

FEDERAL HOME LOAN MORTGAGE CORP

Form 10-Q

August 02, 2016

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, 2016

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)

Freddie Mac

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

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of July 20, 2016, there were 650,046,828 shares of the registrant's common stock outstanding.

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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, 2015, or 2015 Annual Report, and our Quarterly Report on Form 10-Q for the first quarter of 2016, the "Risk Factors" sections of our 2015 Annual Report and our Quarterly Report on Form 10-Q for the first quarter of 2016, and the "Business" section of our 2015 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the "Glossary" of this Form 10-Q and our 2015 Annual Report.

You should read the following MD&A in conjunction with our 2015 Annual Report and our condensed consolidated financial statements and accompanying notes for the three and six months ended June 30, 2016 included in "Financial Statements." Throughout this Form 10-Q, we refer to the three months ended June 30, 2016 and the three months ended June 30, 2015 as "2Q 2016" and "2Q 2015," respectively, and we refer to the six months ended June 30, 2016 and the six months ended June 30, 2015 as "YTD 2016" and "YTD 2015," 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 consumers.

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, which we do primarily by providing financing for workforce housing. We have helped many distressed borrowers keep their homes or avoid foreclosure. We are working with FHFA, our customers and the industry to build a better housing finance system for the nation.

**CONSOLIDATED FINANCIAL RESULTS**

Comprehensive income was \$1.1 billion in 2Q 2016 compared to \$3.9 billion in 2Q 2015. The decline in comprehensive income was primarily driven by two market-related items, including an estimated:

Management's Discussion and Analysis Introduction

\$1.8 billion decline resulting from interest rates decreasing during 2Q 2016 compared to increasing during 2Q 2015; and

\$0.6 billion decline resulting from less spread tightening during 2Q 2016 compared to 2Q 2015.

Our total equity was \$2.1 billion at June 30, 2016. Because our net worth was positive we are not requesting a draw from Treasury under the Purchase Agreement for 2Q 2016. Following payment of our dividend obligation for the second quarter of 2016 of \$0.9 billion, our cumulative senior preferred stock dividend payments will total \$99.1 billion. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains \$72.3 billion. The amount of available funding remaining under the Purchase Agreement is \$140.5 billion, and would be reduced by any future draws.

VARIABILITY OF EARNINGS

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

**Interest-Rate Volatility** — We hold assets and liabilities that expose us to interest-rate risk. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. However, the way we account for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our GAAP earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at June 30, 2016, we generally recognize fair value losses in earnings when interest rates decline. This volatility generally is not indicative of the underlying economics of our business. For information about the sensitivity of our financial results to interest-rate volatility, see "Risk Management - Interest-Rate Risk and Other Market Risks."

**Spread Volatility** — The volatility of spreads (i.e., credit spreads, liquidity spreads, risk premiums, etc.), or OAS, is the risk associated with changes in the excess of interest rates over benchmark rates. We hold assets and liabilities that expose us to spread volatility, which may contribute to significant earnings volatility. For financial assets measured at fair value, we generally recognize fair value losses when spreads widen. Conversely, for financial liabilities measured at fair value, we generally recognize fair value gains when spreads widen.

The variability of earnings and the declining capital reserve required under the terms of the Purchase Agreement (ultimately reaching zero in 2018) increase the risk of our having a negative net worth and thus being required to draw from Treasury. We currently face a risk of a draw for a variety of reasons, including if we were to experience a large decrease in interest rates coupled with a large widening of spreads. In an effort to reduce the probability of a draw due to changes in interest rates, we entered into certain structured transactions that have resulted in additional financial assets being recognized and measured at fair value. In addition, we continue to explore other strategies and activities that may reduce the probability of a draw.

Management's Discussion and Analysis Introduction

CONSERVATORSHIP AND GOVERNMENT SUPPORT FOR OUR BUSINESS

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

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

Management's Discussion and Analysis Key Economic Indicators | Single-family Home Prices

KEY ECONOMIC INDICATORS

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

SINGLE-FAMILY HOME PRICES

NATIONAL HOME PRICES

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(December 2000 = 100)

COMMENTARY

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Home prices continued to appreciate during 2Q 2016 and YTD 2016, increasing 3.7% and 5.6%, respectively, compared to an increase of 3.7% and 5.5%, respectively, during 2Q 2015 and YTD 2015, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.

National home prices at June 30, 2016 were approximately 1% below their peak level of 167 reached in June 2006, based on our index.

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

## INTEREST RATES

### KEY MARKET INTEREST RATES

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Quarterly average rates are computed as the simple average of weekly rates during each respective quarter.

#### COMMENTARY

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Both ending and average mortgage interest rates, as indicated by the 30-year PMMS rate, decreased during 2Q 2016 and YTD 2016.

The average 30-year PMMS rate was 3.59% and 3.66% during 2Q 2016 and YTD 2016, respectively, compared to 3.82% and 3.77% during 2Q 2015 and YTD 2015, respectively.

Longer-term interest rates, as indicated by the 10-year LIBOR and the 10-year Treasury rate, declined during 2Q 2016 and YTD 2016. The decline in longer-term interest rates during the quarter was due, in part, to the United Kingdom's decision to leave the European Union and expectations of lower worldwide economic growth.

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

UNEMPLOYMENT RATE  
UNEMPLOYMENT RATE AND JOB CREATION

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Source: U.S. Bureau of Labor Statistics

COMMENTARY

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An average of approximately 147,000 and 172,000 monthly net new jobs were added to the economy during 2Q 2016 and YTD 2016, respectively. The steady flow of jobs helped the unemployment rate improve slightly.

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

## CONSOLIDATED RESULTS OF OPERATIONS

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

## COMPARISON

The table below compares our consolidated results of operations for 2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015.

|  | 2Q<br>2016 | 2Q<br>2015 | Change    |        | YTD<br>2016 | YTD<br>2015 | Change    |          |
|--|------------|------------|-----------|--------|-------------|-------------|-----------|----------|
| (dollars in millions)  |            |            | \$        | %      |             |             | \$        | %        |
| Net interest income  | \$3,443    | \$3,969    | \$(526)   | (13)%  | \$6,848     | \$7,616     | \$(768)   | (10)%    |
| Benefit (provision) for credit losses  | 775        | 857        | (82)      | (10)%  | 1,242       | 1,356       | (114)     | (8)%     |
| Net interest income after benefit (provision) for credit losses                        | 4,218      | 4,826      | (608)     | (13)%  | 8,090       | 8,972       | (882)     | (10)%    |
| Non-interest income (loss):  |            |            |           |        |             |             |           |          |
| Losses on extinguishment of debt   | (119)      | (80)       | (39)      | 49%    | (174)       | (159)       | (15)      | 9%       |
| Derivative gains (losses)  | (2,058)    | 3,135      | (5,193)   | (166)% | (6,619)     | 732         | (7,351)   | (1,004)% |
| Net impairment of available-for-sale securities recognized in earnings                 | (72)       | (98)       | 26        | (27)%  | (129)       | (191)       | 62        | (32)%    |
| Other gains on investment securities recognized in earnings                            | 450        | 152        | 298       | 196%   | 753         | 569         | 184       | 32%      |
| Other income (loss)  | (25)       | (568)      | 543       | (96)%  | 922         | (557)       | 1,479     | (266)%   |
| Total non-interest income (loss)   | (1,824)    | 2,541      | (4,365)   | (172)% | (5,247)     | 394         | (5,641)   | (1,432)% |
| Non-interest expense:  |            |            |           |        |             |             |           |          |
| Administrative expense   | (475)      | (501)      | 26        | (5)%   | (923)       | (952)       | 29        | (3)%     |
| REO operations expense   | (29)       | (52)       | 23        | (44)%  | (113)       | (127)       | 14        | (11)%    |
| Temporary Payroll Tax Cut Continuation Act of 2011 expense                             | (280)      | (235)      | (45)      | 19%    | (552)       | (457)       | (95)      | 21%      |
| Other expense  | (151)      | (501)      | 350       | (70)%  | (304)       | (964)       | 660       | (68)%    |
| Total non-interest expense   | (935)      | (1,289)    | 354       | (27)%  | (1,892)     | (2,500)     | 608       | (24)%    |
| Income before income tax expense   | 1,459      | 6,078      | (4,619)   | (76)%  | 951         | 6,866       | (5,915)   | (86)%    |
| Income tax expense   | (466)      | (1,909)    | 1,443     | (76)%  | (312)       | (2,173)     | 1,861     | (86)%    |
| Net income   | 993        | 4,169      | (3,176)   | (76)%  | 639         | 4,693       | (4,054)   | (86)%    |
| Total other comprehensive income (loss), net of taxes and reclassification adjustments | 140        | (256)      | 396       | (155)% | 294         | (34)        | 328       | (965)%   |
| Comprehensive income   | \$1,133    | \$3,913    | \$(2,780) | (71)%  | \$933       | \$4,659     | \$(3,726) | (80)%    |

## Key Drivers:

See "Net Interest Income," "Benefit (Provision) for Credit Losses," "Derivative Gains (Losses)," and "Other Comprehensive Income (Loss)" for a discussion of those line items. Key drivers for other line items for 2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 include:

## Other gains on investment securities recognized in earnings

2Q 2016 vs. 2Q 2015 - increased primarily due to the recognition of unrealized gains on our trading securities as a result of a decline in longer-term interest rates during 2Q 2016 compared to the recognition of unrealized losses on our trading securities as a result of an increase in longer-term interest rates during 2Q 2015.

Management's Discussion and Analysis Consolidated Results of Operations | Comparison

YTD 2016 vs. YTD 2015 - increased primarily due to the recognition of unrealized gains on our trading securities as a result of a decline in longer-term interest rates during YTD 2016 compared to the recognition of unrealized losses on our trading securities as a result of an increase in longer-term interest rates during YTD 2015. This increase was partially offset by the recognition of unrealized losses due to spread widening on our trading securities during YTD 2016 compared to the recognition of unrealized gains on our trading securities due to spread tightening during YTD 2015 and fewer sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position. This decline in sales was attributable to increased market volatility and weaker investor demand for this product type.

Other income (loss)

2Q 2016 vs. 2Q 2015 - other loss declined reflecting:

Gains in 2Q 2016 compared to losses during 2Q 2015 on multifamily mortgage loans for which we elected the fair value option driven by a decline in interest rates during 2Q 2016 compared to an increase in interest rates during 2Q 2015;

\* Gains recognized on certain multifamily held-for-sale loan purchase commitments for which we elected the fair value option in 2016; partially offset by

\* Losses on STACR debt notes carried at fair value driven by tightening spreads between STACR yields and LIBOR during 2Q 2016 compared to gains as a result of widening spreads during 2Q 2015.

YTD 2016 vs. YTD 2015 - other income increased reflecting:

\* Reduced lower-of-cost-or-fair-value adjustments as we reclassified fewer seriously delinquent single-family loans from held-for-investment to held-for-sale during YTD 2016; and

Larger gains in YTD 2016 compared to YTD 2015 on multifamily mortgage loans for which we elected the fair value option driven by a decline in interest rates in YTD 2016 compared to an increase in interest rates during YTD 2015.

Other expense

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - decreased primarily due to fewer reclassifications of seriously delinquent single-family loans from held-for-investment to held-for-sale. See "Loan Reclassifications" below for the effect of these loan reclassifications on pre-tax net income.

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

LOAN RECLASSIFICATIONS

During 2Q 2016 and 2Q 2015, we reclassified \$3.1 billion and \$4.5 billion, respectively, in UPB of seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale. During YTD 2016 and YTD 2015, we reclassified \$3.5 billion and \$8.1 billion, respectively, in UPB of such mortgage loans. The initial reclassifications of these loans affected several line items on our consolidated results of operations, as shown in the table below.

Lower-of-cost-or-fair-value adjustments were relatively unchanged in 2Q 2016 compared to 2Q 2015. In 2Q 2016, the lower-of-cost-or-fair value adjustment was a greater percentage relative to the UPB of the mortgage loans that were reclassified compared to the mortgage loans reclassified in 2Q 2015 because the mortgage loans reclassified in 2Q 2015 were more deeply seriously delinquent. As a result, the

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

mortgage loans reclassified in 2Q 2015 had already been charged down closer to collateral value at the time of reclassification.

| (in millions)   | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|---|------------|------------|-------------|-------------|
| Benefit for credit losses   | \$509      | \$800      | \$573       | \$1,492     |
| Other income (loss) - lower-of-cost-or-fair-value adjustment                      | (667 )     | (632 )     | (734 )      | (1,213 )    |
| Other (expense) income - property taxes and insurance associated with these loans | (109 )     | (447 )     | (140 )      | (796 )      |
| Effect on income before income tax (expense) benefit                              | \$(267)    | \$(279)    | \$(301)     | \$(517 )    |

**INTEREST-RATE RISK MANAGEMENT ACTIVITIES**

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

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

| (in billions)   | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|---|------------|------------|-------------|-------------|
| Components of derivative gains (losses)   |            |            |             |             |
| Derivative gains (losses)   | \$(2.0)    | \$3.1      | \$(6.6)     | \$0.7       |
| Less: Accrual of periodic cash settlements  | (0.4 )     | (0.5 )     | (0.9 )      | (1.1 )      |
| Derivative fair value changes   | \$(1.6)    | \$3.6      | \$(5.7)     | \$1.8       |
| Estimated Net Interest Rate Effect  |            |            |             |             |
| Interest rate effect on derivative fair values  | \$(1.7)    | \$3.6      | \$(5.7)     | \$1.9       |
| Estimate of offsetting interest rate effect related to financial instruments measured at fair value | 1.0        | (1.4 )     | 2.9         | (0.5 )      |
| Income tax benefit (expense)  | 0.3        | (0.8 )     | 1.0         | (0.5 )      |
| Estimated Net Interest Rate Effect on Comprehensive income  | \$(0.4)    | \$1.4      | \$(1.8)     | \$0.9       |

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

**CHANGES IN SPREADS**

Comprehensive income was affected by changes in spreads in amounts estimated to be \$0.1 billion and \$0.7 billion (after-tax) during 2Q 2016 and 2Q 2015, respectively, and \$(0.5) billion and \$0.7 billion (after-tax) during YTD 2016 and YTD 2015, respectively. During 2Q 2016, less spread tightening on both our

Management's Discussion and Analysis Consolidated Results of Operations | Comparison

agency and non-agency mortgage-related investments measured at fair value resulted in a smaller increase in comprehensive income compared to 2Q 2015. During YTD 2016, the negative effect on comprehensive income was primarily due to spreads widening on both our agency and non-agency mortgage-related investments measured at fair value. The positive effect during YTD 2015 was primarily due to spreads tightening on these investments.

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## 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 2016         |  |              | 2Q 2015         |  |              |
|--|-----------------|--|--------------|-----------------|--|--------------|
|  | 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  | \$ 14,948       | \$ 9                                     | 0.23 %       | \$ 10,172       | \$ 2                                     | 0.06 %       |
| Securities purchased under agreements to resell                          | 52,643          | 47                                       | 0.36         | 50,358          | 13                                       | 0.10         |
| <b>Mortgage-related securities:</b>                                      |                 |  |              |                 |  |              |
| Mortgage-related securities  | 193,637         | 1,851                                    | 3.82         | 233,416         | 2,270                                    | 3.89         |
| Extinguishment of PCs held by Freddie Mac                                | (96,002)        | (890)                                    | (3.71)       | (109,805)       | (1,017)                                  | (3.71)       |
| Total mortgage-related securities, net                                   | 97,635          | 961                                      | 3.94         | 123,611         | 1,253                                    | 4.06         |
| <b>Non-mortgage-related securities:</b>                                  |                 |  |              |                 |  |              |
| Loans held by consolidated trusts <sup>(1)</sup>                         | 1,638,057       | 13,872                                   | 3.39         | 1,574,817       | 13,730                                   | 3.49         |
| Loans held by Freddie Mac <sup>(1)</sup>                                 | 138,469         | 1,366                                    | 3.95         | 163,468         | 1,654                                    | 4.05         |
| Total interest-earning assets  | \$ 1,954,478    | \$ 16,272                                | 3.34         | \$ 1,934,165    | \$ 16,655                                | 3.44         |
| <b>Interest-bearing liabilities:</b>                                     |                 |  |              |                 |  |              |
| Debt securities of consolidated trusts including PCs held by Freddie Mac | \$ 1,662,187    | \$ (12,139)                              | (2.92)       | \$ 1,596,840    | \$ (12,022)                              | (3.01)       |
| Extinguishment of PCs held by Freddie Mac                                | (96,002)        | 890                                      | 3.71         | (109,805)       | 1,017                                    | 3.71         |
| Total debt securities of consolidated trusts held by third parties       | 1,566,185       | (11,249)                                 | (2.87)       | 1,487,035       | (11,005)                                 | (2.96)       |
| <b>Other debt:</b>   |                 |  |              |                 |  |              |
| Short-term debt  | 76,057          | (82)                                     | (0.42)       | 103,045         | (36)                                     | (0.14)       |
| Long-term debt   | 303,088         | (1,450)                                  | (1.91)       | 326,659         | (1,587)                                  | (1.94)       |
| Total other debt   | 379,145         | (1,532)                                  | (1.61)       | 429,704         | (1,623)                                  | (1.51)       |
| Total interest-bearing liabilities                                       | 1,945,330       | (12,781)                                 | (2.63)       | 1,916,739       | (12,628)                                 | (2.63)       |
| Expense related to derivatives   | —               | (48)                                     | (0.01)       | —               | (58)                                     | (0.01)       |
| Impact of net non-interest-bearing funding                               | 9,148           | —  | 0.01         | 17,426          | —  | 0.02         |
| Total funding of interest-earning assets                                 | \$ 1,954,478    | \$ (12,829)                              | (2.63)       | \$ 1,934,165    | \$ (12,686)                              | (2.62)       |
| Net interest income/yield  |                 | \$ 3,443                                 | 0.71         |                 | \$ 3,969                                 | 0.82         |

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were \$634 million and \$549 million for loans held by consolidated trusts and were \$50 million and \$144 million for loans held by Freddie Mac during 2Q 2016 and 2Q 2015, respectively.



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

| (dollars in millions)   | YTD 2016        |  |              | YTD 2015        |  |              |
|---|-----------------|--|--------------|-----------------|--|--------------|
|   | 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   | \$ 13,337       | \$ 16                                    | 0.24 %       | \$ 12,762       | \$ 5                                     | 0.06 %       |
| Securities purchased under agreements to resell                                 | 55,282          | 97                                       | 0.35         | 48,894          | 21                                       | 0.09         |
| <b>Mortgage-related securities:</b>   |                 |  |              |                 |  |              |
| Mortgage-related securities   | 197,620         | 3,767                                    | 3.81         | 239,039         | 4,636                                    | 3.88         |
| Extinguishment of PCs held by Freddie Mac                                       | (100,549 )      | (1,850 )                                 | (3.68 )      | (110,896 )      | (2,051 )                                 | (3.70 )      |
| Total mortgage-related securities, net  | 97,071          | 1,917                                    | 3.95         | 128,143         | 2,585                                    | 4.03         |
| <b>Non-mortgage-related securities</b>  |                 |  |              |                 |  |              |
| Loans held by consolidated trusts <sup>(1)</sup>                                | 1,634,351       | 28,133                                   | 3.44         | 1,569,045       | 27,609                                   | 3.52         |
| Loans held by Freddie Mac <sup>(1)</sup>  | 142,000         | 2,923                                    | 4.12         | 164,318         | 3,229                                    | 3.93         |
| Total interest-earning assets   | \$ 1,955,535    | \$ 33,116                                | 3.39         | \$ 1,933,741    | \$ 33,455                                | 3.46         |
| <b>Interest-bearing liabilities:</b>  |                 |  |              |                 |  |              |
| <b>Debt securities of consolidated trusts including PCs held by Freddie Mac</b> |                 |  |              |                 |  |              |
| Extinguishment of PCs held by Freddie Mac                                       | (100,549 )      | 1,850                                    | 3.68         | (110,896 )      | 2,051                                    | 3.70         |
| Total debt securities of consolidated trusts held by third parties              | 1,557,096       | (23,040 )                                | (2.96 )      | 1,479,339       | (22,492 )                                | (3.04 )      |
| <b>Other debt:</b>  |                 |  |              |                 |  |              |
| Short-term debt   | 88,464          | (175 )                                   | (0.39 )      | 112,386         | (74 )                                    | (0.13 )      |
| Long-term debt  | 301,655         | (2,954 )                                 | (1.95 )      | 325,657         | (3,150 )                                 | (1.93 )      |
| Total other debt  | 390,119         | (3,129 )                                 | (1.60 )      | 438,043         | (3,224 )                                 | (1.47 )      |
| Total interest-bearing liabilities  | 1,947,215       | (26,169 )                                | (2.69 )      | 1,917,382       | (25,716 )                                | (2.68 )      |
| Expense related to derivatives  | —               | (99 )                                    | (0.01 )      | —               | (123 )                                   | (0.01 )      |
| Impact of net non-interest-bearing funding                                      | 8,320           | —  | 0.01         | 16,359          | —  | 0.02         |
| Total funding of interest-earning assets  | \$ 1,955,535    | \$ (26,268 )                             | (2.69 )      | \$ 1,933,741    | \$ (25,839 )                             | (2.67 )      |
| Net interest income/yield   |                 | \$ 6,848                                 | 0.70         |                 | \$ 7,616                                 | 0.79         |

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were \$1.1 billion for loans held by consolidated trusts during both YTD 2016 and YTD 2015, and were \$131 million and \$210 million for loans held by Freddie Mac during YTD 2016 and YTD 2015, 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)  | 2Q      | 2Q      | Change  |       | YTD     | YTD     | Change  |       |
|--|---------|---------|---------|-------|---------|---------|---------|-------|
|  | 2016    | 2015    | \$      | %     | 2016    | 2015    | \$      | %     |
| Contractual net interest income:   |         |         |         |       |         |         |         |       |
| Guarantee fee income   | \$680   | \$628   | \$52    | 8 %   | \$1,390 | \$1,236 | \$154   | 12 %  |
| Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011 | 279     | 230     | 49      | 21 %  | 546     | 447     | 99      | 22 %  |
| Other contractual net interest income  | 1,744   | 2,170   | (426 )  | (20)% | 3,584   | 4,392   | (808 )  | (18)% |
| Total contractual net interest income  | 2,703   | 3,028   | (325 )  | (11)% | 5,520   | 6,075   | (555 )  | (9 )% |
| Net amortization - loans and debt securities of consolidated trusts                    | 774     | 849     | (75 )   | (9 )% | 1,307   | 1,382   | (75 )   | (5 )% |
| Net amortization - other assets and debt   | 14      | 150     | (136 )  | (91)% | 120     | 282     | (162 )  | (57)% |
| Expense related to derivatives   | (48 )   | (58 )   | 10      | (17)% | (99 )   | (123 )  | 24      | (20)% |
| Net interest income  | \$3,443 | \$3,969 | \$(526) | (13)% | \$6,848 | \$7,616 | \$(768) | (10)% |

## Key Drivers:

## Other contractual net interest income

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - decreased primarily 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.

## Net amortization of other assets and debt

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - decreased primarily due to less accretion of previously recognized other-than-temporary impairments, coupled with greater premium amortization expense associated with our mortgage-related securities portfolio as a result of agency securities being acquired at premiums. The decrease in accretion is due to a decline in the population of impaired securities as a result of our active disposition of these securities and the recognition of less other-than-temporary impairments due to stabilized collateral performance.



## Management's Discussion and Analysis Consolidated Results of Operations | Provision for Credit Losses

## BENEFIT (PROVISION) FOR CREDIT LOSSES

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

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

|   | 2Q<br>2016 | 2Q<br>2015 | Change  |       | YTD<br>2016 | YTD<br>2015 | Change  |        |
|---|------------|------------|---------|-------|-------------|-------------|---------|--------|
| (dollars in billions)   |            |            | \$      | %     |             |             | \$      | %      |
| Provision for newly impaired loans  | \$(0.2)    | \$(0.4)    | \$0.2   | (50)% | \$(0.4)     | \$(0.6)     | \$0.2   | (33)%  |
| Amortization of interest rate concessions                                   | 0.2        | 0.3        | (0.1)   | (33)% | 0.5         | 0.6         | (0.1)   | (17)%  |
| Reclassifications of held-for-investment loans to held-for-sale loans       | 0.5        | 0.8        | (0.3)   | (38)% | 0.6         | 1.5         | (0.9)   | (60)%  |
| Other, including changes in estimated default probability and loss severity | 0.3        | 0.2        | 0.1     | 50%   | 0.5         | (0.1)       | 0.6     | (600)% |
| Benefit (provision) for credit losses                                       | \$0.8      | \$0.9      | \$(0.1) | (11)% | \$1.2       | \$1.4       | \$(0.2) | (14)%  |

## Key Drivers:

2Q 2016 vs. 2Q 2015 - Benefit (provision) for credit losses remained relatively unchanged. Fewer seriously delinquent loans were reclassified from held-for-investment to held-for-sale in 2Q 2016 compared to 2Q 2015. During 2Q 2016, \$3.1 billion in UPB of seriously delinquent single-family loans were reclassified to held-for-sale, compared to \$4.5 billion during 2Q 2015. See "Loan Reclassifications" for the effect of these loan reclassifications on benefit (provision) for credit losses and pre-tax net income.

YTD 2016 vs. YTD 2015 - Benefit (provision) for credit losses remained relatively unchanged. During YTD 2016, \$3.5 billion in UPB of seriously delinquent single-family loans were reclassified to held-for-sale, compared to \$8.1 billion during YTD 2015. There were also improvements in estimated loss severity and probability of default during YTD 2016.

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

## DERIVATIVE GAINS (LOSSES)

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

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

|   | 2Q 2016   | 2Q 2015 | Change    |        | YTD 2016  | YTD 2015 | Change     |          |
|---|-----------|---------|-----------|--------|-----------|----------|------------|----------|
| (dollars in millions)                         |           |         | \$        | %      |           |          | \$         | %        |
| Fair value change in interest-rate swaps      | \$(2,364) | \$4,840 | \$(7,204) | (149)% | \$(8,054) | \$2,179  | \$(10,233) | (470)%   |
| Fair value change in option-based derivatives | 1,141     | (1,465) | 2,606     | (178)% | 3,076     | (449)    | 3,525      | (785)%   |
| Accrual of periodic cash settlements          | (420)     | (532)   | 112       | (21)%  | (910)     | (1,103)  | 193        | (17)%    |
| Fair value change in other derivatives        | (415)     | 292     | (707)     | (242)% | (731)     | 105      | (836)      | (796)%   |
| Derivative gains (losses)                     | \$(2,058) | \$3,135 | \$(5,193) | (166)% | \$(6,619) | \$732    | \$(7,351)  | (1,004)% |

## Key Drivers:

2Q 2016 vs. 2Q 2015 - We recognized derivative fair value losses during 2Q 2016 primarily due to a decline in interest rates, while recognizing derivative fair value gains during 2Q 2015 primarily due to an increase in interest rates. For example, during 2Q 2016 the 10-year par swap rate declined 26 basis points, while during 2Q 2015 the 10-year par swap rate increased 42 basis points.

YTD 2016 vs. YTD 2015 - We recognized derivative fair value losses during YTD 2016 primarily due to a decline in interest rates, while recognizing derivative fair value gains during YTD 2015 primarily due to an increase in interest rates. For example, during YTD 2016 the 10-year par swap rate declined 80 basis points, while during YTD 2015 the 10-year par swap rate increased 16 basis points.

See "Our Business Segments - Investments - Market Conditions" for more information about par swap rates.

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

## OTHER COMPREHENSIVE INCOME (LOSS)

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

| (in millions)  | 2Q     | 2Q      | Change |        | YTD    | YTD    | Change |        |
|--|--------|---------|--------|--------|--------|--------|--------|--------|
|  | 2016   | 2015    | \$     | %      | 2016   | 2015   | \$     | %      |
| Other comprehensive income, excluding accretion and reclassifications  | \$391  | \$74    | \$317  | 428 %  | \$612  | \$537  | \$75   | 14 %   |
| Accretion due to significant increases in expected cash flows on previously-impaired available-for-sale securities | (79 )  | (120 )  | 41     | (34 )% | (169 ) | (246 ) | 77     | (31 )% |
| Reclassifications from AOCI  | (172 ) | (210 )  | 38     | (18 )% | (149 ) | (325 ) | 176    | (54 )% |
| Total other comprehensive income (loss)  | \$140  | \$(256) | \$396  | (155)% | \$294  | \$(34) | \$328  | (965)% |

## Key Drivers:

2Q 2016 vs. 2Q 2015 - Other comprehensive income increased primarily due to a decline in longer-term interest rates during 2Q 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during 2Q 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by less spread tightening for our agency and non-agency available-for-sale mortgage-related securities. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

YTD 2016 vs. YTD 2015 - Other comprehensive income increased primarily due to a decline in longer-term interest rates during YTD 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during YTD 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by spread widening for our non-agency available-for-sale mortgage-related securities during YTD 2016 compared to spread tightening during YTD 2015. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

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

## CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

| (dollars in millions)                           | June 30,    | December 31, | Change   |       |
|---|-------------|--------------|----------|-------|
|   | 2016        | 2015         | \$       | %     |
| <b>Assets:</b>                                  |             |              |          |       |
| Cash and cash equivalents                       | \$8,140     | \$5,595      | \$2,545  | 45 %  |
| Restricted cash and cash equivalents            | 17,399      | 14,533       | 2,866    | 20 %  |
| Securities purchased under agreements to resell | 48,989      | 63,644       | (14,655) | (23)% |
| Subtotal  | 74,528      | 83,772       | (9,244)  | (11)% |
| Investments in securities                       | 112,269     | 114,215      | (1,946)  | (2)%  |
| Mortgage loans, net                             | 1,761,585   | 1,754,193    | 7,392    | — %   |
| Accrued interest receivable                     | 6,060       | 6,074        | (14)     | — %   |
| Derivative assets, net                          | 1,479       | 395          | 1,084    | 274 % |
| Real estate owned, net                          | 1,381       | 1,725        | (344)    | (20)% |
| Deferred tax assets, net                        | 18,671      | 18,205       | 466      | 3 %   |
| Other assets                                    | 10,464      | 7,313        | 3,151    | 43 %  |
| Total assets                                    | \$1,986,437 | \$1,985,892  | \$545    | — %   |
| <b>Liabilities and Equity:</b>                  |             |              |          |       |
| <b>Liabilities:</b>                             |             |              |          |       |
| Accrued interest payable                        | \$6,057     | \$6,183      | \$(126)  | (2)%  |
| Debt, net                                       | 1,972,103   | 1,970,269    | 1,834    | — %   |
| Derivative liabilities, net                     | 1,243       | 1,254        | (11)     | (1)%  |
| Other liabilities                               | 4,901       | 5,246        | (345)    | (7)%  |
| Total liabilities                               | 1,984,304   | 1,982,952    | 1,352    | — %   |
| Total equity                                    | 2,133       | 2,940        | (807)    | (27)% |
| Total liabilities and equity                    | \$1,986,437 | \$1,985,892  | \$545    | — %   |

## Key Drivers:

As of June 30, 2016 compared to December 31, 2015:

Cash and cash equivalents, restricted cash and cash equivalents, and securities purchased under agreements to resell affect one another, so the changes in the balances should be viewed together. The combined balance declined due to higher near-term cash needs as of December 31, 2015.

Investments in securities declined primarily due to repayments, partially offset by increased retention of investment securities from certain structured transactions.

Derivative assets, net increased primarily due to an increase in non-cash collateral posted by our derivative counterparties. While we generally offset the obligation to return cash collateral against the fair value of our derivative assets, we do not offset non-cash collateral received against the fair value of our derivative assets.

Real estate owned, net continued to decline as we continued to sell our existing inventory.

Other assets increased as receivables from servicers increased driven by borrower prepayment activity.

Management's Discussion and Analysis Consolidated Balance Sheets Analysis

Total equity decreased primarily as a result of dividends paid related to the decline in the Capital Reserve Amount from \$1.8 billion to \$1.2 billion under the terms of the senior preferred stock.

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Management's Discussion and Analysis Our Business Segments | Segment Earnings

**OUR BUSINESS SEGMENTS**

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

• **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, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily mortgage credit risk.

• **Investments** - reflects results from managing the company's mortgage-related investments portfolio (excluding Multifamily investments, single-family seriously delinquent loans, and the credit risk of single-family performing loans), treasury function, and interest-rate risk.

• **All Other** - consists of material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments.

**SEGMENT EARNINGS**

During the first quarter of 2016, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee and Investments segments. Prior period results have been revised to conform to the current period presentation. For more information on these changes and on our segment reclassifications, see Note 11 in this Form 10-Q and Note 12 in our 2015 Annual Report.

Management's Discussion and Analysis | Our Business Segments | Segment Earnings

SEGMENT COMPREHENSIVE INCOME

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The tables below show our comprehensive income by segment, including the All Other category.

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

## SINGLE-FAMILY GUARANTEE MARKET CONDITIONS

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The following graphs and related discussion 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 June 8, 2016 (latest available IMF purchase/refinance information).

### Single-Family Serious Delinquency Rates

Source: National Delinquency Survey from the Mortgage Bankers Association. The rates are as of May 12, 2016 (latest available NDS information).

## Commentary

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### Single-family loan origination volumes:

2Q 2016 vs. 2Q 2015 - increased to \$510 billion in 2Q 2016 compared to \$490 billion in 2Q 2015, driven by an increase in refinancing activity due to the decline in interest rates. Mortgage origination data from Inside Mortgage Finance as of July 28, 2016.

YTD 2016 vs. YTD 2015 - was relatively unchanged at \$890 billion in YTD 2016 compared to \$895 billion in YTD 2015.

Single-family serious delinquency (SDQ) rates in the U.S. continued to decline due to macroeconomic factors, such as a stable labor market and continued home price appreciation.

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

## BUSINESS RESULTS

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

### New Business Activity

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#### Single-Family Loan Purchases and Guarantees

(UPB in billions)

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

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

Commentary

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Our loan purchase and guarantee activity:

2Q 2016 vs. 2Q 2015 - declined due to lower refinance loan purchase volume as mortgage interest rates were slightly higher in early 2016 as compared to early 2015.

YTD 2016 vs. YTD 2015 - declined due to lower refinance loan purchase volume as mortgage interest rates declined at a slower pace in the latter part of 2015 and early 2016 than in the latter part of 2014 and early 2015.

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

### Single-Family Credit Guarantee Portfolio

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#### Single-Family Credit Guarantee Portfolio Commentary

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The Core single-family book grew to 69% of the single-family credit guarantee portfolio at June 30, 2016 compared to 66% at December 31, 2015. The Core single-family book consists of loans that were originated since 2008, excluding HARP and other relief refinance loans.

- The HARP and other relief refinance book represented 17% of the single-family credit guarantee portfolio at June 30, 2016 compared to 18% at December 31, 2015.

The Legacy single-family book declined to 14% of the single-family credit guarantee portfolio at June 30, 2016 compared to 16% at December 31, 2015.

We had 10.7 million loans in our single-family credit guarantee portfolio at both June 30, 2016 and December 31, 2015.

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

Guarantee Fees

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The average portfolio Segment Earnings guarantee fee rate recognizes upfront delivery fee income for the entire portfolio over the contractual life of the related loans (usually 30 years) adjusted for actual prepayments, whereas the average guarantee fee rate charged on new acquisitions recognizes these amounts over the estimated life of the related loans using our expectations of prepayments and other liquidations.

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

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

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

Commentary

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▲Average portfolio Segment Earnings guarantee fees:

2Q 2016 vs. 2Q 2015 - increased primarily due to higher amortization of upfront fees resulting from the increase in the size of the single-family credit guarantee portfolio. Higher average contractual guarantee fees, reflecting the continued growth in the size of the Core single-family book in our single-family credit guarantee portfolio, also contributed. Average contractual guarantee fees are generally higher on mortgage loans in our Core single-family book compared to those in our Legacy single-family book.

