MONRO MUFFLER BRAKE INC
Form 4
May 21, 2007

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
TOMARCHIO JOSEPH JR

(Last) (First) (Middle)

200 HOLLEDER PARKWAY

(Street)

ROCHESTER, NY 14515

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MONRO MUFFLER BRAKE INC [MNRO]

3. Date of Earliest Transaction (Month/Day/Year)
05/17/2007

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
ExecutiveVP-Store Operations

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								10,000	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. D S (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Option (Right to buy)	$ 34.62	05/17/2007	05/17/2007	A		1,250		05/16/2008	05/16/2017	Common Stock	1,250	$
Options (Right to Buy)	$ 34.62	05/17/2007	05/17/2007	A		1,250		05/16/2009	05/16/2017	Common Stock	1,250	$
Option (Right to Buy)	$ 34.62	05/17/2007	05/17/2007	A		1,250		05/16/2010	05/16/2017	Common Stock	1,250	$
Option (Right to Buy)	$ 34.62	05/17/2007	05/17/2007	A		1,250		05/16/2011	05/16/2017	Common Stock	1,250	$

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
TOMARCHIO JOSEPH JR 200 HOLLEDER PARKWAY ROCHESTER, NY 14515			ExecutiveVP-Store Operations	

Signatures

/s/ Joseph Tomarchio, Jr.	05/21/2007
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. yle="page-break-after:always">

retained the resulting Freddie Mac mortgage-related securities created through such securitizations in our mortgage investments portfolio.

- The overall liquidity of our mortgage investments portfolio continues to improve as our new asset acquisitions have almost entirely consisted of purchases of more liquid assets, including agency mortgage-related securities and loans awaiting securitization into PCs.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balance Commentary

- The average balance of the mortgage-related securities that we manage declined 16.0% during the three months ended March 31, 2016 compared to the same period in 2015, primarily due to repayments and the sale of certain non-agency mortgage-related securities.
- The average balance of the single-family unsecuritized mortgage loans that we manage declined 10.0% during the three months ended March 31, 2016 compared to the same period in 2015, primarily due to the repayment and securitization of certain reperforming loans and performing modified loans, partially offset by an increase in our purchase of loans for our securitization pipeline.
- The average balance of the non-mortgage-related assets that we manage will fluctuate period to period based on our liquidity needs, investment strategy, and investment returns. This portfolio reflects our investments for operating purposes as well as the restricted assets that we hold and invest on behalf of consolidated trusts and cash that has been pledged to us under various agreements.
- Net interest yield declined 35 basis points during the three months ended March 31, 2016 compared to the same period in 2015, primarily due to an increase in our funding costs, coupled with a continued reduction in the balance of higher yielding mortgage-related assets in our mortgage investments portfolio due to repayments.

Funding Activity

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

	Three Months Ended March 31,	
(Par value in millions)	2016	2015
Discount notes and Reference Bills:		
Beginning balance	$104,088	$134,670
Issuances	105,653	61,610
Maturities	(134,082)	(79,891)
Ending balance	75,659	116,389
Callable debt:		
Beginning balance	107,675	107,070
Issuances	28,930	25,085
Repurchases	—	—
Calls	(27,691)	(10,905)
Maturities	(250)	(1,557)
Ending balance	108,664	119,693
Non-callable debt:		
Beginning balance	194,372	206,393
Issuances	8,438	14,088
Repurchases	—	—
Maturities	(8,891)	(13,369)
Ending balance	193,919	207,112
Total other debt	$378,242	$443,194

Commentary

- The outstanding balance of our other debt declined during the three months ended March 31, 2016, compared to the same period in 2015, as we required less debt to fund our business operations, as the balance of our mortgage-related investments portfolio continues to decline.
- During the three months ended March 31, 2016, we continued to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. This resulted in an increase in both issuances and pay-offs of our short-term other debt compared to the same period during 2015.
- Issuances and calls of our longer-term callable debt increased during the three months ended March 31, 2016 compared to the same period in 2015, as we refinanced more of our outstanding callable debt due to the low interest rate environment and favorable spreads relative to our non-callable debt.

Debt Composition

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 March 31, 2016

Earliest Redemption Date as of March 31, 2016

Commentary

- As our long-term debt spreads remained high during the three months ended March 31, 2016, we continue to rely on short-term and medium-term debt issuances for our overall funding needs. Our effective short-term debt percentage, which represents the percentage of our total other debt that is expected to mature within one year, has remained relatively flat at 41.7% as of March 31, 2016 as compared to 41.3% as of December 31, 2015.
- Our short-term debt issuances provide us with overall lower funding costs relative to longer-term debt and greater flexibility as we reduce our mortgage-related investments portfolio. We saw improvement in our short-term debt spreads compared to the fourth quarter of 2015, primarily due to declining external competition for new short-term debt issuances.

- As of March 31, 2016, $91 billion of the outstanding $109 billion of callable debt may be called within one year.

FINANCIAL RESULTS

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

(dollars in millions)	Three Months Ended March 31, 2016	2015	Change $	%
Net interest income	$748	$1,155	$(407)	(35)%
Non-interest income:				
Net impairment of available-for-sale securities recognized in earnings	81	118	(37)	(31)%
Derivative losses	(2,995)	(1,428)	(1,567)	110 %
Gains on trading securities	169	45	124	276 %
Other non-interest income	189	461	(272)	(59)%
Total non-interest income	(2,556)	(804)	(1,752)	218 %
Non-interest expense:				
Administrative expense	(73)	(81)	8	(10)%
Other non-interest (expense) income	(2)	—	(2)	— %
Total non-interest expense	(75)	(81)	6	(7)%
Segment Earnings before income tax expense	(1,883)	270	(2,153)	(797)%
Income tax expense	572	(90)	662	(736)%
Segment Earnings, net of taxes	(1,311)	180	(1,491)	(828)%
Total other comprehensive income (loss), net of tax	150	236	(86)	(36)%
Total comprehensive income	$(1,161)	$416	$(1,577)	(379)%

Key Drivers:

During the three months ended March 31, 2016 compared to the three months ended March 31, 2015:

- Net interest income decreased due to the continued reduction in the balance of our mortgage investments portfolio.
- Derivative losses increased due to a larger decline in longer-term interest rates. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.
- Gains on trading securities increased due to a larger decline in longer-term interest rates, partially offset by spread widening for our agency mortgage-related securities classified as trading.
- Other non-interest income decreased due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position. This decrease in sales was attributable to increased market volatility and weaker investor demand for this product type.
- Other comprehensive income decreased due to spread widening for our non-agency mortgage-related securities and less spread tightening for our agency mortgage-related securities classified as available-for-sale, partially offset by gains resulting from a larger decline in longer-term interest rates. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

RISK MANAGEMENT

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, interest-rate and other market risks, liquidity risk, and operational risk. For more discussion of these and other risks facing our business and our risk management framework, see "MD&A - Risk Management" in our 2015 Annual Report and "Risk Factors" and "Liquidity and Capital Resources" in this report and in our 2015 Annual Report. See below for updates since our 2015 Annual Report.

CREDIT RISK

INSTITUTIONAL CREDIT RISK

Mortgage Insurers

On December 31, 2015, Freddie Mac's eligibility requirements for mortgage insurers, implemented at the direction of FHFA in conjunction with Fannie Mae, became effective for all Freddie Mac-approved mortgage insurers. These revised eligibility requirements include financial requirements determined using a risk-based framework, and were designed to promote the ability of mortgage insurers to fulfill their intended role of providing consistent liquidity throughout the mortgage cycle. As of March 1, 2016, our mortgage insurers had submitted 2015 audited financial information and certified their compliance with these new requirements as of their effective date. We confirmed our mortgage insurers' capital adequacy as part of our eligibility compliance reviews and will continue to assess this each quarter. While PMI Mortgage Insurance Co., Republic Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are subject to these new standards, we have not evaluated their compliance with the capital requirements, as they are in rehabilitation or under regulatory supervision and no longer issue new insurance.

On March 30, 2016, United Guaranty filed with the Securities and Exchange Commission an S-1 registration statement for the planned initial public offering of up to 19.9% of the equity in United Guaranty, to be offered by American International Group, Inc. Because United Guaranty is an approved mortgage insurer, we will evaluate the impact to United Guaranty's financial strength as part of approving the planned offering.

For more information about counterparty risk associated with mortgage insurers, see Note 12.

INTEREST-RATE RISK AND OTHER MARKET RISKS

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

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

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

The table below provides duration gap, estimated point-in-time and minimum and maximum PMVS-L and PMVS-YC results, and an average of the daily values and standard deviation during the three months ended March 31, 2016 and March 31, 2015. 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. Therefore, the difference between PMVS at 50 basis points and 100 basis points is non-linear.

	PMVS-YC	PMVS-L	
(in millions)	25 bps	50 bps	100 bps
Assuming shifts of the LIBOR yield curve:			
March 31, 2016	$ 10	$—	$—
December 31, 2015	$ 12	$50	$186

	Three Months Ended March 31,					
	2016			2015		
(duration gap in months, dollars in millions)	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps
Average	0.2	$ 8	$ 29	0.1	$ 28	$ 123
Minimum	(0.2)	$ —	$ —	(0.3)	$ 4	$ 61
Maximum	0.7	$ 31	$ 92	0.8	$ 47	$ 250
Standard deviation	0.2	$ 6	$ 26	0.2	$ 11	$ 38

The information presented in the table above and the two tables below does not fully reflect the potential effect of negative index values across all of our floating rate assets and liabilities. See “Risk Factors - Negative values for certain interest rate indices could have an adverse effect on our operational and interest-rate risk management processes” for additional information. Because we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, incorporating these potential effects into the company’s process for estimating interest-rate risk exposure could result in significant percentage changes in the disclosed duration gap and PMVS levels. However, we do not believe any such percentage change would represent an exposure to interest-rate risk that would be material to the company's financial condition or results of operations. We are evaluating various steps we could take to mitigate this risk.

Derivatives enable us to reduce our interest-rate risk exposure. The table below shows that the PMVS-L risk levels, assuming a 50 basis point shift in the LIBOR yield curve for the periods presented, would have been higher if we had not used derivatives.

	PMVS-L (50 bps)		
(in millions)	Before Derivatives	After Derivatives	Effect of Derivatives
March 31, 2016	$3,040	$ —	$ (3,040)
December 31, 2015	$3,373	$ 50	$ (3,323)

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, the accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at March 31, 2016, we generally recognize fair value losses in earnings when interest rates decline. The table below presents the estimated adverse net effect on pre-tax earnings of certain immediate shifts in interest rates. These estimates are essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value that we would expect to experience as a result of the shifts in interest rates. The methodology used to calculate these figures is consistent with the methodology used to calculate our PMVS-YC and PMVS-L metrics above.

	GAAP FV-YC	GAAP FV-L	
(in millions)	25 bps	50 bps	100 bps
March 31, 2016	$ 459	$1,484	$3,114
December 31, 2015	$ 635	$1,630	$3,573

The disclosure in our Monthly Volume Summary reports, which are available on our web site www.freddiemac.com, reflects the average of the daily PMVS-L, PMVS-YC, and duration gap estimates for a given reporting period (a month, a quarter, or a year).

LIQUIDITY AND CAPITAL RESOURCES
OTHER DEBT ACTIVITIES
Debt securities that we issue are classified either as debt securities of consolidated trusts held by third parties or other debt. We issue other debt, as either short-term or long-term debt, to fund our operations. Competition for funding can vary with economic, financial market, and regulatory environments.
The table below summarizes the par value of other debt securities we issued or paid off during the three months ended March 31, 2016 and March 31, 2015, including regularly scheduled principal payments, payments resulting from calls, and payments for repurchases. We repurchase, call, or exchange our outstanding debt securities from time to time for a variety of reasons, including managing our funding composition and supporting the liquidity of our debt securities.

	Three Months Ended March 31,			
(dollars in millions)	2016		2015	
Beginning balance	$418,021		$454,029	
Issued during the period				
Short-term:				
Amount	$105,653		$61,610	
Weighted-average effective interest rate	0.32	%	0.10	%
Long-term:				
Amount	$38,840		$40,913	
Weighted-average effective interest rate	1.42	%	1.20	%
Total issued:				
Amount	$144,493		$102,523	
Weighted-average effective interest rate	0.62	%	0.54	%
Paid off during the period:				
Short-term:				
Amount	$(134,082	)	$(79,891	)
Weighted-average effective interest rate	0.23	%	0.09	%
Long-term:				
Amount	$(37,110	)	$(25,924	)
Weighted-average effective interest rate	1.88	%	2.09	%
Total paid off:				
Amount	$(171,192	)	$(105,815	)
Weighted-average effective interest rate	0.59	%	0.58	%
Ending balance	$391,322		$450,737	

Issuances and pay-offs of short-term debt increased during the three months ended March 31, 2016 compared to the three months ended March 31, 2015 as we continued to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. We began increasing our utilization of overnight discount notes in the second quarter of 2015. We continue to rely on short-term and medium-term other debt for our overall funding needs. Other debt outstanding declined as we continued to reduce our indebtedness along with the decline in our mortgage-related investments portfolio.

Management's Discussion and Analysis Liquidity and Capital Resources

DEBT SECURITIES OF CONSOLIDATED TRUSTS

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

	Three Months Ended March 31,	
(in millions)	2016	2015
Beginning balance	$1,513,089	$1,440,325
New issuances	70,956	78,847
Newly-issued debt securities retained at issuance	(19,349)	(20,614)
Net new issuances to third parties	51,607	58,233
Additional issuances of securities	28,264	23,449
Total issuances	79,871	81,682
Extinguishments, net	(68,736)	(73,696)
Ending balance	$1,524,224	$1,448,311

LIQUIDITY AND CONTINGENCY OPERATING PORTFOLIO

Excluding amounts related to our consolidated VIEs and collateral held by us from OTC derivative counterparties, we held $42.1 billion and $70.0 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at March 31, 2016 and December 31, 2015, respectively. These investments are important to our cash flow, collateral management, and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. At March 31, 2016, our non-mortgage-related securities consisted of U.S. Treasury securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintained non-interest-bearing deposits at the Federal Reserve Bank of New York, which are included in cash and cash equivalents on our consolidated balance sheets.

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 the three months ended March 31, 2016 and March 31, 2015.

Operating Cash Flows Investing Cash Flows Financing Cash Flows
2015 2016 2015 2016 2015 2016

Freddie Mac Form 10-Q 50

Commentary

Cash used in operating activities increased $0.6 billion primarily due to the following:

- Increase in net purchases of mortgage loans acquired as held-for-sale, primarily due to an increase in the purchase of multifamily loans; and
- Decrease in net interest income.

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

- Increase in net proceeds received from purchases and sales of trading securities, as we purchased fewer non-mortgage-related securities; and
- Decrease in securities purchased under agreements to resell.

Cash used in financing activities increased $5.7 billion primarily due to the following:

- Increase in net funds used to repay other debt, as the amount of other debt required to fund our mortgage-related investments portfolio has declined. This increase was partially offset by an increase in proceeds received from issuance of debt securities of consolidated trusts held by third parties as we issued more PCs for cash.

CAPITAL RESOURCES

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and our ability to fund those requirements. Under the Purchase Agreement, Treasury made a commitment to provide us with funding, under certain conditions, to eliminate deficits in our net worth. Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA. The amount of available funding remaining under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws.

At March 31, 2016, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount at March 31, 2016 and the 2016 Capital Reserve Amount of $1.2 billion, we will not have a dividend obligation to Treasury in June 2016. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock. As a result of the net worth sweep dividend on the senior preferred stock, our future profits will effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury.

