



Table of Contents

TABLE OF CONTENTS

|   | Page       |
|---|------------|
| MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | <u>1</u>   |
| INTRODUCTION  | <u>1</u>   |
| KEY ECONOMIC INDICATORS   | <u>5</u>   |
| CONSOLIDATED RESULTS OF OPERATIONS  | <u>9</u>   |
| CONSOLIDATED BALANCE SHEETS ANALYSIS  | <u>20</u>  |
| OUR BUSINESS SEGMENTS   | <u>21</u>  |
| RISK MANAGEMENT   | <u>56</u>  |
| LIQUIDITY AND CAPITAL RESOURCES   | <u>62</u>  |
| CONSERVATORSHIP AND RELATED MATTERS   | <u>69</u>  |
| REGULATION AND SUPERVISION  | <u>71</u>  |
| OFF-BALANCE SHEET ARRANGEMENTS  | <u>73</u>  |
| FORWARD-LOOKING STATEMENTS  | <u>74</u>  |
| FINANCIAL STATEMENTS  | <u>76</u>  |
| OTHER INFORMATION   | <u>155</u> |
| CONTROLS AND PROCEDURES   | <u>157</u> |
| EXHIBIT INDEX   | <u>159</u> |
| SIGNATURES  | <u>160</u> |
| FORM 10-Q INDEX   | <u>161</u> |

Management's Discussion and Analysis Introduction

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in the "Forward-Looking Statements" sections of this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2016, or 2016 Annual Report, and our Quarterly Reports on Form 10-Q for the first and second quarters of 2017, and the "Business" and "Risk Factors" sections of our 2016 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the "Glossary" of our 2016 Annual Report and our Form 10-Q for the second quarter of 2017.

You should read the following MD&A in conjunction with our 2016 Annual Report and our condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2017 included in "Financial Statements." Throughout this Form 10-Q, we refer to the three months ending December 31, 2017, the three months ended September 30, 2017, the three months ended June 30, 2017, the three months ended March 31, 2017, the three months ended December 31, 2016, the three months ended September 30, 2016, the three months ended June 30, 2016, and the three months ended December 31, 2015 as "4Q 2017," "3Q 2017," "2Q 2017," "1Q 2017," "4Q 2016," "3Q 2016," "2Q 2016," and "4Q 2015," respectively. We refer to the nine months ended September 30, 2017 and the nine months ended September 30, 2016 as "YTD 2017" and "YTD 2016," respectively.

INTRODUCTION

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

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

Management's Discussion and Analysis Introduction

BUSINESS RESULTS  
PORTFOLIO BALANCES

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Guarantee Portfolios

Investments Portfolios

Our total guarantee portfolio grew \$102 billion, or 5%, from September 30, 2016 to September 30, 2017, driven by a 4% increase in our single-family credit guarantee portfolio and a 23% increase in our multifamily guarantee portfolio. The growth in our single-family guarantee portfolio was driven by an increase in our single-family origination volume as our market share of U.S. single-family origination volume remained stable amid growth in total single-family mortgage debt outstanding resulting from continued improvement in macroeconomic conditions, such as a low unemployment rate and home price appreciation. In addition, new business acquisitions had a higher average loan size compared to older vintages that continue to run off.

Freddie Mac Form 10-Q 2

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Management's Discussion and Analysis Introduction

The increase in our multifamily guarantee portfolio was due to growth in new multifamily business volume, driven by stronger demand for our loan products due to an elevated number of new apartment completions, strong market fundamentals and low interest rates.

Our total investments portfolio declined \$63 billion, or 15%, from September 30, 2016 to September 30, 2017, primarily due to repayments and the active disposition of less liquid assets. We continue to reduce the mortgage-related investments portfolio as required by the Purchase Agreement and FHFA.

**CONSOLIDATED FINANCIAL RESULTS**

Comprehensive income (loss) was \$4.7 billion in 3Q 2017, compared to \$2.3 billion in 3Q 2016. The increase in comprehensive income was primarily driven by:

\$4.5 billion (pre-tax) in settlement proceeds in 3Q 2017 from the Royal Bank of Scotland plc (or RBS) related to litigation involving certain of our non-agency mortgage-related securities. We did not have any significant settlements in 3Q 2016.

The increase was partially offset by:

\$0.9 billion (pre-tax) provision for credit losses in 3Q 2017 attributable to estimated losses related to Hurricanes Harvey, Irma and Maria, which included approximately \$0.6 billion related to \$2.3 billion in UPB of mortgage loans in Puerto Rico.

Our total equity was \$5.3 billion at September 30, 2017. Because our net worth was positive, we are not requesting a draw from Treasury under the Purchase Agreement for 3Q 2017. Our cumulative senior preferred stock dividend payments totaled \$110.1 billion as of September 30, 2017. 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.

**CONSERVATORSHIP AND GOVERNMENT SUPPORT FOR OUR BUSINESS**

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

Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury also affect our business activities. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to have adequate liquidity to conduct normal business activities.

Management's Discussion and Analysis Introduction

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

Under the August 2012 amendment to the Purchase Agreement, our dividend requirement each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The Capital Reserve Amount is \$600 million in 2017 and will decrease to zero in 2018. If for any reason we were not to pay the dividend in full, the unpaid amount would be added to the liquidation preference, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement.

Based on our Net Worth Amount of \$5.3 billion as of September 30, 2017 and the Capital Reserve Amount of \$600 million, our dividend requirement to Treasury in December 2017 will be \$4.7 billion. Upon the Conservator declaring and directing us to pay a senior preferred stock dividend equal to our dividend requirement before December 31, 2017, we would pay a dividend of \$4.7 billion by December 31, 2017. The declining capital reserve required under the terms of the Purchase Agreement (ultimately reaching zero in 2018) increases the risk of our having negative net worth and thus being required to draw from Treasury.

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

KEY ECONOMIC INDICATORS

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

SINGLE-FAMILY HOME PRICES

NATIONAL HOME PRICES

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(December 2000 = 100)

COMMENTARY

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Home prices continued to appreciate, increasing by 0.9% during both 3Q 2017 and 3Q 2016 and by 6.9% and 6.5% during YTD 2017 and YTD 2016, respectively, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.

National home prices at September 30, 2017 exceeded their pre-financial crisis peak level of 168 reached in June 2006, based on our index.

We expect home price growth will continue in 2018, although at a slower pace than in 2017, due to a gradual increase in housing supply and a moderate increase in mortgage rates.

Increases in home prices typically result in lower delinquency rates and lower loss severity. Fewer loan delinquencies, loan workouts and foreclosure transfers will generally reduce our expected credit losses on our total mortgage portfolio.

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

## INTEREST RATES

### KEY MARKET INTEREST RATES

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#### COMMENTARY

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The quarterly ending and quarterly average 30-year Primary Mortgage Market Survey (“PMMS”) interest rates were higher at September 30, 2017 than September 30, 2016. Increases in the PMMS rate typically result in decreases in refinance activity and U.S. single-family loan originations.

The 10-year LIBOR and 2-year LIBOR interest rates had smaller fluctuations during the 2017 periods than the 2016 periods. Changes in the 10-year and 2-year LIBOR interest rates affect the fair value of certain of our assets and liabilities, including derivatives, measured at fair value. A smaller interest rate fluctuation from period to period generally results in smaller fair value gains and losses, while a larger fluctuation generally results in larger fair value gains and losses.

Freddie Mac Form 10-Q 6

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

The quarterly ending and quarterly average short-term interest rates, as indicated by the 3-month LIBOR rate, were higher at September 30, 2017 than September 30, 2016. An increase in short-term interest rates generally increases the interest earned on our short-term investments and interest expense on our short-term funding.

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

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

UNEMPLOYMENT RATE  
UNEMPLOYMENT RATE AND JOB CREATION<sup>(1)</sup>

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Source: U.S. Bureau of Labor Statistics

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

COMMENTARY

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▲ Average monthly net new jobs (non-farm) and the national unemployment rate were lower in 3Q 2017 than 3Q 2016.  
● Changes in monthly net new jobs and the national unemployment rate can affect several market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.  
● Decreases in the national unemployment rate typically result in lower levels of delinquencies, which generally result in a decrease in expected credit losses on our total mortgage portfolio.

Freddie Mac Form 10-Q 8

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

## CONSOLIDATED RESULTS OF OPERATIONS

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

The table below compares our consolidated results of operations for 3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016.

|  | 3Q<br>2017 | 3Q<br>2016 | Change   |          | YTD<br>2017 | YTD<br>2016 | Change   |        |
|--|------------|------------|----------|----------|-------------|-------------|----------|--------|
| (Dollars in millions)  |            |            | \$       | %        |             |             | \$       | %      |
| Net interest income  | \$3,489    | \$3,646    | (\$157 ) | (4 )%    | \$10,663    | \$10,494    | \$169    | 2 %    |
| Benefit (provision) for credit losses  | (716 )     | (113 )     | (603 )   | (534 )%  | (178 )      | 1,129       | (1,307 ) | (116)% |
| Net interest income after benefit (provision) for credit losses                        | 2,773      | 3,533      | (760 )   | (22 )%   | 10,485      | 11,623      | (1,138 ) | (10 )% |
| Non-interest income (loss):  |            |            |          |          |             |             |          |        |
| Gains (losses) on extinguishment of debt   | 27         | (92 )      | 119      | 129 %    | 295         | (266 )      | 561      | 211 %  |
| Derivative gains (losses)  | (678 )     | (36 )      | (642 )   | (1,783)% | (2,076 )    | (6,655 )    | 4,579    | 69 %   |
| Net impairment of available-for-sale securities recognized in earnings                 | (1 )       | (9 )       | 8        | 89 %     | (17 )       | (138 )      | 121      | 88 %   |
| Other gains on investment securities recognized in earnings                            | 723        | 309        | 414      | 134 %    | 840         | 1,062       | (222 )   | (21 )% |
| Other income (loss)  | 5,403      | 605        | 4,798    | 793 %    | 6,512       | 1,527       | 4,985    | 326 %  |
| Total non-interest income (loss)   | 5,474      | 777        | 4,697    | 605 %    | 5,554       | (4,470 )    | 10,024   | 224 %  |
| Non-interest expense:  |            |            |          |          |             |             |          |        |
| Administrative expense   | (524 )     | (498 )     | (26 )    | (5 )%    | (1,548 )    | (1,421 )    | (127 )   | (9 )%  |
| REO operations expense   | (35 )      | (56 )      | 21       | 38 %     | (128 )      | (169 )      | 41       | 24 %   |
| Temporary Payroll Tax Cut Continuation Act of 2011 expense                             | (339 )     | (293 )     | (46 )    | (16 )%   | (990 )      | (845 )      | (145 )   | (17 )% |
| Other expense  | (159 )     | (138 )     | (21 )    | (15 )%   | (361 )      | (442 )      | 81       | 18 %   |
| Total non-interest expense   | (1,057 )   | (985 )     | (72 )    | (7 )%    | (3,027 )    | (2,877 )    | (150 )   | (5 )%  |
| Income (loss) before income tax (expense) benefit                                      | 7,190      | 3,325      | 3,865    | 116 %    | 13,012      | 4,276       | 8,736    | 204 %  |
| Income tax (expense) benefit   | (2,519 )   | (996 )     | (1,523 ) | (153 )%  | (4,466 )    | (1,308 )    | (3,158 ) | (241)% |
| Net income (loss)  | 4,671      | 2,329      | 2,342    | 101 %    | 8,546       | 2,968       | 5,578    | 188 %  |
| Total other comprehensive income (loss), net of taxes and reclassification adjustments | (21 )      | (19 )      | (2 )     | (11 )%   | 324         | 275         | 49       | 18 %   |
| Comprehensive income (loss)  | \$4,650    | \$2,310    | \$2,340  | 101 %    | \$8,870     | \$3,243     | \$5,627  | 174 %  |

## 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)  | 3Q 2017         |  |              | 3Q 2016         |  |              |
|--|-----------------|--|--------------|-----------------|--|--------------|
|  | 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  | \$10,064        | \$14                                     | 0.53 %       | \$21,664        | \$15                                     | 0.28 %       |
| Securities purchased under agreements to resell                          | 57,107          | 166                                      | 1.16         | 62,086          | 56                                       | 0.36         |
| Advances to lenders and other secured lending                            | 804             | 5  | 2.51         | 649             | 3  | 2.06         |
| <b>Mortgage-related securities:</b>                                      |                 |  |              |                 |  |              |
| Mortgage-related securities  | 159,640         | 1,572                                    | 3.94         | 185,235         | 1,779                                    | 3.84         |
| Extinguishment of PCs held by Freddie Mac                                | (85,198)        | (811)                                    | (3.81)       | (88,066)        | (829)                                    | (3.76)       |
| Total mortgage-related securities, net                                   | 74,442          | 761                                      | 4.09         | 97,169          | 950                                      | 3.91         |
| Non-mortgage-related securities  | 15,127          | 60                                       | 1.62         | 15,671          | 26                                       | 0.67         |
| Loans held by consolidated trusts <sup>(1)</sup>                         | 1,731,577       | 14,617                                   | 3.38         | 1,654,288       | 13,602                                   | 3.29         |
| Loans held by Freddie Mac <sup>(1)</sup>                                 | 117,298         | 1,250                                    | 4.26         | 131,945         | 1,395                                    | 4.23         |
| Total interest-earning assets  | \$2,006,419     | \$16,873                                 | 3.37         | \$1,983,472     | \$16,047                                 | 3.24         |
| <b>Interest-bearing liabilities:</b>                                     |                 |  |              |                 |  |              |
| Debt securities of consolidated trusts including PCs held by Freddie Mac | \$1,755,578     | (\$12,663)                               | (2.89)       | \$1,680,388     | (\$11,716)                               | (2.79)       |
| Extinguishment of PCs held by Freddie Mac                                | (85,198)        | 811                                      | 3.81         | (88,066)        | 829                                      | 3.76         |
| Total debt securities of consolidated trusts held by third parties       | 1,670,380       | (11,852)                                 | (2.84)       | 1,592,322       | (10,887)                                 | (2.73)       |
| <b>Other debt:</b>   |                 |  |              |                 |  |              |
| Short-term debt  | 68,868          | (173)                                    | (0.99)       | 81,057          | (83)                                     | (0.40)       |
| Long-term debt   | 259,075         | (1,319)                                  | (2.02)       | 302,062         | (1,384)                                  | (1.82)       |
| Total other debt   | 327,943         | (1,492)                                  | (1.80)       | 383,119         | (1,467)                                  | (1.53)       |
| Total interest-bearing liabilities                                       | 1,998,323       | (13,344)                                 | (2.67)       | 1,975,441       | (12,354)                                 | (2.50)       |
| Expense related to derivatives   | —               | (40)                                     | (0.01)       | —               | (47)                                     | (0.01)       |
| Impact of net non-interest-bearing funding                               | 8,096           | —  | 0.01         | 8,031           | —  | 0.01         |
| Total funding of interest-earning assets                                 | \$2,006,419     | (\$13,384)                               | (2.67)       | \$1,983,472     | (\$12,401)                               | (2.50)       |
| Net interest income/yield  |                 | \$3,489                                  | 0.70         |                 | \$3,646                                  | 0.74         |

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were \$634 million and \$737 million for loans held by consolidated trusts and \$37 million and \$53 million for loans held by Freddie Mac during 3Q 2017 and 3Q 2016, respectively.

Freddie Mac Form 10-Q 10

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

| (Dollars in millions)   | YTD 2017        |  |              | YTD 2016        |  |              |
|---|-----------------|--|--------------|-----------------|--|--------------|
|   | 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   | \$11,417        | \$38                                     | 0.44 %       | \$16,112        | \$31                                     | 0.26 %       |
| Securities purchased under agreements to resell                                 | 55,903          | 386                                      | 0.92         | 57,348          | 149                                      | 0.35         |
| Advances to lenders and other secured lending                                   | 651             | 12                                       | 2.42         | 419             | 7  | 2.33         |
| <b>Mortgage-related securities:</b>   |                 |  |              |                 |  |              |
| Mortgage-related securities   | 168,819         | 4,886                                    | 3.86         | 193,492         | 5,546                                    | 3.82         |
| Extinguishment of PCs held by Freddie Mac                                       | (87,883 )       | (2,456 )                                 | (3.73 )      | (96,388 )       | (2,679 )                                 | (3.71 )      |
| Total mortgage-related securities, net  | 80,936          | 2,430                                    | 4.00         | 97,104          | 2,867                                    | 3.94         |
| <b>Non-mortgage-related securities:</b>   |                 |  |              |                 |  |              |
| Loans held by consolidated trusts <sup>(1)</sup>                                | 1,720,906       | 43,810                                   | 3.39         | 1,640,997       | 41,735                                   | 3.39         |
| Loans held by Freddie Mac <sup>(1)</sup>  | 119,843         | 3,870                                    | 4.31         | 138,648         | 4,318                                    | 4.15         |
| Total interest-earning assets   | \$2,007,705     | \$50,753                                 | 3.37         | \$1,964,847     | \$49,163                                 | 3.33         |
| <b>Interest-bearing liabilities:</b>  |                 |  |              |                 |  |              |
| <b>Debt securities of consolidated trusts including PCs held by Freddie Mac</b> |                 |  |              |                 |  |              |
| Debt securities of consolidated trusts including PCs held by Freddie Mac        | \$1,744,260     | (\$38,023 )                              | (2.91 )      | \$1,665,226     | (\$36,606 )                              | (2.93 )      |
| Extinguishment of PCs held by Freddie Mac                                       | (87,883 )       | 2,456                                    | 3.73         | (96,388 )       | 2,679                                    | 3.71         |
| Total debt securities of consolidated trusts held by third parties              | 1,656,377       | (35,567 )                                | (2.86 )      | 1,568,838       | (33,927 )                                | (2.88 )      |
| <b>Other debt:</b>  |                 |  |              |                 |  |              |
| Short-term debt   | 72,292          | (414 )                                   | (0.76 )      | 85,995          | (258 )                                   | (0.39 )      |
| Long-term debt  | 270,251         | (3,984 )                                 | (1.96 )      | 301,791         | (4,338 )                                 | (1.91 )      |
| Total other debt  | 342,543         | (4,398 )                                 | (1.71 )      | 387,786         | (4,596 )                                 | (1.58 )      |
| Total interest-bearing liabilities  | 1,998,920       | (39,965 )                                | (2.66 )      | 1,956,624       | (38,523 )                                | (2.62 )      |
| Expense related to derivatives  | —               | (125 )                                   | (0.01 )      | —               | (146 )                                   | (0.01 )      |
| Impact of net non-interest-bearing funding                                      | 8,785           | —  | 0.01         | 8,223           | —  | 0.01         |
| Total funding of interest-earning assets  | \$2,007,705     | (\$40,090 )                              | (2.66 )      | \$1,964,847     | (\$38,669 )                              | (2.62 )      |
| Net interest income/yield   |                 | \$10,663                                 | 0.71         |                 | \$10,494                                 | 0.71         |

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were \$1.7 billion and \$1.9 billion for loans held by consolidated trusts and \$132 million and \$184 million for loans held by Freddie Mac during YTD 2017 and YTD 2016, 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)  | 3Q      | 3Q      | Change  |        | YTD      | YTD      | Change |        |
|--|---------|---------|---------|--------|----------|----------|--------|--------|
|  | 2017    | 2016    | \$      | %      | 2017     | 2016     | \$     | %      |
| Contractual net interest income:   |         |         |         |        |          |          |        |        |
| Guarantee fee income   | \$808   | \$822   | (\$14 ) | (2 )%  | \$2,495  | \$2,212  | \$283  | 13 %   |
| Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011 | 333     | 292     | 41      | 14 %   | 974      | 838      | 136    | 16 %   |
| Other contractual net interest income  | 1,604   | 1,635   | (31 )   | (2 )%  | 4,900    | 5,219    | (319 ) | (6 )%  |
| Total contractual net interest income  | 2,745   | 2,749   | (4 )    | — %    | 8,369    | 8,269    | 100    | 1 %    |
| Net amortization - loans and debt securities of consolidated trusts                    | 822     | 884     | (62 )   | (7 )%  | 2,442    | 2,191    | 251    | 11 %   |
| Net amortization - other assets and debt   | (38 )   | 60      | (98 )   | (163)% | (23 )    | 180      | (203 ) | (113)% |
| Expense related to derivatives   | (40 )   | (47 )   | 7       | 15 %   | (125 )   | (146 )   | 21     | 14 %   |
| Net interest income  | \$3,489 | \$3,646 | (\$157) | (4 )%  | \$10,663 | \$10,494 | \$169  | 2 %    |

## Key Drivers:

## Guarantee fee income

YTD 2017 vs. YTD 2016 - increased primarily due to higher average contractual guarantee fee rates in our total single-family loan portfolio as well as the continued growth in the size of the Core single-family loan portfolio. Average contractual guarantee fee rates are generally higher on mortgage loans in our Core single-family loan portfolio compared to those in our Legacy and relief refinance single-family loan portfolio.

## Other contractual net interest income

YTD 2017 vs. YTD 2016 - 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. See "Conservatorship and Related Matters - Reducing Our Mortgage-Related Investments Portfolio Over Time" for a discussion of the key drivers of the decline in our mortgage-related investments portfolio.

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

3Q 2017 vs. 3Q 2016 - decreased primarily due to a decrease in prepayments which resulted in reduced amortization income on mortgage loan upfront delivery fees.

YTD 2017 vs. YTD 2016 - increased primarily due to higher unamortized balances on our debt securities of consolidated trusts and higher mortgage loan upfront delivery fee balances, coupled with a decrease in amortization expense on mortgage loans held by consolidated trusts due to a decrease in prepayments.

## Net amortization of other assets and debt

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - decreased primarily due to less accretion of previously recognized other-than-temporary impairment on non-agency mortgage-related securities. 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.

## 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.

|   | 3Q<br>2017 | 3Q<br>2016 | Change  |        | YTD<br>2017 | YTD<br>2016 | Change  |        |
|---|------------|------------|---------|--------|-------------|-------------|---------|--------|
| (Dollars in billions)   |            |            | \$      | %      |             |             | \$      | %      |
| Benefit (provision) for newly impaired loans                                | (\$0.2)    | (\$0.2)    | \$—     | — %    | (\$0.5)     | (\$0.6)     | \$0.1   | 17 %   |
| Amortization of interest rate concessions                                   | 0.1        | 0.2        | (0.1 )  | (50 )% | 0.5         | 0.7         | (0.2 )  | (29 )% |
| Reclassifications of held-for-investment loans to held-for-sale loans       | —          | —          | —       | N/A    | 0.3         | 0.6         | (0.3 )  | (50 )% |
| Other, including changes in estimated default probability and loss severity | (0.6 )     | (0.1 )     | (0.5 )  | (500)% | (0.5 )      | 0.4         | (0.9 )  | (225)% |
| Benefit (provision) for credit losses                                       | (\$0.7)    | (\$0.1)    | (\$0.6) | (600)% | (\$0.2)     | \$1.1       | (\$1.3) | (118)% |

## Key Drivers:

3Q 2017 vs. 3Q 2016 - increase in provision for credit losses due to estimated losses of \$0.9 billion (pre-tax) related to Hurricanes Harvey, Irma and Maria, which included approximately \$0.6 billion related to \$2.3 billion in UPB of mortgage loans in Puerto Rico. This increase was partially offset by improvements in our estimated loss severity.

YTD 2017 vs. YTD 2016 - change from benefit to provision for credit losses, driven by estimated losses of \$0.9 billion (pre-tax) related to Hurricanes Harvey, Irma and Maria, which included approximately \$0.6 billion related to \$2.3 billion in UPB of mortgage loans in Puerto Rico. The change from benefit to provision for credit losses was partially offset by the policy change that was elected on January 1, 2017 for loan reclassifications from held-for-investment to held-for-sale. See Note 4 for further information about this change.

Our estimated provision for credit losses related to the hurricanes is based on assumptions about a number of factors, including the probability of borrower default and the severity of property damage. Given the hurricanes occurred late in 3Q 2017, we have limited information available to us at this time related to trends in borrower delinquencies and the severity of property damage in the impacted areas, especially for Puerto Rico. As a result, our estimates will likely change in the future as additional information becomes available.



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

## DERIVATIVE GAINS (LOSSES)

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

On February 2, 2017, we began using fair value hedge accounting for certain single-family mortgage loans, which is intended to reduce our GAAP earnings volatility. Changes in the fair value of the derivatives while in fair value hedge relationships are recognized in other income (loss) on our condensed consolidated statements of comprehensive income. See Note 7 for further information on fair value hedge accounting.

The table below presents the gains and losses on derivatives while not designated in fair value hedge relationships and the accrual of periodic cash settlements on all derivatives.

|   | 3Q<br>2017 | 3Q<br>2016 | Change  |          | YTD<br>2017 | YTD<br>2016 | Change  |        |
|---|------------|------------|---------|----------|-------------|-------------|---------|--------|
| (Dollars in millions)                         |            |            | \$      | %        |             |             | \$      | %      |
| Fair value change in interest-rate swaps      | \$23       | \$541      | (\$518) | (96)%    | \$116       | (\$7,513)   | \$7,629 | 102%   |
| Fair value change in option-based derivatives | (198)      | (235)      | 37      | 16%      | (519)       | 2,841       | (3,360) | (118)% |
| Fair value change in other derivatives        | (105)      | 74         | (179)   | (242)%   | (379)       | (657)       | 278     | 42%    |
| Accrual of periodic cash settlements          | (398)      | (416)      | 18      | 4%       | (1,294)     | (1,326)     | 32      | 2%     |
| Derivative gains (losses)                     | (\$678)    | (\$36)     | (\$642) | (1,783)% | (\$2,076)   | (\$6,655)   | \$4,579 | 69%    |

## Key Drivers:

3Q 2017 vs. 3Q 2016 - Losses increased as long-term interest rates were relatively unchanged during 3Q 2017 but increased slightly during 3Q 2016. The 10-year par swap rate increased 1 basis point during 3Q 2017 and increased 6 basis points during 3Q 2016. The 3Q 2017 interest rate change had minimal effect on Derivative gains (losses), compared to the 3Q 2016 interest rate increase which resulted in fair value gains in our pay-fixed interest rate swaps, partially offset by fair value losses in our receive-fixed swaps and certain option-based derivatives. In addition, we implemented hedge accounting in 1Q 2017, but the effect on Derivative gains (losses) during 3Q 2017 was relatively minor as the change in interest rates was relatively small.

YTD 2017 vs. YTD 2016 - Losses decreased as long-term interest rates decreased less during YTD 2017. The 10-year par swap rate decreased 4 basis points during YTD 2017 and decreased 74 basis points during YTD 2016. The smaller interest rate decrease during YTD 2017 resulted in reduced fair value losses in our pay-fixed interest rate swaps, partially offset by reduced fair value gains in our receive-fixed swaps and certain option-based derivatives. In addition, hedge accounting reduced the losses that otherwise would have been included in Derivative gains (losses) during YTD 2017 by \$215 million.

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

## OTHER INCOME (LOSS)

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

|  | 3Q<br>2017 | 3Q<br>2016 | Change  |        | YTD<br>2017 | YTD<br>2016 | Change  |        |
|--|------------|------------|---------|--------|-------------|-------------|---------|--------|
| (Dollars in millions)  |            |            | \$      | %      |             |             | \$      | %      |
| Other income (loss)  |            |            |         |        |             |             |         |        |
| Non-agency mortgage-related securities settlements                     | \$4,525    | \$—        | \$4,525 | N/A    | \$4,525     | \$—         | \$4,525 | N/A    |
| Gains (losses) on loans  | 203        | 139        | \$64    | 46 %   | 410         | 136         | 274     | 201 %  |
| Gains (losses) on held-for-sale loan purchase commitments              | 271        | 391        | (120 )  | (31 )% | 826         | 635         | 191     | 30 %   |
| (Losses) gains on debt where we elected the fair value option          | 62         | (174 )     | 236     | 136 %  | (129 )      | (268 )      | 139     | 52 %   |
| All other  | 272        | 249        | 23      | 9 %    | 744         | 1,024       | (280 )  | (27 )% |
| Fair value hedge accounting  |            |            |         |        |             |             |         |        |
| Change in fair value of derivatives in qualifying hedge relationships  | 85         | —          | 85      | N/A    | (215 )      | —           | (215 )  | N/A    |
| Change in fair value of hedged items in qualifying hedge relationships | (15 )      | —          | (15 )   | N/A    | 351         | —           | 351     | N/A    |
| Ineffectiveness related to fair value hedge accounting                 | 70         | —          | 70      | N/A    | 136         | —           | 136     | N/A    |
| Total other income (loss)  | \$5,403    | \$605      | \$4,798 | 793 %  | \$6,512     | \$1,527     | \$4,985 | 326 %  |

## Key Drivers:

## Non-agency mortgage-related securities settlements

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - increased due to the income recognition of proceeds received from the RBS settlement during 3Q 2017. No significant settlements occurred during the 2016 periods. See Note 12 for additional information on the RBS settlement.

## Gains (losses) on loans

YTD 2017 vs. YTD 2016 - Gains increased due to fewer losses recognized on the reclassification of seriously delinquent loans from held-for-investment to held-for-sale in YTD 2017, partially offset by less interest rate-related gains on multifamily loans in YTD 2017 as a result of smaller decreases in interest rates compared to YTD 2016.

## Gains (losses) on held-for-sale loan purchase commitments

3Q 2017 vs. 3Q 2016 - Gains decreased primarily due to less spread tightening and the resulting fair value impact on multifamily loan purchase commitments during 3Q 2017.

YTD 2017 vs. YTD 2016 - Gains increased primarily due to a higher outstanding balance of commitments at September 30, 2017, partially offset by smaller gains as a result of less spread tightening. The outstanding commitment balance was higher at September 30, 2017 as a result of stronger demand for multifamily products due to an elevated number of new apartment completions, strong multifamily market fundamentals and low interest rates.

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

☞(Losses) gains on debt where we elected fair value option

3Q 2017 vs. 3Q 2016 - Gains in 3Q 2017 compared to losses in 3Q 2016 primarily driven by gains recognized on STACR debt notes from widening of spreads between STACR yields and LIBOR during 3Q 2017 compared to 3Q 2016 when spreads tightened.

YTD 2017 vs. YTD 2016 - Losses decreased on STACR debt notes as spreads tightened less between STACR yields and LIBOR during the 2017 periods.

♣All other

YTD 2017 vs. YTD 2016 - declined primarily due to the income recognition of settlement proceeds related to the TBW bankruptcy during YTD 2016.

♣ineffectiveness related to fair value hedge accounting

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - During 1Q 2017, we adopted fair value hedge accounting. Hedge ineffectiveness related to fair value hedge accounting is recognized in other income (loss). See Note 7 for additional information on hedge ineffectiveness.

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

## OTHER COMPREHENSIVE INCOME (LOSS)

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

|  | 3Q<br>2017 | 3Q<br>2016 | Change |       | YTD<br>2017 | YTD<br>2016 | Change |       |
|--|------------|------------|--------|-------|-------------|-------------|--------|-------|
| (Dollars in millions)  |            |            | \$     | %     |             |             | \$     | %     |
| Other comprehensive income, excluding certain items  | \$504      | \$336      | \$168  | 50 %  | \$1,090     | \$948       | \$142  | 15 %  |
| Excluded items:  |            |            |        |       |             |             |        |       |
| Accretion due to significant increases in expected cash flows on previously impaired available-for-sale securities | (34 )      | (66 )      | 32     | 48 %  | (137 )      | (235 )      | 98     | 42 %  |
| Realized (gains) losses reclassified from AOCI   | (491 )     | (289 )     | (202 ) | (70)% | (629 )      | (438 )      | (191 ) | (44)% |
| Total excluded items   | (525 )     | (355 )     | (170 ) | (48)% | (766 )      | (673 )      | (93 )  | (14)% |
| Total other comprehensive income (loss)  | (\$21 )    | (\$19 )    | (\$2 ) | (11)% | \$324       | \$275       | \$49   | 18 %  |

## Key Drivers:

## Other comprehensive income, excluding certain items

3Q 2017 vs. 3Q 2016 - increased primarily due to lower interest rate related losses on our available-for-sale securities as interest rates were relatively unchanged during 3Q 2017 but increased slightly during 3Q 2016, coupled with larger market spread related gains during 3Q 2017 as market spreads on agency and non-agency mortgage-related securities tightened more during 3Q 2017.

YTD 2017 vs. YTD 2016 - increased primarily due to larger market spread related gains as market spreads on agency and non-agency mortgage-related securities tightened more during YTD 2017. This was partially offset by smaller interest rate related gains due to smaller declines in long-term interest rates during YTD 2017.

## Excluded items

Accretion due to significant increases in expected cash flows on previously impaired available-for-sale securities

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - decreased primarily due to a decline in the population of impaired non-agency mortgage-related securities as a result of our active dispositions of these securities.

## Realized (gains) losses reclassified from AOCI

3Q 2017 vs. 3Q 2016 - reflected larger amounts of reclassified gains during 3Q 2017 due to a greater volume of sales of non-agency mortgage-related securities and higher unrealized gains on our agency and non-agency mortgage-related securities sold, as a result of additional spread tightening.

YTD 2017 vs. YTD 2016 - reflected larger amounts of reclassified gains during YTD 2017 due to higher unrealized gains on our agency and non-agency mortgage-related securities sold, as a result of additional spread tightening, partially offset by a decline in the volume of sales of agency securities.

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

**OTHER KEY DRIVERS**

Key drivers of other line items for 3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 include:

**Gains (losses) on extinguishment of debt**

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - improved primarily due to an increase in the amount of gains recognized from the extinguishment of certain fixed-rate debt securities of consolidated trusts, as market interest rates increased between the time of issuance and repurchase. The amount of extinguishment gains or losses may vary, as the type and amount of PCs selected for repurchase are based on our investment and funding strategies, including our efforts to support the liquidity and price performance of our PCs.

**Other gains on investment securities recognized in earnings**

3Q 2017 vs. 3Q 2016 - increased primarily due to additional spread tightening coupled with a greater volume of our non-agency mortgage-related securities sold during 3Q 2017. In addition, we recognized smaller fair value losses on our mortgage and non-mortgage-related securities classified as trading as long-term interest rates were relatively unchanged during 3Q 2017 compared to 3Q 2016 when long-term interest rates increased slightly.

YTD 2017 vs. YTD 2016 - decreased primarily due to the recognition of smaller fair value gains on our mortgage and non-mortgage-related securities classified as trading as long-term interest rates decreased less during YTD 2017, partially offset by larger gains due to additional spread tightening during YTD 2017 on our sales of agency and non-agency mortgage-related securities.

## Management's Discussion and Analysis Consolidated Results of Operations | Items Affecting Multiple Lines

## ITEM AFFECTING MULTIPLE LINES

The following item affected multiple line items on our consolidated results of operations.

## SINGLE-FAMILY LOAN RECLASSIFICATIONS

During 3Q 2017 and 3Q 2016, we reclassified \$7.2 billion and \$0.3 billion in UPB of seasoned single-family mortgage loans, respectively, from held-for-investment to held-for-sale, as we continue to focus on reducing the balance of our less liquid assets. During YTD 2017 and YTD 2016, we reclassified \$20.0 billion and \$3.8 billion in UPB of such mortgage loans, respectively. Seasoned single-family mortgage loans include seriously delinquent and reperforming loans.

