation has been modified to reflect this change.

(5) Includes seller indemnification, lender recourse and indemnification agreements, pool insurance, HFA indemnification and other credit enhancements.

(6) Consists of multifamily HFA indemnification and loss reimbursement agreements with third parties obtained in certain of our Q Certificate transactions.

In addition to the credit enhancements disclosed above, the Multifamily segment has other credit enhancements. Recoveries from these other credit enhancements have been minimal as the historical losses on our mortgage loans and amounts paid under our guarantee contracts have not been significant. Therefore, these other credit enhancements have been excluded from the table.

## Debt with Embedded Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to debt with embedded credit enhancements.

(In millions)	June 30, 2018		December 31, 2017	
	Total Current and Protected UPB <sup>(1)</sup>	Maximum Coverage <sup>(2)</sup>	Total Current and Protected UPB <sup>(1)</sup>	Maximum Coverage <sup>(2)</sup>
Single-family:				
STACR debt notes	\$641,850	\$18,670	\$604,356	\$17,788
Subordination (consolidated VIEs)	12,722	552	3,330	179
Total single-family		19,222		17,967
Multifamily:				
SCR debt notes	2,690	135	2,732	137
Subordination (consolidated VIEs)	1,800	180	1,800	180
Total multifamily		315		317
Total single-family and multifamily debt with embedded credit enhancements		\$19,537		\$18,284

(1) Underlying loans may be covered by more than one form of credit enhancement, including attached credit enhancements and freestanding credit enhancements. For STACR debt notes and SCR debt notes, total current and protected UPB represents the UPB of the assets included in the reference pool. For subordination, total current and protected UPB represents the UPB of the guaranteed securities.

(2) For STACR debt notes and SCR debt notes, maximum coverage amount represents the outstanding balance of the STACR debt notes and SCR debt notes held by third parties. For subordination, maximum coverage amount represents the UPB of the securities that are subordinate to our guarantee and held by third parties.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 7

## NOTE 7

## Investments in Securities

The table below summarizes the fair values of our investments in debt securities by classification.

(In millions)	June 30, December	
	2018	31, 2017
Trading securities	\$39,888	\$40,721
Available-for-sale securities	37,822	43,597
Total	\$77,710	\$84,318

As of June 30, 2018 and December 31, 2017, we did not classify any securities as held-to-maturity, although we may elect to do so in the future.

## Trading Securities

The table below presents the estimated fair values of our trading securities by major security type. Our non-mortgage-related securities primarily consist of investments in U.S. Treasury securities.

(In millions)	June 30, December	
	2018	31, 2017
Mortgage-related securities:		
Freddie Mac	\$12,414	\$12,235
Other agency	2,641	3,574
Non-agency RMBS	706	750
Non-agency CMBS	598	1,343
Total mortgage-related securities	16,359	17,902
Non-mortgage-related securities	23,529	22,819
Total fair value of trading securities	\$39,888	\$40,721

For trading securities held at June 30, 2018, we recorded net unrealized gains (losses) of (\$177) million and (\$402) million during 2Q 2018 and YTD 2018, respectively. For trading securities held at June 30, 2017, we recorded net unrealized gains (losses) of (\$210) million and (\$157) million during 2Q 2017 and YTD 2017, respectively.



## Available-for-Sale Securities

At June 30, 2018 and December 31, 2017, all available-for-sale securities were mortgage-related securities. The tables below present the amortized cost, gross unrealized gains and losses and fair value by major security type for our securities classified as available-for-sale.

(In millions)	June 30, 2018					Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Other-Than-Temporary Impairment <sup>(1)</sup>	Unrealized Losses Temporary Impairment <sup>(2)</sup>		
Available-for-sale securities:						
Freddie Mac	\$32,085	\$244	\$—	(\$801)		\$31,528
Other agency	2,069	42	—	(7)		2,104
Non-agency RMBS	1,775	452	—	(1)		2,226
Non-agency CMBS	1,703	—	(9)	(39)		1,655
Obligations of states and political subdivisions	306	3	—	—		309
Total available-for-sale securities	\$37,938	\$741	(\$9)	(\$848)		\$37,822

(In millions)	December 31, 2017					Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Other-Than-Temporary Impairment <sup>(1)</sup>	Unrealized Losses Temporary Impairment <sup>(2)</sup>		
Available-for-sale securities:						
Freddie Mac	\$35,433	\$499	\$—	(\$462)		\$35,470
Other agency	2,008	56	—	(11)		2,053
Non-agency RMBS	3,012	927	(5)	(1)		3,933
Non-agency CMBS	1,773	22	(9)	(2)		1,784
Obligations of states and political subdivisions	352	5	—	—		357
Total available-for-sale securities	\$42,578	\$1,509	(\$14)	(\$476)		\$43,597

(1) Represents the gross unrealized losses for securities for which we have previously recognized other-than-temporary impairment in earnings.

(2) Represents the gross unrealized losses for securities for which we have not previously recognized other-than-temporary impairment in earnings.

The fair value of our available-for-sale securities held at June 30, 2018 scheduled to contractually mature after ten years was \$34.5 billion, with an additional \$2.7 billion scheduled to contractually mature after five years through ten years.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 7

## Available-For-Sale Securities in a Gross Unrealized Loss Position

The tables below present available-for-sale securities in a gross unrealized loss position and whether such securities have been in an unrealized loss position for less than 12 months, or 12 months or greater.

(In millions)	June 30, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Freddie Mac	\$12,019	(\$238 )	\$9,141	(\$563 )
Other agency	225	(1 )	831	(7 )
Non-agency RMBS	1	—	27	(1 )
Non-agency CMBS	1,637	(39 )	16	(9 )
Obligations of states and political subdivisions	14	—	12	—
Total available-for-sale securities in a gross unrealized loss position	\$13,896	(\$278 )	\$10,027	(\$580 )

(In millions)	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Freddie Mac	\$10,337	(\$107 )	\$9,251	(\$355 )
Other agency	40	—	1,079	(11 )
Non-agency RMBS	5	—	105	(6 )
Non-agency CMBS	1,026	(2 )	52	(9 )
Obligations of states and political subdivisions	12	—	21	—
Total available-for-sale securities in a gross unrealized loss position	\$11,420	(\$109 )	\$10,508	(\$381 )

At June 30, 2018, the gross unrealized losses relate to 373 separate securities.

## Realized Gains and Losses on Sales of Available-For-Sale Securities

The table below summarizes the gross realized gains and gross realized losses from the sale of available-for-sale securities.

(In millions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Gross realized gains	\$29	\$129	\$475	\$347
Gross realized losses	(50 )	(6 )	(101 )	(34 )
Net realized gains (losses)	(\$21)	\$123	\$374	\$313

## Non-Cash Investing and Financing Activities

During 2Q 2018, we purchased \$4.0 billion and sold \$4.2 billion of non-mortgage-related securities that were traded, but not settled. We settled our purchase and sale obligations during 3Q 2018.



## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 8

## NOTE 8

## Debt Securities and Subordinated Borrowings

The table below summarizes the interest expense per our condensed consolidated statements of comprehensive income and the balances of total debt, net per our condensed consolidated balance sheets.

(In millions)	Balance, Net		Interest Expense			
	June 30, 2018	December 31, 2017	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Debt securities of consolidated trusts held by third parties	\$1,746,298	\$1,720,996	\$12,655	\$11,994	\$25,169	\$23,715
Other debt:						
Short-term debt	56,832	73,069	242	145	471	241
Long-term debt	218,032	240,565	1,402	1,382	2,616	2,750
Total other debt	274,864	313,634	1,644	1,527	3,087	2,991
Total debt, net	\$2,021,162	\$2,034,630	\$14,299	\$13,521	\$28,256	\$26,706

Our debt cap under the Purchase Agreement is \$346.1 billion in 2018 and will decline to \$300 billion on January 1, 2019. As of June 30, 2018, our aggregate indebtedness for purposes of the debt cap was \$278.8 billion. Our aggregate indebtedness calculation primarily includes the par value of other short- and long-term debt.

## Debt Securities of Consolidated Trusts Held by Third Parties

The table below summarizes the debt securities of consolidated trusts held by third parties based on underlying loan product type.

(Dollars in millions)	June 30, 2018			December 31, 2017				
	Contractual Maturity	UPB	Carrying Amount <sup>(1)</sup>	Weighted Average Coupon <sup>(2)</sup>	Contractual Maturity	UPB	Carrying Amount <sup>(1)</sup>	Weighted Average Coupon <sup>(2)</sup>
Single-family:								
30-year or more, fixed-rate	2018 - 2055	\$1,322,573	\$1,360,514	3.69 %	2018 - 2055	\$1,278,911	\$1,318,350	3.68 %
20-year fixed-rate	2018 - 2038	71,492	73,464	3.42	2018 - 2038	73,866	76,022	3.43
15-year fixed-rate	2018 - 2033	252,407	257,284	2.86	2018 - 2033	260,633	266,241	2.86
Adjustable-rate	2018 - 2048	42,965	43,874	2.94	2018 - 2048	47,169	48,220	2.85
Interest-only	2026 - 2041	16,118	6,181	3.97	2026 - 2041	17,303	7,379	3.74
FHA/VA	2018 - 2046	781	799	4.81	2018 - 2046	847	866	4.85
Total single-family		1,696,336	1,742,116			1,668,729	1,717,078	
Multifamily	2019-2047	4,144	4,182	3.63	2019-2047	3,876	3,918	3.99
Total debt securities of consolidated trusts held by third parties		\$1,700,480	\$1,746,298			\$1,672,605	\$1,720,996	

(1) Includes \$637 million and \$639 million at June 30, 2018 and December 31, 2017, respectively, of debt of consolidated trusts that represents the fair value of debt securities with the fair value option elected.

(2) The effective interest rate for debt securities of consolidated trusts held by third parties was 2.90% and 2.84% as of June 30, 2018 and December 31, 2017, respectively.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 8

## Other Debt

The table below summarizes the balances and effective interest rates for other debt.

(Dollars in millions)	June 30, 2018			December 31, 2017		
	Par Value	Carrying Amount <sup>(1)</sup>	Weighted Average Effective Rate <sup>(2)</sup>	Par Value	Carrying Amount <sup>(1)</sup>	Weighted Average Effective Rate <sup>(2)</sup>
<b>Other short-term debt:</b>						
Discount notes and Reference Bills <sup>®</sup>	\$34,771	\$34,651	1.83 %	\$45,717	\$45,596	1.19 %
Medium-term notes	10,462	10,462	1.21	17,792	17,792	1.03
Securities sold under agreements to repurchase	11,719	11,719	1.87	9,681	9,681	1.06
Total other short-term debt	56,952	56,832	1.72	73,190	73,069	1.14
<b>Other long-term debt:</b>						
Original maturities on or before December 31,						
2018	27,276	27,281	1.04	70,557	70,587	1.16
2019	58,142	58,099	1.54	57,689	57,637	1.54
2020	40,821	40,794	1.74	38,117	38,087	1.68
2021	27,086	27,093	1.92	22,809	22,829	1.80
2022	19,456	19,427	2.41	18,538	18,506	2.38
Thereafter	29,613	27,037	4.29	17,281	14,660	5.29
STACR and SCR debt <sup>(3)</sup>	18,805	19,187	5.60	17,925	18,338	5.06
Hedging-related basis adjustments	N/A	(886 )		N/A	(79 )	
Total other long-term debt <sup>(4)</sup>	221,199	218,032	2.34	242,916	240,565	2.04
Total other debt	\$278,151	\$274,864		\$316,106	\$313,634	

Represents par value, net of associated discounts or premiums and issuance cost. Includes \$4.8 billion and \$5.2

(1) billion at June 30, 2018 and December 31, 2017, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

(2) Based on carrying amount.

Contractual maturities of these debt securities are not presented because they are subject to prepayment risk, as (3) their payments are based upon the performance of a pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty.

(4) Carrying amount for other long-term debt includes callable debt of \$112.7 billion and \$113.8 billion at June 30, 2018 and December 31, 2017, respectively.

## NOTE 9

### Derivatives

#### Use of Derivatives

---

We use derivatives primarily to hedge interest-rate sensitivity mismatches between our financial assets and 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. 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:

nExchange-traded derivatives;

nCleared derivatives; and

nOTC 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:

nLIBOR-based interest-rate swaps;

nLIBOR- and Treasury-based purchased options (including swaptions); and

nLIBOR- and Treasury-based exchange-traded futures.

We also purchase swaptions on credit indices in order to obtain protection against adverse movements in multifamily spreads which may affect the profitability of our K Certificate or SB Certificate transactions.

In addition to swaps, futures and purchased options, our derivative positions include written options and swaptions, commitments and credit derivatives.

#### Hedge Accounting

---

#### Fair Value Hedges

We apply fair value hedge accounting to certain single-family mortgage loans and certain issuances of debt where we hedge the changes in fair value of these items attributable to the designated benchmark interest rate (i.e., LIBOR), using LIBOR-based interest-rate swaps.

Beginning on October 1, 2017, due to the adoption of amended hedge accounting guidance, if a hedge relationship qualifies for fair value hedge accounting, all changes in fair value of the derivative hedging

instrument, including interest accruals, are recognized in the same condensed consolidated statements of comprehensive income line item used to present the earnings effect of the hedged item. Therefore, changes in the fair value of the hedged item, mortgage loans and debt, attributable to the risk being hedged are recognized in interest income - mortgage loans and interest expense, respectively, along with the changes in the fair value of the respective derivative hedging instruments. Prior to October 1, 2017, if the hedge relationship qualified for hedge accounting, changes in the fair value of the derivative hedging instrument and changes in the fair value of the hedged item attributable to the risk being hedged were recognized in other income (loss) and interest accruals on the derivative hedging instrument were included in derivative gains (losses).

#### Cash Flow Hedges

---

There are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. Amounts reclassified from AOCI are recorded in interest expense. During YTD 2018 and YTD 2017, we reclassified from AOCI into earnings, pre-tax losses of \$75 million and \$85 million, respectively, related to closed cash flow hedges. See Note 11 for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 9

## Derivative Assets and Liabilities at Fair Value

The table below presents the notional value and fair value of derivatives reported on our condensed consolidated balance sheets.