Management's Discussion and Analysis Liquidity and Capital Resources

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

	Three Months Ended				
(in millions)	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Beginning balance	$2,940	$ 1,299	$5,713	$2,546	$2,651
Comprehensive (loss) income	(200)	1,641	(501)	3,913	746
Capital draw from Treasury	—	—	—	—	—
Senior preferred stock dividends declared	(1,740)	—	(3,913)	(746)	(851)
Total equity / net worth	$1,000	$ 2,940	$1,299	$5,713	$2,546
Aggregate draws under Purchase Agreement	$71,336	$ 71,336	$71,336	$71,336	$71,336
Aggregate cash dividends paid to Treasury	$98,205	$ 96,465	$96,465	$92,552	$91,806

CONSERVATORSHIP AND RELATED MATTERS

REDUCING OUR MORTGAGE-RELATED INVESTMENTS PORTFOLIO OVER TIME

The table below presents the UPB of our mortgage-related investments portfolio for purposes of the portfolio limits imposed by the Purchase Agreement and by FHFA.

	March 31, 2016				December 31, 2015			
(dollars in millions)	Liquid	Securitiz-ation Pipeline	Less Liquid	Total	Liquid	Securitiz-ation Pipeline	Less Liquid	Total
Investments segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	$—	$10,573	$—	$10,573	$—	$10,041	$—	$10,041
Reperforming loans and performing modified loans	—	—	63,540	63,540	—	—	67,036	67,036
Total single-family unsecuritized loans	—	10,573	63,540	74,113	—	10,041	67,036	77,077
Freddie Mac mortgage-related securities	137,316	—	5,342	142,658	135,869	—	6,076	141,945
Non-agency mortgage-related securities	—	—	25,959	25,959	—	—	27,754	27,754
Non-Freddie Mac agency mortgage-related securities	12,434	—	—	12,434	12,958	—	—	12,958
Total Investment segment - Mortgage investments portfolio	149,750	10,573	94,841	255,164	148,827	10,041	100,866	259,734
Single-family Guarantee segment - Single-family	—	—	17,757	17,757	—	—	19,501	19,501

unsecuritized seriously delinquent loans																
Multifamily segment - unsecuritized loans and mortgage-related securities	6,667		23,545		36,726		66,938		7,304		19,563		40,809		67,676	
Total mortgage-related investments portfolio	$156,417		$34,118		$149,324		$339,859		$156,131		$29,604		$161,176		$346,911	
Percentage of total mortgage-related investments portfolio	46	%	10	%	44	%	100	%	45	%	9	%	46	%	100	%
Mortgage-related investments portfolio cap at December 31, 2016 and December 31, 2015							$339,304								$399,181	
90% of mortgage-related investments portfolio cap at December 31, 2016 and December 31, 2015[(1)]							$305,374								$359,263	

(1) Represents the amount that we manage to under our Retained Portfolio Plan, subject to certain exceptions.

The decline in our mortgage-related investments portfolio during the three months ended March 31, 2016 was primarily due to repayments, partially offset by net purchases of multifamily loans for our securitization pipeline and agency mortgage-related securities. We also actively managed the size of our less liquid assets through the following:

- Sales of $1.6 billion of less liquid assets, including $0.8 billion in UPB of non-agency mortgage-related securities and $0.8 billion in UPB of seriously delinquent unsecuritized single-family loans; and
- Securitizations of $3.5 billion of single-family reperforming loans and performing modified loans, thereby enhancing their liquidity. We retained the resulting Freddie Mac mortgage-related securities created through such securitizations in our mortgage-related investments portfolio.

Freddie Mac Form 10-Q 53

REGULATION AND SUPERVISION

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

AFFORDABLE HOUSING ALLOCATIONS

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of total new business purchases, and allocate or transfer such amount to certain housing funds. During the three months ended March 31, 2016, we completed $85.7 billion of new business purchases subject to these allocations and accrued $36 million of related expense. We expect to pay this amount (and any additional amounts accrued based on our new business purchases during the remainder of 2016) in February 2017. We are prohibited from passing through the costs of the affordable housing allocations to the originators of the loans that we purchase.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

LEGISLATION RELATED TO FREDDIE MAC AND ITS FUTURE STATUS

Our future structure and role will be determined by the Administration and Congress, and it is possible, and perhaps likely, that there will be significant changes beyond the near-term.

On April 11, 2016, the "Risk Management and Homeowner Stability Act of 2016" was introduced in the House of Representatives. The bill is designed to prohibit the use of Freddie Mac and Fannie Mae guarantee fees as offsets against other expenditures in the federal budget.

On April 15, 2016, the "Housing Finance Restructuring Act of 2016" was introduced in the House of Representatives. Under the bill, the Senior Preferred Stock Purchase Agreements between Treasury and each of Freddie Mac and Fannie Mae (the "Enterprises") would be terminated, except for the provisions that provide for Treasury's funding commitment to each Enterprise, and the Enterprises would be deemed to have fully repaid Treasury for its financial support. The bill provides for Treasury to exercise the warrants to purchase common stock of each Enterprise. The bill also provides for the Enterprises to build and maintain capital, and for an Enterprise's conservatorship to be terminated once it attains a set level of capital.

It is likely that additional bills related to Freddie Mac, Fannie Mae, and the future of the mortgage finance system will be introduced in and considered by Congress. We cannot predict whether any of such bills will be enacted.

AFFORDABLE HOUSING GOALS FOR 2015

In March 2016, we reported to FHFA that we achieved three of the five single-family affordable housing benchmarks and all three multifamily affordable housing goals for 2015. We may achieve a single-family housing goal by meeting or exceeding either:

- the FHFA benchmark for that goal; or
- the actual share of the market that meets the criteria for that goal.

FHFA will ultimately make the determination as to whether we achieved compliance with the housing goals for 2015. On March 31, 2016, FHFA approved Freddie Mac’s Affordable Housing Plan for 2016 - 2017, which FHFA required to address our failure to meet certain housing goals in the past.

PRINCIPAL REDUCTION MODIFICATION INITIATIVE

On April 14, 2016, FHFA announced that Freddie Mac and Fannie Mae will offer principal reduction to certain seriously delinquent, underwater borrowers. The new initiative is a one-time offering for borrowers who meet specific eligibility criteria, including that they:

- Are owner-occupants;
- Are at least 90 days delinquent as of March 1, 2016;
- Have a mortgage with an outstanding UPB of $250,000 or less; and
- Have a mark-to-market loan-to-value ratio of more than 115% after capitalization.

The ultimate economic effect of the Principal Reduction Modification Initiative will depend on the rate at which eligible borrowers take advantage of the initiative. The initiative could be net present value positive compared to the current streamlined modification program if the participation rates are higher than expected. We believe that approximately 11,000 borrowers on loans owned by Freddie Mac will be eligible for this new initiative.

PROPOSED RULE ON INCENTIVE-BASED COMPENSATION ARRANGEMENTS

FHFA and other financial regulators have proposed an interagency rule on incentive-based compensation arrangements that implements Section 956 of the Dodd-Frank Act. The proposed rule is intended to prohibit incentive-based compensation arrangements that could encourage inappropriate risks by providing excessive compensation or that could lead to a material financial loss. Among other items, the proposed rule would require large financial institutions, including Freddie Mac, to defer payment of certain incentive-based compensation awarded to senior executive officers and to significant risk-takers. FHFA’s version of the proposed rule specifies that, for institutions in conservatorship, FHFA shall determine which requirements of the rule will apply. We cannot predict whether or when a final rule will be adopted.

OFF-BALANCE SHEET ARRANGEMENTS

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

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed loans and mortgage-related securities, though most of our securitization activities are on-balance sheet. Our off-balance sheet arrangements related to these securitization activities primarily consist of K Certificates. We also have off-balance sheet arrangements related to certain other securitization products and other mortgage-related guarantees. Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and guarantees is primarily represented by the UPB of the underlying loans and securities, which was $136.3 billion and $127.3 billion at March 31, 2016 and December 31, 2015, respectively.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain “forward-looking statements.” Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily, and Investments segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, and our results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. Forward-looking statements are often accompanied by, and identified with, terms such as “objective,” “expect,” “possible,” “trend,” “forecast,” “anticipate,” “believe,” “intend,” “could,” “future,” “may,” “will,” and similar phrases. These statements ar historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the “RISK FACTORS” sections of this Form 10-Q and our 2015 Annual Report, and:

- The actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to support the housing markets or to implement FHFA’s Conservatorship Scorecards and other objectives for us;
- The effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend obligation on the senior preferred stock;
- Our ability to maintain adequate liquidity to fund our operations;
- Changes in our Charter or in applicable legislative or regulatory requirements (including any legislation affecting the future status of our company);
- Changes in the fiscal and monetary policies of the Federal Reserve, including any changes to its policy of maintaining sizable holdings of mortgage-related securities and any future sales of such securities;
- The success of our efforts to mitigate our losses on our Legacy single-family book and our investments in non-agency mortgage-related securities;
- The success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS, K Certificate and other credit risk transfer transactions;
- Our ability to maintain the security of our operating systems and infrastructure (e.g., against cyberattacks);
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance versus purchase, and fixed-rate versus ARM);
- Our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- The adequacy of our risk management framework;
- Our ability to manage mortgage credit risks, including the effect of changes in underwriting and servicing practices;

- Our ability to limit or manage our exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;
- Changes or errors in the methodologies, models, assumptions, and estimates we use to prepare our financial statements, make business decisions, and manage risks;
- Changes in investor demand for our debt or mortgage-related securities (e.g., single-family PCs and multifamily K Certificates);
- Changes in the practices of loan originators, investors and other participants in the secondary mortgage market; and
- Other factors and assumptions described in this Form 10-Q and our 2015 Annual Report, including in the "MD&A" section.

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

Financial
Statements

FINANCIAL STATEMENTS

Financial Statements Condensed Consolidated Statements of Comprehensive Income (Loss)

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended March 31,	
(in millions, except share-related amounts)	2016	2015
Interest income		
Mortgage loans	$15,818	$15,454
Investments in securities	969	1,335
Other	57	11
Total interest income	16,844	16,800
Interest expense	(13,388)	(13,088)
Expense related to derivatives	(51)	(65)
Net interest income	3,405	3,647
Benefit (provision) for credit losses	467	499
Net interest income after benefit (provision) for credit losses	3,872	4,146
Non-interest income (loss)		
Gains (losses) on extinguishment of debt	(55)	(79)
Derivative gains (losses)	(4,561)	(2,403)
Impairment of available-for-sale securities:		
Total other-than-temporary impairment of available-for-sale securities	(52)	(89)
Portion of other-than-temporary impairment recognized in AOCI	(5)	(4)
Net impairment of available-for-sale securities recognized in earnings	(57)	(93)
Other gains (losses) on investment securities recognized in earnings	303	417
Other income (loss)	947	11
Non-interest income (loss)	(3,423)	(2,147)
Non-interest expense		
Salaries and employee benefits	(239)	(232)
Professional services	(101)	(113)
Occupancy expense	(13)	(12)
Other administrative expense	(95)	(94)
Total administrative expense	(448)	(451)
Real estate owned operations (expense) income	(84)	(75)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(272)	(222)
Other (expense) income	(153)	(463)
Non-interest expense	(957)	(1,211)
(Loss) income before income tax benefit (expense)	(508)	788
Income tax benefit (expense)	154	(264)
Net (loss) income	(354)	524
Other comprehensive income (loss), net of taxes and reclassification adjustments:		
Changes in unrealized gains (losses) related to available-for-sale securities	119	157
Changes in unrealized gains (losses) related to cash flow hedge relationships	34	59
Changes in defined benefit plans	1	6
Total other comprehensive income (loss), net of taxes and reclassification adjustments	154	222
Comprehensive (loss) income	$(200)	$746
Net (loss) income	$(354)	$524
Undistributed net worth sweep and senior preferred stock dividends	—	(746)
Net loss attributable to common stockholders	$(354)	$(222)

Net loss per common share — basic and diluted	$(0.11)	$(0.07)
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,236

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

Financial Statements Condensed Consolidated Balance Sheets

FREDDIE MAC
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share-related amounts)	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents (Note 12)	$6,158	$5,595
Restricted cash and cash equivalents (Notes 3, 12)	16,671	14,533
Securities purchased under agreements to resell (Notes 3, 8)	40,098	63,644
Investments in securities, at fair value (Note 5)	107,595	114,215
Mortgage loans held-for-sale (Notes 3, 4) (includes $22,415 and $17,660 at fair value)	27,085	24,992
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of $14,521 and $15,331)	1,735,548	1,729,201
Accrued interest receivable (Note 3)	6,091	6,074
Derivative assets, net (Notes 7, 8)	814	395
Real estate owned, net (Note 3)	1,571	1,725
Deferred tax assets, net (Note 10)	18,123	18,205
Other assets (Notes 3, 16)	9,346	7,313
Total assets	$1,969,100	$1,985,892
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	$6,047	$6,183
Debt, net (Notes 3, 6) (includes $6,915 and $7,184 at fair value)	1,955,618	1,970,269
Derivative liabilities, net (Notes 7, 8)	1,632	1,254
Other liabilities (Notes 3, 16)	4,803	5,246
Total liabilities	1,968,100	1,982,952
Commitments and contingencies (Notes 3, 7, and 14)		
Equity (Note 9)		
Senior preferred stock, at redemption value	72,336	72,336
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,046,828 shares and 650,045,962 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(82,867)	(80,773)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $578 and $778, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	1,859	1,740
Cash flow hedge relationships	(587)	(621)
Defined benefit plans	35	34
Total AOCI, net of taxes	1,307	1,153
Treasury stock, at cost, 75,817,058 shares and 75,817,924 shares	(3,885)	(3,885)
Total equity (See Note 9 for information on our dividend obligation to Treasury)	1,000	2,940
Total liabilities and equity	$1,969,100	$1,985,892

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

March 31,	December 31,

(in millions)	2016	2015
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		
Mortgage loans held-for-sale	$277	$1,403
Mortgage loans held-for-investment	1,635,242	1,625,184
All other assets	42,819	37,305
Total assets of consolidated VIEs	$1,678,338	$1,663,892
Liabilities: (Note 3)		
Debt, net	$1,568,183	$1,556,121
All other liabilities	4,761	4,769
Total liabilities of consolidated VIEs	$1,572,944	$1,560,890

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

Financial Statements Condensed Consolidated Statements of Cash Flows

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31,	
(in millions)	2016	2015
Net cash used in operating activities	$(4,086)	$(3,507)
Cash flows from investing activities		
Purchases of trading securities	(8,104)	(13,898)
Proceeds from sales of trading securities	3,234	2,863
Proceeds from maturities of trading securities	7,692	4,414
Purchases of available-for-sale securities	(3,009)	(2,161)
Proceeds from sales of available-for-sale securities	2,404	4,134
Proceeds from maturities of available-for-sale securities	4,808	4,893
Purchases of held-for-investment mortgage loans	(28,577)	(27,353)
Proceeds from sales of mortgage loans held-for-investment	832	406
Repayments of mortgage loans held-for-investment	64,343	74,167
(Increase) decrease in restricted cash	(2,138)	(154)
Net proceeds from dispositions of real estate owned and other recoveries	665	1,121
Net (increase) decrease in securities purchased under agreements to resell	23,546	4,737
Derivative premiums and terminations and swap collateral, net	(4,094)	(1,481)
Changes in other assets	(3,652)	(1,076)
Net cash provided by investing activities	57,950	50,612
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	40,722	30,122
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(65,494)	(73,600)
Proceeds from issuance of other debt	145,003	103,119
Repayments of other debt	(171,791)	(106,416)
Payment of cash dividends on senior preferred stock	(1,740)	(851)
Changes in other liabilities	(1)	—
Net cash used in financing activities	(53,301)	(47,626)
Net (decrease) increase in cash and cash equivalents	563	(521)
Cash and cash equivalents at beginning of year	5,595	10,928
Cash and cash equivalents at end of period	$6,158	$10,407
Supplemental cash flow information		
Cash paid for:		
Debt interest	$15,438	$15,304
Income taxes	573	458
Non-cash investing and financing activities (Note 4)		

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

Freddie Mac Form 10-Q 62

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We are regulated by FHFA, the SEC, HUD, and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see Note 2 in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015, or 2015 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the “GLOSSARY” of our 2015 Annual Report. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2015 Annual Report.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP and include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated.