On January 1, 2017, we elected a new accounting policy for reclassifications from held-for-investment to held-for-sale. Under the new policy, when we reclassify (transfer) a loan from held-for-investment to held-for-sale, we charge off the entire difference between the loan's recorded investment and its fair value if the loan has a history of credit-related issues. Expenses related to property taxes and insurance are included as part of the charge-off. If the charge-off amount exceeds the existing loan loss reserve amount, an additional provision for credit losses is recorded. If the charge-off amount is less than the existing loan loss reserve amount, a benefit for credit losses is recorded. Any declines in loan fair value after the date of transfer will be recognized as a valuation allowance, with an offset recorded to other income (loss).

This new policy election was applied prospectively, as it was not practical to apply it retrospectively.

The table below presents the effect of single-family loan reclassifications on income before income tax (expense) benefit. Beginning in 1Q 2017, benefit (provision) for credit losses is the only line item affected by the loan reclassifications from held-for-investment to held-for-sale. Prior to this change (including 3Q 2016 and YTD 2016 as presented below), the reclassifications from held-for-investment to held-for-sale affected several line items on our consolidated results of operations.

|  | 3Q<br>2017 | 3Q<br>2016 | Change |       | YTD<br>2017 | YTD<br>2016 | Change  |       |
|--|------------|------------|--------|-------|-------------|-------------|---------|-------|
| (Dollars in millions)  |            |            | \$     | %     |             |             | \$      | %     |
| Benefit (provision) for credit losses                                    | \$52       | \$59       | (\$7)  | (12)% | \$352       | \$632       | (\$280) | (44)% |
| Other income (loss) - lower-of-cost-or-fair-value adjustment             | —          | (65)       | 65     | 100%  | —           | (799)       | 799     | 100%  |
| Other expense - property taxes and insurance associated with these loans | —          | (10)       | 10     | 100%  | —           | (150)       | 150     | 100%  |
| Effect on income before income tax (expense) benefit                     | \$52       | (\$16)     | \$68   | 425%  | \$352       | (\$317)     | \$669   | 211%  |

## Key Drivers:

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - Effect on income changed to a gain as a result of price improvements on a higher volume of primarily reperforming loans reclassified from held-for-investment to held-for-sale during the 2017 periods compared to a loss recognized primarily on seriously delinquent loans reclassified from held-for-investment to held-for-sale during the 2016 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)                           | September 30, December 31, |             | Change    |       |
|---|----------------------------|-------------|-----------|-------|
|   | 2017                       | 2016        | \$        | %     |
| <b>Assets:</b>                                  |                            |             |           |       |
| Cash and cash equivalents                       | \$8,183                    | \$12,369    | (\$4,186) | (34)% |
| Restricted cash and cash equivalents            | 7,684                      | 9,851       | (2,167)   | (22)% |
| Securities purchased under agreements to resell | 47,202                     | 51,548      | (4,346)   | (8)%  |
| Subtotal  | 63,069                     | 73,768      | (10,699)  | (15)% |
| Investments in securities, at fair value        | 87,148                     | 111,547     | (24,399)  | (22)% |
| Mortgage loans, net                             | 1,844,892                  | 1,803,003   | 41,889    | 2%    |
| Accrued interest receivable                     | 6,268                      | 6,135       | 133       | 2%    |
| Derivative assets, net                          | 705                        | 747         | (42)      | (6)%  |
| Deferred tax assets, net                        | 14,576                     | 15,818      | (1,242)   | (8)%  |
| Other assets                                    | 13,998                     | 12,358      | 1,640     | 13%   |
| Total assets                                    | \$2,030,656                | \$2,023,376 | \$7,280   | —%    |
| <b>Liabilities and Equity:</b>                  |                            |             |           |       |
| <b>Liabilities:</b>                             |                            |             |           |       |
| Accrued interest payable                        | \$5,990                    | \$6,015     | (\$25)    | —%    |
| Debt, net                                       | 2,009,578                  | 2,002,004   | 7,574     | —%    |
| Derivative liabilities, net                     | 212                        | 795         | (583)     | (73)% |
| Other liabilities                               | 9,626                      | 9,487       | 139       | 1%    |
| Total liabilities                               | 2,025,406                  | 2,018,301   | 7,105     | —%    |
| Total equity                                    | 5,250                      | 5,075       | 175       | 3%    |
| Total liabilities and equity                    | \$2,030,656                | \$2,023,376 | \$7,280   | —%    |

## Key Drivers:

As of September 30, 2017 compared to December 31, 2016:

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 as of September 30, 2017 declined primarily due to lower near term cash needs for lower upcoming maturities and anticipated calls of other debt and a decrease in prepayment proceeds received by the custodial account driven by increased interest rates as of September 30, 2017 compared to December 31, 2016.

Investments in securities, at fair value decreased as we continued to reduce the mortgage-related investments portfolio during 2017 as required by the Purchase Agreement and FHFA.

Other assets increased primarily due to the recognition of short-term receivables from sales or maturities of trading or available-for-sale securities.

Derivative liabilities, net decreased due to changes in interest rates which were mostly offset by cash collateral received by our derivative counterparties.

Total equity increased as a result of higher comprehensive income during YTD 2017 compared to 4Q 2016, partially offset by additional dividends paid related to the \$600 million decline in the Capital Reserve Amount in 2017.

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.

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

• **Capital Markets** - 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 and reperforming loans), treasury function, single-family securitization activities and interest-rate risk.

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

**SEGMENT EARNINGS**

During 1Q 2017, we changed how we calculate certain components of our Segment Earnings for our Capital Markets segment. Prior period results have been revised to conform to the current period presentation. For more information on this change and on our segment reclassifications, see Note 11.



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

SEGMENT COMPREHENSIVE INCOME

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The graphs below show our comprehensive income by segment.  
(In billions)

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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 August 18, 2017 (latest available IMF purchase/refinance information).

### Single-Family Serious Delinquency Rates

Source: National Delinquency Survey from the Mortgage Bankers Association. Data as of August 24, 2017 (latest available NDS information).

### Commentary

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U.S. single-family loan origination volumes decreased to 495 billion in 3Q 2017 from \$585 billion in 3Q 2016, driven by lower refinance volume as a result of higher mortgage rates in 3Q 2017. Mortgage origination data is from Inside Mortgage Finance as of October 27, 2017.

In 2018, we expect continued growth in U.S single-family home purchase volume due to a gradual increase in housing supply, and lower refinance volume driven by a moderate increase in mortgage interest rates. Freddie Mac's single-family home purchase and refinance volumes typically follow a similar trend.

Single-family serious delinquency (SDQ) rates in the U.S. generally continued to decline on a year-over-year basis due to macroeconomic factors, such as a low unemployment rate and continued home price appreciation. Freddie Mac's delinquency rates typically follow a similar trend resulting in

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

fewer loan workouts and foreclosure transfers, which generally reduces our expected credit losses on our total single-family mortgage portfolio.

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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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UPB of Single-Family Loan Purchases and Guarantees by Loan Purpose

(In billions)

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

Freddie Mac Form 10-Q 25

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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:

3Q 2017 vs. 3Q 2016 - decreased due to lower refinance volume driven by higher mortgage rates.

YTD 2017 vs. YTD 2016 - decreased due to lower refinance volume partially offset by an increase in home purchase loan volume as interest and unemployment rates remained low.

While Hurricanes Harvey, Irma and Maria did not have an impact on our 3Q 2017 new business volume, we are currently assessing the potential impacts of these events on future new business volume.

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 single-family credit guarantee portfolio increased during YTD 2017 by approximately 3%, driven by increased single-family origination volume. Our market share of U.S. single-family origination volume remained stable amid growth in total U.S. single-family mortgage debt outstanding resulting from continued improvement in macroeconomic conditions, such as a low unemployment rate and home price appreciation. In addition, new business acquisitions had a higher average loan size compared to older vintages that continue to run off.

- The Core single-family loan portfolio grew to 77% of the single-family credit guarantee portfolio at September 30, 2017 compared to 73% at December 31, 2016.

The Legacy and relief refinance single-family loan portfolio declined to 23% of the single-family credit guarantee portfolio at September 30, 2017 compared to 27% at December 31, 2016, driven primarily by liquidations.

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 reflects an average rate for our total single-family credit guarantee portfolio and is not limited to purchases in the applicable period. This rate consists primarily of:

- Contractual guarantee fees that we receive over the life of the loans; and
- Upfront delivery fee income that we amortize over the contractual life of the related loans (usually 30 years). If the related loans prepay, the remaining upfront delivery fee income is recognized immediately.

The average guarantee fee rate charged on new acquisitions consists primarily of:

- Contractual guarantee fees that we receive over the life of the loans; and
- Upfront delivery fee income that we recognize 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 fee rates:

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - decreased slightly due to a decline in the recognition of amortized fees driven by lower prepayments that resulted from higher mortgage rates in the 2017 periods. This decrease was partially offset by an increase in contractual guarantee fees as older vintages were replaced by new loan acquisitions with higher contractual guarantee fees.

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

▲Average guarantee fee rate charged on new acquisitions:

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - decreased due to competitive pricing to maintain market share of U.S. single-family origination volume, partially offset by lower market-adjusted pricing costs based on the improved price performance of our PCs relative to Fannie Mae securities.

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

Credit Risk Transfer (CRT) Activity

In 2013, we began transferring credit risk on a portion of our Core single-family loan portfolio to the private market, which reduces the risk of future losses to us and taxpayers when borrowers go into default. Our principal methods of credit risk transfer are our STACR debt note and ACIS transactions, where we generally transfer a small portion of the expected credit losses and a significant portion of credit losses in a stressed economic environment. In these transactions, we pay interest and premiums to investors or insurers, respectively, in exchange for their taking on a portion of the credit risk on the mortgage loans in the related reference pool. These payments effectively reduce our guarantee fee income from the PCs of the related reference pools. See “MD&A - Our Business Segments - Single-Family Guarantee - Credit Risk Transfer Transactions” in our 2016 Annual Report for more information on our CRT transactions.

The following chart presents the cumulative issuance amount for the STACR debt note and ACIS transactions as of September 30, 2017 by loss position and the party holding each loss position.

Cumulative STACR Debt Note and ACIS Transactions as of September 30, 2017<sup>(1)(2)</sup>

(In billions)  
Freddie Mac

Senior

\$725.5

ACIS

|  |             |       |                     |                |
|--|-------------|-------|---------------------|----------------|
|  | Freddie Mac | \$6.8 | STACR Debt<br>Notes | Reference Pool |
|--|-------------|-------|---------------------|----------------|

Mezzanine

|  |       |        |  |         |
|--|-------|--------|--|---------|
|  | \$1.6 | \$20.4 |  | \$760.8 |
|--|-------|--------|--|---------|

|               |             |       |                     |
|---------------|-------------|-------|---------------------|
| First<br>Loss | Freddie Mac | ACIS  | STACR<br>Debt Notes |
|               | \$4.2       | \$0.8 | \$1.5               |

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

(2) For the current outstanding coverage provided by our STACR debt note and ACIS transactions, see Note 4. Commentary

During YTD 2017, we transferred a portion of the credit losses associated with \$175.9 billion in UPB of loans in our single-family loan portfolio primarily through STACR debt note, ACIS, whole loan security, senior subordinate securitization structure, and deep mortgage insurance CRT transactions.

During 3Q 2017, we did not have any new STACR debt note or ACIS transactions. However, we completed \$1.0 billion of ACIS transactions related to reference pools in transactions executed in prior periods.



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

Our expected guarantee fee income on the PCs related to the STACR and ACIS reference pools has been effectively reduced by approximately 31%, on average, for all transactions executed through September 30, 2017.

Due to differences in accounting, there could be a significant time lag between when we recognize a provision for credit losses on the mortgage loans in the reference pools and when we recognize the related recovery for the majority of our 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 benefit is recorded when an actual loss event occurs.

As of September 30, 2017, there has not been a significant number of loans in our STACR debt note and ACIS reference pools that have experienced a credit event. As a result, we experienced minimal write-downs on our STACR debt notes and filed minimal claims for reimbursement of losses under our ACIS transactions. We expect losses may increase on loans in the reference pools in our existing CRT transactions from Hurricanes Harvey and Irma.

As of September 30, 2017, we have transferred a portion of the credit risk on nearly 32% of the total outstanding single-family credit guarantee portfolio.

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

## 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.

September 30, 2017

| (Credit score)                     | CLTV ≤ 80   |                         | CLTV > 80<br>to 100 |                         | CLTV > 100  |                         | All Loans   |                         | % Modified |
|------------------------------------|-------------|-------------------------|---------------------|-------------------------|-------------|-------------------------|-------------|-------------------------|------------|
|                                    | % Portfolio | SDQ Rate <sup>(1)</sup> | % Portfolio         | SDQ Rate <sup>(1)</sup> | % Portfolio | SDQ Rate <sup>(1)</sup> | % Portfolio | SDQ Rate <sup>(1)</sup> |            |
| Core single-family loan portfolio: |             |                         |                     |                         |             |                         |             |                         |            |
| < 620                              | 0.3 %       | 1.89 %                  | — %                 | NM                      | — %         | NM                      | 0.3 %       | 2.11 %                  | 3.3 %      |
| 620 to 659                         | 1.7 %       | 0.98 %                  | 0.4 %               | 1.11 %                  | — %         | NM                      | 2.1 %       | 1.00 %                  | 1.4 %      |
| ≥ 660                              | 64.8 %      | 0.15 %                  | 9.4 %               | 0.21 %                  | — %         | NM                      | 74.2 %      | 0.16 %                  | 0.2 %      |
| Not available                      | — %         | NM                      | — %                 | NM                      | — %         | NM                      | — %         | NM                      | 3.7 %      |
| Total                              | 66.8 %      | 0.18 %                  | 9.8 %               | 0.25 %                  | — %         | NM                      | 76.6 %      | 0.19 %                  | 0.3 %      |

Legacy and relief refinance single-family loan portfolio:

|               |        |        |       |        |       |         |        |        |        |
|---------------|--------|--------|-------|--------|-------|---------|--------|--------|--------|
| < 620         | 1.2 %  | 4.46 % | 0.3 % | 8.49 % | 0.2 % | 14.35 % | 1.7 %  | 5.55 % | 24.2 % |
| 620 to 659    | 2.0 %  | 3.32 % | 0.5 % | 6.65 % | 0.2 % | 12.07 % | 2.7 %  | 4.18 % | 20.8 % |
| ≥ 660         | 15.5 % | 1.16 % | 2.5 % | 3.37 % | 0.9 % | 5.87 %  | 18.9 % | 1.49 % | 7.5 %  |
| Not available | 0.1 %  | 4.85 % | — %   | NM     | — %   | NM      | 0.1 %  | 5.32 % | 17.5 % |
| Total         | 18.8 % | 1.66 % | 3.3 % | 4.42 % | 1.3 % | 7.97 %  | 23.4 % | 2.14 % | 10.3 % |

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

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

## Alt-A and Subprime Loans

While we 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. We do not rely on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

Participants in the mortgage market have characterized single-family loans based upon their overall credit quality at the time of origination, including as prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately \$1.1 billion and \$1.3 billion of security collateral underlying our other securitization products at September 30, 2017 and December 31, 2016, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between the prime and subprime categories, if they are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continue to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, as part of our relief refinance initiative, or as part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-Q and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to September 30, 2017, we have purchased approximately \$36.0 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including \$0.3 billion in 3Q 2017.

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

| (Dollars in billions) | September 30, 2017 |      |               |             | December 31, 2016 |      |               |             |
|-----------------------|--------------------|------|---------------|-------------|-------------------|------|---------------|-------------|
|                       | UPB                | CLTV | %<br>Modified | SDQ<br>Rate | UPB               | CLTV | %<br>Modified | SDQ<br>Rate |
| Alt-A                 | \$28.2             | 68 % | 25.8 %        | 5.00%       | \$32.6            | 72 % | 25.9 %        | 5.21%       |

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during YTD 2017 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 were lower as of September 30, 2017 compared to September 30, 2016 on our single-family credit guarantee portfolio due to home price appreciation and a low unemployment rate, combined with our continued loss mitigation efforts and sales of certain seriously delinquent loans.

The total delinquency rate increased to 1.52% for loans one month past due as of September 30, 2017 due to recent hurricane events, compared to 1.23% and 1.30% as of June 30, 2017 and September 30, 2016, respectively. The total delinquency rate for loans two months past due was 0.38% as of September 30, 2017 compared to 0.33% and 0.39% as of June 30, 2017 and September 30, 2016, respectively.

Freddie Mac Form 10-Q 34

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## 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. On January 1, 2017, we elected a new accounting policy for loan reclassifications from held-for-investment to held-for-sale that increased the amount of charge-offs recognized during YTD 2017. Under the new policy, when we reclassify (transfer) a loan from held-for-investment to held-for-sale, we charge off the entire difference between the loan's recorded investment and its fair value if the loan has a history of credit-related issues. Expenses related to property taxes and insurance are included as part of the charge-off. See Note 4 for further information about this change.

| (Dollars in millions)             | 3Q<br>2017 | 3Q<br>2016 | YTD<br>2017 | YTD<br>2016 |
|-----------------------------------|------------|------------|-------------|-------------|
| Charge-offs, gross <sup>(1)</sup> | \$1,140    | \$461      | \$4,033     | \$1,516     |
| Recoveries                        | (145 )     | (115 )     | (327 )      | (395 )      |
| Charge-offs, net                  | 995        | 346        | 3,706       | 1,121       |
| REO operations expense            | 35         | 56         | 128         | 169         |
| Total credit losses               | \$1,030    | \$402      | \$3,834     | \$1,290     |

Total credit losses<sup>(1)</sup> (in bps) 22.7 9.2 28.4 9.9

3Q 2016 and YTD 2016 do not include lower-of-cost-or-fair-value adjustments and other expenses related to property taxes and insurance recognized when we transfer loans from held-for-investment to held-for-sale, which (1) totaled \$75 million and \$949 million, respectively. 3Q 2017 and YTD 2017 include charge-offs of \$0.8 billion and \$3.0 billion, respectively, related to the transfer of loans from held-for-investment to held-for-sale.

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

| (Dollars in millions)                              | September 30, 2017 |           | September 30, 2016 |           |
|--|--------------------|-----------|--------------------|-----------|
|  | Loan<br>Count      | Amount    | Loan<br>Count      | Amount    |
| TDRs, at January 1                                 | 485,709            | \$78,869  | 512,253            | \$85,960  |
| New additions                                      | 29,867             | 4,130     | 32,581             | 4,482     |
| Repayments and reclassifications to held-for-sale  | (113,933)          | (21,828 ) | (45,334 )          | (8,863 )  |
| Foreclosure transfers and foreclosure alternatives | (8,169 )           | (1,122 )  | (8,856 )           | (1,261 )  |
| TDRs, at September 30                              | 393,474            | 60,049    | 490,644            | 80,318    |
| Loans impaired upon purchase                       | 5,782              | 380       | 8,266              | 583       |
| Total impaired loans with specific reserve         | 399,256            | 60,429    | 498,910            | 80,901    |
| Allowance for loan losses                          |                    | (7,706 )  |                    | (11,910 ) |
| Net investment, at September 30                    |                    | \$52,723  |                    | \$68,991  |

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

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

| (In millions)                    | September<br>30, 2017 | December<br>31, 2016 |
|----------------------------------|-----------------------|----------------------|
| TDRs on accrual status           | \$58,065              | \$77,122             |
| Non-accrual loans                | 13,899                | 16,164               |
| Total TDRs and non-accrual loans | \$71,964              | \$93,286             |

## Loan loss reserves associated with:

|                        |         |          |
|------------------------|---------|----------|
| TDRs on accrual status | \$6,326 | \$10,295 |
| Non-accrual loans      | 1,830   | 2,290    |
| Total                  | \$8,156 | \$12,585 |

| (In millions)   | YTD<br>2017 | YTD<br>2016 |
|---|-------------|-------------|
| Foregone interest income on TDRs and non-accrual loans <sup>(1)</sup> | \$1,325     | \$1,720     |

<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 September 30, 2017, 51% 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 September 30, 2017.

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

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

Net charge-offs were higher in the 2017 periods compared to the 2016 periods primarily due to the policy change for loan reclassifications from held-for-investment to held-for-sale. See Note 4 for further information about this change.



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 during the 2017 periods compared to the 2016 periods consistent with the decline in the number of delinquent loans in the single-family credit guarantee portfolio as the economy continued to improve.

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

Freddie Mac Form 10-Q 37

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## 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)                  | 3Q 2017       |         | 3Q 2016       |         | YTD 2017      |          | YTD 2016      |          |
|--|---------------|---------|---------------|---------|---------------|----------|---------------|----------|
|  | Number        | Amount  | Number        | Amount  | Number        | Amount   | Number        | Amount   |
|  | of Properties |         | of Properties |         | of Properties |          | of Properties |          |
| Beginning balance — REO                | 9,915         | \$1,046 | 13,284        | \$1,394 | 11,418        | \$1,215  | 17,004        | \$1,774  |
| Additions                              | 2,853         | 282     | 3,986         | 397     | 9,697         | 949      | 12,770        | 1,229    |
| Dispositions                           | (3,622)       | (348 )  | (5,085 )      | (503 )  | (11,969)      | (1,184 ) | (17,589)      | (1,715 ) |
| Ending balance — REO                   | 9,146         | 980     | 12,185        | 1,288   | 9,146         | 980      | 12,185        | 1,288    |
| Beginning balance, valuation allowance |               | (10 )   |               | (17 )   |               | (17 )    |               | (52 )    |
| Change in valuation allowance          |               | (4 )    |               | 1       |               | 3        |               | 36       |
| Ending balance, valuation allowance    |               | (14 )   |               | (16 )   |               | (14 )    |               | (16 )    |
| Ending balance — REO, net              |               | \$966   |               | \$1,272 |               | \$966    |               | \$1,272  |
| Commentary                             |               |         |               |         |               |          |               |          |

Our REO ending inventory declined in the 2017 periods compared to the 2016 periods primarily due to a decrease in REO acquisitions driven by fewer loans in foreclosure and a large proportion of property sales to third parties at foreclosure.

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

## FINANCIAL RESULTS

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

|   | 3Q<br>2017 | 3Q<br>2016 | Change  |         | YTD<br>2017 | YTD<br>2016 | Change  |        |
|---|------------|------------|---------|---------|-------------|-------------|---------|--------|
| (Dollars in millions)                               |            |            | \$      | %       |             |             | \$      | %      |
| Guarantee fee income                                | \$1,581    | \$1,641    | (\$60 ) | (4 )%   | \$4,505     | \$4,427     | \$78    | 2 %    |
| Benefit (provision) for credit losses               | (826 )     | (297 )     | (529 )  | (178 )% | (775 )      | 113         | (888 )  | (786)% |
| Other non-interest income (loss)                    | 403        | 6          | 397     | 6,617 % | 1,081       | 131         | 950     | 725 %  |
| Administrative expense                              | (353 )     | (330 )     | (23 )   | (7 )%   | (1,018 )    | (939 )      | (79 )   | (8 )%  |
| REO operations expense                              | (38 )      | (59 )      | 21      | 36 %    | (138 )      | (177 )      | 39      | 22 %   |
| Other non-interest expense                          | (348 )     | (311 )     | (37 )   | (12 )%  | (1,001 )    | (832 )      | (169 )  | (20 )% |
| Segment Earnings before income tax expense          | 419        | 650        | (231 )  | (36 )%  | 2,654       | 2,723       | (69 )   | (3 )%  |
| Income tax expense                                  | (164 )     | (153 )     | (11 )   | (7 )%   | (911 )      | (833 )      | (78 )   | (9 )%  |
| Segment Earnings, net of taxes                      | 255        | 497        | (242 )  | (49 )%  | 1,743       | 1,890       | (147 )  | (8 )%  |
| Total other comprehensive income (loss), net of tax | —          | (1 )       | 1       | 100 %   | (2 )        | (1 )        | (1 )    | (100)% |
| Total comprehensive income                          | \$255      | \$496      | (\$241) | (49 )%  | \$1,741     | \$1,889     | (\$148) | (8 )%  |

## Key Drivers:

3Q 2017 vs. 3Q 2016 - Total comprehensive income decreased primarily driven by:

\$0.9 billion (pre-tax) increase in provision for credit losses in 3Q 2017 attributable to estimated losses related to Hurricanes Harvey, Irma and Maria, which included approximately \$0.6 billion related to \$2.3 billion in UPB of mortgage loans in Puerto Rico.

This decrease was partially offset by:

Decrease in provision for credit losses in 3Q 2017 due to improvements in our estimated loss severity.

Gains recognized on STACR debt notes from widening of spreads between the STACR yields and LIBOR during 3Q 2017 compared to losses recognized in 3Q 2016 when spreads tightened.

Gains recognized on a higher volume of primarily reperforming loans reclassified from held-for-investment to held-for-sale during 3Q 2017 compared to losses recognized on seriously delinquent loans during 3Q 2016.

Gains recognized from price improvements primarily on reperforming loans that were sold into senior subordinate securitization structures during 3Q 2017.

YTD 2017 vs. YTD 2016 - Total comprehensive income decreased primarily driven by:

\$0.9 billion (pre-tax) increase in provision for credit losses in 3Q 2017 attributable to estimated losses related to Hurricanes Harvey, Irma and Maria, which included approximately \$0.6 billion related to \$2.3 billion in UPB of mortgage loans in Puerto Rico.

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

This decrease was partially offset by:

Gains recognized on a higher volume of primarily reperforming loans reclassified from held-for-investment to held-for-sale during YTD 2017 compared to losses recognized primarily on seriously delinquent loans during YTD 2016.

Gains recognized from price improvements primarily on reperforming loans that were sold into senior subordinate securitization structures during YTD 2017.

Freddie Mac Form 10-Q 40

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Management's Discussion and Analysis Our Business Segments | Multifamily

MULTIFAMILY  
MARKET CONDITIONS

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

Change in Effective Rents

Source: REIS, Inc.

Apartment Vacancy Rates

Source: REIS, Inc.

Commentary

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While vacancy rates rose slightly during 3Q 2017 compared to 2Q 2017, effective rents continued to increase, although more moderately compared to 2Q 2017, primarily due to lower than expected new apartment completions, coupled with an increase in potential renters from healthy employment growth and higher single family home prices. As new apartment completions are expected to continue to increase and slightly outpace net absorption, we expect vacancy rates to continue to increase slowly in the upcoming quarters. While increasing vacancy rates will moderate effective rent growth, we expect effective rents for the remainder of the year to be in line with the 2016 rates and the long-term average. Furthermore, we do not expect our financial results for the remainder of the year to be significantly affected by either of these market conditions.

We are continuing to assess the impacts of Hurricanes Harvey, Irma and Maria on the multifamily markets located in the affected areas. However, based on estimates of the number of displaced single family homeowners requiring temporary housing, we expect effective rents may increase and vacancy rates may decrease in the areas affected by Hurricane Harvey.

Freddie Mac Form 10-Q 41

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Management's Discussion and Analysis Our Business Segments | Multifamily

### K Certificate Benchmark Spreads

Source: Independent dealers

#### Commentary

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The profitability of our K Certificate transactions (as measured by gains and losses on sales of mortgage loans) and the valuation of our securitization pipeline of held-for-sale loans are affected by the overall market spread movements (generally reflected in K Certificate benchmark spreads) as well as deal specific attributes, such as tranche size, risk distribution and collateral characteristics (loan term, coupon type, prepayment restrictions and underlying property type). These market spread movements and deal specific attributes contribute to our earnings volatility, which we manage by controlling the size of our securitization pipeline of held-for-sale mortgage loans and by entering into certain spread-related derivatives.

K Certificate benchmark spreads remained relatively stable during the 2017 periods, tightening slightly by the end of 3Q 2017. By comparison, our K Certificate benchmark spreads were more volatile during 1Q 2016 and 2Q 2016 and tightened during 3Q 2016.

Freddie Mac Form 10-Q 42

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Management's Discussion and Analysis Our Business Segments | Multifamily

## BUSINESS RESULTS

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The financial results of the Multifamily business are largely driven by our securitization-related activities, primarily through the issuance of K Certificates and SB Certificates. The profitability of these activities is influenced by several factors, including the:

• Interest we receive on the mortgage loans prior to their securitization;

• Price we receive upon securitization of the mortgage loans; and

• Ongoing guarantee fee we receive in exchange for providing our guarantee of the issued mortgage-related securities.

We evaluate the above factors collectively when assessing the profitability of any given transaction.

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

New Business Activity

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Multifamily New Business Activity

(UPB in billions)

Freddie Mac Form 10-Q 43

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Management's Discussion and Analysis Our Business Segments | Multifamily

Commentary

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The 2017 FHFA Scorecard production cap remains at \$36.5 billion. Business activity associated with loans for targeted properties or properties with certain attributes is considered uncapped for purposes of determining the dollar volume of multifamily new business. Reclassifications between new business activity subject to the production cap and new business activity not subject to the production cap may occur during 2017.

Outstanding loan purchase commitments were \$21.6 billion and \$14.2 billion as of September 30, 2017 and September 30, 2016, respectively. Both periods include loan purchase commitments for which we have elected the fair value option.

New business activity and outstanding purchase commitments for the 2017 periods were higher than the 2016 periods because of stronger demand for multifamily loan products due to an elevated number of new apartment completions, strong multifamily market fundamentals and low interest rates. Multifamily market fundamentals are driven primarily by a healthy job market, continued growth in households, high propensity to rent among young adults, and rising single-family home prices. We expect our full year 2017 new business volume to be higher than our full year 2016 volume.

Approximately 87% of our 3Q 2017 new business volume was designated for securitization and included in our securitization pipeline. The holding period for loans in our securitization pipeline generally ranges between three and six months, as we aggregate sufficient loan products with similar term and risk characteristics to securitize in our K Certificate and SB Certificate transactions. Combined with market demand for our securities, our 3Q 2017 new business volume will be the primary driver of our 4Q 2017 and 1Q 2018 K Certificate and SB Certificate issuances. During the 2017 periods, we increased our uncapped new business volume as part of our effort to support borrowers in certain property types and communities that meet the criteria for affordability and to support the overall growth of the multifamily market. This increase was primarily driven by the growth in new business volume related to our Green Advantage initiative, which we expanded in 3Q 2016. Under this initiative, Freddie Mac offers borrowers more affordable financing for the installation of green technologies that reduce energy and water consumption.

Approximately 42% and 46% of our multifamily new business activity during 3Q 2017 and YTD 2017, respectively, counted towards the 2017 FHFA Scorecard production cap, while the remaining 58% and 54% for the same periods were not subject to the production cap.

While Hurricanes Harvey, Irma and Maria did not have a significant impact on our 3Q 2017 new business volume and commitments, we are currently assessing the potential impacts of these events on future new business volume and commitments.



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

## Multifamily Portfolio and Market Support

## Total Multifamily Portfolio

## Multifamily Mortgage Investments Portfolio

## Multifamily Market Support

The following table summarizes our support of the multifamily market.

| (UPB in millions)   | September 30, December 31, |           |
|---|----------------------------|-----------|
|   | 2017                       | 2016      |
| Unsecuritized mortgage loans held-for-sale                | \$19,118                   | \$16,544  |
| Unsecuritized mortgage loans held-for-investment          | 20,019                     | 25,874    |
| Unsecuritized non-mortgage loans                          | 303                        | —         |
| Mortgage-related securities                               | 9,172                      | 12,517    |
| Guarantee portfolio                                       | 184,200                    | 157,992   |
| Total multifamily portfolio                               | 232,812                    | 212,927   |
| Add: Unguaranteed securities <sup>(1)</sup>               | 28,376                     | 24,573    |
| Less: Acquired mortgage-related securities <sup>(2)</sup> | (5,413                     | ) (5,793  |
| Total multifamily market support                          | \$255,775                  | \$231,707 |

(1) Reflects the UPB of unguaranteed securities issued as part of our securitization products.

Reflects the UPB of mortgage-related securities acquired from our securitization products. This UPB must be removed to avoid a double-count, as it is already reflected within the guarantee portfolio and/or unguaranteed securities.

Management's Discussion and Analysis Our Business Segments | Multifamily

Commentary

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Our Multifamily segment provides liquidity and support to the multifamily market through a combination of activities that include the purchase, guarantee and/or securitization of multifamily mortgage loans and mortgage-related securities. At times, we invest in certain guaranteed senior securities and unguaranteed mezzanine securities related to our K Certificate and SB Certificate issuances. We have not invested in unguaranteed securities that are in a first loss position.

Our total multifamily portfolio increased during YTD 2017 primarily due to a 17% growth in our guarantee portfolio, coupled with an increase in our securitization pipeline of held-for-sale loans as a result of the growth in our new business volume.

At September 30, 2017, the UPB of our held-for-sale loans and mortgage-related securities, which are measured at fair value or lower-of-cost-or-fair-value, declined slightly from December 31, 2016. The decline, which was attributable to the runoff of our CMBS portfolio, was largely offset by an increase in the balance of our securitization pipeline of held-for-sale loans due to the growth of our new business activity and the reclassification of certain loans from held-for-investment to held-for-sale during 3Q 2017.

Our multifamily delinquency rate at September 30, 2017 was 2 basis points and continues to remain low compared to other industry participants.

Management's Discussion and Analysis Our Business Segments | Multifamily

Credit Risk Transfer Activity

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New K Certificate and SB Certificate Issuances  
(UPB in billions)

Commentary

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K Certificate and SB Certificate structures vary by deal. Structural deal features such as term, type of underlying loan product, and subordination levels generally influence the deal's size (UPB) and its risk profile, which ultimately affects the guarantee fee rate set by Freddie Mac, as Guarantor, at the time of securitization.

The volume of our K Certificate and SB Certificate issuances is generally influenced by the size of our securitization pipeline, along with market demand for multifamily securities.

The average guarantee fee rate on newly issued K Certificate and SB Certificate issuances decreased during the 2017 periods compared to the 2016 periods, primarily due to greater securitization of underlying loan products that by their nature and design have less risk and for which we therefore set a lower guarantee fee rate.

The volume of our K Certificate and SB Certificate issuances was higher during the 2017 periods compared to the 2016 periods, primarily due to a larger average balance in our securitization pipeline. As our 3Q 2017 new business volume exceeded our 3Q 2016 new business volume, we expect our full year 2017 K Certificate and SB Certificate issuance volume to exceed the issuance volume for the full year 2016.

Management's Discussion and Analysis Our Business Segments | Multifamily

Financial Guarantee Activity

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Guarantee Assets  
(In millions)

Unearned Guarantee Fees

Freddie Mac Form 10-Q 48

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Management's Discussion and Analysis Our Business Segments | Multifamily

Commentary

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We generally recognize a guarantee asset on our condensed consolidated balance sheets each time we enter into a financial guarantee contract. This asset represents the present value of guarantee fees we expect to receive in the future from those guarantee transactions. We will recognize these fees in segment earnings over the expected remaining guarantee term. While we expect to collect these future fees based on historical performance, the actual amount collected will depend on the performance of the underlying collateral subject to our financial guarantee. The balance of unearned guarantee fees increased during YTD 2017 due to the continued growth of our multifamily guarantee business, as new securitization volume continued to be strong, significantly outpacing runoff.

New guarantee fee assets:

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - increased primarily due to higher volumes of K Certificate and SB Certificate issuances, partially offset by lower average guarantee fee rates on the 2017 period issuances compared to the 2016 period issuances.