(In millions)	June 30, 2018			December 31, 2017		
	Contractual Amount	Notional Assets	Derivatives at Fair Value Liabilities	Contractual Amount	Notional Assets	Derivatives at Fair Value Liabilities
Not designated as hedges						
Interest-rate swaps:						
Receive-fixed	\$157,034	\$1,295	(\$390 )	\$213,717	\$2,121	(\$1,224 )
Pay-fixed	160,103	998	(718 )	185,400	751	(5,008 )
Basis (floating to floating)	5,613	—	—	5,244	—	(2 )
Total interest-rate swaps	322,750	2,293	(1,108 )	404,361	2,872	(6,234 )
Option-based:						
Call swaptions						
Purchased	52,400	1,781	—	58,975	2,709	—
Written	4,850	—	(91 )	4,650	—	(101 )
Put swaptions						
Purchased <sup>(1)</sup>	50,790	1,585	—	47,810	1,058	—
Written	2,700	—	(14 )	3,000	—	(20 )
Other option-based derivatives <sup>(2)</sup>	10,572	625	—	10,683	757	—
Total option-based	121,312	3,991	(105 )	125,118	4,524	(121 )
Futures	202,296	—	—	267,385	—	—
Commitments	74,913	74	(151 )	54,207	44	(64 )
Credit derivatives	2,216	—	(47 )	3,569	7	(46 )
Other	11,719	23	(79 )	2,906	1	(19 )
Total derivatives not designated as hedges	735,206	6,381	(1,490 )	857,546	7,448	(6,484 )
Designated as fair value hedges						
Interest-rate swaps:						
Receive-fixed	88,889	1	(1,402 )	83,352	2	(714 )
Pay-fixed	81,449	274	(1,906 )	69,402	1,388	(291 )
Total derivatives designated as fair value hedges	170,338	275	(3,308 )	152,754	1,390	(1,005 )
Derivative interest receivable (payable)		924	(929 )		1,407	(1,596 )
Netting adjustments <sup>(3)</sup>		(7,189 )	5,318		(9,870 )	8,816
Total derivative portfolio, net	\$905,544	\$391	(\$409 )	\$1,010,300	\$375	(\$269 )

Includes swaptions on credit indices with a notional or contractual amount of \$12.3 billion and \$13.4 billion at (1) June 30, 2018 and December 31, 2017, respectively, and a fair value of \$14.3 million and \$5.0 million at June 30, 2018 and December 31, 2017, respectively.

(2) Primarily consists of purchased interest-rate caps and floors and options on Treasury futures.

(3) Represents counterparty netting and cash collateral netting.

See Note 10 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, while not designated in qualifying hedge relationships and reported on our condensed consolidated statements of comprehensive income as derivative gains (losses). In addition, for the 2017 periods, the table includes the accrual of periodic cash settlements on derivatives in qualifying hedge relationships.

(In millions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Not designated as hedges				
Interest-rate swaps:				
Receive-fixed	(\$979)	\$1,093	(\$4,076)	\$524
Pay-fixed	1,560	(1,672 )	6,201	(430 )
Basis (floating to floating)	2	(1 )	(28 )	(1 )
Total interest-rate swaps	583	(580 )	2,097	93
Option based:				
Call swaptions				
Purchased	(296 )	292	(990 )	(39 )
Written	14	(2 )	41	1
Put swaptions				
Purchased	61	(239 )	388	(336 )
Written	6	24	(21 )	42
Other option-based derivatives <sup>(1)</sup>	(44 )	34	(132 )	11
Total option-based	(259 )	109	(714 )	(321 )
Other:				
Futures	64	(115 )	451	(230 )
Commitments	85	(61 )	603	(7 )
Credit derivatives	(24 )	(15 )	(10 )	(31 )
Other	10	(5 )	7	(6 )
Total other	135	(196 )	1,051	(274 )
Accrual of periodic cash settlements:				
Receive-fixed interest-rate swaps	74	410	296	855
Pay-fixed interest-rate swaps	(118 )	(839 )	(486 )	(1,751 )
Other	1	—	2	—
Total accrual of periodic cash settlements	(43 )	(429 )	(188 )	(896 )
Total	\$416	(\$1,096)	\$2,246	(\$1,398)

(1) Primarily consists of purchased interest-rate caps and floors and options on Treasury futures.

## Fair Value Hedges

The tables below present the effects of fair value hedge accounting by condensed consolidated statements of comprehensive income line, including the gains and losses on derivatives and hedged items designated in qualifying hedge relationships and other components due to the application of hedge accounting.

(In millions)	2Q 2018		
	Interest Income - Interest Mortgage Loans	Expense	Other Income (Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$16,344	(\$14,299)	\$1,011
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: <sup>(1)</sup>			
Hedged items	(713)	—	—
Derivatives designated as hedging instruments	624	—	—
Interest accruals on hedging instruments	(110)	—	—
Discontinued hedge related basis adjustment amortization	32	—	—
Interest contracts on debt:			
Gain or (loss) on fair value hedging relationships:			
Hedged items	—	132	—
Derivatives designated as hedging instruments	—	(87)	—
Interest accruals on hedging instruments	—	(109)	—
Discontinued hedge related basis adjustment amortization	—	(1)	—
	2Q 2017		
	Interest Income - Interest Mortgage Loans	Expense	Other Income (Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$15,848	(\$13,521)	\$694
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: <sup>(1)</sup>			
Hedged items	—	—	392
Derivatives designated as hedging instruments <sup>(2)</sup>	—	—	(365)
Discontinued hedge related basis adjustment amortization	(5)	—	—

Referenced footnotes are included after the next tables.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 9

(In millions)	YTD 2018		
	Interest	Interest	Other
	Income - Interest	Expense	Income
	Mortgage	Loans	(Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$32,295	(\$28,256)	\$1,132
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: <sup>(1)</sup>			
Hedged items	(2,686)	)—	—
Derivatives designated as hedging instruments	2,311	—	—
Interest accruals on hedging instruments	(277)	)—	—
Discontinued hedge related basis adjustment amortization	48	—	—
Interest contracts on debt:			
Gain or (loss) on fair value hedging relationships:			
Hedged items	—	810	—
Derivatives designated as hedging instruments	—	(678)	)—
Interest accruals on hedging instruments	—	(123)	)—
Discontinued hedge related basis adjustment amortization	—	(1)	)—
	YTD 2017		
(In millions)	Interest	Interest	Other
	Income - Interest	Expense	Income
	Mortgage	Loans	(Loss)
Total amounts of income and expense line items presented in our condensed consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	\$31,813	(\$26,706)	\$1,109
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: <sup>(1)</sup>			
Hedged items	—	—	366
Derivatives designated as hedging instruments <sup>(2)</sup>	—	—	(300)
Discontinued hedge related basis adjustment amortization	(5)	)—	—

In 2Q 2017 and YTD 2017, gains or losses on derivatives and hedged items were recorded in other income (loss).

(1) Beginning in 4Q 2017, gains and losses and interest accruals are recorded in interest income - mortgage loans in our condensed consolidated statements of comprehensive income due to adoption of amended hedge accounting guidance.

(2) The gain or (loss) on fair value hedging relationships in 2Q 2017 and YTD 2017 excludes (\$93) million and (\$176) million, respectively, of interest accruals which were recorded in derivatives gains (losses) in our condensed consolidated statements of comprehensive income.



## Cumulative Basis Adjustments Due to Fair Value Hedging

The tables below present the hedged item cumulative basis adjustments due to qualifying fair value hedging and the related hedged item carrying amounts by their respective balance sheet line item.

June 30, 2018

(In millions)	Carrying Amount Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in the Carrying Amount	
		Total	Discontinued - Hedge Related
Mortgage loans held-for-investment	\$135,830	(\$2,355)	(\$2,355 )
Debt	(98,221 )	886	(10 )

December 31, 2017

(In millions)	Carrying Amount Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in the Carrying Amount	
		Total	Discontinued - Hedge Related
Mortgage loans held-for-investment	\$128,140	\$198	\$198
Debt	(92,277 )	79	(14 )

NOTE 10

Collateralized Agreements and Offsetting Arrangements

Derivative Portfolio

---

Derivative Counterparties

Our use of cleared derivatives, exchange-traded derivatives and OTC derivatives exposes us to counterparty credit risk.

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.

Over-the-Counter Derivatives

---

We use master netting and collateral agreements to reduce our credit risk exposure to our OTC derivative counterparties.

In the event that all of our counterparties for OTC derivatives were to have defaulted simultaneously on June 30, 2018, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately \$40 million.

Regulations adopted by certain financial institution regulators (including FHFA) that became effective March 1, 2017 require posting of variation margin without the application of any thresholds for OTC derivative transactions executed after that date. As a result, our and the counterparties' credit ratings are no longer used in determining the amount of collateral to be posted in connection with these transactions.

Cleared and Exchange-Traded Derivatives

---

The majority of our interest-rate swaps are subject to the central clearing requirement of the Dodd-Frank Act. A reduction in our credit ratings could cause the clearinghouses or clearing members we use for our cleared and exchange-traded derivatives to demand additional collateral.

Other Derivatives

---

We also execute forward purchase and sale commitments of loans and mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes. The total net exposure on our forward purchase and sale commitments, which are treated as derivatives, was \$74 million and \$44 million at June 30, 2018 and December 31, 2017, respectively.

Many of our transactions involving forward purchase and sale commitments of mortgage-related securities 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 counterparty credit risk of the organization (including its clearing members).

Securities Purchased Under Agreements to Resell

---

As an investor, we enter into arrangements to purchase securities under agreements to subsequently resell the identical or substantially the same securities to our counterparty. Our counterparties to these transactions are required to pledge the purchased securities as collateral for their obligation to repurchase those securities at a later date. While such transactions involve the legal transfer of securities, they are accounted for as secured financings because the transferor does not relinquish effective control over the securities transferred. Although it is not our practice to repledge collateral that has been pledged to us, these agreements may allow us to repledge all or a portion of the collateral. 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 in an effort to manage our exposure to losses.

Securities Sold Under Agreements to Repurchase

---

Securities sold under agreements to repurchase are effectively collateralized borrowings where we sell securities with an agreement to repurchase such securities at a future date. We are required to pledge the sold securities to the counterparties to these transactions as collateral for our obligation to repurchase these securities at a later date. Similar to the securities purchased under agreements to resell transactions, these transactions involve the legal transfer of securities. However, they are accounted for as secured financings because they require the identical or substantially the same securities to be subsequently repurchased. These agreements may allow our counterparties to repledge all or a portion of the collateral.

Offsetting of Financial Asset and Liabilities

---

At June 30, 2018 and December 31, 2017, 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.

The tables below display offsetting and collateral information related to derivatives, securities purchased under agreements to resell and securities sold under agreements to repurchase which are subject to enforceable master netting agreements or similar arrangements. Securities sold under agreements to repurchase are included in debt, net on our condensed consolidated balance sheets. During 1Q 2018, certain rule amendments made by the LCH Group became effective. As a result, the legal characterization of variation margin payments for certain of our cleared swaps changed from posting of margin collateral to settlements. The table below reflects this change as of June 30, 2018.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 10

		June 30, 2018						
		Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Cash Counterparty Collateral Netting <sup>(1)</sup>	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets <sup>(2)</sup>	Net Amount	
(In millions)								
<b>Assets:</b>								
<b>Derivatives:</b>								
OTC derivatives		\$7,453	(\$5,122)	(\$2,168 )	\$163	(\$123 )	\$40	
Cleared and exchange-traded derivatives		30	(1 )	102	131	—	131	
Other		97	—	—	97	—	97	
Total derivatives		7,580	(5,123 )	(2,066 )	391	(123 )	268	
Securities purchased under agreements to resell <sup>(3)(4)</sup>		41,769	—	—	41,769	(41,769 )	—	
Total		\$49,349	(\$5,123)	(\$2,066 )	\$42,160	(\$41,892 )	\$268	
<b>Liabilities:</b>								
<b>Derivatives:</b>								
OTC derivatives		(\$5,447 )	\$5,122	\$244	(\$81 )	\$—	(\$81 )	
Cleared and exchange-traded derivatives		(3 )	1	(49 )	(51 )	—	(51 )	
Other		(277 )	—	—	(277 )	—	(277 )	
Total derivatives		(5,727 )	5,123	195	(409 )	—	(409 )	
Securities sold under agreements to repurchase <sup>(4)</sup>		(11,719 )	—	—	(11,719 )	11,719	—	
Total		(\$17,446)	\$5,123	\$195	(\$12,128 )	\$11,719	(\$409 )	
		December 31, 2017						
		Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Cash Counterparty Collateral Netting <sup>(1)</sup>	Net Amount Presented in the Consolidated Balance Sheets	Gross Amount Not Offset in the Consolidated Balance Sheets <sup>(2)</sup>	Net Amount	
(In millions)								
<b>Assets:</b>								
<b>Derivatives:</b>								
OTC derivatives		\$7,648	(\$5,499)	(\$1,903 )	\$246	(\$205 )	\$41	
Cleared and exchange-traded derivatives		2,545	(2,266 )	(202 )	77	—	77	
Other		52	—	—	52	—	52	
Total derivatives		10,245	(7,765 )	(2,105 )	375	(205 )	170	
Securities purchased under agreements to resell <sup>(3)(4)</sup>		55,903	—	—	55,903	(55,903 )	—	
Total		\$66,148	(\$7,765)	(\$2,105 )	\$56,278	(\$56,108 )	\$170	
<b>Liabilities:</b>								
<b>Derivatives:</b>								
OTC derivatives		(\$6,285 )	\$5,499	\$688	(\$98 )	\$—	(\$98 )	
Cleared and exchange-traded derivatives		(2,671 )	2,266	363	(42 )	—	(42 )	
Other		(129 )	—	—	(129 )	—	(129 )	



Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Total derivatives	(9,085 )	7,765	1,051	(269 )	—	(269 )
Securities sold under agreements to repurchase <sup>(4)</sup>	(9,681 )	—	—	(9,681 )	9,681	—
Total	(\$18,766)	\$7,765	\$1,051	(\$9,950 )	\$9,681	(\$269 )

Freddie Mac Form 10-Q 122

---

(1) Excess cash collateral held is presented as a derivative liability, while excess cash collateral posted is presented as a derivative asset.

Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability, netted by counterparty, presented on the condensed consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us as initial margin with an aggregate fair value of \$3.1 billion as of both June 30, 2018 and December 31, 2017.