YTD 2016 vs. YTD 2015 - increased primarily due to higher average contractual guarantee fee rates reflecting the continued growth in the size of the Core single-family book during YTD 2016.

▲Average guarantee fee rate charged on new acquisitions:

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - increased primarily due to changes in the product mix of our single-family new business purchases as new acquisitions have included a relatively higher proportion of 30-year fixed-rate mortgages which generally have higher guarantee fee rates.

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

## Credit Risk Transfer Activity

Since 2013, STACR debt note and ACIS transactions have been our principal methods of transferring to third parties a portion of the expected credit losses and a significant portion of stress credit losses subsequent to loan acquisition in our Core single-family book. The following charts present transactions that occurred during 2Q 2016 and the cumulative amount of such transactions as of June 30, 2016 by loss position and the party holding each loss position.

## New STACR Debt Note and ACIS

Transactions during 2Q 2016<sup>(1)</sup>

|            |  | (In billions) |       |                  |
|------------|--|---------------|-------|------------------|
|            |  | Freddie Mac   |       |                  |
| Senior     |  |               |       |                  |
|            |  | \$82.1        |       |                  |
|            |  | Freddie Mac   | ACIS  | STACR Debt Notes |
| Mezzanine  |  |               |       | Reference Pool   |
|            |  | \$0.2         | \$0.9 | \$86.2           |
|            |  |               | \$2.2 |                  |
| First Loss |  | Freddie Mac   | ACIS  | STACR Debt Notes |
|            |  | \$0.6         | \$0.1 | \$0.1            |

## Cumulative STACR Debt Note and ACIS

Transactions as of June 30, 2016<sup>(1)</sup>

|            |  | (In billions) |        |                  |
|------------|--|---------------|--------|------------------|
|            |  | Freddie Mac   |        |                  |
| Senior     |  |               |        |                  |
|            |  | \$498.6       |        |                  |
|            |  | Freddie Mac   | ACIS   | STACR Debt Notes |
| Mezzanine  |  |               |        | Reference Pool   |
|            |  | \$1.2         | \$4.8  | \$524.5          |
|            |  |               | \$15.6 |                  |
| First Loss |  | Freddie Mac   | ACIS   | STACR Debt Notes |
|            |  | \$2.9         | \$0.5  | \$0.9            |

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

We continued to transfer a portion of expected credit losses to third-party investors, insurers, and selected sellers through credit risk transfer transactions. During YTD 2016, we transferred a portion of the expected credit losses associated with \$140.0 billion in UPB of loans in our Core single-family book through STACR debt note, ACIS, and seller indemnification transactions.

- The interest and premiums we pay on our issued STACR debt note and ACIS transactions effectively reduce the guarantee fee income we earn on the PCs within the respective reference pools. Our expected guarantee fee income on the PCs within the STACR and ACIS reference pools has been effectively reduced by approximately 34%, on average, for all transactions executed through June 30, 2016. The amount of the effective reduction to our overall guarantee fee income could change over time as we continue our credit risk transfer activities or if there are changes in the economic or regulatory environment that affect the cost of executing these transactions.

Due to differences in accounting, there could be a significant lag in time between when we recognize a provision for credit losses and when we recognize the related recovery from our actual loss STACR debt note transactions. A credit expense on a loan in a reference pool related to these transactions is recorded when it is probable that we have incurred a loss, while a recovery is recorded when an actual loss event occurs.

As of June 30, 2016, there has not been a significant number of loans in our STACR debt note reference pools that have experienced a credit event. As a result, we experienced minimal write-

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

downs on our STACR debt notes and filed minimal claims for reimbursement of losses under our ACIS transactions. In 2Q 2016, we executed our first ACIS transaction using collateral other than 30-year fixed-rate mortgages. In this transaction, we transferred a portion of the mezzanine expected credit losses and a significant portion of stress credit losses associated with \$11.2 billion in UPB of 15-year fixed-rate mortgages. Also, unlike all prior ACIS transactions, this transaction did not involve loans in a reference pool created for a STACR debt note transaction.

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

## Credit Enhancements

The table below provides information on the credit enhanced loans in our single-family credit guarantee portfolio by book as of June 30, 2016. The table includes all types of single-family credit enhancements, including primary mortgage insurance. See Note 4 for additional information about our single-family credit enhancements.

As of June 30, 2016

| (dollars in millions)                | Total Current UPB | Total Protected UPB <sup>(1)</sup> | Coverage Remaining <sup>(2)</sup> | Collateralized Coverage Remaining <sup>(3)</sup> | Percentage of Coverage Remaining Provided By Credit Risk Transfer Transactions <sup>(4)</sup> |
|--------------------------------------|-------------------|------------------------------------|-----------------------------------|--|---|
| Core single-family book              | \$1,184,607       | \$543,161                          | \$ 78,461                         | \$ 16,479  | 26 %  |
| HARP and other relief refinance book | 286,477           | 31,511                             | 8,625                             | —  | — %   |
| Legacy single-family book            | 241,882           | 32,159                             | 9,934                             | —  | — %   |
| Total                                | \$1,712,966       | \$606,831                          | \$ 97,020                         | \$ 16,479  | 21 %  |

(1) Represents the UPB for which credit enhancements exist.

(2) Represents the amounts available for us to recover under the credit enhancements.

Collateralized coverage includes cash received by Freddie Mac upon issuance of STACR debt notes and (3) unguaranteed whole loan securities, as well as cash and securities pledged for our benefit. All collateralized coverage relates to credit risk transfer transactions in the Core single-family book.

Credit risk transfer transactions include STACR debt notes, ACIS insurance policies, seller indemnification (4) agreements, and whole loan securities. The substantial majority of single-family loans covered by these transactions were acquired after 2012.

## Commentary

The Core single-family book had credit protection on 46% of total current UPB as of June 30, 2016 compared to 39% as of December 31, 2015. Credit protection increased primarily as a result of our credit risk transfer transactions.



## 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, 2016

| (credit score)             | CLTV ≤ 80   |          | CLTV > 80 to 100 |          | CLTV > 100  |          | All Loans   |          | Modified |  |
|----------------------------|-------------|----------|------------------|----------|-------------|----------|-------------|----------|----------|--|
|                            | % Portfolio | SDQ Rate | % Portfolio      | SDQ Rate | % Portfolio | SDQ Rate | % Portfolio | SDQ Rate |          |  |
| Core single-family book:   |             |          |                  |          |             |          |             |          |          |  |
| < 620                      | 0.2 %       | 1.99%    | — %              | 3.62 %   | — %         | 12.50%   | 0.2 %       | 2.28%    | 3.0 %    |  |
| 620 to 659                 | 1.4         | 0.91%    | 0.3              | 1.15 %   | —           | 6.92 %   | 1.7         | 0.96%    | 1.3 %    |  |
| ≥ 660                      | 58.3        | 0.14%    | 8.9              | 0.23 %   | —           | 1.82 %   | 67.2        | 0.15%    | 0.2 %    |  |
| Not available              | —           | 1.37%    | —                | 2.72 %   | 0.1         | 7.10 %   | 0.1         | 2.64%    | 3.6 %    |  |
| Total                      | 59.9%       | 0.17%    | 9.2%             | 0.27 %   | 0.1%        | 3.17 %   | 69.2%       | 0.18%    | 0.2 %    |  |
| Relief refinance book:     |             |          |                  |          |             |          |             |          |          |  |
| < 620                      | 0.6 %       | 1.55%    | 0.2%             | 2.80 %   | 0.1%        | 4.21 %   | 0.9 %       | 2.12%    | 3.9 %    |  |
| 620 to 659                 | 0.8         | 0.99%    | 0.3              | 2.09 %   | 0.2         | 3.10 %   | 1.3         | 1.48%    | 2.2 %    |  |
| ≥ 660                      | 10.5        | 0.3 %    | 2.9              | 0.99 %   | 1.1         | 1.80 %   | 14.5        | 0.51%    | 0.7 %    |  |
| Not available              | —           | 1.08%    | —                | 0.87 %   | —           | — %      | —           | 0.94%    | 1.1 %    |  |
| Total                      | 11.9%       | 0.40%    | 3.4%             | 1.22 %   | 1.4%        | 2.12 %   | 16.7%       | 0.67%    | 1.0 %    |  |
| Legacy single-family book: |             |          |                  |          |             |          |             |          |          |  |
| < 620                      | 0.8 %       | 5.94%    | 0.2%             | 11.94%   | 0.2%        | 18.83%   | 1.2 %       | 7.91%    | 32.2 %   |  |
| 620 to 659                 | 1.5         | 4.24%    | 0.4              | 9.39 %   | 0.3         | 15.70%   | 2.2         | 5.84%    | 26.4 %   |  |
| ≥ 660                      | 7.8         | 1.84%    | 1.8              | 6.52 %   | 0.9         | 11.42%   | 10.5        | 2.68%    | 12.5 %   |  |
| Not available              | 0.1         | 4.78%    | 0.1              | 15.62%   | —           | 18.39%   | 0.2         | 5.45%    | 14.6 %   |  |
| Total                      | 10.2%       | 2.52%    | 2.5%             | 7.72 %   | 1.4%        | 13.42%   | 14.1%       | 3.59%    | 16.0 %   |  |

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

## Alt-A and Subprime Loans

While we refer 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. For example, some financial institutions may use credit scores to delineate certain residential loans as subprime. We do not rely on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

Participants in the mortgage market may characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately \$1.4 billion and \$1.5 billion of security collateral underlying our other securitization products at June 30, 2016 and December 31, 2015, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continued to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, part of our relief refinance initiative, or part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-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, 2016, we have purchased approximately \$33.7 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including \$0.4 billion in 2Q 2016.

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

| (dollars in billions) | June 30, 2016 |      |               |             | December 31, 2015 |      |               |             |
|-----------------------|---------------|------|---------------|-------------|-------------------|------|---------------|-------------|
|                       | UPB           | CLTV | %<br>Modified | SDQ<br>Rate | UPB               | CLTV | %<br>Modified | SDQ<br>Rate |
| Alt-A                 | \$36.6        | 74 % | 24.6 %        | 5.53 %      | \$40.2            | 77 % | 23.1 %        | 6.32 %      |

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during YTD 2016 primarily due to borrowers refinancing into other mortgage products, foreclosure transfers, and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida, and Nevada.

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

Single-Family Loan Performance

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Serious Delinquency Rates  
Commentary

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Serious delinquency rates continued to decline across our single-family credit guarantee portfolio during YTD 2016 due to the continued strong performance of loans in the Core single-family book, continued home price appreciation, continued loss mitigation and foreclosure activities for loans in the Legacy single-family book, as well as sales of certain seriously delinquent loans.

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we sold seriously delinquent loans totaling \$1.8 billion in UPB during YTD 2016. The sale of seriously delinquent loans during YTD 2016 contributed to a decline in the serious delinquency rate of the total single-family credit guarantee portfolio and the Legacy single-family book. Absent these sales, the serious delinquency rate of the total single-family credit guarantee portfolio and the Legacy single-family book would have been 1.18% and 3.88% as of June 30, 2016, respectively. Delinquency rates declined to 1.28% and 0.37% for loans one month and two months past due, respectively, as of June 30, 2016 compared to 1.37% and 0.42%, respectively, as of December 31, 2015.

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

## Credit Performance

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

| (dollars in millions)   | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|---|------------|------------|-------------|-------------|
| Charge-offs, gross  | \$486      | \$852      | \$1,055     | \$3,803     |
| Recoveries  | (152)      | (196)      | (280)       | (370)       |
| Charge-offs, net  | 334        | 656        | 775         | 3,433       |
| REO operations expense  | 29         | 52         | 113         | 127         |
| Total credit losses   | \$363      | \$708      | \$888       | \$3,560     |
| Total credit losses (in bps)  | 8.4        | 16.7       | 10.3        | 42.1        |
| Ratio of total loan loss reserves (excluding reserves for TDR concessions) to net charge-offs for single-family loans | 3.4        | 2.4        |             |             |
| Ratio of total loan loss reserves to net charge-offs for single-family loans  | 10.1       | 6.6        |             |             |

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

| (dollars in millions)                              | June 30, 2016 |          | June 30, 2015 |          |
|--|---------------|----------|---------------|----------|
|  | Loan<br>Count | Amount   | Loan<br>Count | Amount   |
| TDRs, at January 1                                 | 512,253       | \$85,960 | 539,590       | \$94,401 |
| New additions                                      | 22,839        | 3,132    | 31,154        | 4,375    |
| Repayments and reclassifications to held-for-sale  | (31,989)      | (6,327)  | (36,003)      | (7,626)  |
| Foreclosure transfers and foreclosure alternatives | (5,938)       | (852)    | (10,878)      | (1,747)  |
| TDRs, at June 30,                                  | 497,165       | 81,913   | 523,863       | 89,403   |
| Loans impaired upon purchase                       | 8,661         | 614      | 11,015        | 814      |
| Total impaired loans with specific reserve         | 505,826       | 82,527   | 534,878       | 90,217   |
| Allowance for loan losses                          |               | (12,357) |               | (15,528) |
| Net investment, at June 30,                        |               | \$70,170 |               | \$74,689 |

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

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

| (in millions)                    | June 30, December |           |
|----------------------------------|-------------------|-----------|
|                                  | 2016              | 31, 2015  |
| TDRs on accrual status           | \$80,156          | \$82,026  |
| Non-accrual loans                | 18,015            | 22,460    |
| Total TDRs and non-accrual loans | \$98,171          | \$104,486 |

## Loan loss reserves associated with:

|                        |          |          |
|------------------------|----------|----------|
| TDRs on accrual status | \$10,627 | \$12,105 |
| Non-accrual loans      | 2,370    | 2,677    |
| Total                  | \$12,997 | \$14,782 |

| (in millions)   | YTD     | YTD     |
|---|---------|---------|
|   | 2016    | 2015    |
| Foregone interest income on TDRs and non-accrual loans <sup>(1)</sup> | \$1,249 | \$1,572 |

<sup>(1)</sup> Represents the amount of interest income that we would have recognized for loans outstanding at the end of each period, had the loans performed according to their original contractual terms.

## Commentary

As of June 30, 2016, 66% of the loan loss reserves 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, 2016.

We expect our loan loss reserves associated with existing single-family TDRs to continue to decline over time as borrowers continue to make monthly payments under the modified terms and interest-rate concessions are amortized into earnings.

Charge-offs, net were lower in the 2016 periods compared to the 2015 periods due to:

2Q 2016 vs. 2Q 2015 - decreased REO acquisition and foreclosure alternative volumes;

YTD 2016 vs. YTD 2015 - decreased REO acquisition and foreclosure alternative volumes and our initial adoption of an FHFA advisory bulletin on January 1, 2015 that changed when we deem a loan to be uncollectible, which increased charge-offs by \$1.9 billion during YTD 2015.

See Note 4 for information on our single-family loan loss reserves.

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

Loss Mitigation Activities

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Loan Workout Activity

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

Commentary

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Our loan workout activity declined consistent with the decline in the number of delinquent loans in the single-family credit guarantee portfolio as the economy continues to improve.

- On April 14, 2016, FHFA announced that Freddie Mac and Fannie Mae will offer principal reduction to certain borrowers with seriously delinquent, underwater loans. The new initiative is a one-time offering for borrowers who meet certain specific eligibility criteria. We believe that this offering will not have a significant effect on our financial results.

The MHA Program, including HAMP, will expire on December 31, 2016. However, our Standard and Streamlined Modification programs will continue to be available into 2017.

## 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.

| (dollars in millions)                  | 2Q 2016    |          | 2Q 2015    |          | YTD 2016   |          | YTD 2015   |          |
|--|------------|----------|------------|----------|------------|----------|------------|----------|
|  | Number     | Amount   | Number     | Amount   | Number     | Amount   | Number     | Amount   |
|  | of         |          | of         |          | of         |          | of         |          |
|  | Properties |          | Properties |          | Properties |          | Properties |          |
| Beginning balance — REO                | 15,409     | \$ 1,611 | 22,738     | \$ 2,384 | 17,004     | \$ 1,774 | 25,768     | \$ 2,684 |
| Additions                              | 4,153      | 392      | 5,824      | 562      | 8,784      | 832      | 13,025     | 1,245    |
| Dispositions                           | (6,278 )   | (609 )   | (9,078 )   | (912 )   | (12,504 )  | (1,212 ) | (19,309 )  | (1,895 ) |
| Ending balance — REO                   | 13,284     | 1,394    | 19,484     | 2,034    | 13,284     | 1,394    | 19,484     | 2,034    |
| Beginning balance, valuation allowance |            | (44 )    |            | (90 )    |            | (52 )    |            | (126 )   |
| Change in valuation allowance          |            | 27       |            | 34       |            | 35       |            | 70       |
| Ending balance, valuation allowance    |            | (17 )    |            | (56 )    |            | (17 )    |            | (56 )    |
| Ending balance — REO, net              |            | \$ 1,377 |            | \$ 1,978 |            | \$ 1,377 |            | \$ 1,978 |
| Commentary                             |            |          |            |          |            |          |            |          |

Our REO inventory declined in the 2016 periods as compared to the 2015 periods primarily due to REO dispositions exceeding our acquisitions. REO acquisitions continue to decline due to fewer seriously delinquent loans 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 the Segment Earnings and comprehensive income for our Single-family Guarantee segment.

|  | 2Q<br>2016 | 2Q<br>2015 | Change  |        | YTD<br>2016 | YTD<br>2015 | Change  |        |
|--|------------|------------|---------|--------|-------------|-------------|---------|--------|
| (dollars in millions)  |            |            | \$      | %      |             |             | \$      | %      |
| Net interest income (loss)   | \$(151)    | \$26       | \$(177) | (681)% | \$(269)     | \$(111)     | \$(158) | 142%   |
| Guarantee fee income   | 1,501      | 1,325      | 176     | 13%    | 2,786       | 2,582       | 204     | 8%     |
| Benefit (provision) for credit losses  | 121        | (137)      | 258     | (188)% | 410         | (517)       | 927     | (179)% |
| Net interest income and guarantee fee income after benefit (provision) for credit losses | 1,471      | 1,214      | 257     | 21%    | 2,927       | 1,954       | 973     | 50%    |
| Other non-interest income (loss)   | (117)      | (32)       | (85)    | 266%   | 70          | (215)       | 285     | (133)% |
| Non-interest expense:  |            |            |         |        |             |             |         |        |
| Administrative expense   | (314)      | (329)      | 15      | (5)%   | (609)       | (629)       | 20      | (3)%   |
| REO operations expense   | (29)       | (52)       | 23      | (44)%  | (113)       | (127)       | 14      | (11)%  |
| Other non-interest expense   | (101)      | (87)       | (14)    | 16%    | (201)       | (179)       | (22)    | 12%    |
| Total non-interest expense   | (444)      | (468)      | 24      | (5)%   | (923)       | (935)       | 12      | (1)%   |
| Segment Earnings before income tax expense   | 910        | 714        | 196     | 27%    | 2,074       | 804         | 1,270   | 158%   |
| Income tax expense   | (326)      | (225)      | (101)   | 45%    | (680)       | (255)       | (425)   | 167%   |
| Segment Earnings, net of taxes   | 584        | 489        | 95      | 19%    | 1,394       | 549         | 845     | 154%   |
| Total other comprehensive income (loss), net of tax                                      | (1)        | —          | (1)     | N/A    | —           | (1)         | 1       | (100)% |
| Total comprehensive income   | \$583      | \$489      | \$94    | 19%    | \$1,394     | \$548       | \$846   | 154%   |

## Key Drivers:

## Net interest income (loss)

2Q 2016 vs. 2Q 2015 - changed from income to loss primarily due to an increase in non-cash premium amortization expense in 2Q 2016 as compared to 2Q 2015 as the single-family loans in consolidated trusts prepaid before the related PCs.

YTD 2016 vs. YTD 2015 - increased loss primarily due to higher STACR debt expense driven by a higher outstanding balance of STACR debt notes in YTD 2016 as compared to YTD 2015.

## Guarantee fee income

2Q 2016 vs. 2Q 2015 - increased primarily due to higher amortization of upfront fees resulting from the increase in the size of the single-family credit guarantee portfolio. Higher average contractual guarantee fee rates, reflecting the continued growth in the size of the Core single-family book, also contributed.

YTD 2016 vs. YTD 2015 - increased primarily due to higher average contractual guarantee fee rates reflecting the continued growth in the size of the Core single-family book.

## Benefit (provision) for credit losses

2Q 2016 vs. 2Q 2015 - changed from a (provision) to a benefit primarily due to a decrease in the volume of newly delinquent single-family loans.



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

YTD 2016 vs. YTD 2015 - changed from a (provision) to a benefit due to a combination of improvements in estimated loss severity and probability of default and a decrease in the volume of newly delinquent single-family loans.

Other non-interest income (loss)

2Q 2016 vs. 2Q 2015 - increased losses were primarily due to fair value losses on STACR debt notes as spreads between STACR yields and LIBOR tightened during 2Q 2016 compared to fair value gains in 2Q 2015 when spreads widened.

YTD 2016 vs. YTD 2015 - was a gain in YTD 2016 compared to a loss in YTD 2015 primarily due to fewer seriously delinquent loans reclassified from held-for-investment to held-for-sale.

Management's Discussion and Analysis Our Business Segments | Multifamily

MULTIFAMILY  
MARKET CONDITIONS

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

K Certificate Benchmark Spread

Source: Independent dealers

Apartment Vacancy Rates and Change in Effective Rents

Source: REIS, Inc.

Commentary

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The profitability of our K Certificate transactions (as measured by gains and losses on sales of mortgage loans) is affected by the change in K Certificate spreads during the period between our commitment to purchase a loan and execution of the K Certificate transaction.

The K Certificate benchmark spread ended 2Q 2016 at 80 bps, the same level as 1Q 2016. During April and May 2016, the K Certificate benchmark spread tightened, having a positive effect on K Certificate profitability. However, the K Certificate benchmark spread widened sharply at the end of 2Q 2016 due to increased market volatility as a result of the United Kingdom's decision to leave the European Union.

During 2Q 2016, the rate of increase in effective rents grew, while vacancy rates were unchanged. We expect that, given the elevated levels of new construction, vacancy rates will increase slowly in the upcoming quarters, putting downward pressure on rent growth.

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Management's Discussion and Analysis Our Business Segments | Multifamily

## BUSINESS RESULTS

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The following graphs and related discussion present the business results of our Multifamily segment.  
New Business Activity

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### Multifamily New Business Activity

(UPB in billions)

#### Commentary

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We have a goal under the 2016 Conservatorship Scorecard to maintain the dollar volume of multifamily new business activity at or below a production cap, which was increased during 2Q 2016 from \$31 billion to \$35 billion. For purposes of determining our performance under the goal, business activity associated with certain targeted loan types is excluded from this production cap. Reclassifications between new business activity subject to the production cap and new business activity not subject to the production cap may occur during 2016.

Approximately two-thirds of our multifamily new business activity during 2Q 2016 counted towards the 2016 Scorecard production cap, and the remaining one-third was not subject to the production cap.

Our multifamily new business activity outstanding commitments were \$13 billion and \$9 billion, as of June 30, 2016 and June 30, 2015, respectively. The June 30, 2016 amount includes loan purchase commitments for which we have elected the fair value option.

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Management's Discussion and Analysis Our Business Segments | Multifamily

We expect that, over the remainder of 2016, our dollar volume of multifamily new business activity subject to the cap will moderate and we will meet the goal under the 2016 Conservatorship Scorecard.

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Management's Discussion and Analysis Our Business Segments | Multifamily

Multifamily Portfolio

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Multifamily Mortgage Portfolio by Asset Class

Multifamily Mortgage Investments Portfolio

Commentary

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Our multifamily mortgage portfolio grew during 2Q 2016 due to an increase in the guarantee portfolio, which was primarily attributable to our securitization of loans in K Certificate transactions.

Our securitization pipeline of held-for-sale loans was \$15.0 billion at June 30, 2016, a reduction from the elevated levels in recent prior quarters. This balance decreased during 2Q 2016 as our securitization of loans into K Certificates and other securitization products outpaced our 2Q 2016 held-for-sale loan purchase volume.

The decline in less liquid assets during YTD 2016 was primarily due to continued runoff of our held-for-investment mortgage loan and CMBS portfolios. In addition, less liquid assets declined as a result of securitization of certain of our held-for-investment mortgage loans.

Our multifamily delinquency rate at June 30, 2016 was 0.02%.

Management's Discussion and Analysis Our Business Segments | Multifamily

Credit Risk Transfer Activity

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New K Certificate Issuances

(UPB in billions)

Average Guarantee Fee Rate Charged on New K Certificates

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Management's Discussion and Analysis Our Business Segments | Multifamily

Commentary

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Our K Certificate issuance volume increased during 2Q 2016 and YTD 2016 as we continued to reduce our securitization pipeline, which was elevated in recent prior quarters as a result of the record origination volume in the multifamily market during 2015.

In addition to the credit risk we transferred on K Certificates, we transferred a large majority of expected and stress credit losses associated with \$1.0 billion of additional loans during 2Q 2016 through other securitization products, such as small balance loan securitizations.

The average guarantee fee rate on newly issued K Certificates increased during 2Q 2016 and YTD 2016 compared to 2Q 2015 and YTD 2015 primarily due to lower levels of subordination.

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

## FINANCIAL RESULTS

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

|  | 2Q<br>2016 | 2Q<br>2015 | Change  |        | YTD<br>2016 | YTD<br>2015 | Change  |        |
|--|------------|------------|---------|--------|-------------|-------------|---------|--------|
| (dollars in millions)  |            |            | \$      | %      |             |             | \$      | %      |
| Net interest income  | \$216      | \$281      | \$(65)  | (23)%  | \$468       | \$523       | \$(55)  | (11)%  |
| Guarantee fee income   | 124        | 79         | 45      | 57%    | 232         | 152         | 80      | 53%    |
| Benefit (provision) for credit losses  | 6          | 17         | (11)    | (65)%  | 11          | 20          | (9)     | (45)%  |
| Net interest income and guarantee fee income after benefit (provision) for credit losses | 346        | 377        | (31)    | (8)%   | 711         | 695         | 16      | 2%     |
| Gains (losses) on loans and other non-interest income                                    | 445        | (304)      | 749     | (246)% | 1,182       | 86          | 1,096   | 1,274% |
| Derivative gains (losses)  | (296)      | 708        | (1,004) | (142)% | (1,083)     | 509         | (1,592) | (313)% |
| Administrative expense   | (86)       | (90)       | 4       | (4)%   | (166)       | (160)       | (6)     | 4%     |
| Other non-interest expense   | (9)        | (12)       | 3       | (25)%  | (33)        | (23)        | (10)    | 43%    |
| Segment Earnings before income tax expense   | 400        | 679        | (279)   | (41)%  | 611         | 1,107       | (496)   | (45)%  |
| Income tax expense   | (136)      | (206)      | 70      | (34)%  | (200)       | (350)       | 150     | (43)%  |
| Segment Earnings, net of taxes   | 264        | 473        | (209)   | (44)%  | 411         | 757         | (346)   | (46)%  |
| Total other comprehensive income (loss), net of tax                                      | 7          | (107)      | 114     | (107)% | 10          | (127)       | 137     | (108)% |
| Total comprehensive income   | \$271      | \$366      | \$(95)  | (26)%  | \$421       | \$630       | \$(209) | (33)%  |

## Key Drivers:

## Net interest income

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - decreased primarily due to a decline in net prepayment fees.

## Guarantee fee income

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - increased primarily due to higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates.

## Gains on loans and other non-interest income

2Q 2016 vs. 2Q 2015 - increased due to both interest rate-related and spread-related fair value gains. Interest rate-related fair value gains (which are largely offset in derivative gains (losses)) increased due to declines in longer-term interest rates during 2Q 2016 compared to increases during 2Q 2015. Spread-related fair value gains increased due to K Certificate spread volatility during 2Q 2016 compared to spread widening during 2Q 2015.

YTD 2016 vs. YTD 2015 - increased primarily due to increased interest rate-related fair value gains (which are largely offset in derivative gains (losses)) due to declines in longer-term interest rates during YTD 2016 compared to increases during YTD 2015.

## Derivative gains (losses)

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - worsened due to declines in longer-term interest rates during the 2016 periods compared to increases in longer-term interest rates during the 2015 periods. These results are largely offset by fair value changes of the loans and investment securities being economically hedged, and as a result, there is minimal net impact on



Management's Discussion and Analysis Our Business Segments | Multifamily

total comprehensive income for the Multifamily segment from fair value changes related to interest rate-related derivatives. The fair value changes of the economically hedged assets are included in gains (losses) on loans and other non-interest income and total other comprehensive income (loss).

• Total other comprehensive income

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - increased due to increased interest rate-related fair value gains (which are largely offset in derivatives gains (losses)), partially offset by increased spread-related fair value losses as a result of spread widening on certain of our available-for-sale CMBS securities during the 2016 periods compared to during the 2015 periods when these securities' spreads remained relatively unchanged.

Management's Discussion and Analysis

Our Business Segments |  
Investments

INVESTMENTS  
MARKET CONDITIONS

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The following graphs present the par swap rate curves as of the end of each comparative period. As our derivatives and floating-rate debt are generally LIBOR-based, changes in par swap rates can significantly affect the business and financial results of our Investments segment.

Par Swap Rate Curves

Sources: BlackRock

Commentary

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Interest rates (e.g., 2-year and 10-year rates) declined during 2Q 2016 and YTD 2016, resulting in lower fair values for our pay-fixed interest rate swaps and higher fair values for our receive-fixed interest rate swaps, certain of our option contracts, and the vast majority of our investments in securities. Conversely, interest rates increased during 2Q 2015 and YTD 2015, resulting in higher fair values for our pay-fixed interest rate swaps and lower fair values for our receive-fixed interest rate swaps, certain of our option contracts, and the vast majority of our investments in securities.

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Management's Discussion and Analysis

Our Business Segments |  
Investments

## BUSINESS RESULTS

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

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

Investments Portfolio

Mortgage Investments Portfolio

Commentary

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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 4.4% from December 31, 2015 to June 30, 2016.

The balance of our non-mortgage-related assets portfolio declined 14.1% from December 31, 2015 to June 30, 2016, primarily due to higher near-term cash needs as of December 31, 2015. This portfolio includes certain securities that we may otherwise not invest in, other than to pledge as collateral to our counterparties when our derivatives are in a liability position.

The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 38.8% at December 31, 2015 to 36.3% at June 30, 2016, primarily due to repayments, sales and securitizations of our less liquid assets. We actively reduced the size of our less liquid assets during YTD 2016 by selling \$4.4 billion of non-agency mortgage-related securities and enhancing the

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Management's Discussion and Analysis

Our Business Segments |  
Investments

liquidity of \$3.5 billion of single-family reperforming loans and performing modified loans through securitization. We initially retained all of the resulting Freddie Mac mortgage-related securities created through such securitizations in our mortgage investments portfolio. Certain of these retained securities have been resecuritized, with some of the resulting interests being sold to third parties.

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.

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Management's Discussion and Analysis

Our Business Segments |  
Investments

Net Interest Yield and Average Balances

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Net Interest Yield & Average Investments Portfolio Balance  
Commentary

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**Net Interest Yield**

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - declined 41 basis points and 38 basis points, respectively, primarily due to an increase in the cost to hedge our mortgage prepayment risk as a result of the declining interest rate environment, coupled with a reduction in the balance of our higher yielding mortgage-related assets due to repayments.

**Average Investments Portfolio Balance**

The average investments portfolio balances for the 2016 periods declined compared to the 2015 periods primarily due to the repayment and sale of non-agency mortgage-related securities and the repayment of certain reperforming loans and performing modified loans, partially offset by an increase in our purchase of loans for our securitization pipeline. The overall decline in our average investments portfolio balance is consistent with our efforts to comply with the mortgage-related investments portfolio year-end limits.

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## Management's Discussion and Analysis

Our Business Segments |  
Investments

## Funding Activity

We fund our business activities primarily through the issuance of unsecured other debt. The table below summarizes this activity.

| (Par value in millions)                    | 2Q 2016    | 2Q 2015    | YTD 2016   | YTD 2015   |
|--|------------|------------|------------|------------|
| <b>Discount notes and Reference Bills:</b> |            |            |            |            |
| Beginning balance                          | \$75,659   | \$116,389  | \$104,088  | \$134,670  |
| Issuances                                  | 106,290    | 117,947    | 211,943    | 179,557    |
| Maturities                                 | (113,850 ) | (141,187 ) | (247,932 ) | (221,078 ) |
| Ending balance                             | 68,099     | 93,149     | 68,099     | 93,149     |
| <b>Callable debt:</b>                      |            |            |            |            |
| Beginning balance                          | 108,664    | 119,693    | 107,675    | 107,070    |
| Issuances                                  | 43,137     | 40,134     | 72,067     | 65,219     |
| Repurchases                                | —          | —          | —          | —          |
| Calls                                      | (42,282 )  | (49,636 )  | (69,973 )  | (60,541 )  |
| Maturities                                 | (125 )     | —          | (375 )     | (1,557 )   |
| Ending balance                             | 109,394    | 110,191    | 109,394    | 110,191    |
| <b>Non-callable debt:</b>                  |            |            |            |            |
| Beginning balance                          | 193,919    | 207,112    | 194,372    | 206,393    |
| Issuances                                  | 12,303     | 6,269      | 20,741     | 20,357     |
| Repurchases                                | —          | (217 )     | —          | (217 )     |
| Maturities                                 | (17,096 )  | (8,656 )   | (25,987 )  | (22,025 )  |
| Ending balance                             | 189,126    | 204,508    | 189,126    | 204,508    |
| Total other debt <sup>(1)</sup>            | \$366,619  | \$407,848  | \$366,619  | \$407,848  |

(1) Activity and balances disclosed in the table above exclude certain other debt issued by other segments (e.g., STACR debt notes).

## Commentary

The outstanding balance of our other debt continues to decline as we require less debt to fund our business operations due to the decline in the balance of our mortgage-related investments portfolio.

To replace the medium-term and long-term debt that was called or matured during the 2016 periods, we issued a combination of callable and non-callable debt. These new issuances resulted in lower funding costs during the 2016 periods due to improvements in our debt spreads.

We continued to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs.

This strategy resulted in an increase in both issuances and pay-offs of our short-term other debt during YTD 2016 compared to YTD 2015. However, the outstanding balance of our discount notes declined during YTD 2016 as a result of issuing more medium-term debt.

Management's Discussion and Analysis

Our Business Segments |  
Investments

## Debt Composition

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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, 2016

Earliest Redemption Date as of June 30, 2016

## Commentary

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As our long-term debt spreads remained high relative to our short-term and medium term debt during YTD 2016, we continued to rely on a mix of short-term and medium-term debt issuances to meet our overall funding needs. Our effective short-term debt percentage, which represents the percentage of our total other debt (including the par value of our STACR debt notes that are excluded from the graphs above) that is expected to mature within one year, remained relatively flat at 41.5% as of June 30, 2016 compared to 41.3% as of December 31, 2015.

Our short-term debt issuances provide us with overall lower funding costs relative to our medium-term and longer-term debt. Since the fourth quarter of 2015, we have seen improvements in our short-term debt spreads, primarily due to higher demand for new short-term debt issuances.

Our callable debt provides us with the option to repay the outstanding principal balance of the debt prior to its contractual maturity date. As of June 30, 2016, \$93 billion of the outstanding \$109 billion of callable debt may be called within one year.