We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with the delegation of authority from FHFA to our Board of Directors and management. Certain amounts in prior periods’ consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair presentation of our unaudited condensed consolidated financial statements.

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

USE OF ESTIMATES

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

RECENTLY ISSUED ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

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

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

Standard	Description	Date of Adoption	Effect on Consolidated Financial Statements
ASU 2016-06, Derivatives and Hedging (Topic 815)	The amendment clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendment is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence.	January 1, 2017	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2016-02, Leases (Topic 842)	The amendment addresses the accounting for lease arrangements.	January 1, 2019	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

BUSINESS OBJECTIVES

We operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA, as our Conservator. The conservatorship and related matters significantly affect our management, business activities, financial condition and results of operations. Upon its appointment, FHFA, as Conservator, immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director thereof, with respect to the company and its assets. The Conservator also succeeded to the title to all books, records, and assets of Freddie Mac held by any other legal custodian or third party. The Conservator delegated certain authority to the Board of Directors to oversee, and management to conduct, business operations so that the company can continue to operate in the ordinary course. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

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

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

For purposes of the limit imposed by the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio cannot exceed $339.3 billion at December 31, 2016 and was $339.9 billion at March 31, 2016. Our Retained Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement (subject to certain exceptions). Our mortgage-related investments portfolio cap is reduced by 15% annually until it reaches $250 billion. This amount is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual UPB of the mortgage-related investments portfolio, as of December 31 of the preceding year. Our ability to acquire and sell mortgage assets is significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA.

GOVERNMENT SUPPORT FOR OUR BUSINESS

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 December 31, 2015, our assets exceeded our liabilities under GAAP; therefore FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during the three months ended March 31, 2016. Since conservatorship began through

March 31, 2016, we have paid cash dividends of $98.2 billion to Treasury at the direction of the Conservator. See Note 6 and Note 9 for more information on the conservatorship and the Purchase Agreement.

RELATED PARTIES AS A RESULT OF CONSERVATORSHIP

We are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. 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 the three months ended March 31, 2016, we contributed $30 million of capital to CSS.

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 represents the carrying value and classification of the assets and liabilities of consolidated VIEs on our consolidated balance sheets.

(in millions)	March 31, 2016	December 31, 2015
Consolidated Balance Sheet Line Item		
Assets:		
Restricted cash and cash equivalents	$16,316	$14,529
Securities purchased under agreements to resell	17,350	14,840
Mortgage loans held-for-sale	277	1,403
Mortgage loans held-for-investment	1,635,242	1,625,184
Accrued interest receivable	5,373	5,305
Real estate owned, net	37	40
Other assets	3,743	2,591
Total assets of consolidated VIEs	$1,678,338	$1,663,892
Liabilities:		
Accrued interest payable	$4,760	$4,763
Debt, net	1,568,183	1,556,121
Other liabilities	1	6
Total liabilities of consolidated VIEs	$1,572,944	$1,560,890

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

VIEs FOR WHICH WE ARE NOT THE PRIMARY BENEFICIARY

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

(in millions)	March 31, 2016	December 31, 2015
	Freddie Mac Securities	
Assets and Liabilities Recorded on our Consolidated Balance Sheets		
Assets:		
Investments in securities	$49,046	$49,040
Accrued interest receivable	211	200
Other assets	1,371	1,232
Liabilities:		
Other liabilities	(1,283)	(1,230)
Maximum Exposure to Loss	$122,474	$114,193
Total Assets of Non-Consolidated VIEs	$144,497	$134,900

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

FINANCIAL GUARANTEES

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

(dollars in millions, terms in years)	March 31, 2016			December 31, 2015		
	Maximum Exposure	Recognized Liability(1)	Maximum Remaining Term	Maximum Exposure	Recognized Liability(1)	Maximum Remaining Term
K Certificates and other securitization products	$122,474	$ 1,195	39	$114,193	$ 1,136	40
Other mortgage-related guarantees	13,784	616	35	13,067	596	38
Derivative instruments	17,729	178	29	17,894	151	30

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

CREDIT ENHANCEMENTS

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

Freddie Mac Form 10-Q 68

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

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

(in millions)	UPB at		Maximum Coverage at	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
K Certificates	$109,109	$101,473	$19,696	$ 18,453
Other securitization products	7,835	7,026	1,632	1,477
Total	$116,944	$108,499	$21,328	$ 19,930

Freddie Mac Form 10-Q 69

NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

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

(in millions)	March 31, 2016 Held by Freddie Mac	March 31, 2016 Held by consolidated trusts	March 31, 2016 Total	December 31, 2015 Held by Freddie Mac	December 31, 2015 Held by consolidated trusts	December 31, 2015 Total
Held-for sale:						
Single-family	$4,343	$381	$4,724	$6,045	$1,702	$7,747
Multifamily	23,564	—	23,564	19,582	—	19,582
Total UPB	27,907	381	28,288	25,627	1,702	27,329
Cost basis and fair value adjustments, net	(1,099)	(104)	(1,203)	(2,038)	(299)	(2,337)
Total held-for-sale loans	26,808	277	27,085	23,589	1,403	24,992
Held-for-investment:						
Single-family	87,527	1,607,282	1,694,809	90,532	1,597,590	1,688,122
Multifamily	27,818	1,690	29,508	29,505	1,711	31,216
Total UPB	115,345	1,608,972	1,724,317	120,037	1,599,301	1,719,338
Cost basis adjustments	(3,338)	29,090	25,752	(3,465)	28,659	25,194
Allowance for loan losses	(11,701)	(2,820)	(14,521)	(12,555)	(2,776)	(15,331)
Total held-for-investment loans	100,306	1,635,242	1,735,548	104,017	1,625,184	1,729,201
Total loans, net	$127,114	$1,635,519	$1,762,633	$127,606	$1,626,587	$1,754,193

During the three months ended March 31, 2016 and March 31, 2015, we purchased $68.2 billion and $79.2 billion, respectively, in UPB of single-family loans and $0.8 billion in UPB of multifamily loans during both periods that were classified as held-for-investment.

Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates. During the three months ended March 31, 2016 and March 31, 2015, we sold $10.8 billion and $5.1 billion, respectively, of held-for-sale multifamily loans. See Note 3 for more information on our issuances of K Certificates.

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we completed sales of $0.8 billion and $0.3 billion in UPB of seriously delinquent single-family loans during the three months ended March 31, 2016 and March 31, 2015, respectively.

We reclassified $0.4 billion and $3.6 billion in UPB of seriously delinquent single-family loans from held-for-investment to held-for-sale during the three months ended March 31, 2016 and March 31, 2015, respectively.

For additional information regarding the fair value of our loans classified as held-for-sale, see Note 13.

CREDIT QUALITY

The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As current LTV ratios increase, the borrower’s equity in the home decreases, which negatively affects the borrower’s ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding loan. A second-lien loan also reduces the borrower’s equity in the home, and has a similar negative effect on the borrower’s ability to refinance or sell the property for an amount at or above the combined balances of the first and second loans. As of March 31, 2016 and December 31, 2015, based on data collected by us at loan delivery, approximately 12% and 13%, respectively, of loans in our single-family credit guarantee portfolio had second-lien financing by

third parties at origination of the first loan. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. For further information about concentrations of risk associated with our single-family and multifamily loans, see Note 12.

For reporting purposes:

- Loans within the Alt-A category continue to be presented in that category following modification, even though the borrower may have provided full documentation of assets and income to complete the modification; and
- Loans within the option ARM category continue to be presented in that category following modification, even though the modified loan no longer provides for optional payment provisions.

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

	March 31, 2016				December 31, 2015			
	Current LTV Ratio				Current LTV Ratio			
(in millions)	≤ 80	> 80 to 100	> 100(1)	Total	≤ 80	> 80 to 100	> 100(1)	Total
20 and 30-year or more, amortizing fixed-rate(2)	$1,045,142	$234,710	$45,701	$1,325,553	$1,020,227	$242,948	$50,893	$1,314,068
15-year amortizing fixed-rate(2)	271,010	11,380	1,499	283,889	271,456	12,400	1,754	285,610
Adjustable-rate	58,696	4,498	190	63,384	59,724	5,055	249	65,028
Alt-A, interest-only, and option ARM	27,742	12,469	7,539	47,750	27,014	13,124	8,485	48,623
Total single-family loans	$1,402,590	$263,057	$54,929	$1,720,576	$1,378,421	$273,527	$61,381	$1,713,329

(1) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with current LTV ratios in excess of 100% was 6.01% and 6.03% as of March 31, 2016 and December 31, 2015, respectively.

(2) The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of March 31, 2016 and December 31, 2015, we have categorized UPB of approximately $37.2 billion and $38.3 billion, respectively, of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust, such rates and the timing of adjustment are determined at the time of modification rather than at a subsequent date.

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

(in millions)	March 31, 2016	December 31, 2015
Credit risk profile by internally assigned grade:(1)		
Pass	$ 28,233	$ 29,660
Special mention	879	1,135
Substandard	381	408
Doubtful	—	—
Total	$ 29,493	$ 31,203

(1) A loan categorized as: "Pass" is current and adequately protected by the current financial strength and debt service capacity of the borrower; "Special mention" has signs of potential financial weakness; "Substandard" has a weakness that jeopardizes the timely full repayment; and "Doubtful" has a weakness that makes collection or

liquidation in full highly questionable and improbable based on existing conditions.

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

MORTGAGE LOAN PERFORMANCE

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

	March 31, 2016					
(in millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure(1)	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,295,280	$13,937	$4,269	$ 12,067	$1,325,553	$ 12,065
15-year amortizing fixed-rate	282,599	788	160	342	283,889	342
Adjustable-rate	62,757	312	83	232	63,384	232
Alt-A, interest-only, and option ARM	42,932	1,796	631	2,391	47,750	2,390
Total single-family	1,683,568	16,833	5,143	15,032	1,720,576	15,029
Total multifamily	29,493	—	—	—	29,493	120
Total single-family and multifamily	$1,713,061	$16,833	$5,143	$ 15,032	$1,750,069	$ 15,149

	December 31, 2015					
(in millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure(1)	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,280,247	$16,178	$5,037	$ 12,606	$1,314,068	$ 12,603
15-year amortizing fixed-rate	284,137	935	183	355	285,610	355
Adjustable-rate	64,326	359	88	255	65,028	255
Alt-A, interest-only, and option ARM	43,543	1,962	714	2,404	48,623	2,403
Total single-family	1,672,253	19,434	6,022	15,620	1,713,329	15,616
Total multifamily	31,203	—	—	—	31,203	170
Total single-family and multifamily	$1,703,456	$19,434	$6,022	$ 15,620	$1,744,532	$ 15,786

(1) Includes $7.0 billion of loans that were in the process of foreclosure as of both March 31, 2016 and December 31, 2015.

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

(dollars in millions)	March 31, 2016	December 31, 2015
Single-family:(1)		
Non-credit-enhanced portfolio		
Serious delinquency rate	1.20 %	1.30 %
Total number of seriously delinquent loans	95,941	105,071
Credit-enhanced portfolio:(2)		
Primary mortgage insurance:		
Serious delinquency rate	1.78 %	2.06 %
Total number of seriously delinquent loans	24,290	27,813
Other credit protection:(3)		
Serious delinquency rate	0.49 %	0.58 %
Total number of seriously delinquent loans	8,888	9,422
Total single-family:		
Serious delinquency rate	1.20 %	1.32 %
Total number of seriously delinquent loans	128,044	141,255
Multifamily:(4)		
Non-credit-enhanced portfolio:		
Delinquency rate	0.03 %	0.03 %
UPB of delinquent loans	$ 19	$ 19
Credit-enhanced portfolio:		
Delinquency rate	0.04 %	0.02 %
UPB of delinquent loans	$ 48	$ 20
Total Multifamily:		
Delinquency rate	0.04 %	0.02 %
UPB of delinquent loans	$ 67	$ 39

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

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

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

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

LOAN LOSS RESERVES

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

•

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

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

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

The table below presents our loan loss reserves activity.

(in millions)	Three Months Ended March 31, 2016 Allowance for Loan Losses Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Total	2015 Allowance for Loan Losses Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Total
Single-family:								
Beginning balance	$12,516	$ 2,775	$ 57	$15,348	$18,800	$ 2,884	$ 109	$21,793
Provision (benefit) for credit losses	(435)	(29)	2	(462)	(469)	(25)	(2)	(496)
Charge-offs	(499)	(68)	(2)	(569)	(2,781)	(168)	(2)	(2,951)
Recoveries	126	2	—	128	169	5	—	174
Transfers, net[1]	(41)	139	—	98	301	(142)	—	159
Ending balance	$11,667	$ 2,819	$ 57	$14,543	$16,020	$ 2,554	$ 105	$18,679
Multifamily ending balance	$34	$ 1	$ 17	$52	$74	$ —	$ 17	$91
Total ending balance	$11,701	$ 2,820	$ 74	$14,595	$16,094	$ 2,554	$ 122	$18,770

(1) Consists of approximately $0.1 billion during both the three months ended March 31, 2016 and March 31, 2015 attributable to capitalization of past due interest on modified loans. Also includes amounts associated with reclassified single-family reserves related to our removal of loans previously held by consolidated trusts, net of reclassifications for single-family loans subsequently resecuritized after such removal.

The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 10.4% and 10.8% of the recorded investment in such loans at March 31, 2016 and December 31, 2015, respectively, and a substantial portion of the allowance associated with these loans represented interest rate concessions provided to borrowers as part of loan modifications. The allowance for loan losses associated with loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such loans as of both March 31, 2016 and December 31, 2015.

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs during the three months ended March 31, 2016 and March 31, 2015, 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)	Three Months Ended March 31, 2016 Number of Loans	Post-TDR Recorded Investment	2015 Number of Loans	Post-TDR Recorded Investment
Single-family:[1]				
20 and 30-year or more, amortizing fixed-rate	10,332	$ 1,456	13,293	$ 1,919
15-year amortizing fixed-rate	1,318	94	1,652	123
Adjustable-rate	274	40	405	57
Alt-A, interest-only, and option ARM	919	169	1,388	269
Total single-family	12,843	1,759	16,738	2,368

Multifamily	2	8	—	—
Total	12,845	$ 1,767	16,738	$ 2,368

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during the three months ended March 31, 2016 and March 31, 2015 was $1.8 billion and $2.4 billion, respectively.

Freddie Mac Form 10-Q 74

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.

	Three Months Ended March 31,			
	2016		2015	
(dollars in millions)	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	3,992	$ 634	4,307	$ 754
15-year amortizing fixed-rate	233	18	206	18
Adjustable-rate	73	11	68	12
Alt-A, interest-only, and option ARM	459	98	514	122
Total single-family	4,757	$ 761	5,095	$ 906
Multifamily	—	$ —	—	$ —

In addition to modifications, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or trial period modifications). During the three months ended March 31, 2016 and March 31, 2015, 2,216 and 2,488, respectively, of such loans (with a post-TDR recorded investment of $259 million and $346 million, respectively) experienced a payment default within a year after the loss mitigation activity occurred.

Loans may also be initially classified as TDRs because the borrowers' debts were discharged in Chapter 7 bankruptcy (and the loan was not already classified as a TDR for other reasons). During the three months ended March 31, 2016 and March 31, 2015, 336 and 695, respectively, of such loans (with a post-TDR recorded investment of $40 million and $94 million, respectively) experienced a payment default within a year after the borrowers' Chapter 7 bankruptcy.