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

## FINANCIAL RESULTS

The table below presents the components of Segment Earnings and comprehensive income for our Multifamily segment. As we use derivatives to economically hedge interest rate-related fair value changes of most of our assets measured at fair value, interest rates have a minimal net impact on our total comprehensive income.

|   | 3Q<br>2017 | 3Q<br>2016 | Change  |        | YTD<br>2017 | YTD<br>2016 | Change |        |
|---|------------|------------|---------|--------|-------------|-------------|--------|--------|
| (Dollars in millions)                                 |            |            | \$      | %      |             |             | \$     | %      |
| Net interest income                                   | \$342      | \$255      | \$87    | 34 %   | \$905       | \$791       | \$114  | 14 %   |
| Guarantee fee income                                  | 170        | 134        | 36      | 27 %   | 483         | 366         | 117    | 32 %   |
| Benefit (provision) for credit losses                 | (22 )      | 8          | (30 )   | (375)% | (10 )       | 19          | (29 )  | (153)% |
| Gains (losses) on loans and other non-interest income | 183        | 551        | (368 )  | (67 )% | 831         | 1,666       | (835 ) | (50 )% |
| Derivative gains (losses)                             | 22         | 205        | (183 )  | (89 )% | (31 )       | (878 )      | 847    | 96 %   |
| Administrative expense                                | (98 )      | (89 )      | (9 )    | (10 )% | (288 )      | (255 )      | (33 )  | (13 )% |
| Other non-interest expense                            | (11 )      | (10 )      | (1 )    | (10 )% | (44 )       | (43 )       | (1 )   | (2 )%  |
| Segment Earnings before income tax (expense) benefit  | 586        | 1,054      | (468 )  | (44 )% | 1,846       | 1,666       | 180    | 11 %   |
| Income tax (expense) benefit                          | (212 )     | (310 )     | 98      | 32 %   | (634 )      | (510 )      | (124 ) | (24 )% |
| Segment Earnings, net of taxes                        | 374        | 744        | (370 )  | (50 )% | 1,212       | 1,156       | 56     | 5 %    |
| Total other comprehensive income (loss), net of tax   | (4 )       | 46         | (50 )   | (109)% | 65          | 56          | 9      | 16 %   |
| Total comprehensive income (loss)                     | \$370      | \$790      | (\$420) | (53 )% | \$1,277     | \$1,212     | \$65   | 5 %    |

While certain multifamily properties underlying our loans and financial guarantees were damaged by Hurricanes Harvey, Irma and Maria, such events did not significantly affect our 3Q 2017 segment financial results.

## Key Drivers:

•3Q 2017 vs. 3Q 2016 - Total comprehensive income decreased primarily driven by:

Less market spread tightening on our mortgage loans and mortgage-related securities measured at fair value.

This decrease was partially offset by:

Higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates and SB Certificates, resulting in greater guarantee fee income; and

Increased prepayment income received from interest-only securities held in our Multifamily mortgage investments portfolio.

•YTD 2017 vs. YTD 2016 - Total comprehensive income increased primarily driven by:

Higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates and SB Certificates, resulting in greater guarantee fee income; and

Increased prepayment income received from interest-only securities held in our Multifamily mortgage investments portfolio.

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

CAPITAL MARKETS  
MARKET CONDITIONS

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The following graphs and related discussion present the par swap rate curves as of the end of each comparative period. Changes in par swap rates can significantly affect the fair value of our debt, derivatives, and mortgage and non-mortgage-related securities. As a result, changes in par swap rates will affect the business and financial results of our Capital Markets segment.

Par Swap Rate Curves

Rate (%)

Source: BlackRock

Commentary

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Long-term interest rates were relatively unchanged during 3Q 2017, while they increased slightly during 3Q 2016. During YTD 2017, long-term interest rates decreased, but by smaller amounts compared to YTD 2016. This resulted in lower fair value losses for our pay-fixed interest rate swaps and lower fair value gains for our receive-fixed interest rate swaps, certain of our option contracts, and the majority of our investments in securities during YTD 2017.

Freddie Mac Form 10-Q 51

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

## BUSINESS RESULTS

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

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

### Investments Portfolio

#### Mortgage Investments Portfolio Commentary

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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 10.1% from December 31, 2016 to September 30, 2017.

The balance of our other investments and cash portfolio declined by 15.0% primarily due to reduced near term cash needs as of September 30, 2017 compared to December 31, 2016.

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. The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 34.4% at December 31, 2016 to 31.1% at September 30, 2017, primarily due to repayments and sales of our less liquid assets. We continued to actively reduce the size of our less liquid assets during YTD 2017 by selling \$7.8 billion of non-agency mortgage-related securities and \$3.8 billion of reperforming loans. Our sales of reperforming loans involved securitization of the loans using senior subordinate structures.

Freddie Mac Form 10-Q 52

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

Net Interest Yield and Average Balances

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Net Interest Yield & Average Investments Portfolio Balances  
(UPB in billions)

Commentary

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Net Interest Yield  
3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - remained relatively flat.

Freddie Mac Form 10-Q 53

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

## FINANCIAL RESULTS

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

|  | 3Q<br>2017 | 3Q<br>2016 | Change   |        | YTD<br>2017 | YTD<br>2016 | Change   |          |
|--|------------|------------|----------|--------|-------------|-------------|----------|----------|
| (Dollars in millions)  |            |            | \$       | %      |             |             | \$       | %        |
| Net interest income  | \$804      | \$933      | (\$129 ) | (14 )% | \$2,608     | \$2,887     | (\$279 ) | (10 )%   |
| Net impairment of available-for-sale securities recognized in earnings | 50         | 94         | (44 )    | (47 )% | 194         | 224         | (30 )    | (13 )%   |
| Derivative gains (losses)  | (324 )     | 212        | (536 )   | (253)% | (757 )      | (4,386 )    | 3,629    | 83 %     |
| Gains (losses) on trading securities                                   | (26 )      | (203 )     | 177      | 87 %   | (207 )      | (12 )       | (195 )   | (1,625)% |
| Other non-interest income  | 5,754      | 664        | 5,090    | 767 %  | 6,916       | 1,401       | 5,515    | 394 %    |
| Administrative expense   | (73 )      | (79 )      | 6        | 8 %    | (242 )      | (227 )      | (15 )    | (7 )%    |
| Segment Earnings before income tax (expense) benefit                   | 6,185      | 1,621      | 4,564    | 282 %  | 8,512       | (113 )      | 8,625    | 7,633 %  |
| Income tax (expense) benefit   | (2,143 )   | (533 )     | (1,610 ) | (302)% | (2,921 )    | 35          | (2,956 ) | (8,446)% |
| Segment Earnings, net of taxes   | 4,042      | 1,088      | 2,954    | 272 %  | 5,591       | (78 )       | 5,669    | 7,268 %  |
| Total other comprehensive income (loss), net of tax                    | (17 )      | (64 )      | 47       | 73 %   | 261         | 220         | 41       | 19 %     |
| Total comprehensive income (loss)                                      | \$4,025    | \$1,024    | \$3,001  | 293 %  | \$5,852     | \$142       | \$5,710  | 4,021 %  |

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

|                       | 3Q<br>2017 | 3Q<br>2016 | Change |      | YTD<br>2017 | YTD<br>2016 | Change |      |
|-----------------------|------------|------------|--------|------|-------------|-------------|--------|------|
| (Dollars in billions) |            |            | \$     | %    |             |             | \$     | %    |
| Interest rate-related | \$—        | \$—        | \$—    | %    | (\$0.1)     | (\$1.9)     | \$1.8  | 95 % |
| Market spread-related | 0.5        | 0.4        | 0.1    | 25 % | 0.8         | 0.1         | 0.7    | 700% |

## Key Drivers:

3Q 2017 vs. 3Q 2016 and YTD 2017 vs. YTD 2016 - Total comprehensive income increased primarily driven by:

Recognition of \$4.5 billion in proceeds received from the RBS settlement during the 2017 periods related to certain of our non-agency mortgage-related securities. For more information on this settlement, see Note 12.

Interest rate-related fair value changes during YTD 2017. Our use of hedge accounting during YTD 2017 permitted us to offset the fair value losses on certain of our pay-fixed swaps against the fair value gains on certain of our single-family mortgage loans. In addition, long-term interest rates decreased during YTD 2017, but by smaller amounts compared to YTD 2016. This resulted in lower fair value losses for our pay-fixed interest rate swaps, partially offset by lower fair value gains for our receive-fixed interest rate swaps, certain of our option contracts, and the majority of

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

our investments in securities. Interest rate changes had minimal impact on comprehensive income in 3Q 2017 and 3Q 2016.

Overall, greater market spread tightening during the 2017 periods on our agency and non-agency mortgage-related securities, resulting in larger fair value gains.

Gains recognized from the extinguishment of certain fixed-rate debt securities of consolidated trusts during the 2017 periods, as market interest rates increased between the time of issuance and repurchase, compared to losses during the 2016 periods when market interest rates decreased between the time of issuance and repurchase.

Price improvements on single-family reperforming loans that were sold into senior subordinate securitization structures.

Management's Discussion and Analysis Risk Management

**RISK MANAGEMENT**

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, market risk, 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 2016 Annual Report and “Liquidity and Capital Resources” in this report and in our 2016 Annual Report. See below for updates since our 2016 Annual Report.

Management's Discussion and Analysis Risk Management | Operational Risk

OPERATIONAL RISK  
CYBERSECURITY RISK MANAGEMENT

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Our operations rely on the secure, accurate, and timely receipt, processing, storage, and transmission of confidential and other information in our computer systems and networks and with customers, counterparties, service providers, and financial institutions. Information security risks for companies like ours have significantly increased in recent years. Like many companies and government entities, from time to time we have been, and likely will continue to be, the target of attempted cyberattacks and other information security threats. In addition, one of our major vendors has recently reported that it has been the subject of significant cyberattacks.

We have developed and continue to enhance our cybersecurity risk management program to protect the security of our computer systems, software, networks, and other technology assets against unauthorized attempts to access confidential information or to disrupt or degrade our business operations. We have obtained insurance coverage relating to cybersecurity risks. However, this insurance may not be sufficient to provide adequate loss coverage. Although to date we have not experienced any cyberattacks resulting in significant impact to the company, there is no assurance that our cybersecurity risk management program will prevent cyberattacks from having significant impacts in the future.

For additional information, see “Risk Factors - Operational Risks - Potential cyber security threats are changing rapidly and growing in sophistication. We may not be able to protect our systems or the confidentiality of our information from cyberattack and other unauthorized access, disclosure, and disruption” in our 2016 Annual Report.

Freddie Mac Form 10-Q 57

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

## MARKET RISK

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

## ECONOMIC MARKET RISK

The majority of our economic interest-rate risk comes from our investments in mortgage-related assets (securities and loans) and the debt we issue to fund them. Our primary goal in managing interest-rate risk is to reduce the amount of change in the value of our future cash flows due to future changes in interest rates. We use models to analyze possible future interest-rate scenarios, along with the cash flows of our assets and liabilities over those scenarios. Although our models' primary reference rate for estimating interest-rate risk is LIBOR, our interest-rate management activities may be based on various other indices.

Our primary interest-rate risk measures are duration gap and PMVS. Duration gap measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities and is expressed in months relative to the market value of assets. PMVS is an estimate of the change in the market value of our financial assets and liabilities with spreads held constant from an instantaneous shock to interest rates, assuming no rebalancing actions are undertaken. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to a 50 basis point parallel movement in interest rates (PMVS-Level or PMVS-L) and the other to a non-parallel movement resulting from a 25 basis point change in slope of the LIBOR yield curve (PMVS-Yield Curve or PMVS-YC). While we believe that duration gap and PMVS are useful risk management tools, they should be understood as estimates rather than as precise measurements.

The following tables provide 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)                             | PMVS-YC | PMVS-L |         |
|---|---------|--------|---------|
|   | 25 bps  | 50 bps | 100 bps |
| Assuming shifts of the LIBOR yield curve: |         |        |         |
| September 30, 2017                        | \$9     | \$6    | \$2     |
| December 31, 2016                         | \$7     | \$—    | \$—     |

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

| (Duration gap in months, dollars in millions) | 3Q 2017  |         |        | 3Q 2016  |         |        |
|---|----------|---------|--------|----------|---------|--------|
|   | Duration | BMVS-YC | PMVS-L | Duration | BMVS-YC | PMVS-L |
| Average                                       | —        | \$9     | \$35   | 0.1      | \$6     | \$14   |
| Minimum                                       | (0.4)    | \$—     | \$—    | (0.4)    | \$—     | \$—    |
| Maximum                                       | 0.4      | \$26    | \$78   | 0.6      | \$21    | \$68   |
| Standard deviation                            | 0.2      | \$7     | \$17   | 0.2      | \$4     | \$17   |

| (Duration gap in months, dollars in millions) | YTD 2017 |         |        | YTD 2016 |         |        |
|---|----------|---------|--------|----------|---------|--------|
|   | Duration | BMVS-YC | PMVS-L | Duration | BMVS-YC | PMVS-L |
| Average                                       | 0.1      | \$7     | \$16   | 0.1      | \$6     | \$21   |
| Minimum                                       | (0.4)    | \$—     | \$—    | (0.4)    | \$—     | \$—    |
| Maximum                                       | 0.8      | \$26    | \$78   | 0.7      | \$31    | \$92   |
| Standard deviation                            | 0.2      | \$6     | \$20   | 0.2      | \$5     | \$22   |

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

| (In millions)      | PMVS-L (50 bps)    |                   |                       |
|--------------------|--------------------|-------------------|-----------------------|
|                    | Before Derivatives | After Derivatives | Effect of Derivatives |
| September 30, 2017 | \$3,214            | \$6               | (\$3,208 )            |
| December 31, 2016  | \$3,651            | \$—               | (\$3,651 )            |

## GAAP EARNINGS VARIABILITY

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, our GAAP financial results are still subject to significant earnings variability from period to period. This variability of GAAP earnings, which may not reflect the economics of our business, 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 could face a risk of a draw for a variety of reasons, including interest-rate volatility and spread volatility.

## Interest-rate Volatility

We hold assets and liabilities that expose us to interest-rate risk. 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) creates volatility in our GAAP earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at September 30, 2017, we generally recognize fair value losses in earnings when long-term interest rates decline.

In an effort to reduce our GAAP earnings variability and better align our GAAP results with the economics of our business, we began using fair value hedge accounting for certain single-family mortgage loans during 1Q 2017. In addition, we continue to explore other strategies and activities that will further reduce our GAAP earnings variability.

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

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

| (In billions)  | 3Q<br>2017 | 3Q<br>2016 | YTD<br>2017 | YTD<br>2016 |
|--|------------|------------|-------------|-------------|
| Interest rate effect on derivative fair values   | \$—        | \$0.5      | (\$0.6)     | (\$5.2)     |
| Estimate of offsetting interest rate effect related to financial instruments measured at fair value <sup>(1)</sup> | —          | (0.5)      | —           | 2.4         |
| Gains (losses) on mortgage loans in fair value hedge relationships   | —          | —          | 0.4         | —           |
| Income tax (expense) benefit   | —          | —          | 0.1         | 1.0         |
| Estimated net interest rate effect on comprehensive income (loss)  | \$—        | \$—        | (\$0.1)     | (\$1.8)     |

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

Our fair value hedges are designed to reduce GAAP earnings variability primarily due to large interest rate movements. During 3Q 2017, the effect of fair value hedge accounting on our comprehensive income was relatively minor as the change in interest rates was relatively small. During YTD 2017, fair value hedge accounting reduced our GAAP earnings variability due to interest-rate changes by \$351 million on a pre-tax basis. See Note 7 for additional information on hedge accounting, including further details on the actual results of fair value hedge accounting on our condensed consolidated statements of comprehensive income.

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

At September 30, 2017, the GAAP adverse scenario before fair value hedge accounting was a non-parallel shift in which long-term rates decrease by 100 basis points, while the GAAP adverse scenario after fair value hedge accounting was a non-parallel shift in which short and medium-term rates increase by 100 basis points. The results of this evaluation are shown in the table below.

| (Dollars in billions) | GAAP Adverse Scenario<br>(Before-Tax) |                           |             |
|-----------------------|---------------------------------------|---------------------------|-------------|
|                       | Before<br>Hedge<br>Accounting         | After Hedge<br>Accounting | %<br>Change |
|                       | September 30, 2017                    | (\$2.8)                   | (\$1.2)     |

Spread Volatility

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



Management's Discussion and Analysis Risk Management | Market Risk

market spreads widen. Conversely, for financial liabilities measured at fair value, we generally recognize fair value gains when market spreads widen.

Comprehensive income (loss) was affected by changes in market spreads in amounts estimated to be \$0.4 billion and \$0.6 billion (after-tax) during 3Q 2017 and 3Q 2016, respectively, and \$0.6 billion and (\$0.1) billion (after-tax) during YTD 2017 and YTD 2016, respectively.

During the 2017 periods, the increase to comprehensive income was due to market spreads tightening on our agency and non-agency mortgage-related securities, partially offset by market spreads widening on certain multifamily mortgage loan products.

During the 2016 periods, market spreads tightened on our agency and non-agency mortgage-related securities and our multifamily mortgage loans and commitments measured at fair value, resulting in an increase in comprehensive income.

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

## LIQUIDITY AND CAPITAL RESOURCES

## LIQUIDITY PROFILE

## 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 to fund our operations. Competition for funding can vary with economic, financial market, and regulatory environments. We issue other debt based on a variety of factors including market conditions and our liquidity requirements. We currently favor a mix of derivatives and shorter- and medium-term debt to fund our business and manage interest-rate risk. This funding mix is a less expensive method than relying more extensively on long-term debt.

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

| (Dollars in millions)                           | 3Q 2017    |                     |           |           |                     |  |
|---|------------|---------------------|-----------|-----------|---------------------|--|
|   | Short-term | Average             |           | Long-term | Average             |  |
|   |            | Rate <sup>(1)</sup> |           |           | Rate <sup>(1)</sup> |  |
| Discount notes and Reference Bills:             |            |                     |           |           |                     |  |
| Beginning balance                               | \$52,354   | 0.91 %              | \$—       | —         | — %                 |  |
| Issuances                                       | 89,827     | 0.99 %              | —         | —         | — %                 |  |
| Repurchases                                     | —          | — %                 | —         | —         | — %                 |  |
| Maturities                                      | (93,716 )  | 0.92 %              | —         | —         | — %                 |  |
| Ending Balance                                  | 48,465     | 1.05 %              | —         | —         | — %                 |  |
| Securities sold under agreements to repurchase: |            |                     |           |           |                     |  |
| Beginning balance                               | 4,772      | 1.01 %              | —         | —         | — %                 |  |
| Additions                                       | 30,803     | 0.92 %              | —         | —         | — %                 |  |
| Repayments                                      | (27,402 )  | 0.93 %              | —         | —         | — %                 |  |
| Ending Balance                                  | 8,173      | 0.75 %              | —         | —         | — %                 |  |
| Callable debt:                                  |            |                     |           |           |                     |  |
| Beginning balance                               | —          | — %                 | 120,450   | 1.53      | — %                 |  |
| Issuances                                       | —          | — %                 | 9,850     | 1.90      | — %                 |  |
| Repurchases                                     | —          | — %                 | (49 )     | 2.39      | — %                 |  |
| Calls   | —          | — %                 | (13,011 ) | 1.80      | — %                 |  |
| Maturities                                      | —          | — %                 | (3,850 )  | 0.92      | — %                 |  |
| Ending Balance                                  | —          | — %                 | 113,390   | 1.51      | — %                 |  |
| Non-callable debt: <sup>(2)</sup>               |            |                     |           |           |                     |  |
| Beginning balance                               | 10,616     | 0.82 %              | 151,279   | 2.38      | — %                 |  |
| Issuances                                       | 2,300      | 1.07 %              | 7,555     | 1.51      | — %                 |  |
| Repurchases                                     | —          | — %                 | (167 )    | 2.54      | — %                 |  |
| Maturities                                      | —          | — %                 | (20,947 ) | 1.62      | — %                 |  |
| Ending Balance                                  | 12,916     | 0.86 %              | 137,720   | 2.47      | — %                 |  |
| Total other debt                                | \$69,554   | 0.98 %              | \$251,110 | 2.04      | — %                 |  |



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

| (Dollars in millions)                           | YTD 2017   |                             |           |                             |
|---|------------|-----------------------------|-----------|-----------------------------|
|   | Short-term | Average Rate <sup>(1)</sup> | Long-term | Average Rate <sup>(1)</sup> |
| Discount notes and Reference Bills:             |            |                             |           |                             |
| Beginning balance                               | \$61,042   | 0.47 %                      | \$—       | — %                         |
| Issuances                                       | 289,138    | 0.79 %                      | —         | — %                         |
| Repurchases                                     | (57 )      | 0.91 %                      | —         | — %                         |
| Maturities                                      | (301,658)  | 0.69 %                      | —         | — %                         |
| Ending Balance                                  | 48,465     | 1.05 %                      | —         | — %                         |
| Securities sold under agreements to repurchase: |            |                             |           |                             |
| Beginning balance                               | 3,040      | 0.42 %                      | —         | — %                         |
| Additions                                       | 93,948     | 0.61 %                      | —         | — %                         |
| Repayments                                      | (88,815 )  | 0.57 %                      | —         | — %                         |
| Ending Balance                                  | 8,173      | 0.75 %                      | —         | — %                         |
| Callable debt:                                  |            |                             |           |                             |
| Beginning balance                               | —          | — %                         | 98,420    | 1.44 %                      |
| Issuances                                       | —          | — %                         | 46,979    | 1.90 %                      |
| Repurchases                                     | —          | — %                         | (49 )     | 2.39 %                      |
| Calls   | —          | — %                         | (24,227 ) | 1.76 %                      |
| Maturities                                      | —          | — %                         | (7,733 )  | 0.85 %                      |
| Ending Balance                                  | —          | — %                         | 113,390   | 1.51 %                      |
| Non-callable debt: <sup>(2)</sup>               |            |                             |           |                             |
| Beginning balance                               | 7,435      | 0.41 %                      | 186,806   | 2.10 %                      |
| Issuances                                       | 12,866     | 0.87 %                      | 18,673    | 1.99 %                      |
| Repurchases                                     | (500 )     | 0.82 %                      | (1,211 )  | 1.40 %                      |
| Maturities                                      | (6,885 )   | 0.40 %                      | (66,548 ) | 1.46 %                      |
| Ending Balance                                  | 12,916     | 0.86 %                      | 137,720   | 2.47 %                      |
| Total other debt                                | \$69,554   | 0.98 %                      | \$251,110 | 2.04 %                      |

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

(2) Includes STACR debt notes and certain multifamily other debt.

During the 2017 periods, we increased our volume of securities sold under agreements to repurchase as these borrowing transactions reduced the cost of our funding. To replace the medium-term (classified as long-term debt in the table above) and long-term debt that was called or matured during the 2017 periods, we primarily issued 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 | Liquidity Profile

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 September 30, 2017

Earliest Redemption Date as of September 30, 2017

DEBT SECURITIES OF CONSOLIDATED TRUSTS

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

Freddie Mac Form 10-Q 64

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

|   |             |             |
|---|-------------|-------------|
| (In millions)   | 3Q 2017     | YTD 2017    |
| Beginning balance   | \$1,625,619 | \$1,602,162 |
| Issuances:  |             |             |
| New issuances to third parties                                | 63,552      | 187,273     |
| Additional issuances of securities                            | 39,425      | 100,507     |
| Total issuances   | 102,977     | 287,780     |
| Extinguishments:  |             |             |
| Purchases of debt securities from third parties               | (7,221 )    | (27,492 )   |
| Debt securities received in settlement of advances to lenders | (8,630 )    | (24,341 )   |
| Repayments of debt securities                                 | (68,833 )   | (194,197 )  |
| Total extinguishments   | (84,684 )   | (246,030 )  |
| Ending balance  | \$1,643,912 | \$1,643,912 |
| Unamortized premiums and discounts                            | 47,612      | 47,612      |
| Debt securities of consolidated trusts held by third parties  | \$1,691,524 | \$1,691,524 |

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 held by the trusts which back the securities. At September 30, 2017, 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.

## OTHER INVESTMENTS AND CASH PORTFOLIO

The investments in our other investments and cash portfolio 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. The table below summarizes the balances in our other investments and cash portfolio, which includes the liquidity and contingency operating portfolio.

| (In billions)                                   | September 30, 2017                            |                   |                      | December 31, 2016                             |                   |                      | Total Other Investments and Cash Portfolio | Total Other Investments and Cash Portfolio |
|---|---|-------------------|----------------------|---|-------------------|----------------------|--|--|
|   | Liquidity and Contingency Operating Portfolio | Custodial Account | Other <sup>(1)</sup> | Liquidity and Contingency Operating Portfolio | Custodial Account | Other <sup>(1)</sup> |  |  |
| Cash and cash equivalents                       | \$8.2   | \$—               | \$—                  | \$8.2   | \$12.4            | \$—                  | \$—  | \$12.4                                     |
| Restricted cash and cash equivalents            | —   | 5.1               | 2.6                  | 7.7   | —                 | 9.5                  | 0.4  | 9.9  |
| Securities purchased under agreements to resell | 34.2  | 12.8              | 0.2                  | 47.2  | 37.5              | 13.6                 | 0.4  | 51.5                                       |
| Non-mortgage-related securities                 | 16.9  | —                 | 0.6                  | 17.5  | 19.6              | —                    | 1.5  | 21.1                                       |
| Advances to lenders                             | —   | —                 | 1.3                  | 1.3   | —                 | —                    | 1.3  | 1.3  |
| Total   | \$59.3  | \$17.9            | \$4.7                | \$81.9  | \$69.5            | \$23.1               | \$3.6                                      | \$96.2                                     |

Consists of amounts related to collateral held by us from derivative and other counterparties, investments in (1)unsecured agency debt that we may not otherwise invest in, other than to pledge as collateral to our counterparties when our derivatives are in a liability position, advances to lenders, and other secured lending transactions.



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

Our non-mortgage-related investments in the liquidity and contingency operating portfolio consist of U.S. Treasury securities and other investments that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintain non-interest-bearing deposits at the Federal Reserve Bank of New York.



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

## CASH FLOWS

We evaluate our cash flow performance by comparing the net cash flows from operating and investing activities to the net cash flows required to finance those activities. The following graphs present the results of these activities for YTD 2016 and YTD 2017.

### Commentary

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Cash provided by operating activities increased \$0.8 billion primarily due to the following:

- Increase in our other income due to settlement proceeds in 3Q 2017 from RBS related to certain of our non-agency mortgage-related securities.

This increase was partially offset by:

- Increase in net purchases of mortgage loans acquired as held-for-sale, primarily due to an increase in purchases of multifamily mortgage loans.

Cash provided by investing activities increased \$15.4 billion primarily due to the following:

- Increase in net proceeds received from sales of investment securities, driven by the continued reduction in the balance of our mortgage investment portfolio as required by the Purchase Agreement and FHFA; and

- Decrease in restricted cash due to a reduction in prepayment proceeds received by the custodial account.

This increase was partially offset by:

- Decrease in net repayments of mortgage loans acquired as held-for-investment, primarily due to lower single-family liquidation rates.

Cash used in financing activities increased \$18.7 billion primarily due to the following:

- Decrease in proceeds from issuances of debt securities of consolidated trusts held by third parties driven by a decline in the volume of single-family PC issuances for cash; and

- Increase in the payment of cash dividends on our senior preferred stock.

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

## CAPITAL RESOURCES

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. Under the Purchase Agreement, Treasury made a commitment to provide us with equity funding, under certain conditions, to eliminate deficits in our net worth. Obtaining equity funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA and maintain the confidence of the debt markets as a very high-quality credit, upon which our business model is dependent. The amount of available equity funding remaining under the Purchase Agreement is \$140.5 billion. This amount will be reduced by any future draws.

At September 30, 2017, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount of \$5.3 billion as of September 30, 2017 and the Capital Reserve Amount of \$600 million in 2017, our dividend requirement to Treasury in December 2017 will be \$4.7 billion. Upon the Conservator, acting as successor to the rights, titles, powers and privileges of the Board of Directors, declaring a senior preferred stock dividend equal to our dividend requirement and directing us to pay it before December 31, 2017, we would pay a dividend of \$4.7 billion by December 31, 2017. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, although we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of accrued and unpaid dividends previously added to the liquidation preference and not previously paid down.

In June 2016, the FASB issued guidance 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 guidance 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 guidance 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, this guidance increases the risk that we will need to request a draw from Treasury for the period of adoption.

The table below presents activity related to our net worth during 3Q 2017 and YTD 2017.

| (In millions)                             | 3Q 2017   | YTD<br>2017 |
|---|-----------|-------------|
| Beginning balance                         | \$2,586   | \$5,075     |
| Comprehensive (loss) income               | 4,650     | 8,870       |
| Capital draw from Treasury                | —         | —           |
| Senior preferred stock dividends declared | (1,986 )  | (8,695 )    |
| Total equity / net worth                  | \$5,250   | \$5,250     |
| Aggregate draws under Purchase Agreement  | \$71,336  | \$71,336    |
| Aggregate cash dividends paid to Treasury | \$110,143 | \$110,143   |

Management's  
Discussion  
Conservatorship and Related Matters  
and  
Analysis

CONSERVATORSHIP AND RELATED MATTERS

REDUCING OUR MORTGAGE-RELATED INVESTMENTS PORTFOLIO OVER TIME

The table below presents the UPB of our mortgage-related investments portfolio for purposes of the limit imposed by the Purchase Agreement and FHFA regulation. The cap for this portfolio will decrease to approximately \$288 billion at December 31, 2017.

| (Dollars in millions)  | September 30, 2017 |                         |             | Total    | December 31, 2016 |                         |             | Total    |
|--|--------------------|-------------------------|-------------|----------|-------------------|-------------------------|-------------|----------|
|  | Liquid             | Securitization Pipeline | Less Liquid |          | Liquid            | Securitization Pipeline | Less Liquid |          |
| Capital Markets segment - Mortgage investments portfolio:      |                    |                         |             |          |                   |                         |             |          |
| Single-family unsecured loans                                  |                    |                         |             |          |                   |                         |             |          |
| Performing loans   | \$—                | \$13,343                | \$—         | \$13,343 | \$—               | \$13,113                | \$—         | \$13,113 |
| Reperforming loans   | —                  | —                       | 53,372      | 53,372   | —                 | —                       | 58,326      | 58,326   |
| Total single-family unsecured loans                            | —                  | 13,343                  | 53,372      | 66,715   | —                 | 13,113                  | 58,326      | 71,439   |
| Freddie Mac mortgage-related securities                        |                    |                         |             |          |                   |                         |             |          |
| Non-agency mortgage-related securities                         |                    |                         |             |          |                   |                         |             |          |
| Non-Freddie Mac agency mortgage-related securities             |                    |                         |             |          |                   |                         |             |          |
| Total Capital Markets segment - Mortgage investments portfolio | 121,108            | —                       | 4,026       | 125,134  | 125,652           | —                       | 4,776       | 130,428  |
| Single-family unsecured loans                                  | 270                | —                       | 6,856       | 7,126    | 113               | —                       | 16,059      | 16,172   |
| Freddie Mac mortgage-related securities                        | 7,614              | —                       | —           | 7,614    | 11,759            | —                       | —           | 11,759   |
| Non-Freddie Mac agency mortgage-related securities             |                    |                         |             |          |                   |                         |             |          |
| Total Capital Markets segment - Mortgage investments portfolio | 128,992            | 13,343                  | 64,254      | 206,589  | 137,524           | 13,113                  | 79,161      | 229,798  |
| Single-family unsecured loans                                  | —                  | —                       | 11,784      | 11,784   | —                 | —                       | 13,692      | 13,692   |
| Guarantee segment - Single-family unsecured loans              |                    |                         |             |          |                   |                         |             |          |

|   |           |          |          |           |           |          |           |           |   |
|---|-----------|----------|----------|-----------|-----------|----------|-----------|-----------|---|
| seriously delinquent loans Multifamily segment:   |           |          |          |           |           |          |           |           |   |
| Unsecuritized loans   | —         | 18,416   | 20,721   | 39,137    | —         | 16,372   | 26,047    | 42,419    |   |
| Mortgage-related securities   | 7,211     | —        | 1,960    | 9,171     | 7,447     | —        | 5,070     | 12,517    |   |
| Total Multifamily segment   | 7,211     | 18,416   | 22,681   | 48,308    | 7,447     | 16,372   | 31,117    | 54,936    |   |
| Total mortgage-related investments portfolio  | \$136,203 | \$31,759 | \$98,719 | \$266,681 | \$144,971 | \$29,485 | \$123,970 | \$298,426 |   |
| Percentage of total mortgage-related investments portfolio  | 51        | % 12     | % 37     | % 100     | % 49      | % 10     | % 41      | % 100     | % |
| Mortgage-related investments portfolio cap at December 31, 2017 and December 31, 2016                       |           |          |          | \$288,408 |           |          |           | \$339,304 |   |
| 90% of mortgage-related investments portfolio cap at December 31, 2017 and December 31, 2016 <sup>(1)</sup> |           |          |          | \$259,567 |           |          |           | \$305,374 |   |

(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 2017 was primarily due to repayments and the active disposition of less liquid assets.

While we continued to purchase new single-family seriously delinquent loans, our active disposition of less liquid assets included the following:

Sales of \$12.1 billion of less liquid assets, including \$7.8 billion in UPB of non-agency mortgage-related securities, \$0.5 billion in UPB of seriously delinquent unsecuritized single-family loans, and \$3.8 billion in UPB of single-family reperforming loans;

Management's  
Discussion  
Conservatorship and Related Matters  
and  
Analysis

Securitized of \$0.7 billion in UPB of less liquid multifamily loans; and  
Transfers of \$0.9 billion in UPB of less liquid multifamily loans to the securitization pipeline.

Freddie Mac Form 10-Q 70

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Management's  
Discussion  
Regulation and Supervision  
and  
Analysis

## REGULATION AND SUPERVISION

In addition to our oversight by FHFA as our Conservator, we are subject to regulation and oversight by FHFA under our Charter and the GSE Act and to certain regulation by other government agencies. Furthermore, regulatory activities by other government agencies can affect us indirectly, even if we are not directly subject to such agencies' regulation or oversight. For example, regulations that modify requirements applicable to the purchase or servicing of mortgages can affect us.

## 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 pay this amount to certain housing funds. During 3Q 2017 and YTD 2017, we completed \$106 billion and \$292 billion, respectively, of new business purchases subject to this requirement and accrued \$44 million and \$122 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 2017) in February 2018. We are prohibited from passing through these costs to the originators of the loans that we purchase.

## LEGISLATIVE AND REGULATORY DEVELOPMENTS

### AFFORDABLE HOUSING GOALS RESULTS FOR 2016

In October 2017, FHFA informed us that it had reviewed our performance with respect to the affordable housing goals for 2016, and preliminarily determined that we achieved all five single-family affordable housing goals and all three of our multifamily goals. Our performance on the goals, as preliminarily determined, is set forth in the table below.

We may achieve a single-family housing goal by meeting or exceeding either:

- the FHFA benchmark for that goal (Goals); or
- the actual share of the market that meets the criteria for that goal (Market Levels).

|   | Goals<br>for 2016 | Market<br>Levels<br>for<br>2016 | Preliminary<br>Results for<br>2016 |   |
|---|-------------------|---------------------------------|------------------------------------|---|
| Single-family purchase money goals (benchmark levels) |                   |                                 |                                    |   |
| Low-income  | 24                | % 22.9                          | % 23.8                             | % |
| Very low-income                                       | 6                 | % 5.4                           | % 5.7                              | % |
| Low-income areas                                      | 17                | % 19.7                          | % 19.9                             | % |
| Low-income areas subgoal                              | 14                | % 15.9                          | % 15.6                             | % |
| Single-family refinance (benchmark level)             |                   |                                 |                                    |   |
| Low-income goal                                       | 21                | % 19.8                          | % 21.0                             | % |
| Multifamily (benchmark levels in units)               |                   |                                 |                                    |   |
| Low-income goal                                       | 300,000           | N/A                             | 406,958                            |   |
| Very low-income subgoal                               | 60,000            | N/A                             | 73,030                             |   |
| Small property low-income subgoal                     | 8,000             | N/A                             | 22,101                             |   |

Management's  
Discussion  
Regulation and Supervision  
and  
Analysis

Because we missed two of the five single-family goals in 2015, we will remain under a Housing Plan through 2018.