We primarily execute securities purchased under agreements to resell transactions with central clearing organizations where we have the right to repledge the collateral that has been pledged to us, either with the central clearing organization or with other counterparties. At June 30, 2018, and December 31, 2017, we had \$23.4 billion and \$34.8 billion, respectively, of securities pledged to us in these transactions. In addition, at June 30, 2018 and December 31, 2017, we had \$1.9 billion and \$3.4 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell not executed with central clearing organizations that we had the right to repledge.

(4) Does not include the impacts of netting by central clearing organizations.

Collateral Pledged

Collateral Pledged to Freddie Mac

We have cash pledged to us as collateral primarily related to OTC derivative transactions. At June 30, 2018, we had \$2.3 billion pledged to us as collateral that was invested as part of our liquidity and contingency operating portfolio.

Collateral Pledged by Freddie Mac

The tables below summarize the fair value of the securities pledged as collateral by us for derivatives and collateralized borrowing transactions, including securities that the secured party may repledge.

(In millions)	June 30, 2018			
	Securities sold under agreements to repurchase		Other <sup>(3)</sup> Total	
	Derivatives			
Cash equivalents <sup>(1)</sup>	\$—	\$906	\$—	\$906
Debt securities of consolidated trusts <sup>(2)</sup>	360	—	301	661
Trading securities	2,735	10,828	307	13,870
Total securities pledged	\$3,095	\$11,734	\$608	\$15,437

(In millions)	December 31, 2017			
	Securities sold under agreements to repurchase		Other <sup>(3)</sup> Total	
	Derivatives			
Debt securities of consolidated trusts <sup>(2)</sup>	\$375	\$—	\$111	\$486
Trading securities	2,766	9,705	362	12,833
Total securities pledged	\$3,141	\$9,705	\$473	\$13,319

(1) Represents U.S. Treasury securities accounted for as cash equivalents.

Represents PCs held by us in our Capital Markets segment mortgage investments portfolio which are recorded as a reduction to debt securities of consolidated trusts held by third parties on our condensed consolidated balance sheets.

(3) Includes collateral related to transactions with certain clearinghouses.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

The table below summarizes the underlying collateral pledged and the remaining contractual maturity of our gross obligations under securities sold under agreements to repurchase.

(In millions)	June 30, 2018				
	Overnight and or less continuous	30 days through 90 days	After 30 days through 90 days	Greater than 90 days	Total
U.S. Treasury securities	\$11,734	\$—	\$—	\$—	\$11,734

Freddie Mac Form 10-Q 123

---

## NOTE 11

Stockholders' Equity and Earnings Per Share  
Accumulated Other Comprehensive Income

The tables below present changes in AOCI after the effects of our federal statutory tax rates of 21% and 35% for YTD 2018 and YTD 2017, respectively, related to available-for-sale securities, closed cash flow hedges and our defined benefit plans.

(In millions)	YTD 2018			
	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	\$662	(\$356)	\$83	\$389
Other comprehensive income before reclassifications <sup>(1)</sup>	(601)	—	(2)	(603)
Amounts reclassified from accumulated other comprehensive income	(295)	62	(8)	(241)
Changes in AOCI by component	(896)	62	(10)	(844)
Cumulative effect of change in accounting principle <sup>(2)</sup>	143	(73)	19	89
Ending balance	(\$91)	(\$367)	\$92	(\$366)

(In millions)	YTD 2017			
	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	\$915	(\$480)	\$21	\$456
Other comprehensive income before reclassifications <sup>(1)</sup>	486	—	(3)	483
Amounts reclassified from accumulated other comprehensive income	(193)	55	—	(138)
Changes in AOCI by component	293	55	(3)	345
Ending balance	\$1,208	(\$425)	\$18	\$801

(1) For YTD 2018 and YTD 2017, net of tax expense (benefit) of \$0.2 billion and \$0.3 billion, respectively, for AOCI related to available-for-sale securities.

(2) Includes the effect of adopting the accounting guidance on reclassification of stranded tax effects of the Tax Cuts and Jobs Act.

In 1Q 2018, we adopted the accounting guidance related to the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The reclassification includes stranded tax effects related to unrealized gains and losses on available-for-sale securities, deferred net losses on closed cash flow hedges and our defined benefit plans.

## Reclassifications from AOCI to Net Income

The table below presents reclassifications from AOCI to net income, including the affected line item in our condensed consolidated statements of comprehensive income.

(In millions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
AOCI related to available-for-sale securities				
Affected line items in the consolidated statements of comprehensive income:				
Other gains (losses) on investment securities recognized in earnings	(\$21)	\$123	\$374	\$313
Net impairment of available-for-sale securities recognized in earnings	(1 )	(3 )	(1 )	(16 )
Total before tax	(22 )	120	373	297
Income tax (expense) or benefit	5	(41 )	(78 )	(104 )
Net of tax	(17 )	79	295	193
AOCI related to cash flow hedge relationships				
Affected line items in the consolidated statements of comprehensive income:				
Interest expense	(37 )	(42 )	(75 )	(85 )
Income tax (expense) or benefit	5	15	13	30
Net of tax	(32 )	(27 )	(62 )	(55 )
AOCI related to defined benefit plans				
Affected line items in the consolidated statements of comprehensive income:				
Salaries and employee benefits	5	—	10	—
Income tax (expense) or benefit	(1 )	—	(2 )	—
Net of tax	4	—	8	—
Total reclassifications in the period	(\$45)	\$52	\$241	\$138
Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges				

The total AOCI related to derivatives designated as cash flow hedges was a loss of \$0.4 billion at both June 30, 2018 and June 30, 2017, 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 \$84 million, net of taxes, of the \$0.4 billion of cash flow hedge losses in AOCI at June 30, 2018 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 15 years.

### Senior Preferred Stock

---

As of June 30, 2018, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount of \$4.6 billion as of June 30, 2018 and the Capital Reserve Amount of \$3.0 billion, our dividend requirement to Treasury in September 2018 will be \$1.6 billion. See Note 2 for additional information.

Upon the Conservator, acting as successor to the rights, titles, powers and privileges of the Board of Directors, declaring a senior preferred stock dividend equal to our dividend requirement and directing us to pay it before September 30, 2018, we would pay a dividend of \$1.6 billion by September 30, 2018. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement. Our cumulative senior preferred stock dividend payments totaled \$112.4 billion as of June 30, 2018. The aggregate liquidation preference of the senior preferred stock owned by Treasury was \$75.6 billion and \$75.3 billion as of June 30, 2018 and December 31, 2017, respectively.

### Stock Issuances and Repurchases

---

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2Q 2018, except for issuances of treasury stock relating to stock-based compensation granted prior to conservatorship.

### Earnings Per Share

---

We have participating securities related to 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 vested 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.

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 weighted-average of 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. There were no stock options outstanding at June 30, 2018 and June 30, 2017.

Dividends Declared

---

No common dividends were declared during YTD 2018. During 1Q 2018 and 2Q 2018, we also did not pay dividends on the senior preferred stock. In addition, we did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during YTD 2018.

NOTE 12

Income Taxes

Income Tax Expense

---

For 2Q 2018 and 2Q 2017, we reported income tax expense of \$0.6 billion and \$0.8 billion, respectively, resulting in effective tax rates of 20.4% and 33.5%, respectively. For YTD 2018 and YTD 2017, we reported income tax expense of \$1.4 billion and \$1.9 billion, respectively, resulting in effective tax rates of 20.4% and 33.4%, respectively. Our effective tax rates differed from the statutory tax rates of 21% and 35% in these periods primarily due to our recognition of low income housing tax credits.

Deferred Tax Assets, Net

---

We had net deferred tax assets of \$8.3 billion and \$8.1 billion as of June 30, 2018 and December 31, 2017, respectively. At June 30, 2018, our net deferred tax assets consisted primarily of basis differences related to derivative instruments and deferred fees.

Based on all positive and negative evidence available at June 30, 2018, we determined that it is more likely than not that our net deferred tax assets, except for a portion of the deferred tax asset related to our capital loss carryforward, will be realized. As of June 30, 2018, we have a \$33 million valuation allowance recorded against our capital loss carryforward deferred tax asset.

Unrecognized Tax Benefits and IRS Examinations

---

We evaluated all income tax positions and determined that there were no uncertain tax positions that required reserves as of June 30, 2018.



## NOTE 13

## Segment Reporting

We have three reportable segments, which are based on the type of business activities each performs - Single-family Guarantee, Multifamily and Capital Markets. Material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments are included in the All Other category. For more information, see our 2017 Annual Report.

## Segment Earnings

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP condensed consolidated statements of comprehensive income and allocating certain revenues and expenses, including funding costs and administrative expenses, to our three reportable segments.

We do not consider our assets by segment when evaluating segment performance or allocating resources. We operate our business in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

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 for information about the conservatorship.

The table below presents Segment Earnings by segment.

(In millions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Segment Earnings (loss), net of taxes:				
Single-family Guarantee	\$803	\$778	\$1,505	\$1,488
Multifamily	548	389	1,020	838
Capital Markets	1,152	497	2,904	1,549
All Other	—	—	—	—
Total Segment Earnings, net of taxes	2,503	1,664	5,429	3,875
Net income	\$2,503	\$1,664	\$5,429	\$3,875
Comprehensive income (loss) of segments:				
Single-family Guarantee	\$801	\$778	\$1,499	\$1,486
Multifamily	524	462	928	907
Capital Markets	1,110	746	2,158	1,827
All Other	—	—	—	—
Comprehensive income of segments	2,435	1,986	4,585	4,220
Comprehensive income	\$2,435	\$1,986	\$4,585	\$4,220

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 13

The tables below present detailed reconciliations between our GAAP financial statements and Segment Earnings for our reportable segments and All Other.

(In millions)	2Q 2018						Total per Consolidated Statements of Comprehensive Income
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Segment Earnings (Loss)	Reclassifications	
Net interest income	\$—	\$293	\$862	\$—	\$1,155	\$1,848	\$3,003
Guarantee fee income <sup>(1)</sup>	1,571	204	—	—	1,775	(1,575)	) 200
Benefit (provision) for credit losses	103	2	—	—	105	(45)	) 60
Net impairment of available-for-sale securities recognized in earnings	—	—	26	—	26	(27)	) (1 )
Derivative gains (losses)	(6	)224	309	—	527	(111)	) 416
Gains (losses) on trading securities	—	(95	) (232	)—	(327	)—	(327 )
Gains (losses) on loans	—	(62	)—	—	(62	)224	162
Other non-interest income (loss)	125	232	572	—	929	(154)	) 775
Administrative expense	(363	) (106	) (89	)—	(558	)—	(558 )
REO operations expense	(20	)1	(1	)—	(20	)5	(15 )
Other non-interest expense	(400	) (5	)—	—	(405	) (165	) (570 )
Income tax expense	(207	) (140	) (295	)—	(642	)—	(642 )
Net income	803	548	1,152	—	2,503	—	2,503
Changes in unrealized gains (losses) related to available-for-sale securities	—	(23	) (73	)—	(96	)—	(96 )
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	32	—	32	—	32
Changes in defined benefit plans	(2	) (1	) (1	)—	(4	)—	(4 )
Total other comprehensive income (loss), net of taxes	(2	) (24	) (42	)—	(68	)—	(68 )
Comprehensive income	\$801	\$524	\$1,110	\$—	\$2,435	\$—	\$2,435

Referenced footnote is included after the YTD 2017 table.

(In millions)	YTD 2018						Total per Consolidated Statements of Comprehensive Income
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Segment Earnings (Loss)	Reclassifications	
Net interest income	\$—	\$564	\$1,679	\$—	\$2,243	\$3,778	\$6,021
Guarantee fee income <sup>(1)</sup>	3,084	399	—	—	3,483	(3,089)	) 394
Benefit (provision) for credit losses	131	18	—	—	149	(152)	) (3 )
Net impairment of available-for-sale securities recognized in earnings	—	—	137	—	137	(138)	) (1 )
Derivative gains (losses)	(12	)879	1,611	—	2,478	(232)	) 2,246
Gains (losses) on trading securities	—	(251	) (703	)—	(954	)—	(954 )

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Gains (losses) on loans	—	(513	) —	—	(513	) 355	(158	)
Other non-interest income (loss)	225	409	1,102	—	1,736	(209	) 1,527	)
Administrative expense	(699	) (206	) (173	) —	(1,078	) —	(1,078	)
REO operations expense	(59	) 1	—	—	(58	) 9	(49	)
Other non-interest expense	(779	) (19	) (6	) —	(804	) (322	) (1,126	)
Income tax expense	(386	) (261	) (743	) —	(1,390	) —	(1,390	)
Net income	1,505	1,020	2,904	—	5,429	—	5,429	
Changes in unrealized gains (losses) related to available-for-sale securities	—	(90	) (806	) —	(896	) —	(896	)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	62	—	62	—	62	
Changes in defined benefit plans	(6	) (2	) (2	) —	(10	) —	(10	)
Total other comprehensive income (loss), net of taxes	(6	) (92	) (746	) —	(844	) —	(844	)
Comprehensive income	\$1,499	\$928	\$2,158	\$—	\$4,585	\$—	\$4,585	

Referenced footnote is included after the YTD 2017 table.

Freddie Mac Form 10-Q 130

---

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 13

2Q 2017

(In millions)	2Q 2017					Reclassifications	Total per Consolidated Statements of Comprehensive Income
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Total Segment Earnings (Loss)		
Net interest income	\$—	\$292	\$875	\$—	\$1,167	\$2,212	\$3,379
Guarantee fee income <sup>(1)</sup>	1,506	162	—	—	1,668	(1,510)	158
Benefit (provision) for credit losses	12	6	—	—	18	404	422
Net impairment of available-for-sale securities recognized in earnings	—	—	71	—	71	(74)	(3)
Derivative gains (losses)	(17)	(180)	(485)	—	(682)	(414)	(1,096)
Gains (losses) on trading securities	—	(16)	(46)	—	(62)	—	(62)
Gains (losses) on loans	—	42	—	—	42	151	193
Other non-interest income (loss)	376	386	419	—	1,181	(665)	516
Administrative expense	(332)	(95)	(86)	—	(513)	—	(513)
REO operations expense	(41)	—	—	—	(41)	4	(37)
Other non-interest expense	(335)	(12)	(1)	—	(348)	(108)	(456)
Income tax expense	(391)	(196)	(250)	—	(837)	—	(837)
Net income	778	389	497	—	1,664	—	1,664
Changes in unrealized gains (losses) related to available-for-sale securities	—	73	222	—	295	—	295
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	27	—	27	—	27
Changes in defined benefit plans	—	—	—	—	—	—	—
Total other comprehensive income (loss), net of taxes	—	73	249	—	322	—	322
Comprehensive income	\$778	\$462	\$746	\$—	\$1,986	\$—	\$1,986

Referenced footnote is included after the next table.

