FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
May 05, 2010

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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2010**

**or**

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

**For the transition period from to**

**Commission File Number: 000-53330**

**Federal Home Loan Mortgage Corporation**
*(Exact name of registrant as specified in its charter)*

**Freddie Mac**

| **Federally chartered corporation** | **52-0904874** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **8200 Jones Branch Drive, McLean, Virginia** | **22102-3110** |
| *(Address of principal executive offices)* | *(Zip Code)* |

**(703) 903-2000**

*(Registrant s telephone number, including area code)*

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

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

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

As of April 21, 2010, there were 649,106,877 shares of the registrant s common stock outstanding.

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## FINANCIAL STATEMENTS


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## PART I FINANCIAL INFORMATION

*This Quarterly Report on Form 10-Q includes forward-looking statements, which may include statements pertaining to the conservatorship and our current expectations and objectives for our efforts under the MHA Program and other programs to assist the U.S. residential mortgage market, our future business plans, liquidity, capital management, economic and market conditions and trends, market share, legislative and regulatory developments, implementation of new accounting standards, credit losses, internal control remediation efforts, and results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. You should not rely unduly on our forward-looking statements. Actual results might differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in: (a) Management s Discussion and Analysis, or MD&A, MD&A FORWARD-LOOKING STATEMENTS and RISK FACTORS in this Form 10-Q and in the comparably captioned sections of our Annual Report on Form 10-K for the year ended December 31, 2009, or 2009 Annual Report; and (b) the BUSINESS section of our 2009 Annual Report. These forward-looking statements are made as of the date of this Form 10-Q and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q, or to reflect the occurrence of unanticipated events.*

Throughout PART I of this Form 10-Q, we use certain acronyms and terms which are defined in the Glossary.

## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## EXECUTIVE SUMMARY

You should read this MD&A in conjunction with our consolidated financial statements and related notes for the three months ended March 31, 2010 and our 2009 Annual Report.

### Overview

Freddie Mac was chartered by Congress in 1970 with a public mission to stabilize the nation s residential mortgage markets and expand opportunities for home ownership and affordable rental housing. Our statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. Our participation in the secondary mortgage market includes providing our credit guarantee for residential mortgages originated by mortgage lenders and investing in mortgage loans and mortgage-related securities. Through our credit guarantee activities, we securitize mortgage loans by issuing PCs to third-party investors. We also resecuritize mortgage-related securities that are issued by us or Ginnie Mae as well as private, or non-agency, entities by issuing Structured Securities to third-party investors. We guarantee multifamily mortgage loans that support housing revenue bonds issued by third parties and we guarantee other multifamily mortgage loans held by third parties.

Our financial results for the first quarter of 2010 and net worth as of March 31, 2010 were significantly adversely affected by changes in accounting principles, which resulted in a net decrease to total equity (deficit) as of January 1, 2010 of $11.7 billion. See Changes in Accounting Standards Related to Accounting for Transfers of Financial Assets and Consolidation of VIEs for additional information. We had a net loss attributable to Freddie Mac of $6.7 billion for the three months ended March 31, 2010. Total equity (deficit) was $(10.5) billion at March 31, 2010. The $10.5 billion deficit was primarily driven by: (a) a net decrease in total equity (deficit) of $11.7 billion due to the cumulative effect of the change in accounting principles; (b) our first quarter 2010 net loss of $6.7 billion reflecting the ongoing adverse conditions in the U.S. mortgage markets; and (c) the dividend payment of $1.3 billion to Treasury

on the senior preferred stock, partially offset by a $4.8 billion decrease in unrealized losses recorded in AOCI primarily driven by improved values on the company s available-for-sale securities. To address the deficit in our net worth, FHFA, as Conservator, will submit a draw request, on our behalf, to Treasury for $10.6 billion in funding under our Purchase Agreement with Treasury. Following receipt of the draw, we will have received an aggregate of $61.3 billion from Treasury under the Purchase Agreement.