Single-Family TDRs

During the three months ended March 31, 2016, approximately 41% of completed single-family loan modifications that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions and approximately 16% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During the three months ended March 31, 2016, the average term extension was 181 months, and the average interest rate reduction was 0.8% on completed single-family loan modifications classified as TDRs.

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.

	March 31, 2016			December 31, 2015		
(in millions)	UPB	Recorded Investment	Associated Allowance	UPB	Recorded Investment	Associated Allowance
Single-family —						
With no specific allowance recorded:[1]						
20 and 30-year or more, amortizing fixed-rate	$5,324	$ 4,000	N/A	$4,957	$ 3,724	N/A
15-year amortizing fixed-rate	42	35	N/A	45	38	N/A
Adjustable-rate	223	220	N/A	194	191	N/A
Alt-A, interest-only, and option ARM	1,574	1,213	N/A	1,370	1,033	N/A
Total with no specific allowance recorded	7,163	5,468	N/A	6,566	4,986	N/A
With specific allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	72,302	70,708	$(10,667)	72,886	71,215	$(11,245)
15-year amortizing fixed-rate	957	961	(23)	975	978	(21)
Adjustable-rate	478	470	(27)	518	510	(28)
Alt-A, interest-only, and option ARM	14,390	13,755	(2,598)	14,409	13,839	(2,725)
Total with specific allowance recorded	88,127	85,894	(13,315)	88,788	86,542	(14,019)
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	77,626	74,708	(10,667)	77,843	74,939	(11,245)
15-year amortizing fixed-rate	999	996	(23)	1,020	1,016	(21)
Adjustable-rate	701	690	(27)	712	701	(28)
Alt-A, interest-only, and option ARM	15,964	14,968	(2,598)	15,779	14,872	(2,725)
Total single-family	$95,290	$ 91,362	$(13,315)	$95,354	$ 91,528	$(14,019)
Multifamily —						
With no specific allowance recorded[1]	$277	$ 270	N/A	$341	$ 333	N/A
With specific allowance recorded	157	148	$(19)	149	142	$(21)
Total multifamily	$434	$ 418	$(19)	$490	$ 475	$(21)
Total single-family and multifamily	$95,724	$ 91,780	$(13,334)	$95,844	$ 92,003	$(14,040)

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

(in millions)	For the Three Months Ended March 31, 2016 Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis(3)	For the Three Months Ended March 31, 2015 Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis(3)
Single-family —						
With no specific allowance recorded:(1)						
20 and 30-year or more, amortizing fixed-rate	$4,015	$ 102	$ 2	$3,012	$ 88	$ 2
15-year amortizing fixed-rate	37	1	—	44	2	—
Adjustable rate	222	2	—	33	1	—
Alt-A, interest-only, and option ARM	1,195	25	1	683	18	—
Total with no specific allowance recorded	5,469	130	3	3,772	109	2
With specific allowance recorded:(2)						
20 and 30-year or more, amortizing fixed-rate	70,731	685	74	76,264	632	81
15-year amortizing fixed-rate	942	12	2	1,147	13	3
Adjustable rate	461	5	1	788	4	1
Alt-A, interest-only, and option ARM	13,673	124	10	16,128	101	13
Total with specific allowance recorded	85,807	826	87	94,327	750	98
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	74,746	787	76	79,276	720	83
15-year amortizing fixed-rate	979	13	2	1,191	15	3
Adjustable rate	683	7	1	821	5	1
Alt-A, interest-only, and option ARM	14,868	149	11	16,811	119	13
Total single-family	$91,276	$ 956	$ 90	$98,099	$ 859	$ 100
Multifamily —						
With no specific allowance recorded(1)	$271	$ 3	$ 1	$518	$ 6	$ 2
With specific allowance recorded	148	2	1	374	4	2
Total multifamily	$419	$ 5	$ 2	$892	$ 10	$ 4
Total single-family and multifamily	$91,695	$ 961	$ 92	$98,991	$ 869	$ 104

(1) 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.

(2) Consists primarily of loans classified as TDRs.

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

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

	March 31, 2016			December 31, 2015		
(in millions)	Single-family	Multifamily	Total	Single-family	Multifamily	Total
Recorded investment:						
Collectively evaluated	$1,629,214	$ 29,075	$1,658,289	$1,621,801	$ 30,728	$1,652,529
Individually evaluated	91,362	418	91,780	91,528	475	92,003
Total recorded investment	1,720,576	29,493	1,750,069	1,713,329	31,203	1,744,532
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,171)	(16)	(1,187)	(1,273)	(18)	(1,291)
Individually evaluated	(13,315)	(19)	(13,334)	(14,019)	(21)	(14,040)
Total ending balance of the allowance	(14,486)	(35)	(14,521)	(15,292)	(39)	(15,331)
Net investment in loans	$1,706,090	$ 29,458	$1,735,548	$1,698,037	$ 31,164	$1,729,201

CREDIT PROTECTION AND OTHER FORMS OF CREDIT ENHANCEMENT

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

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

	UPB(1) at		Maximum Coverage(1)(2) at	
(in millions)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Primary mortgage insurance	$261,242	$257,063	$66,899	$ 65,760
STACR debt note and ACIS transactions(3)	271,291	241,450	16,842	14,916
Lender recourse and indemnifications	6,178	6,339	5,243	5,396
Pool insurance(4)	1,633	1,706	720	753
HFA indemnification	2,536	2,599	2,536	2,599
Subordination	2,920	3,021	319	336
Other credit enhancements	15	15	9	10
Total	$545,815	$512,193	$92,568	$ 89,770

(1) 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 $8.0 billion and $8.3 billion in UPB of single-family loans underlying other securitization products as of March 31, 2016 and December 31, 2015, respectively, as the information was not available; and (c) repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite loans and service them in accordance with our standards. The UPB of single-family loans covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA and USDA) was $3.1 billion and $3.2 billion as of March 31, 2016 and December 31, 2015, respectively.

(2)

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

(3) Excludes $100.8 billion and $87.4 billion in UPB at March 31, 2016 and December 31, 2015, respectively, where the related loans are also covered by primary mortgage insurance. Maximum coverage amounts presented represent the outstanding balance of STACR debt notes held by third parties as well as the remaining aggregate limit of insurance purchased from third parties in ACIS transactions.

(4) Excludes approximately $0.5 billion and $0.6 billion in UPB at March 31, 2016 and December 31, 2015, respectively, where the related loans are also covered by primary mortgage insurance.

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

NON-CASH INVESTING AND FINANCING ACTIVITIES

During the three months ended March 31, 2016 and March 31, 2015, we acquired $42.5 billion and $55.1 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. The guarantor swap transactions during the three months ended March 31, 2016 and March 31, 2015 included approximately $3.8 billion and $0.8 billion, respectively, of loans received from sellers to satisfy advances that were recorded in other assets on our consolidated balance sheets.
In addition, we acquired REO properties as a result of the derecognition of loans held on our consolidated balance sheets upon foreclosure of the underlying collateral or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During the three months ended March 31, 2016 and March 31, 2015, we had transfers of $0.4 billion, and $0.6 billion, respectively, from loans to REO.

NOTE 5: INVESTMENTS IN SECURITIES

The table below summarizes the carrying value of our investments in securities by classification.

(in millions)	March 31, 2016	December 31, 2015
Trading securities	$36,471	$39,278
Available-for-sale securities	71,124	74,937
Total	$107,595	$114,215

As of March 31, 2016 and December 31, 2015, we did not classify any securities as held-to-maturity, although we may elect to do so in the future.

TRADING SECURITIES

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

(in millions)	March 31, 2016	December 31, 2015
Mortgage-related securities:		
Freddie Mac	$14,771	$ 15,513
Fannie Mae	6,182	6,438
Ginnie Mae	144	30
Other	136	146
Total mortgage-related securities	21,233	22,127
Non-mortgage-related securities	15,238	17,151
Total fair value of trading securities	$36,471	$ 39,278

During the three months ended March 31, 2016 and March 31, 2015, we recorded net unrealized gains (losses) on trading securities held at those dates of $197 million and $46 million, respectively.

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

AVAILABLE-FOR-SALE SECURITIES

At March 31, 2016 and December 31, 2015, all available-for-sale securities were mortgage-related securities.
The table below presents the amortized cost, gross unrealized gains and losses, and fair value by major security type for our securities classified as available-for-sale.

	March 31, 2016				
			Gross Unrealized Losses		
(in millions)	Amortized Cost	Gross Unrealized Gains	Other-Than-Temporary Impairment[1]	Temporary Impairment[2]	Fair Value
Available-for-sale securities:					
Freddie Mac	$32,955	$ 1,363	$ —	$ (43)	$34,275
Fannie Mae	6,616	276	—	(45)	6,847
Ginnie Mae	143	12	—	—	155
CMBS	9,618	485	(13)	(23)	10,067
Subprime	11,814	519	(327)	(59)	11,947
Option ARM	3,159	238	(67)	(5)	3,325
Alt-A and other	2,489	465	(8)	(6)	2,940
Obligations of states and political subdivisions	996	17	—	(1)	1,012
Manufactured housing	474	83	(1)	—	556
Total available-for-sale securities	$68,264	$ 3,458	$ (416)	$ (182)	$71,124

	December 31, 2015				
			Gross Unrealized Losses		
(in millions)	Amortized Cost	Gross Unrealized Gains	Other-Than-Temporary Impairment[1]	Temporary Impairment[2]	Fair Value
Available-for-sale securities:					
Freddie Mac	$32,684	$ 942	$ —	$ (99)	$33,527
Fannie Mae	7,033	265	—	(36)	7,262
Ginnie Mae	150	12	—	—	162
CMBS	12,009	450	(2)	(9)	12,448
Subprime	12,499	653	(295)	(55)	12,802
Option ARM	3,423	317	(56)	(6)	3,678
Alt-A and other	2,788	506	(11)	(5)	3,278
Obligations of states and political subdivisions	1,187	19	—	(1)	1,205
Manufactured housing	488	87	—	—	575
Total available-for-sale securities	$72,261	$ 3,251	$ (364)	$ (211)	$74,937

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

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

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

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

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

	March 31, 2016			
	Less than 12 Months		12 Months or Greater	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Freddie Mac	$3,300	$ (26)	$1,430	$ (17)
Fannie Mae	2,286	(27)	1,220	(18)
Ginnie Mae	—	—	53	—
CMBS	175	(23)	144	(13)
Subprime	1,766	(30)	3,669	(356)
Option ARM	419	(22)	555	(50)
Alt-A and other	152	(3)	219	(11)
Obligations of states and political subdivisions	4	—	8	(1)
Manufactured housing	—	—	14	(1)
Total available-for-sale securities in a gross unrealized loss position	$8,102	$ (131)	$7,312	$ (467)

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

At March 31, 2016, the gross unrealized losses relate to 387 individual lots representing 345 separate securities.

Impairment Recognition on Investments in Securities

For our available-for-sale securities in an unrealized loss position at March 31, 2016, we have asserted that we have no intent to sell and believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis.

Freddie Mac Form 10-Q 82

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

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

	March 31, 2016		
(dollars in millions)	Subprime	Option ARM	Alt-A
UPB	$16,462	$ 4,922	$2,376
Weighted average collateral defaults	42 %	26 %	22 %
Weighted average collateral severities	63 %	56 %	45 %
Weighted average voluntary prepayment rates	3 %	11 %	11 %
Average security credit enhancements	5 %	(2)%	— %

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

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

	Three Months Ended March 31,	
(in millions)	2016	2015
Net impairment of available-for-sale securities recognized in earnings		
Intent to sell	$52	$ 89
Other	5	4
Total net impairment of available-for-sale securities recognized in earnings	$57	$ 93

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

	Three Months Ended March 31,	
(in millions)	2016	2015
Credit-related other-than-temporary impairments on available-for-sale securities recognized in earnings:		
Beginning balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings	$5,306	$6,798
Additions:		
Amounts related to credit losses on securities for which an other-than-temporary impairment was not previously recognized	—	—
Amounts related to credit losses on securities for which an other-than-temporary impairment was previously recognized	5	4
Reductions:		
Amounts related to securities which were sold, written off, or matured	(55)	(52)
Amounts related to securities which we intend to sell or it is more likely than not that we will be required to sell before recovery of amortized cost basis	(636)	(380)
Amounts related to amortization resulting from significant increases in cash flows expected to be collected and/or due to the passage of time that are recognized over the remaining life of the security	(69)	(89)
	$4,551	$6,281

Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings

Freddie Mac Form 10-Q   83

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.

	Three Months Ended March 31,	
(in millions)	2016	2015
Gross realized gains	$80	$367
Gross realized losses	(8)	(5)
Net realized gains (losses)	$72	$362

Maturities of Available-For-Sale Securities

The table below presents the remaining contractual maturities of available-for-sale securities by security type.

	As of March 31, 2016									
	Total Amortized Cost	Total Fair Value	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
(dollars in millions)			Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities:										
Freddie Mac	$32,955	$34,275	$19	$ 19	$1	$ 1	$1,692	$1,684	$31,243	$32,571
Fannie Mae	6,616	6,847	3	3	11	12	72	81	6,530	6,751
Ginnie Mae	143	155	—	—	1	1	21	24	121	130
CMBS	9,618	10,067	140	142	—	—	17	17	9,461	9,908
Subprime	11,814	11,947	—	—	—	—	—	—	11,814	11,947
Option ARM	3,159	3,325	—	—	—	—	—	—	3,159	3,325
Alt-A and other	2,489	2,940	—	—	13	13	6	7	2,470	2,920
Obligations of states and political subdivisions	996	1,012	10	11	23	24	75	78	888	899
Manufactured housing	474	556	—	—	—	—	7	9	467	547
Total available-for-sale securities	$68,264	$71,124	$172	$ 175	$49	$ 51	$1,890	$1,900	$66,153	$68,998

NOTE 6: DEBT SECURITIES AND SUBORDINATED BORROWINGS

On January 1, 2016, we adopted the accounting guidance for the presentation of debt issuance costs as a basis adjustment to the debt. Previously reported amounts have been revised to conform to the current presentation.

Debt securities that we issue are classified as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations. The table below summarizes the interest expense per our consolidated statements of comprehensive income and the balances of total debt, net per our consolidated balance sheets.

	Balance, Net		Interest Expense for the Three Months Ended March 31,	
(in millions)	March 31, 2016	December 31, 2015	2016	2015
Debt securities of consolidated trusts held by third parties	$1,568,183	$1,556,121	$11,791	$11,487
Other debt:				
Short-term debt	85,128	113,569	93	38
Long-term debt	302,307	300,579	1,504	1,563
Total other debt	387,435	414,148	1,597	1,601
Total debt, net	$1,955,618	$1,970,269	$13,388	$13,088

Our debt cap under the Purchase Agreement is $479.0 billion in 2016 and will decline to $407.2 billion on January 1, 2017. As of March 31, 2016, our aggregate indebtedness for purposes of the debt cap was $391.3 billion. Our aggregate indebtedness is calculated as 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.

	March 31, 2016				December 31, 2015			
(dollars in million)	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon[1]	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon[1]
Single-family:								
30-year or more, fixed-rate[2]	2016 - 2053	$1,107,363	$1,141,139	3.85 %	2016 - 2053	$1,090,584	$1,123,290	3.88 %
20-year fixed-rate	2016 - 2036	74,054	76,302	3.58	2016 - 2036	73,018	75,221	3.61
15-year fixed-rate	2016 - 2031	266,078	272,450	2.99	2016 - 2031	270,036	276,531	3.01
Adjustable-rate	2016 - 2047	60,613	61,973	2.62	2016 - 2047	62,496	63,899	2.61
Interest-only	2026 - 2041	13,482	13,542	3.20	2026 - 2041	14,252	14,317	3.16
FHA/VA	2016 - 2044	944	962	5.35	2016 - 2044	986	1,005	5.37
Total single-family		1,522,534	1,566,368			1,511,372	1,554,263	
Multifamily[2]	2017 - 2028	1,690	1,815	4.91	2017 - 2028	1,717	1,858	4.90

Total debt securities of consolidated trusts held by third parties	$1,524,224	$1,568,183	$1,513,089	$1,556,121

(1) The effective rate for debt securities of consolidated trusts held by third parties was 3.05% and 3.06% as of March 31, 2016 and December 31, 2015, respectively.