YTD 2017

(In millions)	YTD 2017					Reclassifications	Total per Consolidated Statements of Comprehensive Income
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Total Segment Earnings (Loss)		
Net interest income	\$—	\$563	\$1,804	\$—	\$2,367	\$4,807	\$7,174
Guarantee fee income <sup>(1)</sup>	2,924	313	—	—	3,237	(2,930)	307
Benefit (provision) for credit losses	51	12	—	—	63	475	538
Net impairment of available-for-sale securities recognized in earnings	—	(4)	144	—	140	(156)	(16)
Derivative gains (losses)	(32)	(53)	(433)	—	(518)	(880)	(1,398)
Gains (losses) on trading securities	—	(15)	(181)	—	(196)	—	(196)
Gains (losses) on loans	—	9	—	—	9	198	207
Other non-interest income (loss)	710	658	1,167	—	2,535	(1,359)	1,176

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Administrative expense	(665 )	(190 )	(169 )	—	(1,024 )	—	(1,024 )
REO operations expense	(100 )	—	—	—	(100 )	7	(93 )
Other non-interest expense	(653 )	(33 )	(5 )	—	(691 )	(162 )	(853 )
Income tax (expense) benefit	(747 )	(422 )	(778 )	—	(1,947 )	—	(1,947 )
Net income (loss)	1,488	838	1,549	—	3,875	—	3,875
Changes in unrealized gains (losses) related to available-for-sale securities	—	69	224	—	293	—	293
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	55	—	55	—	55
Changes in defined benefit plans	(2 )	—	(1 )	—	(3 )	—	(3 )
Total other comprehensive income (loss), net of taxes	(2 )	69	278	—	345	—	345
Comprehensive income	\$1,486	\$907	\$1,827	\$—	\$4,220	\$—	\$4,220

(1) Guarantee fee income is included in other income (loss) on our GAAP condensed consolidated statements of comprehensive income.

## NOTE 14

Concentration of Credit and Other Risks  
Single-Family Credit Guarantee Portfolio

The table below summarizes the concentration by loan portfolio and geographic area of the approximately \$1.9 trillion and \$1.8 trillion UPB of our single-family credit guarantee portfolio at June 30, 2018 and December 31, 2017, respectively. See Note 4 and Note 7 for more information about credit risk associated with loans and mortgage-related securities that we hold or guarantee.

	June 30, 2018		December 31, 2017		Percent of Credit Losses	
	Percent of Portfolio	Seasonal Delinquency Rate	Percent of Portfolio	Seasonal Delinquency Rate	YTD 2018	YTD 2017
Core single-family loan portfolio	80	%0.25	78	%0.35	9	%2
Legacy and relief refinance single-family loan portfolio	20	2.14	22	2.59	91	98
Total	100	%0.82	100	%1.08	100	%100
Region <sup>(1)</sup>						
West	30	%0.40	30	%0.47	14	%31
Northeast	24	1.03	25	1.24	45	32
North Central	16	0.66	16	0.81	18	15
Southeast	16	1.32	16	1.95	17	20
Southwest	14	0.68	13	0.98	6	2
Total	100	%0.82	100	%1.08	100	%100
State <sup>(2)</sup>						
New York	5	%1.49	5	%1.74	14	%7
New Jersey	3	1.38	3	1.78	12	8
Illinois	4	0.90	5	1.13	9	9
Florida	6	1.97	6	3.33	9	13
California	18	0.35	18	0.41	8	21
All other	64	0.71	63	0.91	48	42
Total	100	%0.82	100	%1.08	100	%100

Region designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, (1)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).

(2)States presented based on those with the highest percentage of credit losses during YTD 2018.

### Credit Performance of Certain Higher Risk Single-Family Loan Categories

Participants in the mortgage market have characterized single-family loans based upon their overall credit quality at the time of origination, including as prime or subprime. Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between their prime and subprime categories, if they are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we discontinued new purchases of loans with lower documentation standards beginning March 1, 2009, we continued to purchase certain amounts of these loans in cases where the loan was either:

- n Purchased pursuant to a previously issued other mortgage-related guarantee;
- n Part of our relief refinance initiative; or
- n In another refinance loan initiative and the pre-existing loan (including Alt-A loans) was originated under less than full documentation standards.

In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as 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 loans we purchase or guarantee as prime or subprime, we recognize that there are a number of loan types with certain characteristics that indicate a higher degree of credit risk.

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 loans in our single-family credit guarantee portfolio. 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.

(Percentage of portfolio based on UPB)	Percentage of Portfolio <sup>(1)</sup>		Serious Delinquency Rate <sup>(1)</sup>			
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Interest-only	1 %	1 %	4.10 %	4.97 %		
Alt-A	1	1	4.83	5.62		
Original LTV ratio greater than 90% <sup>(2)</sup>	17	17	1.24	1.70		
Lower credit scores at origination (less than 620)	2	2	4.97	6.34		

(1) Excludes loans underlying certain other securitization products for which data was not available.

(2) Includes HARP loans, which we purchase as part of our participation in the MHA Program.

## Sellers and Servicers

## Sellers

We acquire a significant portion of our single-family and multifamily loan purchase volume from several large sellers. The tables below summarize the concentration of single-family and multifamily sellers who provided 10% or more of our purchase volume.

Single-family Sellers	YTD	YTD
	2018	2017
Wells Fargo Bank, N.A.	13 %	17 %
Other top 10 sellers	36	36
Top 10 single-family sellers	49 %	53 %

Multifamily Sellers	YTD	YTD
	2018	2017
CBRE Capital Markets, Inc.	16 %	17 %
Berkadia Commercial Mortgage LLC	11	10
Holliday Fenoglio Fowler, L.P.	11	10
Berkeley Point Capital LLC	5	12
Other top 10 sellers	36	32
Top 10 multifamily sellers	79 %	81 %

In recent years, there has been a shift in our single-family purchase volume from depository institutions to non-depository and smaller depository financial institutions. Some of these non-depository sellers have grown rapidly in recent years, and we purchase a significant share of our loans from them. Our top five non-depository sellers provided approximately 22% and 19% of our single-family purchase volume during YTD 2018 and YTD 2017, respectively.

## Servicers

Significant portions of our single-family and multifamily loans are serviced by several large servicers. The tables below summarize the concentration of single-family and multifamily servicers who serviced 10% or more of our single-family credit guarantee portfolio and our multifamily mortgage portfolio, excluding loans underlying multifamily securitizations where we are not in first loss position, primarily K Certificates and SB Certificates.

Single-family Servicers	June	December
	30,	31,
	2018 <sup>(1)</sup>	2017 <sup>(1)</sup>
Wells Fargo Bank, N.A.	18 %	18 %
Other top 10 servicers	39	40
Top 10 single-family servicers	57 %	58 %

(1) Percentage of servicing volume is based on the total single-family credit guarantee portfolio, excluding loans where we do not exercise control over the associated servicing.

Multifamily Servicers	June	December
	30,	31,
	2018	2017
Wells Fargo Bank, N.A.	17 %	16 %
CBRE Capital Markets, Inc.	10	12
Berkadia Commercial Mortgage LLC	9	11
Other top 10 servicers	38	36



Top 10 multifamily servicers 74 % 75 %

Freddie Mac Form 10-Q 134

---

In recent years, there has been a shift in our single-family servicing from depository institutions to non-depository servicers. Some of these non-depository servicers have grown rapidly in recent years and now service a large share of our loans. As of June 30, 2018 and December 31, 2017, approximately 16% and 15%, respectively, of our single-family credit guarantee portfolio, excluding loans where we do not exercise control over the associated servicing, was serviced by our top five non-depository servicers. We routinely monitor the performance of our largest non-depository servicers.

#### Mortgage Insurers

We have counterparty credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. We evaluate the recovery and collectability from mortgage insurers as part of the estimate of our allowance for credit losses. See Note 4 for additional information. As of June 30, 2018, mortgage insurers provided coverage with maximum loss limits of \$90.2 billion, for \$351.9 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected loan is covered under both primary and pool insurance.

The table below summarizes the concentration of mortgage insurer counterparties who provided 10% or more of our overall mortgage insurance coverage. On October 23, 2016, Genworth Financial, Inc. announced that it had entered into an agreement to be acquired by China Oceanwide Holdings Group Co., Ltd. Regulatory approvals of the acquisition are still pending. Genworth Mortgage Insurance Corporation is a subsidiary of Genworth Financial, Inc.

Mortgage Insurer	Credit Rating <sup>(1)</sup>	Mortgage Insurance Coverage <sup>(2)</sup>	
		June 30, 2018	December 31, 2017
Arch Mortgage Insurance Company	A-	24 %	24 %
Radian Guaranty Inc.	BBB-	21	21
Mortgage Guaranty Insurance Corporation	BBB	19	19
Genworth Mortgage Insurance Corporation	BB+	15	15
Essent Guaranty, Inc.	BBB+	12	12
Total		91 %	91 %

(1) Ratings are for the corporate entity to which we have the greatest exposure. Latest rating available as of June 30, 2018. Represents the lower of S&P and Moody's credit ratings stated in terms of the S&P equivalent.

(2) Coverage amounts may include coverage provided by affiliates and subsidiaries of the counterparty.

We received proceeds of \$0.1 billion and \$0.2 billion during YTD 2018 and YTD 2017, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers of \$0.1 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of both June 30, 2018 and December 31, 2017. The balance of these receivables, net of an associated allowance for credit losses, was approximately \$0.1 billion at both June 30, 2018 and December 31, 2017. PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both under the control of their state regulators and are in run-off. A substantial portion of their claims is recorded by us as deferred payment obligations. As of both June 30, 2018 and December 31, 2017, we had cumulative unpaid deferred payment obligations of \$0.5 billion from these insurers. We recognized an allowance for credit losses for all of these unpaid amounts as collectability is uncertain. It is not clear how the regulators of these companies will administer their respective deferred payment plans in the future, nor when or if those obligations will be paid.



---

### Cash and Other Investments Counterparties

---

We are exposed to the non-performance of counterparties relating to cash and other investments (including non-mortgage-related securities and cash equivalents) 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 our entering into such transactions. We monitor the financial strength of our counterparties to these transactions and may use collateral maintenance requirements to manage our exposure to individual counterparties. The permitted term and dollar limits for each of these transactions are also based on the counterparty's financial strength.

Our cash and other investments (including non-mortgage-related securities and cash equivalents) counterparties are primarily major financial institutions, including other GSEs, Treasury, the Federal Reserve Bank of New York, the Government Securities Division of Fixed Income Clearing Corporation (GSD/FICC), highly-rated supranational institutions and government money market funds. As of June 30, 2018 and December 31, 2017, \$1,977 million and \$239 million of our securities purchased under agreements to resell were used to provide financing to investors in Freddie Mac securities to increase liquidity and expand the investor base for those securities. These transactions differ from the securities purchased under agreements to resell that we use for liquidity purposes as the counterparties we face may not be major financial institutions and we are exposed to the counterparty risk of these institutions. As of June 30, 2018 and December 31, 2017, including amounts related to our consolidated VIEs, the balance in our other investments and cash portfolio was \$73.8 billion and \$89.8 billion, respectively. The balances consist primarily of cash and securities purchased under agreements to resell invested with counterparties, U.S. Treasury securities, cash deposited with the Federal Reserve Bank of New York, cash advanced to lenders and other secured lending. As of June 30, 2018, all of our securities purchased under agreements to resell were fully collateralized.

### Non-Agency Mortgage-Related Security Issuers

---

In Note 14 in our 2017 Annual Report, we noted various loss mitigation efforts concerning certain investments in non-agency mortgage related securities, including a pending lawsuit filed by FHFA, as Conservator of Freddie Mac and Fannie Mae, against Nomura Holding America, Inc. and Royal Bank of Scotland Group plc in the U.S. District Court for the Southern District of New York. In May 2015, the District Court ruled against the defendants and ordered them to pay an aggregate of \$806 million, of which \$779 million was to be paid to Freddie Mac, adjusted by any principal and interest collected by Freddie Mac between the date of the judgment and the date on which the judgment is executed. The judgment also provided for Freddie Mac to transfer to defendants the six mortgage-related securities at issue in the case and ordered the defendants to reimburse Freddie Mac for certain costs, legal fees and expenses. In September 2017, the U.S. Court of Appeals for the Second Circuit affirmed the District Court's decision. Nomura and RBS filed a petition for writ of certiorari in the U.S. Supreme Court, and on June 25, 2018, the U.S. Supreme Court denied certiorari. On July 20, 2018, Freddie Mac received approximately \$652 million, which included post-judgment interest, and tendered to Nomura the six certificates at issue. In addition, Freddie Mac received \$16.5 million from Nomura as reimbursement of attorneys' fees and costs. We recognized the benefit of the judgment during 2Q 2018 and recorded a gain of \$334 million within non-interest income on our consolidated statements of comprehensive income.

## NOTE 15

### Fair Value Disclosures

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 guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. 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 measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

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.

### Fair Value Measurements

---

The accounting guidance for fair value measurements and disclosures establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The levels of the fair value hierarchy are defined as follows in priority order:

n Level 1 - inputs to the valuation techniques are based on quoted prices in active markets for identical assets or liabilities.

n Level 2 - inputs to the valuation techniques are based on observable inputs other than quoted prices in active markets for identical assets or liabilities.

n Level 3 - one or more inputs to the valuation technique are unobservable and significant to the fair value measurement.