***Business Objectives***

We continue to operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA as our Conservator. We are focused on meeting the urgent liquidity needs of the U.S. residential mortgage market, lowering costs for borrowers and supporting the recovery of the housing market and U.S. economy. By continuing to provide access to funding for mortgage originators and, indirectly, for mortgage borrowers and through our role in the Obama Administration s initiatives, including the MHA Program, we are working to meet the needs of the mortgage market by making homeownership and rental housing more affordable, reducing the number of foreclosures and helping families keep their homes.

There is significant uncertainty as to whether or when we will emerge from conservatorship, as it has no specified termination date, and as to what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. On March 23, 2010, the Secretary of the Treasury stated in congressional testimony that, after reform, the GSEs will not exist in the same form. On April 22, 2010, Treasury and HUD published seven questions soliciting public comment on the future of the housing finance system, including Freddie Mac and Fannie Mae, and the overall role of the federal government in housing policy. Comments on the questions must be submitted by July 21, 2010. While we are not aware of any current plans of our Conservator to significantly change our business structure in the near-term, Treasury and HUD, in consultation with other government agencies, are expected to develop legislative recommendations for the future of the GSEs.

Our business objectives and strategies have in some cases been altered since we entered conservatorship, and may continue to change. Certain changes to our business objectives and strategies are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives, but may not contribute to profitability. Our efforts to help struggling homeowners and the mortgage market, in line with our mission, may help to mitigate our credit losses, but in some cases may increase our expenses or require us to forego revenue opportunities in the near term. There is significant uncertainty as to the ultimate impact that our efforts to aid the housing and mortgage markets, including our efforts in connection with the MHA Program, will have on our future capital or liquidity needs. We cannot estimate whether, or the extent to which, the costs we incur in the near term as a result of these efforts, which for the most part we are not reimbursed for, will be offset by the prevention or reduction of potential future costs. It is likely that the costs we incur related to loan modifications and other activities under HAMP, the MHA Program s loan modification initiative, may be significant, to the extent that borrowers participate in this program in large numbers. For information on the MHA Program and our other efforts to assist the housing market, see MHA PROGRAM AND OTHER EFFORTS TO ASSIST THE U.S. HOUSING MARKET.

In a letter to the Chairmen and Ranking Members of the Congressional Banking and Financial Services Committees dated February 2, 2010, the Acting Director of FHFA stated that minimizing our credit losses is our central goal and that we will be limited to continuing our existing core business activities and taking actions necessary to advance the goals of the conservatorship. The Acting Director stated that permitting us to engage in new products is inconsistent with the goals of the conservatorship. In addition, the Acting Director stated that FHFA does not expect we will be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio, except for purchases of delinquent mortgages out of PC pools. These restrictions could limit our ability to return to profitability in future periods.

While the conservatorship has benefited us through, for example, improved access to the debt markets because of the support we have received from Treasury and the Federal Reserve, we are also subject to certain constraints on our business activities by Treasury due to the terms of, and Treasury s rights under, the Purchase Agreement.

***Government Support for our Business***

We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. In recent periods, we also received substantial support from the Federal Reserve.

Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. To date, we have received an aggregate of $50.7 billion in funding under the Purchase Agreement. To address our deficit in net worth of $10.5 billion as of March 31, 2010, FHFA, as Conservator, will submit a draw request, on our behalf, to Treasury under the Purchase Agreement in the amount of $10.6 billion. We expect to receive these funds by June 30, 2010. Upon funding of the draw request: (a) the aggregate liquidation preference on the senior preferred stock owned by Treasury will increase from $51.7 billion to $62.3 billion; and (b) the corresponding annual cash dividends payable to

Treasury will increase to $6.2 billion, which exceeds our annual historical earnings in most periods. We expect to make additional draws under the Purchase Agreement in future periods due to a variety of factors that could adversely affect our net worth.

To date, we have paid $5.6 billion in cash dividends on the senior preferred stock. Continued cash payment of senior preferred dividends combined with potentially substantial quarterly commitment fees payable to Treasury beginning in 2011 (the amounts of which must be determined by December 31, 2010), will have an adverse impact on our future financial condition and net worth. The payment of dividends on our senior preferred stock in cash reduces our net worth. For periods in which our earnings and other changes in equity do not result in positive net worth, such as the first quarter of 2010, draws under the Purchase Agreement effectively fund the cash payment of senior preferred dividends to Treasury.