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## Management's Discussion and Analysis

Our Business Segments |  
Investments

## FINANCIAL RESULTS

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

|  | 2Q<br>2016 | 2Q<br>2015 | Change    |        | YTD<br>2016 | YTD<br>2015 | Change    |        |
|--|------------|------------|-----------|--------|-------------|-------------|-----------|--------|
| (dollars in millions)  |            |            | \$        | %      |             |             | \$        | %      |
| Net interest income  | \$606      | \$1,047    | \$(441)   | (42)%  | \$1,354     | \$2,202     | \$(848)   | (39)%  |
| Non-interest income:   |            |            |           |        |             |             |           |        |
| Net impairment of available-for-sale securities recognized in earnings | 49         | 95         | (46)      | (48)%  | 130         | 213         | (83)      | (39)%  |
| Derivative gains (losses)  | (1,003)    | 3,157      | (4,160)   | (132)% | (3,998)     | 1,729       | (5,727)   | (331)% |
| Gains (losses) on trading securities                                   | 22         | (271)      | 293       | (108)% | 191         | (226)       | 417       | (185)% |
| Other non-interest income  | 551        | 741        | (190)     | (26)%  | 740         | 1,202       | (462)     | (38)%  |
| Total non-interest income (loss)                                       | (381)      | 3,722      | (4,103)   | (110)% | (2,937)     | 2,918       | (5,855)   | (201)% |
| Non-interest expense:  |            |            |           |        |             |             |           |        |
| Administrative expense   | (75)       | (82)       | 7         | (9)%   | (148)       | (163)       | 15        | (9)%   |
| Other non-interest expense   | (1)        | (2)        | 1         | (50)%  | (3)         | (2)         | (1)       | 50%    |
| Total non-interest expense   | (76)       | (84)       | 8         | (10)%  | (151)       | (165)       | 14        | (8)%   |
| Segment Earnings before income tax (expense) benefit                   | 149        | 4,685      | (4,536)   | (97)%  | (1,734)     | 4,955       | (6,689)   | (135)% |
| Income tax (expense) benefit   | (4)        | (1,478)    | 1,474     | (100)% | 568         | (1,568)     | 2,136     | (136)% |
| Segment Earnings, net of taxes   | 145        | 3,207      | (3,062)   | (95)%  | (1,166)     | 3,387       | (4,553)   | (134)% |
| Total other comprehensive income (loss), net of tax                    | 134        | (169)      | 303       | (179)% | 284         | 67          | 217       | 324%   |
| Total comprehensive income (loss)                                      | \$279      | \$3,038    | \$(2,759) | (91)%  | \$(882)     | \$3,454     | \$(4,336) | (126)% |

## Key Drivers:

## Net interest income

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - decreased primarily due to the continued reduction in the balance of our mortgage investments portfolio, coupled with the increase in the cost to hedge our mortgage prepayment risk as a result of the declining interest rate environment.

## Derivative gains (losses)

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - worsened as we recognized derivative losses during the 2016 periods compared to derivative gains during the 2015 periods, primarily as a result of a decline in longer-term interest rates during the 2016 periods and an increase in longer-term interest rates during the 2015 periods. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.

## Gains (losses) on trading securities

2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 - reflects our recognition of net gains during the 2016 periods compared to net losses during the 2015 periods, primarily as a result of a decline in longer-term interest rates during the 2016 periods compared to an increase in longer-term interest rates during the 2015 periods. These changes were partially offset by spread widening during the 2016 periods for our agency mortgage-related securities classified as trading compared to spread tightening during the 2015 periods.





Other non-interest income

2Q 2016 vs. 2Q 2015 - decreased primarily due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position, coupled with an increase in the amount of losses recognized from the extinguishment of certain fixed-rate debt securities of consolidated trusts, as market interest rates declined between the time of issuance and repurchase.

YTD 2016 vs. YTD 2015 - decreased primarily due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position. This decline in sales was attributable to increased market volatility and weaker investor demand for this product type.

Other comprehensive income (loss)

2Q 2016 vs. 2Q 2015 - increased primarily due to a decline in longer-term interest rates during 2Q 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during 2Q 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by less spread tightening for our agency and non-agency available-for-sale mortgage-related securities during 2Q 2016 compared to 2Q 2015. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

YTD 2016 vs. YTD 2015 - increased primarily due to a decline in longer-term interest rates during YTD 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during YTD 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by spread widening for our non-agency available-for-sale mortgage-related securities during YTD 2016 compared to spread tightening during YTD 2015. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

Management's Discussion and Analysis Risk Management | Credit Risk

**RISK MANAGEMENT**

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

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 2015 Annual Report and Form 10-Q for the first quarter of 2016, and "Liquidity and Capital Resources" in this report and in our 2015 Annual Report. See below for updates since our 2015 Annual Report and our Form 10-Q for the first quarter of 2016.

**RISKS ASSOCIATED WITH NEGATIVE INTEREST RATES**

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As we discussed in our Form 10-Q for the first quarter of 2016, we could be adversely affected if the interest rate indices used to adjust our ARM loans and other financial instruments (primarily LIBOR and Constant Maturity Treasury indices of various durations) were to become negative. In particular, if this were to occur, the terms of the ARM loans underlying certain of our ARM securities products may result in our having to pay a greater amount of interest to securities investors than we are entitled to receive on the underlying mortgages.

On June 29, 2016, we implemented a new uniform ARM note, which institutes a mandatory lifetime interest rate floor generally equal to the mortgage margin applicable to the ARM. We are currently encouraging all sellers to use the new ARM note and will require sellers to do so for any ARMs with note dates on or after October 1, 2016. We revised our Single-Family Seller/Servicer Guide and our securities offering documents to reflect this new note. This will not affect our exposure with respect to ARM securities products that are currently outstanding.

For more information, see "Risk Factors - Negative values for certain interest rate indices could have an adverse effect on our operational and interest-rate risk management processes" in our Form 10-Q for the first quarter of 2016.

**CREDIT RISK**

**INSTITUTIONAL CREDIT RISK**

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**Sellers and Servicers**

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In our single-family guarantee business, we do not originate loans or have our own loan servicing operation. Instead, we rely on our seller and servicer counterparties to perform the primary loan origination and loan servicing functions on our behalf.

We have significant exposure to non-depository and smaller depository financial institutions who act as sellers and servicers in our single-family business. These institutions may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight, as our largest mortgage seller or servicer counterparties. The financial performance of these companies has been under stress and many of them reported a net loss in the first quarter of 2016. If their weak financial performance persists, it could affect available servicing capacity in the market, which eventually could lead to higher operational risk and higher credit losses for Freddie Mac.

Management's Discussion and Analysis Risk Management | Institutional Credit Risk

For more information about counterparty risk associated with sellers and servicers, see Note 12 in this Form 10-Q and "Risk Factors - Credit Risks - We are exposed to institutional credit risk with respect to our business counterparties. Our financial results may be adversely affected if one or more of our counterparties fail to meet their obligations to us" in our 2015 Annual Report.

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## Management's Discussion and Analysis Risk Management | Interest-Rate Risk and Other Market Risks

## INTEREST-RATE RISK AND OTHER MARKET RISKS

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

The majority of our interest-rate risk comes from our investments in mortgage-related assets (securities and loans), non-mortgage-related assets and other debt. 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 Portfolio Market Value Sensitivity, or PMVS. PMVS measures are estimates of the amount of average potential pre-tax loss in the market value of our net assets due to parallel (PMVS-L) and non-parallel (PMVS-YC) changes in LIBOR. Our duration gap and PMVS estimates are determined using models that involve our judgment of interest-rate and prepayment assumptions. While we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements.

Our PMVS and duration gap measures do not fully reflect the potential effect of negative index values across all of our floating rate assets and liabilities. See "Risk Factors - Negative values for certain interest rate indices could have an adverse effect on our operational and interest-rate risk management processes" in our Form 10-Q for the first quarter of 2016 for additional information. During the second half of 2Q 2016, we incorporated the effect of negative interest rate index values for the majority of our floating rate assets and liabilities. We are in the process of assessing the effect of negative interest rate index values for the remaining population of our floating rate assets. Incorporating the effect of the negative interest rate index values on the remaining population could result in significant percentage changes in the disclosed duration gap and PMVS levels. However, we do not believe any such percentage changes would represent an exposure to interest-rate risk that would be material to the company's financial condition or results of operations.

The table below provides duration gap, estimated point-in-time and minimum and maximum PMVS-L and PMVS-YC results, and an average of the daily values and standard deviation. The table below also provides 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)                             | 25 bps | PMVS-YC |         | PMVS-L |         |
|---|--------|---------|---------|--------|---------|
|   |        | 50 bps  | 100 bps | 50 bps | 100 bps |
| Assuming shifts of the LIBOR yield curve: |        |         |         |        |         |
| June 30, 2016                             | \$ —   | \$24    | \$89    |        |         |
| December 31, 2015                         | \$ 12  | \$50    | \$186   |        |         |

## Management's Discussion and Analysis Risk Management | Interest-Rate Risk and Other Market Risks

| (duration gap in months, dollars in millions) | 2Q 2016  |         |        | 2Q 2015  |         |        |
|---|----------|---------|--------|----------|---------|--------|
|   | Duration | PMVS-YC | PMVS-L | Duration | PMVS-YC | PMVS-L |
| Average                                       | 0.1      | \$ 4    | \$ 21  | 0.4      | \$ 24   | \$ 98  |
| Minimum                                       | (0.1)    | \$ —    | \$ —   | (0.3)    | \$ 4    | \$ 23  |
| Maximum                                       | 0.5      | \$ 14   | \$ 84  | 1.0      | \$ 47   | \$ 197 |
| Standard deviation                            | 0.1      | \$ 3    | \$ 20  | 0.3      | \$ 9    | \$ 46  |

| (duration gap in months, dollars in millions) | YTD 2016 |         |        | YTD 2015 |         |        |
|---|----------|---------|--------|----------|---------|--------|
|   | Duration | PMVS-YC | PMVS-L | Duration | PMVS-YC | PMVS-L |
| Average                                       | 0.1      | \$ 6    | \$ 25  | 0.2      | \$ 26   | \$ 110 |
| Minimum                                       | (0.2)    | \$ —    | \$ —   | (0.3)    | \$ 4    | \$ 23  |
| Maximum                                       | 0.7      | \$ 31   | \$ 92  | 1.0      | \$ 47   | \$ 250 |
| Standard deviation                            | 0.2      | \$ 5    | \$ 23  | 0.3      | \$ 10   | \$ 44  |

Derivatives enable us to reduce our interest-rate risk exposure. 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, 2016     | \$2,880            | \$ 24             | \$(2,856 )            |
| December 31, 2015 | \$3,373            | \$ 50             | \$(3,323 )            |

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, the accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at June 30, 2016, we generally recognize fair value losses in earnings when interest rates decline. The table below presents the estimated adverse net effect on pre-tax earnings of certain immediate shifts in interest rates. These estimates are essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value that we would expect to experience as a result of the shifts in interest rates. The methodology used to calculate these figures is consistent with the methodology used to calculate our PMVS-YC and PMVS-L metrics above.

| (in millions)     | GAAP FV-L |         |         |
|-------------------|-----------|---------|---------|
|                   | 25 bps    | 50 bps  | 100 bps |
| June 30, 2016     | \$ 411    | \$1,189 | \$2,594 |
| December 31, 2015 | \$ 635    | \$1,630 | \$3,573 |

Our adverse exposures under these interest-rate scenarios as of June 30, 2016 declined compared to December 31, 2015 primarily due to our entering into certain structured transactions which resulted in additional financial assets being recognized and measured at fair value. In addition, we increased our use of receive-fixed swaps as the duration of our financial assets declined, including those measured at amortized cost, due to declining interest rates.

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

## LIQUIDITY AND CAPITAL RESOURCES

## OTHER DEBT ACTIVITIES

Debt securities that we issue are classified either as debt securities of consolidated trusts held by third parties or other debt. We issue other debt, as either short-term or long-term debt, to fund our operations. Competition for funding can vary with economic, financial market, and regulatory environments.

The table below summarizes the par value of other debt securities we issued or paid off, including regularly scheduled principal payments, payments resulting from calls, and payments for repurchases. We repurchase, call, or exchange 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 2016     | 2Q 2015     | YTD 2016    | YTD 2015    |
|--|-------------|-------------|-------------|-------------|
| Beginning balance                        | \$391,322   | \$450,737   | \$418,021   | \$454,029   |
| Issued during the period                 |             |             |             |             |
| Short-term:                              |             |             |             |             |
| Amount                                   | \$106,290   | \$117,947   | \$211,943   | \$179,557   |
| Weighted-average effective interest rate | 0.28 %      | 0.07 %      | 0.30 %      | 0.08 %      |
| Long-term:                               |             |             |             |             |
| Amount                                   | \$57,830    | \$48,790    | \$96,670    | \$89,703    |
| Weighted-average effective interest rate | 1.41 %      | 1.49 %      | 1.41 %      | 1.36 %      |
| Total issued:                            |             |             |             |             |
| Amount                                   | \$164,120   | \$166,737   | \$308,613   | \$269,260   |
| Weighted-average effective interest rate | 0.68 %      | 0.49 %      | 0.65 %      | 0.51 %      |
| Paid off during the period:              |             |             |             |             |
| Short-term:                              |             |             |             |             |
| Amount                                   | \$(115,548) | \$(141,187) | \$(249,630) | \$(221,078) |
| Weighted-average effective interest rate | 0.29 %      | 0.07 %      | 0.26 %      | 0.08 %      |
| Long-term:                               |             |             |             |             |
| Amount                                   | \$(58,346 ) | \$(58,826 ) | \$(95,456 ) | \$(84,750 ) |
| Weighted-average effective interest rate | 1.79 %      | 1.09 %      | 1.82 %      | 1.40 %      |
| Total paid off:                          |             |             |             |             |
| Amount                                   | \$(173,894) | \$(200,013) | \$(345,086) | \$(305,828) |
| Weighted-average effective interest rate | 0.79 %      | 0.37 %      | 0.69 %      | 0.44 %      |
| Ending balance                           | \$381,548   | \$417,461   | \$381,548   | \$417,461   |

We continue to rely on short-term and medium-term other debt to meet our overall funding needs. While issuances and pay-offs of our short-term other debt declined during 2Q 2016 as a result of lower funding needs, our short-term other debt issuances and pay-offs during YTD 2016 increased as compared to YTD 2015 as we did not begin utilizing overnight discount notes to manage our intra-day liquidity until the end of the first quarter of 2015. Our long-term other debt issuances increased during the 2016 periods compared to the 2015 periods, as we replaced called and matured debt with new callable and non-callable debt. Overall, our outstanding other debt balance continues to decline as we reduce our indebtedness along with the decline in our mortgage-related investments portfolio.

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

## DEBT SECURITIES OF CONSOLIDATED TRUSTS

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

| (in millions)                                     | 2Q 2016     | 2Q 2015     | YTD 2016    | YTD 2015    |
|---|-------------|-------------|-------------|-------------|
| Beginning balance                                 | \$1,524,224 | \$1,448,311 | \$1,513,089 | \$1,440,325 |
| New issuances                                     | 86,953      | 101,220     | 157,909     | 180,067     |
| Newly-issued debt securities retained at issuance | (20,525 )   | (23,977 )   | (39,874 )   | (44,591 )   |
| Net new issuances to third parties                | 66,428      | 77,243      | 118,035     | 135,476     |
| Additional issuances of securities                | 50,881      | 39,431      | 79,145      | 62,880      |
| Total issuances                                   | 117,309     | 116,674     | 197,180     | 198,356     |
| Extinguishments, net                              | (92,860 )   | (91,024 )   | (161,596 )  | (164,720 )  |
| Ending balance                                    | \$1,548,673 | \$1,473,961 | \$1,548,673 | \$1,473,961 |

Debt securities of our consolidated trusts represent our liability to third parties that hold beneficial interests in our consolidated securitization trusts. Our exposure on debt securities of consolidated trusts is limited to the guarantee we provide on the payment of principal and interest on these securities, as the primary source of repayment of these debt securities comes from the cash flows of the mortgage loans that back the securities. At June 30, 2016, our estimated exposure (including the amounts that are due to Freddie Mac for debt securities of consolidated trusts that we purchased) to these debt securities is recognized as the allowance for credit losses on mortgage loans held by consolidated trusts. See Note 4 for details on our allowance for loan losses.

## LIQUIDITY AND CONTINGENCY OPERATING PORTFOLIO

At June 30, 2016 and December 31, 2015, we held \$45.8 billion and \$70.0 billion, respectively, in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities in our Liquidity and Contingency Operating Portfolio, which is a subset of our Cash and Other Investments Portfolio and excludes the amounts in the latter portfolio related to consolidated VIEs, collateral held by us from OTC derivative counterparties, and investments in unsecured agency debt. These investments are important to our cash flow, collateral management, and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. At June 30, 2016, our non-mortgage-related securities consisted primarily of U.S. Treasury securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintained non-interest-bearing deposits at the Federal Reserve Bank of New York, which are included in cash and cash equivalents on our consolidated balance sheets.

## 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 2015 and YTD 2016.



Management's Discussion and Analysis Liquidity and Capital Resources

| Operating Cash Flows | Investing Cash Flows | Financing Cash Flows |
|----------------------|----------------------|----------------------|
| 2015 2016            | 2015 2016            | 2015 2016            |

Commentary

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Cash provided by operating activities increased \$7.4 billion primarily due to the following:

- Increase in net sales of mortgage loans acquired as held-for-sale, primarily due to an increase in the volume of our multifamily securitizations. This increase was partially offset by a decrease in our net interest income.

Cash provided by investing activities decreased \$37.8 billion primarily due to the following:

- Increase in net purchases of investment securities, primarily due to more investment securities being retained from our agency resecuritizations;

- Decrease in net proceeds received from loans acquired as held-for-investment, primarily due to lower single-family liquidation rates; and

- Increase in cash collateral posted to our derivative counterparties due to derivative losses resulting from declines in longer-term interest rates.

Cash used in financing activities decreased \$38.4 billion primarily due to the following:

- Increase in net proceeds received from the issuance of debt securities of consolidated trusts held by third parties due to an increase in the volume of our single-family PC issuances for cash. This change was partially offset by reduced repayments of debt securities of consolidated trusts held by third parties due to lower single-family liquidation rates.

**CAPITAL RESOURCES**

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and our ability to fund those requirements. Under the Purchase Agreement, Treasury made a commitment to provide us with funding, under certain conditions, to eliminate deficits in our net worth.

Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA. The amount of available funding remaining under the Purchase Agreement is \$140.5 billion. This amount will be reduced by any future draws.

At June 30, 2016, 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 at June 30, 2016 and the 2016 Capital Reserve Amount of \$1.2 billion, our dividend obligation to Treasury in September 2016 will be \$0.9 billion. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock. As a result of the net worth sweep

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

dividend on the senior preferred stock, our future profits will effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury.

In June 2016, FASB issued a new Accounting Standards Update (ASU 2016-13) related to the measurement of credit losses on financial instruments that will be effective as of January 1, 2020, with early adoption permitted as of January 1, 2019. This Update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses. While we are still evaluating the effect that the adoption of this Update will have on our financial results, it will increase (perhaps substantially) our provision for credit losses in the period of adoption. As our capital reserve will decline to zero in 2018, our adoption of this Update will increase the risk that we will need to request a draw from Treasury.

The table below presents activity related to our net worth during the last five quarters and YTD 2016.

| (in millions)                             | 2Q<br>2016 | 1Q 2016  | 4Q<br>2015 | 3Q 2015  | 2Q 2015  | YTD<br>2016 |
|---|------------|----------|------------|----------|----------|-------------|
| Beginning balance                         | \$1,000    | \$2,940  | \$1,299    | \$5,713  | \$2,546  | \$2,940     |
| Comprehensive (loss) income               | 1,133      | (200 )   | 1,641      | (501 )   | 3,913    | 933         |
| Capital draw from Treasury                | —          | —        | —          | —        | —        | —           |
| Senior preferred stock dividends declared | —          | (1,740 ) | —          | (3,913 ) | (746 )   | (1,740 )    |
| Total equity / net worth                  | \$2,133    | \$1,000  | \$2,940    | \$1,299  | \$5,713  | \$2,133     |
| Aggregate draws under Purchase Agreement  | \$71,336   | \$71,336 | \$71,336   | \$71,336 | \$71,336 | \$71,336    |
| Aggregate cash dividends paid to Treasury | \$98,205   | \$98,205 | \$96,465   | \$96,465 | \$92,552 | \$98,205    |

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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 portfolio limits imposed by the Purchase Agreement and by FHFA.

| (dollars in millions)                                     | June 30, 2016 |                         |             |          | December 31, 2015 |                         |             |          |
|---|---------------|-------------------------|-------------|----------|-------------------|-------------------------|-------------|----------|
|   | Liquid        | Securitization Pipeline | Less Liquid | Total    | Liquid            | Securitization Pipeline | Less Liquid | Total    |
| Investments segment - Mortgage investments portfolio:     |               |                         |             |          |                   |                         |             |          |
| Single-family unsecuritized loans                         |               |                         |             |          |                   |                         |             |          |
| Performing loans  | \$—           | \$14,487                | \$—         | \$14,487 | \$—               | \$10,041                | \$—         | \$10,041 |
| Reperforming loans and performing modified loans          | —             | —                       | 63,209      | 63,209   | —                 | —                       | 67,036      | 67,036   |
| Total single-family unsecuritized loans                   | —             | 14,487                  | 63,209      | 77,696   | —                 | 10,041                  | 67,036      | 77,077   |
| Freddie Mac mortgage-related securities                   | 132,555       | —                       | 5,561       | 138,116  | 135,869           | —                       | 6,076       | 141,945  |
| Non-agency mortgage-related securities                    | —             | —                       | 21,278      | 21,278   | —                 | —                       | 27,754      | 27,754   |
| Non-Freddie Mac agency mortgage-related securities        | 11,200        | —                       | —           | 11,200   | 12,958            | —                       | —           | 12,958   |
| Total Investment segment - Mortgage investments portfolio | 143,755       | 14,487                  | 90,048      | 248,290  | 148,827           | 10,041                  | 100,866     | 259,734  |
| Single-family Guarantee segment - Single-family           | —             | —                       | 15,671      | 15,671   | —                 | —                       | 19,501      | 19,501   |

|  |           |          |           |           |           |          |           |           |   |
|--|-----------|----------|-----------|-----------|-----------|----------|-----------|-----------|---|
| unsecuritized<br>seriously<br>delinquent loans<br>Multifamily<br>segment -<br>unsecuritized<br>loans and<br>mortgage-related<br>securities | 7,324     | 14,984   | 34,404    | 56,712    | 7,304     | 19,563   | 40,809    | 67,676    |   |
| Total<br>mortgage-related<br>investments<br>portfolio  | \$151,079 | \$29,471 | \$140,123 | \$320,673 | \$156,131 | \$29,604 | \$161,176 | \$346,911 |   |
| Percentage of<br>total<br>mortgage-related<br>investments<br>portfolio   | 47        | % 9      | % 44      | % 100     | % 45      | % 9      | % 46      | % 100     | % |
| Mortgage-related<br>investments<br>portfolio cap at<br>December 31,<br>2016 and<br>December 31,<br>2015                                    |           |          |           | \$339,304 |           |          |           | \$399,181 |   |
| 90% of<br>mortgage-related<br>investments<br>portfolio cap at<br>December 31,<br>2016 and<br>December 31,<br>2015 <sup>(1)</sup>           |           |          |           | \$305,374 |           |          |           | \$359,263 |   |

(1) Represents the amount that we manage to under our Retained Portfolio Plan, subject to certain exceptions. The decline in our mortgage-related investments portfolio during YTD 2016 was primarily due to repayments, partially offset by net purchases of single-family loans for our securitization pipeline. While we continued to purchase new single-family seriously delinquent loans, we reduced the size of our less liquid assets through the following:

- Sales of \$6.4 billion of less liquid assets, including \$4.4 billion in UPB of non-agency mortgage-related securities and \$1.8 billion in UPB of seriously delinquent unsecuritized single-family loans;
- Securitizations of \$1.0 billion in UPB of less liquid multifamily loans; and
- Securitizations of \$3.5 billion in UPB of single-family reperforming loans and performing modified loans, thereby enhancing their liquidity. We initially retained all of the resulting Freddie Mac mortgage-

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related securities created through such securitizations in our mortgage-related investments portfolio. Certain of these retained securities were subsequently resecuritized, with some of the resulting interests being sold to third parties.

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#### 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.

#### AFFORDABLE HOUSING ALLOCATIONS

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of total new business purchases, and allocate or transfer such amount to certain housing funds. During 2Q 2016 and YTD 2016, we completed \$99.4 billion and \$185.1 billion, respectively, of new business purchases subject to these allocations and accrued \$41 million and \$77 million, respectively, of related expense. We expect to pay this amount (and any additional amounts accrued based on our new business purchases during the remainder of 2016) in February 2017. We are prohibited from passing through the costs of the affordable housing allocations to the originators of the loans that we purchase.

#### LEGISLATIVE AND REGULATORY DEVELOPMENTS

##### FLOOD INSURANCE LEGISLATION

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On April 28, 2016, the House of Representatives passed the Flood Insurance Market Parity and Modernization Act. This bill could limit our ability to mitigate risks posed by private flood insurers and could shift the risk of flood loss to Freddie Mac.

##### CAP FOR NEW MULTIFAMILY BUSINESS

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On May 4, 2016, FHFA announced an increase in the 2016 multifamily lending caps for Freddie Mac and Fannie Mae under the 2016 Conservatorship Scorecard from \$31 billion to \$35 billion, effective immediately.

##### FHFA UPDATE ON IMPLEMENTATION OF THE SINGLE SECURITY AND THE COMMON SECURITIZATION PLATFORM

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On July 7, 2016, FHFA released an update on the implementation of the single security and the common securitization platform. The update details the progress made to date and describes the expected milestones that Freddie Mac, Fannie Mae and Common Securitization Solutions, LLC expect to meet to achieve the stated goals for these projects. The update states that Release 1 of the common securitization platform is expected to occur in the fourth quarter of 2016. Under Release 1, Freddie Mac will use the common securitization platform's data acceptance, issuance support, and bond administration modules to perform activities related to its current single-class, fixed-rate securities (e.g., PCs) and certain activities related to the underlying mortgage loans (such as tracking unpaid principal balances). FHFA also stated that, later in 2016, it expects to announce the intended launch date for the single security in order to provide stakeholders at least 12 months' advance notice.

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FHFA DIRECTIVE ON GUARANTEE FEES

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From time to time, FHFA issues directives or guidance to us affecting the levels of guarantee fees that we may charge for various types of loans. FHFA's latest directive, issued on July 29, 2016, addresses the safety and soundness risk that could arise if our guarantee fees were not sufficient to compensate us adequately for the credit risks we are taking. It allows us to continue to charge guarantee fees generally in line with the levels we have been charging in recent periods, but for many types of loans it prohibits reductions significantly below those levels.

Management's Discussion and Analysis Off-Balance Sheet Arrangements

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or that may be recorded in amounts that differ from the full contract or notional amount of the transaction and that may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets. For a description of our off-balance sheet arrangements, see "MD&A - Off-Balance Sheet Arrangements" in our 2015 Annual Report. See Note 3 for more information on our off-balance sheet securitization activities and other guarantees.

We have 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. Our off-balance sheet arrangements related to these securitization activities primarily consist of K Certificates. We also have off-balance sheet arrangements related to certain other securitization products and other mortgage-related guarantees. 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 \$148.9 billion and \$127.3 billion at June 30, 2016 and December 31, 2015, 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 Investments segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, and our results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control.

Forward-looking statements are often accompanied by, and identified with, terms such as “objective,” “expect,” “possible,” “trend,” “forecast,” “anticipate,” “believe,” “intend,” “could,” “future,” “may,” “will,” and similar phrases. These statements are not based on 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” sections of our Form 10-Q for the first quarter of 2016 and our 2015 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 obligation on the senior preferred stock;
- Our ability to maintain adequate liquidity to fund our operations;
  - Changes in our Charter or in applicable legislative or regulatory requirements (including any legislation affecting the future status of our company);
- Changes in the fiscal and monetary policies of the Federal Reserve, including any changes to its policy of maintaining sizable holdings of mortgage-related securities and any future sales of such securities;
- The success of our efforts to mitigate our losses on our Legacy single-family book and our investments in non-agency mortgage-related securities;
- The success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS, K Certificate and other credit risk transfer transactions;
- Our ability to maintain the security of our operating systems and infrastructure (e.g., against cyberattacks);
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance vs. purchase, and fixed-rate vs. ARM);
- Our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- The adequacy of our risk management framework;
- Our ability to manage mortgage credit risks, including the effect of changes in underwriting and servicing practices;

Management's Discussion and Analysis Forward-Looking  
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• Our ability to limit or manage our exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;

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

• Changes in investor demand for our debt or mortgage-related securities (e.g., single-family PCs and multifamily K Certificates);

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

• Other factors and assumptions described in this Form 10-Q, our Form 10-Q for the first quarter of 2016 and our 2015 Annual Report, including in the "MD&A" section.

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

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## Financial Statements Condensed Consolidated Statements of Comprehensive Income

## FREDDIE MAC

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

| (in millions, except share-related amounts)  | 2Q 2016   | 2Q 2015   | YTD<br>2016 | YTD<br>2015 |
|--|-----------|-----------|-------------|-------------|
| Interest income  |           |           |             |             |
| Mortgage loans   | \$15,238  | \$15,384  | \$31,056    | \$30,838    |
| Investments in securities  | 978       | 1,256     | 1,947       | 2,591       |
| Other  | 56        | 15        | 113         | 26          |
| Total interest income  | 16,272    | 16,655    | 33,116      | 33,455      |
| Interest expense   | (12,781 ) | (12,628 ) | (26,169 )   | (25,716 )   |
| Expense related to derivatives   | (48 )     | (58 )     | (99 )       | (123 )      |
| Net interest income  | 3,443     | 3,969     | 6,848       | 7,616       |
| Benefit (provision) for credit losses  | 775       | 857       | 1,242       | 1,356       |
| Net interest income after benefit (provision) for credit losses                        | 4,218     | 4,826     | 8,090       | 8,972       |
| Non-interest income (loss)   |           |           |             |             |
| Losses on extinguishment of debt   | (119 )    | (80 )     | (174 )      | (159 )      |
| Derivative gains (losses)  | (2,058 )  | 3,135     | (6,619 )    | 732         |
| Impairment of available-for-sale securities:   |           |           |             |             |
| Total other-than-temporary impairment of available-for-sale securities                 | (10 )     | (77 )     | (62 )       | (166 )      |
| Portion of other-than-temporary impairment recognized in AOCI                          | (62 )     | (21 )     | (67 )       | (25 )       |
| Net impairment of available-for-sale securities recognized in earnings                 | (72 )     | (98 )     | (129 )      | (191 )      |
| Other gains on investment securities recognized in earnings                            | 450       | 152       | 753         | 569         |
| Other income (loss)  | (25 )     | (568 )    | 922         | (557 )      |
| Non-interest income (loss)   | (1,824 )  | 2,541     | (5,247 )    | 394         |
| Non-interest expense   |           |           |             |             |
| Salaries and employee benefits   | (240 )    | (279 )    | (479 )      | (511 )      |
| Professional services  | (117 )    | (118 )    | (218 )      | (231 )      |
| Occupancy expense  | (15 )     | (14 )     | (28 )       | (26 )       |
| Other administrative expense   | (103 )    | (90 )     | (198 )      | (184 )      |
| Total administrative expense   | (475 )    | (501 )    | (923 )      | (952 )      |
| Real estate owned operations expense   | (29 )     | (52 )     | (113 )      | (127 )      |
| Temporary Payroll Tax Cut Continuation Act of 2011 expense                             | (280 )    | (235 )    | (552 )      | (457 )      |
| Other expense  | (151 )    | (501 )    | (304 )      | (964 )      |
| Non-interest expense   | (935 )    | (1,289 )  | (1,892 )    | (2,500 )    |
| Income before income tax expense   | 1,459     | 6,078     | 951         | 6,866       |
| Income tax expense   | (466 )    | (1,909 )  | (312 )      | (2,173 )    |
| Net income   | 993       | 4,169     | 639         | 4,693       |
| Other comprehensive income (loss), net of taxes and reclassification adjustments:      |           |           |             |             |
| Changes in unrealized gains (losses) related to available-for-sale securities          | 109       | (314 )    | 228         | (157 )      |
| Changes in unrealized gains (losses) related to cash flow hedge relationships          | 32        | 38        | 66          | 97          |
| Changes in defined benefit plans   | (1 )      | 20        | —           | 26          |
| Total other comprehensive income (loss), net of taxes and reclassification adjustments | 140       | (256 )    | 294         | (34 )       |
| Comprehensive income   | \$1,133   | \$3,913   | \$933       | \$4,659     |
| Net income   | \$993     | \$4,169   | \$639       | \$4,693     |
| Undistributed net worth sweep and senior preferred stock dividends                     | (933 )    | (3,913 )  | (933 )      | (4,659 )    |

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|  |        |        |           |        |
|--|--------|--------|-----------|--------|
| Net income (loss) attributable to common stockholders                        | \$60   | \$256  | \$(294 )  | \$34   |
| Net income (loss) per common share — basic and diluted                       | \$0.02 | \$0.08 | \$(0.09 ) | \$0.01 |
| Weighted average common shares outstanding (in millions) — basic and diluted | 3,234  | 3,234  | 3,234     | 3,235  |

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

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## Financial Statements Condensed Consolidated Balance Sheets

## FREDDIE MAC

## CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

|   | June 30,<br>2016   | December<br>31,<br>2015 |
|---|--------------------|-------------------------|
| (in millions, except share-related amounts)   |                    |                         |
| <b>Assets</b>   |                    |                         |
| Cash and cash equivalents (Note 12)   | \$8,140            | \$5,595                 |
| Restricted cash and cash equivalents (Notes 3, 12)  | 17,399             | 14,533                  |
| Securities purchased under agreements to resell (Notes 3, 8)  | 48,989             | 63,644                  |
| Investments in securities, at fair value (Note 5)   | 112,269            | 114,215                 |
| Mortgage loans held-for-sale (Notes 3, 4) (includes \$14,905 and \$17,660 at fair value)  | 19,545             | 24,992                  |
| Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of \$13,502 and \$15,331)   | 1,742,040          | 1,729,201               |
| Accrued interest receivable (Note 3)  | 6,060              | 6,074                   |
| Derivative assets, net (Notes 7, 8)   | 1,479              | 395                     |
| Real estate owned, net (Note 3)   | 1,381              | 1,725                   |
| Deferred tax assets, net (Note 10)  | 18,671             | 18,205                  |
| Other assets (Notes 3, 16)  | 10,464             | 7,313                   |
| <b>Total assets</b>   | <b>\$1,986,437</b> | <b>\$1,985,892</b>      |
| <b>Liabilities and equity</b>   |                    |                         |
| <b>Liabilities</b>  |                    |                         |
| Accrued interest payable (Note 3)   | \$6,057            | \$6,183                 |
| Debt, net (Notes 3, 6) (includes \$6,744 and \$7,184 at fair value)   | 1,972,103          | 1,970,269               |
| Derivative liabilities, net (Notes 7, 8)  | 1,243              | 1,254                   |
| Other liabilities (Notes 3, 16)   | 4,901              | 5,246                   |
| <b>Total liabilities</b>  | <b>1,984,304</b>   | <b>1,982,952</b>        |
| Commitments and contingencies (Notes 3, 7, and 14)  |                    |                         |
| <b>Equity (Note 9)</b>  |                    |                         |
| Senior preferred stock, at redemption value   | 72,336             | 72,336                  |
| Preferred stock, at redemption value  | 14,109             | 14,109                  |
| Common stock, \$0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,046,828 shares and 650,045,962 shares outstanding                              | —                  | —                       |
| Additional paid-in capital  | —                  | —                       |
| Retained earnings (accumulated deficit)   | (81,874 )          | (80,773 )               |
| <b>AOCI, net of taxes, related to:</b>  |                    |                         |
| Available-for-sale securities (includes \$585 and \$778, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings) | 1,968              | 1,740                   |
| Cash flow hedge relationships   | (555 )             | (621 )                  |
| Defined benefit plans   | 34                 | 34                      |
| <b>Total AOCI, net of taxes</b>   | <b>1,447</b>       | <b>1,153</b>            |
| Treasury stock, at cost, 75,817,058 shares and 75,817,924 shares  | (3,885 )           | (3,885 )                |
| <b>Total equity (See Note 9 for information on our dividend obligation to Treasury)</b>   | <b>2,133</b>       | <b>2,940</b>            |
| <b>Total liabilities and equity</b>   | <b>\$1,986,437</b> | <b>\$1,985,892</b>      |

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

| June 30, | December<br>31, |
|----------|-----------------|
|----------|-----------------|

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| (in millions)                          | 2016        | 2015        |
|--|-------------|-------------|
| Consolidated Balance Sheet Line Item   |             |             |
| Assets: (Note 3)                       |             |             |
| Mortgage loans held-for-sale           | \$268       | \$1,403     |
| Mortgage loans held-for-investment     | 1,641,856   | 1,625,184   |
| All other assets                       | 47,971      | 37,305      |
| Total assets of consolidated VIEs      | \$1,690,095 | \$1,663,892 |
| Liabilities: (Note 3)                  |             |             |
| Debt, net                              | \$1,594,236 | \$1,556,121 |
| All other liabilities                  | 4,802       | 4,769       |
| Total liabilities of consolidated VIEs | \$1,599,038 | \$1,560,890 |

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

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## Financial Statements Condensed Consolidated Statements of Cash Flows

FREDDIE MAC  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

| (in millions)  | YTD<br>2016 | YTD<br>2015 |
|--|-------------|-------------|
| Net cash used in operating activities  | \$4,143     | \$(3,273 )  |
| Cash flows from investing activities   |             |             |
| Purchases of trading securities  | (26,500 )   | (17,624 )   |
| Proceeds from sales of trading securities  | 17,127      | 8,637       |
| Proceeds from maturities of trading securities   | 14,400      | 6,907       |
| Purchases of available-for-sale securities   | (19,724 )   | (3,976 )    |
| Proceeds from sales of available-for-sale securities                                       | 9,388       | 11,723      |
| Proceeds from maturities of available-for-sale securities                                  | 8,208       | 10,140      |
| Purchases of held-for-investment mortgage loans  | (70,402 )   | (61,545 )   |
| Proceeds from sales of mortgage loans held-for-investment                                  | 1,997       | 1,116       |
| Repayments of mortgage loans held-for-investment   | 148,157     | 158,719     |
| (Increase) decrease in restricted cash   | (2,866 )    | (10,257 )   |
| Net proceeds from dispositions of real estate owned and other recoveries                   | 1,388       | 2,182       |
| Net (increase) decrease in securities purchased under agreements to resell                 | 14,655      | 14,862      |
| Derivative premiums and terminations and swap collateral, net                              | (6,679 )    | 1,286       |
| Changes in other assets  | (9,674 )    | (4,855 )    |
| Net cash provided by investing activities  | 79,475      | 117,315     |
| Cash flows from financing activities   |             |             |
| Proceeds from issuance of debt securities of consolidated trusts held by third parties     | 110,886     | 81,919      |
| Repayments and redemptions of debt securities of consolidated trusts held by third parties | (153,637)   | (163,370)   |
| Proceeds from issuance of other debt   | 315,636     | 271,387     |
| Repayments of other debt   | (352,214)   | (307,845)   |
| Payment of cash dividends on senior preferred stock  | (1,740 )    | (1,597 )    |
| Changes in other liabilities   | (4 )        | (3 )        |
| Net cash used in financing activities  | (81,073 )   | (119,509)   |
| Net (decrease) increase in cash and cash equivalents                                       | 2,545       | (5,467 )    |
| Cash and cash equivalents at beginning of year   | 5,595       | 10,928      |
| Cash and cash equivalents at end of period   | \$8,140     | \$5,461     |
| Supplemental cash flow information   |             |             |
| Cash paid for:   |             |             |
| Debt interest  | \$30,834    | \$30,477    |
| Income taxes   | 1,337       | 859         |
| Non-cash investing and financing activities (Note 4)                                       |             |             |

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



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

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, 2015, or 2015 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 this Form 10-Q and our 2015 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we refer to the three months ended June 30, 2016 and the three months ended June 30, 2015 as “2Q 2016” and “2Q 2015,” respectively, and we refer to the six months ended June 30, 2016 and the six months ended June 30, 2015 as “YTD 2016” and “YTD 2015,” respectively.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2015 Annual Report.