#### LIBOR TRANSITION

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In July 2017, the Chief Executive of the United Kingdom's Financial Conduct Authority (FCA) announced the FCA's intention to cease sustaining LIBOR after 2021. The Federal Reserve Board had previously convened the Alternative Reference Rates Committee (ARRC) to identify a set of alternative reference interest rates for possible use as market benchmarks. We are participating in the ARRC's activities. The ARRC identified an alternative rate in June 2017, and in August 2017, the Federal Reserve Board requested public comment on a proposal to begin publishing that and two other alternative rates beginning in 2018. We are not able to predict whether LIBOR will cease to be available after 2021, whether the alternative rates the Federal Reserve Board proposes to publish will become market benchmarks in place of LIBOR, or what the impact of such a transition may be on our business, results of operations and financial condition.

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 condensed 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 condensed consolidated balance sheets. For a description of our off-balance sheet arrangements, see "MD&A - Off-Balance Sheet Arrangements" in our 2016 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 and SB 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 \$195.3 billion and \$166.7 billion at September 30, 2017 and December 31, 2016, respectively.



Management's Discussion and Analysis Forward-Looking  
Statements

### FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain “forward-looking statements.” Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily, and Capital Markets segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, 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” section of our 2016 Annual Report, and:

- The actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to support the housing markets or to implement FHFA’s Conservatorship Scorecards and other objectives for us;
- The effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend requirement on the senior preferred stock;
- Changes in our Charter or in applicable legislative or regulatory requirements (including any legislation affecting the future status of our company);
- Changes in the fiscal and monetary policies of the Federal Reserve, including the recently announced plan to begin reducing the size of holdings of mortgage-related securities;
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance vs. purchase, and fixed-rate vs. ARM);
- The success of our efforts to mitigate our losses on our Legacy and relief refinance single-family loan portfolio 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, SB Certificate, and other credit risk transfer transactions;
- Our ability to maintain adequate liquidity to fund our operations;
- Our ability to maintain the security and resiliency of our operational systems and infrastructure (e.g., against cyberattacks);
- Our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- The adequacy of our risk management framework;
- Our ability to manage mortgage credit risks, including the effect of changes in underwriting and servicing practices;
- Our ability to limit or manage our economic exposure and GAAP earnings exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for

Management's Discussion and Analysis Forward-Looking  
Statements

interest-rate risk management purposes;

• Our ability to issue new securities, make timely payments and provide initial and ongoing disclosures;

• 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, multifamily K Certificates and SB Certificates);

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

• Other factors and assumptions described in this Form 10-Q and our 2016 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.

Financial  
Statements

FINANCIAL STATEMENTS

Freddie Mac Form 10-Q 76

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## Financial Statements Condensed Consolidated Statements of Comprehensive Income

## FREDDIE MAC

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

| (In millions, except share-related amounts)  | 3Q 2017  | 3Q 2016  | YTD<br>2017 | YTD<br>2016 |
|--|----------|----------|-------------|-------------|
| Interest income  |          |          |             |             |
| Mortgage loans   | \$15,867 | \$14,997 | \$47,680    | \$46,053    |
| Investments in securities  | 821      | 976      | 2,637       | 2,923       |
| Other  | 185      | 74       | 436         | 187         |
| Total interest income  | 16,873   | 16,047   | 50,753      | 49,163      |
| Interest expense   | (13,344) | (12,354) | (39,965)    | (38,523)    |
| Expense related to derivatives   | (40)     | (47)     | (125)       | (146)       |
| Net interest income  | 3,489    | 3,646    | 10,663      | 10,494      |
| Benefit (provision) for credit losses  | (716)    | (113)    | (178)       | 1,129       |
| Net interest income after benefit (provision) for credit losses                        | 2,773    | 3,533    | 10,485      | 11,623      |
| Non-interest income (loss)   |          |          |             |             |
| Gains (losses) on extinguishment of debt   | 27       | (92)     | 295         | (266)       |
| Derivative gains (losses)  | (678)    | (36)     | (2,076)     | (6,655)     |
| Net impairment of available-for-sale securities recognized in earnings                 | (1)      | (9)      | (17)        | (138)       |
| Other gains on investment securities recognized in earnings                            | 723      | 309      | 840         | 1,062       |
| Other income (loss)  | 5,403    | 605      | 6,512       | 1,527       |
| Non-interest income (loss)   | 5,474    | 777      | 5,554       | (4,470)     |
| Non-interest expense   |          |          |             |             |
| Salaries and employee benefits   | (272)    | (248)    | (813)       | (727)       |
| Professional services  | (110)    | (129)    | (340)       | (347)       |
| Occupancy expense  | (17)     | (13)     | (46)        | (41)        |
| Other administrative expense   | (125)    | (108)    | (349)       | (306)       |
| Total administrative expense   | (524)    | (498)    | (1,548)     | (1,421)     |
| Real estate owned operations expense   | (35)     | (56)     | (128)       | (169)       |
| Temporary Payroll Tax Cut Continuation Act of 2011 expense                             | (339)    | (293)    | (990)       | (845)       |
| Other expense  | (159)    | (138)    | (361)       | (442)       |
| Non-interest expense   | (1,057)  | (985)    | (3,027)     | (2,877)     |
| Income (loss) before income tax (expense) benefit                                      | 7,190    | 3,325    | 13,012      | 4,276       |
| Income tax (expense) benefit   | (2,519)  | (996)    | (4,466)     | (1,308)     |
| Net income (loss)  | 4,671    | 2,329    | 8,546       | 2,968       |
| Other comprehensive income (loss), net of taxes and reclassification adjustments:      |          |          |             |             |
| Changes in unrealized gains (losses) related to available-for-sale securities          | (47)     | (47)     | 246         | 181         |
| Changes in unrealized gains (losses) related to cash flow hedge relationships          | 26       | 29       | 81          | 95          |
| Changes in defined benefit plans   | —        | (1)      | (3)         | (1)         |
| Total other comprehensive income (loss), net of taxes and reclassification adjustments | (21)     | (19)     | 324         | 275         |
| Comprehensive income (loss)  | \$4,650  | \$2,310  | \$8,870     | \$3,243     |
| Net income (loss)  | \$4,671  | \$2,329  | \$8,546     | \$2,968     |
| Undistributed net worth sweep and senior preferred stock dividends                     | (4,650)  | (2,310)  | (8,870)     | (3,243)     |
| Net income (loss) attributable to common stockholders                                  | \$21     | \$19     | (\$324)     | (\$275)     |
| Net income (loss) per common share — basic and diluted                                 | \$0.01   | \$0.01   | (\$0.10)    | (\$0.09)    |
| Weighted average common shares outstanding (in millions) — basic and diluted           | 2,234    | 3,234    | 3,234       | 3,234       |

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

Freddie Mac Form 10-Q 77

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## Financial Statements Condensed Consolidated Balance Sheets

FREDDIE MAC  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| (In millions, except share-related amounts)   | September<br>30, 2017 | December<br>31, 2016 |
|---|-----------------------|----------------------|
| <b>Assets</b>   |                       |                      |
| Cash and cash equivalents (Note 12)   | \$8,183               | \$12,369             |
| Restricted cash and cash equivalents (Notes 3, 12)  | 7,684                 | 9,851                |
| Securities purchased under agreements to resell (Notes 3, 8)  | 47,202                | 51,548               |
| Investments in securities, at fair value (Note 5)   | 87,148                | 111,547              |
| Mortgage loans held-for-sale (Note 4) (includes \$18,995 and \$16,255 at fair value)  | 32,042                | 18,088               |
| Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of \$10,085 and \$13,431)   | 1,812,850             | 1,784,915            |
| Accrued interest receivable (Note 3)  | 6,268                 | 6,135                |
| Derivative assets, net (Notes 7, 8)   | 705                   | 747                  |
| Deferred tax assets, net (Note 10)  | 14,576                | 15,818               |
| Other assets (Notes 3, 15) (includes \$2,761 and \$2,408 at fair value)   | 13,998                | 12,358               |
| <b>Total assets</b>   | <b>\$2,030,656</b>    | <b>\$2,023,376</b>   |
| <b>Liabilities and equity</b>   |                       |                      |
| <b>Liabilities</b>  |                       |                      |
| Accrued interest payable (Note 3)   | \$5,990               | \$6,015              |
| Debt, net (Notes 3, 6) (includes \$5,808 and \$6,010 at fair value)   | 2,009,578             | 2,002,004            |
| Derivative liabilities, net (Notes 7, 8)  | 212                   | 795                  |
| Other liabilities (Notes 3, 15)   | 9,626                 | 9,487                |
| <b>Total liabilities</b>  | <b>2,025,406</b>      | <b>2,018,301</b>     |
| Commitments and contingencies (Notes 3, 7, and 14)  |                       |                      |
| <b>Equity (Note 9)</b>  |                       |                      |
| Senior preferred stock  | 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 650,054,731 shares and 650,046,828 shares outstanding                              | —                     | —                    |
| Additional paid-in capital  | —                     | —                    |
| Retained earnings (accumulated deficit)   | (78,092)              | (77,941)             |
| <b>AOCI, net of taxes, related to:</b>  |                       |                      |
| Available-for-sale securities (includes \$726 and \$782, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings) | 1,161                 | 915                  |
| Cash flow hedge relationships   | (399)                 | (480)                |
| Defined benefit plans   | 18                    | 21                   |
| <b>Total AOCI, net of taxes</b>   | <b>780</b>            | <b>456</b>           |
| Treasury stock, at cost, 75,809,155 shares and 75,817,058 shares  | (3,883)               | (3,885)              |
| <b>Total equity (See Note 9 for information on our dividend requirement to Treasury)</b>  | <b>5,250</b>          | <b>5,075</b>         |
| <b>Total liabilities and equity</b>   | <b>\$2,030,656</b>    | <b>\$2,023,376</b>   |

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

| (In millions) | September 30,<br>2017 | December 31,<br>2016 |
|---------------|-----------------------|----------------------|
|---------------|-----------------------|----------------------|

Consolidated Balance Sheet Line Item

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Assets: (Note 3)

|                                    |             |             |
|------------------------------------|-------------|-------------|
| Mortgage loans held-for-investment | \$1,738,858 | \$1,690,218 |
| All other assets                   | 26,510      | 32,262      |
| Total assets of consolidated VIEs  | \$1,765,368 | \$1,722,480 |

Liabilities: (Note 3)

|  |             |             |
|--|-------------|-------------|
| Debt, net                              | \$1,691,524 | \$1,648,683 |
| All other liabilities                  | 4,950       | 4,846       |
| Total liabilities of consolidated VIEs | \$1,696,474 | \$1,653,529 |

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

Freddie Mac Form 10-Q 78

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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>2017 | YTD<br>2016 |
|--|-------------|-------------|
| Net cash provided by operating activities  | \$5,862     | \$5,053     |
| Cash flows from investing activities   |             |             |
| Purchases of trading securities  | (119,548)   | (70,690)    |
| Proceeds from sales of trading securities  | 115,727     | 45,650      |
| Proceeds from maturities and repayments of trading securities                                | 6,775       | 18,602      |
| Purchases of available-for-sale securities   | (6,361)     | (21,988)    |
| Proceeds from sales of available-for-sale securities   | 14,695      | 17,009      |
| Proceeds from maturities and repayments of available-for-sale securities                     | 9,541       | 11,412      |
| Purchases of held-for-investment mortgage loans  | (92,311)    | (120,753)   |
| Proceeds from sales of mortgage loans held-for-investment                                    | 4,641       | 2,605       |
| Repayments of mortgage loans held-for-investment   | 206,705     | 245,212     |
| (Increase) decrease in restricted cash   | 2,167       | (4,598)     |
| Advances to lenders  | (25,383)    | (20,457)    |
| Net proceeds from dispositions of real estate owned and other recoveries                     | 1,457       | 2,023       |
| Net (increase) decrease in securities purchased under agreements to resell                   | 4,346       | 7,971       |
| Derivative premiums and terminations, swap collateral, and exchange settlement payments, net | (1,646)     | (6,528)     |
| Changes in other assets  | (248)       | (254)       |
| Net cash provided by investing activities  | 120,557     | 105,216     |
| Cash flows from financing activities   |             |             |
| Proceeds from issuance of debt securities of consolidated trusts held by third parties       | 135,697     | 178,727     |
| Repayments and redemptions of debt securities of consolidated trusts held by third parties   | (221,844)   | (251,296)   |
| Proceeds from issuance of other debt   | 461,222     | 504,447     |
| Repayments of other debt   | (496,982)   | (541,125)   |
| Payment of cash dividends on senior preferred stock  | (8,695)     | (2,673)     |
| Changes in other liabilities   | (3)         | (4)         |
| Net cash used in financing activities  | (130,605)   | (111,924)   |
| Net (decrease) increase in cash and cash equivalents   | (4,186)     | (1,655)     |
| Cash and cash equivalents at beginning of year   | 12,369      | 5,595       |
| Cash and cash equivalents at end of period   | \$8,183     | \$3,940     |
| Supplemental cash flow information   |             |             |
| Cash paid for:   |             |             |
| Debt interest  | \$47,847    | \$46,399    |
| Income taxes   | 887         | 1,834       |
| Non-cash investing and financing activities (Note 4 and 5)                                   |             |             |

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, 2016, or 2016 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the “Glossary” of our 2016 Annual Report and our Form 10-Q for the second quarter of 2017. Throughout this Form 10-Q, we refer to the three months ending December 31, 2017, the three months ended September 30, 2017, the three months ended June 30, 2017, the three months ended March 31, 2017, the three months ended December 31, 2016, the three months ended September 30, 2016, the three months ended June 30, 2016, and the three months ended December 31, 2015 as “4Q 2017,” “3Q 2017,” “2Q 2017,” “1Q 2017,” “4Q 2016,” “3Q 2016,” “2Q 2016,” and “4Q 2015,” respectively. We refer to the nine months ended September 30, 2017 and the nine months ended September 30, 2016 as “YTD 2017” and “YTD 2016,” respectively.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2016 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’ condensed consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, our unaudited condensed consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary for a fair statement of our results.

We evaluate the materiality of identified errors in the financial statements using both an income statement, or “rollover,” and a balance sheet, or “iron curtain,” approach, based on relevant quantitative and qualitative factors. Net income includes certain adjustments to correct immaterial errors related to previously reported periods.

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

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

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, valuing financial instruments and other assets and liabilities, and assessing impairments on investments. Actual results could be different from these estimates.

## RECENTLY ISSUED ACCOUNTING GUIDANCE

## Recently Adopted Accounting Guidance

| Standard  | Description   | Date of Adoption | Effect on 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  | The adoption of this amendment did not have a material effect on our consolidated financial statements. |
| ASU 2016-17 - Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control | The Board issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE.  | January 1, 2017  | The adoption of this amendment did not have a material effect on our consolidated financial statements. |

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

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

| Standard  | Description  | Date of Planned Adoption | Effect on Consolidated Financial Statements   |
|---|--|--------------------------|---|
| ASU 2017-12, Derivatives and Hedging (Topic 815)  | The amendments in this Update made targeted improvements to accounting for hedging activities. The Update changes the recognition and presentation requirements of hedge accounting and provides new alternatives on how to measure and account for certain aspects of hedging activities.   | 4Q 2017                  | The adoption of the amendments will not affect the application of hedge accounting for our existing hedge strategies; however, the amendments will modify the presentation of hedge results on our consolidated statements of comprehensive income and in the financial statement notes.  |
| ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force) | The main objective of this Update is to address the diversity in practice that currently exists in regards to how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this Update address the diversity in the classification and presentation of | January 1, 2018          | Upon adoption, the portion of the cash payment attributable to the accreted interest related to zero-coupon debt will be presented in the operating activities section, a classification change from the financing activity section where this item is currently presented. We are evaluating the financial effect the adoption of this amendment will have on our consolidated financial statements. |
| ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)                                      | changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. Specifically, this amendment dictates that the statement of cash flows should explain the change in the period of the total of cash, cash equivalents, and restricted cash balances. The amendments in this Update   | January 1, 2018          | The adoption of the amendments will not have a material effect on our consolidated financial statements.  |
| ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments   | 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 the amendments 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 \$288.4 billion at December 31, 2017 and was \$266.7 billion at September 30, 2017. 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 June 30, 2017, 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 3Q 2017. The amount of available funding remaining under the Purchase Agreement is \$140.5 billion and would be reduced by any future draws.

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 2017, we contributed \$78 million of capital to CSS.

Freddie Mac Form 10-Q 84

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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)                                   | September 30,<br>2017 | December<br>31, 2016 |
|---|-----------------------|----------------------|
| <b>Consolidated Balance Sheet Line Item</b>     |                       |                      |
| <b>Assets:</b>                                  |                       |                      |
| Restricted cash and cash equivalents            | \$5,148               | \$9,431              |
| Securities purchased under agreements to resell | 12,800                | 13,550               |
| Mortgage loans held-for-investment              | 1,738,858             | 1,690,218            |
| Accrued interest receivable                     | 5,640                 | 5,454                |
| Other assets                                    | 2,922                 | 3,827                |
| <b>Total assets of consolidated VIEs</b>        | <b>\$1,765,368</b>    | <b>\$1,722,480</b>   |
| <b>Liabilities:</b>                             |                       |                      |
| Accrued interest payable                        | \$4,950               | \$4,846              |
| Debt, net                                       | 1,691,524             | 1,648,683            |
| <b>Total liabilities of consolidated VIEs</b>   | <b>\$1,696,474</b>    | <b>\$1,653,529</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 non-consolidated VIEs with which we were involved in the design and creation and have a significant continuing involvement, as well as our maximum exposure to loss.

| (In millions)   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Assets and Liabilities Recorded on our Consolidated Balance Sheets <sup>(1)</sup> |                       |                      |
| Assets:   |                       |                      |
| Investments in securities   | \$52,355              | \$58,995             |
| Accrued interest receivable   | 236                   | 254                  |
| Other assets  | 2,030                 | 1,708                |
| Liabilities:  |                       |                      |
| Other liabilities   | 1,902                 | 1,604                |
| Maximum Exposure to Loss <sup>(2)(3)</sup>  | \$178,765             | \$150,227            |
| Total Assets of Non-Consolidated VIEs <sup>(3)</sup>                              | \$207,985             | \$175,713            |

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

Our maximum exposure to loss includes the guaranteed UPB of assets held by the non-consolidated VIEs related to (2) K Certificates, SB Certificates, senior subordinate securitization structures, and other securitization products, as well as the UPB of unguaranteed securities that we acquired from these securitization transactions.

Our maximum exposure to loss and total assets of non-consolidated VIEs exclude our investments in and (3) obligations to REMICs and Stripped Giant PCs, because we already consolidate the underlying collateral of these trusts on our consolidated balance sheets.

We also obtain interests in various other VIEs created by third parties through the normal course of business, such as through our investments in certain non-Freddie Mac mortgage-related securities, purchases of multifamily loans, guarantees of multifamily housing revenue bonds, as a derivative counterparty, or through other activities. To the extent that we were not involved in the design and creation of these VIEs, they are excluded from the table above. Our interests in these VIEs are generally passive in nature and are not expected to result in us obtaining a controlling financial interest in these VIEs in the future.

## FINANCIAL GUARANTEES

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



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

| (Dollars in millions, terms in years)  | September 30, 2017 |                                     |                        | December 31, 2016 |                                     |                        |
|--|--------------------|-------------------------------------|------------------------|-------------------|-------------------------------------|------------------------|
|  | Maximum Exposure   | Recognized Liability <sup>(2)</sup> | Maximum Remaining Term | Maximum Exposure  | Recognized Liability <sup>(2)</sup> | Maximum Remaining Term |
| K Certificates, SB Certificates, senior subordinate securitization structures, and other securitization products | \$178,738          | \$1,834                             | 40                     | \$150,227         | \$1,532                             | 40                     |
| Other mortgage-related guarantees  | 16,577             | 669                                 | 33                     | 16,445            | 679                                 | 34                     |
| Derivative instruments   | 11,603             | 136                                 | 28                     | 6,396             | 127                                 | 29                     |

The maximum exposure represents the contractual amounts that could be lost if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements, such as recourse provisions, third-party insurance contracts, or from collateral held or pledged. For derivative instruments, this amount represents the notional value, although our exposure to certain of these derivative instruments may be unlimited. We generally reduce our exposure to those derivative instruments with unlimited exposure through separate contracts with third parties.

For K Certificates, SB Certificates, senior subordinate securitization structures, other securitization products, and other mortgage-related guarantees, this amount represents the guarantee obligation on our consolidated balance sheets. This amount excludes our reserve for guarantee losses, which totaled \$62 million and \$67 million as of September 30, 2017 and December 31, 2016, 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 single-family loans.

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 and SB 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. These subordinate tranches will absorb credit losses prior to any loss being recognized pursuant to our financial guarantee contract.

The following table presents the maximum exposure of our recognized financial guarantees to non-consolidated multifamily VIEs and the related maximum coverage provided primarily by the subordinate tranches.

| (In millions)                      | Maximum Exposure <sup>(1)</sup> at |                   | Maximum Coverage <sup>(2)</sup> at |                   |
|------------------------------------|------------------------------------|-------------------|------------------------------------|-------------------|
|                                    | September 30, 2017                 | December 31, 2016 | September 30, 2017                 | December 31, 2016 |
| K Certificates and SB Certificates | \$164,308                          | \$139,416         | \$27,307                           | \$23,864          |
| Other securitization products      | 6,732                              | 5,545             | 1,521                              | 1,359             |
| Total                              | \$171,040                          | \$144,961         | \$28,828                           | \$25,223          |

(1) Our maximum exposure to loss includes the guaranteed UPB of assets held by the non-consolidated VIEs.

For K Certificates and SB Certificates, this represents the UPB of the securities that are subordinate to our guarantee. For other securitization products, this represents the remaining amount of loss recovery that is available subject to the terms of the counterparty agreement or the UPB of the securities that are subordinate to our guarantee.

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. These credit enhancements, along with the proceeds received from the sale of the underlying mortgage collateral, will enable us to recover all or a portion of our losses on our mortgage loans or the amounts

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

paid under our financial guarantee contract. Our historical losses and related recoveries pursuant to these agreements have not been significant.

Similar to our non-consolidated VIEs, certain of our mortgage loans held by multifamily consolidated VIEs are credit-enhanced through unguaranteed and subordinated tranches. Our historical losses and related recoveries pursuant to these transactions have also 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 condensed consolidated balance sheets.

| (In millions)                              | September 30, 2017        |                                   |             | December 31, 2016         |                                   |             |
|--|---------------------------|-----------------------------------|-------------|---------------------------|-----------------------------------|-------------|
|  | 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                              | \$15,753                  | \$—                               | \$15,753    | \$2,092                   | \$—                               | \$2,092     |
| Multifamily                                | 19,118                    | —                                 | 19,118      | 16,544                    | —                                 | 16,544      |
| Total UPB                                  | 34,871                    | —                                 | 34,871      | 18,636                    | —                                 | 18,636      |
| Cost basis and fair value adjustments, net | (2,829)                   | ) —                               | (2,829)     | ) (548)                   | ) —                               | (548)       |
| Total held-for-sale loans, net             | 32,042                    | —                                 | 32,042      | 18,088                    | —                                 | 18,088      |
| <b>Held-for-investment:</b>                |                           |                                   |             |                           |                                   |             |
| Single-family                              | 62,746                    | 1,708,458                         | 1,771,204   | 83,040                    | 1,659,591                         | 1,742,631   |
| Multifamily                                | 20,019                    | 2,776                             | 22,795      | 25,873                    | 3,048                             | 28,921      |
| Total UPB                                  | 82,765                    | 1,711,234                         | 1,793,999   | 108,913                   | 1,662,639                         | 1,771,552   |
| Cost basis adjustments                     | (2,321)                   | ) 31,257                          | 28,936      | (3,755)                   | ) 30,549                          | 26,794      |
| Allowance for loan losses                  | (6,452)                   | ) (3,633)                         | (10,085)    | (10,461)                  | ) (2,970)                         | (13,431)    |
| Total held-for-investment loans, net       | 73,992                    | 1,738,858                         | 1,812,850   | 94,697                    | 1,690,218                         | 1,784,915   |
| Total loans, net                           | \$106,034                 | \$1,738,858                       | \$1,844,892 | \$112,785                 | \$1,690,218                       | \$1,803,003 |

On February 2, 2017, we started applying fair value hedge accounting to certain single-family mortgage loans. The fair value hedge accounting related loan basis adjustments are included in the table above.

During 3Q 2017 and YTD 2017, we purchased \$86.8 billion and \$245.7 billion, respectively, in UPB of single-family loans that were classified as held-for-investment, compared to \$115.7 billion and \$273.9 billion of such loans purchased during 3Q 2016 and YTD 2016, respectively.

We also purchased \$1.1 billion and \$3.0 billion in UPB of multifamily loans that were classified as held-for-investment during 3Q 2017 and YTD 2017, respectively, compared to \$1.7 billion and \$3.7 billion of such loans purchased during 3Q 2016 and YTD 2016, respectively.

Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates and SB Certificates. During 3Q 2017 and 3Q 2016, we sold \$16.0 billion and \$10.2 billion, respectively, in UPB of held-for-sale multifamily loans. During YTD 2017 and YTD 2016, we sold \$38.7 billion and \$36.4 billion, respectively, in UPB of held-for-sale multifamily loans. See Note 3 for more information on our K Certificates and SB Certificates.

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we completed sales of \$2.7 billion and \$0.6 billion in UPB of seasoned single-family loans during 3Q 2017 and 3Q 2016, respectively, and \$4.3 billion and \$2.4 billion in UPB of seasoned single-family loans during YTD 2017 and YTD 2016, respectively.

Seasoned single-family mortgage loans include seriously delinquent and reperforming loans.

We reclassified \$7.2 billion and \$0.3 billion in UPB of seasoned single-family loans from held-for-investment to held-for-sale during 3Q 2017 and 3Q 2016, respectively, and \$20.0 billion and \$3.8 billion in UPB of seasoned single-family loans during YTD 2017 and YTD 2016, respectively. In addition, we reclassified \$0.2 billion and \$0.9 billion in UPB of multifamily mortgage loans from held-for-investment to held-for-sale during 3Q 2017 and YTD 2017, respectively. We did not reclassify any multifamily mortgage

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

loans during the 2016 periods. 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 may negatively affect the borrower's ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding loan. A second-lien loan also reduces the borrower's equity in the home and has a similar negative effect on the borrower's ability to refinance or sell the property for an amount at or above the combined balances of the first and second loans. As of September 30, 2017 and December 31, 2016, based on data collected by us at loan delivery, approximately 10% and 11%, 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 or adjustable interest-rate 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)  | September 30, 2017 |             |                      |             | December 31, 2016 |             |                      |             |
|--|--------------------|-------------|----------------------|-------------|-------------------|-------------|----------------------|-------------|
|  | 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> | \$1,205,240        | \$216,924   | \$16,863             | \$1,439,027 | \$1,120,722       | \$236,111   | \$30,063             | \$1,386,896 |
| 15-year amortizing fixed-rate <sup>(2)</sup>                 | 270,755            | 7,690       | 485                  | 278,930     | 274,967           | 11,016      | 887                  | 286,870     |
| Adjustable-rate  | 49,703             | 3,222       | 35                   | 52,960      | 52,319            | 2,955       | 85                   | 55,359      |
| Alt-A, interest-only, and option ARM                         | 22,118             | 5,199       | 1,921                | 29,238      | 26,293            | 9,392       | 4,634                | 40,319      |
| Total single-family loans                                    | \$1,547,816        | \$233,035   | \$19,304             | \$1,800,155 | \$1,474,301       | \$259,474   | \$35,669             | \$1,769,444 |

(1) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with current LTV ratios in excess of 100% was 7.50% and 6.80% as of September 30, 2017 and December 31, 2016, respectively.

The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of September 30, 2017 and December 31, 2016, we have categorized UPB of approximately \$25.5 billion and \$32.0 billion, respectively, of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the

(2) modified 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.



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

| (In millions)  | September 30,<br>2017 | December<br>31, 2016 |
|--|-----------------------|----------------------|
| Credit risk profile by internally assigned grade: <sup>(1)</sup> |                       |                      |
| Pass   | \$22,515              | \$27,830             |
| Special mention  | 145                   | 502                  |
| Substandard  | 120                   | 570                  |
| Doubtful   | —                     | —                    |
| Total  | \$22,780              | \$28,902             |

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.

**MORTGAGE LOAN PERFORMANCE**

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

| (In millions)                                 | September 30, 2017 |                             |                              |  | Total       | Non-accrual |
|---|--------------------|-----------------------------|------------------------------|--|-------------|-------------|
|   | Current            | One<br>Month<br>Past<br>Due | Two<br>Months<br>Past<br>Due | Three<br>Months or<br>More Past<br>Due,<br>or in<br>Foreclosure <sup>(1)</sup> |             |             |
| Single-family:                                |                    |                             |                              |  |             |             |
| 20 and 30-year or more, amortizing fixed-rate | \$1,406,602        | \$18,569                    | \$4,457                      | \$9,399  | \$1,439,027 | \$9,394     |
| 15-year amortizing fixed-rate                 | 277,161            | 1,315                       | 175                          | 279  | 278,930     | 279         |
| Adjustable-rate                               | 52,363             | 358                         | 69                           | 170  | 52,960      | 170         |
| Alt-A, interest-only, and option ARM          | 25,680             | 1,404                       | 497                          | 1,657  | 29,238      | 1,655       |
| Total single-family                           | 1,761,806          | 21,646                      | 5,198                        | 11,505   | 1,800,155   | 11,498      |
| Total multifamily                             | 22,755             | 25                          | —                            | —  | 22,780      | 48          |
| Total single-family and multifamily           | \$1,784,561        | \$21,671                    | \$5,198                      | \$11,505   | \$1,822,935 | \$11,546    |

| (In millions)                                 | December 31, 2016 |                             |                              |  | Total       | Non-accrual |
|---|-------------------|-----------------------------|------------------------------|--|-------------|-------------|
|   | Current           | One<br>Month<br>Past<br>Due | Two<br>Months<br>Past<br>Due | Three<br>Months or<br>More Past<br>Due,<br>or in<br>Foreclosure <sup>(1)</sup> |             |             |
| Single-family:                                |                   |                             |                              |  |             |             |
| 20 and 30-year or more, amortizing fixed-rate | \$1,354,511       | \$16,645                    | \$4,865                      | \$10,875   | \$1,386,896 | \$10,868    |
| 15-year amortizing fixed-rate                 | 285,373           | 1,010                       | 178                          | 309  | 286,870     | 309         |
| Adjustable-rate                               | 54,738            | 354                         | 77                           | 190  | 55,359      | 190         |
| Alt-A, interest-only, and option ARM          | 35,994            | 1,748                       | 650                          | 1,927  | 40,319      | 1,927       |

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|                                     |             |          |         |          |             |          |
|-------------------------------------|-------------|----------|---------|----------|-------------|----------|
| Total single-family                 | 1,730,616   | 19,757   | 5,770   | 13,301   | 1,769,444   | 13,294   |
| Total multifamily                   | 28,902      | —        | —       | —        | 28,902      | 89       |
| Total single-family and multifamily | \$1,759,518 | \$19,757 | \$5,770 | \$13,301 | \$1,798,346 | \$13,383 |

(1) Includes \$4.7 billion and \$5.3 billion of loans that were in the process of foreclosure as of September 30, 2017 and December 31, 2016, respectively.

Freddie Mac Form 10-Q 91

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## 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)                      | September<br>30, 2017 | December<br>31, 2016 |
|--|-----------------------|----------------------|
| Single-family: <sup>(1)</sup>              |                       |                      |
| Non-credit-enhanced portfolio              |                       |                      |
| Serious delinquency rate                   | 0.92 %                | 1.02 %               |
| Total number of seriously delinquent loans | 66,641                | 77,662               |
| Credit-enhanced portfolio: <sup>(2)</sup>  |                       |                      |
| Primary mortgage insurance:                |                       |                      |
| Serious delinquency rate                   | 1.15 %                | 1.46 %               |
| Total number of seriously delinquent loans | 18,048                | 21,460               |
| Other credit protection: <sup>(3)</sup>    |                       |                      |
| Serious delinquency rate                   | 0.34 %                | 0.43 %               |
| Total number of seriously delinquent loans | 9,222                 | 9,455                |
| Total single-family:                       |                       |                      |
| Serious delinquency rate                   | 0.86 %                | 1.00 %               |
| Total number of seriously delinquent loans | 92,091                | 107,170              |
| Multifamily: <sup>(4)</sup>                |                       |                      |
| Non-credit-enhanced portfolio:             |                       |                      |
| Delinquency rate                           | 0.05 %                | 0.04 %               |
| UPB of delinquent loans                    | \$23                  | \$19                 |
| Credit-enhanced portfolio:                 |                       |                      |
| Delinquency rate                           | 0.02 %                | 0.02 %               |
| UPB of delinquent loans                    | \$29                  | \$37                 |
| Total Multifamily:                         |                       |                      |
| Delinquency rate                           | 0.02 %                | 0.03 %               |
| UPB of delinquent loans                    | \$52                  | \$56                 |

(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 condensed 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, SB Certificates, other securitization products, and other mortgage-related guarantees. On January 1, 2017, we elected a new accounting policy for loan reclassifications from held-for-investment to held-for-sale. See the Loan Reclassifications section below for further information about this change.

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

The tables below present our loan loss reserves activity.

| (In millions)                         | 3Q 2017                                       |                             |                              |          | 3Q 2016                                       |                             |                              |          |
|---------------------------------------|---|-----------------------------|------------------------------|----------|---|-----------------------------|------------------------------|----------|
|                                       | 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                     | \$7,541                                       | \$2,755                     | \$55                         | \$10,351 | \$10,886                                      | \$2,589                     | \$56                         | \$13,531 |
| Provision (benefit) for credit losses | (330 )  | 1,023                       | 1                            | 694      | (249 )  | 368                         | 2                            | 121      |
| Charge-offs <sup>(1)</sup>            | (1,126 )                                      | (12 )                       | (2 )                         | (1,140 ) | (422 )  | (37 )                       | (2 )                         | (461 )   |
| Recoveries                            | 143   | 2                           | —                            | 145      | 113   | 2                           | —                            | 115      |
| Transfers, net <sup>(2)</sup>         | 192   | (136 )                      | —                            | 56       | 98  | (16 )                       | —                            | 82       |
| Ending balance                        | 6,420   | 3,632                       | 54                           | 10,106   | 10,426  | 2,906                       | 56                           | 13,388   |
| Multifamily ending balance            | 32  | 1                           | 8                            | 41       | 22  | 2                           | 14                           | 38       |
| Total ending balance                  | \$6,452                                       | \$3,633                     | \$62                         | \$10,147 | \$10,448                                      | \$2,908                     | \$70                         | \$13,426 |

| (in millions)                         | YTD 2017                                      |                             |                              |          | YTD 2016                                      |                             |                              |          |
|---------------------------------------|---|-----------------------------|------------------------------|----------|---|-----------------------------|------------------------------|----------|
|                                       | 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                     | \$10,442                                      | \$2,969                     | \$54                         | \$13,465 | \$12,516                                      | \$2,775                     | \$57                         | \$15,348 |
| Provision (benefit) for credit losses | (1,058 )                                      | 1,223                       | 3                            | 168      | (1,424 )                                      | 308                         | 6                            | (1,110 ) |
| Charge-offs <sup>(1)</sup>            | (3,942 )                                      | (88 )                       | (3 )                         | (4,033 ) | (1,388 )                                      | (121 )                      | (7 )                         | (1,516 ) |
| Recoveries                            | 322   | 5                           | —                            | 327      | 387   | 8                           | —                            | 395      |
| Transfers, net <sup>(2)</sup>         | 656   | (477 )                      | —                            | 179      | 335   | (64 )                       | —                            | 271      |
| Ending balance                        | 6,420   | 3,632                       | 54                           | 10,106   | 10,426  | 2,906                       | 56                           | 13,388   |
| Multifamily ending balance            | 32  | 1                           | 8                            | 41       | 22  | 2                           | 14                           | 38       |
| Total ending balance                  | \$6,452                                       | \$3,633                     | \$62                         | \$10,147 | \$10,448                                      | \$2,908                     | \$70                         | \$13,426 |

3Q 2016 and YTD 2016 do not include lower-of-cost-or-fair-value adjustments and other expenses related to property taxes and insurance recognized when we transfer loans from held-for-investment to held-for-sale, which (1) totaled \$75 million and \$949 million, respectively. 3Q 2017 and YTD 2017 include charge-offs of \$0.8 billion and \$3.0 billion, respectively, related to the transfer of loans from held-for-investment to held-for-sale.