In November 2008, the Federal Reserve established programs to purchase: (a) our direct obligations and those of Fannie Mae and the FHLBs; and (b) mortgage-related securities issued by us, Fannie Mae and Ginnie Mae. According to information provided by the Federal Reserve, it held $66.4 billion of our direct obligations and had net purchases of $432.3 billion of our mortgage-related securities under these programs as of April 21, 2010. The Federal Reserve completed its purchases under these programs in March 2010. We have not experienced any immediate adverse effects on our business from the completion of these programs. However, it is difficult at this time to predict the impact that the completion of these programs will have on our business and mortgage market generally over time. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity and RISK FACTORS in our 2009 Annual Report.

For more information on the terms of the conservatorship, the powers of our Conservator and the terms of the Purchase Agreement, see BUSINESS Conservatorship and Related Developments in our 2009 Annual Report.

**Changes in Accounting Standards Related to Accounting for Transfers of Financial Assets and Consolidation of VIEs**

In June 2009, the FASB issued two new accounting standards that amended guidance applicable to the accounting for transfers of financial assets and the consolidation of VIEs. The guidance in these standards was effective for fiscal years beginning after November 15, 2009. The accounting standard for transfers of financial assets was applicable on a prospective basis to new transfers, while the accounting standard relating to consolidation of VIEs was applied prospectively to all entities within its scope as of the date of adoption. We adopted these new accounting standards prospectively for all existing VIEs effective January 1, 2010. The adoption of these two standards had a significant impact on our consolidated financial statements and other financial disclosures beginning in the first quarter of 2010.

We use securitization trusts in our securities issuance process. Prior to January 1, 2010, these trusts met the definition of QSPEs and were not subject to consolidation. Effective January 1, 2010, the concept of a QSPE was removed from GAAP and entities previously considered QSPEs were required to be evaluated for consolidation. Based on our consolidation evaluation, we determined that we are the primary beneficiary of trusts that issue our single-family PCs and certain Structured Transactions. As a result, a large portion of our off-balance sheet assets and liabilities will now be consolidated. Effective January 1, 2010, we consolidated these trusts and recognized their assets and liabilities at their unpaid principal balances using the practical expedient permitted upon adoption.

Upon consolidation, we recognized the mortgage loans as assets on our consolidated balance sheets and the debt securities issued by the securitization trusts as debt on our consolidated balance sheets. We also eliminated our investments in the debt securities issued by these trusts and the related guarantee accounting (*e.g.*, guarantee asset, guarantee obligation, credit enhancements, etc.) associated with these trusts. After adoption of these new accounting standards, purchases of debt securities issued by these consolidated trusts are accounted for as extinguishments of debt, rather than investment securities. Further, separate management and guarantee fee income will not be recognized from these securitization trusts, and instead will be recognized as a portion of the interest income on the consolidated mortgage loans.

The adoption of these accounting principles resulted in an increase to our assets and liabilities of $1.5 trillion and a net decrease to total equity (deficit) as of January 1, 2010 of $11.7 billion, which includes changes to the opening balances of retained earnings (accumulated deficit) and AOCI, net of taxes. This net decrease was driven principally by: (a) the elimination of unrealized gains resulting from the extinguishment of PCs held as investment securities upon consolidation of the PC trusts, representing the difference between the unpaid principal balance of the loans underlying the PC trusts and the fair value of the PCs, including premiums, discounts and other basis adjustments; (b) the elimination of the guarantee asset and guarantee obligation established for guarantees issued to securitization trusts we consolidated; and (c) the application of our nonaccrual policy to delinquent mortgage loans consolidated as

of January 1, 2010.

Because our results of operations for the first quarter of 2010 (on both a GAAP and segment basis) include the activities of the consolidated VIEs, they are not directly comparable with the results of operations for the first quarter of 2009, which reflect the accounting policies in effect during that time (*i.e.*, securitization entities were accounted for off-balance sheet).

See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for additional information regarding these changes and a related change to the amortization method for certain related deferred items.