BASIS OF PRESENTATION

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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 in accordance with the delegation of authority from FHFA to our Board of Directors and management. Certain amounts in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair presentation of our unaudited condensed consolidated financial statements. 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.

USE OF ESTIMATES

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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 loan losses and reserve for guarantee losses, and valuing financial

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

instruments and other assets and liabilities. Actual results could be different from these estimates.

## RECENTLY ISSUED ACCOUNTING GUIDANCE

## Recently Adopted Accounting Guidance

| Standard   | Description   | Date of Adoption | Effect on Consolidated Financial Statements  |
|--|---|------------------|--|
| ASU 2015-02, Amendments to the Consolidation Analysis (Topic 810)                  | The amendment affects reporting entities that are required to evaluate whether they should consolidate certain legal entities.  | January 1, 2016  | The adoption of this amendment did not have a material effect on our consolidated financial statements.  |
| ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30) | The amendment requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. | January 1, 2016  | Previously reported amounts have been conformed to the current presentation (see Notes 6 and 16). The effect of adoption as of January 1, 2016 and December 31, 2015 was a reduction to Other Assets and Debt, net of \$158 million. There were no effects on earnings resulting from this change. |

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

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

| Standard  | Description   | Date of Adoption | Effect on Consolidated Financial Statements  |
|---|---|------------------|--|
| ASU 2016-06, Derivatives and Hedging (Topic 815)  | The amendment clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendment is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. | January 1, 2017  | We do not expect that the adoption of this amendment will have a material effect on our 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 2016-10, Revenue from Contracts with Customers (Topic 606)  | The amendments in this Update do not change the core principle of the guidance in Topic 606, but 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  | We are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements.   |
| ASU 2016-12, Revenue from Contracts with Customers (Topic 606)  | 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  | We are evaluating the effect that the adoption of this amendment will have 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  | While we are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements, it will increase (perhaps substantially) our provision for credit losses in the period of adoption. |

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 2

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS  
BUSINESS OBJECTIVES

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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 delegated certain authority to the Board of Directors to oversee, and management to conduct, business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

We are also subject to certain constraints on our business activities under the Purchase Agreement. However, we believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities, although the costs of our debt funding could vary.

IMPACT OF CONSERVATORSHIP AND RELATED DEVELOPMENTS ON THE MORTGAGE-RELATED INVESTMENTS PORTFOLIO

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For purposes of the limit imposed by the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio cannot exceed \$339.3 billion at December 31, 2016 and was \$320.7 billion at June 30, 2016. 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 annual cap established by the Purchase Agreement (subject to certain exceptions). Our mortgage-related investments portfolio cap is reduced by 15% annually until it reaches \$250 billion. This amount is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual UPB of the mortgage-related investments portfolio, as of December 31 of the preceding year. Our ability to acquire and sell mortgage assets is significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA.

GOVERNMENT SUPPORT FOR OUR BUSINESS

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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:

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

At March 31, 2016, our assets exceeded our liabilities under GAAP; therefore, FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during 2Q 2016. Since conservatorship began through June 30, 2016, we have paid cash dividends of \$98.2 billion to Treasury at the direction of the Conservator.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 2

See Note 6 and Note 9 for more information on the conservatorship and the Purchase Agreement.

**RELATED PARTIES AS A RESULT OF CONSERVATORSHIP**

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We are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. Common Securitization Solutions, LLC (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 2016, we contributed \$65 million of capital to CSS.

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## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 3

**NOTE 3: SECURITIZATION AND GUARANTEE ACTIVITIES**

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.

**VIEs FOR WHICH WE ARE THE PRIMARY BENEFICIARY**

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

| (in millions)                                   | June 30,<br>2016   | December<br>31, 2015 |
|---|--------------------|----------------------|
| <b>Consolidated Balance Sheet Line Item</b>     |                    |                      |
| <b>Assets:</b>                                  |                    |                      |
| Restricted cash and cash equivalents            | \$17,116           | \$14,529             |
| Securities purchased under agreements to resell | 21,200             | 14,840               |
| Mortgage loans held-for-sale                    | 268                | 1,403                |
| Mortgage loans held-for-investment              | 1,641,856          | 1,625,184            |
| Accrued interest receivable                     | 5,394              | 5,305                |
| Real estate owned, net                          | 33                 | 40                   |
| Other assets                                    | 4,228              | 2,591                |
| <b>Total assets of consolidated VIEs</b>        | <b>\$1,690,095</b> | <b>\$1,663,892</b>   |
| <b>Liabilities:</b>                             |                    |                      |
| Accrued interest payable                        | \$4,801            | \$4,763              |
| Debt, net                                       | 1,594,236          | 1,556,121            |
| Other liabilities                               | 1                  | 6                    |
| <b>Total liabilities of consolidated VIEs</b>   | <b>\$1,599,038</b> | <b>\$1,560,890</b>   |

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 3

## VIEs FOR WHICH WE ARE NOT THE PRIMARY BENEFICIARY

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 consolidated balance sheets related to our variable interests in unconsolidated 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.

| (in millions)  | June 30,<br>2016 | December<br>31, 2015 |
|--|------------------|----------------------|
| Freddie Mac<br>Securities  |                  |                      |
| Assets and Liabilities Recorded on our Consolidated Balance Sheets |                  |                      |
| Assets:  |                  |                      |
| Investments in securities  | \$62,148         | \$49,040             |
| Accrued interest receivable  | 249              | 200                  |
| Other assets   | 1,540            | 1,232                |
| Liabilities:   |                  |                      |
| Other liabilities  | (1,423 )         | (1,230 )             |
| Maximum Exposure to Loss   | \$134,062        | \$114,193            |
| Total Assets of Non-Consolidated VIEs                              | \$157,745        | \$134,900            |

We also obtain interests in various other VIEs created by third parties through the normal course of business, such as through our investments in non-Freddie Mac mortgage-related securities, purchases of multifamily loans, guarantees of multifamily housing revenue bonds, as a derivative counterparty, or through other activities.

## FINANCIAL GUARANTEES

The table below shows our maximum potential exposure, recognized liability, and maximum remaining term of our recognized financial guarantees to unconsolidated VIEs and other third parties. This table does not include our unrecognized financial guarantees, such as guarantees to consolidated VIEs or to securitization trusts that do not expose us to incremental credit risk.

| (dollars in millions, terms in years)            | June 30, 2016       |  |                              | December 31, 2015   |  |                              |
|--|---------------------|--|------------------------------|---------------------|--|------------------------------|
|  | Maximum<br>Exposure | Recognized<br>Liability <sup>(1)</sup> | Maximum<br>Remaining<br>Term | Maximum<br>Exposure | Recognized<br>Liability <sup>(1)</sup> | Maximum<br>Remaining<br>Term |
| K Certificates and other securitization products | \$134,062           | \$ 1,324                               | 39                           | \$114,193           | \$ 1,136                               | 40                           |
| Other mortgage-related guarantees                | 14,807              | 635                                    | 35                           | 13,067              | 596                                    | 38                           |
| Derivative instruments                           | 11,563              | 175                                    | 29                           | 17,894              | 151                                    | 30                           |

This amount excludes our reserve for guarantee losses, which totaled \$74 million and \$76 million as of June 30, (1)2016 and December 31, 2015, respectively, and is included within other liabilities on our consolidated balance sheets.

## CREDIT ENHANCEMENTS

For many of the loans underlying our single-family PCs, other securitization products, and other mortgage-related guarantees, we obtained credit enhancements from third parties covering a portion of our credit risk exposure. See Note 4 for information about credit enhancements on loans.





## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 3

In connection with the securitization activities of the Multifamily segment, we have various forms of credit protection. The most prevalent type is subordination, primarily through our K Certificates. Through subordination, we mitigate our credit risk exposure by structuring our securities to transfer a large majority of expected and stress credit losses to private investors who purchase the subordinate tranches, as shown in the table below.

| (in millions)                 | UPB at        |                   | Maximum Coverage at |                   |
|-------------------------------|---------------|-------------------|---------------------|-------------------|
|                               | June 30, 2016 | December 31, 2015 | June 30, 2016       | December 31, 2015 |
| K Certificates                | \$ 120,097    | \$ 101,473        | \$ 21,273           | \$ 18,453         |
| Other securitization products | 8,681         | 7,026             | 1,732               | 1,477             |
| Total                         | \$ 128,778    | \$ 108,499        | \$ 23,005           | \$ 19,930         |

In addition to subordination, the Multifamily segment also has various other credit enhancements, primarily related to our mortgage loans and other mortgage-related guarantees, in the form of collateral posting requirements, loss sharing agreements, credit-linked notes, and other similar arrangements. We expect that these credit enhancements will enable us to recover all or a portion of our losses or the amounts paid under our guarantee. Our historical recoveries pursuant to these agreements have not been significant.

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

## NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

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

| (in millions)                                 | June 30, 2016             |                                   |             | December 31, 2015         |                                   |             |
|---|---------------------------|-----------------------------------|-------------|---------------------------|-----------------------------------|-------------|
|   | Held by<br>Freddie<br>Mac | Held by<br>consolidated<br>trusts | Total       | Held by<br>Freddie<br>Mac | Held by<br>consolidated<br>trusts | Total       |
| <b>Held-for sale:</b>                         |                           |                                   |             |                           |                                   |             |
| Single-family                                 | \$4,692                   | \$366                             | \$5,058     | \$6,045                   | \$1,702                           | \$7,747     |
| Multifamily                                   | 15,685                    | —                                 | 15,685      | 19,582                    | —                                 | 19,582      |
| Total UPB                                     | 20,377                    | 366                               | 20,743      | 25,627                    | 1,702                             | 27,329      |
| Cost basis and fair value adjustments,<br>net | (1,100 )                  | (98 )                             | (1,198 )    | (2,038 )                  | (299 )                            | (2,337 )    |
| Total held-for-sale loans                     | 19,277                    | 268                               | 19,545      | 23,589                    | 1,403                             | 24,992      |
| <b>Held-for-investment:</b>                   |                           |                                   |             |                           |                                   |             |
| Single-family                                 | 88,676                    | 1,611,936                         | 1,700,612   | 90,532                    | 1,597,590                         | 1,688,122   |
| Multifamily                                   | 25,755                    | 2,630                             | 28,385      | 29,505                    | 1,711                             | 31,216      |
| Total UPB                                     | 114,431                   | 1,614,566                         | 1,728,997   | 120,037                   | 1,599,301                         | 1,719,338   |
| Cost basis adjustments                        | (3,335 )                  | 29,880                            | 26,545      | (3,465 )                  | 28,659                            | 25,194      |
| Allowance for loan losses                     | (10,912 )                 | (2,590 )                          | (13,502 )   | (12,555 )                 | (2,776 )                          | (15,331 )   |
| Total held-for-investment loans               | 100,184                   | 1,641,856                         | 1,742,040   | 104,017                   | 1,625,184                         | 1,729,201   |
| Total loans, net                              | \$119,461                 | \$1,642,124                       | \$1,761,585 | \$127,606                 | \$1,626,587                       | \$1,754,193 |

During 2Q 2016 and 2Q 2015, we purchased \$90.0 billion and \$99.8 billion, respectively, in UPB of single-family loans and \$1.2 billion and \$1.0 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment. During YTD 2016 and YTD 2015, we purchased \$158.2 billion and \$179.0 billion, respectively, in UPB of single-family loans and \$2.0 billion and \$1.8 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment.

Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates. During 2Q 2016 and 2Q 2015, we sold \$15.4 billion and \$10.1 billion, respectively, in UPB of held-for-sale multifamily loans. During YTD 2016 and YTD 2015, we sold \$26.2 billion and \$15.2 billion, respectively, in UPB of held-for-sale multifamily loans. See Note 3 for more information on our issuances of K Certificates.

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we completed sales of \$1.0 billion and \$0.9 billion in UPB of seriously delinquent single-family loans during 2Q 2016 and 2Q 2015, respectively, and \$1.8 billion and \$1.2 billion during YTD 2016 and YTD 2015, respectively.

We reclassified \$3.1 billion and \$4.5 billion in UPB of seriously delinquent single-family loans from held-for-investment to held-for-sale during 2Q 2016 and 2Q 2015, respectively, and \$3.5 billion and \$8.1 billion during YTD 2016 and YTD 2015, respectively. For additional information regarding the fair value of our loans classified as held-for-sale, see Note 13.

## CREDIT QUALITY

The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As current LTV ratios increase, the borrower's equity in the home decreases, which negatively affects the borrower's ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding 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



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

property for an amount at or above the combined balances of the first and second loans. As of June 30, 2016 and December 31, 2015, based on data collected by us at loan delivery, approximately 12% and 13%, respectively, 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 12.

For reporting purposes:

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

Loans within the option ARM category continue to be presented in that category following modification, even though the modified loan no longer provides for optional payment provisions.

The table below presents 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.

| (in millions)  | June 30, 2016     |             |                      |              | December 31, 2015 |             |                      |              |
|--|-------------------|-------------|----------------------|--------------|-------------------|-------------|----------------------|--------------|
|  | Current LTV Ratio |             |                      |              | Current LTV Ratio |             |                      |              |
|  | ≤ 80              | > 80 to 100 | > 100 <sup>(1)</sup> | Total        | ≤ 80              | > 80 to 100 | > 100 <sup>(1)</sup> | Total        |
| 20 and 30-year or more, amortizing fixed-rate <sup>(2)</sup> | \$ 1,064,367      | \$ 234,845  | \$ 40,327            | \$ 1,339,539 | \$ 1,020,227      | \$ 242,948  | \$ 50,893            | \$ 1,314,068 |
| 15-year amortizing fixed-rate <sup>(2)</sup>                 | 269,564           | 11,066      | 1,301                | 281,931      | 271,456           | 12,400      | 1,754                | 285,610      |
| Adjustable-rate  | 56,595            | 3,912       | 149                  | 60,656       | 59,724            | 5,055       | 249                  | 65,028       |
| Alt-A, interest-only, and option ARM                         | 27,315            | 11,307      | 6,423                | 45,045       | 27,014            | 13,124      | 8,485                | 48,623       |
| Total single-family loans                                    | \$ 1,417,841      | \$ 261,130  | \$ 48,200            | \$ 1,727,171 | \$ 1,378,421      | \$ 273,527  | \$ 61,381            | \$ 1,713,329 |

(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 6.06% and 6.03% as of June 30, 2016 and December 31, 2015, respectively.

The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of June 30, 2016 and December 31, 2015, we have categorized UPB of approximately \$35.6 billion and \$38.3 billion, respectively, of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified

(2) loans 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.

The following table 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, 2016 | December 31, 2015 |
|--|---------------|-------------------|
| Credit risk profile by internally assigned grade: <sup>(1)</sup> |               |                   |
| Pass   | \$ 27,400     | \$ 29,660         |
| Special mention  | 608           | 1,135             |
| Substandard  | 363           | 408               |
| Doubtful   | —             | —                 |
| Total  | \$ 28,371     | \$ 31,203         |

(1) 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 signs of potential financial weakness; "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.

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

## MORTGAGE LOAN PERFORMANCE

The following table presents the recorded investment of our single-family and multifamily loans, held-for-investment, by payment status.

| (in millions)                                 | June 30, 2016     |                    |                     |   | Total       | Non-accrual |
|---|-------------------|--------------------|---------------------|---|-------------|-------------|
|   | Current           | One Month Past Due | Two Months Past Due | Three Months or More Past Due, or in Foreclosure <sup>(1)</sup> |             |             |
| Single-family:                                |                   |                    |                     |   |             |             |
| 20 and 30-year or more, amortizing fixed-rate | \$1,308,970       | \$15,366           | \$4,412             | \$ 10,791   | \$1,339,539 | \$ 10,787   |
| 15-year amortizing fixed-rate                 | 280,595           | 875                | 161                 | 300   | 281,931     | 299         |
| Adjustable-rate                               | 60,046            | 332                | 73                  | 205   | 60,656      | 205         |
| Alt-A, interest-only, and option ARM          | 40,574            | 1,771              | 640                 | 2,060   | 45,045      | 2,059       |
| Total single-family                           | 1,690,185         | 18,344             | 5,286               | 13,356  | 1,727,171   | 13,350      |
| Total multifamily                             | 28,371            | —                  | —                   | —   | 28,371      | 105         |
| Total single-family and multifamily           | \$1,718,556       | \$18,344           | \$5,286             | \$ 13,356   | \$1,755,542 | \$ 13,455   |
|   | December 31, 2015 |                    |                     |   |             |             |
| (in millions)                                 | 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 | \$1,280,247       | \$16,178           | \$5,037             | \$ 12,606   | \$1,314,068 | \$ 12,603   |
| 15-year amortizing fixed-rate                 | 284,137           | 935                | 183                 | 355   | 285,610     | 355         |
| Adjustable-rate                               | 64,326            | 359                | 88                  | 255   | 65,028      | 255         |
| Alt-A, interest-only, and option ARM          | 43,543            | 1,962              | 714                 | 2,404   | 48,623      | 2,403       |
| Total single-family                           | 1,672,253         | 19,434             | 6,022               | 15,620  | 1,713,329   | 15,616      |
| Total multifamily                             | 31,203            | —                  | —                   | —   | 31,203      | 170         |
| Total single-family and multifamily           | \$1,703,456       | \$19,434           | \$6,022             | \$ 15,620   | \$1,744,532 | \$ 15,786   |

<sup>(1)</sup> Includes \$6.0 billion and \$7.0 billion of loans that were in the process of foreclosure as of June 30, 2016 and December 31, 2015, respectively.

## 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, December |          |
|--|-------------------|----------|
|  | 2016              | 31, 2015 |
| Single-family: <sup>(1)</sup>              |                   |          |
| Non-credit-enhanced portfolio              |                   |          |
| Serious delinquency rate                   | 1.12 %            | 1.30 %   |
| Total number of seriously delinquent loans | 85,674            | 105,071  |
| Credit-enhanced portfolio: <sup>(2)</sup>  |                   |          |
| Primary mortgage insurance:                |                   |          |
| Serious delinquency rate                   | 1.58 %            | 2.06 %   |
| Total number of seriously delinquent loans | 22,026            | 27,813   |
| Other credit protection: <sup>(3)</sup>    |                   |          |
| Serious delinquency rate                   | 0.39 %            | 0.58 %   |
| Total number of seriously delinquent loans | 8,255             | 9,422    |
| Total single-family:                       |                   |          |
| Serious delinquency rate                   | 1.08 %            | 1.32 %   |
| Total number of seriously delinquent loans | 115,151           | 141,255  |
| Multifamily: <sup>(4)</sup>                |                   |          |
| Non-credit-enhanced portfolio:             |                   |          |
| Delinquency rate                           | 0.04 %            | 0.03 %   |
| UPB of delinquent loans                    | \$ 19             | \$ 19    |
| Credit-enhanced portfolio:                 |                   |          |
| Delinquency rate                           | 0.01 %            | 0.02 %   |
| UPB of delinquent loans                    | \$ 15             | \$ 20    |
| Total Multifamily:                         |                   |          |
| Delinquency rate                           | 0.02 %            | 0.02 %   |
| UPB of delinquent loans                    | \$ 34             | \$ 39    |

(1) Serious delinquencies on single-family loans underlying certain REMICs, other securitization products, and other mortgage-related guarantees may be reported on a different schedule due to variances in industry practice.

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

(3) Consists of single-family loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See "Credit Protection and Other Forms of Credit Enhancement" for more information.

(4) 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.

#### LOAN LOSS RESERVES

The loan loss reserves represent estimates of probable incurred credit losses. We recognize probable incurred losses by recording a charge to the provision for credit losses in our consolidated statements of comprehensive income. The loan loss reserves include:

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

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



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

The table below presents our loan loss reserves activity.

| (in millions)                         | 2Q 2016                                       |                             |                              |           | 2Q 2015                                       |                             |                              |           |
|---------------------------------------|---|-----------------------------|------------------------------|-----------|---|-----------------------------|------------------------------|-----------|
|                                       | Allowance for Loan Losses Held by Freddie Mac | Held By Consolidated Trusts | Reserve for Guarantee Losses | Total     | Allowance for Loan Losses Held by Freddie Mac | Held By Consolidated Trusts | Reserve for Guarantee Losses | Total     |
| Single-family:                        |   |                             |                              |           |   |                             |                              |           |
| Beginning balance                     | \$ 11,667                                     | \$ 2,819                    | \$ 57                        | \$ 14,543 | \$ 16,020                                     | \$ 2,554                    | \$ 105                       | \$ 18,679 |
| Provision (benefit) for credit losses | (740 )  | (31 )                       | 2                            | (769 )    | (929 )  | 125                         | (36 )                        | (840 )    |
| Charge-offs                           | (467 )  | (16 )                       | (3 )                         | (486 )    | (793 )  | (57 )                       | (2 )                         | (852 )    |
| Recoveries                            | 148   | 4                           | —                            | 152       | 192   | 4                           | —                            | 196       |
| Transfers, net <sup>(1)</sup>         | 278   | (187 )                      | —                            | 91        | 45  | 112                         | —                            | 157       |
| Ending balance                        | 10,886  | 2,589                       | 56                           | 13,531    | 14,535  | 2,738                       | 67                           | 17,340    |
| Multifamily ending balance            | 26  | 1                           | 18                           | 45        | 54  | —                           | 14                           | 68        |
| Total ending balance                  | \$ 10,912                                     | \$ 2,590                    | \$ 74                        | \$ 13,576 | \$ 14,589                                     | \$ 2,738                    | \$ 81                        | \$ 17,408 |
|                                       |   |                             |                              |           |   |                             |                              |           |
| (in millions)                         | YTD 2016                                      |                             |                              |           | YTD 2015                                      |                             |                              |           |
|                                       | Allowance for Loan Losses Held by Freddie Mac | Held By Consolidated Trusts | Reserve for Guarantee Losses | Total     | Allowance for Loan Losses Held by Freddie Mac | Held By Consolidated Trusts | Reserve for Guarantee Losses | Total     |
| Single-family:                        |   |                             |                              |           |   |                             |                              |           |
| Beginning balance                     | \$ 12,516                                     | \$ 2,775                    | \$ 57                        | \$ 15,348 | \$ 18,800                                     | \$ 2,884                    | \$ 109                       | \$ 21,793 |
| Provision (benefit) for credit losses | (1,175 )                                      | (60 )                       | 4                            | (1,231 )  | (1,398 )                                      | 100                         | (38 )                        | (1,336 )  |
| Charge-offs                           | (966 )  | (84 )                       | (5 )                         | (1,055 )  | (3,574 )                                      | (225 )                      | (4 )                         | (3,803 )  |
| Recoveries                            | 274   | 6                           | —                            | 280       | 361   | 9                           | —                            | 370       |
| Transfers, net <sup>(1)</sup>         | 237   | (48 )                       | —                            | 189       | 346   | (30 )                       | —                            | 316       |
| Ending balance                        | 10,886  | 2,589                       | 56                           | 13,531    | 14,535  | 2,738                       | 67                           | 17,340    |
| Multifamily ending balance            | 26  | 1                           | 18                           | 45        | 54  | —                           | 14                           | 68        |
| Total ending balance                  | \$ 10,912                                     | \$ 2,590                    | \$ 74                        | \$ 13,576 | \$ 14,589                                     | \$ 2,738                    | \$ 81                        | \$ 17,408 |

Consists of approximately \$0.1 billion and \$0.2 billion during 2Q 2016 and 2Q 2015, respectively, and \$0.2 billion and \$0.3 billion during YTD 2016 and YTD 2015, respectively, attributable to capitalization of past due interest on (1) modified loans. Also includes amounts associated with reclassified single-family reserves related to our removal of loans previously held by consolidated trusts, net of reclassifications for single-family loans subsequently res securitized after such removal.

The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 9.8% and 10.8% of the recorded investment in such loans at June 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015.

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

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs, based on the original category of the loan before the loan was classified as a TDR. Loans classified as a TDR in one period may be subject to further action (such as a modification or remodification) in a subsequent period. In such cases, the subsequent action would not be reflected in the table below since the loan would already have been classified as a TDR.

| (dollars in millions)                         | 2Q 2016         |                              | 2Q 2015         |                              | YTD 2016        |                              | YTD 2015        |                              |
|---|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|
|   | 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 | 8,564           | \$ 1,233                     | 11,730          | \$ 1,672                     | 18,896          | \$ 2,689                     | 25,023          | \$ 3,591                     |
| 15-year amortizing fixed-rate                 | 1,128           | 86                           | 1,403           | 102                          | 2,446           | 180                          | 3,055           | 225                          |
| Adjustable-rate                               | 222             | 31                           | 328             | 51                           | 496             | 71                           | 733             | 108                          |
| Alt-A, interest-only, and option ARM          | 751             | 129                          | 1,126           | 206                          | 1,670           | 298                          | 2,514           | 475                          |
| Total single-family                           | 10,665          | 1,479                        | 14,587          | 2,031                        | 23,508          | 3,238                        | 31,325          | 4,399                        |
| Multifamily                                   | —               | —                            | 1               | 30                           | 2               | 8                            | 1               | 30                           |
| Total   | 10,665          | \$ 1,479                     | 14,588          | \$ 2,061                     | 23,510          | \$ 3,246                     | 31,326          | \$ 4,429                     |

The pre-TDR recorded investment for single-family loans initially classified as TDR during 2Q 2016 and YTD (1) 2016 was \$1.5 billion and \$3.3 billion, respectively, compared to \$2.0 billion and \$4.4 billion during 2Q 2015 and YTD 2015, respectively.

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 2016         |                              | 2Q 2015         |                              | YTD 2016        |                              | YTD 2015        |                              |
|---|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|
|   | 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:                                |                 |                              |                 |                              |                 |                              |                 |                              |
| 20 and 30-year or more, amortizing fixed-rate | 3,912           | \$ 599                       | 4,466           | \$ 737                       | 7,904           | \$ 1,233                     | 8,773           | \$ 1,491                     |
| 15-year amortizing fixed-rate                 | 192             | 17                           | 231             | 19                           | 425             | 35                           | 437             | 37                           |
| Adjustable-rate                               | 64              | 10                           | 82              | 14                           | 137             | 21                           | 150             | 26                           |
| Alt-A, interest-only, and option ARM          | 385             | 71                           | 444             | 106                          | 844             | 169                          | 958             | 228                          |
| Total single-family                           | 4,553           | \$ 697                       | 5,223           | \$ 876                       | 9,310           | \$ 1,458                     | 10,318          | \$ 1,782                     |
| Multifamily                                   | —               | \$ —                         | —               | \$ —                         | —               | \$ —                         | —               | \$ —                         |

In addition to modifications, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or trial period modifications). During YTD 2016 and YTD 2015, 4,331 and 4,921, respectively, of such loans (with a post-TDR recorded investment of \$0.5 billion and \$0.7 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 2016 and YTD 2015, 671 and 1,321, respectively, of such loans (with a post-TDR recorded investment of \$0.1



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

billion and \$0.2 billion, respectively) experienced a payment default within a year after the borrowers' Chapter 7 bankruptcy.

**Single-Family TDRs**

During both 2Q 2016 and YTD 2016, approximately 41% of completed single-family loan modifications that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions, and approximately 16% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During 2Q 2016 and YTD 2016, the average term extension was 176 months and 178 months, respectively, and the average interest rate reduction was 0.8% in both periods on completed single-family loan modifications classified as TDRs.