Consists of approximately \$0.1 billion during both 3Q 2017 and 3Q 2016, and \$0.2 billion and \$0.3 billion during YTD 2017 and YTD 2016, respectively, primarily attributable to capitalization of past due interest on modified (2) loans, as well as 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 securitized after such removal.

The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 8.0% and 9.9% of the recorded investment in such loans at September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016.

## 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)                         | 3Q 2017         |                              | 3Q 2016         |                              | YTD 2017        |                              | YTD 2016        |                              |
|---|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|
|   | 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 | 7,502           | \$1,069                      | 8,052           | \$1,166                      | 24,485          | \$3,503                      | 26,948          | \$3,855                      |
| 15-year amortizing fixed-rate                 | 993             | 75                           | 1,052           | 74                           | 3,275           | 251                          | 3,498           | 254                          |
| Adjustable-rate                               | 202             | 30                           | 228             | 33                           | 667             | 97                           | 724             | 104                          |
| Alt-A, interest-only, and option ARM          | 645             | 119                          | 669             | 113                          | 1,926           | 344                          | 2,339           | 411                          |
| Total single-family                           | 9,342           | 1,293                        | 10,001          | 1,386                        | 30,353          | 4,195                        | 33,509          | 4,624                        |
| Multifamily <sup>(2)</sup>                    | 1               | —                            | —               | —                            | 1               | —                            | 2               | 8                            |
| Total   | 9,343           | \$1,293                      | 10,001          | \$1,386                      | 30,354          | \$4,195                      | 33,511          | \$4,632                      |

The pre-TDR recorded investment for single-family loans initially classified as TDR during 3Q 2017 and YTD (1) 2017 was \$1.3 billion and \$4.2 billion, respectively, compared to \$1.4 billion and \$4.6 billion during 3Q 2016 and YTD 2016, respectively.

(2) The post-TDR recorded investment is not meaningful.

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)                         | 3Q 2017         |                              | 3Q 2016         |                              | YTD 2017        |                              | YTD 2016        |                              |
|---|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|-----------------|------------------------------|
|   | 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 | 3,526           | \$555                        | 4,043           | \$626                        | 10,183          | \$1,642                      | 11,947          | \$1,859                      |
| 15-year amortizing fixed-rate                 | 191             | 14                           | 206             | 17                           | 505             | 40                           | 631             | 52                           |
| Adjustable-rate                               | 47              | 8                            | 74              | 9                            | 156             | 24                           | 211             | 30                           |
| Alt-A, interest-only, and option ARM          | 336             | 62                           | 358             | 71                           | 924             | 188                          | 1,202           | 240                          |
| Total single-family                           | 4,100           | \$639                        | 4,681           | \$723                        | 11,768          | \$1,894                      | 13,991          | \$2,181                      |
| 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 loans in modification trial periods). During YTD 2017 and YTD 2016, 5,523 and 6,352, respectively, of such loans (with a post-TDR recorded investment of \$0.7 billion and \$0.8 billion, respectively) experienced a payment default within a year after the loss mitigation activity occurred.



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

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 2017 and YTD 2016, 665 and 920, respectively, of such loans (with a post-TDR recorded investment of \$0.1 billion in both periods) experienced a payment default within a year after the borrowers' Chapter 7 bankruptcy.

**Single-Family TDRs**

Approximately 37% and 43% of the single-family loan modifications completed during 3Q 2017 and 3Q 2016, respectively, and 41% and 42% during YTD 2017 and YTD 2016, respectively, that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions. Approximately 11% and 15% of the single-family loan modifications completed during 3Q 2017 and 3Q 2016, respectively, and 12% and 16% during YTD 2017 and YTD 2016, respectively, that were classified as TDRs involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During 3Q 2017 and 3Q 2016, the average term extension was 179 months and 177 months, respectively, and the average interest rate reduction was 0.4% and 0.8%, respectively, on completed single-family loan modifications classified as TDRs. During YTD 2017 and YTD 2016, the average term extension was 175 months and 178 months, respectively, and the average interest rate reduction was 0.7% and 0.8%, respectively, 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)                                       | September 30, 2017 |                     |                      | December 31, 2016 |                     |                      |
|---|--------------------|---------------------|----------------------|-------------------|---------------------|----------------------|
|   | 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       | \$4,095            | \$3,152             | N/A                  | \$4,963           | \$3,746             | N/A                  |
| 15-year amortizing fixed-rate                       | 28                 | 24                  | N/A                  | 31                | 26                  | N/A                  |
| Adjustable-rate                                     | 278                | 276                 | N/A                  | 292               | 289                 | N/A                  |
| Alt-A, interest-only, and option ARM                | 1,626              | 1,354               | N/A                  | 1,935             | 1,561               | N/A                  |
| Total with no specific allowance recorded           | 6,027              | 4,806               | N/A                  | 7,221             | 5,622               | N/A                  |
| With specific allowance recorded: <sup>(2)</sup>    |                    |                     |                      |                   |                     |                      |
| 20 and 30-year or more, amortizing fixed-rate       | 52,901             | 51,669              | (\$6,430 )           | 67,853            | 66,143              | (\$9,678 )           |
| 15-year amortizing fixed-rate                       | 761                | 764                 | (23 )                | 847               | 851                 | (25 )                |
| Adjustable-rate                                     | 246                | 241                 | (15 )                | 319               | 312                 | (19 )                |
| Alt-A, interest-only, and option ARM                | 8,208              | 7,755               | (1,238 )             | 12,699            | 12,105              | (2,258 )             |
| Total with specific allowance recorded              | 62,116             | 60,429              | (7,706 )             | 81,718            | 79,411              | (11,980 )            |
| Combined single-family:                             |                    |                     |                      |                   |                     |                      |
| 20 and 30-year or more, amortizing fixed-rate       | 56,996             | 54,821              | (6,430 )             | 72,816            | 69,889              | (9,678 )             |
| 15-year amortizing fixed-rate                       | 789                | 788                 | (23 )                | 878               | 877                 | (25 )                |
| Adjustable-rate                                     | 524                | 517                 | (15 )                | 611               | 601                 | (19 )                |
| Alt-A, interest-only, and option ARM                | 9,834              | 9,109               | (1,238 )             | 14,634            | 13,666              | (2,258 )             |
| Total single-family                                 | \$68,143           | \$65,235            | (\$7,706 )           | \$88,939          | \$85,033            | (\$11,980 )          |
| Multifamily —                                       |                    |                     |                      |                   |                     |                      |
| With no specific allowance recorded: <sup>(1)</sup> |                    |                     |                      |                   |                     |                      |
|   | \$113              | \$105               | N/A                  | \$321             | \$308               | N/A                  |
| With specific allowance recorded                    |                    |                     |                      |                   |                     |                      |
|   | 15                 | 15                  | (\$4 )               | 44                | 42                  | (\$9 )               |
| Total multifamily                                   | \$128              | \$120               | (\$4 )               | \$365             | \$350               | (\$9 )               |
| Total single-family and multifamily                 | \$68,271           | \$65,355            | (\$7,710 )           | \$89,304          | \$85,383            | (\$11,989 )          |



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

| (In millions)                                       | 3Q 2017                              |                            |   | 3Q 2016                              |                            |   |
|---|--------------------------------------|----------------------------|---|--------------------------------------|----------------------------|---|
|   | 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       | \$3,367                              | \$97                       | \$3   | \$4,184                              | \$118                      | \$4   |
| 15-year amortizing fixed-rate                       | 24                                   | —                          | —   | 33                                   | 1                          | —   |
| Adjustable rate                                     | 287                                  | 2                          | —   | 268                                  | 2                          | —   |
| Alt-A, interest-only, and option ARM                | 1,390                                | 29                         | 1   | 1,500                                | 30                         | —   |
| Total with no specific allowance recorded           | 5,068                                | 128                        | 4   | 5,985                                | 151                        | 4   |
| With specific allowance recorded: <sup>(2)</sup>    |                                      |                            |   |                                      |                            |   |
| 20 and 30-year or more, amortizing fixed-rate       | 53,250                               | 618                        | 58  | 67,333                               | 677                        | 61  |
| 15-year amortizing fixed-rate                       | 758                                  | 8                          | 2   | 857                                  | 10                         | 1   |
| Adjustable rate                                     | 236                                  | 2                          | 1   | 359                                  | 3                          | —   |
| Alt-A, interest-only, and option ARM                | 8,014                                | 89                         | 7   | 12,642                               | 108                        | 10  |
| Total with specific allowance recorded              | 62,258                               | 717                        | 68  | 81,191                               | 798                        | 72  |
| Combined single-family:                             |                                      |                            |   |                                      |                            |   |
| 20 and 30-year or more, amortizing fixed-rate       | 56,617                               | 715                        | 61  | 71,517                               | 795                        | 65  |
| 15-year amortizing fixed-rate                       | 782                                  | 8                          | 2   | 890                                  | 11                         | 1   |
| Adjustable rate                                     | 523                                  | 4                          | 1   | 627                                  | 5                          | —   |
| Alt-A, interest-only, and option ARM                | 9,404                                | 118                        | 8   | 14,142                               | 138                        | 10  |
| Total single-family                                 | \$67,326                             | \$845                      | \$72  | \$87,176                             | \$949                      | \$76  |
| Multifamily —                                       |                                      |                            |   |                                      |                            |   |
| With no specific allowance recorded: <sup>(1)</sup> | \$115                                | \$2                        | \$1   | \$311                                | \$4                        | \$1   |
| With specific allowance recorded                    | 15                                   | —                          | —   | 46                                   | —                          | —   |
| Total multifamily                                   | \$130                                | \$2                        | \$1   | \$357                                | \$4                        | \$1   |
| Total single-family and multifamily                 | \$67,456                             | \$847                      | \$73  | \$87,533                             | \$953                      | \$77  |

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

| (In millions)                                       | YTD 2017                             |                   |   | YTD 2016                             |                   |   |
|---|--------------------------------------|-------------------|---|--------------------------------------|-------------------|---|
|   | Average Interest Recorded Investment | Income Recognized | Interest Income Recognized On Cash Basis <sup>(3)</sup> | Average Interest Recorded Investment | 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       | \$3,733                              | \$307             | \$12  | \$4,105                              | \$337             | \$10  |
| 15-year amortizing fixed-rate                       | 26                                   | 1                 | —   | 35                                   | 4                 | —   |
| Adjustable rate                                     | 301                                  | 8                 | —   | 247                                  | 6                 | —   |
| Alt-A, interest-only, and option ARM                | 1,518                                | 85                | 3   | 1,362                                | 82                | 2   |
| Total with no specific allowance recorded           | 5,578                                | 401               | 15  | 5,749                                | 429               | 12  |
| With specific allowance recorded: <sup>(2)</sup>    |                                      |                   |   |                                      |                   |   |
| 20 and 30-year or more, amortizing fixed-rate       | 62,277                               | 1,931             | 188   | 69,060                               | 2,015             | 196   |
| 15-year amortizing fixed-rate                       | 18,292                               | 25                | 5   | 901                                  | 30                | 5   |
| Adjustable rate                                     | 430                                  | 7                 | 2   | 409                                  | 11                | 2   |
| Alt-A, interest-only, and option ARM                | 7,033                                | 296               | 26  | 13,156                               | 331               | 27  |
| Total with specific allowance recorded              | 88,032                               | 2,259             | 221   | 83,526                               | 2,387             | 230   |
| Combined single-family:                             |                                      |                   |   |                                      |                   |   |
| 20 and 30-year or more, amortizing fixed-rate       | 66,010                               | 2,238             | 200   | 73,165                               | 2,352             | 206   |
| 15-year amortizing fixed-rate                       | 18,318                               | 26                | 5   | 936                                  | 34                | 5   |
| Adjustable rate                                     | 731                                  | 15                | 2   | 656                                  | 17                | 2   |
| Alt-A, interest-only, and option ARM                | 8,551                                | 381               | 29  | 14,518                               | 413               | 29  |
| Total single-family                                 | \$93,610                             | \$2,660           | \$236   | \$89,275                             | \$2,816           | \$242   |
| Multifamily —                                       |                                      |                   |   |                                      |                   |   |
| With no specific allowance recorded: <sup>(1)</sup> |                                      |                   |   |                                      |                   |   |
| With specific allowance recorded                    | 25                                   | 1                 | 1   | 67                                   | 2                 | 1   |
| Total multifamily                                   | \$312                                | \$8               | \$3   | \$421                                | \$13              | \$4   |
| Total single-family and multifamily                 | \$93,922                             | \$2,668           | \$239   | \$89,696                             | \$2,829           | \$246   |

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)                                    | September 30, 2017 |             |             | December 31, 2016 |             |             |
|--|--------------------|-------------|-------------|-------------------|-------------|-------------|
|  | Single-family      | Multifamily | Total       | Single-family     | Multifamily | Total       |
| Recorded investment:                             |                    |             |             |                   |             |             |
| Collectively evaluated                           | \$1,734,920        | \$22,660    | \$1,757,580 | \$1,684,411       | \$28,552    | \$1,712,963 |
| Individually evaluated                           | 65,235             | 120         | 65,355      | 85,033            | 350         | 85,383      |
| Total recorded investment                        | 1,800,155          | 22,780      | 1,822,935   | 1,769,444         | 28,902      | 1,798,346   |
| Ending balance of the allowance for loan losses: |                    |             |             |                   |             |             |
| Collectively evaluated                           | (2,346 )           | (29 )       | (2,375 )    | (1,431 )          | (11 )       | (1,442 )    |
| Individually evaluated                           | (7,706 )           | (4 )        | (7,710 )    | (11,980 )         | (9 )        | (11,989 )   |
| Total ending balance of the allowance            | (10,052 )          | (33 )       | (10,085 )   | (13,411 )         | (20 )       | (13,431 )   |
| Net investment in loans                          | \$1,790,103        | \$22,747    | \$1,812,850 | \$1,756,033       | \$28,882    | \$1,784,915 |

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**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 condensed 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.

Freddie Mac Form 10-Q 99

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

| (In millions)   | September 30, 2017                                      |                                       |  | December 31, 2016                                       |                                       |  |
|---|---|---------------------------------------|--|---|---------------------------------------|--|
|   | Total<br>Current and<br>Protected<br>UPB <sup>(1)</sup> | Maximum<br>Coverage <sup>(1)(2)</sup> | Collateralized<br>Coverage<br>Remaining <sup>(3)</sup> | Total<br>Current and<br>Protected<br>UPB <sup>(1)</sup> | Maximum<br>Coverage <sup>(1)(2)</sup> | Collateralized<br>Coverage<br>Remaining <sup>(3)</sup> |
| Credit enhancements at the time we acquire the loan:                                  |   |                                       |  |   |                                       |  |
| Primary mortgage insurance  | \$321,809   | \$82,261                              | \$—  | \$291,217   | \$74,345                              | \$—  |
| Seller indemnification <sup>(4)</sup>   | 1,920   | 24                                    | 24   | 1,030   | 10                                    | 10   |
| Deep mortgage insurance CRT <sup>(4)(5)</sup>   | 6,617   | 176                                   | 48   | 3,067   | 81                                    | —  |
| Lender recourse and indemnification agreements <sup>(6)</sup>                         | 5,299   | 4,766                                 | —  | 5,247   | 4,911                                 | —  |
| Pool insurance <sup>(6)</sup>   | 884   | 493                                   | —  | 1,719   | 618                                   | —  |
| Other:  |   |                                       |  |   |                                       |  |
| HFA indemnification   | 1,456   | 1,456                                 | —  | 1,747   | 1,747                                 | —  |
| Subordination   | 1,642   | 175                                   | —  | 1,874   | 230                                   | —  |
| Other credit enhancements <sup>(6)</sup>  | 15  | 5                                     | —  | 17  | 6                                     | —  |
| Credit enhancements subsequent to our purchase or guarantee of the loan:              |   |                                       |  |   |                                       |  |
| STACR debt note <sup>(4)(7)</sup>   | 532,197   | 16,401                                | 16,401   | 427,978   | 14,507                                | 14,507   |
| ACIS transactions <sup>(4)(8)</sup>   | 556,621   | 6,175                                 | 1,065  | 453,670   | 5,355                                 | 877  |
| Whole loan securities and senior subordinate securitization structures <sup>(4)</sup> | 7,292   | 1,140                                 | 1,140  | 2,494   | 375                                   | 375  |
| Less: UPB with more than one type of credit enhancement                               | (701,800 )  | —                                     | —  | (559,400 )  | —                                     | —  |
| Single-family loan portfolio with credit enhancement                                  | 733,952   | 113,072                               | 18,678   | 630,660   | 102,185                               | 15,769   |
| Single-family loan portfolio without credit enhancement                               | 1,066,112   | —                                     | —  | 1,124,066   | —                                     | —  |
| Total   | \$1,800,064   | \$113,072                             | \$18,678   | \$1,754,726   | \$102,185                             | \$15,769   |

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 \$5.9 billion and \$6.7 billion in UPB of single-family loans underlying other structured transactions where data was not available as of September 30, 2017 (1) and December 31, 2016, respectively; and (c) repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite loans and service them in accordance with our standards. The UPB of single-family loans covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA and USDA) was \$2.6 billion and \$2.8 billion as of September 30, 2017 and December 31, 2016, respectively.

(2) Except for subordination and whole loan securities, this represents the remaining amount of loss recovery that is available subject to terms of counterparty agreements. For subordination and whole loan securities, this represents the UPB of the securities that are subordinate to our guarantee, which could provide protection by absorbing first losses.

(3)

Collateralized coverage includes cash received by Freddie Mac upon issuance of STACR debt notes and unguaranteed whole loan securities, as well as cash and securities pledged for our benefit primarily related to ACIS transactions.

(4) Credit risk transfer transactions. The substantial majority of single-family loans covered by these transactions were acquired after 2012.

Includes approximately \$6.5 billion and \$3.1 billion in UPB at September 30, 2017 and December 31, 2016, where (5) the related loans are also covered by primary mortgage insurance. Deep mortgage insurance credit risk transfer began in the third quarter of 2016.

In aggregate, includes approximately \$1.1 billion and \$1.0 billion in UPB at September 30, 2017 and December 31, (6) 2016, respectively, where the related loans are also covered by primary mortgage insurance.

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

Includes approximately \$164.5 billion and \$123.5 billion in UPB at September 30, 2017 and December 31, 2016, (7) 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.

Includes \$161.7 billion and \$127.4 billion in UPB at September 30, 2017 and December 31, 2016, respectively, (8) where the related loans are also covered by primary mortgage insurance. Maximum coverage amounts presented represent the remaining aggregate limit of insurance purchased from third parties in ACIS transactions.

Primary mortgage insurance and credit risk transfer transactions are the most prevalent types of credit enhancement protecting our single-family credit guarantee portfolio. 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 credit losses to third-party investors, insurers, and selected sellers. The value of these transactions to us is a reduction in our mortgage credit risk.

#### LOAN RECLASSIFICATIONS

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On January 1, 2017, we elected a new accounting policy for loan reclassifications from held-for-investment to held-for-sale. Under the new policy, when we reclassify (transfer) a loan from held-for-investment to held-for-sale, we charge off the entire difference between the loan's recorded investment and its fair value if the loan has a history of credit-related issues. Expenses related to property taxes and insurance are included as part of the charge-off. If the charge-off amount exceeds the existing loan loss reserve amount, an additional provision for credit losses is recorded. Any declines in loan fair value after the date of transfer will be recognized as a valuation allowance, with an offset recorded to other income (loss). This new policy election was applied prospectively, as it was not practical to apply it retrospectively.

The new policy election did not affect our net income; however, it affected where the loan reclassifications from held-for-investment to held-for-sale were recorded in our condensed consolidated statements of comprehensive income. Prior to the policy change, upon a loan reclassification from held-for-investment to held-for-sale, we reversed the related allowance for loan losses to the benefit (provision) for credit losses, recorded a valuation allowance for any difference between the loan's recorded investment and its fair value to other income (loss), and recorded property taxes and insurance expenses related to the transferred loans in other expense. Under the new policy, benefit (provision) for credit losses is the only line item affected when a transfer occurs.

#### NON-CASH INVESTING AND FINANCING ACTIVITIES

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During YTD 2017 and YTD 2016, we acquired \$161.5 billion and \$165.3 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. We received approximately \$25.3 billion and \$20.0 billion of loans from sellers during YTD 2017 and YTD 2016, respectively, to satisfy advances to lenders that were recorded in other assets on our condensed consolidated balance sheets. These loans were primarily included in the guarantor swap transactions. In addition, we acquire REO properties through foreclosure transfers or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During YTD 2017 and YTD 2016, we had transfers of \$0.9 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 debt securities by classification.

| (In millions)                 | September 30, December |           |
|-------------------------------|------------------------|-----------|
|                               | 2017                   | 31, 2016  |
| Trading securities            | \$35,726               | \$44,790  |
| Available-for-sale securities | 51,422                 | 66,757    |
| Total                         | \$87,148               | \$111,547 |

As of September 30, 2017 and December 31, 2016, 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)                          | September December |          |
|--|--------------------|----------|
|  | 30, 2017           | 31, 2016 |
| Mortgage-related securities:           |                    |          |
| Freddie Mac                            | \$12,911           | \$15,343 |
| Other agency                           | 5,010              | 8,161    |
| All other                              | 298                | 149      |
| Total mortgage-related securities      | 18,219             | 23,653   |
| Non-mortgage-related securities        | 17,507             | 21,137   |
| Total fair value of trading securities | \$35,726           | \$44,790 |

We recorded net unrealized gains (losses) on trading securities held at September 30, 2017 of (\$49) million and (\$196) million during 3Q 2017 and YTD 2017, respectively. We recorded net unrealized gains (losses) on trading securities held at September 30, 2016 of (\$166) million and \$38 million during 3Q 2016 and YTD 2016, respectively.

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

## AVAILABLE-FOR-SALE SECURITIES

At September 30, 2017 and December 31, 2016, all available-for-sale securities were mortgage-related securities. The tables below present the amortized cost, gross unrealized gains and losses, and fair value by major security type for our securities classified as available-for-sale.

| (In millions)                                    | September 30, 2017 |                        |  |   |            |
|--|--------------------|------------------------|--|---|------------|
|  | Amortized Cost     | Gross Unrealized Gains | Other-Than-Temporary Impairment <sup>(1)</sup> | Gross Unrealized Losses Temporary Impairment <sup>(2)</sup> | Fair Value |
| Available-for-sale securities:                   |                    |                        |  |   |            |
| Freddie Mac                                      | \$38,807           | \$689                  | \$—  | (\$349)   | \$39,147   |
| Other agency                                     | 3,011              | 92                     | —  | (14)  | 3,089      |
| Non-agency RMBS                                  | 4,013              | 1,130                  | (6)  | (2)   | 5,135      |
| Non-agency CMBS                                  | 3,410              | 246                    | (6)  | (1)   | 3,649      |
| Obligations of states and political subdivisions | 396                | 6                      | —  | —   | 402        |
| Total available-for-sale securities              | \$49,637           | \$2,163                | (\$12)   | (\$366)   | \$51,422   |

| (In millions)                                    | December 31, 2016 |                        |  |   |            |
|--|-------------------|------------------------|--|---|------------|
|  | Amortized Cost    | Gross Unrealized Gains | Other-Than-Temporary Impairment <sup>(1)</sup> | Gross Unrealized Losses Temporary Impairment <sup>(2)</sup> | Fair Value |
| Available-for-sale securities:                   |                   |                        |  |   |            |
| Freddie Mac                                      | \$43,671          | \$563                  | \$—  | (\$582)   | \$43,652   |
| Other agency                                     | 4,127             | 119                    | —  | (25)  | 4,221      |
| Non-agency RMBS                                  | 10,606            | 1,271                  | (62)   | (18)  | 11,797     |
| Non-agency CMBS                                  | 6,288             | 160                    | (3)  | (23)  | 6,422      |
| Obligations of states and political subdivisions | 657               | 8                      | —  | —   | 665        |
| Total available-for-sale securities              | \$65,349          | \$2,121                | (\$65)   | (\$648)   | \$66,757   |

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

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

The fair value of our available-for-sale securities held at September 30, 2017 scheduled to mature after ten years was \$48.1 billion, with an additional \$2.9 billion scheduled to mature after five years through ten years.



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

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

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

| (In millions)   | September 30, 2017  |                         |                      |                         |
|---|---------------------|-------------------------|----------------------|-------------------------|
|   | Less than 12 Months |                         | 12 Months or Greater |                         |
|   | Fair Value          | Gross Unrealized Losses | Fair Value           | Gross Unrealized Losses |
| Available-for-sale securities:  |                     |                         |                      |                         |
| Freddie Mac   | \$9,741             | (\$160 )                | \$5,612              | (\$189 )                |
| Other agency  | 4                   | —                       | 1,551                | (14 )                   |
| Non-agency RMBS   | 6                   | —                       | 122                  | (8 )                    |
| Non-agency CMBS   | 241                 | (1 )                    | 59                   | (6 )                    |
| Obligations of states and political subdivisions                        | 37                  | —                       | —                    | —                       |
| Total available-for-sale securities in a gross unrealized loss position | \$10,029            | (\$161 )                | \$7,344              | (\$217 )                |

| (In millions)   | December 31, 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   | \$19,786            | (\$559 )                | \$1,732              | (\$23 )                 |
| Other agency  | 542                 | (6 )                    | 2,040                | (19 )                   |
| Non-agency RMBS   | 309                 | (1 )                    | 2,188                | (79 )                   |
| Non-agency CMBS   | 383                 | (2 )                    | 204                  | (24 )                   |
| Obligations of states and political subdivisions                        | 83                  | —                       | —                    | —                       |
| Total available-for-sale securities in a gross unrealized loss position | \$21,103            | (\$568 )                | \$6,164              | (\$145 )                |

At September 30, 2017, the gross unrealized losses relate to 255 separate securities.

## Impairment Recognition on Investments in Securities

We recognized \$1 million and \$9 million in net impairment of available-for-sale securities in earnings during 3Q 2017 and 3Q 2016, respectively. We recognized \$17 million and \$138 million in net impairment of available-for-sale securities in earnings during YTD 2017 and YTD 2016, respectively. For our available-for-sale securities in an unrealized loss position at September 30, 2017, 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. The ending balance of remaining credit losses on available-for-sale securities where a portion of other-than-temporary impairment was recognized in other comprehensive income was \$1.3 billion, \$3.6 billion and \$4.1 billion as of 3Q 2017, 2Q 2017 and 4Q 2016, respectively.

## 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)               | 3Q<br>2017 | 3Q<br>2016 | YTD<br>2017 | YTD<br>2016 |
|-----------------------------|------------|------------|-------------|-------------|
| Gross realized gains        | \$806      | \$510      | \$1,153     | \$1,003     |
| Gross realized losses       | (10 )      | (13 )      | (44 )       | (48 )       |
| Net realized gains (losses) | \$796      | \$497      | \$1,109     | \$955       |

## NON-CASH INVESTING AND FINANCING ACTIVITIES

During the third quarter of 2017, we purchased \$3.2 billion and sold \$3.3 billion of non-mortgage-related securities that were traded, but not settled. We settled our purchase and sale obligation during the fourth quarter of 2017.

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

## NOTE 6: DEBT SECURITIES AND SUBORDINATED BORROWINGS

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

| (In millions)  | Balance, Net       |                   | Interest Expense |          |          |          |
|--|--------------------|-------------------|------------------|----------|----------|----------|
|  | September 30, 2017 | December 31, 2016 | 3Q 2017          | 3Q 2016  | YTD 2017 | YTD 2016 |
| Debt securities of consolidated trusts held by third parties | \$1,691,524        | \$1,648,683       | \$11,852         | \$10,887 | \$35,567 | \$33,927 |
| Other debt:  |                    |                   |                  |          |          |          |
| Short-term debt  | 69,430             | 71,451            | 173              | 83       | 414      | 258      |
| Long-term debt   | 248,624            | 281,870           | 1,319            | 1,384    | 3,984    | 4,338    |
| Total other debt   | 318,054            | 353,321           | 1,492            | 1,467    | 4,398    | 4,596    |
| Total debt, net  | \$2,009,578        | \$2,002,004       | \$13,344         | \$12,354 | \$39,965 | \$38,523 |

Our debt cap under the Purchase Agreement is \$407.2 billion in 2017 and will decline to \$346.1 billion on January 1, 2018. As of September 30, 2017, our aggregate indebtedness for purposes of the debt cap was \$321.2 billion. Our aggregate indebtedness calculation primarily includes the par value of other short- and long-term debt.

## DEBT SECURITIES OF CONSOLIDATED TRUSTS HELD BY THIRD PARTIES

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

| (Dollars in millions)  | September 30, 2017   |             |                 |  | December 31, 2016    |             |                 |  |
|--|----------------------|-------------|-----------------|--|----------------------|-------------|-----------------|--|
|  | 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>                         | 2017 - 2055          | \$1,246,377 | \$1,284,710     | 3.69 %                                 | 2017 - 2055          | \$1,193,329 | \$1,229,849     | 3.71 %                                 |
| 20-year fixed-rate   | 2017 - 2037          | 74,560      | 76,772          | 3.44                                   | 2017 - 2037          | 74,033      | 76,331          | 3.49                                   |
| 15-year fixed-rate   | 2017 - 2032          | 262,508     | 268,335         | 2.87                                   | 2017 - 2032          | 267,739     | 273,978         | 2.90                                   |
| Adjustable-rate  | 2017 - 2047          | 48,867      | 49,965          | 2.81                                   | 2017 - 2047          | 52,991      | 54,205          | 2.69                                   |
| Interest-only  | 2026 - 2041          | 7,819       | 7,892           | 3.71                                   | 2026 - 2041          | 10,007      | 10,057          | 3.47                                   |
| FHA/VA   | 2017 - 2046          | 886         | 906             | 4.87                                   | 2017 - 2046          | 1,015       | 1,038           | 4.92                                   |
| Total single-family  |                      | 1,641,017   | 1,688,580       |  |                      | 1,599,114   | 1,645,458       |  |
| Multifamily <sup>(2)</sup>   | 2019 - 2045          | 2,895       | 2,944           | 3.20                                   | 2019 - 2033          | 3,048       | 3,225           | 4.63                                   |
| Total debt securities of consolidated trusts held by third parties |                      | \$1,643,912 | \$1,691,524     |  |                      | \$1,602,162 | \$1,648,683     |  |

(1) The effective interest rate for debt securities of consolidated trusts held by third parties was 2.80% and 2.63% as of September 30, 2017 and December 31, 2016, respectively.

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

Freddie Mac Form 10-Q 106

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

## Other Debt

The table below summarizes the balances and effective interest rates for other debt. Securities sold under agreements to repurchase are effectively collateralized borrowing transactions where we sell securities with an agreement to repurchase such securities. These agreements require the underlying securities to be delivered to the counterparties to the transactions.

| (Dollars in millions)                           | September 30, 2017 |                                |  | December 31, 2016 |                                |  |
|---|--------------------|--------------------------------|--|-------------------|--------------------------------|--|
|   | Par Value          | Carrying Amount <sup>(1)</sup> | Weighted Average Effective Rate <sup>(2)</sup> | Par Value         | Carrying Amount <sup>(1)</sup> | Weighted Average Effective Rate <sup>(2)</sup> |
| Other short-term debt:                          |                    |                                |  |                   |                                |  |
| Discount notes and Reference Bills <sup>®</sup> | \$48,465           | \$48,340                       | 1.05 %   | \$61,042          | \$60,976                       | 0.47 %   |
| Medium-term notes                               | 12,916             | 12,917                         | 0.86   | 7,435             | 7,435                          | 0.41   |
| Securities sold under agreements to repurchase  | 8,173              | 8,173                          | 0.75   | 3,040             | 3,040                          | 0.42   |
| Total other short-term debt                     | \$69,554           | \$69,430                       | 0.98   | \$71,517          | \$71,451                       | 0.47   |
| Other long-term debt:                           |                    |                                |  |                   |                                |  |
| Original maturities on or before December 31,   |                    |                                |  |                   |                                |  |
| 2017  | \$20,346           | \$20,347                       | 1.67 %   | \$92,831          | \$92,855                       | 1.43 %   |
| 2018  | 70,909             | 70,959                         | 1.17   | 71,392            | 71,500                         | 1.18   |
| 2019  | 55,818             | 55,762                         | 1.56   | 46,436            | 46,378                         | 1.59   |
| 2020  | 32,156             | 32,119                         | 1.63   | 13,274            | 13,254                         | 1.54   |
| 2021  | 21,314             | 21,336                         | 1.78   | 20,372            | 20,341                         | 1.81   |
| Thereafter                                      | 50,567             | 48,101                         | 4.21   | 40,921            | 37,542                         | 4.36   |
| Total other long-term debt <sup>(3)</sup>       | 251,110            | 248,624                        | 2.00   | 285,226           | 281,870                        | 1.81   |
| Total other debt                                | \$320,664          | \$318,054                      |  | \$356,743         | \$353,321                      |  |

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

(1) Includes \$5.3 billion and \$5.9 billion at September 30, 2017 and December 31, 2016, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

(2) Based on carrying amount.

(3) Carrying amount for other long-term debt includes callable debt of \$113.3 billion and \$97.7 billion at September 30, 2017 and December 31, 2016, respectively.

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

NOTE 7: DERIVATIVES  
USE OF DERIVATIVES

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We use derivatives primarily to hedge economic 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 (CFTC) 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.

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

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

HEDGE ACCOUNTING

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Fair Value Hedges

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On February 2, 2017, we started applying fair value hedge accounting to certain single-family mortgage loans where we hedge the changes in fair value of these loans attributable to the designated benchmark interest rate (i.e., LIBOR), using LIBOR-based interest-rate swaps. The hedge period is one day, and we re-balance our hedge relationships on a daily basis.

We apply hedge accounting to qualifying hedge relationships. A qualifying hedge relationship exists when changes in the fair value of a derivative hedging instrument are expected to be highly effective in offsetting changes in the fair value of the hedged item attributable to the risk being hedged during the

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

term of the hedge relationship. To assess hedge effectiveness, we use a statistical regression analysis. We prepare formal contemporaneous documentation, at inception of the hedge relationship, of our risk management objective and strategies for undertaking the hedge.