## Results for the First Quarter of 2010

### *Financial Results*

Net loss attributable to Freddie Mac was $6.7 billion and $10.0 billion for the first quarters of 2010 and 2009, respectively. Key highlights of our financial results for the first quarter of 2010 include:

Net interest income for the first quarter of 2010 was significantly impacted by the changes in accounting standards adopted on January 1, 2010. As a result of these changes, net interest income for the first quarter of 2010 has the positive effect of including the coupon interest on our loans and the offsetting interest expense on debt of consolidated trusts held by third parties, which was previously recognized as management and guarantee fee income on single-family PCs and certain Structured Transactions. However, net interest income was negatively impacted by a significant increase in the amount of non-performing mortgage loans held in consolidated trusts that are now on our balance sheet, for which we do not recognize interest income. Net interest margin declined in the first quarter of 2010 compared to the first quarter of 2009, in large part because the net interest margin of our consolidated single-family trusts was lower than the net interest margin of our other interest-earning assets.

Provision for credit losses decreased to $5.4 billion during the first quarter of 2010 compared to $8.9 billion in the first quarter of 2009, which was primarily due to less significant increases in delinquencies and average severity rates in the first quarter of 2010 as compared to the first quarter of 2009.

Non-interest income (loss) was $(4.9) billion for the first quarter of 2010, compared to non-interest income (loss) of $(3.1) billion for the first quarter of 2009. This decline in the first quarter of 2010 was primarily due to higher losses on derivatives and investment securities, partially offset by lower net impairments of available-for-sale securities recognized in earnings, as compared to the first quarter of 2009.

At March 31, 2010, our liabilities exceeded our assets under GAAP by $10.5 billion principally due to the impact of our adoption of the changes in accounting principles and the net loss for the quarter discussed above. Accordingly, we must obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid being placed into receivership by FHFA.

We expect a variety of factors will place downward pressure on our financial results in future periods, and could cause us to incur additional GAAP net losses. Key factors include the potential for: (a) continued weak conditions in the housing market, which could increase credit-related expenses and security impairments; and (b) adverse changes in interest rates and spreads, which could result in mark-to-market losses. Our continued efforts under the MHA Program and other government initiatives to support struggling homeowners may also have an adverse impact on our financial results. To the extent we incur GAAP net losses in future periods, we will likely need to take additional draws under the Purchase Agreement. In addition, due to the substantial dividend obligation on the senior preferred stock, we expect to continue to record net losses attributable to common stockholders in future periods. For a discussion of factors that could result in additional draws, see LIQUIDITY AND CAPITAL RESOURCES Capital Resources.

### *Investment Activity Pursuant to the Purchase Agreement*

Our mortgage-related investments portfolio under the Purchase Agreement is determined without giving effect to any change in accounting standards related to the transfer of financial assets and consolidation of VIEs or any similar accounting standard. Accordingly, for purposes of the portfolio limit, the single-family PCs and certain Structured Transactions purchased into the mortgage-related investments portfolio are considered assets rather than debt reductions. We disclose our mortgage assets on this basis monthly under the caption Mortgage-Related Investments

Portfolio Ending Balance in our Monthly Volume Summary reports, which are available on our website and in current reports on Form 8-K we file with the SEC.

The unpaid principal balance of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement and FHFA regulation, was $753.3 billion at March 31, 2010, compared to $755.3 billion at December 31, 2009. The unpaid principal balance of our mortgage-related investments portfolio remained relatively flat primarily due to liquidations, offset by the purchase of $56.6 billion of delinquent loans from PC trusts, which resulted from our February 10, 2010 announcement that we would purchase substantially all of the single-family mortgage loans that are 120 days or more delinquent from our related fixed-rate and adjustable-rate PCs.

Under the terms of the Purchase Agreement, the unpaid principal balance of our mortgage-related investments portfolio calculated as discussed above may not exceed $810 billion as of December 31, 2010 and this limit will be reduced by 10% each year until it reaches $250 billion.