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

## 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, 2016 |                     |                      | December 31, 2015 |                     |                      |
|---|---------------|---------------------|----------------------|-------------------|---------------------|----------------------|
|   | UPB           | Recorded Investment | Associated Allowance | UPB               | Recorded Investment | Associated Allowance |
| Single-family —                                     |               |                     |                      |                   |                     |                      |
| With no specific allowance recorded: <sup>(1)</sup> |               |                     |                      |                   |                     |                      |
| 20 and 30-year or more, amortizing fixed-rate       | \$ 5,357      | \$ 4,055            | N/A                  | \$ 4,957          | \$ 3,724            | N/A                  |
| 15-year amortizing fixed-rate                       | 39            | 34                  | N/A                  | 45                | 38                  | N/A                  |
| Adjustable-rate                                     | 248           | 245                 | N/A                  | 194               | 191                 | N/A                  |
| Alt-A, interest-only, and option ARM                | 1,781         | 1,396               | N/A                  | 1,370             | 1,033               | N/A                  |
| Total with no specific allowance recorded           | 7,425         | 5,730               | N/A                  | 6,566             | 4,986               | N/A                  |
| With specific allowance recorded: <sup>(2)</sup>    |               |                     |                      |                   |                     |                      |
| 20 and 30-year or more, amortizing fixed-rate       | 69,948        | 68,253              | \$(9,937 )           | 72,886            | 71,215              | \$(11,245 )          |
| 15-year amortizing fixed-rate                       | 907           | 911                 | (21 )                | 975               | 978                 | (21 )                |
| Adjustable-rate                                     | 416           | 408                 | (23 )                | 518               | 510                 | (28 )                |
| Alt-A, interest-only, and option ARM                | 13,564        | 12,955              | (2,376 )             | 14,409            | 13,839              | (2,725 )             |
| Total with specific allowance recorded              | 84,835        | 82,527              | (12,357 )            | 88,788            | 86,542              | (14,019 )            |
| Combined single-family:                             |               |                     |                      |                   |                     |                      |
| 20 and 30-year or more, amortizing fixed-rate       | 75,305        | 72,308              | (9,937 )             | 77,843            | 74,939              | (11,245 )            |
| 15-year amortizing fixed-rate                       | 946           | 945                 | (21 )                | 1,020             | 1,016               | (21 )                |
| Adjustable-rate                                     | 664           | 653                 | (23 )                | 712               | 701                 | (28 )                |
| Alt-A, interest-only, and option ARM                | 15,345        | 14,351              | (2,376 )             | 15,779            | 14,872              | (2,725 )             |
| Total single-family                                 | \$92,260      | \$ 88,257           | \$(12,357 )          | \$95,354          | \$ 91,528           | \$(14,019 )          |
| Multifamily —                                       |               |                     |                      |                   |                     |                      |
| With no specific allowance recorded: <sup>(1)</sup> |               |                     |                      |                   |                     |                      |
| With specific allowance recorded                    | 78            | 78                  | \$(13 )              | 149               | 142                 | \$(21 )              |
| Total multifamily                                   | \$391         | \$ 375              | \$(13 )              | \$490             | \$ 475              | \$(21 )              |
| Total single-family and multifamily                 | \$92,651      | \$ 88,632           | \$(12,370 )          | \$95,844          | \$ 92,003           | \$(14,040 )          |

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

| (in millions)                                       | 2Q 2016                              |                            |   | 2Q 2015                              |                            |   |
|---|--------------------------------------|----------------------------|---|--------------------------------------|----------------------------|---|
|   | Average Interest Recorded Investment | Interest Income Recognized | Interest Income Recognized On Cash Basis <sup>(3)</sup> | Average Interest Recorded Investment | Interest Income Recognized | Interest Income Recognized On Cash Basis <sup>(3)</sup> |
| Single-family —                                     |                                      |                            |   |                                      |                            |   |
| With no specific allowance recorded: <sup>(1)</sup> |                                      |                            |   |                                      |                            |   |
| 20 and 30-year or more, amortizing fixed-rate       | \$4,114                              | \$ 117                     | \$ 4  | \$3,369                              | \$ 100                     | \$ 5  |
| 15-year amortizing fixed-rate                       | 35                                   | 2                          | —   | 43                                   | 2                          | —   |
| Adjustable rate                                     | 250                                  | 2                          | —   | 85                                   | 1                          | —   |
| Alt-A, interest-only, and option ARM                | 1,413                                | 27                         | 1   | 816                                  | 20                         | 2   |
| Total with no specific allowance recorded           | 5,812                                | 148                        | 5   | 4,313                                | 123                        | 7   |
| With specific allowance recorded: <sup>(2)</sup>    |                                      |                            |   |                                      |                            |   |
| 20 and 30-year or more, amortizing fixed-rate       | 69,118                               | 653                        | 61  | 73,778                               | 639                        | 94  |
| 15-year amortizing fixed-rate                       | 903                                  | 8                          | 2   | 1,033                                | 12                         | 3   |
| Adjustable rate                                     | 406                                  | 3                          | 1   | 660                                  | 5                          | 1   |
| Alt-A, interest-only, and option ARM                | 13,166                               | 99                         | 7   | 14,966                               | 104                        | 20  |
| Total with specific allowance recorded              | 83,593                               | 763                        | 71  | 90,437                               | 760                        | 118   |
| Combined single-family:                             |                                      |                            |   |                                      |                            |   |
| 20 and 30-year or more, amortizing fixed-rate       | 73,232                               | 770                        | 65  | 77,147                               | 739                        | 99  |
| 15-year amortizing fixed-rate                       | 938                                  | 10                         | 2   | 1,076                                | 14                         | 3   |
| Adjustable rate                                     | 656                                  | 5                          | 1   | 745                                  | 6                          | 1   |
| Alt-A, interest-only, and option ARM                | 14,579                               | 126                        | 8   | 15,782                               | 124                        | 22  |
| Total single-family                                 | \$89,405                             | \$ 911                     | \$ 76   | \$94,750                             | \$ 883                     | \$ 125  |
| Multifamily —                                       |                                      |                            |   |                                      |                            |   |
| With no specific allowance recorded: <sup>(1)</sup> |                                      |                            |   |                                      |                            |   |
| With specific allowance recorded                    | 82                                   | —                          | —   | 210                                  | 2                          | 2   |
| Total multifamily                                   | \$387                                | \$ 4                       | \$ 1  | \$725                                | \$ 9                       | \$ 4  |
| Total single-family and multifamily                 | \$89,792                             | \$ 915                     | \$ 77   | \$95,475                             | \$ 892                     | \$ 129  |

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

| (in millions)                                       | YTD 2016                             |                             |   | YTD 2015                             |                             |   |
|---|--------------------------------------|-----------------------------|---|--------------------------------------|-----------------------------|---|
|   | Average Interest Recorded Investment | Average Interest Recognized | Interest Income Recognized On Cash Basis <sup>(3)</sup> | Average Interest Recorded Investment | Average Interest Recognized | Interest Income Recognized On Cash Basis <sup>(3)</sup> |
| Single-family —                                     |                                      |                             |   |                                      |                             |   |
| With no specific allowance recorded: <sup>(1)</sup> |                                      |                             |   |                                      |                             |   |
| 20 and 30-year or more, amortizing fixed-rate       | \$4,065                              | \$ 219                      | \$ 6  | \$3,191                              | \$ 188                      | \$ 7  |
| 15-year amortizing fixed-rate                       | 35                                   | 3                           | —   | 43                                   | 4                           | —   |
| Adjustable rate                                     | 236                                  | 4                           | —   | 59                                   | 1                           | —   |
| Alt-A, interest-only, and option ARM                | 1,304                                | 52                          | 2   | 750                                  | 38                          | 2   |
| Total with no specific allowance recorded           | 5,640                                | 278                         | 8   | 4,043                                | 231                         | 9   |
| With specific allowance recorded: <sup>(2)</sup>    |                                      |                             |   |                                      |                             |   |
| 20 and 30-year or more, amortizing fixed-rate       | 69,924                               | 1,338                       | 135   | 75,021                               | 1,271                       | 175   |
| 15-year amortizing fixed-rate                       | 923                                  | 20                          | 4   | 1,090                                | 24                          | 6   |
| Adjustable rate                                     | 434                                  | 8                           | 2   | 724                                  | 10                          | 2   |
| Alt-A, interest-only, and option ARM                | 13,419                               | 223                         | 17  | 15,547                               | 206                         | 33  |
| Total with specific allowance recorded              | 84,700                               | 1,589                       | 158   | 92,382                               | 1,511                       | 216   |
| Combined single-family:                             |                                      |                             |   |                                      |                             |   |
| 20 and 30-year or more, amortizing fixed-rate       | 73,989                               | 1,557                       | 141   | 78,212                               | 1,459                       | 182   |
| 15-year amortizing fixed-rate                       | 958                                  | 23                          | 4   | 1,133                                | 28                          | 6   |
| Adjustable rate                                     | 670                                  | 12                          | 2   | 783                                  | 11                          | 2   |
| Alt-A, interest-only, and option ARM                | 14,723                               | 275                         | 19  | 16,297                               | 244                         | 35  |
| Total single-family                                 | \$90,340                             | \$ 1,867                    | \$ 166  | \$96,425                             | \$ 1,742                    | \$ 225  |
| Multifamily —                                       |                                      |                             |   |                                      |                             |   |
| With no specific allowance recorded: <sup>(1)</sup> |                                      |                             |   |                                      |                             |   |
| With specific allowance recorded                    | 82                                   | 2                           | 1   | 268                                  | 5                           | 4   |
| Total multifamily                                   | \$421                                | \$ 9                        | \$ 3  | \$890                                | \$ 19                       | \$ 8  |
| Total single-family and multifamily                 | \$90,761                             | \$ 1,876                    | \$ 169  | \$97,315                             | \$ 1,761                    | \$ 233  |

Individually impaired loans with no specific related valuation allowance primarily represent those loans for which the collateral value is sufficiently in excess of the loan balance to result in recovery of the entire recorded investment if the property were foreclosed upon or otherwise subject to disposition.

(1) Consists primarily of loans classified as TDRs.

(2) 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

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, 2016 |             |             | December 31, 2015 |             |             |
|--|---------------|-------------|-------------|-------------------|-------------|-------------|
|  | Single-family | Multifamily | Total       | Single-family     | Multifamily | Total       |
| Recorded investment:                             |               |             |             |                   |             |             |
| Collectively evaluated                           | \$1,638,914   | \$27,996    | \$1,666,910 | \$1,621,801       | \$30,728    | \$1,652,529 |
| Individually evaluated                           | 88,257        | 375         | 88,632      | 91,528            | 475         | 92,003      |
| Total recorded investment                        | 1,727,171     | 28,371      | 1,755,542   | 1,713,329         | 31,203      | 1,744,532   |
| Ending balance of the allowance for loan losses: |               |             |             |                   |             |             |
| Collectively evaluated                           | (1,118)       | (14)        | (1,132)     | (1,273)           | (18)        | (1,291)     |
| Individually evaluated                           | (12,357)      | (13)        | (12,370)    | (14,019)          | (21)        | (14,040)    |
| Total ending balance of the allowance            | (13,475)      | (27)        | (13,502)    | (15,292)          | (39)        | (15,331)    |
| Net investment in loans                          | \$1,713,696   | \$28,344    | \$1,742,040 | \$1,698,037       | \$31,164    | \$1,729,201 |

## CREDIT PROTECTION AND OTHER FORMS OF CREDIT ENHANCEMENT

In connection with many of our single-family loans and other mortgage-related guarantees, we have various forms of credit protection.

The table below presents the UPB of single-family loans on our consolidated balance sheets or underlying certain of our financial guarantees with credit protection and the maximum amounts of potential loss recovery by type of credit protection.

| (in millions)  | UPB <sup>(1)</sup> at |                   | Maximum Coverage <sup>(1)(2)</sup> at |                   |
|--|-----------------------|-------------------|---------------------------------------|-------------------|
|  | June 30, 2016         | December 31, 2015 | June 30, 2016                         | December 31, 2015 |
| Primary mortgage insurance                           | \$269,389             | \$257,063         | \$68,983                              | \$65,760          |
| STACR debt note and ACIS transactions <sup>(3)</sup> | 324,743               | 241,450           | 19,507                                | 14,916            |
| Lender recourse and indemnifications                 | 5,954                 | 6,339             | 5,133                                 | 5,396             |
| Pool insurance <sup>(4)</sup>                        | 1,557                 | 1,706             | 688                                   | 753               |
| HFA indemnification                                  | 2,398                 | 2,599             | 2,398                                 | 2,599             |
| Subordination  | 2,776                 | 3,021             | 302                                   | 336               |
| Other credit enhancements                            | 14                    | 15                | 9                                     | 10                |
| Total  | \$606,831             | \$512,193         | \$97,020                              | \$89,770          |

Except for the majority of our single-family credit risk transfer transactions, our credit enhancements generally provide protection for the first, or initial, credit losses associated with the related loans. Excludes: (a) FHA/VA and other governmental loans; (b) credit protection associated with \$7.6 billion and \$8.3 billion in UPB of single-family loans underlying other securitization products as of June 30, 2016 and December 31, 2015,

- (1) respectively, as the information was not available; and (c) repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite loans and service them in accordance with our standards. The UPB of single-family loans covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA and USDA) was \$3.0 billion and \$3.2 billion as of June 30, 2016 and December 31, 2015, respectively.
- (2) Except for subordination, this represents the remaining amount of loss recovery that is available subject to terms of counterparty agreements. For subordination, this represents the UPB of the securities that are subordinate to our

guarantee, which could provide protection by absorbing first losses.

(3) Excludes \$114.1 billion and \$87.4 billion in UPB at June 30, 2016 and December 31, 2015, respectively, where the related loans are also covered by primary mortgage insurance. Maximum coverage amounts presented represent the outstanding balance of STACR debt notes held by third parties as well as the remaining aggregate limit of insurance purchased from third parties in ACIS transactions.

(4) Excludes approximately \$0.4 billion and \$0.6 billion in UPB at June 30, 2016 and December 31, 2015, respectively, where the related loans are also covered by primary mortgage insurance.

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

Primary mortgage insurance and credit risk transfer transactions are the most prevalent types of credit enhancement protecting our single-family credit guarantee portfolio. Pool insurance contracts provide insurance on a group of mortgage loans up to a stated aggregate loss limit. We have not purchased pool insurance on single-family mortgage loans since March 2008. For information about counterparty risk associated with mortgage insurers, see Note 12. Our credit risk transfer transactions provide credit enhancement by transferring a portion of our expected credit losses to third-party investors, insurers, and selected sellers. The value of these transactions to us is dependent on various economic scenarios, and we will primarily benefit from these transactions if we experience significant mortgage loan defaults.

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

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During YTD 2016 and YTD 2015, we acquired \$94.5 billion and \$123.9 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. The guarantor swap transactions during YTD 2016 and YTD 2015 included approximately \$9.4 billion and \$3.8 billion, respectively, of loans received from sellers to satisfy advances that were recorded in other assets on our consolidated balance sheets.

In addition, we acquired REO properties as a result of the derecognition of loans held on our consolidated balance sheets upon foreclosure of the underlying collateral or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During YTD 2016 and YTD 2015, we had transfers of \$0.8 billion, and \$1.1 billion, respectively, from loans to REO.

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

## NOTE 5: INVESTMENTS IN SECURITIES

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

| (in millions)                 | June 30,<br>2016 | December<br>31, 2015 |
|-------------------------------|------------------|----------------------|
| Trading securities            | \$34,209         | \$39,278             |
| Available-for-sale securities | 78,060           | 74,937               |
| Total                         | \$112,269        | \$114,215            |

As of June 30, 2016 and December 31, 2015, 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,<br>2016 | December<br>31, 2015 |
|--|------------------|----------------------|
| Mortgage-related securities:           |                  |                      |
| Freddie Mac                            | \$14,978         | \$15,513             |
| Fannie Mae                             | 6,815            | 6,438                |
| Ginnie Mae                             | 135              | 30                   |
| Other                                  | 73               | 146                  |
| Total mortgage-related securities      | 22,001           | 22,127               |
| Non-mortgage-related securities        | 12,208           | 17,151               |
| Total fair value of trading securities | \$34,209         | \$39,278             |

During 2Q 2016 and YTD 2016, we recorded net unrealized gains (losses) on trading securities held at those dates of \$25 million and \$225 million, respectively. During 2Q 2015 and YTD 2015, we recorded net unrealized gains (losses) on trading securities held at those dates of \$(325) million and \$(281) million, respectively.

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

## AVAILABLE-FOR-SALE SECURITIES

At June 30, 2016 and December 31, 2015, all available-for-sale securities were mortgage-related securities. The table below presents 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, 2016  |                        | Gross Unrealized Losses                        |                                     | Fair Value |
|--|----------------|------------------------|--|-------------------------------------|------------|
|  | Amortized Cost | Gross Unrealized Gains | Other-Than-Temporary Impairment <sup>(1)</sup> | Temporary Impairment <sup>(2)</sup> |            |
| Available-for-sale securities:                   |                |                        |  |                                     |            |
| Freddie Mac                                      | \$45,595       | \$ 1,632               | \$ —   | \$ (57)                             | \$47,170   |
| Fannie Mae                                       | 4,816          | 173                    | —  | (28)                                | 4,961      |
| Ginnie Mae                                       | 130            | 11                     | —  | —                                   | 141        |
| CMBS   | 8,969          | 459                    | (7)  | (20)                                | 9,401      |
| Subprime   | 9,845          | 423                    | (243)  | (50)                                | 9,975      |
| Option ARM                                       | 2,379          | 261                    | (49)   | (5)                                 | 2,586      |
| Alt-A and other                                  | 1,965          | 436                    | (3)  | (4)                                 | 2,394      |
| Obligations of states and political subdivisions | 874            | 17                     | —  | (1)                                 | 890        |
| Manufactured housing                             | 458            | 85                     | (1)  | —                                   | 542        |
| Total available-for-sale securities              | \$75,031       | \$ 3,497               | \$ (303)                                       | \$ (165)                            | \$78,060   |
| December 31, 2015                                |                |                        |  |                                     |            |
| (in millions)                                    | Amortized Cost | Gross Unrealized Gains | Other-Than-Temporary Impairment <sup>(1)</sup> | Temporary Impairment <sup>(2)</sup> | Fair Value |
| Available-for-sale securities:                   |                |                        |  |                                     |            |
| Freddie Mac                                      | \$32,684       | \$ 942                 | \$ —   | \$ (99)                             | \$33,527   |
| Fannie Mae                                       | 7,033          | 265                    | —  | (36)                                | 7,262      |
| Ginnie Mae                                       | 150            | 12                     | —  | —                                   | 162        |
| CMBS   | 12,009         | 450                    | (2)  | (9)                                 | 12,448     |
| Subprime   | 12,499         | 653                    | (295)  | (55)                                | 12,802     |
| Option ARM                                       | 3,423          | 317                    | (56)   | (6)                                 | 3,678      |
| Alt-A and other                                  | 2,788          | 506                    | (11)   | (5)                                 | 3,278      |
| Obligations of states and political subdivisions | 1,187          | 19                     | —  | (1)                                 | 1,205      |
| Manufactured housing                             | 488            | 87                     | —  | —                                   | 575        |
| Total available-for-sale securities              | \$72,261       | \$ 3,251               | \$ (364)                                       | \$ (211)                            | \$74,937   |

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

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



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

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

The table below presents 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, 2016       |                         |                      |                         |
|---|---------------------|-------------------------|----------------------|-------------------------|
|   | Less than 12 Months |                         | 12 Months or Greater |                         |
|   | Fair Value          | Gross Unrealized Losses | Fair Value           | Gross Unrealized Losses |
| Available-for-sale securities:  |                     |                         |                      |                         |
| Freddie Mac   | \$4,282             | \$ (46 )                | \$832                | \$ (11 )                |
| Fannie Mae  | 1,611               | (17 )                   | 1,264                | (11 )                   |
| Ginnie Mae  | —                   | —                       | 50                   | —                       |
| CMBS  | 269                 | (19 )                   | 72                   | (8 )                    |
| Subprime  | 407                 | (14 )                   | 3,337                | (279 )                  |
| Option ARM  | 146                 | (5 )                    | 467                  | (49 )                   |
| Alt-A and other   | 125                 | (2 )                    | 131                  | (5 )                    |
| Obligations of states and political subdivisions                        | —                   | —                       | 8                    | (1 )                    |
| Manufactured housing  | —                   | —                       | 13                   | (1 )                    |
| Total available-for-sale securities in a gross unrealized loss position | \$6,840             | \$ (103 )               | \$6,174              | \$ (365 )               |

| (in millions)   | December 31, 2015   |                         |                      |                         |
|---|---------------------|-------------------------|----------------------|-------------------------|
|   | Less than 12 Months |                         | 12 Months or Greater |                         |
|   | Fair Value          | Gross Unrealized Losses | Fair Value           | Gross Unrealized Losses |
| Available-for-sale securities:  |                     |                         |                      |                         |
| Freddie Mac   | \$8,171             | \$ (64 )                | \$1,224              | \$ (35 )                |
| Fannie Mae  | 2,402               | (24 )                   | 1,337                | (12 )                   |
| Ginnie Mae  | —                   | —                       | 55                   | —                       |
| CMBS  | 396                 | (9 )                    | 160                  | (2 )                    |
| Subprime  | 719                 | (21 )                   | 3,923                | (329 )                  |
| Option ARM  | 349                 | (8 )                    | 579                  | (54 )                   |
| Alt-A and other   | 108                 | (1 )                    | 265                  | (15 )                   |
| Obligations of states and political subdivisions                        | 18                  | —                       | 8                    | (1 )                    |
| Manufactured housing  | —                   | —                       | 14                   | —                       |
| Total available-for-sale securities in a gross unrealized loss position | \$12,163            | \$ (127 )               | \$7,565              | \$ (448 )               |

At June 30, 2016, the gross unrealized losses relate to 313 individual lots representing 274 separate securities.

## Impairment Recognition on Investments in Securities

For our available-for-sale securities in an unrealized loss position at June 30, 2016, we have asserted that we have no intent to sell and believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis.





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

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

The table below presents the modeled attributes for the related collateral that are used to determine whether our interests in certain available-for-sale non-agency mortgage-related securities will experience a cash shortfall.

| (dollars in millions)                       | June 30, 2016 |                      |   |
|---|---------------|----------------------|---|
|   | Subprime      | Other <sup>(1)</sup> |   |
| UPB   | \$13,580      | \$5,667              |   |
| Weighted average collateral cumulative loss | 27            | % 16                 | % |
| Weighted average voluntary prepayment rates | 5             | % 8                  | % |
| Average security credit enhancements        | 6             | % 1                  | % |

(1) Consists of Option ARM and Alt-A.

## Other-Than-Temporary Impairments on Available-for-Sale Securities

The table below summarizes the net impairment on available-for-sale securities recognized in earnings. The other impairment amount relates to increases in our estimate of the present value of expected future credit losses for certain securities.

| (in millions)  | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|--|------------|------------|-------------|-------------|
| Net impairment of available-for-sale securities recognized in earnings       |            |            |             |             |
| Intent to sell   | \$ 10      | \$ 76      | \$ 62       | \$ 165      |
| Other  | 62         | 22         | 67          | 26          |
| Total net impairment of available-for-sale securities recognized in earnings | \$ 72      | \$ 98      | \$ 129      | \$ 191      |

The following table is a rollforward of the amount of credit-related other-than-temporary impairment that has been recognized in earnings for available-for-sale securities that we continue to hold.

| (in millions)   | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|---|------------|------------|-------------|-------------|
| Credit-related other-than-temporary impairments on available-for-sale securities recognized in earnings:  |            |            |             |             |
| Beginning balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings   | \$4,551    | \$6,281    | \$5,306     | \$6,798     |
| Additions:  |            |            |             |             |
| Amounts related to credit losses on securities for which an other-than-temporary impairment was previously recognized   | 62         | 22         | 67          | 26          |
| Reductions:   |            |            |             |             |
| Amounts related to securities which were sold, written off, or matured  | (7         | ) (35      | ) (62       | ) (87       |
| Amounts related to securities which we intend to sell or it is more likely than not that we will be required to sell before recovery of amortized cost basis  | (21        | ) (511     | ) (657      | ) (891      |
| Amounts related to amortization resulting from significant increases in cash flows expected to be collected and/or due to the passage of time that are recognized over the remaining life of the security | (68        | ) (78      | ) (137      | ) (167      |
| Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings  | \$4,517    | \$5,679    | \$4,517     | \$5,679     |

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

## 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<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|-----------------------------|------------|------------|-------------|-------------|
| Gross realized gains        | \$413      | \$486      | \$493       | \$853       |
| Gross realized losses       | (27 )      | (6 )       | (35 )       | (11 )       |
| Net realized gains (losses) | \$386      | \$480      | \$458       | \$842       |

## Maturities of Available-For-Sale Securities

The table below presents the remaining contractual maturities of available-for-sale securities by security type.  
As of June 30, 2016

| (in millions)                                    | Total<br>Amortized<br>Cost | Total<br>Fair<br>Value | One Year or<br>Less |               | After One<br>Year<br>Through<br>Five Years |               | After Five<br>Years Through<br>Ten Years |               | After Ten Years   |               |
|--|----------------------------|------------------------|---------------------|---------------|--|---------------|--|---------------|-------------------|---------------|
|  |                            |                        | Amortized<br>Cost   | Fair<br>Value | Amortized<br>Cost                          | Fair<br>Value | Amortized<br>Cost                        | Fair<br>Value | Amortized<br>Cost | Fair<br>Value |
| Available-for-sale securities:                   |                            |                        |                     |               |  |               |  |               |                   |               |
| Freddie Mac                                      | \$45,595                   | \$47,170               | \$11                | \$11          | \$51                                       | \$51          | \$2,154                                  | \$2,158       | \$43,379          | \$44,950      |
| Fannie Mae                                       | 4,816                      | 4,961                  | 1                   | 1             | 7  | 8             | 51                                       | 57            | 4,757             | 4,895         |
| Ginnie Mae                                       | 130                        | 141                    | —                   | —             | 1  | 1             | 26                                       | 30            | 103               | 110           |
| CMBS   | 8,969                      | 9,401                  | 140                 | 141           | —  | —             | —  | —             | 8,829             | 9,260         |
| Subprime   | 9,845                      | 9,975                  | —                   | —             | —  | —             | —  | —             | 9,845             | 9,975         |
| Option ARM                                       | 2,379                      | 2,586                  | —                   | —             | —  | —             | —  | —             | 2,379             | 2,586         |
| Alt-A and other                                  | 1,965                      | 2,394                  | —                   | —             | 11   | 11            | 6  | 7             | 1,948             | 2,376         |
| Obligations of states and political subdivisions | 874                        | 890                    | 5                   | 5             | 22   | 23            | 74                                       | 77            | 773               | 785           |
| Manufactured housing                             | 458                        | 542                    | —                   | —             | —  | —             | 13                                       | 18            | 445               | 524           |
| Total available-for-sale securities              | \$75,031                   | \$78,060               | \$157               | \$158         | \$92                                       | \$94          | \$2,324                                  | \$2,347       | \$72,458          | \$75,461      |

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 6

**NOTE 6: DEBT SECURITIES AND SUBORDINATED BORROWINGS**

On January 1, 2016, we adopted the accounting guidance for the presentation of debt issuance costs as a basis adjustment to the debt. Previously reported amounts have been revised to conform to the current presentation. Debt securities that we issue are classified as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations. The table below summarizes the interest expense per our consolidated statements of comprehensive income and the balances of total debt, net per our consolidated balance sheets.

| (in millions)  | Balance, Net     |                      | Interest Expense |            |             |             |
|--|------------------|----------------------|------------------|------------|-------------|-------------|
|  | June 30,<br>2016 | December 31,<br>2015 | 2Q<br>2016       | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
| Debt securities of consolidated trusts held by third parties | \$ 1,594,236     | \$ 1,556,121         | \$ 11,249        | \$ 11,005  | \$ 23,040   | \$ 22,492   |
| Other debt:  |                  |                      |                  |            |             |             |
| Short-term debt  | 75,868           | 113,569              | 82               | 36         | 175         | 74          |
| Long-term debt   | 301,999          | 300,579              | 1,450            | 1,587      | 2,954       | 3,150       |
| Total other debt   | 377,867          | 414,148              | 1,532            | 1,623      | 3,129       | 3,224       |
| Total debt, net  | \$ 1,972,103     | \$ 1,970,269         | \$ 12,781        | \$ 12,628  | \$ 26,169   | \$ 25,716   |

Our debt cap under the Purchase Agreement is \$479.0 billion in 2016 and will decline to \$407.2 billion on January 1, 2017. As of June 30, 2016, our aggregate indebtedness for purposes of the debt cap was \$381.5 billion. Our aggregate indebtedness is calculated as the par value of other short- and long-term debt.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 6

## 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, 2016        |             |                 |  | December 31, 2015    |             |                 |  |
|--|----------------------|-------------|-----------------|--|----------------------|-------------|-----------------|--|
|  | Contractual Maturity | UPB         | Carrying Amount | Weighted Average Coupon <sup>(1)</sup> | Contractual Maturity | UPB         | Carrying Amount | Weighted Average Coupon <sup>(1)</sup> |
| Single-family:   |                      |             |                 |  |                      |             |                 |  |
| 30-year or more, fixed-rate <sup>(2)</sup>                         | 2016 - 2055          | \$1,136,223 | \$1,171,536     | 3.81 %                                 | 2016 - 2053          | \$1,090,584 | \$1,123,290     | 3.88 %                                 |
| 20-year fixed-rate   | 2016 - 2036          | 74,603      | 76,899          | 3.55                                   | 2016 - 2036          | 73,018      | 75,221          | 3.61                                   |
| 15-year fixed-rate   | 2016 - 2031          | 263,621     | 269,974         | 2.97                                   | 2016 - 2031          | 270,036     | 276,531         | 3.01                                   |
| Adjustable-rate  | 2016 - 2047          | 58,244      | 59,576          | 2.64                                   | 2016 - 2047          | 62,496      | 63,899          | 2.61                                   |
| Interest-only  | 2026 - 2041          | 12,453      | 12,510          | 3.29                                   | 2026 - 2041          | 14,252      | 14,317          | 3.16                                   |
| FHA/VA   | 2016 - 2044          | 894         | 911             | 5.34                                   | 2016 - 2044          | 986         | 1,005           | 5.37                                   |
| Total single-family  |                      | 1,546,038   | 1,591,406       |  |                      | 1,511,372   | 1,554,263       |  |
| Multifamily <sup>(2)</sup>   | 2017 - 2030          | 2,635       | 2,830           | 4.76                                   | 2017 - 2028          | 1,717       | 1,858           | 4.90                                   |
| Total debt securities of consolidated trusts held by third parties |                      | \$1,548,673 | \$1,594,236     |  |                      | \$1,513,089 | \$1,556,121     |  |

(1) The effective rate for debt securities of consolidated trusts held by third parties was 2.81% and 3.06% as of June 30, 2016 and December 31, 2015, respectively.

(2) Carrying amount includes securities recorded at fair value.

## Other Debt

The table below summarizes the balances and effective interest rates for other debt. We had no balances of securities sold under agreements to repurchase at either June 30, 2016 or December 31, 2015.

| (dollars in millions)                           | June 30, 2016 |                                |                                 | December 31, 2015 |                                |                                 |
|---|---------------|--------------------------------|---------------------------------|-------------------|--------------------------------|---------------------------------|
|   | Par Value     | Carrying Amount <sup>(1)</sup> | Weighted Average Effective Rate | Par Value         | Carrying Amount <sup>(1)</sup> | Weighted Average Effective Rate |
| Other short-term debt:                          |               |                                |                                 |                   |                                |                                 |
| Discount notes and Reference Bills <sup>®</sup> | \$68,099      | \$68,023                       | 0.42 %                          | \$104,088         | \$104,024                      | 0.28 %                          |
| Medium-term notes                               | 7,845         | 7,845                          | 0.17                            | 9,545             | 9,545                          | 0.20                            |
| Total other short-term debt                     | \$75,944      | \$75,868                       | 0.40                            | \$113,633         | \$113,569                      | 0.28                            |
| Other long-term debt:                           |               |                                |                                 |                   |                                |                                 |

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| Original maturities on or before December 31, |           |           |      |   |           |           |      |   |
|---|-----------|-----------|------|---|-----------|-----------|------|---|
| 2016  | \$33,671  | \$33,678  | 1.89 | % | \$58,765  | \$58,821  | 2.13 | % |
| 2017  | 95,655    | 95,714    | 1.41 |   | 91,544    | 91,636    | 1.48 |   |
| 2018  | 61,302    | 61,400    | 1.33 |   | 48,189    | 48,187    | 1.52 |   |
| 2019  | 43,599    | 43,528    | 1.65 |   | 31,352    | 31,259    | 1.84 |   |
| 2020  | 15,171    | 15,146    | 1.65 |   | 26,697    | 26,664    | 1.96 |   |
| Thereafter                                    | 56,206    | 52,533    | 3.56 |   | 47,841    | 44,012    | 3.72 |   |
| Total other long-term debt <sup>(2)</sup>     | 305,604   | 301,999   | 1.87 |   | 304,388   | 300,579   | 2.02 |   |
| Total other debt                              | \$381,548 | \$377,867 |      |   | \$418,021 | \$414,148 |      |   |

Represents par value, net of associated discounts or premiums, issuance cost and hedge-related basis adjustments.

(1) Includes \$6.6 billion and \$7.0 billion at June 30, 2016 and December 31, 2015, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

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Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 6

Balance, net for other long-term debt includes callable debt of \$108.7 billion and \$106.9 billion at June 30, 2016 (2) and December 31, 2015, respectively, which gives us the option to call or not call debt for a variety of reasons that include managing the composition of liabilities or economic reasons.

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

NOTE 7: DERIVATIVES

At June 30, 2016 and December 31, 2015, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. Amounts reclassified from AOCI linked to interest payments on other debt are recorded in other debt interest expense and amounts not linked to interest payments on other debt are recorded in expense related to derivatives. During YTD 2016 and YTD 2015, we reclassified from AOCI into earnings, pre-tax losses of \$100 million and \$124 million, respectively, related to closed cash flow hedges. See Note 9 for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

USE OF DERIVATIVES

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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:

• Exchange-traded derivatives;

• Cleared derivatives; and

• OTC derivatives.

Exchange-traded derivatives include standardized interest-rate futures contracts and options on futures contracts. Cleared derivatives refer to those interest-rate swaps that the U.S. Commodity Futures Trading Commission has determined are subject to the central clearing requirement of the Dodd-Frank Act. OTC derivatives refer to those derivatives that are neither exchange-traded derivatives nor cleared derivatives.

TYPES OF DERIVATIVES

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We principally use the following types of derivatives:

• LIBOR-based interest-rate swaps;

• LIBOR- and Treasury-based options (including swaptions); and

• LIBOR- and Treasury-based exchange-traded futures.

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

For a discussion of significant accounting policies related to derivatives, see Note 8 in our 2015 Annual Report.

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

## DERIVATIVE ASSETS AND LIABILITIES AT FAIR VALUE

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

| (in millions)   | June 30, 2016 |                     |             | December 31, 2015 |                     |             |
|---|---------------|---------------------|-------------|-------------------|---------------------|-------------|
|   | Notional      | Derivatives at Fair |             | Notional          | Derivatives at Fair |             |
|   | or            | Value               |             | or                | Value               |             |
|   | Contractual   | Assets              | Liabilities | Contractual       | Assets              | Liabilities |
|   | Amount        |                     |             | Amount            |                     |             |
| Total derivative portfolio                              |               |                     |             |                   |                     |             |
| Interest-rate swaps:                                    |               |                     |             |                   |                     |             |
| Receive-fixed   | \$268,018     | \$9,321             | \$(14 )     | \$209,988         | \$4,591             | \$(486 )    |
| Pay-fixed   | 217,312       | 5                   | (24,176 )   | 218,599           | 319                 | (11,736 )   |
| Basis (floating to floating)                            | 1,125         | 1                   | —           | 1,125             | 1                   | —           |
| Total interest-rate swaps                               | 486,455       | 9,327               | (24,190 )   | 429,712           | 4,911               | (12,222 )   |
| Option-based:   |               |                     |             |                   |                     |             |
| Call swaptions  |               |                     |             |                   |                     |             |
| Purchased   | 60,130        | 6,613               | —           | 57,925            | 3,450               | —           |
| Written   | 1,125         | —                   | (151 )      | 4,375             | —                   | (100 )      |
| Put Swaptions   |               |                     |             |                   |                     |             |
| Purchased   | 31,430        | 438                 | —           | 24,050            | 580                 | —           |
| Written   | 8,275         | —                   | (1 )        | 11,025            | —                   | (28 )       |
| Other option-based derivatives <sup>(1)</sup>           | 15,791        | 1,035               | —           | 12,088            | 791                 | —           |
| Total option-based                                      | 116,751       | 8,086               | (152 )      | 109,463           | 4,821               | (128 )      |
| Futures   | 78,220        | —                   | —           | 56,332            | —                   | —           |
| Commitments   | 68,819        | 190                 | (284 )      | 29,114            | 34                  | (28 )       |
| Credit derivatives                                      | 3,530         | 9                   | (10 )       | 3,899             | 25                  | (10 )       |
| Other   | 3,000         | —                   | (23 )       | 3,033             | —                   | (23 )       |
| Total derivatives not designated as hedging instruments | 756,775       | 17,612              | (24,659 )   | 631,553           | 9,791               | (12,411 )   |
| Derivative interest receivable (payable)                |               | 1,158               | (1,521 )    |                   | 814                 | (1,393 )    |
| Netting adjustments <sup>(2)</sup>                      |               | (17,291)            | 24,937      |                   | (10,210)            | 12,550      |
| Total derivative portfolio, net                         | \$756,775     | \$1,479             | \$(1,243 )  | \$631,553         | \$395               | \$(1,254 )  |

(1) Primarily consists of purchased interest-rate caps and floors.

(2) Represents counterparty netting and cash collateral netting. Cash collateral amounts were a net \$7.6 billion and \$2.3 billion at June 30, 2016 and December 31, 2015, respectively.

See Note 8 for information related to our derivative counterparties and collateral held and posted.



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

## GAINS AND LOSSES ON DERIVATIVES

The table below presents the gains and losses on derivatives, including the accrual of periodic cash settlements, reported in our consolidated statements of comprehensive income as derivative gains (losses).

| (in millions)                                 | 2Q 2016   | 2Q 2015   | YTD<br>2016 | YTD<br>2015 |
|---|-----------|-----------|-------------|-------------|
| Interest-rate swaps:                          |           |           |             |             |
| Receive-fixed                                 | \$1,939   | \$(1,599) | \$4,883     | \$(282)     |
| Pay-fixed                                     | (4,303 )  | 6,440     | (12,938 )   | 2,462       |
| Basis (floating to floating)                  | —         | (1 )      | 1           | (1 )        |
| Total interest-rate swaps                     | (2,364 )  | 4,840     | (8,054 )    | 2,179       |
| Option based:                                 |           |           |             |             |
| Call swaptions                                |           |           |             |             |
| Purchased                                     | 1,300     | (1,513 )  | 3,399       | (498 )      |
| Written                                       | (18 )     | 38        | (89 )       | 9           |
| Put swaptions                                 |           |           |             |             |
| Purchased                                     | (236 )    | 131       | (514 )      | 65          |
| Written                                       | 9         | 8         | 47          | 23          |
| Other option-based derivatives <sup>(1)</sup> | 86        | (129 )    | 233         | (48 )       |
| Total option-based                            | 1,141     | (1,465 )  | 3,076       | (449 )      |
| Other:  |           |           |             |             |
| Futures                                       | (287 )    | 29        | (468 )      | (11 )       |
| Commitments                                   | (104 )    | 265       | (230 )      | 154         |
| Credit derivatives                            | (23 )     | (1 )      | (31 )       | (38 )       |
| Other   | (1 )      | (1 )      | (2 )        | —           |
| Total other                                   | (415 )    | 292       | (731 )      | 105         |
| Accrual of periodic cash settlements:         |           |           |             |             |
| Receive-fixed interest-rate swaps             | 622       | 621       | 1,239       | 1,301       |
| Pay-fixed interest-rate swaps                 | (1,042 )  | (1,154 )  | (2,149 )    | (2,405)     |
| Other   | —         | 1         | —           | 1           |
| Total accrual of periodic cash settlements    | (420 )    | (532 )    | (910 )      | (1,103)     |
| Total   | \$(2,058) | \$3,135   | \$(6,619)   | \$732       |

(1) Primarily consists of purchased interest-rate caps and floors.