If a hedge relationship qualifies for hedge accounting, changes in fair value of the hedging instrument (swaps) are recognized in other income (loss), rather than derivative gains (losses), and changes in the fair value of the hedged item (loans) attributable to the risk being hedged are also recognized in other income (loss). The amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the risk being hedged is hedge ineffectiveness. Changes in the fair value of the hedged item attributable to the risk being hedged are recognized as a cumulative basis adjustment against the loans. The basis adjustments are amortized into interest income in the same manner as all other basis adjustments related to the loans (i.e., effective interest method over the remaining contractual maturity of the loan).

Cash Flow Hedges

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There are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. Amounts reclassified from AOCI are recorded primarily in expense related to derivatives. During YTD 2017 and YTD 2016, we reclassified from AOCI into earnings, pre-tax losses of \$125 million and \$147 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.

For additional discussion of significant accounting policies related to derivatives, see Note 7 in our 2016 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 condensed consolidated balance sheets.

| (In millions)                                     | September 30, 2017             |                           |             | December 31, 2016              |                           |             |
|---|--------------------------------|---------------------------|-------------|--------------------------------|---------------------------|-------------|
|   | Notional or Contractual Amount | Derivatives at Fair Value |             | Notional or Contractual Amount | Derivatives at Fair Value |             |
|   |                                | Assets                    | Liabilities |                                | Assets                    | Liabilities |
| Not designated as hedges                          |                                |                           |             |                                |                           |             |
| Interest-rate swaps:                              |                                |                           |             |                                |                           |             |
| Receive-fixed                                     | \$326,297                      | \$2,342                   | (\$1,487 )  | \$313,106                      | \$4,337                   | (\$2,703 )  |
| Pay-fixed   | 215,069                        | 1,370                     | (5,595 )    | 271,477                        | 2,586                     | (9,684 )    |
| Basis (floating to floating)                      | 100                            | —                         | —           | 1,450                          | 1                         | —           |
| Total interest-rate swaps                         | 541,466                        | 3,712                     | (7,082 )    | 586,033                        | 6,924                     | (12,387 )   |
| Option-based:                                     |                                |                           |             |                                |                           |             |
| Call swaptions                                    |                                |                           |             |                                |                           |             |
| Purchased   | 60,335                         | 3,147                     | —           | 60,730                         | 2,817                     | —           |
| Written   | 7,400                          | —                         | (99 )       | 1,350                          | —                         | (78 )       |
| Put swaptions                                     |                                |                           |             |                                |                           |             |
| Purchased <sup>(1)</sup>                          | 51,635                         | 1,260                     | —           | 48,080                         | 1,442                     | —           |
| Written   | 2,750                          | —                         | (18 )       | 3,200                          | —                         | (28 )       |
| Other option-based derivatives <sup>(2)</sup>     | 10,767                         | 808                       | —           | 11,032                         | 795                       | —           |
| Total option-based                                | 132,887                        | 5,215                     | (117 )      | 124,392                        | 5,054                     | (106 )      |
| Futures   | 277,940                        | —                         | —           | 138,294                        | —                         | —           |
| Commitments                                       | 85,992                         | 133                       | (77 )       | 45,353                         | 289                       | (151 )      |
| Credit derivatives                                | 3,100                          | 1                         | (47 )       | 2,951                          | 1                         | (27 )       |
| Other   | 2,879                          | 1                         | (19 )       | 2,879                          | —                         | (21 )       |
| Total derivatives not designated as hedges        | 1,044,264                      | 9,062                     | (7,342 )    | 899,902                        | 12,268                    | (12,692 )   |
| Designated as fair value hedges                   |                                |                           |             |                                |                           |             |
| Interest-rate swaps:                              |                                |                           |             |                                |                           |             |
| Pay-fixed   | 45,481                         | 159                       | (924 )      | —                              | —                         | —           |
| Total derivatives designated as fair value hedges | 45,481                         | 159                       | (924 )      | —                              | —                         | —           |
| Derivative interest receivable (payable)          |                                | 1,393                     | (1,654 )    |                                | 1,442                     | (1,770 )    |
| Netting adjustments <sup>(3)</sup>                |                                | (9,909 )                  | 9,708       |                                | (12,963 )                 | 13,667      |
| Total derivative portfolio, net                   | \$1,089,745                    | \$705                     | (\$212 )    | \$899,902                      | \$747                     | (\$795 )    |

(1) Includes swaptions on credit indices with a notional or contractual amount of \$17.5 billion and \$10.9 billion, respectively and a fair value of \$5 million at both September 30, 2017 and December 31, 2016.

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

(3) Represents counterparty netting and cash collateral netting.

See Note 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 while not designated in fair value hedge relationships and the accrual of periodic cash settlements on all derivatives. These amounts are reported in our condensed consolidated statements of comprehensive income as derivative gains (losses).

| (In millions)                                 | 3Q<br>2017 | 3Q 2016   | YTD<br>2017 | YTD<br>2016 |
|---|------------|-----------|-------------|-------------|
| Not designated as hedges                      |            |           |             |             |
| Interest-rate swaps:                          |            |           |             |             |
| Receive-fixed                                 | (\$329)    | (\$1,176) | \$195       | \$3,707     |
| Pay-fixed                                     | 352        | 1,717     | (78)        | (11,221)    |
| Basis (floating to floating)                  | —          | —         | (1)         | 1           |
| Total interest-rate swaps                     | 23         | 541       | 116         | (7,513)     |
| Option based:                                 |            |           |             |             |
| Call swaptions                                |            |           |             |             |
| Purchased                                     | (67)       | (116)     | (106)       | 3,283       |
| Written                                       | 5          | 1         | 6           | (88)        |
| Put swaptions                                 |            |           |             |             |
| Purchased                                     | (145)      | (98)      | (481)       | (612)       |
| Written                                       | 7          | 2         | 49          | 49          |
| Other option-based derivatives <sup>(1)</sup> | 2          | (24)      | 13          | 209         |
| Total option-based                            | (198)      | (235)     | (519)       | 2,841       |
| Other:  |            |           |             |             |
| Futures                                       | 18         | 103       | (212)       | (365)       |
| Commitments                                   | (121)      | 8         | (128)       | (222)       |
| Credit derivatives                            | (2)        | (35)      | (33)        | (66)        |
| Other   | —          | (2)       | (6)         | (4)         |
| Total other                                   | (105)      | 74        | (379)       | (657)       |
| Accrual of periodic cash settlements:         |            |           |             |             |
| Receive-fixed interest-rate swaps             | 343        | 586       | 1,198       | 1,825       |
| Pay-fixed interest-rate swaps                 | (741)      | (1,003)   | (2,492)     | (3,152)     |
| Other   | —          | 1         | —           | 1           |
| Total accrual of periodic cash settlements    | (398)      | (416)     | (1,294)     | (1,326)     |
| Total   | (\$678)    | (\$36)    | (\$2,076)   | (\$6,655)   |

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



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

The tables below present the gains and losses on derivatives while designated in qualifying fair value hedge relationships. During 2016, there were no derivatives designated in qualifying fair value hedge relationships.

|               | 3Q 2017                               |                                      |
|---------------|---------------------------------------|--------------------------------------|
|               | Gains                                 |                                      |
|               | (Losses)                              |                                      |
|               | Recorded                              |                                      |
|               | in Net                                |                                      |
|               | Income                                |                                      |
| (In millions) | Hedged Derivative Item <sup>(1)</sup> | Hedge Ineffectiveness <sup>(2)</sup> |

|  |      |         |      |
|--|------|---------|------|
| Interest rate risk on mortgage loans held-for-investment | \$85 | (\$15 ) | \$70 |
|--|------|---------|------|

|               | YTD 2017                              |                                      |
|---------------|---------------------------------------|--------------------------------------|
|               | Gains                                 |                                      |
|               | (Losses)                              |                                      |
|               | Recorded in                           |                                      |
|               | Net Income                            |                                      |
| (In millions) | Hedged Derivative Item <sup>(1)</sup> | Hedge Ineffectiveness <sup>(2)</sup> |

|  |         |       |       |
|--|---------|-------|-------|
| Interest rate risk on mortgage loans held-for-investment | (\$215) | \$351 | \$136 |
|--|---------|-------|-------|

(1) Gains or losses on derivatives while in fair value hedge relationships and changes in the fair value of the related hedged items attributable to the risk being hedged are both recorded in other income (loss) in our condensed consolidated statements of comprehensive income.

(2) No amounts have been excluded from the assessment of effectiveness.

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 counterparty credit risk. For additional information, see Note 8 in our 2016 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.

Over-The-Counter Derivatives

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

In the event that all of our counterparties for OTC derivatives were to have defaulted simultaneously on September 30, 2017, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately \$32 million.

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

Cleared and Exchange-Traded Derivatives

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

Other Derivatives

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We also execute forward purchase and sale commitments of loans and mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes. The total exposure on our forward purchase and sale commitments, which are treated as derivatives,

was \$133 million and \$289 million at September 30, 2017 and December 31, 2016, respectively.

Many of our transactions involving forward purchase and sale commitments of mortgage-related securities utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation ("MBSD/FICC") as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the counterparty credit risk of the organization (including its clearing members).

#### SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

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

We consider the types of securities being pledged to us as collateral when determining how much we lend in transactions involving securities purchased under agreements to resell. Additionally, we regularly review the market values of these securities compared to amounts loaned in an effort to manage our exposure to losses.

#### SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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Securities sold under agreements to repurchase are effectively collateralized borrowings where we sell securities with an agreement to repurchase such securities at a future date. Similar to the securities purchased under agreements to resell transactions, these transactions involve the legal transfer of securities. However, they are accounted for as secured financings because we do not relinquish effective control over the securities transferred. We pledge the sold securities to the counterparties as collateral for our obligation to repurchase these securities at a later date. These agreements may allow our counterparties to repledge all or a portion of the collateral.

#### OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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At September 30, 2017 and December 31, 2016, 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. During 1Q 2017, we began to utilize the Government Securities Division of the Fixed Income Clearing Corporation (“GSD/FICC”) as a clearinghouse to transact many of our trades involving securities purchased under agreements to resell and securities sold under agreements to repurchase. As a clearing member of GSD/FICC, we are required to post initial and variation margin payments, which expose us to the counterparty credit risk of GSD/FICC and its clearing members. Although our membership provides us with the right to offset certain of our open receivable and payable positions by collateral type, we have elected not to offset these positions within our condensed consolidated balance sheets. As of September 30, 2017, our net exposure to GSD/FICC involving securities purchased under agreements to resell and securities sold under agreements to repurchase was fully collateralized.

In October 2017, the CFTC issued an interpretation letter clarifying that variation margin payments for cleared swaps constitute daily settlement of exposure and not the posting of margin collateral. For certain of our cleared swaps transacted with the Chicago Mercantile Exchange (CME), during 1Q 2017 we changed the characterization of variation margin payments from posting of margin collateral to a settlement, as a result of certain rule amendments made by the CME. We are still evaluating the October 2017 interpretation from the CFTC to determine what impacts, if any, it has on the characterization of variation margin payments on our remaining cleared swaps transacted with the LCH Group. However, we

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

do not expect any changes would materially affect our 2017 financial statements and accompanying notes. The tables below display offsetting and collateral information related to derivatives, securities purchased under agreements to resell, and securities sold under agreements to repurchase which are subject to enforceable master netting agreements or similar arrangements. Securities sold under agreements to repurchase are included in debt, net on our condensed consolidated balance sheets. The September 30, 2017 table below reflects the change in the legal characterization of variation margin payments for our CME cleared swaps from posting of margin collateral to a settlement.

Freddie Mac Form 10-Q 115

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

| (In millions)  | September 30, 2017      |   |  | Net Amount Presented in the Consolidated Balance Sheets | Gross Amount Not Offset in the Consolidated Balance Sheets <sup>(2)</sup> | Net Amount |
|--|-------------------------|---|--|---|---|------------|
|  | Gross Amount Recognized | Amount Offset in the Consolidated Balance Sheets Counterparty Netting | Cash Collateral Netting <sup>(1)</sup> |   |   |            |
| Assets:  |                         |   |  |   |   |            |
| Derivatives:   |                         |   |  |   |   |            |
| OTC derivatives  | \$8,467                 | (\$5,988 )  | (\$2,187 )                             | \$292   | (\$260 )  | \$32       |
| Cleared and exchange-traded derivatives                        | 2,012                   | (1,924 )  | 190                                    | 278   | —   | 278        |
| Other  | 135                     | —   | —                                      | 135   | —   | 135        |
| Total derivatives  | 10,614                  | (7,912 )  | (1,997 )                               | 705   | (260 )  | 445        |
| Securities purchased under agreements to resell <sup>(3)</sup> | 47,202                  | —   | —                                      | 47,202  | (47,202 )   | —          |
| Total  | \$57,816                | (\$7,912 )  | (\$1,997 )                             | \$47,907  | (\$47,462 )   | \$445      |
| Liabilities:   |                         |   |  |   |   |            |
| Derivatives:   |                         |   |  |   |   |            |
| OTC derivatives  | (\$6,783 )              | \$5,989   | \$728                                  | (\$66 )   | \$—   | (\$66 )    |
| Cleared and exchange-traded derivatives                        | (2,994 )                | 1,924   | 1,067                                  | (3 )  | —   | (3 )       |
| Other  | (143 )                  | —   | —                                      | (143 )  | —   | (143 )     |
| Total derivatives  | (9,920 )                | 7,913   | 1,795                                  | (212 )  | —   | (212 )     |
| Securities sold under agreements to repurchase                 | (8,173 )                | —   | —                                      | (8,173 )  | 8,173   | —          |
| Total  | (\$18,093 )             | \$7,913   | \$1,795                                | (\$8,385 )  | \$8,173   | (\$212 )   |
| December 31, 2016  |                         |   |  |   |   |            |
| (In millions)  | December 31, 2016       |   |  | Net Amount Presented in the Consolidated Balance Sheets | Gross Amount Not Offset in the Consolidated Balance Sheets <sup>(2)</sup> | Net Amount |
|  | Gross Amount Recognized | Amount Offset in the Consolidated Balance Sheets Counterparty Netting | Cash Collateral Netting <sup>(1)</sup> |   |   |            |
| Assets:  |                         |   |  |   |   |            |
| Derivatives:   |                         |   |  |   |   |            |
| OTC derivatives  | \$8,531                 | (\$6,367 )  | (\$1,760 )                             | \$404   | (\$353 )  | \$51       |
| Cleared and exchange-traded derivatives                        | 4,889                   | (4,674 )  | (162 )                                 | 53  | —   | 53         |
| Other  | 290                     | —   | —                                      | 290   | —   | 290        |
| Total derivatives  | 13,710                  | (11,041 )   | (1,922 )                               | 747   | (353 )  | 394        |
| Securities purchased under agreements to resell <sup>(3)</sup> | 51,548                  | —   | —                                      | 51,548  | (51,548 )   | —          |
| Total  | \$65,258                | (\$11,041 )   | (\$1,922 )                             | \$52,295  | (\$51,901 )   | \$394      |
| Liabilities:   |                         |   |  |   |   |            |
| Derivatives:   |                         |   |  |   |   |            |

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|  |            |          |         |            |         |          |
|--|------------|----------|---------|------------|---------|----------|
| OTC derivatives                                | (\$7,298 ) | \$6,367  | \$469   | (\$462 )   | \$274   | (\$188 ) |
| Cleared and exchange-traded derivatives        | (6,965 )   | 4,705    | 2,126   | (134 )     | —       | (134 )   |
| Other  | (199 )     | —        | —       | (199 )     | —       | (199 )   |
| Total derivatives                              | (14,462 )  | 11,072   | 2,595   | (795 )     | 274     | (521 )   |
| Securities sold under agreements to repurchase | (3,040 )   | —        | —       | (3,040 )   | 3,040   | —        |
| Total  | (\$17,502) | \$11,072 | \$2,595 | (\$3,835 ) | \$3,314 | (\$521 ) |

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

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

Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability, netted by counterparty, presented on the consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us as initial margin with an aggregate fair value of \$3.3 billion and \$3.4 billion as of September 30, 2017 and December 31, 2016, respectively.

(2) At September 30, 2017 and December 31, 2016, we had \$8.3 billion and \$4.0 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell that we had the right to repledge.

## COLLATERAL PLEDGED

## Collateral Pledged to Freddie Mac

We have cash pledged to us as collateral primarily related to OTC derivative transactions. At September 30, 2017, we had \$2.5 billion pledged to us as collateral that was classified as restricted cash on our condensed consolidated balance sheets.

## Collateral Pledged by Freddie Mac

The tables below summarize the fair value of the securities we pledged as collateral for derivatives and other transactions where the secured party may repledge the collateral.

| (In millions)   | September 30, 2017 |  |                      | Total    |
|---|--------------------|--|----------------------|----------|
|   | Derivatives        | Securities sold under agreements to repurchase | Other <sup>(2)</sup> |          |
| Debt securities of consolidated trusts <sup>(1)</sup>               | \$431              | \$—  | \$199                | \$630    |
| Available-for-sale securities                                       | —                  | —  | 335                  | 335      |
| Trading securities  | 2,875              | 8,240  | 383                  | 11,498   |
| Total securities pledged that may be repledged by the secured party | \$3,306            | \$8,240  | \$917                | \$12,463 |

| (In millions)   | December 31, 2016 |  |                      | Total   |
|---|-------------------|--|----------------------|---------|
|   | Derivatives       | Securities sold under agreements to repurchase | Other <sup>(2)</sup> |         |
| Debt securities of consolidated trusts <sup>(1)</sup>               | \$686             | \$—  | \$—                  | \$686   |
| Available-for-sale securities                                       | —                 | —  | 260                  | 260     |
| Trading securities  | 3,014             | 3,070  | —                    | 6,084   |
| Total securities pledged that may be repledged by the secured party | \$3,700           | \$3,070  | \$260                | \$7,030 |

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

(2) Includes other collateralized borrowings and collateral related to transactions with certain clearinghouses.

Freddie Mac Form 10-Q 117

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

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

| (In millions)            | September 30, 2017             |  |                            | Total   |
|--------------------------|--------------------------------|--|----------------------------|---------|
|                          | Overnight<br>and<br>continuous | After 30<br>days<br>through<br>90 days | Greater<br>than 90<br>days |         |
| U.S. Treasury securities | \$8,240                        | \$—                                    | \$—                        | \$8,240 |

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

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

The tables below present 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 2017                                      |   |                                       |        |
|--|---|---|---------------------------------------|--------|
|  | AOCI Related to Available-For-Sale Securities | AOCI Related to Cash Flow Hedge Relationships | AOCI Related to Defined Benefit Plans | Total  |
| Beginning balance  | \$915   | (\$480 )                                      | \$21                                  | \$456  |
| Other comprehensive income before reclassifications <sup>(1)</sup> | 955   | —   | (2 )                                  | 953    |
| Amounts reclassified from accumulated other comprehensive income   | (709 )  | 81  | (1 )                                  | (629 ) |
| Changes in AOCI by component                                       | 246   | 81  | (3 )                                  | 324    |
| Ending balance   | \$1,161                                       | (\$399 )                                      | \$18                                  | \$780  |

| (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> | 712   | —   | 1                                     | 713     |
| Amounts reclassified from accumulated other comprehensive income   | (531 )  | 95  | (2 )                                  | (438 )  |
| Changes in AOCI by component                                       | 181   | 95  | (1 )                                  | 275     |
| Ending balance   | \$1,921                                       | (\$526 )                                      | \$33                                  | \$1,428 |

(1) For YTD 2017 and YTD 2016, net of tax expense of \$0.5 billion and \$0.4 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 condensed consolidated statements of comprehensive income.

| Details about Accumulated Other<br>Comprehensive Income Components |            |            |             |             | Affected Line Item in the Condensed<br>Consolidated Statements of Comprehensive<br>Income |
|--|------------|------------|-------------|-------------|---|
| (In millions)  | 3Q<br>2017 | 3Q<br>2016 | YTD<br>2017 | YTD<br>2016 |   |
| AOCI related to available-for-sale securities                      | \$796      | \$497      | \$1,109     | \$955       | Other gains on investment securities recognized in earnings                               |
|  | (1 )       | (9 )       | (17 )       | (138 )      | Net impairment of available-for-sale securities recognized in earnings                    |
|  | 795        | 488        | 1,092       | 817         | Total before tax  |
|  | (279 )     | (171 )     | (383 )      | (286 )      | Tax (expense) or benefit  |
|  | 516        | 317        | 709         | 531         | Net of tax  |
| AOCI related to cash flow hedge relationships                      | —          | —          | —           | (1 )        | Interest expense  |
|  | (40 )      | (47 )      | (125 )      | (146 )      | Expense related to derivatives  |
|  | (40 )      | (47 )      | (125 )      | (147 )      | Total before tax  |
|  | 14         | 18         | 44          | 52          | Tax (expense) or benefit  |
|  | (26 )      | (29 )      | (81 )       | (95 )       | Net of tax  |
| AOCI related to defined benefit plans                              | 1          | 1          | 1           | 3           | Salaries and employee benefits  |
|  | —          | —          | —           | (1 )        | Tax (expense) or benefit  |
|  | 1          | 1          | 1           | 2           | Net of tax  |
| Total reclassifications in the period                              | \$491      | \$289      | \$629       | \$438       | 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 \$0.4 billion and \$0.5 billion at September 30, 2017 and September 30, 2016, 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 \$109 million, net of taxes, of the \$0.4 billion of cash flow hedge losses in AOCI at September 30, 2017 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 16 years.



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

SENIOR PREFERRED STOCK

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At September 30, 2017, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount of \$5.3 billion as of September 30, 2017 and the Capital Reserve Amount of \$600 million in 2017, our dividend requirement to Treasury in December 2017 will be \$4.7 billion. See Note 2 for additional information. Upon the Conservator, acting as successor to the rights, titles, powers and privileges of the Board of Directors, declaring a senior preferred stock dividend equal to our dividend requirement and directing us to pay it before December 31, 2017, we would pay a dividend of \$4.7 billion by December 31, 2017. If for any reason we were not to pay the amount of our dividend requirement on the senior preferred stock in full, the unpaid amount would be added to the liquidation preference, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement. Our cumulative senior preferred stock dividend payments totaled \$110.1 billion as of September 30, 2017. The aggregate liquidation preference on the senior preferred stock owned by Treasury was \$72.3 billion as of both September 30, 2017 and December 31, 2016.

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 3Q 2017, 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

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

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.

For purposes of the earnings-per-share calculation, all stock options outstanding at September 30, 2017 and September 30, 2016 were out of the money and excluded from the computation of dilutive potential common shares during 3Q 2017 and YTD 2017, and 3Q 2016 and YTD 2016, respectively.

**DIVIDENDS DECLARED**

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No common dividends were declared during YTD 2017. During 1Q 2017, 2Q 2017 and 3Q 2017, we paid dividends of \$4.5 billion, \$2.2 billion and \$2.0 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 2017.

Freddie Mac Form 10-Q 122

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

NOTE 10: INCOME TAXES  
INCOME TAX (EXPENSE) BENEFIT

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For 3Q 2017 and 3Q 2016, we reported an income tax expense of \$2.5 billion and \$1.0 billion, respectively, resulting in effective tax rates of 35.0% and 30.0%, respectively. For YTD 2017 and YTD 2016, we reported an income tax expense of \$4.5 billion and \$1.3 billion, respectively, resulting in effective tax rates of 34.3% and 30.6%, respectively. Our effective tax rate differed from the statutory rate of 35% in most of 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 \$14.6 billion and \$15.8 billion as of September 30, 2017 and December 31, 2016, respectively. At September 30, 2017, 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 September 30, 2017, we determined that it is more likely than not that our net deferred tax assets, except for a portion of our capital loss carryforward deferred tax asset, will be realized. A valuation allowance of \$54 million has been recorded against our capital loss carryforward deferred tax asset.

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 September 30, 2017.

## 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 Capital Markets (previously reported as the "Investments" segment in our 2016 Annual Report). The chart below provides a summary of our three reportable segments and the All Other category. For more information, see our 2016 Annual Report.

| Segment/Category        | 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 credit risk.  | Contribution to GAAP net income (loss)           |
| Multifamily             | The Multifamily segment reflects results from our purchase, sale, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily credit risk and market spread risk.  | Contribution to GAAP comprehensive income (loss) |
| Capital Markets         | The Capital Markets 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 and reperforming loans), treasury function, single-family securitization activities, 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 funding costs and administrative expenses, to our three reportable segments. We do not consider our assets by segment when evaluating segment performance or allocating resources. We operate our business in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. See Note 2 for information about the conservatorship. During 1Q 2017, we changed how we calculate certain components of our Segment Earnings for our Capital Markets segment. The purpose of this change is to simplify Segment Earnings results relative to GAAP results in order to better reflect how management evaluates the Capital Markets segment. Prior period results have been revised to conform to the current period presentation. The change includes:

The discontinuation of adjustments to net interest income which reflected the reclassification of amortization of upfront cash paid and received upon acquisitions and issuances of swaptions and options from derivative gains (losses) to net interest income for the Capital Markets segment. The discontinuation of the adjustments resulted in an increase to net interest income for the Capital

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

Markets segment of \$401 million and \$1.0 billion for 3Q 2016 and YTD 2016, respectively, to align with the current presentation.

The table below presents Segment Earnings by segment.

| (In millions)                            | 3Q<br>2017 | 3Q<br>2016 | YTD<br>2017 | YTD<br>2016 |
|--|------------|------------|-------------|-------------|
| Segment Earnings (loss), net of taxes:   |            |            |             |             |
| Single-family Guarantee                  | \$255      | \$497      | \$1,743     | \$1,890     |
| Multifamily                              | 374        | 744        | 1,212       | 1,156       |
| Capital Markets                          | 4,042      | 1,088      | 5,591       | (78 )       |
| All Other                                | —          | —          | —           | —           |
| Total Segment Earnings, net of taxes     | 4,671      | 2,329      | 8,546       | 2,968       |
| Net income                               | \$4,671    | \$2,329    | \$8,546     | \$2,968     |
| Comprehensive income (loss) of segments: |            |            |             |             |
| Single-family Guarantee                  | \$255      | \$496      | \$1,741     | \$1,889     |
| Multifamily                              | 370        | 790        | 1,277       | 1,212       |
| Capital Markets                          | 4,025      | 1,024      | 5,852       | 142         |
| All Other                                | —          | —          | —           | —           |
| Comprehensive income of segments         | 4,650      | 2,310      | 8,870       | 3,243       |
| Comprehensive income                     | \$4,650    | \$2,310    | \$8,870     | \$3,243     |

Freddie Mac Form 10-Q 125

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## 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)   | 3Q 2017                    |             |                    |              |  |                   | Total per<br>Condensed<br>Consolidated<br>Statements<br>of<br>Comprehensive<br>Income |
|---|----------------------------|-------------|--------------------|--------------|--|-------------------|---|
|   | Single-family<br>Guarantee | Multifamily | Capital<br>Markets | All<br>Other | Total<br>Segment<br>Earnings<br>(Loss) | Reclassifications |   |
| Net interest income   | \$—                        | \$342       | \$804              | \$—          | \$1,146                                | \$2,343           | \$3,489   |
| Guarantee fee income <sup>(1)</sup>   | 1,581                      | 170         | —                  | —            | 1,751                                  | (1,582)           | 169   |
| Benefit (provision) for credit losses   | (826)                      | (22)        | —                  | —            | (848)                                  | 132               | (716)   |
| Net impairment of available-for-sale securities recognized in earnings        | —                          | —           | 50                 | —            | 50                                     | (51)              | (1)   |
| Derivative gains (losses)   | (2)                        | 22          | (324)              | —            | (304)                                  | (374)             | (678)   |
| Gains (losses) on trading securities  | —                          | (47)        | (26)               | —            | (73)                                   | —                 | (73)  |
| Gains (losses) on loans   | —                          | (84)        | —                  | —            | (84)                                   | 287               | 203   |
| Other non-interest income (loss)  | 405                        | 314         | 5,757              | —            | 6,476                                  | (622)             | 5,854   |
| Administrative expenses   | (353)                      | (98)        | (73)               | —            | (524)                                  | —                 | (524)   |
| REO operations expense  | (38)                       | —           | —                  | —            | (38)                                   | 3                 | (35)  |
| Other non-interest expense  | (348)                      | (11)        | (3)                | —            | (362)                                  | (136)             | (498)   |
| Income tax expense  | (164)                      | (212)       | (2,143)            | —            | (2,519)                                | —                 | (2,519)   |
| Net income  | 255                        | 374         | 4,042              | —            | 4,671                                  | —                 | 4,671   |
| Changes in unrealized gains (losses) related to available-for-sale securities | —                          | (4)         | (43)               | —            | (47)                                   | —                 | (47)  |
| Changes in unrealized gains (losses) related to cash flow hedge relationships | —                          | —           | 26                 | —            | 26                                     | —                 | 26  |
| Changes in defined benefit plans  | —                          | —           | —                  | —            | —                                      | —                 | —   |
| Total other comprehensive income (loss), net of taxes                         | —                          | (4)         | (17)               | —            | (21)                                   | —                 | (21)  |
| Comprehensive income  | \$255                      | \$370       | \$4,025            | \$—          | \$4,650                                | \$—               | \$4,650   |

| (In millions)                         | YTD 2017                   |             |                    |              |  |                   | Total per<br>Condensed<br>Consolidated<br>Statements<br>of<br>Comprehensive<br>Income |
|---------------------------------------|----------------------------|-------------|--------------------|--------------|--|-------------------|---|
|                                       | Single-family<br>Guarantee | Multifamily | Capital<br>Markets | All<br>Other | Total<br>Segment<br>Earnings<br>(Loss) | Reclassifications |   |
| Net interest income                   | \$—                        | \$905       | \$2,608            | \$—          | \$3,513                                | \$7,150           | \$10,663  |
| Guarantee fee income <sup>(1)</sup>   | 4,505                      | 483         | —                  | —            | 4,988                                  | (4,512)           | 476   |
| Benefit (provision) for credit losses | (775)                      | (10)        | —                  | —            | (785)                                  | 607               | (178)   |
|                                       | —                          | (4)         | 194                | —            | 190                                    | (207)             | (17)  |

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Net impairment of available-for-sale securities recognized in earnings

|   |          |         |          |     |          |          |          |
|---|----------|---------|----------|-----|----------|----------|----------|
| Derivative gains (losses)   | (34 )    | (31 )   | (757 )   | —   | (822 )   | (1,254 ) | (2,076 ) |
| Gains (losses) on trading securities  | —        | (62 )   | (207 )   | —   | (269 )   | —        | (269 )   |
| Gains (losses) on loans   | —        | (75 )   | —        | —   | (75 )    | 485      | 410      |
| Other non-interest income (loss)  | 1,115    | 972     | 6,924    | —   | 9,011    | (1,981 ) | 7,030    |
| Administrative expense  | (1,018 ) | (288 )  | (242 )   | —   | (1,548 ) | —        | (1,548 ) |
| REO operations expense  | (138 )   | —       | —        | —   | (138 )   | 10       | (128 )   |
| Other non-interest expense  | (1,001 ) | (44 )   | (8 )     | —   | (1,053 ) | (298 )   | (1,351 ) |
| Income tax expense  | (911 )   | (634 )  | (2,921 ) | —   | (4,466 ) | —        | (4,466 ) |
| Net income  | 1,743    | 1,212   | 5,591    | —   | 8,546    | —        | 8,546    |
| Changes in unrealized gains (losses) related to available-for-sale securities | —        | 65      | 181      | —   | 246      | —        | 246      |
| Changes in unrealized gains (losses) related to cash flow hedge relationships | —        | —       | 81       | —   | 81       | —        | 81       |
| Changes in defined benefit plans  | (2 )     | —       | (1 )     | —   | (3 )     | —        | (3 )     |
| Total other comprehensive income (loss), net of taxes                         | (2 )     | 65      | 261      | —   | 324      | —        | 324      |
| Comprehensive income  | \$1,741  | \$1,277 | \$5,852  | \$— | \$8,870  | \$—      | \$8,870  |

Freddie Mac Form 10-Q 126

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

|   |                            | 3Q 2016     |                    |              |  |                   | Total per  |   |
|---|----------------------------|-------------|--------------------|--------------|--|-------------------|--|---|
| (In millions)   | Single-family<br>Guarantee | Multifamily | Capital<br>Markets | All<br>Other | Total<br>Segment<br>Earnings<br>(Loss) | Reclassifications | Condensed<br>Consolidated<br>Statements<br>of<br>Comprehensive<br>Income |   |
|   |                            |             |                    |              |  |                   |  |   |
| Net interest income   | \$—                        | \$255       | \$933              | \$—          | \$1,188                                | \$2,458           | \$3,646  |   |
| Guarantee fee income <sup>(1)</sup>   | 1,641                      | 134         | —                  | —            | 1,775                                  | (1,642)           | 133  |   |
| Benefit (provision) for credit losses   | (297)                      | 8           | —                  | —            | (289)                                  | 176               | (113)  | ) |
| Net impairment of available-for-sale securities recognized in earnings        | —                          | —           | 94                 | —            | 94                                     | (103)             | (9)  | ) |
| Derivative gains (losses)   | (35)                       | 205         | 212                | —            | 382                                    | (418)             | (36)   | ) |
| Gains (losses) on trading securities  | —                          | 15          | (203)              | —            | (188)                                  | —                 | (188)  | ) |
| Gains (losses) on loans   | —                          | 126         | —                  | —            | 126                                    | 13                | 139  |   |
| Other non-interest income (loss)  | 41                         | 410         | 664                | —            | 1,115                                  | (377)             | 738  |   |
| Administrative expenses   | (330)                      | (89)        | (79)               | —            | (498)                                  | —                 | (498)  | ) |
| REO operations expense  | (59)                       | —           | —                  | —            | (59)                                   | 3                 | (56)   | ) |
| Other non-interest expense  | (311)                      | (10)        | —                  | —            | (321)                                  | (110)             | (431)  | ) |
| Income tax expense  | (153)                      | (310)       | (533)              | —            | (996)                                  | —                 | (996)  | ) |
| Net income  | 497                        | 744         | 1,088              | —            | 2,329                                  | —                 | 2,329  |   |
| Changes in unrealized gains (losses) related to available-for-sale securities | —                          | 46          | (93)               | —            | (47)                                   | —                 | (47)   | ) |
| Changes in unrealized gains (losses) related to cash flow hedge relationships | —                          | —           | 29                 | —            | 29                                     | —                 | 29   |   |
| Changes in defined benefit plans  | (1)                        | —           | —                  | —            | (1)                                    | —                 | (1)  | ) |
| Total other comprehensive income (loss), net of taxes                         | (1)                        | 46          | (64)               | —            | (19)                                   | —                 | (19)   | ) |
| Comprehensive income  | \$496                      | \$790       | \$1,024            | \$—          | \$2,310                                | \$—               | \$2,310  |   |
|   |                            | YTD 2016    |                    |              |  |                   | Total per  |   |
| (In millions)   | Single-family<br>Guarantee | Multifamily | Capital<br>Markets | All<br>Other | Total<br>Segment<br>Earnings<br>(Loss) | Reclassifications | Condensed<br>Consolidated<br>Statements<br>of<br>Comprehensive<br>Income |   |
|   |                            |             |                    |              |  |                   |  |   |
| Net interest income   | \$—                        | \$791       | \$2,887            | \$—          | \$3,678                                | \$6,816           | \$10,494   |   |
| Guarantee fee income <sup>(1)</sup>   | 4,427                      | 366         | —                  | —            | 4,793                                  | (4,426)           | 367  |   |
| Benefit (provision) for credit losses   | 113                        | 19          | —                  | —            | 132                                    | 997               | 1,129  |   |
| Net impairment of available-for-sale securities recognized in earnings        | —                          | —           | 224                | —            | 224                                    | (362)             | (138)  | ) |
| Derivative gains (losses)   | (64)                       | (878)       | (4,386)            | —            | (5,328)                                | (1,327)           | (6,655)  | ) |
| Gains (losses) on trading securities  | —                          | 119         | (12)               | —            | 107                                    | —                 | 107  |   |

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|   |         |         |       |     |         |       |        |         |        |
|---|---------|---------|-------|-----|---------|-------|--------|---------|--------|
| Gains (losses) on loans   | —       | 747     | —     | —   | 747     | (611  | )      | 136     |        |
| Other non-interest income (loss)  | 195     | 800     | 1,404 | —   | 2,399   | (686  | )      | 1,713   |        |
| Administrative expense  | (939    | )       | (255  | )   | (227    | )     | —      | (1,421  | )      |
| REO operations expense  | (177    | )       | —     | —   | (177    | )     | 8      | (169    | )      |
| Other non-interest expense  | (832    | )       | (43   | )   | (3      | )     | —      | (878    | )      |
| Income tax (expense) benefit  | (833    | )       | (510  | )   | 35      | —     | (1,308 | )       | (1,308 |
| Net income (loss)   | 1,890   | 1,156   | (78   | )   | —       | 2,968 | —      | 2,968   |        |
| Changes in unrealized gains (losses) related to available-for-sale securities | —       | 56      | 125   | —   | 181     | —     | —      | 181     |        |
| Changes in unrealized gains (losses) related to cash flow hedge relationships | —       | —       | 95    | —   | 95      | —     | —      | 95      |        |
| Changes in defined benefit plans  | (1      | )       | —     | —   | (1      | )     | —      | (1      | )      |
| Total other comprehensive income (loss), net of taxes                         | (1      | )       | 56    | 220 | —       | 275   | —      | 275     |        |
| Comprehensive income  | \$1,889 | \$1,212 | \$142 | \$— | \$3,243 | \$—   | \$—    | \$3,243 |        |

(1) Guarantee fee income is included in other income (loss) on our GAAP condensed 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 loan portfolio and geographic area of the approximately \$1.8 trillion UPB of our single-family credit guarantee portfolio at both September 30, 2017 and December 31, 2016. See Note 4 and Note 5 for more information about credit risk associated with loans and mortgage-related securities that we hold or guarantee.

|  | September 30, 2017   |                          |          | December 31, 2016    |                          |          | Percent of Credit Losses |            |          |
|--|----------------------|--------------------------|----------|----------------------|--------------------------|----------|--------------------------|------------|----------|
|  | Percent of Portfolio | Serious Delinquency Rate | %        | Percent of Portfolio | Serious Delinquency Rate | %        | YTD 2017                 | YTD 2016   | %        |
| <b>Loan Portfolio</b>                                    |                      |                          |          |                      |                          |          |                          |            |          |
| Core single-family loan portfolio                        | 77                   | 0.19                     | %        | 73                   | 0.20                     | %        | 3                        | 6          | %        |
| Legacy and relief refinance single-family loan portfolio | 23                   | 2.14                     | %        | 27                   | 2.28                     | %        | 97                       | 94         |          |
| <b>Total</b>   | <b>100</b>           | <b>0.86</b>              | <b>%</b> | <b>100</b>           | <b>1.00</b>              | <b>%</b> | <b>100</b>               | <b>100</b> | <b>%</b> |
| <b>Region<sup>(1)(3)</sup></b>                           |                      |                          |          |                      |                          |          |                          |            |          |
| West   | 30                   | 0.47                     | %        | 30                   | 0.57                     | %        | 27                       | 10         | %        |
| Northeast  | 25                   | 1.24                     | %        | 25                   | 1.45                     | %        | 34                       | 40         |          |
| North Central  | 16                   | 0.81                     | %        | 16                   | 0.93                     | %        | 16                       | 25         |          |
| Southeast  | 16                   | 1.02                     | %        | 16                   | 1.19                     | %        | 19                       | 19         |          |
| Southwest  | 13                   | 0.67                     | %        | 13                   | 0.78                     | %        | 4                        | 6          |          |
| <b>Total</b>   | <b>100</b>           | <b>0.86</b>              | <b>%</b> | <b>100</b>           | <b>1.00</b>              | <b>%</b> | <b>100</b>               | <b>100</b> | <b>%</b> |
| <b>State<sup>(2)(3)</sup></b>                            |                      |                          |          |                      |                          |          |                          |            |          |
| California   | 18                   | 0.40                     | %        | 18                   | 0.46                     | %        | 18                       | 4          | %        |
| Florida  | 6                    | 1.17                     | %        | 6                    | 1.42                     | %        | 12                       | 9          |          |
| Illinois   | 5                    | 1.14                     | %        | 5                    | 1.34                     | %        | 9                        | 10         |          |
| New Jersey   | 3                    | 1.82                     | %        | 3                    | 2.26                     | %        | 9                        | 11         |          |
| New York   | 5                    | 1.75                     | %        | 5                    | 2.05                     | %        | 8                        | 9          |          |
| All other  | 63                   | 0.78                     | %        | 63                   | 0.90                     | %        | 44                       | 57         |          |
| <b>Total</b>   | <b>100</b>           | <b>0.86</b>              | <b>%</b> | <b>100</b>           | <b>1.00</b>              | <b>%</b> | <b>100</b>               | <b>100</b> | <b>%</b> |

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 2017.