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.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

---

The tables below present our assets and liabilities measured on our condensed consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments where we have elected the fair value option.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	June 30, 2018			Netting Adjustment <sup>(1)</sup>	Total
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
<b>Investments in securities:</b>					
<b>Available-for-sale, at fair value:</b>					
<b>Mortgage-related securities:</b>					
Freddie Mac	\$—	\$27,148	\$4,380	\$—	\$31,528
Other agency	—	1,834	270	—	2,104
Non-agency RMBS	—	—	2,226	—	2,226
Non-agency CMBS	—	31	1,624	—	1,655
Obligations of states and political subdivisions	—	—	309	—	309
Total available-for-sale securities, at fair value	—	29,013	8,809	—	37,822
<b>Trading, at fair value:</b>					
<b>Mortgage-related securities:</b>					
Freddie Mac	—	9,986	2,428	—	12,414
Other agency	—	2,624	17	—	2,641
All other	—	20	1,284	—	1,304
Total mortgage-related securities	—	12,630	3,729	—	16,359
Non-mortgage-related securities	20,501	3,028	—	—	23,529
Total trading securities, at fair value	20,501	15,658	3,729	—	39,888
Total investments in securities	20,501	44,671	12,538	—	77,710
<b>Mortgage loans:</b>					
Held-for-sale, at fair value	—	16,621	—	—	16,621
<b>Derivative assets, net:</b>					
Interest-rate swaps	—	2,568	—	—	2,568
Option-based derivatives	—	3,991	—	—	3,991
Other	—	74	23	—	97
Subtotal, before netting adjustments	—	6,633	23	—	6,656
Netting adjustments <sup>(1)</sup>	—	—	—	(6,265)	(6,265)
Total derivative assets, net	—	6,633	23	(6,265)	391
<b>Other assets:</b>					
Guarantee asset, at fair value	—	—	3,363	—	3,363
Non-derivative held-for-sale purchase commitments, at fair value	—	132	—	—	132
All other, at fair value	—	—	103	—	103
Total other assets	—	132	3,466	—	3,598
Total assets carried at fair value on a recurring basis	\$20,501	\$68,057	\$16,027	(\$6,265)	\$98,320
<b>Liabilities:</b>					
<b>Debt securities of consolidated trusts held by third parties, at fair value</b>					
Debt securities of consolidated trusts held by third parties, at fair value	\$—	\$8	\$629	\$—	\$637
Other debt, at fair value	—	4,651	135	—	4,786
<b>Derivative liabilities, net:</b>					
Interest-rate swaps	—	4,416	—	—	4,416
Option-based derivatives	—	105	—	—	105
Other	—	212	65	—	277
Subtotal, before netting adjustments	—	4,733	65	—	4,798
Netting adjustments <sup>(1)</sup>	—	—	—	(4,389)	(4,389)
Total derivative liabilities, net	—	4,733	65	(4,389)	409

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Other liabilities:

Non-derivative held-for-sale purchase commitments, at fair value	—	11	—	—	11
Total liabilities carried at fair value on a recurring basis	\$—	\$9,403	\$829	(\$4,389	) \$5,843

Referenced footnote is included after the next table.

Freddie Mac Form 10-Q 138

---

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	December 31, 2017			Netting Adjustment <sup>(1)</sup>	Total
	Level 1	Level 2	Level 3		
<b>Assets:</b>					
<b>Investments in securities:</b>					
<b>Available-for-sale, at fair value:</b>					
<b>Mortgage-related securities:</b>					
Freddie Mac	\$—	\$30,415	\$5,055	\$—	\$35,470
Other agency	—	2,007	46	—	2,053
Non-agency RMBS	—	—	3,933	—	3,933
Non-agency CMBS	—	87	1,697	—	1,784
Obligations of states and political subdivisions	—	—	357	—	357
Total available-for-sale securities, at fair value	—	32,509	11,088	—	43,597
<b>Trading, at fair value:</b>					
<b>Mortgage-related securities:</b>					
Freddie Mac	—	11,393	842	—	12,235
Other agency	—	3,565	9	—	3,574
All other	—	27	2,066	—	2,093
Total mortgage-related securities	—	14,985	2,917	—	17,902
Non-mortgage-related securities	20,159	2,660	—	—	22,819
Total trading securities, at fair value	20,159	17,645	2,917	—	40,721
Total investments in securities	20,159	50,154	14,005	—	84,318
<b>Mortgage loans:</b>					
Held-for-sale, at fair value	—	20,054	—	—	20,054
<b>Derivative assets, net:</b>					
Interest-rate swaps	—	4,262	—	—	4,262
Option-based derivatives	—	4,524	—	—	4,524
Other	—	44	8	—	52
Subtotal, before netting adjustments	—	8,830	8	—	8,838
Netting adjustments <sup>(1)</sup>	—	—	—	(8,463)	(8,463)
Total derivative assets, net	—	8,830	8	(8,463)	375
<b>Other assets:</b>					
Guarantee asset, at fair value	—	—	3,171	—	3,171
Non-derivative held-for-sale purchase commitments, at fair value	—	137	—	—	137
All other, at fair value	—	—	45	—	45
Total other assets	—	137	3,216	—	3,353
Total assets carried at fair value on a recurring basis	\$20,159	\$79,175	\$17,229	(\$8,463)	\$108,100
<b>Liabilities:</b>					
<b>Debt securities of consolidated trusts held by third parties, at fair value</b>					
Debt securities of consolidated trusts held by third parties, at fair value	\$—	\$9	\$630	\$—	\$639
Other debt, at fair value	—	5,023	137	—	5,160
<b>Derivative liabilities, net:</b>					
Interest-rate swaps	—	7,239	—	—	7,239
Option-based derivatives	—	121	—	—	121
Other	—	64	65	—	129
Subtotal, before netting adjustments	—	7,424	65	—	7,489
Netting adjustments <sup>(1)</sup>	—	—	—	(7,220)	(7,220)
Total derivative liabilities, net	—	7,424	65	(7,220)	269



Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Other liabilities:

Non-derivative held-for-sale purchase commitments, at fair value	—	4	—	—	4
Total liabilities carried at fair value on a recurring basis	\$—	\$12,460	\$832	(\$7,220)	\$6,072

(1) Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable.

Freddie Mac Form 10-Q 139

---

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

## Level 3 Fair Value Measurements

The tables below present a reconciliation of all assets and liabilities measured on our condensed consolidated balance sheets at fair value on a recurring basis using significant unobservable inputs (Level 3), including transfers into and out of Level 3. The tables also present gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our condensed consolidated statements of comprehensive income for Level 3 assets and liabilities. When assets and liabilities are transferred between levels, we recognize the transfer as of the beginning of the period.

(In millions)	2Q 2018											Unrealized gains (losses) still held <sup>(3)</sup>
	Balance April 1, 2018	Realized and unrealized gains (losses) Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements net	Transfers into Level <sup>(1)</sup>	Transfers out of Level <sup>(1)</sup>	Balance June 30, 2018	
<b>Assets</b>												
<b>Investments in securities:</b>												
<b>Available-for-sale, at fair value:</b>												
<b>Mortgage-related securities:</b>												
Freddie Mac	\$5,127	(\$5 )	(\$36 )	(\$41)	\$91	\$—	(\$312)	(\$315 )	\$—	(\$170 )	\$4,380	(\$2 )
Other agency	44	—	—	—	239	—	—	(13 )	—	—	270	—
Non-agency RMBS	2,363	46	(18 )	28	—	—	(33 )	(132 )	—	—	2,226	14
Non-agency CMBS	1,643	(2 )	(12 )	(14 )	—	—	—	(5 )	—	—	1,624	(2 )
Obligations of states and political subdivisions	327	—	—	—	—	—	—	(18 )	—	—	309	—
<b>Total available-for-sale mortgage-related securities</b>	<b>9,504</b>	<b>39</b>	<b>(66 )</b>	<b>(27 )</b>	<b>330</b>	<b>—</b>	<b>(345 )</b>	<b>(483 )</b>	<b>—</b>	<b>(170 )</b>	<b>8,809</b>	<b>10</b>
<b>Trading, at fair value:</b>												
<b>Mortgage-related securities:</b>												
Freddie Mac	1,456	(105)	—	(105)	651	—	(164 )	(10 )	645	(45 )	2,428	(98 )
Other agency	9	(1 )	—	(1 )	30	—	(21 )	—	—	—	17	(1 )
All other	1,583	(20 )	—	(20 )	—	—	(261 )	(18 )	—	—	1,284	(18 )
<b>Total trading mortgage-related securities</b>	<b>3,048</b>	<b>(126)</b>	<b>—</b>	<b>(126)</b>	<b>681</b>	<b>—</b>	<b>(446 )</b>	<b>(28 )</b>	<b>645</b>	<b>(45 )</b>	<b>3,729</b>	<b>(117 )</b>
<b>Other assets:</b>												
Guarantee asset	3,285	(36 )	—	(36 )	—	255	—	(141 )	—	—	3,363	(36 )
All other, at fair value	88	23	—	23	(2 )	(6 )	—	—	—	—	103	11
<b>Total other assets</b>	<b>\$3,373</b>	<b>(\$13)</b>	<b>\$—</b>	<b>(\$13)</b>	<b>(\$2 )</b>	<b>\$249</b>	<b>\$—</b>	<b>(\$141 )</b>	<b>\$—</b>	<b>\$—</b>	<b>\$3,466</b>	<b>(\$25 )</b>

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

	Balance	Realized and unrealized (gains) losses			Purchases	Issues	Sales	Settlements net	Transfers into	Transfers out of	Balance	Unrealized (gains) losses still held <sup>(3)</sup>
	April 1, 2018	Included in earnings	other	Total comprehensive income				Level 3 <sup>(1)</sup>	Level 3 <sup>(1)</sup>	June 30, 2018		
<b>Liabilities</b>												
Debt securities of consolidated trusts held by third parties, at fair value	\$629	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$629	\$—
Other debt, at fair value	135	—	—	—	—	—	—	—	—	—	135	—
Net derivatives <sup>(2)</sup>	40	13	—	13	—	(4 )	—	(7 )	—	—	42	7
<b>Other liabilities:</b>												
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—

Referenced footnotes are included after the prior period tables.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	YTD 2018														
	Balance, January 1, 2018	Realized and unrealized (losses) included in earnings			Realized and unrealized (gains) included in comprehensive income			Purchases	Issues	Sales	Settlements net	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Balance, June 30, 2018	Unrealized (losses) gains still held <sup>(3)</sup>
<b>Assets</b>															
<b>Investments in securities:</b>															
<b>Available-for-sale, at fair value:</b>															
<b>Mortgage-related securities:</b>															
Freddie Mac	\$5,055	(\$6)	(\$140)	(\$146)	\$91	\$—	(\$56)	(\$564)	\$—	\$—	\$4,380	(\$6)			
Other agency	46	—	—	—	239	—	—	(15)	—	—	270	—			
Non-agency RMBS	3,933	494	(469)	25	—	—	(1,500)	(232)	—	—	2,226	28			
Non-agency CMBS	1,697	(4)	(59)	(63)	—	—	—	(10)	—	—	1,624	(4)			
Obligations of states and political subdivisions	357	—	(2)	(2)	—	—	—	(46)	—	—	309	—			
<b>Total available-for-sale mortgage-related securities</b>	<b>11,088</b>	<b>484</b>	<b>(670)</b>	<b>(186)</b>	<b>330</b>	<b>—</b>	<b>(1,556)</b>	<b>(867)</b>	<b>—</b>	<b>—</b>	<b>8,809</b>	<b>18</b>			
<b>Trading, at fair value:</b>															
<b>Mortgage-related securities:</b>															
Freddie Mac	842	(180)	—	(180)	1,225	—	—	(13)	586	(32)	2,428	(176)			
Other agency	9	(1)	—	(1)	30	—	(21)	—	—	—	17	(1)			
All other	2,066	(67)	—	(67)	—	—	(681)	(34)	—	—	1,284	(55)			
<b>Total trading mortgage-related securities</b>	<b>2,917</b>	<b>(248)</b>	<b>—</b>	<b>(248)</b>	<b>1,255</b>	<b>—</b>	<b>(702)</b>	<b>(47)</b>	<b>586</b>	<b>(32)</b>	<b>3,729</b>	<b>(232)</b>			
<b>Other assets:</b>															
Guarantee asset	3,171	(20)	—	(20)	—	490	—	(278)	—	—	3,363	(20)			
All other, at fair value	45	29	—	29	41	(12)	—	—	—	—	103	14			
<b>Total other assets</b>	<b>\$3,216</b>	<b>\$9</b>	<b>\$—</b>	<b>\$9</b>	<b>\$41</b>	<b>\$478</b>	<b>\$—</b>	<b>(\$278)</b>	<b>\$—</b>	<b>\$—</b>	<b>\$3,466</b>	<b>(\$6)</b>			
<b>Liabilities</b>															
<b>Debt securities of consolidated trusts held by third parties, at fair value</b>															
	\$630	(\$1)	\$—	(\$1)	\$—	\$—	\$—	\$—	\$—	\$—	\$629	(\$1)			

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Other debt, at fair value	\$137	—	—	—	—	—	—	(2	)	—	—	135	—	
Net derivatives <sup>(2)</sup>	57	23	—	23	—	(26	)	—	(12	)	—	—	42	13
Other liabilities:														
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Referenced footnotes are included after the prior period tables.