Freddie Mac Form 10-Q 85

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

Other Debt

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

(dollars in millions)	March 31, 2016				December 31, 2015			
	Par Value	Carrying Amount(1)	Weighted Average Effective Rate		Par Value	Carrying Amount(1)	Weighted Average Effective Rate	
Other short-term debt:								
Discount notes and Reference Bills®	$75,659	$75,583	0.42	%	$104,088	$104,024	0.28	%
Medium-term notes	9,545	9,545	0.20		9,545	9,545	0.20	
Total other short-term debt	$85,204	$85,128	0.40		$113,633	$113,569	0.28	
Other long-term debt:								
Original maturities on or before December 31,								
2016	$49,654	$49,675	2.17	%	$58,765	$58,821	2.13	%
2017	95,586	95,660	1.44		91,544	91,636	1.48	
2018	54,118	54,149	1.42		48,189	48,187	1.52	
2019	39,455	39,361	1.73		31,352	31,259	1.84	
2020	16,732	16,705	1.88		26,697	26,664	1.96	
Thereafter	50,573	46,757	3.70		47,841	44,012	3.72	
Total other long-term debt(2)	306,118	302,307	1.97		304,388	300,579	2.02	
Total other debt	$391,322	$387,435			$418,021	$414,148		

(1) Represents par value, net of associated discounts or premiums, and hedge-related basis adjustments. Includes $6.8 billion and $7.0 billion at March 31, 2016 and December 31, 2015, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

(2) Balance, net for other long-term debt includes callable debt of $107.9 billion and $106.9 billion at March 31, 2016 and December 31, 2015, respectively, which gives us the option to call or not call debt for a variety of reasons that include managing the composition of liabilities or economic reasons.

NOTE 7: DERIVATIVES

At March 31, 2016 and December 31, 2015, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. Amounts reclassified from AOCI linked to interest payments on other debt are recorded in other debt interest expense and amounts not linked to interest payments on other debt are recorded in expense related to derivatives. During the three months ended March 31, 2016 and March 31, 2015, we reclassified from AOCI into earnings, losses of $51 million and $65 million, respectively, related to closed cash flow hedges. See Note 9 for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

USE OF DERIVATIVES

We use derivatives primarily to hedge interest-rate sensitivity mismatches between our financial assets and liabilities. We analyze the interest-rate sensitivity of financial assets and liabilities on a daily basis across a variety of interest-rate scenarios based on market prices, models and economics. When we use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty risk, and our overall risk management strategy.

We classify derivatives into three categories:

- Exchange-traded derivatives;
- Cleared derivatives; and
- OTC derivatives.

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

TYPES OF DERIVATIVES

We principally use the following types of derivatives:

- LIBOR-based interest-rate swaps;
- LIBOR- and Treasury-based options (including swaptions); and
- LIBOR- and Treasury-based exchange-traded futures.

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

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

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

DERIVATIVE ASSETS AND LIABILITIES AT FAIR VALUE

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

	March 31, 2016			December 31, 2015		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
(in millions)		Assets	Liabilities		Assets	Liabilities
Total derivative portfolio						
Interest-rate swaps:						
Receive-fixed	$263,757	$7,282	$(58)	$209,988	$4,591	$(486)
Pay-fixed	219,907	12	(19,991)	218,599	319	(11,736)
Basis (floating to floating)	1,125	1	—	1,125	1	—
Total interest-rate swaps	484,789	7,295	(20,049)	429,712	4,911	(12,222)
Option-based:						
Call swaptions						
Purchased	59,230	5,288	—	57,925	3,450	—
Written	4,375	—	(151)	4,375	—	(100)
Put Swaptions						
Purchased	29,080	424	—	24,050	580	—
Written	11,025	—	(5)	11,025	—	(28)
Other option-based derivatives[1]	14,096	949	—	12,088	791	—
Total option-based	117,806	6,661	(156)	109,463	4,821	(128)
Futures	69,739	—	—	56,332	—	—
Commitments	58,008	126	(174)	29,114	34	(28)
Credit derivatives	3,743	22	(7)	3,899	25	(10)
Other	3,013	—	(23)	3,033	—	(23)
Total derivatives not designated as hedging instruments	737,098	14,104	(20,409)	631,553	9,791	(12,411)
Derivative interest receivable (payable)		1,164	(1,617)		814	(1,393)
Netting adjustments[2]		(14,454)	20,394		(10,210)	12,550
Total derivative portfolio, net	$737,098	$814	$(1,632)	$631,553	$395	$(1,254)

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

(2) Represents counterparty netting and cash collateral netting. Cash collateral amounts were a net $5.9 billion and $2.3 billion at March 31, 2016 and December 31, 2015, respectively.

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

Freddie Mac Form 10-Q 88

GAINS AND LOSSES ON DERIVATIVES

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

	Three Months Ended March 31,	
(in millions)	2016	2015
Interest-rate swaps:		
Receive-fixed	$2,944	$1,317
Pay-fixed	(8,635)	(3,978)
Basis (floating to floating)	1	—
Total interest-rate swaps	(5,690)	(2,661)
Option based:		
Call swaptions		
Purchased	2,099	1,015
Written	(71)	(29)
Put swaptions		
Purchased	(278)	(66)
Written	38	15
Other option-based derivatives[1]	147	81
Total option-based	1,935	1,016
Other:		
Futures	(181)	(40)
Commitments	(126)	(111)
Credit derivatives	(8)	(37)
Other	(1)	1
Total other	(316)	(187)
Accrual of periodic cash settlements:		
Receive-fixed interest-rate swaps	617	680
Pay-fixed interest-rate swaps	(1,107)	(1,251)
Total accrual of periodic cash settlements	(490)	(571)
Total	$(4,561)	$(2,403)

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

NOTE 8: COLLATERALIZED AGREEMENTS AND OFFSETTING ARRANGEMENTS
DERIVATIVE PORTFOLIO

Derivative Counterparties

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

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

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our derivative counterparties for interest-rate swap and option-based derivatives. At March 31, 2016 and December 31, 2015, all amounts of cash collateral related to derivatives with master netting and collateral agreements were offset against derivative assets, net or derivative liabilities, net, as applicable.

In the event that all of our counterparties for OTC interest-rate swaps and option-based derivatives were to have defaulted simultaneously on March 31, 2016, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately $205 million. A significant majority of our net uncollateralized exposure to OTC derivative counterparties is concentrated among two counterparties, both of which were investment grade as of March 31, 2016.

Exposure to Certain Counterparties

The total exposure on our forward purchase and sale commitments, which are treated as derivatives, was $126 million and $34 million at March 31, 2016 and December 31, 2015, respectively. Many of our transactions involving forward purchase and sale commitments of mortgage-related securities, including our dollar roll transactions, utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation (“MBSD/FICC”) as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization (including its clearing members).

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

	March 31, 2016				
(in millions)	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets[(1)]	Gross Amount Not Offset in the Consolidated Balance Sheets[(2)]	Net Amount
Assets:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$11,672	$ (11,031)	$ 641	$ (436)	$ 205
Cleared and exchange-traded derivatives	3,448	(3,423)	25	—	25
Other	148	—	148	—	148
Total derivatives	15,268	(14,454)	814	(436)	378
Securities purchased under agreements to resell	40,098	—	40,098	(40,098)	—
Total	$55,366	$ (14,454)	$ 40,912	$ (40,534)	$ 378
Liabilities:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$(11,819)	$ 10,594	$ (1,225)	$ 1,084	$ (141)
Cleared and exchange-traded derivatives	(10,003)	9,800	(203)	—	(203)
Other	(204)	—	(204)	—	(204)
Total	$(22,026)	$ 20,394	$ (1,632)	$ 1,084	$ (548)

	December 31, 2015				
(in millions)	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets[(1)]	Gross Amount Not Offset in the Consolidated Balance Sheets[(2)]	Net Amount
Assets:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$8,763	$ (8,433)	$ 330	$ (269)	$ 61
Cleared and exchange-traded derivatives	1,783	(1,777)	6	—	6
Other	59	—	59	—	59
Total derivatives	10,605	(10,210)	395	(269)	126
Securities purchased under agreements to resell	63,644	—	63,644	(63,644)	—
Total	$74,249	$ (10,210)	$ 64,039	$ (63,913)	$ 126
Liabilities:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$(8,886)	$ 7,801	$ (1,085)	$ 948	$ (137)

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

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

(2) Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability presented on the consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us with an aggregate fair value of $2.6 billion and $2.8 billion as of March 31, 2016 and December 31, 2015, respectively.

COLLATERAL PLEDGED

Collateral Pledged to Freddie Mac

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

(in millions)	March 31, 2016	December 31, 2015
Restricted cash and cash equivalents	$349	$ 175
Securities purchased under agreements to resell	582	905
Investments in securities - Trading securities	1,075	447
Total	$2,006	$ 1,527

At March 31, 2016 and December 31, 2015, we had $436 million and $269 million, respectively, of collateral in the form of securities pledged to and held by us related to OTC derivative instruments. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master netting agreements related to our derivative instruments. In addition, we had $40 million and $22 million of cash pledged to us related to cleared derivatives at March 31, 2016 and December 31, 2015, respectively.

Also, at March 31, 2016 and December 31, 2015, we had $0.4 billion and $0.7 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell that we had the right to repledge. From time to time we may obtain pledges of collateral from certain seller/servicers as additional security for certain of their obligations to us, including their obligations to repurchase loans sold to us in breach of representations and warranties. This collateral may, at our discretion, take the form of cash, cash equivalents, or agency securities.

Collateral Pledged by Freddie Mac

The aggregate fair value of all OTC derivative instruments that were in a liability position on March 31, 2016, was $2.8 billion for which we posted cash and non-cash collateral of $2.6 billion in the normal course of business. A reduction in our credit ratings may trigger additional collateral requirements related to our OTC derivative instruments. If a reduction in our credit ratings had triggered additional collateral requirements related to our OTC derivative instruments on March 31, 2016, we would have been required to post an additional $0.2 billion of collateral to our counterparties. A reduction in our credit ratings could also cause the clearinghouses or clearing members we use for our cleared and exchange-traded derivatives to demand additional collateral.

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

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

(in millions)	March 31, 2016	December 31, 2015
Securities pledged with the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties[(1)]	$1,711	$ 1,293
Available-for-sale securities	175	—
Trading securities	1,995	2,487
Total securities pledged	$3,881	$ 3,780

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

Cash Pledged

At March 31, 2016, we pledged $8.2 billion of collateral in the form of cash and cash equivalents, of which $1.6 billion related to our OTC derivative agreements as we had $2.8 billion of such derivatives in a net loss position. The remaining $6.6 billion was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at March 31, 2016.

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

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

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

	Three Months Ended March 31, 2016			
(in millions)	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[1]	129	—	2	131
Amounts reclassified from accumulated other comprehensive income	(10)	34	(1)	23
Changes in AOCI by component	119	34	1	154
Ending balance	$1,859	$ (587)	$ 35	$1,307

	Three Months Ended March 31, 2015			
(in millions)	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	$2,546	$ (803)	$ (13)	$1,730
Other comprehensive income before reclassifications[1]	331	—	6	337
Amounts reclassified from accumulated other comprehensive income	(174)	59	—	(115)
Changes in AOCI by component	157	59	6	222
Ending balance	$2,703	$ (744)	$ (7)	$1,952

(1) For the three months ended March 31, 2016 and March 31, 2015, net of tax expense of $0.1 billion and $0.2 billion, respectively, for AOCI related to available-for-sale securities.

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

Reclassifications from AOCI to Net Income

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

Details about Accumulated Other Comprehensive Income Components	Three Months Ended March 31,		Affected Line Item in the Consolidated Statements of Comprehensive Income
(in millions)	2016	2015	
AOCI related to available-for-sale securities			
	$72	$362	Other gains (losses) on investment securities recognized in earnings
	(57)	(93)	Net impairment of available-for-sale securities recognized in earnings
	15	269	Total before tax
	(5)	(95)	Tax (expense) or benefit
	10	174	Net of tax
AOCI related to cash flow hedge relationships			
	—	—	Interest expense — Other debt
	(51)	(65)	Expense related to derivatives
	(51)	(65)	Total before tax
	17	6	Tax (expense) or benefit
	(34)	(59)	Net of tax
AOCI related to defined benefit plans			
	1	—	Salaries and employee benefits
	—	—	Tax (expense) or benefit
	1	—	Net of tax
Total reclassifications in the period	$(23)	$115	Net of tax

Future Reclassifications from AOCI to Net Income Related to Closed Cash Flow Hedges

The total AOCI related to derivatives designated as cash flow hedges was a loss of $0.6 billion and $0.7 billion at March 31, 2016 and March 31, 2015, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges.

The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately $136 million, net of taxes, of the $0.6 billion of cash flow hedge losses in AOCI at March 31, 2016 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 18 years.

Freddie Mac Form 10-Q 95

SENIOR PREFERRED STOCK

At March 31, 2016, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount at March 31, 2016 and the Capital Reserve Amount of $1.2 billion in 2016, we do not have a dividend obligation to Treasury for the first quarter of 2016. See Note 2 for additional information. The aggregate liquidation preference on the senior preferred stock owned by Treasury was $72.3 billion as of both March 31, 2016 and December 31, 2015.

STOCK ISSUANCES AND REPURCHASES

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during the three months ended March 31, 2016, except for issuances of treasury stock relating to stock-based compensation granted prior to conservatorship.

EARNINGS PER SHARE

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

- Vested options to purchase common stock; and
- Vested restricted stock units that earn dividend equivalents at the same rate when and as declared on common stock.

Consequently, in accordance with accounting guidance, we use the “two-class” method of computing earnings per common share. The “two-class” method is an earnings allocation formula that determines earnings per share for common stock and participating securities based on dividends declared and participation rights in undistributed earnings.

Basic earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding for the period. The weighted average common shares outstanding for the period includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury pursuant to the Purchase Agreement. These shares are included since the warrant is unconditionally exercisable by the holder at a minimal cost.

Diluted earnings per common share is computed as net income attributable to common stockholders divided by the weighted average common shares outstanding during the period adjusted for the dilutive effect of common equivalent shares outstanding. For periods with net income attributable to common stockholders, the calculation includes the effect of the following common stock equivalent shares outstanding:

- Weighted average shares related to stock options if the average market price during the period exceeds the exercise price; and
- The weighted-average of restricted stock units.

During periods in which a net loss attributable to common stockholders has been incurred, potential common equivalent shares outstanding are not included in the calculation because it would have an antidilutive effect. For purposes of the earnings-per-share calculation, all stock options outstanding at March 31, 2016 and March 31, 2015 were out of the money and excluded from the computation of dilutive potential common shares during the three months ended March 31, 2016 and March 31, 2015, respectively.

DIVIDENDS DECLARED

No common dividends were declared during the three months ended March 31, 2016. During the three months ended March 31, 2016 we paid dividends of $1.7 billion 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 the three months ended March 31, 2016.

NOTE 10: INCOME TAXES

INCOME TAX BENEFIT (EXPENSE)

For the three months ended March 31, 2016 and March 31, 2015, we reported an income tax benefit(expense) of $154 million and $(264) million, respectively, resulting in effective tax rates of 30.3% and 33.5%, respectively. Our effective tax rate differed from the statutory rate of 35% in these periods primarily due to our recognition of low income housing tax credits.