On January 1, 2017, we elected a new accounting policy for reclassifications of loans from held-for-investment to (3)held-for-sale. The charge-offs taken under the new policy affected some states more than others. See Note 4 for further information about this change.



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

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

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

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

• 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> |  |          |  |
|--|--|----------|---|--|----------|--|
|  | September                              |          | September                               |  | December |  |
|  | 30, 2017                               | 31, 2016 | 30, 2017                                |  | 31, 2016 |  |
| Interest-only                                      | 1 %                                    | 1 %      | 4.68 %                                  |  | 4.34 %   |  |
| Alt-A  | 2 %                                    | 2 %      | 5.00 %                                  |  | 5.21 %   |  |
| Original LTV ratio greater than 90% <sup>(2)</sup> | 17 %                                   | 16 %     | 1.32 %                                  |  | 1.58 %   |  |
| Lower credit scores at origination (less than 620) | 2 %                                    | 2 %      | 5.22 %                                  |  | 5.73 %   |  |

(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.

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

## 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.

|                                  | YTD<br>2017 | YTD<br>2016 |
|----------------------------------|-------------|-------------|
| Single-family Sellers            |             |             |
| Wells Fargo Bank, N.A.           | 16 %        | 14 %        |
| Other top 10 sellers             | 37          | 33          |
| Top 10 single-family sellers     | 53 %        | 47 %        |
| Multifamily Sellers              |             |             |
| CBRE Capital Markets, Inc.       | 17 %        | 17 %        |
| Holliday Fenoglio Fowler, L.P.   | 10          | 8           |
| Berkadia Commercial Mortgage LLC | 9           | 19          |
| Walker & Dunlop, LLC             | 8           | 12          |
| Other top 10 sellers             | 34          | 22          |
| Top 10 multifamily sellers       | 78 %        | 78 %        |

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 14% of our single-family purchase volume during YTD 2017.

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 where we are not in first loss position, primarily K Certificates and SB Certificates.

|                                  | September<br>30, 2017 |   | December<br>31, 2016 |   |
|----------------------------------|-----------------------|---|----------------------|---|
| Single-family Servicers          |                       |   |                      |   |
| Wells Fargo Bank, N.A.           | 18                    | % | 19                   | % |
| Other top 10 servicers           | 41                    |   | 41                   |   |
| Top 10 single-family servicers   | 59                    | % | 60                   | % |
| Multifamily Servicers            |                       |   |                      |   |
| Wells Fargo Bank, N.A.           | 15                    | % | 15                   | % |
| CBRE Capital Markets, Inc.       | 13                    |   | 14                   |   |
| Berkadia Commercial Mortgage LLC | 9                     |   | 11                   |   |
| Other top 10 servicers           | 40                    |   | 39                   |   |
| Top 10 multifamily servicers     | 77                    | % | 79                   | % |

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 September 30, 2017 and December 31, 2016, approximately 11% and 10% of our single-family credit guarantee portfolio, respectively, was serviced by our top three non-



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

depository servicers. 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.

**MORTGAGE INSURERS**

We have counterparty credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. We evaluate the recovery and collectability from mortgage insurers as part of the estimate of our loan loss reserves. See Note 4 for additional information. As of September 30, 2017, mortgage insurers provided coverage with maximum loss limits of \$82.8 billion, for \$322.5 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected loan is covered under both primary and pool insurance.

The table below summarizes the concentration of mortgage insurer counterparties who provided 10% or more of our overall mortgage insurance coverage. On January 3, 2017, Arch Capital Group Ltd. announced that it had completed its purchase of United Guaranty Corporation at the end of 2016. The table below reflects this transaction. On October 23, 2016, Genworth Financial, Inc. announced that it had entered into an agreement to be acquired by China Oceanwide Holdings Group Co., Ltd. Regulatory approvals of the acquisition are still pending. Genworth Mortgage Insurance Corporation is a subsidiary of Genworth Financial, Inc.

|   |                              | Mortgage<br>Insurance<br>Coverage |                      |   |
|---|------------------------------|-----------------------------------|----------------------|---|
|   | Credit Rating <sup>(1)</sup> | September<br>30,<br>2017          | December<br>31, 2016 |   |
| Arch Mortgage Insurance Company         | A-                           | 24%                               | 25%                  |   |
| Radian Guaranty Inc.                    | BBB-                         | 21                                | 21                   |   |
| Mortgage Guaranty Insurance Corporation | BBB                          | 20                                | 20                   |   |
| Genworth Mortgage Insurance Corporation | BB+                          | 15                                | 15                   |   |
| Essent Guaranty, Inc.                   | BBB+                         | 11                                | 10                   | % |
| Total                                   |                              | 91%                               | 91%                  | % |

Ratings are for the corporate entity to which we have the greatest exposure. Coverage amounts may include (1) coverage provided by affiliates and subsidiaries of the counterparty. Latest rating available as of September 30, 2017. Represents the lower of S&P and Moody's credit ratings stated in terms of the S&P equivalent.

We received proceeds of \$0.3 billion and \$0.4 billion during YTD 2017 and YTD 2016, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers of \$0.1 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of both September 30, 2017 and December 31, 2016. The balance of these receivables, net of associated reserves, was approximately \$0.1 billion at both September 30, 2017 and December 31, 2016.

PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both under the control of their state regulators and are in run-off. A substantial portion of their claims is recorded by us as deferred payment obligations. As of both September 30, 2017 and December 31, 2016, 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.



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**OTHER INVESTMENTS AND CASH COUNTERPARTIES**

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We are exposed to counterparty credit risk relating to the potential insolvency of, or the non-performance by, counterparties relating to other investments and cash (including non-mortgage-related securities 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 other investments and cash counterparties are primarily major financial institutions, including other GSEs, Treasury, the Federal Reserve Bank of New York, highly-rated supranational institutions, and government money market funds. As of September 30, 2017 and December 31, 2016, \$159 million and \$0 million of our securities purchased under agreements to resell were used to provide financing to investors in Freddie Mac securities to increase liquidity and grow the investor base for those securities. These transactions differ from the securities purchased under agreements to resell that we use for liquidity purposes as the counterparties we face may not be major financial institutions and we are exposed to the counterparty risk of these institutions. As of September 30, 2017 and December 31, 2016, including amounts related to our consolidated VIEs, there were \$81.9 billion and \$96.2 billion, respectively, primarily of cash and securities purchased under agreements to resell invested with counterparties, U.S. Treasury securities, cash deposited with the Federal Reserve Bank of New York, or cash advanced to lenders. As of September 30, 2017, all of our securities purchased under agreements to resell were fully collateralized.

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**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 matters 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. On July 12, 2017, FHFA reached a settlement with the Royal Bank of Scotland Group plc, related companies and specifically named individuals (collectively RBS). The settlement resolves all claims in the lawsuit filed by FHFA against RBS in the U.S. District Court for the District of Connecticut. Under the terms of the agreement, RBS paid Freddie Mac \$4.5 billion. We recognized this amount within non-interest income on our condensed consolidated statements of comprehensive income during the third quarter of 2017. The separate lawsuit filed by FHFA against Nomura Holding America, Inc. (or Nomura) and RBS in the U.S. District Court for the Southern District of New York remains outstanding. This case went to trial in March 2015. In May 2015, the judge ruled against the defendants and ordered them 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 filed a notice of appeal in the U.S. Court of Appeals for the Second Circuit. On September 28, 2017, the Second Circuit affirmed the District Court's decision in full. The defendants may petition the U.S. Supreme Court to review the Second Circuit's decision.

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

We worked with an investor consortium to enforce certain claims with J.P. Morgan Chase & Co. relating to a number of non-agency mortgage-related securities. A settlement agreement was entered into with respect to these claims. The settlement is subject to certain conditions, which have not yet been satisfied. Our expected benefit from the settlement, which currently totals approximately \$29 million, will be recognized in earnings over the expected remaining life of the securities, unless the securities are sold, at which time the benefit would be considered in the sales price of the securities.

Freddie Mac Form 10-Q 133

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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 RISK AND CONTROLS OVER FAIR VALUE MEASUREMENTS**

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Valuation risk is the risk that fair values used for financial disclosures, risk metrics and performance measures do not reasonably reflect market conditions and prices.

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

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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 on December 31, 2018, the beneficial pricing afforded to HARP loans may no longer be reflected in the pricing structure of our guarantee fees. If these benefits were not reflected in the pricing for these loans, the fair value of our loans would have decreased by \$2.9 billion and \$5.3 billion as of September 30, 2017 and December 31, 2016, respectively. The total fair value of the loans in our portfolio that reflect the pricing afforded to HARP loans as of September 30, 2017 and December 31, 2016 was \$35.7 billion and \$52.8 billion, respectively.

### ASSETS AND LIABILITIES ON OUR CONDENSED 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 condensed consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments where we have elected the fair value option.

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

| (In millions)  | September 30, 2017 |          |          | Netting<br>Adjustment <sup>(1)</sup> | Total     |
|--|--------------------|----------|----------|--------------------------------------|-----------|
|  | Level 1            | Level 2  | Level 3  |                                      |           |
| <b>Assets:</b>   |                    |          |          |                                      |           |
| <b>Investments in securities:</b>  |                    |          |          |                                      |           |
| <b>Available-for-sale, at fair value:</b>  |                    |          |          |                                      |           |
| <b>Mortgage-related securities:</b>  |                    |          |          |                                      |           |
| Freddie Mac  | \$—                | \$33,567 | \$5,580  | \$—                                  | \$39,147  |
| Other agency   | —                  | 3,041    | 48       | —                                    | 3,089     |
| Non-agency RMBS  | —                  | —        | 5,135    | —                                    | 5,135     |
| Non-agency CMBS  | —                  | 180      | 3,469    | —                                    | 3,649     |
| Obligations of states and political subdivisions                                   | —                  | —        | 402      | —                                    | 402       |
| Total available-for-sale securities, at fair value                                 | —                  | 36,788   | 14,634   | —                                    | 51,422    |
| <b>Trading, at fair value:</b>   |                    |          |          |                                      |           |
| <b>Mortgage-related securities:</b>  |                    |          |          |                                      |           |
| Freddie Mac  | —                  | 11,881   | 1,030    | —                                    | 12,911    |
| Other agency   | —                  | 4,742    | 268      | —                                    | 5,010     |
| All other  | —                  | 27       | 271      | —                                    | 298       |
| Total mortgage-related securities  | —                  | 16,650   | 1,569    | —                                    | 18,219    |
| Non-mortgage-related securities  | 14,648             | 2,859    | —        | —                                    | 17,507    |
| Total trading securities, at fair value  | 14,648             | 19,509   | 1,569    | —                                    | 35,726    |
| Total investments in securities  | 14,648             | 56,297   | 16,203   | —                                    | 87,148    |
| <b>Mortgage loans:</b>   |                    |          |          |                                      |           |
| Held-for-sale, at fair value   | —                  | 18,995   | —        | —                                    | 18,995    |
| <b>Derivative assets, net:</b>   |                    |          |          |                                      |           |
| Interest-rate swaps  | —                  | 3,871    | —        | —                                    | 3,871     |
| Option-based derivatives   | —                  | 5,215    | —        | —                                    | 5,215     |
| Other  | —                  | 132      | 3        | —                                    | 135       |
| Subtotal, before netting adjustments   | —                  | 9,218    | 3        | —                                    | 9,221     |
| Netting adjustments <sup>(1)</sup>   | —                  | —        | —        | (8,516)                              | (8,516)   |
| Total derivative assets, net   | —                  | 9,218    | 3        | (8,516)                              | 705       |
| <b>Other assets:</b>   |                    |          |          |                                      |           |
| Guarantee asset, at fair value   | —                  | —        | 2,621    | —                                    | 2,621     |
| Non-derivative held-for-sale purchase commitments, at fair value                   | —                  | 140      | —        | —                                    | 140       |
| All other, at fair value   | —                  | —        | —        | —                                    | —         |
| Total other assets   | —                  | 140      | 2,621    | —                                    | 2,761     |
| Total assets carried at fair value on a recurring basis                            | \$14,648           | \$84,650 | \$18,827 | (\$8,516)                            | \$109,609 |
| <b>Liabilities:</b>  |                    |          |          |                                      |           |
| <b>Debt securities of consolidated trusts held by third parties, at fair value</b> |                    |          |          |                                      |           |
| value  | \$—                | \$15     | \$531    | \$—                                  | \$546     |
| Other debt, at fair value  | —                  | 5,173    | 89       | —                                    | 5,262     |
| <b>Derivative liabilities, net:</b>  |                    |          |          |                                      |           |
| Interest-rate swaps  | —                  | 8,006    | —        | —                                    | 8,006     |
| Option-based derivatives   | —                  | 117      | —        | —                                    | 117       |
| Other  | —                  | 76       | 67       | —                                    | 143       |
| Subtotal, before netting adjustments   | —                  | 8,199    | 67       | —                                    | 8,266     |

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|  |     |          |       |          |           |   |
|--|-----|----------|-------|----------|-----------|---|
| Netting adjustments <sup>(1)</sup>                               | —   | —        | —     | (8,054   | ) (8,054  | ) |
| Total derivative liabilities, net                                | —   | 8,199    | 67    | (8,054   | ) 212     |   |
| Other liabilities:   |     |          |       |          |           |   |
| Non-derivative held-for-sale purchase commitments, at fair value | —   | 36       | —     | —        | 36        |   |
| All other, at fair value   | —   | —        | 23    | —        | 23        |   |
| Total liabilities carried at fair value on a recurring basis     | \$— | \$13,423 | \$710 | (\$8,054 | ) \$6,079 |   |

Freddie Mac Form 10-Q 136

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

| (In millions)   | December 31, 2016 |          |          | Netting<br>Adjustment <sup>(1)</sup> | Total     |
|---|-------------------|----------|----------|--------------------------------------|-----------|
|   | Level 1           | Level 2  | Level 3  |                                      |           |
| <b>Assets:</b>  |                   |          |          |                                      |           |
| <b>Investments in securities:</b>   |                   |          |          |                                      |           |
| <b>Available-for-sale, at fair value:</b>                                   |                   |          |          |                                      |           |
| <b>Mortgage-related securities:</b>   |                   |          |          |                                      |           |
| Freddie Mac   | \$—               | \$33,805 | \$9,847  | \$—                                  | \$43,652  |
| Other agency  | —                 | 4,155    | 66       | —                                    | 4,221     |
| Non-agency RMBS   | —                 | —        | 11,797   | —                                    | 11,797    |
| Non-agency CMBS   | —                 | 3,056    | 3,366    | —                                    | 6,422     |
| Obligations of states and political subdivisions                            | —                 | —        | 665      | —                                    | 665       |
| Total available-for-sale securities, at fair value                          | —                 | 41,016   | 25,741   | —                                    | 66,757    |
| <b>Trading, at fair value:</b>  |                   |          |          |                                      |           |
| <b>Mortgage-related securities:</b>   |                   |          |          |                                      |           |
| Freddie Mac   | —                 | 14,248   | 1,095    | —                                    | 15,343    |
| Other agency  | —                 | 8,149    | 12       | —                                    | 8,161     |
| All other   | —                 | 36       | 113      | —                                    | 149       |
| Total mortgage-related securities   | —                 | 22,433   | 1,220    | —                                    | 23,653    |
| Non-mortgage-related securities   | 19,402            | 1,735    | —        | —                                    | 21,137    |
| Total trading securities, at fair value                                     | 19,402            | 24,168   | 1,220    | —                                    | 44,790    |
| Total investments in securities   | 19,402            | 65,184   | 26,961   | —                                    | 111,547   |
| <b>Mortgage loans:</b>  |                   |          |          |                                      |           |
| Held-for-sale, at fair value  | —                 | 16,255   | —        | —                                    | 16,255    |
| <b>Derivative assets, net:</b>  |                   |          |          |                                      |           |
| Interest-rate swaps   | —                 | 6,924    | —        | —                                    | 6,924     |
| Option-based derivatives  | —                 | 5,054    | —        | —                                    | 5,054     |
| Other   | —                 | 287      | 3        | —                                    | 290       |
| Subtotal, before netting adjustments  | —                 | 12,265   | 3        | —                                    | 12,268    |
| Netting adjustments <sup>(1)</sup>  | —                 | —        | —        | (11,521)                             | (11,521)  |
| Total derivative assets, net  | —                 | 12,265   | 3        | (11,521)                             | 747       |
| <b>Other assets:</b>  |                   |          |          |                                      |           |
| Guarantee asset, at fair value  | —                 | —        | 2,298    | —                                    | 2,298     |
| Non-derivative held-for-sale purchase commitments, at fair value            | —                 | 108      | —        | —                                    | 108       |
| All other, at fair value  | —                 | —        | 2        | —                                    | 2         |
| Total other assets  | —                 | 108      | 2,300    | —                                    | 2,408     |
| Total assets carried at fair value on a recurring basis                     | \$19,402          | \$93,812 | \$29,264 | (\$11,521)                           | \$130,957 |
| <b>Liabilities:</b>   |                   |          |          |                                      |           |
| Debt securities of consolidated trusts held by third parties, at fair value | \$—               | \$144    | \$—      | \$—                                  | \$144     |
| Other debt, at fair value   | —                 | 5,771    | 95       | —                                    | 5,866     |
| <b>Derivative liabilities, net:</b>   |                   |          |          |                                      |           |
| Interest-rate swaps   | —                 | 12,387   | —        | —                                    | 12,387    |
| Option-based derivatives  | —                 | 106      | —        | —                                    | 106       |
| Other   | —                 | 147      | 52       | —                                    | 199       |

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|  |     |          |       |             |           |
|--|-----|----------|-------|-------------|-----------|
| Subtotal, before netting adjustments                             | —   | 12,640   | 52    | —           | 12,692    |
| Netting adjustments <sup>(1)</sup>                               | —   | —        | —     | (11,897 )   | (11,897 ) |
| Total derivative liabilities, net                                | —   | 12,640   | 52    | (11,897 )   | 795       |
| Other liabilities:   |     |          |       |             |           |
| Non-derivative held-for-sale purchase commitments, at fair value | —   | 37       | —     | —           | 37        |
| Total liabilities carried at fair value on a recurring basis     | \$— | \$18,592 | \$147 | (\$11,897 ) | \$6,842   |

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

Freddie Mac Form 10-Q 137

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

**ASSETS ON OUR CONDENSED 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 condensed consolidated balance sheets at fair value on a non-recurring basis.

| (In millions)   | September 30, 2017 |         |         | December 31, 2016 |         |         |
|---|--------------------|---------|---------|-------------------|---------|---------|
|   | Level              | Level   | Total   | Level             | Level   | Total   |
|   | 1                  | 2       |         | 3                 | 1       |         |
| Assets measured at fair value on a non-recurring basis: |                    |         |         |                   |         |         |
| Mortgage loans <sup>(1)</sup>                           | \$-\$58            | \$5,715 | \$5,773 | \$-\$199          | \$2,483 | \$2,682 |

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

**LEVEL 3 FAIR VALUE MEASUREMENTS**

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

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

| 3Q 2017  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
|--|----------------------|----------------------------------|-------------|-------------|--------------|----------|-----------------|---------------------------------------|---|-----------------------------|---|-------------|
| Realized and unrealized gains (losses)   |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| Included   |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| Balance July 1, 2017   | Included in earnings | Included in comprehensive income | Total       | Purchases   | Issues       | Sales    | Settlements net | Transfers into Level 3 <sup>(1)</sup> | Transfers out of Level 3 <sup>(1)</sup> | Balance, September 30, 2017 | Unrealized gains (losses) still held <sup>(3)</sup> |             |
| (In millions)  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Assets</b>  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Investments in securities:</b>  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Available-for-sale, at fair value:</b>  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Mortgage-related securities:</b>  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| Freddie Mac  | \$5,686              | (\$4)                            | \$82        | \$78        | \$141        | \$—      | \$—             | (\$325)                               | \$—                                     | \$—                         | \$5,580   | (\$4)       |
| Other agency   | 51                   | —                                | —           | —           | —            | —        | —               | (3)                                   | —                                       | —                           | 48  | —           |
| Non-agency RMBS  | 8,639                | 854                              | (128)       | 726         | —            | —        | (3,952)         | 277                                   | —                                       | —                           | 5,135   | 38          |
| Non-agency CMBS  | 3,470                | 1                                | 5           | 6           | —            | —        | (7)             | —                                     | —                                       | —                           | 3,469   | 1           |
| Obligations of states and political subdivisions                                   | 481                  | —                                | (1)         | (1)         | —            | —        | (78)            | —                                     | —                                       | —                           | 402   | —           |
| <b>Total available-for-sale mortgage-related securities</b>                        | <b>18,327</b>        | <b>851</b>                       | <b>(42)</b> | <b>809</b>  | <b>141</b>   | <b>—</b> | <b>(3,956)</b>  | <b>690</b>                            | <b>—</b>                                | <b>—</b>                    | <b>14,634</b>                                       | <b>35</b>   |
| <b>Trading, at fair value:</b>   |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Mortgage-related securities:</b>  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| Freddie Mac  | 888                  | (45)                             | —           | (45)        | 587          | —        | —               | (4)                                   | —                                       | (396)                       | 1,030   | (43)        |
| Other agency   | 10                   | (1)                              | —           | (1)         | 259          | —        | —               | —                                     | —                                       | —                           | 268   | (1)         |
| All other  | 108                  | (2)                              | —           | (2)         | 176          | —        | —               | (11)                                  | —                                       | —                           | 271   | (2)         |
| <b>Total trading mortgage-related securities</b>                                   | <b>1,006</b>         | <b>(48)</b>                      | <b>—</b>    | <b>(48)</b> | <b>1,022</b> | <b>—</b> | <b>—</b>        | <b>(15)</b>                           | <b>—</b>                                | <b>(396)</b>                | <b>1,569</b>  | <b>(46)</b> |
| <b>Other assets:</b>   |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| Guarantee asset  | 2,480                | (1)                              | —           | (1)         | —            | 265      | —               | (123)                                 | —                                       | —                           | 2,621   | (1)         |
| <b>Realized and unrealized (gains) losses</b>                                      |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Included</b>  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| Balance July 1, 2017   | Included in earnings | Included in comprehensive income | Total       | Purchases   | Issues       | Sales    | Settlements net | Transfers into Level 3 <sup>(1)</sup> | Transfers out of Level 3 <sup>(1)</sup> | Balance, September 30, 2017 | Unrealized (gains) losses still held <sup>(3)</sup> |             |
| (In millions)  |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Liabilities</b>   |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| <b>Debt securities of consolidated trusts held by third parties, at fair value</b> |                      |                                  |             |             |              |          |                 |                                       |   |                             |   |             |
| Other debt, at fair value  | \$531                | \$—                              | \$—         | \$—         | \$—          | \$—      | \$—             | \$—                                   | \$—                                     | \$—                         | \$531   | \$—         |
| Other debt, at fair value  | 89                   | —                                | —           | —           | —            | —        | —               | —                                     | —                                       | —                           | 89  | —           |

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|                                |    |      |   |      |   |     |    |    |   |   |   |    |     |   |
|--------------------------------|----|------|---|------|---|-----|----|----|---|---|---|----|-----|---|
| Net derivatives <sup>(2)</sup> | 68 | 2    | — | 2    | — | (1) | —  | (2 | ) | — | — | 67 | (2  | ) |
| Other liabilities:             |    |      |   |      |   |     |    |    |   |   |   |    |     |   |
| All other, at fair value       | 17 | (12) | — | (12) | 5 | —   | 13 | —  |   | — | — | 23 | (12 | ) |

Freddie Mac Form 10-Q 139

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

|   | YTD 2017                               |                      |  |              |              |          |                |                 |                                       |   |                             |   |
|---|--|----------------------|--|--------------|--------------|----------|----------------|-----------------|---------------------------------------|---|-----------------------------|---|
|   | Realized and unrealized gains (losses) |                      |  |              |              |          |                |                 |                                       |   |                             |   |
|   | Balance, January 1, 2017               | 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, September 30, 2017 | Unrealized gains (losses) still held <sup>(3)</sup> |
|   | (in millions)                          |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| <b>Assets</b>   |  |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| <b>Investments in securities:</b>                           |  |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| <b>Available-for-sale, at fair value:</b>                   |  |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| <b>Mortgage-related securities:</b>                         |  |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| Freddie Mac   | \$9,847                                | (\$6)                | \$117                                  | \$111        | \$635        | \$—      | (\$907)        | (\$1,027)       | \$17                                  | (\$3,096)                               | \$5,580                     | (\$15)  |
| Other agency  | 66                                     | —                    | (1)                                    | (1)          | —            | —        | —              | (9)             | —                                     | (8)                                     | 48                          | —   |
| Non-agency RMBS   | 11,797                                 | 1,285                | (68)                                   | 1,217        | —            | —        | (6,649)        | (1,230)         | —                                     | —                                       | 5,135                       | 111   |
| Non-agency CMBS   | 3,366                                  | 4                    | 128                                    | 132          | —            | —        | —              | (29)            | —                                     | —                                       | 3,469                       | 4   |
| Obligations of states and political subdivisions            | 665                                    | 1                    | (2)                                    | (1)          | —            | —        | —              | (262)           | —                                     | —                                       | 402                         | —   |
| <b>Total available-for-sale mortgage-related securities</b> | <b>25,741</b>                          | <b>1,284</b>         | <b>174</b>                             | <b>1,458</b> | <b>635</b>   | <b>—</b> | <b>(7,556)</b> | <b>(2,557)</b>  | <b>17</b>                             | <b>(3,104)</b>                          | <b>14,634</b>               | <b>100</b>  |
| <b>Trading, at fair value:</b>                              |  |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| <b>Mortgage-related securities:</b>                         |  |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| Freddie Mac   | 1,095                                  | (12)                 | —                                      | (12)         | 889          | —        | (592)          | (9)             | 14                                    | (246)                                   | 1,030                       | (92)  |
| Other agency  | 12                                     | (3)                  | —                                      | (3)          | 259          | —        | —              | —               | —                                     | —                                       | 268                         | (3)   |
| All other   | 113                                    | —                    | —                                      | —            | 176          | —        | —              | (18)            | —                                     | —                                       | 271                         | —   |
| <b>Total trading mortgage-related securities</b>            | <b>1,220</b>                           | <b>(12)</b>          | <b>—</b>                               | <b>(12)</b>  | <b>1,324</b> | <b>—</b> | <b>(592)</b>   | <b>(27)</b>     | <b>14</b>                             | <b>(246)</b>                            | <b>1,569</b>                | <b>(95)</b>   |
| <b>Other assets:</b>  |  |                      |  |              |              |          |                |                 |                                       |   |                             |   |
| Guarantee asset   | 2,299                                  | (2)                  | —                                      | (2)          | —            | 677      | —              | (353)           | —                                     | —                                       | 2,621                       | (2)   |

Realized and unrealized (gains) losses

|  | Balance, January 1, 2017 | 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, September 30, 2017 | Unrealized gains (losses) |
|--|--------------------------|----------------------|--|-------|-----------|--------|-------|-----------------|---------------------------------------|---|-----------------------------|---------------------------|
|--|--------------------------|----------------------|--|-------|-----------|--------|-------|-----------------|---------------------------------------|---|-----------------------------|---------------------------|

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|   | 1, 2017       |     | earnings other comprehensive income |     | Level 3 <sup>(1)</sup> |       | Level 3 <sup>(1)</sup> |     | 30, 2017 |     | losses still held <sup>(3)</sup> |     |    |   |
|---|---------------|-----|-------------------------------------|-----|------------------------|-------|------------------------|-----|----------|-----|----------------------------------|-----|----|---|
|   | (in millions) |     |                                     |     |                        |       |                        |     |          |     |                                  |     |    |   |
| <b>Liabilities</b>  |               |     |                                     |     |                        |       |                        |     |          |     |                                  |     |    |   |
| Debt securities of consolidated trusts held by third parties, at fair value | \$—           | \$1 | \$—                                 | \$1 | \$—                    | \$530 | \$—                    | \$— | \$—      | \$— | \$531                            | \$1 |    |   |
| Other debt, at fair value   | 95            | —   | —                                   | —   | —                      | —     | (6                     | )   | —        | —   | 89                               | —   |    |   |
| Net derivatives <sup>(2)</sup>  | 50            | 36  | —                                   | 36  | —                      | —     | (19                    | )   | —        | —   | 67                               | 19  |    |   |
| <b>Other liabilities:</b>   |               |     |                                     |     |                        |       |                        |     |          |     |                                  |     |    |   |
| All other, at fair value  | (2            | )   | (5                                  | )   | —                      | (5    | )                      | 17  | —        | 13  | —                                | 23  | (5 | ) |

Freddie Mac Form 10-Q 140

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

|  | 3Q 2016                                |  |        |           |           |         |                 |                        |                          |                             |   |    |
|--|--|--|--------|-----------|-----------|---------|-----------------|------------------------|--------------------------|-----------------------------|---|----|
|  | Realized and unrealized gains (losses) |  |        |           |           |         |                 |                        |                          |                             | Unrealized gains (losses) still held <sup>(3)</sup> |    |
|  | Balance, July 1, 2016                  | Included in other comprehensive income | Total  | Purchases | Issuances | Sales   | Settlements net | Transfers into Level 3 | Transfers out of Level 3 | Balance, September 30, 2016 |   |    |
| (In millions)  |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| <b>Assets</b>  |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Investments in securities:                           |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Available-for-sale, at fair value:                   |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Mortgage-related securities:                         |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Freddie Mac  | \$11,462                               | \$—(\$38 )                             | (\$38) | \$462     | \$—       | (\$366) | (\$246 )        | \$—                    | (\$4,134 )               | \$7,140                     | (\$1 )  |    |
| Other agency   | 73                                     | —                                      | —      | —         | —         | —       | (4 )            | —                      | —                        | 69                          | —   |    |
| Non-agency RMBS                                      | 15,497                                 | 432                                    | 14     | 651       | —         | —       | (2,869)         | (672 )                 | —                        | 12,607                      | 87  |    |
| Non-agency CMBS                                      | 3,611                                  | 1                                      | 125    | 126       | —         | —       | (8 )            | —                      | —                        | 3,729                       | 1   |    |
| Obligations of states and political subdivisions     | 890                                    | —                                      | (2 )   | (2 )      | —         | —       | (92 )           | —                      | —                        | 796                         | —   |    |
| Total available-for-sale mortgage-related securities | 31,533                                 | 432                                    | 899    | 737       | 462       | —       | (3,235)         | (1,022 )               | —                        | (4,134 )                    | 24,341  | 87 |
| Trading, at fair value:                              |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Mortgage-related securities:                         |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Freddie Mac  | 315                                    | 11                                     | —      | 11        | 753       | —       | (5 )            | (5 )                   | 99                       | (234 )                      | 934   | 3  |
| Other agency   | 615                                    | 4                                      | —      | 4         | —         | —       | (112 )          | (20 )                  | —                        | (474 )                      | 13  | —  |
| All other  | 1                                      | —                                      | —      | —         | —         | —       | —               | —                      | —                        | 1                           | —   | —  |
| Total trading mortgage-related securities            | 931                                    | 15                                     | —      | 15        | 753       | —       | (117 )          | (25 )                  | 99                       | (708 )                      | 948   | 3  |
| Other assets:  |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Guarantee asset                                      | 2,057                                  | —                                      | —      | —         | —         | 204     | —               | (96 )                  | —                        | —                           | 2,165   | —  |
| <b>Liabilities</b>                                   |  |  |        |           |           |         |                 |                        |                          |                             |   |    |
| Other debt, at fair value                            | \$52                                   | \$—                                    | \$—    | \$—       | \$—       | \$—     | \$—             | \$—                    | \$—                      | \$52                        | \$—   |    |