*Liquidity*

We believe that the increased support provided by Treasury pursuant to the December 2009 amendment to the Purchase Agreement will be sufficient to enable us to maintain our access to the debt markets and ensure that we have adequate liquidity to conduct our normal business activities through December 31, 2012, although the costs of our debt funding could vary. Under the December 2009 amendment, the $200 billion cap on Treasury s funding commitment will increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011 and 2012. During the first quarter of 2010, the Federal Reserve continued to be an active purchaser in the secondary market of our long-term debt under its purchase program and spreads on our debt remained favorable relative to historical averages. The Federal Reserve completed its purchases under this program in March 2010. We have not experienced any immediate adverse effects on our business from the completion of this program. However, the completion of this program could, over time, negatively affect the availability of longer-term funding as well as the spreads on our debt, and thus increase our debt funding costs.

*Single-Family and Multifamily Portfolio*

The unpaid principal balance of our single-family credit guarantee portfolio decreased 1%, from $1.90 trillion at December 31, 2009 to $1.88 trillion at March 31, 2010. The unpaid principal balance of our multifamily mortgage portfolio decreased 1%, from $98.2 billion at December 31, 2009 to $97.2 billion at March 31, 2010. Our total non-performing assets were approximately 5.8% and 5.2% of our total mortgage portfolio, excluding non-Freddie Mac securities, at March 31, 2010 and December 31, 2009, respectively, and our loan loss reserves totaled 33.3% and 34.1% of our non-performing loans, respectively, as of such dates.

**Segment Earnings**

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

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. Beginning January 1, 2010, we revised our method for presenting Segment Earnings to reflect changes in how management measures and assesses the financial performance of each segment and the company as a whole. Under the revised method, the financial performance of our segments is measured based on each segment s contribution to GAAP net income (loss). This change in method, in conjunction with our implementation of changes in accounting standards relating to transfers of financial assets and the consolidation of VIEs, resulted in significant changes to our presentation of Segment Earnings. In particular, under the revised method, Segment Earnings includes fair value adjustments, gains and losses on investment sales, loans purchased from PC pools and debt retirements that are included in our GAAP-basis earnings, but that had previously been excluded from or deferred in Segment Earnings. The accounting principles we apply to present certain line items in Segment Earnings for our reportable segments, in particular Segment Earnings net interest income and management and guarantee income, differ significantly from those applied in preparing the comparable line items in our consolidated financial statements in accordance with GAAP. Accordingly, the results of such line items differ significantly from, and should not be used as a substitute for, the comparable line items as determined in accordance with GAAP.

Under the revised method of presenting Segment Earnings, the All Other category consists of material corporate level expenses that are: (a) non-recurring in nature; and (b) based on management decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments are more representative of the decisions and strategies that are

executed within the reportable segments and provide greater comparability across time periods. Items included in the All Other category consist of: (a) the write-down of our LIHTC investments; and (b) the deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward due to our tax net operating loss carryback. Other items previously recorded in the All Other category prior to the revision to our method for presenting Segment Earnings have been allocated to our three reportable segments.

Table 1 presents Segment Earnings by segment and the All Other category and includes a reconciliation of Segment Earnings to net (loss) attributable to Freddie Mac prepared in accordance with GAAP for the first quarter of 2009. While we restated Segment Earnings for the first quarter of 2009 to reflect the revisions to our method of evaluating the performance of our reportable segments, we did not restate Segment Earnings to include adjustments related to our adoption of the amendments to the accounting standards for transfers of financial assets and consolidation of VIEs. This change was applied prospectively, consistent with our GAAP financial results. As a result,

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our Segment Earnings results for the first quarter of 2010 are not directly comparable to the results for the first quarter of 2009.

**Table 1 Summary of Segment Earnings[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Segment Earnings, net of taxes: | | |
| Investments | $ (1,313) | $ 518 |
| Single-family Guarantee | (5,596) | (10,291) |
| Multifamily | 221 | 8 |
| All Other | | (567) |
| Reconciliation to GAAP net (loss) attributable to Freddie Mac: | | |
| Credit guarantee-related adjustments[2] | | 551 |
| Tax-related adjustments | | (194) |
| Total reconciling items, net of taxes | | 357 |
| Net (loss) attributable to Freddie Mac | $ (6,688) | $ (9,975) |

(1) Under our revised method, the sum of Segment Earnings for each segment and the All Other category will equal GAAP net income (loss) attributable to Freddie Mac for the first quarter of 2010 and subsequent periods.
(2) Consists primarily of amortization and valuation adjustments related to the guarantee asset and guarantee obligation which are excluded from Segment Earnings and cash compensation exchanged at the time of securitization, excluding buy-up and buy-down fees, which is amortized into earnings. These adjustments are recorded to periods prior to 2010 as the amendment to the accounting standards for transfers of financial assets and consolidation of VIEs was applied prospectively on January 1, 2010.