Deferred Tax Assets, Net

We had net deferred tax assets of $18.1 billion and $18.2 billion as of March 31, 2016 and December 31, 2015, respectively. At March 31, 2016, our net deferred tax assets consisted primarily of basis differences related to derivative instruments and deferred fees.

Based on all positive and negative evidence available at March 31, 2016, we determined that it is more likely than not that our net deferred tax assets will be realized. Therefore, a valuation allowance was not necessary.

UNRECOGNIZED TAX BENEFITS

We evaluated all income tax positions and determined that there were no uncertain tax positions that required reserves as of March 31, 2016.

NOTE 11: SEGMENT REPORTING

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

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

Segment Earnings

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

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

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. See Note 2 for information about the conservatorship.

During the three months ended March 31, 2016, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee and Investments segments. The purpose of these changes is to simplify Segment Earnings results relative to GAAP results, as well as to reduce operational complexity. Prior period results have been revised to conform to the current period presentation. Changes include:

- The discontinuation of adjustments to net interest income and management and guarantee fee income which reflected the amortization of cash premiums and discounts on the consolidated Freddie Mac mortgage-related securities we purchased as investments, as well as the amortization of certain guarantee buy-up and buy-down fees and credit delivery fees on mortgage loans we purchased. The discontinuation of the adjustments resulted in an increase to net interest income for the Investments segment of $181 million and a decrease to management and guarantee fee income for the Single-family Guarantee segment of $66 million for the three months ended March 31, 2015 to align with the current presentation.

- When we securitize loans into PCs, the premiums and discounts on the loans were previously amortized in net interest income. This amortization will now be reflected in other non-interest income, consistent with the amortization of the premiums and discounts on the securitized PCs themselves. We reclassified $348 million of expense from net interest income into other non-interest income for the Investments segment for the three months ended March 31, 2015 to align with the current presentation.
- Impacts from the reclassification of mortgage loans from held-for-investment to held-for-sale will be reflected in aggregate as other non-interest income. We reclassified $692 million of benefit from (provision) benefit for credit losses and $360 million of expense from other non-interest expense into other non-interest income for the Single-family Guarantee segment for the three months ended March 31, 2015 to align with the current presentation.

The table below presents Segment Earnings by segment.

	Three Months Ended March 31,	
(in millions)	2016	2015
Segment Earnings (loss), net of taxes:		
Single-family Guarantee	$810	$60
Multifamily	147	284
Investments	(1,311)	180
All Other	—	—
Total Segment Earnings, net of taxes	(354)	524
Net income	$(354)	$524
Comprehensive income (loss) of segments:		
Single-family Guarantee	$811	$59
Multifamily	150	264
Investments	(1,161)	416
All Other	—	7
Comprehensive income of segments	(200)	746
Comprehensive income	$(200)	$746

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.

	Three Months Ended March 31, 2016						
	Single-family Guarantee	Multifamily	Investments	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
	(in millions)						
Net interest income (loss)	$(118)	$ 252	$ 748	$ —	$ 882	$ 2,523	$ 3,405
Management and guarantee fee income[1]	1,285	108	—	—	1,393	(1,283)	110
Benefit for credit losses	289	5	—	—	294	173	467
Net interest income and management and guarantee income after benefit (provision) for credit losses	1,456	365	748	—	2,569	1,413	3,982
Net impairment of available-for-sale securities recognized in earnings	—	—	81	—	81	(138)	(57)
Derivative gains (losses)	(8)	(787)	(2,995)	—	(3,790)	(771)	(4,561)
Gains (losses) on trading securities	—	62	169	—	231	—	231
Gains (losses) on mortgage loans	—	497	—	—	497	(19)	478
Other non-interest income (loss)	195	178	189	—	562	(186)	376
Administrative expenses	(295)	(80)	(73)	—	(448)	—	(448)
REO operations income (expense)	(84)	—	—	—	(84)	—	(84)
Other non-interest expense	(100)	(24)	(2)	—	(126)	(299)	(425)
Income tax (expense) benefit	(354)	(64)	572	—	154	—	154
Net income (loss)	810	147	(1,311)	—	(354)	—	(354)
Changes in unrealized gains (losses) related to available-for-sale securities	—	3	116	—	119	—	119
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	34	—	34	—	34
Changes in defined benefit plans	1	—	—	—	1	—	1
Total other comprehensive income (loss), net of taxes	1	3	150	—	154	—	154
Comprehensive income (loss)	$811	$ 150	$ (1,161)	$ —	$ (200)	$ —	$ (200)

Freddie Mac Form 10-Q 101

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

	Three Months Ended March 31, 2015						
	Single-family Guarantee	Multifamily	Investments	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
	(in millions)						
Net interest income (loss)	$(137)	$ 242	$ 1,155	$ —	$ 1,260	$ 2,387	$ 3,647
Management and guarantee fee income[1]	1,257	73	—	—	1,330	(1,242)	88
(Provision) benefit for credit losses	(380)	3	—	—	(377)	876	499
Net interest income and management and guarantee income after benefit (provision) for credit losses	740	318	1,155	—	2,213	2,021	4,234
Net impairment of available-for-sale securities recognized in earnings	—	(17)	118	—	101	(194)	(93)
Derivative gains (losses)	(37)	(199)	(1,428)	—	(1,664)	(739)	(2,403)
Gains (losses) on trading securities	—	10	45	—	55	—	55
Gains (losses) on mortgage loans	—	353	—	—	353	(553)	(200)
Other non-interest income (loss)	(146)	44	461	—	359	47	406
Administrative expenses	(300)	(70)	(81)	—	(451)	—	(451)
REO operations income (expense)	(75)	—	—	—	(75)	—	(75)
Other non-interest expense	(92)	(11)	—	—	(103)	(582)	(685)
Income tax (expense) benefit	(30)	(144)	(90)	—	(264)	—	(264)
Net income	60	284	180	—	524	—	524
Changes in unrealized gains (losses) related to available-for-sale securities	—	(20)	177	—	157	—	157
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	59	—	59	—	59
Changes in defined benefit plans	(1)	—	—	7	6	—	6
Total other comprehensive income (loss), net of taxes	(1)	(20)	236	7	222	—	222
Comprehensive income	$ 59	$ 264	$ 416	$ 7	$ 746	$ —	$ 746

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

NOTE 12: CONCENTRATION OF CREDIT AND OTHER RISKS

SINGLE-FAMILY CREDIT GUARANTEE PORTFOLIO

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

	March 31, 2016		December 31, 2015		Percent of Credit Losses Three Months Ended	
	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate	March 31, 2016	March 31, 2015
Book of Business						
Core single-family book	68 %	0.19 %	66 %	0.21 %	6 %	2 %
HARP and other relief refinance book	17	0.69 %	18	0.72 %	15	5
Legacy single-family book	15	3.86 %	16	4.12 %	79	93
Total	100 %	1.20 %	100 %	1.32 %	100 %	100 %
Region(1)						
West	30 %	0.73 %	29 %	0.79 %	12 %	12 %
Northeast	25	1.84 %	26	2.04 %	37	47
North Central	17	1.03 %	17	1.13 %	25	13
Southeast	16	1.41 %	16	1.57 %	21	25
Southwest	12	0.81 %	12	0.88 %	5	3
Total	100 %	1.20 %	100 %	1.32 %	100 %	100 %
State(2)						
Illinois	5 %	1.48 %	5 %	1.62 %	10 %	7 %
Florida	5	1.90 %	5	2.16 %	10	20
New York	5	2.64 %	5	2.94 %	10	15
New Jersey	4	3.42 %	4	3.90 %	9	18
California	18	0.56 %	18	0.60 %	6	4
All other	63	1.03 %	63	1.12 %	55	36
Total	100 %	1.20 %	100 %	1.32 %	100 %	100 %

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

(2) States presented based on those with the highest percentage of credit losses during the three months ended March 31, 2016.

CREDIT PERFORMANCE OF CERTAIN HIGHER RISK SINGLE-FAMILY LOAN CATEGORIES

Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A. Although we discontinued new purchases of loans with lower documentation standards beginning March 1, 2009, we continued to purchase certain amounts of these loans in cases where the loan was either:

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

- 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[1]		Serious Delinquency Rate[1]	
(Percentage of portfolio based on UPB)	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Interest-only	1 %	1 %	5.55 %	6.02 %
Alt-A	2 %	2 %	6.01 %	6.32 %
Original LTV ratio greater than 90%[2]	16 %	16 %	1.81 %	2.01 %
Lower credit scores at origination (less than 620)	2 %	2 %	6.17 %	6.67 %

(1) Excludes loans underlying certain other securitization products for which data was not available.
(2) Includes HARP loans, which we purchase as part of our participation in the MHA Program.

SELLERS AND SERVICERS

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

	Three Months Ended March 31, 2016	March 31, 2015
Single-family Seller		
Wells Fargo Bank, N.A.	13%	10 %
Other top 10 sellers	35	41
Top 10 single-family sellers	48%	51 %
Multifamily Seller		
Berkadia Commercial Mortgage LLC	26%	6 %
CBRE Capital Markets, Inc.	19	18
Walker & Dunlop, LLC	14	17
Other top 10 sellers	29	43
Top 10 multifamily sellers	88%	84 %

In recent years, there has been a shift in our purchase volume from depository institutions to non-depository and smaller depository financial institutions. Some of these non-depository sellers have grown rapidly in recent years, and we purchase a significant share of our loans from them. Our top three non-depository sellers provided approximately 12% of our single-family purchase volume during the three months ended March 31, 2016.

Significant portions of our single-family and multifamily loans are serviced by several large servicers. The table below summarizes the concentration of single-family and multifamily servicers who serviced 10% or more of our single-family credit guarantee portfolio and our multifamily mortgage portfolio, excluding loans underlying K Certificates.

	March 31, 2016	December 31, 2015
Single-family Servicer		
Wells Fargo Bank, N.A.	20 %	20 %
JP Morgan Chase Bank, N.A.	10	10
Other top 10 servicers	34	35
Top 10 single-family servicers	64 %	65 %
Multifamily Servicer		
Berkadia Commercial Mortgage LLC	14 %	14 %
Wells Fargo Bank, N.A.	13	14
CBRE Capital Markets, Inc.	13	12
Other top 10 servicers	38	36
Top 10 multifamily servicers	78 %	76 %

In recent years, there has been a shift in our servicing from depository institutions to non-depository servicers. Some of these non-depository servicers have grown rapidly in recent years and now service a large share of our loans. As of both March 31, 2016 and December 31, 2015, approximately 10% of our single-family credit guarantee portfolio was serviced by our three largest non-depository servicers, on a combined basis. Several of these non-depository servicers also service a large share of the loans underlying our investments in non-agency mortgage-related securities.

Ocwen Financial Corp. (Ocwen) and its subsidiaries and/or affiliates continue to be the subject of adverse regulatory scrutiny. Although we have taken steps to reduce our exposure to them, Ocwen remains one of our significant non-depository servicers. We continue to closely monitor the performance of Ocwen's $26.0 billion servicing portfolio as of March 31, 2016.

MORTGAGE INSURERS

We have institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. We evaluate the recovery and collectability from mortgage insurers as part of the estimate of our loan loss reserves. See Note 4 for additional information. As of March 31, 2016, mortgage insurers provided coverage with maximum loss limits of $67.6 billion, for $263.4 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected loan is covered under both primary and pool insurance.

The table below summarizes the concentration of mortgage insurer counterparties who provided 10% or more of our overall mortgage insurance coverage.

		Mortgage Insurance Coverage	
	Credit Rating[1]	March 31, 2016	December 31, 2015
Radian Guaranty Inc.	BBB-	22%	22 %
United Guaranty Residential Insurance Company	BBB+	22	23
Mortgage Guaranty Insurance Corporation	BBB-	21	21
Genworth Mortgage Insurance Corporation	BB+	14	14
Total		79%	80 %

(1) Ratings are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of March 31, 2016. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

We received proceeds of $0.1 billion and $0.2 billion during the three months ended March 31, 2016 and March 31, 2015, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers of $0.2 billion and $0.3 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of March 31, 2016 and December 31, 2015, respectively. The balance of these receivables, net of associated reserves, was approximately $0.2 billion at both March 31, 2016 and December 31, 2015.

PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both in rehabilitation, and a substantial portion of their claims is recorded by us as deferred payment obligations. As of both March 31, 2016 and December 31, 2015, we had cumulative unpaid deferred payment obligations of $0.5 billion from these insurers. We reserved for all of these unpaid amounts as collectability is uncertain. It is not clear how the regulators of these companies will administer their respective deferred payment plans in the future, nor when or if those obligations will be paid.

CASH AND OTHER INVESTMENT COUNTERPARTIES

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

Our cash and other investments (including non-mortgage-related investments and cash equivalents) counterparties are primarily major financial institutions, Treasury, and the Federal Reserve Bank of New York. As of March 31, 2016 and December 31, 2015, including amounts related to our consolidated VIEs, there were $62.9 billion and $83.8 billion, respectively, of cash and securities purchased under agreements to resell invested with institutional counterparties, Treasury securities classified as cash equivalents, or cash deposited with the Federal Reserve Bank of New York. As of March 31, 2016, all of our securities purchased under agreements to resell were fully collateralized.

NON-AGENCY MORTGAGE-RELATED SECURITY ISSUERS

We are engaged in various loss mitigation efforts concerning certain investments in non-agency mortgage-related securities.

In 2011, FHFA, as Conservator for Freddie Mac and Fannie Mae, filed lawsuits against a number of corporate families of financial institutions and related defendants alleging securities laws violations and, in some cases, fraud. In March 2015, FHFA’s case against Nomura Holding America, Inc. (or Nomura) went to trial in the U.S. District Court for the Southern District of New York. The trial was completed in April 2015. In May 2015, the judge ruled against Nomura and co-defendant RBS Securities Inc. and ordered the defendants to pay an aggregate of $806 million, of which $779 million will be paid to Freddie Mac. The order also provides for Freddie Mac to transfer the mortgage-related securities at issue in this trial to the defendants. The defendants have agreed to pay for certain costs, legal fees and expenses if FHFA prevails in the litigation. This expense reimbursement payment is subject to various conditions, and is capped at $33 million (half of any such payment would be made to Freddie Mac). The defendants have filed a notice of appeal and the Court has stayed enforcement of the judgment during the pendency of the appeal.

We have been working with an investor consortium that seeks to enforce certain claims relating to certain Countrywide non-agency mortgage-related securities. In June 2011, Bank of America Corporation, BAC Home Loans Servicing, LP, Countrywide Financial Corporation and Countrywide Home Loans, Inc. entered into a settlement agreement with The Bank of New York Mellon, as trustee, to resolve certain claims with respect to a number of Countrywide mortgage securitization trusts. In January 2014, a New York state court approved a significant portion of the settlement. In March 2015, a New York intermediate appellate court upheld the settlement in full. The conditions to the settlement have been satisfied. On February 5, 2016, the trustee filed a petition in New York state court seeking the court's resolution of a dispute among the investors over the proper allocation of the settlement proceeds through certain trusts covered by the agreement. As a result of this action, it is uncertain when the trustee will distribute the settlement funds to the trusts.

We have also been working with an investor consortium that seeks to enforce certain claims relating to certain Citigroup non-agency mortgage-related securities. In April 2014, Citigroup Inc. entered into a settlement agreement with the trustees of the securities covered by the settlement. In December 2015, a New York state court entered a judgment approving the settlement in all respects. The order became final in January 2016. It is likely that the conditions of the settlement will be fully satisfied in the near term. As a result, we expect to receive a benefit for those securitizations that we hold at the time of such distributions. This benefit, which is expected to be approximately $0.1 billion, will be reflected in earnings recognized over the expected life of the securities.