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|                                |    |     |    |     |   |   |    |   |   |   |    |    |
|--------------------------------|----|-----|----|-----|---|---|----|---|---|---|----|----|
| Net derivatives <sup>(2)</sup> | 27 | 39— | 39 | —   | — | — | (9 | ) | — | — | 57 | 33 |
| <b>Other Liabilities:</b>      |    |     |    |     |   |   |    |   |   |   |    |    |
| All other, at fair value       | 15 | 10— | 10 | (25 | ) | — | —  | — | — | — | —  | 10 |

Freddie Mac Form 10-Q 141

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

|  | YTD 2016                 |   |  |       |           |        |         |                 |                        |                          |                             | Unrealized gains (losses) still held <sup>(3)</sup> |
|--|--------------------------|---|--|-------|-----------|--------|---------|-----------------|------------------------|--------------------------|-----------------------------|---|
|  | Balance, January 1, 2016 | Realized and unrealized gains (losses) included in earnings | Included in other comprehensive income | Total | Purchases | Issues | Sales   | Settlements net | Transfers into Level 3 | Transfers out of Level 3 | Balance, September 30, 2016 |   |
| (in millions)  |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Assets   |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Investments in securities:                           |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Available-for-sale, at fair value:                   |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Mortgage-related securities:                         |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Freddie Mac  | \$2,608                  | \$20  | \$28                                   | \$48  | \$5,618   | \$—    | (\$491) | (\$328 )        | \$—                    | (\$315 )                 | \$7,140                     | (\$1 )  |
| Other agency   | 91                       | —   | (1 )                                   | (1 )  | —         | —      | —       | (15 )           | —                      | (6 )                     | 69                          | —   |
| Non-agency RMBS                                      | 20,333                   | 810   | (73 )                                  | 737   | —         | —      | (5,887) | (2,576 )        | —                      | —                        | 12,607                      | 201   |
| Non-agency CMBS                                      | 3,530                    | 2   | 224                                    | 226   | —         | —      | —       | (27 )           | —                      | —                        | 3,729                       | 2   |
| Obligations of states and political subdivisions     | 1,205                    | 1   | (4 )                                   | (3 )  | —         | —      | —       | (406 )          | —                      | —                        | 796                         | —   |
| Total available-for-sale mortgage-related securities | 27,767                   | 833   | 174                                    | 1,007 | 5,618     | —      | (6,378) | (3,352 )        | —                      | (321 )                   | 24,341                      | 202   |
| Trading, at fair value:                              |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Mortgage-related securities:                         |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Freddie Mac  | 331                      | (4 )  | —                                      | (4 )  | 800       | —      | (142 )  | (3 )            | 74                     | (122 )                   | 934                         | (4 )  |
| Other agency   | 41                       | (1 )  | —                                      | (1 )  | —         | —      | (20 )   | (7 )            | —                      | —                        | 13                          | (2 )  |
| All other  | 2                        | —   | —                                      | —     | —         | —      | —       | (1 )            | —                      | —                        | 1                           | —   |
| Total trading mortgage-related securities            | 374                      | (5 )  | —                                      | (5 )  | 800       | —      | (162 )  | (11 )           | 74                     | (122 )                   | 948                         | (6 )  |
| Other assets:  |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Guarantee asset                                      | 1,753                    | 68  | —                                      | 68    | —         | 602    | —       | (258 )          | —                      | —                        | 2,165                       | 68  |
| Realized and unrealized (gains) losses               |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| (in millions)  |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Balance, January 1, 2016                             |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Included in earnings                                 |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Included in other comprehensive income               |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Total  |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Purchases  |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Issues   |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Sales  |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Settlements net                                      |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Transfers into Level 3                               |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Transfers out of Level 3                             |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Balance, September 30, 2016                          |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |
| Unrealized gains (losses) still held <sup>(3)</sup>  |                          |   |  |       |           |        |         |                 |                        |                          |                             |   |

Liabilities

|                                |     |     |     |     |     |      |     |     |     |     |      |     |
|--------------------------------|-----|-----|-----|-----|-----|------|-----|-----|-----|-----|------|-----|
| Other debt, at fair value      | \$— | \$— | \$— | \$— | \$— | \$52 | \$— | \$— | \$— | \$— | \$52 | \$— |
| Net derivatives <sup>(2)</sup> | 8   | 67  | —   | 67  | —   | 1    | —   | (19 | )   | —   | 57   | 48  |
| Other Liabilities:             |     |     |     |     |     |      |     |     |     |     |      |     |
| All other, at fair value       | 10  | 7   | —   | 7   | (17 | )    | —   | —   | —   | —   | —    | 7   |

(1) Transfers out of Level 3 during 3Q 2017 and YTD 2017 consisted primarily of certain mortgage-related securities due to an increased volume and level of activity in the market and availability of price quotes from dealers and third-party pricing services. Certain Freddie Mac securities are classified as Level 3 at issuance and generally are classified as Level 2 when they begin trading. Transfers into Level 3 during 3Q 2017 and YTD 2017 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.

(3) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains and losses related to assets and liabilities classified as Level 3 that were still held at September 30, 2017 and September 30, 2016, respectively. Included in these amounts are other-than temporary impairments recorded on available-for-sale securities.

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

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

September 30, 2017

| (Dollars in millions, except for certain unobservable inputs as shown) | Level 3 Fair Value | Predominant Valuation Technique(s) | Unobservable Inputs <sup>(1)</sup> |                      | Weighted Average |
|--|--------------------|------------------------------------|------------------------------------|----------------------|------------------|
|  |                    |                                    | Type                               | Range                |                  |
| Recurring fair value measurements                                      |                    |                                    |                                    |                      |                  |
| Assets   |                    |                                    |                                    |                      |                  |
| Investments in securities  |                    |                                    |                                    |                      |                  |
| Available-for-sale, at fair value                                      |                    |                                    |                                    |                      |                  |
| Mortgage-related securities  |                    |                                    |                                    |                      |                  |
| Freddie Mac  | \$5,393            | Discounted cash flows              | OAS                                | 19 - 514 bps         | 56 bps           |
|  | 187                | Other                              |                                    |                      |                  |
| Total Freddie Mac  | 5,580              |                                    |                                    |                      |                  |
| Other agency   | 29                 | Median of external sources         |                                    |                      |                  |
|  | 19                 | Single external source             |                                    |                      |                  |
| Total other agency   | 48                 |                                    |                                    |                      |                  |
| Non-agency RMBS  | 4,511              | Median of external sources         | External pricing sources           | \$74.7 - \$79.3      | \$76.4           |
|  | 624                | Other                              |                                    |                      |                  |
| Total non-agency RMBS  | 5,135              |                                    |                                    |                      |                  |
| Non-agency CMBS  | 3,468              | Single external source             | External pricing sources           | \$6.3 - \$107.8      | \$95.7           |
|  | 1                  | Other                              |                                    |                      |                  |
| Total non-agency CMBS  | 3,469              |                                    |                                    |                      |                  |
| Obligations of states and political subdivisions                       | 366                | Median of external sources         | External pricing sources           | \$101.3 - \$101.7    | \$101.5          |
|  | 36                 | Other                              |                                    |                      |                  |
| Total obligations of states and political subdivisions                 | 402                |                                    |                                    |                      |                  |
| Total available-for-sale mortgage-related securities                   | 14,634             |                                    |                                    |                      |                  |
| Trading, at fair value   |                    |                                    |                                    |                      |                  |
| Mortgage-related securities  |                    |                                    |                                    |                      |                  |
| Freddie Mac  | 664                | Discounted cash flows              | OAS                                | (7,125) - 27,202 bps | 144 bps          |
|  | 99                 | Risk metrics                       |                                    |                      |                  |
|  | 98                 | Single external source             |                                    |                      |                  |
|  | 169                | Other                              |                                    |                      |                  |
| Total Freddie Mac  | 1,030              |                                    |                                    |                      |                  |
| Other agency   | 208                |                                    | OAS                                |                      | (60) bps         |

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|   |          |                        |                          |                   |            |
|---|----------|------------------------|--------------------------|-------------------|------------|
|   |          | Discounted cash flows  |                          | (562) - 424 bps   |            |
|   | 60       | Risk metrics           |                          |                   |            |
| Total other agency  | 268      |                        |                          |                   |            |
|   |          |                        | Effective duration       | 0.00 - 7.32 years | 7.32 years |
| All other   | 171      | Risk metrics           |                          |                   |            |
|   | 99       | Single external source |                          |                   |            |
|   | 1        | Other                  |                          |                   |            |
| Total all other   | 271      |                        |                          |                   |            |
| Total trading mortgage-related securities                                   | 1,569    |                        |                          |                   |            |
| Total investments in securities   | \$16,203 |                        |                          |                   |            |
| Other assets:   |          |                        |                          |                   |            |
| Guarantee asset, at fair value  | \$2,621  | Discounted cash flow   | OAS                      | 17 - 198 bps      | 42 bps     |
| Liabilities   |          |                        |                          |                   |            |
| Debt securities of consolidated trusts held by third parties, at fair value | 531      | Single External Source | External Pricing Sources | \$100.0 - \$100.5 | \$100.1    |
| Other debt, at fair value   | 89       | Other                  |                          |                   |            |
| Net derivatives   | 67       | Other                  |                          |                   |            |
| Other liabilities   |          |                        |                          |                   |            |
| All other, at fair value  | 23       | Other                  |                          |                   |            |

Freddie Mac Form 10-Q 143

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

December 31, 2016

| (Dollars in millions, except for certain unobservable inputs as shown)<br>Recurring fair value measurements | Level 3<br>Fair<br>Value | Predominant<br>Valuation<br>Technique(s) | Unobservable Inputs <sup>(1)</sup><br>Type | Range                | Weighted<br>Average |
|---|--------------------------|--|--|----------------------|---------------------|
| Assets  |                          |  |  |                      |                     |
| Investments in securities   |                          |  |  |                      |                     |
| Available-for-sale, at fair value   |                          |  |  |                      |                     |
| Mortgage-related securities   |                          |  |  |                      |                     |
| Freddie Mac   | \$7,619                  | Discounted cash flows                    | OAS  | (146) - 500 bps      | 91 bps              |
|   | 129                      | Median of external sources               | External pricing sources                   | \$100.8 - \$103.3    | \$101.8             |
|   | 66                       | Single external source                   |  |                      |                     |
|   | 60                       | Risk Metrics                             |  |                      |                     |
|   | 1,973                    | Other                                    |  |                      |                     |
| Total Freddie Mac   | 9,847                    |  |  |                      |                     |
| Other agency  |                          |  |  |                      |                     |
|   | 32                       | Median of external sources               |  |                      |                     |
|   | 23                       | Single external source                   |  |                      |                     |
|   | 11                       | Other                                    |  |                      |                     |
| Total other agency  | 66                       |  |  |                      |                     |
| Non-agency RMBS   |                          |  |  |                      |                     |
|   | 9,974                    | Median of external sources               | External pricing sources                   | \$74.0 - \$78.8      | \$76.0              |
|   | 1,823                    | Other                                    |  |                      |                     |
| Total non-agency RMBS   | 11,797                   |  |  |                      |                     |
| Non-agency CMBS   |                          |  |  |                      |                     |
|   | 3,365                    | Risk Metrics                             | Effective duration                         | 2.15 - 10.02 years   | 8.57 years          |
|   | 1                        | Other                                    |  |                      |                     |
| Total non-agency CMBS   | 3,366                    |  |  |                      |                     |
| Obligations of states and political subdivisions  |                          |  |  |                      |                     |
|   | 619                      | Median of external sources               | External pricing sources                   | \$100.9 - \$101.5    | \$101.2             |
|   | 46                       | Other                                    |  |                      |                     |
| Total obligations of states and political subdivisions  | 665                      |  |  |                      |                     |
| Total available-for-sale mortgage-related securities  | 25,741                   |  |  |                      |                     |
| Trading, at fair value  |                          |  |  |                      |                     |
| Mortgage-related securities   |                          |  |  |                      |                     |
| Freddie Mac   | 452                      | Risk metrics                             | Effective duration                         | (5.07) - 46.37 years | 6.94 years          |
|   | 311                      | Discounted cash flows                    | OAS  | (3,346) - 2,460 bps  | (224) bps           |
|   | 5                        |  |  |                      |                     |

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|   |          |                            |                    |                   |            |
|---|----------|----------------------------|--------------------|-------------------|------------|
|   |          | Single external source     |                    |                   |            |
|   | 4        | Median of external sources |                    |                   |            |
|   | 323      | Other                      |                    |                   |            |
| Total Freddie Mac                         | 1,095    |                            |                    |                   |            |
| Other agency                              | 12       | Discounted cash flows      |                    |                   |            |
| All other                                 | 113      | Risk metrics               | Effective duration | 0.14 - 4.08 years | 2.52 years |
| Total trading mortgage-related securities | 1,220    |                            |                    |                   |            |
| Total investments in securities           | \$26,961 |                            |                    |                   |            |
| Other assets:                             |          |                            |                    |                   |            |
| Guarantee asset, at fair value            | \$2,091  | Discounted cash flows      | OAS                | 17 - 198 bps      | 50 bps     |
|   | 207      | Other                      |                    |                   |            |
| Total guarantee asset, at fair value      | 2,298    |                            |                    |                   |            |
| All other at fair value                   | 2        | Other                      |                    |                   |            |
| Total other assets                        | 2,300    |                            |                    |                   |            |
| Liabilities                               |          |                            |                    |                   |            |
| Other debt, at fair value                 | 95       | Other                      |                    |                   |            |
| Net derivatives                           | 49       | Other                      |                    |                   |            |

(1) Certain unobservable input types, range, and weighted average data are not disclosed in these tables if they are associated with a class: (a) that has a Level 3 fair value measurement that is not considered material; or (b) where we have disclosed the predominant valuation technique with related unobservable inputs for the most significant portion of that class.

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

The tables below provide 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 tables below were not obtained as of the period end, but were obtained during the period.

September 30, 2017

| (Dollars in millions, except for certain unobservable inputs as shown) | Level 3 Fair Value | Predominant Valuation Technique(s)   | Unobservable Inputs       |                     | Weighted Average |
|--|--------------------|--------------------------------------|---------------------------|---------------------|------------------|
|  |                    |                                      | Type                      | Range               |                  |
| Non-recurring fair value measurements                                  |                    |                                      |                           |                     |                  |
| Mortgage loans   | \$5,715            |                                      |                           |                     |                  |
|  |                    | Internal model                       | Historical sales proceeds | \$3,000 - \$808,500 | \$175,116        |
|  |                    | Internal model                       | Housing sales index       | 39 - 354 bps        | 99 bps           |
|  |                    | Income capitalization <sup>(1)</sup> | Capitalization rates      | 7% - 8%             | 7%               |
|  |                    | Median of external sources           | External pricing sources  | \$36.5-\$94.9       | \$80.0           |

December 31, 2016

| (Dollars in millions, except for certain unobservable inputs as shown) | Level 3 Fair Value | Predominant Valuation Technique(s)   | Unobservable Inputs       |                     | Weighted Average |
|--|--------------------|--------------------------------------|---------------------------|---------------------|------------------|
|  |                    |                                      | Type                      | Range               |                  |
| Non-recurring fair value measurements                                  |                    |                                      |                           |                     |                  |
| Mortgage loans   | \$2,483            |                                      |                           |                     |                  |
|  |                    | Internal model                       | Historical sales proceeds | \$3,000 - \$770,000 | \$167,137        |
|  |                    | Internal model                       | Housing sales index       | 42 - 374 bps        | 96 bps           |
|  |                    | Income capitalization <sup>(1)</sup> | Capitalization rates      | 7% - 10%            | 7%               |
|  |                    | Median of external sources           | External pricing sources  | \$37.0 - \$94.3     | \$75.0           |

(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 tables below present the carrying value and estimated fair value of our financial instruments. For certain types of financial instruments, such as cash and cash equivalents, restricted cash and cash equivalents, securities purchased under agreements to resell, advances to lenders, other secured lending, and certain other debt, including securities sold

under agreements to repurchase, the carrying value on our GAAP balance sheets approximates fair value, as these assets are short-term in nature and have limited market value volatility.

Freddie Mac Form 10-Q 145

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

| (In millions)  | September 30, 2017         |            |             |           |           | Netting<br>Adjustments <sup>(1)</sup> | Total       |
|--|----------------------------|------------|-------------|-----------|-----------|---------------------------------------|-------------|
|  | GAAP<br>Carrying<br>Amount | Fair Value |             |           |           |                                       |             |
|  |                            | Level 1    | Level 2     | Level 3   |           |                                       |             |
| <b>Financial Assets</b>                                      |                            |            |             |           |           |                                       |             |
| Cash and cash equivalents                                    | \$8,183                    | \$8,183    | \$—         | \$—       | \$—       |                                       | \$8,183     |
| Restricted cash and cash equivalents                         | 7,684                      | 7,684      | —           | —         | —         |                                       | 7,684       |
| Securities purchased under agreements to resell              | 47,202                     | —          | 47,202      | —         | —         |                                       | 47,202      |
| <b>Investments in securities:</b>                            |                            |            |             |           |           |                                       |             |
| Available-for-sale, at fair value                            | 51,422                     | —          | 36,788      | 14,634    | —         |                                       | 51,422      |
| Trading, at fair value                                       | 35,726                     | 14,648     | 19,509      | 1,569     | —         |                                       | 35,726      |
| Total investments in securities                              | 87,148                     | 14,648     | 56,297      | 16,203    | —         |                                       | 87,148      |
| <b>Mortgage loans:</b>                                       |                            |            |             |           |           |                                       |             |
| Loans held by consolidated trusts                            | 1,738,858                  | —          | 1,613,122   | 141,914   | —         |                                       | 1,755,036   |
| Loans held by Freddie Mac                                    | 106,034                    | —          | 34,015      | 75,050    | —         |                                       | 109,065     |
| Total mortgage loans   | 1,844,892                  | —          | 1,647,137   | 216,964   | —         |                                       | 1,864,101   |
| Derivative assets, net                                       | 705                        | —          | 9,218       | 3         | (8,516)   | )                                     | 705         |
| Guarantee asset  | 2,621                      | —          | —           | 2,789     | —         |                                       | 2,789       |
| Non-derivative purchase commitments, at fair value           | 140                        | —          | 140         | 45        | —         |                                       | 185         |
| Advances to lenders and other secured lending                | 1,649                      | —          | 303         | 1,346     | —         |                                       | 1,649       |
| Total financial assets                                       | \$2,000,224                | \$30,515   | \$1,760,297 | \$237,350 | (\$8,516) | )                                     | \$2,019,646 |
| <b>Financial Liabilities</b>                                 |                            |            |             |           |           |                                       |             |
| <b>Debt, net:</b>  |                            |            |             |           |           |                                       |             |
| Debt securities of consolidated trusts held by third parties | \$1,691,524                | \$—        | \$1,700,555 | \$3,419   | \$—       |                                       | \$1,703,974 |
| Other debt   | 318,054                    | —          | 318,649     | 4,166     | —         |                                       | 322,815     |
| Total debt, net  | 2,009,578                  | —          | 2,019,204   | 7,585     | —         |                                       | 2,026,789   |
| Derivative liabilities, net                                  | 212                        | —          | 8,199       | 67        | (8,054)   | )                                     | 212         |
| Guarantee obligation   | 2,503                      | —          | —           | 3,217     | —         |                                       | 3,217       |
| Non-derivative purchase commitments, at fair value           | 36                         | —          | 36          | 32        | —         |                                       | 68          |
| Total financial liabilities                                  | \$2,012,329                | \$—        | \$2,027,439 | \$10,901  | (\$8,054) | )                                     | \$2,030,286 |

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

| (In millions)  | December 31, 2016          |                       |             |           | Netting<br>Adjustments <sup>(1)</sup> | Total       |
|--|----------------------------|-----------------------|-------------|-----------|---------------------------------------|-------------|
|  | GAAP<br>Carrying<br>Amount | Fair Value<br>Level 1 | Level 2     | Level 3   |                                       |             |
| <b>Financial Assets</b>                                      |                            |                       |             |           |                                       |             |
| Cash and cash equivalents                                    | \$12,369                   | \$12,369              | \$—         | \$—       | \$—                                   | \$12,369    |
| Restricted cash and cash equivalents                         | 9,851                      | 9,851                 | —           | —         | —                                     | 9,851       |
| Securities purchased under agreements to resell              | 51,548                     | —                     | 51,548      | —         | —                                     | 51,548      |
| Investments in securities:                                   |                            |                       |             |           |                                       |             |
| Available-for-sale, at fair value                            | 66,757                     | —                     | 41,016      | 25,741    | —                                     | 66,757      |
| Trading, at fair value                                       | 44,790                     | 19,402                | 24,168      | 1,220     | —                                     | 44,790      |
| Total investments in securities                              | 111,547                    | 19,402                | 65,184      | 26,961    | —                                     | 111,547     |
| Mortgage loans:  |                            |                       |             |           |                                       |             |
| Loans held by consolidated trusts                            | 1,690,218                  | —                     | 1,554,143   | 142,121   | —                                     | 1,696,264   |
| Loans held by Freddie Mac                                    | 112,785                    | —                     | 31,004      | 84,227    | —                                     | 115,231     |
| Total mortgage loans   | 1,803,003                  | —                     | 1,585,147   | 226,348   | —                                     | 1,811,495   |
| Derivative assets, net                                       | 747                        | —                     | 12,265      | 3         | (11,521)                              | 747         |
| Guarantee asset  | 2,298                      | —                     | —           | 2,490     | —                                     | 2,490       |
| Non-derivative purchase commitments, at fair value           | 108                        | —                     | 108         | 18        | —                                     | 126         |
| Advances to lenders and other secured lending                | 1,278                      | —                     | —           | 1,278     | —                                     | 1,278       |
| Total financial assets                                       | \$1,992,749                | \$41,622              | \$1,714,252 | \$257,098 | (\$11,521)                            | \$2,001,451 |
| <b>Financial Liabilities</b>                                 |                            |                       |             |           |                                       |             |
| Debt, net:   |                            |                       |             |           |                                       |             |
| Debt securities of consolidated trusts held by third parties | \$1,648,683                | \$—                   | \$1,651,313 | \$605     | \$—                                   | \$1,651,918 |
| Other debt   | 353,321                    | —                     | 352,837     | 4,809     | —                                     | 357,646     |
| Total debt, net  | 2,002,004                  | —                     | 2,004,150   | 5,414     | —                                     | 2,009,564   |
| Derivative liabilities, net                                  | 795                        | —                     | 12,640      | 52        | (11,897)                              | 795         |
| Guarantee obligation   | 2,208                      | —                     | —           | 3,399     | —                                     | 3,399       |
| Non-derivative purchase commitments, at fair value           | 37                         | —                     | 37          | 45        | —                                     | 82          |
| Total financial liabilities                                  | \$2,005,044                | \$—                   | \$2,016,827 | \$8,910   | (\$11,897)                            | \$2,013,840 |

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

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

## FAIR VALUE OPTION

We elected the fair value option for certain multifamily held-for-sale loans, multifamily held-for-sale loan purchase commitments, and certain 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)            | September 30, 2017                    |                           |  | December 31, 2016                     |                           |   |
|--------------------------|---------------------------------------|---------------------------|--|---------------------------------------|---------------------------|---|
|                          | Multifamily<br>Held-For-Sale<br>Loans | Other Debt -<br>Long Term | Debt<br>securities of<br>consolidated<br>trusts held by<br>third<br>parties <sup>(1)</sup> | Multifamily<br>Held-For-Sale<br>Loans | Other Debt -<br>Long Term | Debt<br>securities of<br>consolidated<br>trusts held by<br>third parties<br>(1) |
| Fair value               | \$18,995                              | \$5,262                   | \$531  | \$16,255                              | \$5,866                   | \$—   |
| Unpaid principal balance | 18,786                                | 4,836                     | 530  | 16,231                                | 5,584                     | —   |
| Difference               | \$209                                 | \$426                     | \$1  | \$24                                  | \$282                     | \$—   |

(1) Does not include interest-only securities with fair value of \$15 million and \$144 million as of September 30, 2017 and December 31, 2016, respectively.

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

We recorded gains (losses) of (\$91) million and \$118 million for 3Q 2017 and 3Q 2016, respectively, and (\$83) million and \$697 million for YTD 2017 and YTD 2016, respectively, from the change in fair value on multifamily held-for-sale loans recorded at fair value in other income (loss) in our condensed consolidated statements of comprehensive income.

We recorded gains of \$271 million and \$391 million for 3Q 2017 and 3Q 2016, respectively, and \$826 million and \$635 million for YTD 2017 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 (loss) in our condensed consolidated statements of comprehensive income.

Gains (losses) on debt securities with the fair value option elected were \$62 million and (\$174) million for 3Q 2017 and 3Q 2016, respectively, and (\$129) million and (\$268) million for YTD 2017 and YTD 2016, respectively, and were recorded in other income (loss) in our condensed consolidated statements of comprehensive income.

Changes in fair value attributable to instrument-specific credit risk were not material for 3Q 2017 and YTD 2017 and for 3Q 2016 and YTD 2016 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.



## 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, among other things, the plaintiffs are "efficient enforcers" of the antitrust laws.

On December 20, 2016, after briefing and argument on the defendants' renewed motions to dismiss on personal jurisdiction and efficient enforcer grounds, the District Court denied defendants' motions in part and granted them in part. The District Court held that Freddie Mac is an efficient enforcer of the antitrust laws, but dismissed on personal jurisdiction grounds Freddie Mac's antitrust claims against all defendants except HSBC USA, N.A. Freddie Mac and other plaintiffs requested clarification of the District Court's ruling to determine whether it intended to dismiss defendants located in the United States for lack of personal jurisdiction, which request the District Court denied on February 2, 2017. The Court also effectively dismissed Freddie Mac's remaining antitrust claim against HSBC USA, N.A. Freddie Mac filed a motion for reconsideration of the District Court's opinion dismissing Freddie Mac's (and other plaintiffs') antitrust claims on personal jurisdiction grounds. On February 16, 2017, the Court denied Freddie Mac's motion for reconsideration. On March 14, 2017, Freddie Mac and other plaintiffs sought leave to file an appeal of the dismissal of the antitrust and fraud claims or, in the alternative, for the Court to certify its orders dated February 2, 2017 and February 16, 2017 for interlocutory review. On May 3, 2017, the District Court denied Freddie Mac's requests. On May 24, 2017, Freddie Mac filed a petition for a writ of mandamus asking the Second Circuit to direct the District Court to enter a judgment allowing Freddie Mac to appeal or to certify the District Court's orders for review, which the Second Circuit denied on July 25, 2017.

## 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.

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

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.

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. On February 21, 2017, the U.S. Court of Appeals for the District of Columbia Circuit affirmed in part and remanded in part the appealed decision granting the motions to dismiss. The

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

Court of Appeals affirmed dismissal of all claims except certain claims seeking monetary damages for breach of contract and breach of implied duty of good faith and fair dealing. On March 24, 2017, institutional plaintiffs including Arrowood filed a petition for panel rehearing, and on March 31, 2017, the class plaintiffs in the American European Insurance Company litigation also filed a petition for panel rehearing with respect to certain of the claims. On July 17, 2017, the Court of Appeals granted the petitions for rehearing and issued a modified decision, which permitted the institutional plaintiffs to pursue the breach of contract and breach of implied duty of good faith and fair dealing claims that had been remanded. The Court of Appeals also removed language related to the standard to be applied to the implied duty claims, leaving that issue for the District Court to determine on remand. On October 16, 2017, certain institutional and class plaintiffs filed petitions for writ of certiorari in the U.S. Supreme Court challenging whether the prohibition on injunctive relief against FHFA in the Housing and Economic Recovery Act (HERA) bars judicial review of the net worth sweep dividend provisions of the August 2012 amendment to the Purchase Agreement, as well as whether HERA bars shareholders from pursuing derivative litigation where they allege the conservator faces a conflict of interest.

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.

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

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

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Jacobs and Hindes 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. Plaintiffs filed an application for certification of a state-law question to the Delaware and Virginia Supreme Courts, which was denied on September 12, 2016. On September 7, 2016, plaintiffs filed a motion to amend the complaint, which the Court granted on February 24, 2017. On April 17, 2017, FHFA, Freddie Mac, Fannie Mae, and Treasury each moved to dismiss the amended complaint. Plaintiffs have opposed that motion. 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.

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

## NOTE 15: SELECTED FINANCIAL STATEMENT LINE ITEMS

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

| (In millions)   | 3Q<br>2017 | 3Q<br>2016 | YTD<br>2017 | YTD<br>2016 |
|---|------------|------------|-------------|-------------|
| Other income (loss):                                      |            |            |             |             |
| Non-agency mortgage-related securities settlements        | \$4,525    | \$—        | \$4,525     | \$—         |
| Gains (losses) on held-for-sale loan purchase commitments | 271        | 391        | 826         | 635         |
| (Losses) gains on debt recorded at fair value             | 62         | (174)      | (129)       | (268)       |
| All other   | 545        | 388        | 1,290       | 1,160       |
| Total other income (loss)                                 | \$5,403    | \$605      | \$6,512     | \$1,527     |

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

| (In millions)                                 | September<br>30, 2017 | December<br>31, 2016 |
|---|-----------------------|----------------------|
| Other assets:                                 |                       |                      |
| Real estate owned, net                        | \$972                 | \$1,198              |
| Accounts and other receivables <sup>(1)</sup> | 7,728                 | 5,083                |
| Guarantee asset                               | 2,621                 | 2,298                |
| All other                                     | 2,677                 | 3,779                |
| Total other assets                            | \$13,998              | \$12,358             |
| Other liabilities:                            |                       |                      |
| Guarantee obligation                          | \$2,503               | \$2,208              |
| Payables related to securities                | 3,190                 | 4,510                |
| Income taxes payable                          | 1,602                 | —                    |
| All other                                     | 2,331                 | 2,769                |
| Total other liabilities                       | \$9,626               | \$9,487              |

(1) Primarily consists of servicer receivables and other non-interest receivables.

END OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

Freddie Mac Form 10-Q 154

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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, our 2016 Annual Report and our Form 10-Qs for the first and second quarters of 2017.

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 2016 Annual Report and in our Form 10-Qs for the first and second quarters of 2017. Some of these cases were filed in the U.S. District Court for the District of Columbia. With respect to these cases, the Court of Appeals for the District of Columbia Circuit in February 2017 affirmed in part and remanded in part the appealed decision granting the motions to dismiss. In March 2017, institutional plaintiffs and the class plaintiffs in the American European Insurance Company litigation filed petitions for panel rehearing with respect to certain of the claims, and on July 17, 2017, the Court of Appeals granted the petitions for rehearing and issued a modified decision, which permitted the institutional plaintiffs to pursue the breach of contract and breach of implied duty of good faith and fair dealing claims that had been remanded. The Court of Appeals also removed language related to the standard to be applied to the implied duty claims, leaving that issue for the U.S. District Court for the District of Columbia to determine on remand. On October 16, 2017, certain institutional and class plaintiffs filed petitions for writ of certiorari in the U.S. Supreme Court challenging whether HERA's prohibition on injunctive relief against FHFA bars judicial review of the net worth sweep dividend provisions of the August 2012 amendment to the Purchase Agreement, as well as whether HERA bars shareholders from pursuing derivative litigation where they allege the conservator faces a conflict of interest. Freddie Mac is not a party to any of these lawsuits.

**RISK FACTORS**

This Form 10-Q should be read together with the “Risk Factors” section in our 2016 Annual Report, 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.

**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.

## Other Information

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 3Q 2017. See Note 9 in our 2016 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 2016 Annual Report.

### INFORMATION ABOUT CERTAIN SECURITIES ISSUANCES BY FREDDIE MAC

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

Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report these types of obligations either in offering circulars or 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.freddie.com/debt](http://www.freddie.com/debt). From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities. Similar information about our STACR debt notes, Whole Loan Securities and SCR debt notes is available at [www.freddie.com/creditriskofferings](http://www.freddie.com/creditriskofferings) and [www.freddie.com/multifamily/investors/structured-credit-risk](http://www.freddie.com/multifamily/investors/structured-credit-risk), respectively.

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations (e.g., K Certificates), can be found at [www.freddie.com/mbs](http://www.freddie.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 of this Form 10-Q.

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 September 30, 2017. 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 September 30, 2017, 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 3Q 2017**

We evaluated the changes in our internal control over financial reporting that occurred during 3Q 2017 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 September 30, 2017 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 3Q 2017 have been prepared in conformity with GAAP.

Exhibit Index

EXHIBIT INDEX

Exhibit No. Description\*

|         |   |
|---------|---|
| 12.1    | <u>Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends</u> |
| 31.1    | <u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u>  |
| 31.2    | <u>Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u>  |
| 32.1    | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u>  |
| 32.2    | <u>Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u>  |
| 101.INS | XBRL Instance Document  |
| 101.SCH | XBRL Taxonomy Extension Schema  |
| 101.CAL | XBRL Taxonomy Extension Calculation   |
| 101.LAB | XBRL Taxonomy Extension Labels  |
| 101.PRE | XBRL Taxonomy Extension Presentation  |
| 101.DEF | XBRL Taxonomy Extension Definition  |

\*The SEC file numbers for the Registrant's Registration Statement on Form 10, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K are 000-53330 and 001-34139.

Signatures

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Federal Home Loan  
Mortgage Corporation

By: /s/ Donald H. Layton  
Donald H. Layton  
Chief Executive Officer

Date: October 31, 2017

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

Date: October 31, 2017

Index

FORM 10-Q INDEX

| Item Number |   | Page(s)          |
|-------------|---|------------------|
| PART I      | FINANCIAL INFORMATION   |                  |
| Item 1.     | Financial Statements  | <u>76 - 154</u>  |
| Item 2.     | Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>1 - 75</u>    |
| Item 3.     | Quantitative and Qualitative Disclosures About Market Risk                            | <u>58 - 62</u>   |
| Item 4.     | Controls and Procedures   | <u>157 - 158</u> |
| PART II     | OTHER INFORMATION   |                  |
| Item 1.     | Legal Proceedings   | <u>155</u>       |
| Item 1A     | Risk Factors  | <u>155</u>       |
| Item 2.     | Unregistered Sales of Equity Securities and Use of Proceeds                           | <u>155 - 156</u> |
| Item 6.     | Exhibits  | <u>156</u>       |
|             | EXHIBIT INDEX   | <u>159</u>       |
|             | SIGNATURES  | <u>160</u>       |