Freddie Mac Form 10-Q 141

---

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	2Q 2017														
	Balance, April 1, 2017	Realized and unrealized gains (losses) Included in earnings			Realized and unrealized gains (losses) Included in other comprehensive income			Purchases	Issues	Sales	Settlements net	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Balance, June 30, 2017	Unrealized gains (losses) still held <sup>(3)</sup>
<b>Assets</b>															
<b>Investments in securities:</b>															
<b>Available-for-sale, at fair value:</b>															
<b>Mortgage-related securities:</b>															
Freddie Mac	\$6,419	\$10	\$17	\$27	\$258	\$—	(\$482)	(\$391)	—	—	—	—	(\$145)	\$5,686	(\$5)
Other agency	62	—	—	—	—	—	—	(3)	—	—	—	(8)	51	—	
Non-agency RMBS	9,270	153	158	311	—	—	(477)	(465)	—	—	—	—	8,639	70	
Non-agency CMBS	3,360	2	120	122	—	—	—	(12)	—	—	—	—	3,470	2	
Obligations of states and political subdivisions	560	1	(1)	—	—	—	—	(79)	—	—	—	—	481	—	
<b>Total available-for-sale mortgage-related securities</b>	<b>19,671</b>	<b>166</b>	<b>294</b>	<b>460</b>	<b>258</b>	<b>—</b>	<b>(959)</b>	<b>(950)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(153)</b>	<b>18,327</b>	<b>67</b>	
<b>Trading, at fair value:</b>															
<b>Mortgage-related securities:</b>															
Freddie Mac	552	(51)	—	(51)	474	—	—	—	—	—	83	(170)	888	(42)	
Other agency	11	(1)	—	(1)	—	—	—	—	—	—	—	—	10	—	
All other	109	1	—	1	—	—	—	(2)	—	—	—	—	108	2	
<b>Total trading mortgage-related securities</b>	<b>672</b>	<b>(51)</b>	<b>—</b>	<b>(51)</b>	<b>474</b>	<b>—</b>	<b>—</b>	<b>(2)</b>	<b>—</b>	<b>—</b>	<b>83</b>	<b>(170)</b>	<b>1,006</b>	<b>(40)</b>	
<b>Other assets:</b>															
Guarantee asset	2,340	4	—	4	—	249	—	(113)	—	—	—	—	2,480	4	
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
<b>Total other assets</b>	<b>\$2,340</b>	<b>\$4</b>	<b>\$—</b>	<b>\$4</b>	<b>\$—</b>	<b>\$249</b>	<b>\$—</b>	<b>(\$113)</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>	<b>\$—</b>	<b>\$2,480</b>	<b>\$4</b>	
<b>Liabilities</b>															
	\$530	\$1	\$—	\$1	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$531	\$1	

Debt securities of  
consolidated trusts held by  
third parties, at fair value

Other debt, at fair value	94	—	—	—	—	—	—	(5	)	—	—	89	—
Net derivatives <sup>(2)</sup>	61	20	—	20	—	—	—	(10	)	—	—	71	12
Other Liabilities:													
All other, at fair value	10	6	—	6	1	—	—	—	—	—	—	17	6

Referenced footnotes are included after the following table.

Freddie Mac Form 10-Q 142

---

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	YTD 2017														
	Balance, January 1, 2017	Realized and unrealized gains (losses) Included in earnings			Total comprehensive income			Purchases	Issues	Sales	Settlements net	Transfers into Level 3 <sup>(1)</sup>	Transfers out of Level 3 <sup>(1)</sup>	Balance, June 30, 2017	Unrealized gains (losses) still held <sup>(3)</sup>
<b>Assets</b>															
<b>Investments in securities:</b>															
<b>Available-for-sale, at fair value:</b>															
<b>Mortgage-related securities:</b>															
Freddie Mac	\$9,847	(\$1)	\$35	\$34	\$494	\$—	(\$907)	(\$703)	\$17	(\$3,096)	\$5,686	(\$10)			
Other agency	66	—	(1)	(1)	—	—	—	(6)	—	(8)	51	—			
Non-agency RMBS	11,797	431	60	491	—	—	(2,694)	(955)	—	—	8,639	137			
Non-agency CMBS	3,366	2	122	124	—	—	—	(20)	—	—	3,470	2			
Obligations of states and political subdivisions	665	1	(1)	—	—	—	—	(184)	—	—	481	—			
<b>Total available-for-sale mortgage-related securities</b>	<b>25,741</b>	<b>433</b>	<b>215</b>	<b>648</b>	<b>494</b>	<b>—</b>	<b>(3,601)</b>	<b>(1,868)</b>	<b>17</b>	<b>(3,104)</b>	<b>18,327</b>	<b>129</b>			
<b>Trading, at fair value:</b>															
<b>Mortgage-related securities:</b>															
Freddie Mac	1,095	(84)	—	(84)	539	—	(592)	(9)	131	(192)	888	(74)			
Other agency	12	(2)	—	(2)	—	—	—	—	—	—	10	(2)			
All other	113	1	—	1	—	—	—	(6)	—	—	108	1			
<b>Total trading mortgage-related securities</b>	<b>1,220</b>	<b>(85)</b>	<b>—</b>	<b>(85)</b>	<b>539</b>	<b>—</b>	<b>(592)</b>	<b>(15)</b>	<b>131</b>	<b>(192)</b>	<b>1,006</b>	<b>(75)</b>			
<b>Other assets:</b>															
Guarantee asset	2,299	(3)	—	(3)	—	413	—	(229)	—	—	2,480	(3)			
All other, at fair value	—	—	—	—	—	—	—	—	—	—	—	—			
<b>Total other assets</b>	<b>\$2,299</b>	<b>(\$3)</b>	<b>\$—</b>	<b>(\$3)</b>	<b>\$—</b>	<b>\$413</b>	<b>\$—</b>	<b>(\$229)</b>	<b>\$—</b>	<b>\$—</b>	<b>\$2,480</b>	<b>(\$3)</b>			



## Liabilities

Debt securities of consolidated trusts held by third parties, at fair value	\$—	\$1	\$—	\$1	\$—	\$530	\$—	\$—	\$—	\$—	\$531	\$1
Other debt, at fair value	95	—	—	—	—	—	(6	)	—	—	89	—
Net derivatives <sup>(2)</sup>	50	33	—	33	—	1	(13	)	—	—	71	21
Other Liabilities:												
All other, at fair value	(2	)	7	—	7	12	—	—	—	—	17	7

Transfers out of Level 3 during 2Q 2018 and YTD 2018 consisted primarily of certain mortgage-related securities due to an increased volume and level of activity in the market and availability of price quotes from dealers and third-party pricing services. Certain Freddie Mac securities are classified as Level 3 at issuance and generally are (1) classified as Level 2 when they begin trading. Transfers into Level 3 during 2Q 2018 and YTD 2018 consisted primarily of certain mortgage-related securities due to a decrease in market activity and the availability of relevant price quotes from dealers and third-party pricing services.

(2) Amounts are the net of derivative assets and liabilities prior to counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

(3) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains and losses related to assets and liabilities classified as Level 3 that were still held at June 30, 2018 and June 30, 2017, respectively. Included in these amounts are other-than temporary impairments recorded on available-for-sale securities.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

The tables below provide valuation techniques, the range and the weighted average of significant unobservable inputs for Level 3 assets and liabilities measured on our condensed consolidated balance sheets at fair value on a recurring basis.

(In millions, except for certain unobservable inputs as shown)	June 30, 2018		Unobservable Inputs		Weighted Average
	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	
Recurring fair value measurements					
Assets					
Investments in securities					
Available-for-sale, at fair value					
Mortgage-related securities					
Freddie Mac	\$4,176	Discounted cash flows	OAS	29 - 325 bps	74 bps
	204	Other			
Total Freddie Mac	4,380				
Other agency	270	Other			
Non-agency RMBS	1,956	Median of external sources	External pricing sources	\$70.9 - \$77.7	\$74.0
	270	Other			
Total non-agency RMBS	2,226				
Non-agency CMBS	1,624	Single external source	External pricing sources	\$104.0 - \$105.2	\$104.7
Obligations of states and political subdivisions	292	Single external source	External pricing sources	\$97.2 - \$107.3	\$100.9
	17	Other			
Total obligations of states and political subdivisions	309				
Total available-for-sale mortgage-related securities	8,809				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	871	Discounted cash flows	OAS	(21,945) - 6,521 bps	230 bps
	550	Single external source	External pricing sources	\$0.0 - \$6.9	\$3.4
	277	Risk metrics	Effective duration	(15.99) - 12.97 years	7.71 years
	730	Other			
Total Freddie Mac	2,428				
Other agency	17	Other			
All other	1,283	Single external source	External pricing sources	\$6.2 - \$108.7	\$94.8
	1	Other			
Total all other	1,284				
Total trading mortgage-related securities	3,729				
Total investments in securities	\$12,538				
Other assets:					

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Guarantee asset, at fair value	\$3,132	Discounted cash flows	OAS	17 - 198 bps	135 bps
	231	Other			
Total Guarantee asset, at fair value	3,363				
All other at fair value	103	Other			
Total other assets	3,466				
Liabilities					
Debt securities of consolidated trusts held by third parties, at fair value	629	Single external source	External Pricing Sources	\$97.0 - \$100.5	\$100.0
Other debt, at fair value	135	Other			
Net derivatives	42	Other			

Freddie Mac Form 10-Q 144

---

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions, except for certain unobservable inputs as shown)	December 31, 2017		Unobservable Inputs		Weighted Average
	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	
Recurring fair value measurements					
Assets					
Investments in securities:					
Available-for-sale, at fair value					
Mortgage-related securities					
Freddie Mac	\$4,873	Discounted cash flows	OAS	27 - 501 bps	68 bps
	182	Other			
Total Freddie Mac	5,055				
Other agency	46	Other			
Non-agency RMBS	3,665	Median of external sources	External pricing sources	\$75.6 - \$80.8	\$77.7
	268	Other			
Total non-agency RMBS	3,933				
Non-agency CMBS	1,696	Single external source	External pricing sources	\$108.4 - \$108.9	\$108.7
	1	Other			
Total non-agency CMBS	1,697				
Obligations of states and political subdivisions	334	Median of external sources	External pricing sources	\$101.2 - \$101.6	\$101.4
	23	Other			
Total obligations of states and political subdivisions	357				
Total available-for-sale mortgage-related securities	11,088				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	582	Discounted cash flows	OAS	(8,905) - 27,202 bps	(88) bps
	243	Risk metrics	Effective duration	0.00 - 55.93 years	11.76 years
	17	Other			
Total Freddie Mac	842				
Other agency	9	Other			
All other	2,065	Single external source	External pricing sources	\$6.4 - \$113.2	\$98.0
	1	Other			
Total all other	2,066				
Total trading mortgage-related securities	2,917				
Total investments in securities	\$14,005				
Other assets:					
Guarantee asset, at fair value	\$3,171	Discounted cash flows	OAS	17 - 198 bps	45 bps
All other at fair value	45	Other			

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Total other assets	3,216			
<b>Liabilities</b>				
Debt securities of consolidated trusts held by third parties, at fair value	630	Single external source	External Pricing Sources	\$99.2 - \$100.2
Other debt, at fair value	137	Other		\$100.1
Net derivatives	57	Other		

Freddie Mac Form 10-Q 145

---

## Assets Measured at Fair Value on a Non-recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis after our initial recognition. These adjustments usually result from the application of lower-of-cost-or-fair-value accounting or measurement of impairment based on the fair value of the underlying collateral.

The table below presents assets measured on our condensed consolidated balance sheets at fair value on a non-recurring basis.

(In millions)	June 30, 2018			December 31, 2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets measured at fair value on a non-recurring basis:						
Mortgage loans <sup>(1)</sup>	\$462	\$5,823	\$5,985	\$494	\$6,199	\$6,693

<sup>(1)</sup> Includes loans that are classified as held-for-investment and have been measured for impairment based on the fair value of the underlying collateral and held-for-sale loans where the fair value is below cost.

The tables below provide valuation techniques, the range and the weighted average of significant unobservable inputs for Level 3 assets and liabilities measured on our condensed consolidated balance sheets at fair value on a non-recurring basis. Certain of the fair values in the tables below were not obtained as of the period end, but were obtained during the period.

(In millions, except for certain unobservable inputs as shown)	June 30, 2018		Unobservable Inputs		
	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	\$5,823				
		Internal model	Historical sales proceeds	\$3,000 - \$947,675	\$177,666
		Internal model	Housing sales index	42 - 384 bps	104 bps
		Median of external sources	External pricing sources	\$35.9 - \$94.6	\$81.9

(In millions, except for certain unobservable inputs as shown)	December 31, 2017		Unobservable Inputs		
	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	\$6,199				
		Internal model	Historical sales proceeds	\$3,000 - \$899,000	\$176,558
		Internal model	Housing sales index	43 - 394 bps	102 bps
		Median of external sources	External pricing sources	\$36.5 - \$94.9	\$80.9



## Fair Value of Financial Instruments

The tables below present the carrying value and estimated fair value of our financial instruments. For certain types of financial instruments, such as cash and cash equivalents, securities purchased under agreements to resell, advances to lenders and other secured lending and certain debt, the carrying value on our GAAP balance sheets approximates fair value, as these assets and liabilities are short-term in nature and have limited market value volatility.

(In millions)	GAAP Measurement Category <sup>(1)</sup>	June 30, 2018					Netting Adjustments <sup>(2)</sup>	Total
		GAAP Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3			
<b>Financial Assets</b>								
Cash and cash equivalents <sup>(3)</sup>	Amortized cost	\$6,752	\$6,752	\$—	\$—	\$—		\$6,752
Securities purchased under agreements to resell	Amortized cost	41,769	—	41,769	—	—		41,769
<b>Investments in securities:</b>								
Available-for-sale, at fair value	FV - OCI	37,822	—	29,013	8,809	—		37,822
Trading, at fair value	FV - NI	39,888	20,501	15,658	3,729	—		39,888
Total investments in securities		77,710	20,501	44,671	12,538	—		77,710
<b>Mortgage loans:</b>								
Loans held by consolidated trusts		1,795,534	—	1,630,952	129,517	—		1,760,469
Loans held by Freddie Mac		89,317	—	31,457	60,424	—		91,881
Total mortgage loans	Various <sup>(4)</sup>	1,884,851	—	1,662,409	189,941	—		1,852,350
Derivative assets, net	FV - NI	391	—	6,633	23	(6,265)	)	391
Guarantee asset	FV - NI	3,363	—	—	3,374	—		3,374
Non-derivative purchase commitments, at fair value	FV - NI	132	—	132	24	—		156
Advances to lenders and other secured lending	Amortized cost	1,700	—	564	890	—		1,454
Total financial assets		\$2,016,668	\$27,253	\$1,756,178	\$206,790	(\$6,265)	)	\$1,983,956
<b>Financial Liabilities</b>								
<b>Debt, net:</b>								
<b>Debt securities of consolidated trusts held by third parties</b>								
Other debt		274,864	—	274,202	3,750	—		277,952
Total debt, net	Various <sup>(5)</sup>	2,021,162	—	1,978,063	6,079	—		1,984,142
Derivative liabilities, net	FV - NI	409	—	4,733	65	(4,389)	)	409
Guarantee obligation	Amortized cost	3,250	—	—	3,574	—		3,574
Non-derivative purchase commitments, at fair value	FV - NI	11	—	11	35	—		46
Total financial liabilities		\$2,024,832	\$—	\$1,982,807	\$9,753	(\$4,389)	)	\$1,988,171

(1) FV - NI denotes fair value through net income. FV - OCI denotes fair value through other comprehensive income.