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

NOTE 8: COLLATERALIZED AGREEMENTS AND OFFSETTING ARRANGEMENTS  
DERIVATIVE PORTFOLIO

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Derivative Counterparties

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Our use of cleared derivatives, exchange-traded derivatives, and OTC derivatives exposes us to institutional credit risk. For additional information, see Note 9 in our 2015 Annual Report.

Our use of interest-rate swaps and option-based derivatives is subject to internal credit and legal reviews. On an ongoing basis, we review the credit fundamentals of all of our derivative counterparties, clearinghouses, and clearing members to confirm that they continue to meet our internal risk management standards.

Master Netting and Collateral Agreements

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We use master netting and collateral agreements to reduce our credit risk exposure to our derivative counterparties for interest-rate swap and option-based derivatives. At June 30, 2016 and December 31, 2015, 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.

In the event that all of our counterparties for OTC interest-rate swaps and option-based derivatives were to have defaulted simultaneously on June 30, 2016, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately \$5 million. A significant majority of our net uncollateralized exposure to OTC derivative counterparties is concentrated among two counterparties, both of which were investment grade as of June 30, 2016.

Exposure to Certain Counterparties

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The total exposure on our forward purchase and sale commitments, which are treated as derivatives, was \$190 million and \$34 million at June 30, 2016 and December 31, 2015, respectively. Many of our transactions involving forward purchase and sale commitments of mortgage-related securities, including our dollar roll transactions, utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation (“MBSD/FICC”) as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization (including its clearing members).

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

## OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The table below displays information related to derivatives and securities purchased under agreements to resell on our consolidated balance sheets.

| June 30, 2016  |                         |  |  |   |            |
|--|-------------------------|--|--|---|------------|
| (in millions)  | Gross Amount Recognized | Amount Offset in the Consolidated Balance Sheets | Net Amount Presented in the Consolidated Balance Sheets <sup>(1)</sup> | Gross Amount Not Offset in the Consolidated Balance Sheets <sup>(2)</sup> | Net Amount |
| Assets:  |                         |  |  |   |            |
| Derivatives:   |                         |  |  |   |            |
| OTC interest-rate swaps and option-based derivatives | \$13,504                | \$ (12,570 )                                     | \$ 934   | \$ (929 )   | \$ 5       |
| Cleared and exchange-traded derivatives              | 5,067                   | (4,721 )   | 346  | —   | 346        |
| Other  | 199                     | —  | 199  | —   | 199        |
| Total derivatives                                    | 18,770                  | (17,291 )  | 1,479  | (929 )  | 550        |
| Securities purchased under agreements to resell      | 48,989                  | —  | 48,989   | (48,989 )   | —          |
| Total  | \$67,759                | \$ (17,291 )                                     | \$ 50,468  | \$ (49,918 )  | \$ 550     |
| Liabilities:   |                         |  |  |   |            |
| Derivatives:   |                         |  |  |   |            |
| OTC interest-rate swaps and option-based derivatives | \$(12,633 )             | \$ 11,717  | \$ (916 )  | \$ 862  | \$ (54 )   |
| Cleared and exchange-traded derivatives              | (13,230 )               | 13,220   | (10 )  | —   | (10 )      |
| Other  | (317 )                  | —  | (317 )   | —   | (317 )     |
| Total  | \$(26,180 )             | \$ 24,937  | \$ (1,243 )  | \$ 862  | \$ (381 )  |
| December 31, 2015                                    |                         |  |  |   |            |
| (in millions)  | Gross Amount Recognized | Amount Offset in the Consolidated Balance Sheets | Net Amount Presented in the Consolidated Balance Sheets <sup>(1)</sup> | Gross Amount Not Offset in the Consolidated Balance Sheets <sup>(2)</sup> | Net Amount |
| Assets:  |                         |  |  |   |            |
| Derivatives:   |                         |  |  |   |            |
| OTC interest-rate swaps and option-based derivatives | \$8,763                 | \$ (8,433 )                                      | \$ 330   | \$ (269 )   | \$ 61      |
| Cleared and exchange-traded derivatives              | 1,783                   | (1,777 )   | 6  | —   | 6          |
| Other  | 59                      | —  | 59   | —   | 59         |
| Total derivatives                                    | 10,605                  | (10,210 )  | 395  | (269 )  | 126        |
| Securities purchased under agreements to resell      | 63,644                  | —  | 63,644   | (63,644 )   | —          |
| Total  | \$74,249                | \$ (10,210 )                                     | \$ 64,039  | \$ (63,913 )  | \$ 126     |
| Liabilities:   |                         |  |  |   |            |
| Derivatives:   |                         |  |  |   |            |
| OTC interest-rate swaps and option-based derivatives | \$(8,886 )              | \$ 7,801   | \$ (1,085 )  | \$ 948  | \$ (137 )  |

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|   |            |           |             |        |          |
|---|------------|-----------|-------------|--------|----------|
| Cleared and exchange-traded derivatives | (4,857 )   | 4,749     | (108 )      | —      | (108 )   |
| Other                                   | (61 )      | —         | (61 )       | —      | (61 )    |
| Total                                   | \$(13,804) | \$ 12,550 | \$ (1,254 ) | \$ 948 | \$(306 ) |

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

(1) For derivatives, includes cash collateral posted or held in excess of exposure.

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 consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us with an aggregate fair value of \$2.8 billion as of both June 30, 2016 and December 31, 2015.

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**COLLATERAL PLEDGED**


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**Collateral Pledged to Freddie Mac**


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We have cash and cash equivalents pledged to us as collateral related to OTC derivative transactions. A portion of these cash and cash equivalent collateral amounts have been re-invested by us in securities purchased under agreements to resell and non-mortgage-related securities. The table below shows the line item presentation of these funds received and those re-invested by us on our condensed consolidated balance sheets.

| (in millions)                                   | June<br>30,<br>2016 | December<br>31, 2015 |
|---|---------------------|----------------------|
| Restricted cash and cash equivalents            | \$273               | \$ 175               |
| Securities purchased under agreements to resell | 1,022               | 905                  |
| Investments in securities - Trading securities  | 1,275               | 447                  |
| Total   | \$2,570             | \$ 1,527             |

At June 30, 2016 and December 31, 2015, we had \$0.9 billion and \$0.3 billion, respectively, of collateral in the form of securities pledged to and held by us related to OTC derivative instruments. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master netting agreements related to our derivative instruments. In addition, we had \$15 million and \$22 million of cash pledged to us related to cleared and exchange-traded derivatives at June 30, 2016 and December 31, 2015, respectively.

Also, at June 30, 2016 and December 31, 2015, we had \$0.3 billion and \$0.7 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell that we had the right to repledge. From time to time we may obtain pledges of collateral from certain seller/servicers as additional security for certain of their obligations to us, including their obligations to repurchase loans sold to us in breach of representations and warranties. This collateral may, at our discretion, take the form of cash, cash equivalents, or agency securities.

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**Collateral Pledged by Freddie Mac**


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The aggregate fair value of all OTC derivative instruments netted by counterparty that were in a liability position on June 30, 2016, was \$2.6 billion for which we posted cash and non-cash collateral of \$2.6 billion in the normal course of business. A reduction in our credit ratings may trigger additional collateral requirements related to our OTC derivative instruments. If a reduction in our credit ratings had triggered additional collateral requirements related to our OTC derivative instruments on June 30, 2016, we would have been required to post an additional \$34 million of collateral to our counterparties. A reduction in our credit ratings could also cause the clearinghouses or clearing members we use for our cleared and exchange-traded derivatives to demand additional collateral.

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

The table below summarizes all securities pledged as collateral by us for derivatives and secured borrowing transactions where the secured party may repledge.

| (in millions)   | June<br>30,<br>2016 | December<br>31, 2015 |
|---|---------------------|----------------------|
| Securities pledged with the ability for the secured party to repledge:      |                     |                      |
| Debt securities of consolidated trusts held by third parties <sup>(1)</sup> | \$ 1,469            | \$ 1,293             |
| Available-for-sale securities   | 178                 | —                    |
| Trading securities  | 2,195               | 2,487                |
| Total securities pledged  | \$3,842             | \$ 3,780             |

Represents PCs held by us in our Investments segment mortgage investments portfolio and pledged as collateral (1) which are recorded as a reduction to debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

#### Cash Pledged

At June 30, 2016, we pledged \$10.7 billion of collateral in the form of cash and cash equivalents, of which \$1.7 billion related to our OTC derivative agreements as we had \$2.6 billion of such derivatives in a net loss position. The remaining \$9.0 billion was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at June 30, 2016.

At December 31, 2015, we pledged \$4.0 billion of collateral in the form of cash and cash equivalents, of which \$0.9 billion related to our OTC derivative agreements as we had \$1.9 billion of such derivatives in a net loss position. The remaining \$3.1 billion was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at December 31, 2015.

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

NOTE 9: STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE  
ACCUMULATED OTHER COMPREHENSIVE INCOME

The table below presents changes in AOCI after the effects of our 35% federal statutory tax rate related to available-for-sale securities, closed cash flow hedges, and our defined benefit plans.

| (in millions)  | YTD 2016                                      |   |                                       |         |
|--|---|---|---------------------------------------|---------|
|  | AOCI Related to Available-For-Sale Securities | AOCI Related to Cash Flow Hedge Relationships | AOCI Related to Defined Benefit Plans | Total   |
| Beginning balance  | \$1,740                                       | \$ (621 )                                     | \$ 34                                 | \$1,153 |
| Other comprehensive income before reclassifications <sup>(1)</sup> | 442   | —   | 1                                     | 443     |
| Amounts reclassified from accumulated other comprehensive income   | (214 )  | 66  | (1 )                                  | (149 )  |
| Changes in AOCI by component                                       | 228   | 66  | —                                     | 294     |
| Ending balance   | \$1,968                                       | \$ (555 )                                     | \$ 34                                 | \$1,447 |

  

| (in millions)  | YTD 2015                                      |   |                                       |         |
|--|---|---|---------------------------------------|---------|
|  | AOCI Related to Available-For-Sale Securities | AOCI Related to Cash Flow Hedge Relationships | AOCI Related to Defined Benefit Plans | Total   |
| Beginning balance  | \$2,546                                       | \$ (803 )                                     | \$ (13 )                              | \$1,730 |
| Other comprehensive income before reclassifications <sup>(1)</sup> | 265   | —   | 26                                    | 291     |
| Amounts reclassified from accumulated other comprehensive income   | (422 )  | 97  | —                                     | (325 )  |
| Changes in AOCI by component                                       | (157 )  | 97  | 26                                    | (34 )   |
| Ending balance   | \$2,389                                       | \$ (706 )                                     | \$ 13                                 | \$1,696 |

(1) For YTD 2016 and YTD 2015, net of tax expense of \$0.2 billion and \$0.1 billion, respectively, for AOCI related to available-for-sale securities.

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

## Reclassifications from AOCI to Net Income

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

| Details about Accumulated Other<br>Comprehensive Income Components |            |            |             |             | Affected Line Item in the Consolidated<br>Statements of Comprehensive Income |
|--|------------|------------|-------------|-------------|--|
| (in millions)  | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |  |
| AOCI related to available-for-sale securities                      | \$386      | \$480      | \$458       | \$842       | Other gains (losses) on investment securities recognized in earnings         |
|  | (72 )      | (98 )      | (129 )      | (191 )      | Net impairment of available-for-sale securities recognized in earnings       |
|  | 314        | 382        | 329         | 651         | Total before tax   |
|  | (110 )     | (134 )     | (115 )      | (229 )      | Tax (expense) or benefit   |
|  | 204        | 248        | 214         | 422         | Net of tax   |
| AOCI related to cash flow hedge relationships                      | (1 )       | (1 )       | (1 )        | (1 )        | Interest expense — Other debt  |
|  | (48 )      | (58 )      | (99 )       | (123 )      | Expense related to derivatives   |
|  | (49 )      | (59 )      | (100 )      | (124 )      | Total before tax   |
|  | 17         | 21         | 34          | 27          | Tax (expense) or benefit   |
|  | (32 )      | (38 )      | (66 )       | (97 )       | Net of tax   |
| AOCI related to defined benefit plans                              | 1          | —          | 2           | —           | Salaries and employee benefits   |
|  | (1 )       | —          | (1 )        | —           | Tax (expense) or benefit   |
|  | —          | —          | 1           | —           | Net of tax   |
| Total reclassifications in the period                              | \$172      | \$210      | \$149       | \$325       | Net of tax   |

## 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 \$0.6 billion and \$0.7 billion at June 30, 2016 and June 30, 2015, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges.

The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately \$131 million, net of taxes, of the \$0.6 billion of cash flow hedge losses in AOCI at June 30, 2016 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 17 years.





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

SENIOR PREFERRED STOCK

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At June 30, 2016, 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 at June 30, 2016 and the Capital Reserve Amount of \$1.2 billion in 2016, our dividend obligation to Treasury in September 2016 will be \$0.9 billion. See Note 2 for additional information. The aggregate liquidation preference on the senior preferred stock owned by Treasury was \$72.3 billion as of both June 30, 2016 and December 31, 2015.

STOCK ISSUANCES AND REPURCHASES

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We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2Q 2016 and YTD 2016, except for issuances of treasury stock relating to stock-based compensation granted prior to conservatorship.

EARNINGS PER SHARE

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We have participating securities related to options and restricted stock units with dividend equivalent rights that receive dividends as declared on an equal basis with common shares but are not obligated to participate in undistributed net losses. These participating securities consist of:

- Vested options to purchase common stock; and
- 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 following common stock equivalent shares outstanding:

- Weighted average shares related to stock options if the average market price during the period exceeds the exercise price; and
- 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.

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

For purposes of the earnings-per-share calculation, all stock options outstanding at June 30, 2016 and June 30, 2015 were out of the money and excluded from the computation of dilutive potential common shares during 2Q 2016 and YTD 2016, and 2Q 2015 and YTD 2015, respectively.

**DIVIDENDS DECLARED**

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No common dividends were declared during YTD 2016. During 1Q 2016 and 2Q 2016, we paid dividends of \$1.7 billion and \$0 billion, respectively, in cash on the senior preferred stock at the direction of our Conservator. We did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during YTD 2016.

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

NOTE 10: INCOME TAXES  
INCOME TAX EXPENSE

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For 2Q 2016 and 2Q 2015, we reported an income tax expense of \$0.5 billion and \$1.9 billion, respectively, resulting in effective tax rates of 31.9% and 31.4%, respectively. For YTD 2016 and YTD 2015, we reported an income tax expense of \$0.3 billion and \$2.2 billion, respectively, resulting in effective tax rates of 32.8% and 31.6%, respectively. Our effective tax rate differed from the statutory rate of 35% in these periods primarily due to our recognition of low income housing tax credits.

Deferred Tax Assets, Net

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We had net deferred tax assets of \$18.7 billion and \$18.2 billion as of June 30, 2016 and December 31, 2015, respectively. At June 30, 2016, 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, 2016, we determined that it is more likely than not that our net deferred tax assets will be realized. Therefore, a valuation allowance was not necessary.

UNRECOGNIZED TAX BENEFITS

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We evaluated all income tax positions and determined that there were no uncertain tax positions that required reserves as of June 30, 2016.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 11

## NOTE 11: SEGMENT REPORTING

We have three reportable segments, which are based on the type of business activities each performs - Single-family Guarantee, Multifamily, and Investments. The chart below provides a summary of our three reportable segments and the All Other category. For more information, see our 2015 Annual Report.

| Segment                 | Description  | Financial Performance Measurement Basis          |
|-------------------------|--|--|
| Single-family Guarantee | The Single-family Guarantee segment reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk.   | Contribution to GAAP net income (loss)           |
| Multifamily             | The Multifamily segment reflects results from our purchase, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily mortgage credit risk.  | Contribution to GAAP comprehensive income (loss) |
| Investments             | The Investments segment reflects results from managing the company's mortgage-related investments portfolio (excluding Multifamily segment investments, single-family seriously delinquent loans, and the credit risk of single-family performing loans), treasury function, and interest-rate risk. | Contribution to GAAP comprehensive income (loss) |
| All Other               | The All Other category consists of material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments.  | N/A  |

## Segment Earnings

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP consolidated statements of comprehensive income and allocating certain revenues and expenses, including certain returns on assets and funding costs, and all 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. During the first quarter of 2016, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee and Investments segments. The purpose of these changes is to simplify Segment Earnings results relative to GAAP results, as well as to reduce operational complexity. Prior period results have been revised to conform to the current period presentation. Changes include:

The discontinuation of adjustments to net interest income and guarantee fee income which reflected the amortization of cash premiums and discounts on the consolidated Freddie Mac mortgage-related securities we purchased as investments, as well as the amortization of certain guarantee buy-up and buy-down fees and credit delivery fees on mortgage loans we purchased. The discontinuation of the adjustments resulted in an increase to net interest income for the Investments segment of \$216 million and \$397 million and a decrease to guarantee fee income for the Single-family Guarantee



## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 11

segment of \$74 million and \$140 million for 2Q 2015 and YTD 2015, respectively, to align with the current presentation.

Previously when we securitized loans into PCs, the premiums and discounts on the loans were amortized in net interest income. This amortization is now reflected in other non-interest income, consistent with the amortization of the premiums and discounts on the securitized PCs themselves. We reclassified \$371 million and \$719 million of expense from net interest income into other non-interest income for the Investments segment for 2Q 2015 and YTD 2015, respectively, to align with the current presentation.

Impacts from the reclassification of mortgage loans from held-for-investment to held-for-sale will be reflected in aggregate as other non-interest income. We reclassified \$800 million and \$1.5 billion of benefit from (provision) benefit for credit losses and \$400 million and \$760 million of expense from other non-interest expense into other non-interest income for the Single-family Guarantee segment for 2Q 2015 and YTD 2015, respectively, to align with the current presentation.

The table below presents Segment Earnings by segment.

| (in millions)                            | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|--|------------|------------|-------------|-------------|
| Segment Earnings (loss), net of taxes:   |            |            |             |             |
| Single-family Guarantee                  | \$584      | \$489      | \$1,394     | \$549       |
| Multifamily                              | 264        | 473        | 411         | 757         |
| Investments                              | 145        | 3,207      | (1,166 )    | 3,387       |
| All Other                                | —          | —          | —           | —           |
| Total Segment Earnings, net of taxes     | 993        | 4,169      | 639         | 4,693       |
| Net income                               | \$993      | \$4,169    | \$639       | \$4,693     |
| Comprehensive income (loss) of segments: |            |            |             |             |
| Single-family Guarantee                  | \$583      | \$489      | \$1,394     | \$548       |
| Multifamily                              | 271        | 366        | 421         | 630         |
| Investments                              | 279        | 3,038      | (882 )      | 3,454       |
| All Other                                | —          | 20         | —           | 27          |
| Comprehensive income of segments         | 1,133      | 3,913      | 933         | 4,659       |
| Comprehensive income                     | \$1,133    | \$3,913    | \$933       | \$4,659     |

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 11

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

| (in millions)  | 2Q 2016                 |             |             |           | Total Segment Earnings (Loss) | Reclassifications | Total per Consolidated Statements Comprehensive Income |
|--|-------------------------|-------------|-------------|-----------|-------------------------------|-------------------|--|
|  | Single-family Guarantee | Multifamily | Investments | All Other |                               |                   |  |
| Net interest income (loss)   | \$(151 )                | \$ 216      | \$ 606      | \$ —      | \$ 671                        | \$ 2,772          | \$ 3,443   |
| Guarantee fee income <sup>(1)</sup>  | 1,501                   | 124         | —           | —         | 1,625                         | (1,501 )          | 124  |
| Benefit for credit losses  | 121                     | 6           | —           | —         | 127                           | 648               | 775  |
| Net interest income and guarantee fee income after benefit (provision) for credit losses | 1,471                   | 346         | 606         | —         | 2,423                         | 1,919             | 4,342  |
| Net impairment of available-for-sale securities recognized in earnings                   | —                       | —           | 49          | —         | 49                            | (121 )            | (72 )  |
| Derivative gains (losses)  | (21 )                   | (296 )      | (1,003 )    | —         | (1,320 )                      | (738 )            | (2,058 )   |
| Gains (losses) on trading securities   | —                       | 42          | 22          | —         | 64                            | —                 | 64   |
| Gains (losses) on mortgage loans   | —                       | 124         | —           | —         | 124                           | (605 )            | (481 )   |
| Other non-interest income (loss)   | (96 )                   | 279         | 551         | —         | 734                           | (135 )            | 599  |
| Administrative expenses  | (314 )                  | (86 )       | (75 )       | —         | (475 )                        | —                 | (475 )   |
| REO operations expense   | (29 )                   | —           | —           | —         | (29 )                         | —                 | (29 )  |
| Other non-interest expense   | (101 )                  | (9 )        | (1 )        | —         | (111 )                        | (320 )            | (431 )   |
| Income tax expense   | (326 )                  | (136 )      | (4 )        | —         | (466 )                        | —                 | (466 )   |
| Net income   | 584                     | 264         | 145         | —         | 993                           | —                 | 993  |
| Changes in unrealized gains (losses) related to available-for-sale securities            | —                       | 7           | 102         | —         | 109                           | —                 | 109  |
| Changes in unrealized gains (losses) related to cash flow hedge relationships            | —                       | —           | 32          | —         | 32                            | —                 | 32   |
| Changes in defined benefit plans   | (1 )                    | —           | —           | —         | (1 )                          | —                 | (1 )   |
| Total other comprehensive income (loss), net of taxes                                    | (1 )                    | 7           | 134         | —         | 140                           | —                 | 140  |
| Comprehensive income   | \$583                   | \$ 271      | \$ 279      | \$ —      | \$ 1,133                      | \$ —              | \$ 1,133   |

  

| (in millions)                       | YTD 2016                |             |             |           | Total Segment Earnings (Loss) | Reclassifications | Total per Consolidated Statements Comprehensive Income |
|-------------------------------------|-------------------------|-------------|-------------|-----------|-------------------------------|-------------------|--|
|                                     | Single-family Guarantee | Multifamily | Investments | All Other |                               |                   |  |
| Net interest income (expense)       | \$(269 )                | \$ 468      | \$ 1,354    | \$ —      | \$ 1,553                      | \$ 5,295          | \$ 6,848   |
| Guarantee fee income <sup>(1)</sup> | 2,786                   | 232         | —           | —         | 3,018                         | (2,784 )          | 234  |
| Benefit for credit losses           | 410                     | 11          | —           | —         | 421                           | 821               | 1,242  |
|                                     | 2,927                   | 711         | 1,354       | —         | 4,992                         | 3,332             | 8,324  |



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|  |         |          |          |      |        |          |          |
|--|---------|----------|----------|------|--------|----------|----------|
| Net interest income and guarantee fee<br>income after benefit (provision) for credit<br>losses |         |          |          |      |        |          |          |
| Net impairment of available-for-sale<br>securities recognized in earnings                      | —       | —        | 130      | —    | 130    | (259     | ) (129   |
| Derivative gains (losses)  | (29     | ) (1,083 | ) (3,998 | ) —  | (5,110 | ) (1,509 | ) (6,619 |
| Gains (losses) on trading securities   | —       | 104      | 191      | —    | 295    | —        | 295      |
| Gains (losses) on loans  | —       | 621      | —        | —    | 621    | (624     | ) (3     |
| Other non-interest income  | 99      | 457      | 740      | —    | 1,296  | (321     | ) 975    |
| Administrative expense   | (609    | ) (166   | ) (148   | ) —  | (923   | ) —      | (923     |
| REO operations expense   | (113    | ) —      | —        | —    | (113   | ) —      | (113     |
| Other non-interest expense   | (201    | ) (33    | ) (3     | ) —  | (237   | ) (619   | ) (856   |
| Income tax (expense) benefit   | (680    | ) (200   | ) 568    | —    | (312   | ) —      | (312     |
| Net income (loss)  | 1,394   | 411      | (1,166   | ) —  | 639    | —        | 639      |
| Changes in unrealized gains (losses) related<br>to available-for-sale securities               | —       | 10       | 218      | —    | 228    | —        | 228      |
| Changes in unrealized gains (losses) related<br>to cash flow hedge relationships               | —       | —        | 66       | —    | 66     | —        | 66       |
| Changes in defined benefit plans   | —       | —        | —        | —    | —      | —        | —        |
| Total other comprehensive income (loss), net<br>of taxes                                       | —       | 10       | 284      | —    | 294    | —        | 294      |
| Comprehensive income (loss)  | \$1,394 | \$ 421   | \$ (882  | ) \$ | —\$933 | \$ —     | \$ 933   |

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## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 11

| (in millions)  | 2Q 2015                 |             |             |           | Total Segment Earnings (Loss) | Reclassifications | Total per Consolidated Statements Comprehensive Income |
|--|-------------------------|-------------|-------------|-----------|-------------------------------|-------------------|--|
|  | Single-family Guarantee | Multifamily | Investments | All Other |                               |                   |  |
| Net interest income  | \$26                    | \$ 281      | \$ 1,047    | \$ —      | \$ 1,354                      | \$ 2,615          | \$ 3,969   |
| Guarantee fee income <sup>(1)</sup>  | 1,325                   | 79          | —           | —         | 1,404                         | (1,312)           | 92   |
| Benefit (provision) for credit losses  | (137)                   | 17          | —           | —         | (120)                         | 977               | 857  |
| Net interest income and guarantee fee income after benefit (provision) for credit losses | 1,214                   | 377         | 1,047       | —         | 2,638                         | 2,280             | 4,918  |
| Net impairment of available-for-sale securities recognized in earnings                   | —                       | (8)         | 95          | —         | 87                            | (185)             | (98)   |
| Derivative gains (losses)  | (1)                     | 708         | 3,157       | —         | 3,864                         | (729)             | 3,135  |
| Gains (losses) on trading securities   | —                       | (57)        | (271)       | —         | (328)                         | —                 | (328)  |
| Gains (losses) on mortgage loans   | —                       | (259)       | —           | —         | (259)                         | (665)             | (924)  |
| Other non-interest income (loss)   | (31)                    | 20          | 741         | —         | 730                           | (66)              | 664  |
| Administrative expenses  | (329)                   | (90)        | (82)        | —         | (501)                         | —                 | (501)  |
| REO operations expense   | (52)                    | —           | —           | —         | (52)                          | —                 | (52)   |
| Other non-interest expense   | (87)                    | (12)        | (2)         | —         | (101)                         | (635)             | (736)  |
| Income tax expense   | (225)                   | (206)       | (1,478)     | —         | (1,909)                       | —                 | (1,909)  |
| Net income   | 489                     | 473         | 3,207       | —         | 4,169                         | —                 | 4,169  |
| Changes in unrealized gains (losses) related to available-for-sale securities            | —                       | (107)       | (207)       | —         | (314)                         | —                 | (314)  |
| Changes in unrealized gains (losses) related to cash flow hedge relationships            | —                       | —           | 38          | —         | 38                            | —                 | 38   |
| Changes in defined benefit plans   | —                       | —           | —           | 20        | 20                            | —                 | 20   |
| Total other comprehensive income (loss), net of taxes                                    | —                       | (107)       | (169)       | 20        | (256)                         | —                 | (256)  |
| Comprehensive income   | \$489                   | \$ 366      | \$ 3,038    | \$ 20     | \$ 3,913                      | \$ —              | \$ 3,913   |

| (in millions)  | YTD 2015                |             |             |           | Total Segment Earnings (Loss) | Reclassifications | Total per Consolidated Statements Comprehensive Income |
|--|-------------------------|-------------|-------------|-----------|-------------------------------|-------------------|--|
|  | Single-family Guarantee | Multifamily | Investments | All Other |                               |                   |  |
| Net interest income (expense)  | \$(111)                 | \$ 523      | \$ 2,202    | \$ —      | \$ 2,614                      | \$ 5,002          | \$ 7,616   |
| Guarantee fee income <sup>(1)</sup>  | 2,582                   | 152         | —           | —         | 2,734                         | (2,554)           | 180  |
| Benefit (provision) for credit losses  | (517)                   | 20          | —           | —         | (497)                         | 1,853             | 1,356  |
| Net interest income and guarantee fee income after benefit (provision) for credit losses | 1,954                   | 695         | 2,202       | —         | 4,851                         | 4,301             | 9,152  |

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|   |       |        |      |          |        |         |        |        |          |        |        |        |   |
|---|-------|--------|------|----------|--------|---------|--------|--------|----------|--------|--------|--------|---|
| Net impairment of available-for-sale securities recognized in earnings        | —     | (25    | )    | 213      | —      | 188     | (379   | )      | (191     | )      |        |        |   |
| Derivative gains (losses)   | (38   | )      | 509  | 1,729    | —      | 2,200   | (1,468 | )      | 732      |        |        |        |   |
| Gains (losses) on trading securities  | —     | (47    | )    | (226     | )      | —       | (273   | )      | —        | (273   | )      |        |   |
| Gains (losses) on loans   | —     | 94     |      | —        | —      | 94      | (1,218 | )      | (1,124   | )      |        |        |   |
| Other non-interest income   | (177  | )      | 64   | 1,202    | —      | 1,089   | (19    | )      | 1,070    |        |        |        |   |
| Administrative expense  | (629  | )      | (160 | )        | (163   | )       | —      | (952   | )        | —      | (952   | )      |   |
| REO operations expense  | (127  | )      | —    | —        | —      | (127    | )      | —      | (127     | )      |        |        |   |
| Other non-interest expense  | (179  | )      | (23  | )        | (2     | )       | —      | (204   | )        | (1,217 | )      | (1,421 | ) |
| Income tax expense  | (255  | )      | (350 | )        | (1,568 | )       | —      | (2,173 | )        | —      | (2,173 | )      |   |
| Net income  | 549   | 757    |      | 3,387    | —      | 4,693   | —      |        | 4,693    |        |        |        |   |
| Changes in unrealized gains (losses) related to available-for-sale securities | —     | (127   | )    | (30      | )      | —       | (157   | )      | —        | (157   | )      |        |   |
| Changes in unrealized gains (losses) related to cash flow hedge relationships | —     | —      |      | 97       | —      | 97      | —      |        | 97       |        |        |        |   |
| Changes in defined benefit plans  | (1    | )      | —    | —        | 27     | 26      | —      |        | 26       |        |        |        |   |
| Total other comprehensive income (loss), net of taxes                         | (1    | )      | (127 | )        | 67     | 27      | (34    | )      | —        | (34    | )      |        |   |
| Comprehensive income  | \$548 | \$ 630 |      | \$ 3,454 | \$ 27  | \$4,659 | \$ —   |        | \$ 4,659 |        |        |        |   |

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

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 12

NOTE 12: CONCENTRATION OF CREDIT AND OTHER RISKS  
SINGLE-FAMILY CREDIT GUARANTEE PORTFOLIO

The table below summarizes the concentration by book and geographic area of the approximately \$1.7 trillion UPB of our single-family credit guarantee portfolio at both June 30, 2016 and December 31, 2015. See Note 4 and Note 5 for more information about credit risk associated with loans and mortgage-related securities that we hold or guarantee.

|                                      | June 30, 2016        |                          | December 31, 2015    |                          | Percent of Credit Losses |          |
|--------------------------------------|----------------------|--------------------------|----------------------|--------------------------|--------------------------|----------|
|                                      | Percent of Portfolio | Serious Delinquency Rate | Percent of Portfolio | Serious Delinquency Rate | YTD 2016                 | YTD 2015 |
| <b>Book of Business</b>              |                      |                          |                      |                          |                          |          |
| Core single-family book              | 69 %                 | 0.18 %                   | 66 %                 | 0.21 %                   | 7 %                      | 2 %      |
| HARP and other relief refinance book | 17 %                 | 0.67 %                   | 18 %                 | 0.72 %                   | 17 %                     | 6 %      |
| Legacy single-family book            | 14 %                 | 3.59 %                   | 16 %                 | 4.12 %                   | 76 %                     | 92 %     |
| Total                                | 100 %                | 1.08 %                   | 100 %                | 1.32 %                   | 100 %                    | 100 %    |
| <b>Region<sup>(1)</sup></b>          |                      |                          |                      |                          |                          |          |
| West                                 | 29 %                 | 0.65 %                   | 29 %                 | 0.79 %                   | 10 %                     | 12 %     |
| Northeast                            | 25 %                 | 1.63 %                   | 26 %                 | 2.04 %                   | 40 %                     | 45 %     |
| North Central                        | 17 %                 | 0.95 %                   | 17 %                 | 1.13 %                   | 26 %                     | 15 %     |
| Southeast                            | 16 %                 | 1.27 %                   | 16 %                 | 1.57 %                   | 19 %                     | 25 %     |
| Southwest                            | 13 %                 | 0.75 %                   | 12 %                 | 0.88 %                   | 5 %                      | 3 %      |
| Total                                | 100 %                | 1.08 %                   | 100 %                | 1.32 %                   | 100 %                    | 100 %    |
| <b>State<sup>(2)</sup></b>           |                      |                          |                      |                          |                          |          |
| New Jersey                           | 4 %                  | 2.85 %                   | 4 %                  | 3.90 %                   | 10 %                     | 16 %     |
| Illinois                             | 5 %                  | 1.38 %                   | 5 %                  | 1.62 %                   | 10 %                     | 8 %      |
| New York                             | 5 %                  | 2.37 %                   | 5 %                  | 2.94 %                   | 10 %                     | 13 %     |
| Florida                              | 5 %                  | 1.65 %                   | 5 %                  | 2.16 %                   | 8 %                      | 20 %     |
| Maryland                             | 3 %                  | 1.37 %                   | 3 %                  | 1.64 %                   | 6 %                      | 4 %      |
| All other                            | 78 %                 | 0.86 %                   | 78 %                 | 1.03 %                   | 56 %                     | 39 %     |
| Total                                | 100 %                | 1.08 %                   | 100 %                | 1.32 %                   | 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 2016.

## CREDIT PERFORMANCE OF CERTAIN HIGHER RISK SINGLE-FAMILY LOAN CATEGORIES

Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A.

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:

Purchased pursuant to a previously issued other mortgage-related guarantee;

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## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 12

Part of our relief refinance initiative; or

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, 2016                          | December 31, 2015 | June 30, 2016                           |  | December 31, 2015 |  |
| Interest-only                                      | 1 %                                    | 1 %               | 4.90 %                                  |  | 6.02 %            |  |
| Alt-A  | 2 %                                    | 2 %               | 5.53 %                                  |  | 6.32 %            |  |
| Original LTV ratio greater than 90% <sup>(2)</sup> | 16 %                                   | 16 %              | 1.64 %                                  |  | 2.01 %            |  |
| Lower credit scores at origination (less than 620) | 2 %                                    | 2 %               | 5.69 %                                  |  | 6.67 %            |  |

(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

We acquire a significant portion of our single-family and multifamily loan purchase volume from several large sellers. The table below summarizes the concentration of single-family and multifamily sellers who provided 10% or more of our purchase volume during YTD 2016.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 12

|                                  | YTD<br>2016 | YTD<br>2015 |
|----------------------------------|-------------|-------------|
| Single-family Seller             |             |             |
| Wells Fargo Bank, N.A.           | 13 %        | 11 %        |
| Other top 10 sellers             | 34          | 40          |
| Top 10 single-family sellers     | 47 %        | 51 %        |
| Multifamily Seller               |             |             |
| Berkadia Commercial Mortgage LLC | 20 %        | 8 %         |
| CBRE Capital Markets, Inc.       | 18          | 17          |
| Walker & Dunlop, LLC             | 12          | 14          |
| Other top 10 sellers             | 32          | 45          |
| Top 10 multifamily sellers       | 82 %        | 84 %        |

In recent years, there has been a shift in our 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 three non-depository sellers provided approximately 12% of our single-family purchase volume during YTD 2016.