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

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

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

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

- Level 1 - inputs to the valuation techniques are based on quoted prices in active markets for identical assets or liabilities.
- Level 2 - inputs to the valuation techniques are based on observable inputs other than quoted prices in active markets for identical assets or liabilities.
- Level 3 - one or more inputs to the valuation technique are unobservable and significant to the fair value measurement

We use quoted market prices and valuation techniques that seek to maximize the use of observable inputs, where available, and minimize the use of unobservable inputs. Our inputs are based on the assumptions a market participant would use in valuing the asset or liability. Assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

VALUATION PROCESSES AND CONTROLS OVER FAIR VALUE MEASUREMENTS

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

HARP Loans

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

The total compensation that we receive for the delivery of a HARP loan reflects the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. When HARP ends in December 2016, the beneficial pricing afforded to HARP loans will no longer be reflected in the pricing structure of our management and guarantee fees. If these benefits were not reflected in the pricing for these loans, the fair value of our loans would have decreased by $10.6 billion and $12.9 billion as of March 31, 2016 and December 31, 2015, respectively. The total fair value of the loans in our portfolio that reflect the pricing afforded to HARP loans as of March 31, 2016 and December 31, 2015 is $76.4 billion and $82.8 billion, respectively.

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

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

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

(in millions)	March 31, 2016 Level 1	Level 2	Level 3	Netting Adjustment[1]	Total
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	$—	$29,906	$4,369	$ —	$34,275
Fannie Mae	—	6,763	84	—	6,847
Ginnie Mae	—	154	1	—	155
CMBS	—	6,440	3,627	—	10,067
Subprime	—	—	11,947	—	11,947
Option ARM	—	—	3,325	—	3,325
Alt-A and other	—	—	2,940	—	2,940
Obligations of states and political subdivisions	—	—	1,012	—	1,012
Manufactured housing	—	—	556	—	556
Total available-for-sale securities, at fair value	—	43,263	27,861	—	71,124
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	14,648	123	—	14,771
Fannie Mae	—	6,153	29	—	6,182
Ginnie Mae	—	144	—	—	144
Other	—	135	1	—	136
Total mortgage-related securities	—	21,080	153	—	21,233
Non-mortgage-related securities	15,238	—	—	—	15,238
Total trading securities, at fair value	15,238	21,080	153	—	36,471
Total investments in securities	15,238	64,343	28,014	—	107,595
Mortgage loans:					
Held-for-sale, at fair value	—	22,415	—	—	22,415
Derivative assets, net:					
Interest-rate swaps	—	7,295	—	—	7,295
Option-based derivatives	—	6,661	—	—	6,661
Other	—	125	23	—	148
Subtotal, before netting adjustments	—	14,081	23	—	14,104
Netting adjustments[1]	—	—	—	(13,290)	(13,290)
Total derivative assets, net	—	14,081	23	(13,290)	814
Other assets:					
Guarantee asset, at fair value	—	—	1,894	—	1,894
Non-derivative held-for-sale purchase commitments, at fair value	—	74	—	—	74
Total other assets	—	74	1,894	—	1,968
Total assets carried at fair value on a recurring basis	$15,238	$100,913	$29,931	$ (13,290)	$132,792
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$—	$122	$—	$ —	$122
Other debt, at fair value	—	6,793	—	—	6,793

Derivative liabilities, net:					
Interest-rate swaps	—	20,049	—	—	20,049
Option-based derivatives	—	156	—	—	156
Other	—	170	34	—	204
Subtotal, before netting adjustments	—	20,375	34	—	20,409
Netting adjustments(1)	—	—	—	(18,777)	(18,777)
Total derivative liabilities, net	—	20,375	34	(18,777)	1,632
Other liabilities:					
Non-derivative held-for-sale purchase commitments, at fair value	—	24	—	—	24
All other, at fair value	—	—	8	—	8
Total other liabilities	—	24	8	—	32
Total liabilities carried at fair value on a recurring basis	$—	$27,314	$42	$ (18,777)	$8,579

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

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

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

(1) Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable. The net cash collateral posted was $5.9 billion and $2.3 billion, respectively, at March 31, 2016 and December 31, 2015. The net interest receivable (payable) of derivative assets and derivative liabilities was $(0.5) billion and $(0.6) billion at March 31, 2016 and December 31, 2015, respectively, which was mainly related to interest rate swaps.

ASSETS ON OUR CONSOLIDATED BALANCE SHEETS MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS

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

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

	March 31, 2016				December 31, 2015			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a non-recurring basis:								
Mortgage loans[1]	$—	$770	$3,729	$4,499	$—	$1,130	$5,851	$6,981
REO, net[2]	—	—	839	839	—	—	1,046	1,046
Total assets measured at fair value on a non-recurring basis	$—	$770	$4,568	$5,338	$—	$1,130	$6,897	$8,027

(1) Includes loans that are classified as held-for-investment and have been measured for impairment based on the fair value of the underlying collateral and held-for-sale loans where the fair value is below cost. Includes the correction of an error in previously reported amounts that is not material to the consolidated financial statements.

(2) Represents the fair value of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was adjusted to fair value of $0.8 billion, less estimated costs to sell of $55 million (or approximately $0.8 billion) at March 31, 2016. The carrying amount of REO, net was adjusted to fair value of $1.0 billion, less estimated costs to sell of $68 million (or approximately $0.9 billion) at December 31, 2015.

LEVEL 3 FAIR VALUE MEASUREMENTS

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

	Three Months Ended March 31, 2016											
		Realized and unrealized gains (losses)										
	Balance, January 1, 2016	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, March 31, 2016	Unrealized gains (losses) still held
	in millions											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$2,608	$14	$1	$15	$1,755	$—	$(362)	$(89)	$714	$(272)	$4,369	$—
Fannie Mae	90	—	—	—	—	—	—	(6)	—	—	84	—
Ginnie Mae	1	—	—	—	—	—	—	—	—	—	1	—
CMBS	3,530	—	88	88	17	—	—	(8)	—	—	3,627	—
Subprime	12,802	26	(171)	(145)	—	—	(208)	(502)	—	—	11,947	18
Option ARM	3,678	58	(88)	(30)	—	—	(182)	(141)	—	—	3,325	28
Alt-A and other	3,278	34	(39)	(5)	—	—	(185)	(148)	—	—	2,940	28
Obligations of states and political subdivisions	1,205	—	(2)	(2)	—	—	—	(191)	—	—	1,012	—
Manufactured housing	575	—	(4)	(4)	—	—	—	(15)	—	—	556	—
Total available-for-sale mortgage-related securities	27,767	132	(215)	(83)	1,772	—	(937)	(1,100)	714	(272)	27,861	74
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	331	(5)	—	(5)	50	11	(139)	(2)	8	(131)	123	(2)
Fannie Mae	41	1	—	1	—	—	(13)	—	—	—	29	(1)
Other	2	—	—	—	—	—	—	(1)	—	—	1	—
Total trading mortgage-related securities	374	(4)	—	(4)	50	11	(152)	(3)	8	(131)	153	(3)
Other assets:												
Guarantee asset	1,753	58	—	58	142	16	—	(75)	—	—	1,894	58

		Realized and unrealized (gains) losses										
	Balance, January	Included in	Included in	Total	Purchases	Issues	Sales	Settlements, net	Transfers into	Transfers out of	Balance, March	Unrealized (gains)

	1, 2016	earnings[(1)]	other comprehensive income[(1)]						Level 3[(2)]	Level 3[(2)]	31, 2016	losses still held
	(in millions)											
Liabilities												
Net derivatives[(2)]	$8	$18	$ —	$18	$—	$ —	$—	$ (15)	$—	$—	$11	$ 3
Other liabilities:												
All other, at fair value	10	(2)	—	(2)	—	—	—	—	—	—	8	8

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

	Three Months Ended March 31, 2015											
		Realized and unrealized gains (losses)										
	Balance, January 1, 2015	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, March 31, 2015	Unrealized gains (losses) still held
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$4,231	$—	$(2)	$(2)	$1,010	$—	$(654)	$22	$—	$(1,924)	$2,683	$—
Fannie Mae	85	—	1	1	—	—	—	(7)	43	(9)	113	—
Ginnie Mae	4	—	—	—	—	—	—	(1)	—	—	3	—
CMBS	3,474	(17)	101	84	—	—	—	(6)	—	—	3,552	(17)
Subprime	20,589	192	12	204	—	—	(2,892)	(102)	—	—	17,799	(65)
Option ARM	5,649	11	(29)	(18)	—	—	(168)	(187)	—	—	5,276	(11)
Alt-A and other	5,027	6	(11)	(5)	—	—	(106)	(143)	15	—	4,788	(1)
Obligations of states and political subdivisions	2,198	—	(5)	(5)	—	—	—	(366)	—	—	1,827	—
Manufactured housing	638	—	(1)	(1)	—	—	(4)	(14)	—	—	619	—
Total available-for-sale mortgage-related securities	41,895	192	66	258	1,010	—	(3,824)	(804)	58	(1,933)	36,660	(94)
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	927	2	—	2	44	128	(5)	(10)	34	(609)	511	2
Fannie Mae	232	2	—	2	—	—	(2)	(2)	6	(97)	139	2
Ginnie Mae	1	—	—	—	—	—	(1)	—	—	—	—	—
Other	4	4	—	4	—	—	(4)	—	—	—	4	—
Total trading mortgage-related securities	1,164	8	—	8	44	128	(12)	(12)	40	(706)	654	4
Other assets:												
Guarantee asset	1,626	(15)	—	(15)	—	93	—	(135)	—	—	1,569	(15)
All other, at fair value	5	1	—	1	—	—	—	—	—	—	6	1
Total other assets	1,631	(14)	—	(14)	—	93	—	(135)	—	—	1,575	(14)

Realized and unrealized (gains)

	Balance, January 1, 2015	losses Included in earnings(1)	Included in other comprehensive income(1)	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, March 31, 2015	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Net derivatives(2)	$10	$25	$ —	$25	$—	$ —	$—	$ (10)	$ —	$—	$25	$ 15

(1) Transfers out of Level 3 during the three months ended March 31, 2016 consisted primarily of certain mortgage-related securities due to an increased volume and level of activity in the market and availability of price quotes from dealers and third-party pricing services. Freddie Mac securities are generally classified as Level 3 at issuance and generally are classified as Level 2 when they begin trading. Transfers into Level 3 during the three months ended March 31, 2016 consisted primarily of certain mortgage-related securities due to a lack of market activity and relevant price quotes from dealers and third-party pricing services.

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

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

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

March 31, 2016

(dollars in millions)	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs Type	Range	Weighted Average
Recurring fair value measurements					
Assets					
Investments in securities					
Available-for-sale, at fair value					
Mortgage-related securities					
Freddie Mac	$3,699	Discounted cash flows	OAS	(38) - 491 bps	97 bps
	670	Other			
Total Freddie Mac	4,369				
Fannie Mae	36	Median of external sources			
	33	Single external source			
	15	Other			
Total Fannie Mae	84				
Ginnie Mae	1	Discounted cash flows			
Total Ginnie Mae	1				
CMBS	3,610	Risk Metrics	Effective duration	2.90 - 10.77 years	9.32 years
	17	Other			
Total CMBS	3,627				
Subprime, option ARM, and Alt-A:					
Subprime	11,406	Median of external sources	External pricing sources	$70.2 - $74.2	$ 72.1
	541	Other			
Total subprime	11,947				
Option ARM	3,093	Median of external sources	External pricing sources	$64.6 - $69.5	$ 67.3
	232	Other			
Total option ARM	3,325				
Alt-A and other	2,153	Median of external sources	External pricing sources	$84.9 - $88.2	$ 86.7
	477	Single external source	External pricing source	$83.8 - $83.8	$ 83.8
	310	Other			
Total Alt-A and other	2,940				
Obligations of states and political subdivisions	917	Median of external sources	External pricing sources	$101.5 - $101.9	$ 101.7
	95	Other			
Total obligations of states and political subdivisions	1,012				
Manufactured housing	485			$90.0 - $93.3	$ 91.5

		Median of external sources	External pricing sources		
	71	Other			
Total manufactured housing	556				
Total available-for-sale mortgage-related securities	27,861				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	95	Discounted cash flows			
	11	Risk Metrics			
	17	Other			
Total Freddie Mac	123				
Fannie Mae	29	Discounted cash flows			
Total Fannie Mae	29				
Ginnie Mae	—				
Other	1	Discounted cash flows			
Total other	1				
Total trading mortgage-related securities	153				
Total investments in securities	$28,014				
Other assets:					
Guarantee asset, at fair value	$1,763	Discounted cash flows	OAS	17 - 198 bps	58 bps
	131	Other			
Total guarantee asset, at fair value	1,894				
Liabilities					
Net derivatives	11	Other			
Total net derivatives	11				
Other liabilities					
All other, at fair value	8	Other			
Total all other, at fair value	8				

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

December 31, 2015

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

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

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

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

March 31, 2016

(dollars in millions)	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	$3,729				
		Internal model	Historical sales proceeds	$3,000 - $788,699	$191,075
		Internal model	Housing sales index	41 - 470 bps	91 bps
		Third-party appraisal	Property value	$1 million - $30 million	$28 million
		Income capitalization(1)	Capitalization rates	6% - 9%	6%
		Median of external sources	External pricing sources	$38.1 - $94.1	$69.4
REO, net	$839				
		Internal model	Historical sales proceeds	$3,000 - $677,440	$154,037
		Internal model	Housing sales index	43 - 470 bps	88 bps
		Other			

December 31, 2015

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(in millions)	March 31, 2016 GAAP Carrying Amount	Fair Value Level 1	Level 2	Level 3	Netting Adjustments	Total
Financial Assets						
Cash and cash equivalents	$6,158	$6,158	$—	$—	$—	$6,158
Restricted cash and cash equivalents	16,671	16,671	—	—	—	16,671
Securities purchased under agreements to resell	40,098	—	40,098	—	—	40,098
Investments in securities:						
Available-for-sale, at fair value	71,124	—	43,263	27,861	—	71,124
Trading, at fair value	36,471	15,238	21,080	153	—	36,471
Total investments in securities	107,595	15,238	64,343	28,014	—	107,595
Mortgage loans:						
Loans held by consolidated trusts	1,635,242	—	1,517,455	155,576	—	1,673,031
Loans held by Freddie Mac	127,391	—	37,180	91,380	—	128,560
Total mortgage loans	1,762,633	—	1,554,635	246,956	—	1,801,591
Derivative assets, net	814	—	14,081	23	(13,290)	814
Guarantee asset	1,894	—	—	2,104	—	2,104
Non-derivative purchase commitments, at fair value	74	—	106	8	—	114
Advances to lenders	680	—	—	680	—	680
Total financial assets	$1,936,617	$38,067	$1,673,263	$277,785	$(13,290)	$1,975,825
Financial Liabilities						
Debt, net:						
Debt securities of consolidated trusts held by third parties	$1,568,183	$—	$1,656,668	$3,516	$—	$1,660,184
Other debt	387,435	—	388,906	5,950	—	394,856
Total debt, net	1,955,618	—	2,045,574	9,466	—	2,055,040
Derivative liabilities, net	1,632	—	20,375	34	(18,777)	1,632
Guarantee obligation	1,808	—	—	3,303	—	3,303
Non-derivative purchase commitments, at fair value	24	—	29	28	—	57
Total financial liabilities	$1,959,082	$—	$2,065,978	$12,831	$(18,777)	$2,060,032

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

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

FAIR VALUE OPTION

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

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

(in millions)	March 31, 2016 Multifamily Held-For-Sale Loans	Other Debt - Long Term	December 31, 2015 Multifamily Held-For-Sale Loans	Other Debt - Long Term
Fair value	$22,415	$ 6,793	$17,660	$ 7,045
Unpaid principal balance	21,995	6,842	17,673	7,093
Difference	$420	$ (49)	$(13)	$ (48)

Explanation of Responses:

Changes in Fair Value under the Fair Value Option Election

We recorded gains (losses) of $0.5 billion and $0.4 billion for the three months ended March 31, 2016 and March 31, 2015, respectively, from the change in fair value on multifamily held-for-sale loans recorded at fair value in other income in our condensed consolidated statements of comprehensive income.