(2) Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable.

(3) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.



- (4) As of June 30, 2018, the GAAP carrying amounts measured at amortized cost, lower-of-cost-or-fair-value and FV - NII were \$1.9 trillion, \$9.7 billion and \$16.6 billion, respectively.
- (5) As of June 30, 2018, the GAAP carrying amounts measured at amortized cost and FV - NII were \$2.0 trillion and \$5.4 billion, respectively.

Edgar Filing: FEDERAL HOME LOAN MORTGAGE CORP - Form 10-Q

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 15

(In millions)	GAAP Measurement Category <sup>(1)</sup>	December 31, 2017					Netting Adjustments <sup>(2)</sup>	Total
		GAAP Carrying Amount	Fair Value					
			Level 1	Level 2	Level 3			
<b>Financial Assets</b>								
Cash and cash equivalents <sup>(3)</sup>	Amortized cost	\$9,811	\$9,811	\$—	\$—	\$—	\$9,811	
Securities purchased under agreements to resell	Amortized cost	55,903	—	55,903	—	—	55,903	
<b>Investments in securities:</b>								
Available-for-sale, at fair value	FV - OCI	43,597	—	32,509	11,088	—	43,597	
Trading, at fair value	FV - NI	40,721	20,159	17,645	2,917	—	40,721	
Total investments in securities		84,318	20,159	50,154	14,005	—	84,318	
<b>Mortgage loans:</b>								
Loans held by consolidated trusts		1,774,286	—	1,635,137	145,911	—	1,781,048	
Loans held by Freddie Mac		96,931	—	32,169	67,932	—	100,101	
Total mortgage loans	Various <sup>(4)</sup>	1,871,217	—	1,667,306	213,843	—	1,881,149	
Derivative assets, net	FV - NI	375	—	8,830	8	(8,463)	375	
Guarantee asset	FV - NI	3,171	—	—	3,359	—	3,359	
Non-derivative purchase commitments, at fair value	FV - NI	137	—	137	55	—	192	
Advances to lenders and other secured lending	Amortized cost	1,269	—	473	796	—	1,269	
Total financial assets		\$2,026,201	\$29,970	\$1,782,803	\$232,066	(\$8,463)	\$2,036,376	
<b>Financial Liabilities</b>								
<b>Debt, net:</b>								
<b>Debt securities of consolidated trusts held by third parties</b>								
		\$1,720,996	\$—	\$1,721,091	\$2,679	\$—	\$1,723,770	
Other debt		313,634	—	313,688	3,892	—	317,580	
Total debt, net	Various <sup>(5)</sup>	2,034,630	—	2,034,779	6,571	—	2,041,350	
Derivative liabilities, net	FV - NI	269	—	7,424	65	(7,220)	269	
Guarantee obligation	Amortized cost	3,081	—	—	3,742	—	3,742	
Non-derivative purchase commitments, at fair value	FV - NI	4	—	4	15	—	19	
Total financial liabilities		\$2,037,984	\$—	\$2,042,207	\$10,393	(\$7,220)	\$2,045,380	

(1)FV - NI denotes fair value through net income. FV - OCI denotes fair value through other comprehensive income.

(2)Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable.

(3) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.

(4) As of December 31, 2017, the GAAP carrying amounts measured at amortized cost, lower-of-cost-or-fair-value and FV - NII were \$1.8 trillion, \$14.7 billion and \$20.1 billion, respectively.

(5) As of December 31, 2017, the GAAP carrying amounts measured at amortized cost and FV - NII were \$2.0 trillion and \$5.8 billion, respectively.



## HARP Loans

The fair value of mortgage loans includes loans refinanced under HARP of \$21.6 billion and \$30.2 billion as of June 30, 2018 and December 31, 2017, respectively. The fair value of HARP loans reflects the total compensation that we receive for the delivery of a HARP loan, based on the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. When HARP ends on December 31, 2018, the beneficial pricing afforded to HARP loans may no longer be reflected in the pricing structure of our guarantee fees. If these benefits were not reflected in the pricing for these loans, the fair value of our loans would have decreased by \$1.5 billion and \$2.1 billion as of June 30, 2018 and December 31, 2017, respectively.

## Fair Value Option

We elected the fair value option for certain multifamily held-for-sale loans, multifamily held-for-sale loan purchase commitments and certain long-term debt.

The table below presents the fair value and UPB related to certain loans and long-term debt for which we have elected the fair value option.

(In millions)	June 30, 2018			December 31, 2017		
	Multifamily Held-For-Sale Loans	Other Debt - Long Term	Debt Securities Of Consolidated Trusts Held By Third Parties <sup>(1)</sup>	Multifamily Held-For-Sale Loans	Other Debt - Long Term	Debt Securities Of Consolidated Trusts Held By Third Parties <sup>(1)</sup>
Fair value	\$16,621	\$4,786	\$629	\$20,054	\$5,160	\$630
Unpaid principal balance	16,494	4,320	630	19,762	4,666	630
Difference	\$127	\$466	(\$1 )	\$292	\$494	\$—

<sup>(1)</sup> Does not include interest-only securities with fair value of \$8 million and \$9 million as of June 30, 2018 and December 31, 2017, respectively.

## Changes in Fair Value Under the Fair Value Option Election

The table below presents the changes in fair value included in other income (loss) in our condensed consolidated statements of comprehensive income, related to items for which we have elected the fair value option.

(In millions)	2Q	2Q	YTD	YTD
	2018	2017	2018	2017
	Gains		Gains	
	(Losses)		(Losses)	
Multifamily held-for-sale loans	(\$54)	\$42	(\$512)	\$7
Multifamily held-for-sale loan purchase commitments	192	331	297	555
Other debt - long term	19	(103)	28	(202)
Debt securities of consolidated trusts held by third parties	—	1	2	11

Changes in fair value attributable to instrument-specific credit risk were not material for 2Q 2018 and YTD 2018 and for 2Q 2017 and YTD 2017 for any assets or liabilities for which we elected the fair value option.

## NOTE 16

## Legal Contingencies

We are involved as a party in a variety of legal and regulatory proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller's or servicer's eligibility to sell loans to, and/or service loans for, us. In these cases, the former seller or servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of loans. These suits typically involve claims alleging wrongful actions of sellers and servicers. Our contracts with our sellers and servicers generally provide for indemnification of Freddie Mac against liability arising from sellers' and servicers' wrongful actions with respect to loans sold to or serviced for Freddie Mac.

Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. In accordance with the accounting guidance for contingencies, we reserve for litigation claims and assessments asserted or threatened against us when a loss is probable (as defined in such guidance) and the amount of the loss can be reasonably estimated.

Putative Securities Class Action Lawsuit: Ohio Public Employees Retirement System vs. Freddie Mac, Syron, Et Al.

---

This putative securities class action lawsuit was filed against Freddie Mac and certain former officers on January 18, 2008 in the U.S. District Court for the Northern District of Ohio purportedly on behalf of a class of purchasers of Freddie Mac stock from August 1, 2006 through November 20, 2007. FHFA later intervened as Conservator, and the plaintiff amended its complaint on several occasions. The plaintiff alleged, among other things, that the defendants violated federal securities laws by making false and misleading statements concerning our business, risk management, and the procedures we put into place to protect the company from problems in the mortgage industry. The plaintiff seeks unspecified damages and interest, and reasonable costs and expenses, including attorney and expert fees. In October 2013, defendants filed motions to dismiss the complaint. In October 2014, the District Court granted defendants' motions and dismissed the case in its entirety against all defendants, with prejudice. In November 2014, plaintiff filed a notice of appeal in the U.S. Court of Appeals for the Sixth Circuit. On July 20, 2016, the Court of Appeals reversed the District Court's dismissal and remanded the case to the District Court for further proceedings. At present, it is not possible for us to predict the probable outcome of this lawsuit or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matter due to the following factors, among others: the inherent uncertainty of pre-trial litigation and the fact that the District Court has not yet ruled upon motions for class certification or summary judgment. In particular, absent the certification of a class, the identification of a class period, and the identification of the alleged statement or statements that survive dispositive motions, we cannot

reasonably estimate any possible loss or range of possible loss.

#### LIBOR Lawsuit

---

On March 14, 2013, Freddie Mac filed a lawsuit in the U.S. District Court for the Eastern District of Virginia against the British Bankers Association and the 16 U.S. Dollar LIBOR panel banks and a number of their affiliates. The case was subsequently transferred to the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants fraudulently and collusively depressed LIBOR, a benchmark interest rate indexed to trillions of dollars of financial products, and asserts claims for antitrust violations, breach of contract, tortious interference with contract and fraud. Freddie Mac filed an amended complaint in July 2013, and a second amended complaint in October 2014. In August 2015, the District Court dismissed the portion of our claim related to antitrust violations and fraud and we filed a motion for reconsideration. On March 31, 2016, the District Court granted a portion of our motion, finding personal jurisdiction over certain defendants, and denied the portion of our motion with respect to statutes of limitation for our fraud claims. Subsequently, in a related case, the U.S. Court of Appeals for the Second Circuit reversed the District Court's dismissal of certain plaintiffs' antitrust claims and remanded the case to the District Court for consideration of whether, among other things, the plaintiffs are "efficient enforcers" of the antitrust laws.

On December 20, 2016, after briefing and argument on the defendants' renewed motions to dismiss on personal jurisdiction and efficient enforcer grounds, the District Court denied defendants' motions in part and granted them in part. The District Court held that Freddie Mac is an efficient enforcer of the antitrust laws, but dismissed on personal jurisdiction grounds Freddie Mac's antitrust claims against all defendants except HSBC USA, N.A. Then, in an order issued February 2, 2017, the District Court effectively dismissed Freddie Mac's remaining antitrust claim against HSBC USA, N.A. At present, Freddie Mac's breach of contract actions against Bank of America, N.A., Barclays Bank, Citibank, N.A., Credit Suisse, Deutsche Bank, Royal Bank of Scotland and UBS AG are its only claims remaining in the District Court.

On February 23, 2018, the Second Circuit reversed the District Court's dismissal of certain plaintiffs' state law fraud and unjust enrichment claims on statutes of limitations grounds. While Freddie Mac was not a party to the appeal, this decision could have the effect of reinstating Freddie Mac's fraud claims against the above-named defendants. The Second Circuit also reversed certain aspects of the District Court's personal jurisdiction rulings and remanded with instructions to allow the named appellant to amend its complaint. On June 15, 2018, Freddie Mac filed a motion for leave to file an amended complaint, along with a proposed amended complaint.

### Litigation Concerning the Purchase Agreement

---

Since July 2013, a number of lawsuits have been filed against us concerning the August 2012 amendment to the Purchase Agreement, which created the net worth sweep dividend provisions of the senior preferred stock. The plaintiffs in the lawsuits allege that they are holders of common stock and/or junior preferred stock issued by Freddie Mac and Fannie Mae. (For purposes of this discussion, junior preferred stock refers to the various series of preferred stock of Freddie Mac and Fannie Mae other than the senior preferred stock issued to Treasury.) It is possible that similar lawsuits will be filed in the future. The lawsuits against us are described below.

#### Litigation in the U.S. District Court for the District of Columbia

---

In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations. This case is the result of the consolidation of three putative class action lawsuits: Cacciapelle and Bareiss vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 29, 2013; American European Insurance Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 30, 2013; and Marneu Holdings, Co. vs. FHFA, Treasury, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, filed on September 18, 2013. (The Marneu case was also filed as a shareholder derivative lawsuit.) A consolidated amended complaint was filed in December 2013. In the consolidated amended complaint, plaintiffs allege, among other items, that the August 2012 amendment to the Purchase Agreement breached Freddie Mac's and Fannie Mae's respective contracts with the holders of junior preferred stock and common stock and the covenant of good faith and fair dealing inherent in such contracts. Plaintiffs sought unspecified damages, equitable and injunctive relief, and costs and expenses, including attorney and expert fees.

The Cacciapelle and American European Insurance Company lawsuits were filed purportedly on behalf of a class of purchasers of junior preferred stock issued by Freddie Mac or Fannie Mae who held stock prior to, and as of, August 17, 2012. The Marneu lawsuit was filed purportedly on behalf of a class of purchasers of junior preferred stock and purchasers of common stock issued by Freddie Mac or Fannie Mae over a not-yet-defined period of time.

Arrowood Indemnity Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, FHFA and Treasury. This case was filed on September 20, 2013. The allegations and demands made by plaintiffs in this case were generally similar to those made by the plaintiffs in the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case described above. Plaintiffs in the Arrowood lawsuit also requested that, if injunctive relief were not granted, the Arrowood plaintiffs be awarded damages against the defendants in an amount to be determined including, but not limited to, the aggregate par value of their junior preferred stock, the total of which they stated to be approximately \$42 million.

American European Insurance Company, Cacciapelle and Miller vs. Treasury and FHFA. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on July 30, 2014. The complaint alleged that, through the August 2012 amendment to the Purchase Agreement, Treasury and FHFA breached their respective fiduciary duties to Freddie Mac, causing Freddie Mac to suffer damages. The plaintiffs asked that Freddie Mac be awarded compensatory damages and disgorgement, as well as attorneys' fees, costs and other expenses.