Significant portions of our single-family and multifamily loans are serviced by several large servicers. The table below summarizes 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 K Certificates as of June 30, 2016.

|                                  | June<br>30,<br>2016 | December<br>31, 2015 |
|----------------------------------|---------------------|----------------------|
| Single-family Servicer           |                     |                      |
| Wells Fargo Bank, N.A.           | 20 %                | 20 %                 |
| Other top 10 servicers           | 42                  | 45                   |
| Top 10 single-family servicers   | 62 %                | 65 %                 |
| Multifamily Servicer             |                     |                      |
| Wells Fargo Bank, N.A.           | 14 %                | 14 %                 |
| CBRE Capital Markets, Inc.       | 12                  | 12                   |
| Berkadia Commercial Mortgage LLC | 10                  | 14                   |
| Other top 10 servicers           | 41                  | 36                   |
| Top 10 multifamily servicers     | 77 %                | 76 %                 |

In recent years, there has been a shift in our 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 both June 30, 2016 and December 31, 2015, approximately 10% of our single-family credit guarantee portfolio was serviced by our three largest non-depository servicers, on a combined basis. Several of these non-depository servicers also service a large share of the loans underlying our investments in non-agency mortgage-related securities. We routinely monitor the performance of our largest non-depository servicers.

Ocwen Financial Corp. (Ocwen) and its subsidiaries and/or affiliates continue to be the subject of adverse regulatory scrutiny. Although we have taken steps to reduce our exposure to them, Ocwen remains one of

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 12

our significant non-depository servicers. We continue to closely monitor the performance of Ocwen's \$25.9 billion servicing portfolio as of June 30, 2016.

**MORTGAGE INSURERS**

We have institutional 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 loan loss reserves. See Note 4 for additional information. As of June 30, 2016, mortgage insurers provided coverage with maximum loss limits of \$69.7 billion, for \$271.4 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.

|   | Credit Rating <sup>(1)</sup> | Mortgage Insurance Coverage |                   |
|---|------------------------------|-----------------------------|-------------------|
|   |                              | June 30, 2016               | December 31, 2015 |
| Radian Guaranty Inc.                          | BBB-                         | 22%                         | 22%               |
| United Guaranty Residential Insurance Company | BBB+                         | 22                          | 23                |
| Mortgage Guaranty Insurance Corporation       | BBB-                         | 21                          | 21                |
| Genworth Mortgage Insurance Corporation       | BB+                          | 14                          | 14                |
| Total   |                              | 79%                         | 80%               |

Ratings are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of June 30, 2016. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

We received proceeds of \$0.2 billion and \$0.4 billion during YTD 2016 and YTD 2015, 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 \$0.2 billion and \$0.3 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of June 30, 2016 and December 31, 2015, respectively. The balance of these receivables, net of associated reserves, was approximately \$0.1 billion and \$0.2 billion at June 30, 2016 and December 31, 2015, respectively.

PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both in rehabilitation, and a substantial portion of their claims is recorded by us as deferred payment obligations. As of both June 30, 2016 and December 31, 2015, we had cumulative unpaid deferred payment obligations of \$0.5 billion from these insurers. We reserved 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.



## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 12

**CASH AND OTHER INVESTMENT COUNTERPARTIES**

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We are exposed to institutional credit risk relating to the potential insolvency of, or the non-performance by, counterparties relating to cash and other investments (including non-mortgage-related investments and cash equivalents) transactions, including those entered into on behalf of our securitization trusts. Our policies require that the issuer be rated as investment grade at the time the financial instrument is purchased. We base the permitted term and dollar limits for each of these transactions on the counterparty's financial strength in order to further mitigate our risk.

Our cash and other investments (including non-mortgage-related investments and cash equivalents) counterparties are primarily major financial institutions, including other GSEs, Treasury, and the Federal Reserve Bank of New York. As of June 30, 2016 and December 31, 2015, including amounts related to our consolidated VIEs, there were \$74.5 billion and \$83.8 billion, respectively, of cash and securities purchased under agreements to resell invested with institutional counterparties, U.S. Treasury securities classified as cash equivalents, or cash deposited with the Federal Reserve Bank of New York. As of June 30, 2016, all of our securities purchased under agreements to resell were fully collateralized.

**NON-AGENCY MORTGAGE-RELATED SECURITY ISSUERS**

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We are engaged in various loss mitigation efforts concerning certain investments in non-agency mortgage-related securities, including the efforts described below.

In 2011, FHFA, as Conservator for Freddie Mac and Fannie Mae, filed lawsuits against a number of corporate families of financial institutions and related defendants alleging securities laws violations and, in some cases, fraud. In March 2015, FHFA's case against Nomura Holding America, Inc. (or Nomura) went to trial in the U.S. District Court for the Southern District of New York. The trial was completed in April 2015. In May 2015, the judge ruled against Nomura and co-defendant RBS Securities Inc. and ordered the defendants to pay an aggregate of \$806 million, of which \$779 million will be paid to Freddie Mac. The order also provides for Freddie Mac to transfer the mortgage-related securities at issue in this trial to the defendants. The defendants have agreed to pay for certain costs, legal fees and expenses if FHFA prevails in the litigation. This expense reimbursement payment is subject to various conditions, and is capped at \$33 million (half of any such payment would be made to Freddie Mac). The defendants have filed a notice of appeal and the Court has stayed enforcement of the judgment during the pendency of the appeal. We have been working with an investor consortium that seeks to enforce certain claims relating to certain Countrywide non-agency mortgage-related securities. In June 2011, Bank of America Corporation, BAC Home Loans Servicing, LP, Countrywide Financial Corporation and Countrywide Home Loans, Inc. entered into a settlement agreement with The Bank of New York Mellon, as trustee, to resolve certain claims with respect to a number of Countrywide mortgage securitization trusts. In January 2014, a New York state court approved a significant portion of the settlement. In March 2015, a New York intermediate appellate court upheld the settlement in full. The conditions to the settlement have been satisfied. In February 2016, the trustee filed a petition in New York state court seeking the court's resolution of a dispute among the investors over the proper allocation of the settlement proceeds through certain trusts covered by the agreement. In May 2016, a judge ordered distribution of allocable shares under the settlement agreement to most of the trusts covered by the settlement, including to all of the securities we hold. In June 2016, we received the funds from the settlement with a benefit to Freddie Mac of

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 12

approximately \$315 million. The benefit from this settlement will be recognized in earnings over the expected remaining life of the securities.

We have also been working with an investor consortium that seeks to enforce certain claims relating to certain Citigroup non-agency mortgage-related securities. In April 2014, Citigroup Inc. entered into a settlement agreement with the trustees of the securities covered by the settlement. In December 2015, a New York state court entered a judgment approving the settlement in all respects. The order became final in January 2016. It is likely that the conditions of the settlement will be fully satisfied in the near term. As a result, we expect to receive a benefit for those securitizations that we hold at the time of such distributions. This benefit, which is expected to be approximately \$45 million, will be reflected in earnings recognized over the expected life of the securities.

We have also been working with an investor consortium that seeks to enforce certain claims with J.P. Morgan Chase & Co. relating to a number of mortgage securitization trusts. In October 2014, the trustees of the securitizations filed suit in New York state court seeking approval of the settlement. If the settlement is approved, we would expect to receive a benefit from the settlement for those covered securitizations that we hold at the time settlement proceeds are distributed to the trusts. It is not possible to predict the timing or ultimate outcome of the approval process for this settlement, which could take substantial time.

The majority of the single-family loans underlying our investments in non-agency mortgage-related securities are serviced by non-depository servicers. As of June 30, 2016 and December 31, 2015, approximately \$10.4 billion and \$13.0 billion, respectively, in UPB of loans underlying our investments in single-family non-agency mortgage-related securities were serviced by subsidiaries and/or affiliates of Ocwen.

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

**NOTE 13: FAIR VALUE DISCLOSURE**

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**

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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:

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

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

• 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.

**VALUATION PROCESSES AND CONTROLS OVER FAIR VALUE MEASUREMENTS**

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We designed our control processes so that our fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, and that our valuation approaches are consistently applied and the assumptions and inputs are reasonable. Our control processes provide a framework for segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

## VALUATION TECHNIQUES

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### HARP Loans

For loans that have been refinanced under HARP, we value our guarantee obligation using the guarantee fees currently charged by us under that initiative. HARP loans valued using this technique are classified as Level 2, as the fees charged by us are observable. The majority of our HARP loans are classified as Level 2. If, subsequent to delivery, the refinanced loan no longer qualifies for purchase based on current underwriting standards (such as becoming past due or being modified), the fair value of the guarantee obligation is then measured using our internal credit models or the median of external sources, if the loan's principal market has changed to the whole loan market. HARP loans valued using either of these techniques are classified as Level 3 as significant inputs are unobservable.

The total compensation that we receive for the delivery of a HARP loan reflects 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 in December 2016, the beneficial pricing afforded to HARP loans will 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 \$9.9 billion and \$12.9 billion as of June 30, 2016 and December 31, 2015, respectively. The total fair value of the loans in our portfolio that reflect the pricing afforded to HARP loans as of June 30, 2016 and December 31, 2015 is \$69.8 billion and \$82.8 billion, respectively.

### ASSETS AND LIABILITIES ON OUR CONSOLIDATED BALANCE SHEETS MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

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

| (in millions)   | June 30, 2016 |           |          | Netting<br>Adjustment <sup>(1)</sup> | Total     |
|---|---------------|-----------|----------|--------------------------------------|-----------|
|   | Level 1       | Level 2   | Level 3  |                                      |           |
| Assets:   |               |           |          |                                      |           |
| Investments in securities:  |               |           |          |                                      |           |
| Available-for-sale, at fair value:  |               |           |          |                                      |           |
| Mortgage-related securities:  |               |           |          |                                      |           |
| Freddie Mac   | \$—           | \$35,708  | \$11,462 | \$—                                  | \$47,170  |
| Fannie Mae  | —             | 4,888     | 73       | —                                    | 4,961     |
| Ginnie Mae  | —             | 141       | —        | —                                    | 141       |
| CMBS  | —             | 5,790     | 3,611    | —                                    | 9,401     |
| Subprime  | —             | —         | 9,975    | —                                    | 9,975     |
| Option ARM  | —             | —         | 2,586    | —                                    | 2,586     |
| Alt-A and other   | —             | —         | 2,394    | —                                    | 2,394     |
| Obligations of states and political subdivisions                            | —             | —         | 890      | —                                    | 890       |
| Manufactured housing  | —             | —         | 542      | —                                    | 542       |
| Total available-for-sale securities, at fair value                          | —             | 46,527    | 31,533   | —                                    | 78,060    |
| Trading, at fair value:   |               |           |          |                                      |           |
| Mortgage-related securities:  |               |           |          |                                      |           |
| Freddie Mac   | —             | 14,663    | 315      | —                                    | 14,978    |
| Fannie Mae  | —             | 6,200     | 615      | —                                    | 6,815     |
| Ginnie Mae  | —             | 135       | —        | —                                    | 135       |
| Other   | —             | 72        | 1        | —                                    | 73        |
| Total mortgage-related securities   | —             | 21,070    | 931      | —                                    | 22,001    |
| Non-mortgage-related securities   | 12,131        | 77        | —        | —                                    | 12,208    |
| Total trading securities, at fair value                                     | 12,131        | 21,147    | 931      | —                                    | 34,209    |
| Total investments in securities   | 12,131        | 67,674    | 32,464   | —                                    | 112,269   |
| Mortgage loans:   |               |           |          |                                      |           |
| Held-for-sale, at fair value  | —             | 14,905    | —        | —                                    | 14,905    |
| Derivative assets, net:   |               |           |          |                                      |           |
| Interest-rate swaps   | —             | 9,327     | —        | —                                    | 9,327     |
| Option-based derivatives  | —             | 8,086     | —        | —                                    | 8,086     |
| Other   | —             | 189       | 10       | —                                    | 199       |
| Subtotal, before netting adjustments  | —             | 17,602    | 10       | —                                    | 17,612    |
| Netting adjustments <sup>(1)</sup>  | —             | —         | —        | (16,133)                             | (16,133)  |
| Total derivative assets, net  | —             | 17,602    | 10       | (16,133)                             | 1,479     |
| Other assets:   |               |           |          |                                      |           |
| Guarantee asset, at fair value  | —             | —         | 2,057    | —                                    | 2,057     |
| Non-derivative held-for-sale purchase commitments, at fair value            | —             | 126       | —        | —                                    | 126       |
| Total other assets  | —             | 126       | 2,057    | —                                    | 2,183     |
| Total assets carried at fair value on a recurring basis                     | \$12,131      | \$100,307 | \$34,531 | \$ (16,133)                          | \$130,836 |
| Liabilities:  |               |           |          |                                      |           |
| Debt securities of consolidated trusts held by third parties, at fair value | \$—           | \$185     | \$—      | \$—                                  | \$185     |
| Other debt, at fair value   | —             | 6,507     | 52       | —                                    | 6,559     |

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|  |     |          |       |            |             |
|--|-----|----------|-------|------------|-------------|
| Derivative liabilities, net:                                     |     |          |       |            |             |
| Interest-rate swaps  | —   | 24,190   | —     | —          | 24,190      |
| Option-based derivatives   | —   | 152      | —     | —          | 152         |
| Other  | —   | 280      | 37    | —          | 317         |
| Subtotal, before netting adjustments                             | —   | 24,622   | 37    | —          | 24,659      |
| Netting adjustments <sup>(1)</sup>                               | —   | —        | —     | (23,416    | ) (23,416 ) |
| Total derivative liabilities, net                                | —   | 24,622   | 37    | (23,416    | ) 1,243     |
| Other liabilities:   |     |          |       |            |             |
| Non-derivative held-for-sale purchase commitments, at fair value | —   | 12       | —     | —          | 12          |
| All other, at fair value   | —   | —        | 15    | —          | 15          |
| Total other liabilities  | —   | 12       | 15    | —          | 27          |
| Total liabilities carried at fair value on a recurring basis     | \$— | \$31,326 | \$104 | \$ (23,416 | ) \$8,014   |

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

| (in millions)   | December 31, 2015 |          |          | Netting<br>Adjustment <sup>(1)</sup> | Total     |
|---|-------------------|----------|----------|--------------------------------------|-----------|
|   | Level 1           | Level 2  | Level 3  |                                      |           |
| Assets:   |                   |          |          |                                      |           |
| Investments in securities:  |                   |          |          |                                      |           |
| Available-for-sale, at fair value:  |                   |          |          |                                      |           |
| Mortgage-related securities:  |                   |          |          |                                      |           |
| Freddie Mac   | \$—               | \$30,919 | \$2,608  | \$—                                  | \$33,527  |
| Fannie Mae  | —                 | 7,172    | 90       | —                                    | 7,262     |
| Ginnie Mae  | —                 | 161      | 1        | —                                    | 162       |
| CMBS  | —                 | 8,918    | 3,530    | —                                    | 12,448    |
| Subprime  | —                 | —        | 12,802   | —                                    | 12,802    |
| Option ARM  | —                 | —        | 3,678    | —                                    | 3,678     |
| Alt-A and other   | —                 | —        | 3,278    | —                                    | 3,278     |
| Obligations of states and political subdivisions                            | —                 | —        | 1,205    | —                                    | 1,205     |
| Manufactured housing  | —                 | —        | 575      | —                                    | 575       |
| Total available-for-sale securities, at fair value                          | —                 | 47,170   | 27,767   | —                                    | 74,937    |
| Trading, at fair value:   |                   |          |          |                                      |           |
| Mortgage-related securities:  |                   |          |          |                                      |           |
| Freddie Mac   | —                 | 15,182   | 331      | —                                    | 15,513    |
| Fannie Mae  | —                 | 6,397    | 41       | —                                    | 6,438     |
| Ginnie Mae  | —                 | 30       | —        | —                                    | 30        |
| Other   | —                 | 144      | 2        | —                                    | 146       |
| Total mortgage-related securities   | —                 | 21,753   | 374      | —                                    | 22,127    |
| Non-mortgage-related securities   | 17,151            | —        | —        | —                                    | 17,151    |
| Total trading securities, at fair value                                     | 17,151            | 21,753   | 374      | —                                    | 39,278    |
| Total investments in securities   | 17,151            | 68,923   | 28,141   | —                                    | 114,215   |
| Mortgage loans:   |                   |          |          |                                      |           |
| Held-for-sale, at fair value  | —                 | 17,660   | —        | —                                    | 17,660    |
| Derivative assets, net:   |                   |          |          |                                      |           |
| Interest-rate swaps   | —                 | 4,911    | —        | —                                    | 4,911     |
| Option-based derivatives  | —                 | 4,821    | —        | —                                    | 4,821     |
| Other   | —                 | 34       | 25       | —                                    | 59        |
| Subtotal, before netting adjustments  | —                 | 9,766    | 25       | —                                    | 9,791     |
| Netting adjustments <sup>(1)</sup>  | —                 | —        | —        | (9,396)                              | (9,396)   |
| Total derivative assets, net  | —                 | 9,766    | 25       | (9,396)                              | 395       |
| Other assets:   |                   |          |          |                                      |           |
| Guarantee asset, at fair value  | —                 | —        | 1,753    | —                                    | 1,753     |
| Total assets carried at fair value on a recurring basis                     | \$17,151          | \$96,349 | \$29,919 | \$ (9,396)                           | \$134,023 |
| Liabilities:  |                   |          |          |                                      |           |
| Debt securities of consolidated trusts held by third parties, at fair value | \$—               | \$139    | \$—      | \$—                                  | \$139     |
| Other debt, at fair value   | —                 | 7,045    | —        | —                                    | 7,045     |
| Derivative liabilities, net:  |                   |          |          |                                      |           |
| Interest-rate swaps   | —                 | 12,222   | —        | —                                    | 12,222    |
| Option-based derivatives  | —                 | 128      | —        | —                                    | 128       |

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|  |     |          |      |             |          |
|--|-----|----------|------|-------------|----------|
| Other  | —   | 28       | 33   | —           | 61       |
| Subtotal, before netting adjustments                         | —   | 12,378   | 33   | —           | 12,411   |
| Netting adjustments <sup>(1)</sup>                           | —   | —        | —    | (11,157)    | (11,157) |
| Total derivative liabilities, net                            | —   | 12,378   | 33   | (11,157)    | 1,254    |
| Other liabilities:   |     |          |      |             |          |
| All other, at fair value                                     | —   | —        | 10   | —           | 10       |
| Total liabilities carried at fair value on a recurring basis | \$— | \$19,562 | \$43 | \$ (11,157) | \$8,448  |

Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable. The net cash collateral posted was \$7.6 billion and \$2.3 billion, respectively, at June 30, 2016 and December 31, 2015. The net interest receivable (payable) of derivative assets and derivative liabilities was \$(0.4) billion and \$(0.6) billion at June 30, 2016 and December 31, 2015, respectively, which was mainly related to interest rate swaps.

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

## ASSETS ON OUR CONSOLIDATED BALANCE SHEETS 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 consolidated balance sheets at fair value on a non-recurring basis.

| (in millions)  | June 30, 2016   |         |         | December 31, 2015 |         |         |         |       |
|--|---|---------|---------|-------------------|---------|---------|---------|-------|
|  | Level 1   | Level 2 | Level 3 | Total             | Level 1 | Level 2 | Level 3 | Total |
|  | Assets measured at fair value on a non-recurring basis: |         |         |                   |         |         |         |       |
| Mortgage loans <sup>(1)</sup>                                | \$-615  | \$4,375 | \$4,990 | \$-1,130          | \$5,851 | \$6,981 |         |       |
| REO, net <sup>(2)</sup>                                      | —   | 278     | 278     | —                 | 1,046   | 1,046   |         |       |
| Total assets measured at fair value on a non-recurring basis | \$-615  | \$4,653 | \$5,268 | \$-1,130          | \$6,897 | \$8,027 |         |       |

(1) 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.

(2) Represents the fair value of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was adjusted to fair value of \$0.3 billion, less estimated costs to sell of \$18 million (or approximately \$0.3 billion) at June 30, 2016. The carrying amount of REO, net was adjusted to fair value of \$1.0 billion, less estimated costs to sell of \$68 million (or approximately \$0.9 billion) at December 31, 2015.

## LEVEL 3 FAIR VALUE MEASUREMENTS

The table below presents a reconciliation of all assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis using significant unobservable inputs (Level 3), including transfers into and out of Level 3 assets and liabilities. The table also presents gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our 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.

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

|  | 2Q 2016                                |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
|--|--|---|-------|-------|---------|-----------|---------|----------|-----------------|---------------------------------------|---|------------------------|--------------------------------------|
|  | Realized and unrealized gains (losses) |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
|  | Balance, April 1, 2016                 | Included in earnings comprehensive income |       |       | Total   | Purchases | Issues  | Sales    | Settlements net | Transfers into Level 3 <sup>(1)</sup> | Transfers out of Level 3 <sup>(1)</sup> | Balance, June 30, 2016 | Unrealized gains (losses) still held |
|  | in millions                            |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Assets   |  |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Investments in securities:                           |  |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Available-for-sale, at fair value:                   |  |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Mortgage-related securities:                         |  |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Freddie Mac  | \$4,369                                | \$6                                       | \$ 96 | \$102 | \$9,621 | \$—       | \$(109) | \$ (61 ) | \$ —            | \$(2,460)                             | \$11,462                                | \$ —                   |                                      |
| Fannie Mae   | 84                                     | —   | —     | —     | —       | —         | —       | (5 )     | —               | (6 )                                  | 73                                      | —                      |                                      |
| Ginnie Mae   | 1                                      | (1 )                                      | —     | (1 )  | —       | —         | —       | —        | —               | —                                     | —                                       | —                      |                                      |
| CMBS   | 3,627                                  | 1   | 10    | 11    | —       | —         | (17 )   | (10 )    | —               | —                                     | 3,611                                   | 1                      |                                      |
| Subprime   | 11,947                                 | 141                                       | (3 )  | 138   | —       | —         | (1,402) | (708 )   | —               | —                                     | 9,975                                   | 8                      |                                      |
| Option ARM   | 3,325                                  | 50  | 40    | 90    | —       | —         | (679 )  | (150 )   | —               | —                                     | 2,586                                   | 12                     |                                      |
| Alt-A and other                                      | 2,940                                  | 63  | (23 ) | 40    | —       | —         | (362 )  | (224 )   | —               | —                                     | 2,394                                   | 24                     |                                      |
| Obligations of states and political subdivisions     | 1,012                                  | —   | —     | —     | —       | —         | —       | (122 )   | —               | —                                     | 890                                     | —                      |                                      |
| Manufactured housing                                 | 556                                    | 1   | 2     | 3     | —       | —         | —       | (17 )    | —               | —                                     | 542                                     | 1                      |                                      |
| Total available-for-sale mortgage-related securities | 27,861                                 | 261                                       | 122   | 383   | 9,621   | —         | (2,569) | (1,297)  | —               | (2,466 )                              | 31,533                                  | 46                     |                                      |
| Trading, at fair value:                              |  |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Mortgage-related securities:                         |  |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Freddie Mac  | 123                                    | 3   | —     | 3     | 204     | 46        | (4 )    | (2 )     | 19              | (74 )                                 | 315                                     | (3 )                   |                                      |
| Fannie Mae   | 29                                     | (1 )                                      | —     | (1 )  | 595     | —         | —       | (8 )     | —               | —                                     | 615                                     | (1 )                   |                                      |
| Ginnie Mae   | —                                      | —   | —     | —     | —       | —         | —       | —        | —               | —                                     | —                                       | —                      |                                      |
| Other  | 1                                      | —   | —     | —     | —       | —         | —       | —        | —               | —                                     | 1                                       | —                      |                                      |
| Total trading mortgage-related securities            | 153                                    | 2   | —     | 2     | 799     | 46        | (4 )    | (10 )    | 19              | (74 )                                 | 931                                     | (4 )                   |                                      |
| Other assets:  |  |   |       |       |         |           |         |          |                 |                                       |   |                        |                                      |
| Guarantee asset                                      | 1,894                                  | 10  | —     | 10    | 219     | 22        | —       | (88 )    | —               | —                                     | 2,057                                   | 10                     |                                      |

Realized and unrealized (gains) losses

Total Purchases Issues Sales Settlements,

Unrealized

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|                                | Balance, April 1, 2016 | Included in earnings | Included in other comprehensive income |     |     |       | net |      | Transfers into Level 3 <sup>(1)</sup> | Transfers out of Level 3 <sup>(1)</sup> | Balance, June 30, 2016 | (gains) losses still held |
|--------------------------------|------------------------|----------------------|--|-----|-----|-------|-----|------|---------------------------------------|---|------------------------|---------------------------|
| (in millions)                  |                        |                      |  |     |     |       |     |      |                                       |   |                        |                           |
| <b>Liabilities</b>             |                        |                      |  |     |     |       |     |      |                                       |   |                        |                           |
| Other debt, at fair value      | \$—                    | \$—                  | \$—                                    | \$— | \$— | \$ 52 | \$— | \$—  | \$—                                   | \$—                                     | \$ 52                  | \$—                       |
| Net derivatives <sup>(2)</sup> | 11                     | 71                   | —                                      | 71  | —   | —     | —   | (55) | —                                     | —                                       | 27                     | 19                        |
| Other liabilities:             |                        |                      |  |     |     |       |     |      |                                       |   |                        |                           |
| All other, at fair value       | 8                      | 7                    | —                                      | 7   | —   | —     | —   | —    | —                                     | —                                       | 15                     | 15                        |

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

|  | YTD 2016                               |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
|--|--|----------------------|--|-------|-----------|--------|---------|-----------------|---------------------------------------|---|------------------------|--------------------------------------|
|  | Realized and unrealized gains (losses) |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
|  | Balance, January 1, 2016               | Included in earnings | Included in other comprehensive income | Total | Purchases | Issues | Sales   | Settlements net | Transfers into Level 3 <sup>(1)</sup> | Transfers out of Level 3 <sup>(1)</sup> | Balance, June 30, 2016 | Unrealized gains (losses) still held |
|  | (in millions)                          |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Assets   |  |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Investments in securities:                           |  |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Available-for-sale, at fair value:                   |  |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Mortgage-related securities:                         |  |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Freddie Mac  | \$2,608                                | \$20                 | \$ 67                                  | \$87  | \$9,637   | \$—    | \$(471) | \$(84 )         | \$—                                   | \$(315 )                                | \$11,462               | \$—                                  |
| Fannie Mae   | 90                                     | —                    | —                                      | —     | —         | —      | —       | (10 )           | —                                     | (7 )                                    | 73                     | —                                    |
| Ginnie Mae   | 1                                      | —                    | —                                      | —     | —         | —      | —       | (1 )            | —                                     | —                                       | —                      | —                                    |
| CMBS   | 3,530                                  | 1                    | 98                                     | 99    | —         | —      | —       | (18 )           | —                                     | —                                       | 3,611                  | 1                                    |
| Subprime   | 12,802                                 | 167                  | (173 )                                 | (6 )  | —         | —      | (1,610) | (1,211)         | —                                     | —                                       | 9,975                  | 39                                   |
| Option ARM   | 3,678                                  | 108                  | (49 )                                  | 59    | —         | —      | (861 )  | (290 )          | —                                     | —                                       | 2,586                  | 43                                   |
| Alt-A and other                                      | 3,278                                  | 98                   | (63 )                                  | 35    | —         | —      | (547 )  | (372 )          | —                                     | —                                       | 2,394                  | 50                                   |
| Obligations of states and political subdivisions     | 1,205                                  | 1                    | (2 )                                   | (1 )  | —         | —      | —       | (314 )          | —                                     | —                                       | 890                    | —                                    |
| Manufactured housing                                 | 575                                    | 1                    | (2 )                                   | (1 )  | —         | —      | —       | (32 )           | —                                     | —                                       | 542                    | 1                                    |
| Total available-for-sale mortgage-related securities | 27,767                                 | 396                  | (124 )                                 | 272   | 9,637     | —      | (3,489) | (2,332)         | —                                     | (322 )                                  | 31,533                 | 134                                  |
| Trading, at fair value:                              |  |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Mortgage-related securities:                         |  |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Freddie Mac  | 331                                    | (8 )                 | —                                      | (8 )  | 204       | 46     | (142 )  | (2 )            | 19                                    | (133 )                                  | 315                    | (5 )                                 |
| Fannie Mae   | 41                                     | —                    | —                                      | —     | 594       | —      | (13 )   | (7 )            | —                                     | —                                       | 615                    | (2 )                                 |
| Ginnie Mae   | —                                      | —                    | —                                      | —     | —         | —      | —       | —               | —                                     | —                                       | —                      | —                                    |
| Other  | 2                                      | —                    | —                                      | —     | —         | —      | —       | (1 )            | —                                     | —                                       | 1                      | —                                    |
| Total trading mortgage-related securities            | 374                                    | (8 )                 | —                                      | (8 )  | 798       | 46     | (155 )  | (10 )           | 19                                    | (133 )                                  | 931                    | (7 )                                 |
| Other assets:  |  |                      |  |       |           |        |         |                 |                                       |   |                        |                                      |
| Guarantee asset                                      | 1,753                                  | 68                   | —                                      | 68    | 360       | 38     | —       | (162 )          | —                                     | —                                       | 2,057                  | 68                                   |

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|                                | January 1, 2016 | Included in earnings | Included in other comprehensive income |     |     |       |     | net  | into Level 3 <sup>(1)</sup> | out of Level 3 <sup>(1)</sup> | June 30, 2016 | (gains) losses still held |
|--------------------------------|-----------------|----------------------|--|-----|-----|-------|-----|------|-----------------------------|-------------------------------|---------------|---------------------------|
| (in millions)                  |                 |                      |  |     |     |       |     |      |                             |                               |               |                           |
| <b>Liabilities</b>             |                 |                      |  |     |     |       |     |      |                             |                               |               |                           |
| Other debt, at fair value      | \$—             | \$—                  | \$ —                                   | \$— | \$— | \$ 52 | \$— | \$ — | \$ —                        | \$ —                          | \$ 52         | \$ —                      |
| Net derivatives <sup>(2)</sup> | 8               | 75                   | —                                      | 75  | —   | —     | —   | (56  | )                           | —                             | 27            | 19                        |
| Other liabilities:             |                 |                      |  |     |     |       |     |      |                             |                               |               |                           |
| All other, at fair value       | 10              | 5                    | —                                      | 5   | —   | —     | —   | —    | —                           | —                             | 15            | 15                        |

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

|  | 2Q 2015                                |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
|--|--|----------------------|--|-------|-----------|--------|---------|-----------------|------------------------|--------------------------|------------------------|--------------------------------------|
|  | Realized and unrealized gains (losses) |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
|  | Balance, April 1, 2015                 | Included in earnings | Included in other comprehensive income | Total | Purchases | Issues | Sales   | Settlements net | Transfers into Level 3 | Transfers out of Level 3 | Balance, June 30, 2015 | Unrealized gains (losses) still held |
| Assets   |  |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
| Investments in securities:                           |  |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
| Available-for-sale, at fair value:                   |  |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
| Mortgage-related securities:                         |  |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
| Freddie Mac  | \$2,683                                | \$14                 | \$ (2 )                                | \$12  | \$ 624    | \$ —   | \$(332) | \$ 302          | \$ 4                   | \$(150)                  | \$3,143                | \$ (1 )                              |
| Fannie Mae   | 113                                    | —                    | 1                                      | 1     | —         | —      | (7 )    | —               | (3 )                   | —                        | 104                    | —                                    |
| Ginnie Mae   | 3                                      | —                    | —                                      | —     | —         | —      | (1 )    | —               | —                      | —                        | 2                      | —                                    |
| CMBS   | 3,552                                  | (9 )                 | (2 )                                   | (11 ) | —         | —      | (7 )    | —               | —                      | —                        | 3,534                  | (9 )                                 |
| Subprime   | 17,799                                 | 242                  | 92                                     | 334   | —         | —      | (1,701) | (630)           | —                      | —                        | 15,802                 | 54                                   |
| Option ARM   | 5,276                                  | 48                   | 88                                     | 136   | —         | —      | (422)   | (157)           | —                      | —                        | 4,833                  | (1 )                                 |
| Alt-A and other                                      | 4,788                                  | 91                   | 42                                     | 133   | —         | —      | (483)   | (214)           | —                      | (2 )                     | 4,222                  | 36                                   |
| Obligations of states and political subdivisions     | 1,827                                  | —                    | (8 )                                   | (8 )  | —         | —      | (192)   | —               | —                      | —                        | 1,627                  | —                                    |
| Manufactured housing                                 | 619                                    | —                    | 12                                     | 12    | —         | —      | (17)    | —               | —                      | —                        | 614                    | —                                    |
| Total available-for-sale mortgage-related securities | 36,660                                 | 386                  | 223                                    | 609   | 624       | —      | (2,939) | (922)           | 4                      | (155)                    | 33,881                 | 79                                   |
| Trading, at fair value:                              |  |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
| Mortgage-related securities:                         |  |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
| Freddie Mac  | 511                                    | (15 )                | —                                      | (15 ) | 41        | 19     | (10 )   | (2 )            | 45                     | (244)                    | 345                    | (12 )                                |
| Fannie Mae   | 139                                    | 10                   | —                                      | 10    | 100       | —      | (95)    | —               | 23                     | (6)                      | 171                    | (2 )                                 |
| Ginnie Mae   | —                                      | —                    | —                                      | —     | —         | —      | —       | —               | —                      | —                        | —                      | —                                    |
| Other  | 4                                      | —                    | —                                      | —     | —         | —      | (1)     | —               | —                      | —                        | 3                      | —                                    |
| Total trading mortgage-related securities            | 654                                    | (5 )                 | —                                      | (5 )  | 141       | 19     | (105)   | (3)             | 68                     | (250)                    | 519                    | (14 )                                |
| Other assets:  |  |                      |  |       |           |        |         |                 |                        |                          |                        |                                      |
| Guarantee asset                                      | 1,569                                  | 3                    | —                                      | 3     | —         | 220    | —       | (140)           | —                      | —                        | 1,652                  | 3                                    |
| All other, at fair value                             | 6                                      | 1                    | —                                      | 1     | —         | —      | —       | —               | —                      | —                        | 7                      | 1                                    |
| Total other assets                                   | 1,575                                  | 4                    | —                                      | 4     | —         | 220    | —       | (140)           | —                      | —                        | 1,659                  | 4                                    |

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|                                | April 1, 2015 | Included in earnings | Included in other comprehensive income | net   | into Level 3 | out of Level 3 | June 30, 2015 | (gains) losses still held |
|--------------------------------|---------------|----------------------|--|-------|--------------|----------------|---------------|---------------------------|
| Liabilities                    |               |                      |  |       |              |                |               |                           |
| Net derivatives <sup>(2)</sup> | \$25          | \$(9)                | \$ —                                   | \$(9) | \$ —         | \$ —           | \$6           | \$ —                      |

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

|  | YTD 2015             |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
|--|----------------------|----------------------|--|-------|-----------|-----------|---------|-----------------|------------------------|--------------------------|------------------------|--------------------------------------|
|  | Balance January 2015 | Included in earnings | Included in other comprehensive income | Total | Purchases | Issuances | Sales   | Settlements net | Transfers into Level 3 | Transfers out of Level 3 | Balance, June 30, 2015 | Unrealized gains (losses) still held |
| Assets   |                      |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
| Investments in securities:                           |                      |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
| Available-for-sale, at fair value:                   |                      |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
| Mortgage-related securities:                         |                      |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
| Freddie Mac  | \$4,231              | \$25                 | \$ (13 )                               | \$12  | \$ 722    | \$ —      | \$(394) | \$ 276          | \$ 5                   | \$(1,709)                | \$3,143                | \$ (2 )                              |
| Fannie Mae   | 85                   | —                    | 4                                      | 4     | —         | —         | —       | (14 )           | 38                     | (9 )                     | 104                    | —                                    |
| Ginnie Mae   | 4                    | —                    | —                                      | —     | —         | —         | —       | (2 )            | —                      | —                        | 2                      | —                                    |
| CMBS   | 3,474                | (25 )                | 100                                    | 75    | —         | —         | (1 )    | (14 )           | —                      | —                        | 3,534                  | (25 )                                |
| Subprime   | 20,589               | 527                  | 105                                    | 632   | —         | —         | (4,140) | (1,279 )        | —                      | —                        | 15,802                 | 77                                   |
| Option ARM   | 5,649                | 120                  | 58                                     | 178   | —         | —         | (689 )  | (305 )          | —                      | —                        | 4,833                  | 46                                   |
| Alt-A and other                                      | 5,027                | 137                  | 31                                     | 168   | —         | —         | (572 )  | (412 )          | 11                     | —                        | 4,222                  | 75                                   |
| Obligations of states and political subdivisions     | 2,198                | —                    | (12 )                                  | (12 ) | —         | —         | —       | (559 )          | —                      | —                        | 1,627                  | —                                    |
| Manufactured housing                                 | 638                  | (1 )                 | 11                                     | 10    | —         | —         | —       | (34 )           | —                      | —                        | 614                    | (1 )                                 |
| Total available-for-sale mortgage-related securities | 41,895               | 783                  | 284                                    | 1,067 | 722       | —         | (5,796) | (2,343 )        | 54                     | (1,718 )                 | 33,881                 | 170                                  |
| Trading, at fair value:                              |                      |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
| Mortgage-related securities:                         |                      |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
| Freddie Mac  | 927                  | (18 )                | —                                      | (18 ) | 41        | 19        | (11 )   | (3 )            | 46                     | (656 )                   | 345                    | (13 )                                |
| Fannie Mae   | 232                  | 10                   | —                                      | 10    | 100       | —         | (95 )   | (1 )            | 23                     | (98 )                    | 171                    | (1 )                                 |
| Ginnie Mae   | 1                    | —                    | —                                      | —     | —         | —         | (1 )    | —               | —                      | —                        | —                      | —                                    |
| Other  | 4                    | 4                    | —                                      | 4     | —         | —         | (4 )    | (1 )            | —                      | —                        | 3                      | —                                    |
| Total trading mortgage-related securities            | 1,164                | (4 )                 | —                                      | (4 )  | 141       | 19        | (111 )  | (5 )            | 69                     | (754 )                   | 519                    | (14 )                                |
| Other assets:  |                      |                      |  |       |           |           |         |                 |                        |                          |                        |                                      |
| Guarantee asset                                      | 1,626                | (12 )                | —                                      | (12 ) | —         | 314       | —       | (276 )          | —                      | —                        | 1,652                  | (12 )                                |
| All other, at fair value                             | 5                    | 2                    | —                                      | 2     | —         | —         | —       | —               | —                      | —                        | 7                      | 2                                    |
| Total other assets                                   | 1,631                | (10 )                | —                                      | (10 ) | —         | 314       | —       | (276 )          | —                      | —                        | 1,659                  | (10 )                                |

Realized and  
unrealized (gains)



|                                | Balance<br>January<br>1,<br>2015 | Included<br>in<br>earnings | losses<br>Included<br>in<br>other<br>comprehensive<br>income | Total<br>Purchases | Issuances | Sales | Settlements<br>net | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level 3 | Balance,<br>June<br>30,<br>2015 | Unrealized<br>(gains)<br>losses<br>still<br>held |
|--------------------------------|----------------------------------|----------------------------|--|--------------------|-----------|-------|--------------------|---------------------------------|--------------------------------|---------------------------------|--|
| Liabilities                    |                                  |                            |  |                    |           |       |                    |                                 |                                |                                 |  |
| Net derivatives <sup>(2)</sup> | \$10                             | \$16                       | \$ —   | \$16               | \$ —      | \$ —  | \$(4 )             | \$ —                            | \$ —                           | \$22                            | \$ 11  |

(1) Transfers out of Level 3 during 2Q 2016 and YTD 2016 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. Freddie Mac securities are generally classified as Level 3 at issuance and generally are classified as Level 2 when they begin trading. Transfers into Level 3 during 2Q 2016 and YTD 2016 consisted primarily of certain mortgage-related securities due to a lack of market activity and relevant price quotes from dealers and third-party pricing services.