We recorded gains (losses) of $38 million for the three months ended March 31, 2016 from the change in fair value of multifamily held-for-sale loan purchase commitments recorded at fair value in other income in our condensed consolidated statements of comprehensive income.

Gains (losses) on debt securities with the fair value option elected were $13 million and $(189) million for the three months ended March 31, 2016 and March 31, 2015, respectively, and were recorded in other income in our condensed consolidated statements of comprehensive income.

Changes in fair value attributable to instrument-specific credit risk were not material for the three months ended March 31, 2016 and March 31, 2015 for any assets or liabilities for which we elected the fair value option.

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.

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

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

On or about May 14, 2010, certain underwriters at Lloyds, London and London Market Insurance Companies brought an adversary proceeding in the U.S. Bankruptcy Court for the Middle District of Florida against TBW, Freddie Mac and other parties seeking a declaration rescinding $90 million of mortgage bankers bonds providing fidelity and errors and omissions insurance coverage. Several excess insurers on the bonds thereafter filed similar claims in that action. Freddie Mac filed a proof of loss under the bonds. The underwriters moved for partial summary judgment against Freddie Mac in April 2013. The Court denied this motion in March 2014, and the underwriters subsequently appealed the denial of the motion to the U.S. District Court. Numerous additional motions for summary judgment filed by the parties, including by Freddie Mac, are pending. In February 2015, the Court granted summary judgment against TBW on its claims. Freddie Mac has moved for a clarification that the Court's judgment does not apply to Freddie Mac's separate claims against Lloyds. In September 2015, TBW advised the Court that a settlement had been reached. In March 2016, the settlement agreement was submitted to the Court for approval. On April 25, 2016, the Court approved the settlement. The Court's order remains subject to potential appeal, and is therefore not yet final.

On December 29, 2014, Freddie Mac filed an action in the U.S. District Court for the Southern District of New York against certain underwriters at Lloyds, London and several other insurance carriers seeking coverage for $111 million in losses under Freddie Mac's primary and excess financial institution bonds. The losses resulted from fraud perpetrated by senior officers and employees of TBW. On April 11, 2016, the parties advised the Court that a settlement in principle among Freddie Mac and almost all of the insurance carriers had been reached. The settlement is subject to necessary approvals and documentation, which are now proceeding.

LIBOR LAWSUIT

On March 14, 2013, Freddie Mac filed a lawsuit in the U.S. District Court for the Eastern District of Virginia against the British Bankers Association and the 16 U.S. Dollar LIBOR panel banks and a number of their affiliates. The case was subsequently transferred to the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants fraudulently and collusively depressed LIBOR, a benchmark interest rate indexed to trillions of dollars of financial products, and asserts claims for antitrust violations, breach of contract, tortious interference with contract and fraud. Freddie Mac filed an amended complaint in July 2013, and a second amended complaint in October 2014. The defendants moved to dismiss the second amended complaint; Freddie Mac opposed this motion. In August 2015, the 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 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.

LITIGATION CONCERNING THE PURCHASE AGREEMENT

Since July 2013, a number of lawsuits have been filed against us concerning the August 2012 amendment to the Purchase Agreement, which created the net worth sweep dividend provisions of the senior preferred stock. The plaintiffs in the lawsuits allege that they are holders of common stock and/or junior preferred stock issued by Freddie Mac and Fannie Mae. (For purposes of this discussion, junior preferred stock refers to the various series of preferred stock of Freddie Mac and Fannie Mae other than the senior preferred stock issued to Treasury.) It is possible that similar lawsuits will be filed in the future. The lawsuits against us are described below.

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

In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations. This case is the result of the consolidation of three putative class action lawsuits: Cacciapelle and Bareiss vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 29, 2013; American European Insurance Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and FHFA, filed on July 30, 2013; and Marneu Holdings, Co. vs. FHFA, Treasury, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, filed on September 18, 2013. (The Marneu case was also filed as a shareholder derivative lawsuit.) A consolidated amended complaint was filed in December 2013. In the consolidated amended complaint, plaintiffs allege, among other items, that the August 2012 amendment to the Purchase Agreement breached Freddie Mac's and Fannie Mae's respective contracts with the holders of junior preferred stock and common stock and the covenant of good faith and fair dealing inherent in such contracts. Plaintiffs sought unspecified damages, equitable and injunctive relief, and costs and expenses, including attorney and expert fees.

The Cacciapelle and American European Insurance Company lawsuits were filed purportedly on behalf of a class of purchasers of junior preferred stock issued by Freddie Mac or Fannie Mae who held stock prior to, and as of, August 17, 2012. The Marneu lawsuit was filed purportedly on behalf of a class of purchasers of junior preferred stock and purchasers of common stock issued by Freddie Mac or Fannie Mae over a not-yet-defined period of time.

Arrowood Indemnity Company vs. Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, FHFA and Treasury. This case was filed on September 20, 2013. The allegations and demands made by plaintiffs in this case were generally similar to those made by the plaintiffs in the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case described above. Plaintiffs in the Arrowood lawsuit also requested that, if injunctive relief were not granted, the Arrowood plaintiffs be awarded damages against the defendants in an amount to be determined including, but not limited to, the aggregate par value of their junior preferred stock, the total of which they stated to be approximately $42 million.

American European Insurance Company, Cacciapalle 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. Defendants have opposed the appeals.

Litigation in the U.S. Court of Federal Claims

Reid and Fisher vs. the United States of America and Federal Home Loan Mortgage Corporation. This case was filed as a derivative lawsuit, purportedly on behalf of Freddie Mac as a “nominal” defendant, on February 26, 2014. The complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation. The plaintiffs ask that Freddie Mac be awarded just compensation for the U.S. government’s alleged taking of its property, attorneys’ fees, costs and other expenses.

Rafter, Rattien and Pershing Square Capital Management vs. the United States of America et al. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a “nominal” defendant, on August 14, 2014. The complaint alleges that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation, and the U.S government breached an implied-in-fact contract with Freddie Mac. In September 2015, plaintiffs filed an amended complaint, which contains one claim involving Freddie Mac. The amended complaint alleges that Freddie Mac’s charter is a contract with its common stockholders, and that, through the August 2012 amendment to the Purchase Agreement, the U.S. government breached the implied covenant of good faith and fair dealing inherent in such contract. Plaintiffs ask that they be awarded damages or other appropriate relief for the alleged breach of contract as well as attorneys’ fees, costs and expenses.

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

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. In March 2016, FHFA filed a motion with the U.S. Judicial Panel on Multidistrict Litigation to transfer this case to the U.S. District Court for the District of Columbia. The Delaware Court has stayed this case pending resolution of FHFA's motion.

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

Pagliara vs. Federal Home Loan Mortgage Corporation. This case was filed on March 14, 2016 in the Circuit Court of Fairfax County, Virginia, and subsequently removed to the U.S. District Court for the Eastern District of Virginia. The plaintiff seeks an order to permit inspection and copying of corporate records under Virginia law, primarily for the purpose of investigating potential claims arising from the net worth sweep. In March 2016, FHFA filed a motion with the U.S. Judicial Panel on Multidistrict Litigation to transfer this case to the U.S. District Court for the District of Columbia. As discussed below, the plaintiff sent a letter to the Board related to this issue in January 2016.

At present, it is not possible for us to predict the probable outcome of the lawsuits discussed above in the U.S. District Courts and the U.S. Court of Federal Claims (including the outcome of any appeal) or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matters due to a number of factors, including the inherent uncertainty of pre-trial litigation. In addition, with respect to the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case, the plaintiffs have not demanded a stated amount of damages they believe are due, and the Court has not certified a class.

Stockholder Letters

We received two letters dated January 19, 2016 addressed to the Board of Directors, each purportedly on behalf of the same holder of stock of Freddie Mac. The first letter urged the members of the Board to take various steps under Virginia law including, among others, causing Freddie Mac to immediately stop paying dividends to Treasury on account of the senior preferred stock. The second letter demanded inspection of various books and records of Freddie Mac, including Board materials and accounting records. On January 28, 2016, FHFA (as Conservator) informed the purported stockholder's representative that the state law principles asserted in the first letter are not applicable to the Board and that the stockholder has no basis upon which to demand inspection of Freddie Mac's records. As discussed above, the purported stockholder filed a lawsuit against Freddie Mac in March 2016 related to the demand to inspect corporate records.

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

NOTE 15: REGULATORY CAPITAL

In October 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. FHFA continues to monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. We continue to provide quarterly submissions to FHFA on minimum capital.

The table below summarizes our minimum capital requirements and deficits and net worth.

(in millions)	March 31, 2016	December 31, 2015
GAAP net worth	$1,000	$2,940
Core capital (deficit)[1][2]	$(72,643)	$(70,549)
Less: Minimum capital requirement[1]	19,057	19,687
Minimum capital surplus (deficit)[1]	$(91,700)	$(90,236)

(1) Core capital and minimum capital figures are estimates and represent amounts submitted to FHFA. FHFA is the authoritative source for our regulatory capital.

(2) Core capital excludes certain components of GAAP total equity (i.e., AOCI and the liquidation preference of the senior preferred stock) as these items do not meet the statutory definition of core capital.

NOTE 16: SELECTED FINANCIAL STATEMENT LINE ITEMS

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

	Three Months Ended March 31,	
(in millions)	2016	2015
Other income (loss):		
Gains (losses) on loans	$478	$(200)
Gains (losses) on debt recorded at fair value	13	(189)
Other	456	400
Total other income (loss)	$947	$11
Other expense:		
Property tax and insurance expense on held-for-sale loans	$(27)	$(360)
Other expense	(126)	(103)
Total other expense	$(153)	$(463)

The table below presents the significant components of other assets and other liabilities on our consolidated balance sheets. Previously reported amounts have been revised to conform to the current presentation to reflect our adoption of ASU 2015-03.

(in millions)	March 31, 2016	December 31, 2015
Other assets:		
Accounts and other receivables[1]	$4,960	$ 3,625
Current income tax receivable	753	26
Guarantee asset	1,894	1,753
Advances to lenders	680	910
Fixed assets	526	502
All other	533	497
Total other assets	$9,346	$ 7,313
Other liabilities:		
Servicer liabilities	$1,071	$ 1,191
Guarantee obligation	1,808	1,729
Accounts payable and accrued expenses	1,159	1,286
All other	765	1,040
Total other liabilities	$4,803	$ 5,246

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

END OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

Other Information

OTHER INFORMATION

LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. For more information regarding our involvement as a party to various legal proceedings, see Note 14 in this report and Note 15 in our 2015 Annual Report.

In addition, a number of lawsuits have been filed against the U.S. government related to the conservatorship and the Purchase Agreement. For information on these lawsuits, see “LEGAL PROCEEDINGS” in our 2015 Annual Report. In March 2016, the defendants filed motions with the U.S. Judicial Panel on Multidistrict Litigation to transfer several of the lawsuits (including the cases in federal court in Kentucky, Illinois and Iowa) to the U.S. District Court for the District of Columbia. The cases in Kentucky, Illinois and Iowa have been stayed as a result of these motions. 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 2015 Annual Report, which describes various risks and uncertainties to which we are or may become subject, and is supplemented by the discussion below. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies, and/or prospects.

Negative values for certain interest rate indices could have an adverse effect on our operational and interest-rate risk management processes.

Freddie Mac purchases and securitizes various types of adjustable rate mortgages, and issues, invests in, and hedges with various types of adjustable rate financial instruments. Interest rates have been at historically low levels for a considerable period of time, and in certain countries have become negative. If the interest rate indices used to adjust our adjustable rate mortgages and other financial instruments (primarily LIBOR and Constant Maturity Treasury indices of various durations) were to become negative, our operational and interest-rate risk management processes could be adversely affected. We are evaluating the capability of our existing systems, and those of our business partners, to process negative interest rates. If these systems cannot process such rates appropriately, we may experience disruptions of our business operations, which could result in adverse effects on our relationships with customers, investors and counterparties, damage to our reputation, and legal or regulatory actions. In addition, in the event the relevant index has a negative value, the design of certain of our adjustable rate mortgage securities products may result in our having to pay a greater amount of interest to securities investors than we are entitled to receive on the underlying mortgages. We are evaluating various steps to address this issue. However, these steps may not be sufficient to prevent us from incurring losses. See “MD&A - Risk Management - Interest-Rate Risk and Other Market Risks” for a discussion of the implications of this issue for our measurement and management of interest-rate risk.

Other Information

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
RECENT SALES OF UNREGISTERED SECURITIES
The securities we issue are "exempted securities" under the Securities Act of 1933, as amended. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.
Following our entry into conservatorship, we suspended the operation of, and ceased making grants under, equity compensation plans. Previously, we had provided equity compensation under those plans to employees and members of the Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.
No stock options were exercised during the three months ended March 31, 2016. See Note 10 in our 2015 Annual Report for more information.
DIVIDEND RESTRICTIONS
Our payment of dividends on Freddie Mac common stock or any series of Freddie Mac preferred stock (other than senior preferred stock) is subject to certain restrictions as described in "MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES - Dividends and Dividend Restrictions" in our 2015 Annual Report.
INFORMATION ABOUT CERTAIN SECURITIES ISSUANCES BY FREDDIE MAC
Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.
Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report these types of obligations either in offering circulars or supplements thereto that we post on our web site or in a current report on Form 8-K, in accordance with a "no-action" letter we received from the SEC staff. In cases where the information is disclosed in an offering circular posted on our web site, the document will be posted within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.
The web site address for disclosure about our debt securities, other than debt securities of consolidated trusts, is www.freddiemac.com/debt. From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing

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

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

EXHIBITS

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

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 March 31, 2016. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2016, at a reasonable level of assurance, because we have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is communicated from FHFA to Freddie Mac's management in a manner that allows for timely decisions regarding our required disclosure under the federal securities laws. We consider this situation to be a material weakness in our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting During the Quarter Ended March 31, 2016

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2016 and concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Controls and Procedures

Mitigating Actions Related to the Material Weakness in Internal Control Over Financial Reporting

As described above under "Evaluation of Disclosure Controls and Procedures," we have one material weakness in internal control over financial reporting as of March 31, 2016 that we have not remediated.

Based on discussions with FHFA and given the structural nature of this material weakness, we believe it is likely that we will not remediate it while we are under conservatorship. However, both we and FHFA have continued to engage in activities and employ procedures and practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws. These include the following:

- FHFA has established the Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the Conservator.
- We provide drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also provide drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.
- FHFA personnel, including senior officials, review our SEC filings prior to filing, including this Form 10-Q, and engage in discussions with us regarding issues associated with the information contained in those filings. Prior to filing this Form 10-Q, FHFA provided us with a written acknowledgment that it had reviewed the Form 10-Q, was not aware of any material misstatements or omissions in the Form 10-Q, and had no objection to our filing the Form 10-Q.
- The Director of FHFA is in frequent communication with our Chief Executive Officer, typically meeting (in person or by phone) on at least a bi-weekly basis.
- FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and capital markets management, external communications, and legal matters.
- Senior officials within FHFA's accounting group meet frequently with our senior financial executives regarding our accounting policies, practices, and procedures.

In view of our mitigating actions related to this material weakness, we believe that our consolidated financial statements for the three months ended March 31, 2016 have been prepared in conformity with GAAP.

Signatures

SIGNATURES

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

Federal Home Loan
Mortgage Corporation

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

Date: May 3, 2016

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

Date: May 3, 2016

Index

FORM 10-Q INDEX

Exhibit Index

EXHIBIT INDEX

Exhibit No.	Description*
4.1	Federal Home Loan Mortgage Corporation Global Debt Facility Agreement, dated February 18, 2016
12.1	Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

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