FHFA, joined by Freddie Mac and Fannie Mae, moved to dismiss the *In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations* case and the other related cases in January 2014. Treasury filed a motion to dismiss the same day. In September 2014, the District Court granted the motions and dismissed the plaintiffs' claims. All plaintiffs appealed that decision, and on February 21, 2017, the U.S. Court of Appeals for the District of Columbia Circuit affirmed in part and remanded in part the decision granting the motions to dismiss. The Court of Appeals affirmed dismissal of all claims except certain claims seeking monetary damages for breach of contract and breach of implied duty of good faith and fair dealing. In March 2017, certain institutional and class plaintiffs filed petitions for panel rehearing with respect to certain claims. On July 17, 2017, the Court of Appeals granted the petitions for rehearing and issued a modified decision, which permitted the institutional plaintiffs to pursue the breach of contract and breach of implied duty of good faith and fair dealing claims that had been remanded. The Court of Appeals also removed language related to the standard to be applied to the implied duty claims, leaving that issue for the District Court to determine on remand. On October 16, 2017, certain institutional and class plaintiffs filed petitions for a writ of certiorari in the U.S. Supreme Court challenging whether HERA's prohibition on injunctive relief against FHFA bars judicial review of the net worth sweep dividend provisions of the August 2012 amendment to the Purchase Agreement, as well as whether HERA bars shareholders from pursuing derivative litigation where they allege the conservator faces a conflict of interest. The Supreme Court denied the petitions on February 20, 2018. On November 1, 2017, certain institutional and class plaintiffs and plaintiffs in another case in which Freddie Mac was not originally a defendant, *Fairholme Funds, Inc. v. FHFA, Treasury, and Federal National Mortgage Association*, filed proposed amended complaints in the District Court. Each of the proposed amended complaints names Freddie Mac as a defendant for breach of contract and breach of the covenant of good faith and fair dealing claims as well as for new claims alleging breach of fiduciary duty and breach of Virginia corporate law. On January 10, 2018, FHFA, Freddie Mac, and Fannie Mae moved to dismiss the amended complaints.

*Angel vs. The Federal Home Loan Mortgage Corporation et al.* This case was filed pro se on May 21, 2018 against Freddie Mac, Fannie Mae, certain current and former directors of Freddie Mac and Fannie Mae, and FHFA as a nominal defendant. The complaint alleges, among other things, breach of contract, breach of the implied covenant of good faith and fair dealing, and that defendants aided and abetted the government's "avoidance" of plaintiff's dividend rights. On July 12, 2018, the defendants filed a motion to dismiss the complaint.

Litigation in the U.S. Court of Federal Claims

---

*Reid and Fisher vs. the United States of America and Federal Home Loan Mortgage Corporation.* This case was filed as a derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on February 26, 2014. The complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation. The plaintiffs ask that Freddie Mac be awarded just compensation for the U.S. government's alleged taking of its property, attorneys' fees, costs and other expenses. On March 8, 2018, the plaintiffs filed an amended complaint under seal.

*Rafter, Rattien and Pershing Square Capital Management vs. the United States of America et al.* This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on August 14, 2014. The complaint alleges that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use



without just compensation, and the U.S. government breached an implied-in-fact contract with Freddie Mac. In September 2015, plaintiffs filed an amended complaint, which contains one claim involving Freddie Mac. The amended complaint alleges that Freddie Mac's charter is a contract with its common stockholders, and that, through the August 2012 amendment to the Purchase Agreement, the U.S. government breached the implied covenant of good faith and fair dealing inherent in such contract. Plaintiffs ask that they be awarded damages or other appropriate relief for the alleged breach of contract as well as attorneys' fees, costs and expenses. Plaintiffs filed a further amended complaint under seal on March 8, 2018, and a redacted public version on April 20, 2018. The amended complaint no longer lists Freddie Mac as a nominal defendant.

Fairholme Funds, Inc., et al. vs. the United States of America, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. This case was originally filed on July 9, 2013 against the United States of America. On March 8, 2018, plaintiffs filed an amended complaint under seal. A redacted public version was filed on May 11, 2018 and adds Freddie Mac and Fannie Mae as nominal defendants. The amended complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking or exaction of private property for public use without just compensation, and that by enacting the net worth sweep, the government breached the fiduciary duty it owed to Freddie Mac and Fannie Mae, and implied-in-fact contracts between the United States on the one hand and Freddie Mac and Fannie Mae on the other. The plaintiffs ask that plaintiffs, Freddie Mac, and Fannie Mae be awarded (1) just compensation for the government's alleged taking or exaction of their property, (2) damages for the government's breach of fiduciary duties, and (3) damages for the government's breach of the alleged implied-in-fact contracts. In addition, plaintiffs seek pre- and post-judgment interest, attorneys' fees, costs, and other expenses.

Litigation in the U.S. District Court for the District of Delaware

---

Jacobs and Hinds vs. FHFA and Treasury. This case was filed on August 17, 2015 as a putative class action lawsuit purportedly on behalf of a class of holders of preferred stock or common stock issued by Freddie Mac or Fannie Mae. The case was also filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac and Fannie Mae as "nominal" defendants. The complaint alleges, among other items, that the August 2012 amendment to the Purchase Agreement violated applicable state law and constituted a breach of contract, as well as a breach of covenants of good faith and fair dealing. Plaintiffs seek equitable and injunctive relief (including restitution of the monies paid by Freddie Mac and Fannie Mae to Treasury under the net worth sweep dividend), compensatory damages, attorneys' fees, costs and expenses. On November 27, 2017, the Court dismissed the case with prejudice after defendants filed a motion to dismiss. On December 21, 2017, plaintiffs filed a notice of appeal to the U.S. Court of Appeals for the Third Circuit.

At present, it is not possible for us to predict the probable outcome of the lawsuits discussed above in the U.S. District Courts and the U.S. Court of Federal Claims (including the outcome of any appeal) or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matters due to a number of factors, including the inherent uncertainty of pre-trial litigation. In addition, with respect to the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case, the plaintiffs have not demanded a stated amount of damages they believe are due, and the Court has not certified a class.

## NOTE 17

## Regulatory Capital

In October 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. FHFA continues to monitor our capital levels, but the existing statutory and FHFA regulatory capital requirements are not binding during conservatorship.

We continue to provide quarterly submissions to FHFA on minimum capital. The table below summarizes our minimum capital requirements and deficits and net worth.

(In millions)	June 30, 2018	December 31, 2017
GAAP net worth (deficit)	\$4,585	(\$312 )
Core capital (deficit) <sup>(1)(2)</sup>	(67,697 )	(73,037 )
Less: Minimum capital requirement <sup>(1)</sup>	17,809	18,431
Minimum capital surplus (deficit) <sup>(1)</sup>	(\$85,506)	(\$91,468)

(1) Core capital and minimum capital figures are estimates and represent amounts submitted to FHFA. FHFA is the authoritative source for our regulatory capital.

(2) Core capital excludes certain components of GAAP total equity (i.e., AOCI and the liquidation preference of the senior preferred stock) as these items do not meet the statutory definition of core capital.

During 2017, we and Fannie Mae worked with FHFA to develop an overall risk measurement framework for evaluating our risk management and business decisions during conservatorship, known as the CCF. We use both the CCF and our internal capital model, which are aligned, to measure risk for making economically effective decisions. We are required to submit quarterly reports to FHFA related to the CCF requirements.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 18

## NOTE 18

## Selected Financial Statement Line Items

The table below presents the significant components of other income (loss) on our condensed consolidated statements of comprehensive income.

(In millions)	2Q 2018	2Q 2017	YTD 2018	YTD 2017
Other income (loss):				
Non-agency mortgage-related securities settlements and judgments	\$334	\$—	\$334	\$3
Gains (losses) on loans	162	193	(158)	)207
Guarantee fee income	200	158	394	307
Gains (losses) on held-for-sale loan purchase commitments	192	331	297	555
All other	123	12	265	37
Total other income (loss)	\$1,011	\$694	\$1,132	\$1,109

The table below presents the significant components of other assets and other liabilities on our condensed consolidated balance sheets.

(In millions)	June 30, December	
	2018	31, 2017
Other assets:		
Real estate owned, net	\$771	\$892
Accounts and other receivables <sup>(1)(2)</sup>	8,026	6,924
Guarantee asset	3,363	3,171
Fixed assets	883	798
Advances to lenders and other secured lending <sup>(2)</sup>	1,700	1,269
All other	747	636
Total other assets	\$15,490	\$13,690
Other liabilities:		
Servicer liabilities	\$370	\$628
Guarantee obligation	3,250	3,081
Accounts payable and accrued expenses	678	754
Payables related to securities	4,012	2,813
Income taxes payable	—	656
All other	889	1,036
Total other liabilities	\$9,199	\$8,968

(1) Primarily consists of servicer receivables and other non-interest receivables.

(2) Current and prior period presentation has been modified to reflect certain secured lending activity within advances to lenders and other secured lending. Previously this activity was included in accounts and other receivables.

END OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

## Other Information

### Other Information

#### LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings. For more information, see Note 16 in this report, our 2017 Annual Report and our Form 10-Q for the first quarter of 2018.

In addition, a number of lawsuits have been filed against the U.S. government related to the conservatorship and the Purchase Agreement. For information on these lawsuits, see the Legal Proceedings section in our 2017 Annual Report and our Form 10-Q for the first quarter of 2018. One of these cases was filed in the U.S. District Court for the Northern District of Illinois. On March 27, 2017, the District Court dismissed this case. On May 3, 2018, the U.S. Court of Appeals for the Seventh Circuit affirmed the District Court's decision. On May 18, 2018, two additional cases were filed in the U.S. Court of Federal Claims.

Some of these cases also have challenged the constitutionality of the structure of FHFA. One such case was filed in the U.S. District Court for the District of Minnesota. On July 6, 2018, the District Court dismissed this case. Another such case was filed in the U.S. District Court for the Southern District of Texas. On July 16, 2018, the U.S. Court of Appeals for the Fifth Circuit concluded in this case that FHFA's structure is unconstitutional and remanded the case with instructions to enter judgment declaring that the for-cause limitation on the removal of FHFA's Director violates the Constitution's separation-of-powers principles. The Fifth Circuit decision did not invalidate the Purchase Agreement, and the Court affirmed dismissal of the plaintiffs' other claims challenging the Purchase Agreement pursuant to the Administrative Procedures Act.

Freddie Mac is not a party to any of these lawsuits.

#### RISK FACTORS

This Form 10-Q should be read together with the Risk Factors section in our 2017 Annual Report, which describes various risks and uncertainties to which we are or may become subject. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

#### UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

##### Recent Sales of Unregistered Securities

The securities we issue are "exempted securities" under the Securities Act of 1933, as amended. 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 those plans to employees and members of the Board of Directors. Under the Purchase Agreement, we cannot issue

## Other Information

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.

### Dividend Restrictions

Our payment of dividends on Freddie Mac common stock or any series of Freddie Mac preferred stock (other than senior preferred stock) is subject to certain restrictions as described in Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities - Dividends and Dividend Restrictions in our 2017 Annual Report.

### 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 those offerings 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 offering circular supplements that we post on our web site 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 or offering circular supplement, the document will be posted on our web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The web site address for disclosure about our debt securities is [www.freddiemac.com/debt](http://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 notes and SCR debt notes is available at [crt.freddiemac.com](http://crt.freddiemac.com) and [mf.freddiemac.com/investors/](http://mf.freddiemac.com/investors/), respectively.

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

We provide additional information, including product descriptions, investor presentations, securities issuance calendars, transactions volumes and details, redemption notices and Freddie Mac research, in each case as applicable, on the websites for our business segments, which can be found at [www.freddiemac.com/singlefamily](http://www.freddiemac.com/singlefamily), [mf.freddiemac.com](http://mf.freddiemac.com) and [www.freddiemac.com/capital-markets](http://www.freddiemac.com/capital-markets).

Other Information

**EXHIBITS**

The exhibits are listed in the Exhibit Index of this Form 10-Q.

Freddie Mac Form 10-Q 159

---

Controls and Procedures

Controls and Procedures

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management of the company, including the company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in implementing possible controls and procedures.

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 June 30, 2018. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2018, at a reasonable level of assurance, because we have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is communicated from FHFA to Freddie Mac's management in a manner that allows for timely decisions regarding our required disclosure under the federal securities laws. We consider this situation to be a material weakness in our internal control over financial reporting.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING DURING 2Q 2018**

We evaluated the changes in our internal control over financial reporting that occurred during 2Q 2018 and concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Controls and Procedures

MITIGATING ACTIONS RELATED TO THE MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As described above under Evaluation of Disclosure Controls and Procedures, we have one material weakness in internal control over financial reporting as of June 30, 2018 that we have not remediated.

Based on discussions with FHFA and given the structural nature of this material weakness, we believe it is likely that we will not remediate it while we are under conservatorship. However, both we and FHFA have continued to engage in activities and employ procedures and practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws. These include the following:

FHFA has established the Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the Conservator.

We provide drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also provide drafts of external press releases, statements and certain speeches to FHFA personnel for their review and comment prior to release.

FHFA personnel, including senior officials, review our SEC filings prior to filing, including this Form 10-Q, and engage in discussions with us regarding issues associated with the information contained in those filings. Prior to filing this Form 10-Q, FHFA provided us with a written acknowledgment that it had reviewed the Form 10-Q, was not aware of any material misstatements or omissions in the Form 10-Q, and had no objection to our filing the Form 10-Q.

The Director of FHFA is in frequent communication with our Chief Executive Officer, typically meeting (in person or by phone) on at least a bi-weekly basis.

FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and capital markets management, external communications and legal matters.

Senior officials within FHFA's accounting group meet frequently with our senior financial executives regarding our accounting policies, practices and procedures.

In view of our mitigating actions related to this material weakness, we believe that our condensed consolidated financial statements for 2Q 2018 have been prepared in conformity with GAAP.



Exhibit Index

Exhibit Index

Exhibit Description\*

3.1	<u>Federal Home Loan Mortgage Corporation Act (12 U.S.C. §1451 et seq.), as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act</u>
10.1	<u>PC Master Trust Agreement, dated July 1, 2018</u>
12.1	<u>Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u>
31.2	<u>Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u>
32.2	<u>Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

\* The SEC file numbers for the Registrant's Registration Statement on Form 10, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K are 000-53330 and 001-34139.



Signatures

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Federal Home Loan  
Mortgage Corporation

By: /s/ Donald H. Layton  
Donald H. Layton  
Chief Executive Officer

Date: July 31, 2018

By: /s/ James G. Mackey  
James G. Mackey  
Executive Vice President — Chief Financial Officer  
(Principal Financial Officer)

Date: July 31, 2018

Index

Form 10-Q Index

Item Number		Page(s)
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	<u>80 - 156</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>1 - 79</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>60 - 64</u>
Item 4.	Controls and Procedures	<u>160 - 161</u>
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	<u>157</u>
Item 1A	Risk Factors	<u>157</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>157 - 159</u>
Item 6.	Exhibits	<u>159</u>
Exhibit Index		<u>162</u>
Signatures		<u>163</u>

Freddie Mac Form 10-Q 164