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

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

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

June 30, 2016

| (dollars in millions)  | Level 3<br>Fair<br>Value | Predominant<br>Valuation<br>Technique(s) | Unobservable Inputs<br>Type | Range                 | Weighted<br>Average |
|--|--------------------------|--|-----------------------------|-----------------------|---------------------|
| Recurring fair value measurements<br>Assets                    |                          |  |                             |                       |                     |
| Investments in securities<br>Available-for-sale, at fair value |                          |  |                             |                       |                     |
| Mortgage-related securities                                    |                          |  |                             |                       |                     |
| Freddie Mac  | \$10,822                 | Discounted cash<br>flows                 | OAS                         | (170) - 491<br>bps    | 94 bps              |
|  | 640                      | Other                                    |                             |                       |                     |
| Total Freddie Mac  | 11,462                   |  |                             |                       |                     |
| Fannie Mae   | 35                       | Median of external<br>sources            |                             |                       |                     |
|  | 26                       | Single external source                   |                             |                       |                     |
|  | 12                       | Other                                    |                             |                       |                     |
| Total Fannie Mae   | 73                       |  |                             |                       |                     |
| CMBS   | 3,611                    | Risk Metrics                             | Effective duration          | 2.65 - 10.52<br>years | 9.07<br>years       |
| Total CMBS   | 3,611                    |  |                             |                       |                     |
| Subprime, option ARM, and Alt-A:                               |                          |  |                             |                       |                     |
| Subprime   | 9,296                    | Median of external<br>sources            | External pricing<br>sources | \$72.5 - \$76.1       | \$ 74.2             |
|  | 679                      | Other                                    |                             |                       |                     |
| Total subprime   | 9,975                    |  |                             |                       |                     |
| Option ARM   | 2,459                    | Median of external<br>sources            | External pricing<br>sources | \$64.3 - \$69.8       | \$ 67.6             |
|  | 127                      | Other                                    |                             |                       |                     |
| Total option ARM   | 2,586                    |  |                             |                       |                     |
| Alt-A and other  | 1,773                    | Median of external<br>sources            | External pricing<br>sources | \$84.3 - \$88.1       | \$ 85.9             |
|  | 450                      | Single external source                   | External pricing<br>source  | \$84.3 - \$84.3       | \$ 84.3             |
|  | 171                      | Other                                    |                             |                       |                     |
| Total Alt-A and other  | 2,394                    |  |                             |                       |                     |
| Obligations of states and political<br>subdivisions            | 825                      | Median of external<br>sources            | External pricing<br>sources | \$101.6 -<br>\$102.2  | \$ 101.9            |
|  | 65                       | Other                                    |                             |                       |                     |
| Total obligations of states and political<br>subdivisions      | 890                      |  |                             |                       |                     |
| Manufactured housing   | 478                      | Median of external<br>sources            | External pricing<br>sources | \$88.9 - \$93.1       | \$ 91.7             |
|  | 64                       | Other                                    |                             |                       |                     |
| Total manufactured housing                                     | 542                      |  |                             |                       |                     |
|  | 31,533                   |  |                             |                       |                     |

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|  |          |                       |     |                 |        |
|--|----------|-----------------------|-----|-----------------|--------|
| Total available-for-sale mortgage-related securities |          |                       |     |                 |        |
| Trading, at fair value                               |          |                       |     |                 |        |
| Mortgage-related securities                          |          |                       |     |                 |        |
| Freddie Mac  | 96       | Discounted cash flows |     |                 |        |
|  | 219      | Other                 |     |                 |        |
| Total Freddie Mac                                    | 315      |                       |     |                 |        |
| Fannie Mae   | 615      | Discounted cash flows | OAS | (886) - 109 bps | 5 bps  |
| Total Fannie Mae                                     | 615      |                       |     |                 |        |
| Other  | 1        | Discounted cash flows |     |                 |        |
| Total other  | 1        |                       |     |                 |        |
| Total trading mortgage-related securities            | 931      |                       |     |                 |        |
| Total investments in securities                      | \$32,464 |                       |     |                 |        |
| Other assets:  |          |                       |     |                 |        |
| Guarantee asset, at fair value                       | \$1,920  | Discounted cash flows | OAS | 17 - 198 bps    | 55 bps |
|  | 137      | Other                 |     |                 |        |
| Total guarantee asset, at fair value                 | 2,057    |                       |     |                 |        |
| Liabilities  |          |                       |     |                 |        |
| Other debt, at fair value                            | 52       | Other                 |     |                 |        |
| Total other debt, at fair value                      | 52       |                       |     |                 |        |
| Net derivatives                                      | 27       | Other                 |     |                 |        |
| Total net derivatives                                | 27       |                       |     |                 |        |
| Other liabilities                                    |          |                       |     |                 |        |
| All other, at fair value                             | 15       | Other                 |     |                 |        |
| Total all other, at fair value                       | 15       |                       |     |                 |        |

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

December 31, 2015

| (dollars in millions)                                  | Level 3<br>Fair<br>Value | Predominant<br>Valuation<br>Technique(s) | Unobservable Inputs<br>Type | Range              | Weighted<br>Average |
|--|--------------------------|--|-----------------------------|--------------------|---------------------|
| Recurring fair value measurements                      |                          |  |                             |                    |                     |
| Assets   |                          |  |                             |                    |                     |
| Investments in securities                              |                          |  |                             |                    |                     |
| Available-for-sale, at fair value                      |                          |  |                             |                    |                     |
| Mortgage-related securities                            |                          |  |                             |                    |                     |
| Freddie Mac  | \$2,145                  | Discounted cash flows                    | OAS                         | (46) - 503 bps     | 86 bps              |
|  | 463                      | Other                                    |                             |                    |                     |
| Total Freddie Mac                                      | 2,608                    |  |                             |                    |                     |
| Fannie Mae   | 37                       | Median of external sources               |                             |                    |                     |
|  | 36                       | Single external source                   |                             |                    |                     |
|  | 17                       | Other                                    |                             |                    |                     |
| Total Fannie Mae                                       | 90                       |  |                             |                    |                     |
| Ginnie Mae   | 1                        | Discounted cash flows                    |                             |                    |                     |
| Total Ginnie Mae                                       | 1                        |  |                             |                    |                     |
| CMBS   | 3,530                    | Risk Metrics                             | Effective duration          | 3.15 - 11.02 years | 9.57 years          |
| Total CMBS   | 3,530                    |  |                             |                    |                     |
| Subprime, option ARM, and Alt-A:                       |                          |  |                             |                    |                     |
| Subprime   | 11,652                   | Median of external sources               | External pricing sources    | \$73.2 - \$77.3    | \$ 75.0             |
|  | 1,150                    | Other                                    |                             |                    |                     |
| Total subprime   | 12,802                   |  |                             |                    |                     |
| Option ARM   | 3,190                    | Median of external sources               | External pricing sources    | \$67.8 - \$72.4    | \$ 69.9             |
|  | 488                      | Other                                    |                             |                    |                     |
| Total option ARM                                       | 3,678                    |  |                             |                    |                     |
| Alt-A and other  | 2,601                    | Median of external sources               | External pricing sources    | \$85.8 - \$89.3    | \$ 87.6             |
|  | 506                      | Single external source                   | External pricing source     | \$84.7 - \$84.7    | \$ 84.7             |
|  | 171                      | Other                                    |                             |                    |                     |
| Total Alt-A and other                                  | 3,278                    |  |                             |                    |                     |
| Obligations of states and political subdivisions       | 1,099                    | Median of external sources               | External pricing sources    | \$101.4 - \$101.8  | \$ 101.6            |
|  | 106                      | Other                                    |                             |                    |                     |
| Total obligations of states and political subdivisions | 1,205                    |  |                             |                    |                     |
| Manufactured housing                                   | 505                      | Median of external sources               | External pricing sources    | \$90.4 - \$93.7    | \$ 92.1             |

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|  |          |                            |     |                     |         |
|--|----------|----------------------------|-----|---------------------|---------|
|  | 70       | Other                      |     |                     |         |
| Total manufactured housing                           | 575      |                            |     |                     |         |
| Total available-for-sale mortgage-related securities | 27,767   |                            |     |                     |         |
| Trading, at fair value                               |          |                            |     |                     |         |
| Mortgage-related securities                          |          |                            |     |                     |         |
| Freddie Mac  | 249      | Discounted cash flows      | OAS | (1,315) - 1,959 bps | 129 bps |
|  | 19       | Risk Metrics               |     |                     |         |
|  | 63       | Other                      |     |                     |         |
| Total Freddie Mac                                    | 331      |                            |     |                     |         |
| Fannie Mae   | 41       | Discounted cash flows      |     |                     |         |
| Total Fannie Mae                                     | 41       |                            |     |                     |         |
| Ginnie Mae   | —        |                            |     |                     |         |
| Other  | 1        | Median of external sources |     |                     |         |
|  | 1        | Discounted cash flows      |     |                     |         |
| Total other  | 2        |                            |     |                     |         |
| Total trading mortgage-related securities            | 374      |                            |     |                     |         |
| Total investments in securities                      | \$28,141 |                            |     |                     |         |
| Other assets:  |          |                            |     |                     |         |
| Guarantee asset, at fair value                       | \$1,623  | Discounted cash flows      | OAS | 17 - 198 bps        | 57 bps  |
|  | 130      | Other                      |     |                     |         |
| Total guarantee asset, at fair value                 | 1,753    |                            |     |                     |         |
| Liabilities  |          |                            |     |                     |         |
| Net derivatives                                      | 8        | Other                      |     |                     |         |
| Total net derivatives                                | 8        |                            |     |                     |         |
| Other liabilities                                    |          |                            |     |                     |         |
| All other, at fair value                             | 10       | Other                      |     |                     |         |
| Total all other, at fair value                       | 10       |                            |     |                     |         |

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

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

June 30, 2016

| (dollars in millions)                    | Level<br>3<br>Fair<br>Value | Predominant<br>Valuation<br>Technique(s) | Unobservable Inputs          |                     | Weighted<br>Average |
|--|-----------------------------|--|------------------------------|---------------------|---------------------|
|  |                             |  | Type                         | Range               |                     |
| Non-recurring fair value<br>measurements |                             |  |                              |                     |                     |
| Mortgage loans                           | \$4,375                     |  |                              |                     |                     |
|  |                             | Internal model                           | Historical sales<br>proceeds | \$3,000 - \$960,000 | \$162,855           |
|  |                             | Internal model                           | Housing sales index          | 41 - 469 bps        | 92 bps              |
|  |                             | Income capitalization <sup>(1)</sup>     | Capitalization rates         | 6% - 9%             | 7%                  |
|  |                             | Median of external<br>sources            | External pricing<br>sources  | \$37.3 - \$94.3     | \$74.1              |
| REO, net                                 | \$278                       |  |                              |                     |                     |
|  |                             | Internal model                           | Historical sales<br>proceeds | \$3,000 - \$677,440 | \$149,971           |
|  |                             | Internal model                           | Housing sales index          | 41 - 469 bps        | 90 bps              |
|  |                             | Other                                    |                              |                     |                     |

December 31, 2015

| (dollars in millions)                    | Level<br>3<br>Fair<br>Value | Predominant<br>Valuation<br>Technique(s) | Unobservable Inputs          |                               | Weighted<br>Average |
|--|-----------------------------|--|------------------------------|-------------------------------|---------------------|
|  |                             |  | Type                         | Range                         |                     |
| Non-recurring fair value<br>measurements |                             |  |                              |                               |                     |
| Mortgage loans                           | \$5,851                     |  |                              |                               |                     |
|  |                             | Internal model                           | Historical sales<br>proceeds | \$3,000 - \$788,699           | \$191,957           |
|  |                             | Internal model                           | Housing sales index          | 44 - 428 bps                  | 90 bps              |
|  |                             | Third-party appraisal                    | Property value               | \$1 million - \$30<br>million | \$28<br>million     |
|  |                             | Income capitalization <sup>(1)</sup>     | Capitalization rates         | 6%- 9%                        | 7%                  |
|  |                             | Median of external<br>sources            | External pricing<br>sources  | \$39.0 - \$94.6               | \$70.0              |
| REO, net                                 | \$1,046                     |  |                              |                               |                     |
|  |                             | Internal model                           | Historical sales<br>proceeds | \$3,000 - \$581,751           | \$155,885           |
|  |                             | Internal model                           | Housing sales index          | 44 - 428 bps                  | 87 bps              |
|  |                             | Other                                    |                              |                               |                     |

(1) The predominant valuation technique used for multifamily loans. Certain loans in this population are valued using other techniques, and the capitalization rate for those is not represented in the "Range" or "Weighted Average" above.

## FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

| (in millions)  | June 30, 2016              |            |             |           |                        |             |
|--|----------------------------|------------|-------------|-----------|------------------------|-------------|
|  | GAAP<br>Carrying<br>Amount | Fair Value |             |           | Netting<br>Adjustments | Total       |
|  |                            | Level 1    | Level 2     | Level 3   |                        |             |
| <b>Financial Assets</b>                                      |                            |            |             |           |                        |             |
| Cash and cash equivalents                                    | \$8,140                    | \$8,140    | \$—         | \$—       | \$—                    | \$8,140     |
| Restricted cash and cash equivalents                         | 17,399                     | 17,399     | —           | —         | —                      | 17,399      |
| Securities purchased under agreements to resell              | 48,989                     | —          | 48,989      | —         | —                      | 48,989      |
| Investments in securities:                                   |                            |            |             |           |                        |             |
| Available-for-sale, at fair value                            | 78,060                     | —          | 46,527      | 31,533    | —                      | 78,060      |
| Trading, at fair value                                       | 34,209                     | 12,131     | 21,147      | 931       | —                      | 34,209      |
| Total investments in securities                              | 112,269                    | 12,131     | 67,674      | 32,464    | —                      | 112,269     |
| Mortgage loans:  |                            |            |             |           |                        |             |
| Loans held by consolidated trusts                            | 1,642,124                  | —          | 1,540,876   | 149,309   | —                      | 1,690,185   |
| Loans held by Freddie Mac                                    | 119,461                    | —          | 33,116      | 88,249    | —                      | 121,365     |
| Total mortgage loans   | 1,761,585                  | —          | 1,573,992   | 237,558   | —                      | 1,811,550   |
| Derivative assets, net                                       | 1,479                      | —          | 17,602      | 10        | (16,133)               | 1,479       |
| Guarantee asset  | 2,057                      | —          | —           | 2,264     | —                      | 2,264       |
| Non-derivative purchase commitments, at fair value           | 126                        | —          | 126         | 15        | —                      | 141         |
| Advances to lenders  | 1,020                      | —          | —           | 1,020     | —                      | 1,020       |
| Total financial assets                                       | \$1,953,064                | \$37,670   | \$1,708,383 | \$273,331 | \$ (16,133)            | \$2,003,251 |
| <b>Financial Liabilities</b>                                 |                            |            |             |           |                        |             |
| Debt, net:   |                            |            |             |           |                        |             |
| Debt securities of consolidated trusts held by third parties | \$1,594,236                | \$—        | \$1,643,806 | \$1,016   | \$—                    | \$1,644,822 |
| Other debt   | 377,867                    | —          | 380,181     | 5,382     | —                      | 385,563     |
| Total debt, net  | 1,972,103                  | —          | 2,023,987   | 6,398     | —                      | 2,030,385   |
| Derivative liabilities, net                                  | 1,243                      | —          | 24,622      | 37        | (23,416)               | 1,243       |
| Guarantee obligation   | 1,957                      | —          | —           | 3,451     | —                      | 3,451       |
| Non-derivative purchase commitments, at fair value           | 12                         | —          | 12          | 42        | —                      | 54          |
| Total financial liabilities                                  | \$1,975,315                | \$—        | \$2,048,621 | \$9,928   | \$ (23,416)            | \$2,035,133 |



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

| (in millions)  | December 31, 2015          |            |             |           |             | Netting<br>Adjustments | Total       |
|--|----------------------------|------------|-------------|-----------|-------------|------------------------|-------------|
|  | GAAP<br>Carrying<br>Amount | Fair Value |             |           |             |                        |             |
|  |                            | Level 1    | Level 2     | Level 3   |             |                        |             |
| <b>Financial Assets</b>                                      |                            |            |             |           |             |                        |             |
| Cash and cash equivalents                                    | \$5,595                    | \$5,595    | \$—         | \$—       | \$—         |                        | \$5,595     |
| Restricted cash and cash equivalents                         | 14,533                     | 14,533     | —           | —         | —           |                        | 14,533      |
| Securities purchased under agreements to resell              | 63,644                     | —          | 63,644      | —         | —           |                        | 63,644      |
| Investments in securities:                                   |                            |            |             |           |             |                        |             |
| Available-for-sale, at fair value                            | 74,937                     | —          | 47,170      | 27,767    | —           |                        | 74,937      |
| Trading, at fair value                                       | 39,278                     | 17,151     | 21,753      | 374       | —           |                        | 39,278      |
| Total investments in securities                              | 114,215                    | 17,151     | 68,923      | 28,141    | —           |                        | 114,215     |
| Mortgage loans:  |                            |            |             |           |             |                        |             |
| Loans held by consolidated trusts                            | 1,625,184                  | —          | 1,477,251   | 162,947   | —           |                        | 1,640,198   |
| Loans held by Freddie Mac                                    | 129,009                    | —          | 31,831      | 97,133    | —           |                        | 128,964     |
| Total mortgage loans   | 1,754,193                  | —          | 1,509,082   | 260,080   | —           |                        | 1,769,162   |
| Derivative assets, net                                       | 395                        | —          | 9,766       | 25        | (9,396)     |                        | 395         |
| Guarantee asset  | 1,753                      | —          | —           | 1,958     | —           |                        | 1,958       |
| Advances to lenders  | 910                        | —          | 910         | —         | —           |                        | 910         |
| Total financial assets                                       | \$1,955,238                | \$37,279   | \$1,652,325 | \$290,204 | \$ (9,396)  |                        | \$1,970,412 |
| <b>Financial Liabilities</b>                                 |                            |            |             |           |             |                        |             |
| Debt, net:   |                            |            |             |           |             |                        |             |
| Debt securities of consolidated trusts held by third parties | \$1,556,121                | \$—        | \$1,624,019 | \$805     | \$—         |                        | \$1,624,824 |
| Other debt   | 414,306                    | —          | 412,752     | 6,586     | —           |                        | 419,338     |
| Total debt, net  | 1,970,427                  | —          | 2,036,771   | 7,391     | —           |                        | 2,044,162   |
| Derivative liabilities, net                                  | 1,254                      | —          | 12,378      | 33        | (11,157)    |                        | 1,254       |
| Guarantee obligation   | 1,729                      | —          | —           | 3,129     | —           |                        | 3,129       |
| Total financial liabilities                                  | \$1,973,410                | \$—        | \$2,049,149 | \$10,553  | \$ (11,157) |                        | \$2,048,545 |
| <b>FAIR VALUE OPTION</b>                                     |                            |            |             |           |             |                        |             |

We elected the fair value option for certain types of investments in securities, multifamily held-for-sale loans, certain multifamily held-for-sale loan purchase commitments, and certain debt.

The table below presents the fair value and UPB related to certain items for which we have elected the fair value option.

| (in millions)            | June 30, 2016                         |                           | December 31, 2015                     |                           |
|--------------------------|---------------------------------------|---------------------------|---------------------------------------|---------------------------|
|                          | Multifamily<br>Held-For-Sale<br>Loans | Other Debt -<br>Long Term | Multifamily<br>Held-For-Sale<br>Loans | Other Debt -<br>Long Term |
| Fair value               | \$14,905                              | \$ 6,559                  | \$17,660                              | \$ 7,045                  |
| Unpaid principal balance | 14,595                                | 6,485                     | 17,673                                | 7,093                     |
| Difference               | \$310                                 | \$ 74                     | \$(13)                                | \$(48)                    |



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

Changes in Fair Value under the Fair Value Option Election

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We recorded gains (losses) of \$107 million and \$(254) million for 2Q 2016 and 2Q 2015, respectively, and \$579 million and \$99 million for YTD 2016 and YTD 2015, respectively, from the change in fair value on multifamily held-for-sale loans recorded at fair value in other income in our condensed consolidated statements of comprehensive income.

We recorded gains of \$207 million and \$244 million for 2Q 2016 and YTD 2016 respectively, from the change in fair value of multifamily held-for-sale loan purchase commitments recorded at fair value in other income in our condensed consolidated statements of comprehensive income. We elected the fair value option for these commitments in 2016. Gains (losses) on debt securities with the fair value option elected were \$(108) million and \$44 million for 2Q 2016 and 2Q 2015, respectively, and \$(94) million and \$(145) million for YTD 2016 and YTD 2015, respectively, and were recorded in other income in our condensed consolidated statements of comprehensive income.

Changes in fair value attributable to instrument-specific credit risk were not material for 2Q 2016 and YTD 2016 and for 2Q 2015 and YTD 2015 for any assets or liabilities for which we elected the fair value option.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 14

**NOTE 14: 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/servicer's eligibility to sell loans to, and/or service loans for, us. In these cases, the former seller/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 seller/servicers. Our contracts with our seller/servicers generally provide for indemnification of Freddie Mac against liability arising from seller/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.**

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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.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 14

#### LITIGATION RELATED TO THE TAYLOR, BEAN & WHITAKER (TBW) BANKRUPTCY

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In August 2009, TBW, which had been one of our single-family seller/servicers, filed for bankruptcy in the U.S. Bankruptcy Court for the Middle District of Florida. We entered into a settlement with TBW and the TBW creditors' committee regarding the TBW bankruptcy in 2011. However, we continue to be involved in litigation with other parties relating to the TBW bankruptcy, as described below.

On or about May 14, 2010, certain underwriters at Lloyds, London and London Market Insurance Companies brought an adversary proceeding in the U.S. Bankruptcy Court for the Middle District of Florida against TBW, Freddie Mac and other parties seeking a declaration rescinding \$90 million of mortgage bankers bonds providing fidelity and errors and omissions insurance coverage. Several excess insurers on the bonds thereafter filed similar claims in that action. Freddie Mac filed a proof of loss under the bonds. In February 2015, the Court granted summary judgment against TBW on its claims. Thereafter, Freddie Mac moved for clarification that the Court's judgment did not apply to Freddie Mac's separate claims against Lloyds. In March 2016, a settlement agreement among the parties was submitted to the Court for approval. On April 25, 2016, the Court approved the settlement. On May 6, 2016, Sovereign Bank, which was not a party to the settlement agreement, appealed the order approving the settlement agreement and various other prior Bankruptcy Court orders to the U.S. District Court. TBW has moved to dismiss Sovereign's appeal.

On December 29, 2014, Freddie Mac filed an action in the U.S. District Court for the Southern District of New York against certain underwriters at Lloyds, London and several other insurance carriers seeking coverage for \$111 million in losses under Freddie Mac's primary and excess financial institution bonds. The losses resulted from fraud perpetrated by senior officers and employees of TBW. On April 11, 2016, the parties advised the Court that a settlement in principle had been reached. Thereafter, settlement agreements with all the insurers were executed and, in July 2016, the parties stipulated to voluntary dismissal of the case.

#### LIBOR LAWSUIT

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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 the plaintiffs are "efficient enforcers" of the antitrust laws. Briefing of this issue is underway in our case.

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 14

## LITIGATION CONCERNING THE PURCHASE AGREEMENT

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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

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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.

Freddie Mac Form 10-Q 140

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Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 14

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. In October 2014, plaintiffs in the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case filed a notice of appeal of the District Court's decision. The scope of this appeal includes the American European Insurance Company shareholder derivative lawsuit. In October 2014, Arrowood filed a notice of appeal of the District Court's decision. Defendants have opposed the appeals.

Litigation in the U.S. Court of Federal Claims

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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.

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.

Litigation in the U.S. District Court for the District of Delaware

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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. The case was stayed pending resolution of FHFA's motion to the U.S. Judicial Panel on Multidistrict Litigation to transfer this case to the U.S. District Court for the District of Columbia. This motion was denied on June 2, 2016, and the stay was lifted on July 13, 2016.

Litigation in the U.S. District Court for the Eastern District of Virginia

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Pagliara vs. Federal Home Loan Mortgage Corporation. This case was filed on March 14, 2016 in the Circuit Court of Fairfax County, Virginia, and subsequently removed to the U.S. District Court for the

Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 14

Eastern District of Virginia. The plaintiff seeks an order to permit inspection and copying of corporate records under Virginia law, primarily for the purpose of investigating potential claims arising from the net worth sweep. The case was stayed pending resolution of FHFA's request to the U.S. Judicial Panel on Multidistrict Litigation to transfer this case to the U.S. District Court for the District of Columbia, which was denied on June 2, 2016. On June 17, 2016, Freddie Mac and FHFA filed a motion to dismiss or, in the alternative, substitute FHFA as plaintiff in the case. 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.

Stockholder Letters

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We received a letter dated January 19, 2016 addressed to the Board of Directors, purportedly on behalf of a holder of stock of Freddie Mac. The letter urged the members of the Board to take various steps under Virginia law including, among others, causing Freddie Mac to immediately stop paying dividends to Treasury on account of the senior preferred stock. On January 28, 2016, FHFA (as Conservator) informed the purported stockholder's representative that the state law principles asserted in the letter are not applicable to the Board.

We also received a letter dated March 1, 2016 addressed to the Board of Directors from a purported holder of preferred stock of Freddie Mac. In the letter, the purported stockholder states that he intends to file suit against the Board and the company for alleged breaches of contract and fiduciary duty in the event the Board does not take unspecified steps "with respect to payment of dividends and other matters" involving the company and its preferred shareholders. On March 10, 2016, FHFA (as Conservator) informed the purported stockholder that the state law principles asserted in the letter are not applicable to the Board. On about April 19, 2016, the purported stockholder sent a second letter in which he reiterated his intent to file suit and attached a proposed class action complaint naming the company and the Board as defendants. The proposed complaint asserts claims for breach of contract, breach of implied covenants of good faith and fair dealing, and breach of fiduciary duties and seeks \$14.1 billion in compensatory damages.



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

## NOTE 15: 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-directed 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,<br>2016 | December<br>31, 2015 |
|--|------------------|----------------------|
| GAAP net worth                                   | \$2,133          | \$2,940              |
| Core capital (deficit) <sup>(1)(2)</sup>         | \$(71,650)       | \$(70,549)           |
| Less: Minimum capital requirement <sup>(1)</sup> | 19,020           | 19,687               |
| Minimum capital surplus (deficit) <sup>(1)</sup> | \$(90,670)       | \$(90,236)           |

(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.

## Financial Statements Notes to the Condensed Consolidated Financial Statements | Note 16

## NOTE 16: SELECTED FINANCIAL STATEMENT LINE ITEMS

The table below presents the significant components of other income (loss) and other expense on our consolidated statements of comprehensive income.

| (in millions)   | 2Q<br>2016 | 2Q<br>2015 | YTD<br>2016 | YTD<br>2015 |
|---|------------|------------|-------------|-------------|
| Other income (loss):                                      |            |            |             |             |
| Gains (losses) on loans                                   | \$(481)    | \$(924)    | \$(3 )      | \$(1,124)   |
| Gains (losses) on held-for-sale purchase commitments      | 207        | —          | 244         | —           |
| Other   | 249        | 356        | 681         | 567         |
| Total other income (loss)                                 | \$(25 )    | \$(568)    | \$922       | \$(557 )    |
| Other expense:  |            |            |             |             |
| Property tax and insurance expense on held-for-sale loans | \$(39 )    | \$(401)    | \$(66 )     | \$(761 )    |
| Other expense   | (112 )     | (100 )     | (238 )      | (203 )      |
| Total other expense                                       | \$(151)    | \$(501)    | \$(304)     | \$(964 )    |

The table below presents the significant components of other assets and other liabilities on our consolidated balance sheets.

| (in millions)                                 | June 30,<br>2016 | December<br>31, 2015 |
|---|------------------|----------------------|
| Other assets:                                 |                  |                      |
| Accounts and other receivables <sup>(1)</sup> | \$5,820          | \$ 3,625             |
| Guarantee asset                               | 2,057            | 1,753                |
| Advances to lenders                           | 1,020            | 910                  |
| All other                                     | 1,567            | 1,025                |
| Total other assets                            | \$10,464         | \$ 7,313             |
| Other liabilities:                            |                  |                      |
| Servicer liabilities                          | \$949            | \$ 1,191             |
| Guarantee obligation                          | 1,957            | 1,729                |
| Accounts payable and accrued expenses         | 1,145            | 1,286                |
| All other                                     | 850              | 1,040                |
| Total other liabilities                       | \$4,901          | \$ 5,246             |

(1) Primarily consists of servicer receivables and other non-interest 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 14 in this report and Note 15 in our 2015 Annual Report.

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” sections in our 2015 Annual Report and in our Form 10-Q for the first quarter 2016.

**RISK FACTORS**

This Form 10-Q should be read together with the “Risk Factors” sections in our 2015 Annual Report and our Form 10-Q for the first quarter of 2016, which describe 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.

## Other Information

### 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 any new options, rights to purchase, participations, or other equity interests without Treasury’s prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.

No stock options were exercised during 2Q 2016. See Note 10 in our 2015 Annual Report for more information.

### 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 2015 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 that offering that are filed with the SEC.

Freddie Mac’s securities offerings are exempted from SEC registration requirements. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report these types of obligations either in offering circulars or supplements thereto that we post on our 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 posted on our web site, the document will be posted within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The web site address for disclosure about our debt securities, other than debt securities of consolidated trusts, 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

Other Information

supplements for individual issuances of debt securities. Similar information about our STACR debt notes and Whole Loan Securities is available at [www.freddiemac.com/creditriskofferings](http://www.freddiemac.com/creditriskofferings).

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations (e.g., K Certificates), can be found at [www.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 related offering circular supplements.

EXHIBITS

The exhibits are listed in the Exhibit Index at the end of this Form 10-Q.

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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, 2016. 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, 2016, 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 2016**

We evaluated the changes in our internal control over financial reporting that occurred during 2Q 2016 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, 2016 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 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 2016 have been prepared in conformity with GAAP.

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: August 2, 2016

By: /s/ James G. Mackey  
James G. Mackey  
Executive Vice President — Chief Financial Officer  
(Principal Financial Officer)

Date: August 2, 2016



Glossary

**GLOSSARY**

This Glossary supplements the Glossary contained in our 2015 Annual Report and includes a defined term that is used throughout this report.

Guarantee fee (management and guarantee fee) - The fee that we receive for managing mortgage pools and guaranteeing the payment of principal and interest to mortgage security investors, which consists primarily of a combination of fees paid on a monthly basis, as a percentage of the UPB of the underlying loans, and initial upfront payments, such as delivery fees.

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Exhibit Index

EXHIBIT INDEX

| Exhibit No. | Description*  |
|-------------|---|
| 3.1         | Bylaws of the Federal Home Loan Mortgage Corporation, as amended and restated July 7, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, as filed July 8, 2016) |
| 10.1        | PC Master Trust Agreement dated July 19, 2016   |
| 12.1        | Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends  |
| 31.1        | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)   |
| 31.2        | Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)   |
| 32.1        | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350   |
| 32.2        | Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350   |
| 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.