For more information on Segment Earnings, including the revised method we use to present Segment Earnings, see CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings and NOTE 16: SEGMENT REPORTING to our consolidated financial statements.

**Mortgage Credit Risk**

Mortgage and credit market conditions remained challenging in the first quarter of 2010. A number of factors make it difficult to predict when a sustained recovery in the mortgage and credit markets will occur, including, among others, uncertainty concerning the effect of current or any future government actions in these markets. We estimate that home prices decreased nationwide by approximately 0.9% during the first quarter of 2010 based on our own index of our single-family credit guarantee portfolio. Our assumption for home prices, based on our own index, continues to be for a further decline in national average home prices over the near term before any sustained turnaround in housing begins, due to, among other factors:

- our expectation for a significant increase in distressed sales, which include pre-foreclosure sales, foreclosure transfers and sales by financial institutions of their REO properties, due in part to HAFA. This reflects, in part, the substantial backlog of delinquent loans lenders developed over recent periods, due to various foreclosure

suspensions and the implementation of HAMP. We expect many of these loans will transition to REO and be sold in 2010. This may cause prices to decline further as the market absorbs the additional supply of homes for sale;

the April 2010 expiration of the federal homebuyer tax credit;

our expectation that mortgage rates may increase in 2010, which will make it less affordable to buy a home; and

the likelihood that unemployment rates will remain high.

Regardless of whether home prices are stabilizing or increasing, our credit losses will likely remain significantly above historical levels for the foreseeable future due to the substantial number of borrowers in our single-family credit guarantee portfolio that currently owe more on their mortgage than their home is worth in today s market.

***Single-Family Credit Guarantee Portfolio***

The following table provides certain credit statistics for our single-family credit guarantee portfolio, which consists of unsecuritized single-family mortgage loans held for investment and those underlying our issued single-family PCs and Structured Securities and other mortgage-related guarantees.

**Table 2 Credit Statistics, Single-Family Credit Guarantee Portfolio**[1]

| | As of | | | | |
|---|---|---|---|---|---|
| | 3/31/2010 | 12/31/2009 | 9/30/2009 | 6/30/2009 | 3/31/2009 |
| Delinquency rate[2] | 4.13% | 3.98% | 3.43% | 2.89% | 2.41% |
| Non-performing assets (in millions)[3] | $ 115,490 | $ 103,350 | $ 90,047 | $ 75,224 | $ 61,584 |
| Single-family loan loss reserve (in millions)[4] | $ 35,969 | $ 33,026 | $ 30,160 | $ 25,457 | $ 22,527 |
| REO inventory (in units) | 53,831 | 45,047 | 41,133 | 34,699 | 29,145 |

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | 3/31/2010 | 12/31/2009 | 9/30/2009 | 6/30/2009 | 3/31/2009 |
| | (in units, unless noted) | | | | |
| Delinquent loan additions[2] | 145,223 | 163,764 | 143,632 | 133,352 | 135,842 |
| Loan modifications[5] | 44,076 | 15,805 | 9,013 | 15,603 | 24,623 |
| REO acquisitions | 29,412 | 24,749 | 24,373 | 21,997 | 13,988 |
| REO disposition severity ratios[6]: | | | | | |
| California | 42.7% | 43.3% | 45.0% | 45.6% | 42.2% |
| Florida | 53.3% | 51.4% | 50.7% | 50.9% | 47.9% |
| Arizona | 44.9% | 43.2% | 42.7% | 45.5% | 41.9% |
| Nevada | 49.8% | 50.1% | 48.8% | 47.5% | 38.9% |
| Total U.S. | 39.0% | 38.5% | 39.2% | 39.8% | 36.7% |
| Single-family credit losses (in millions)[7] | $ 2,907 | $ 2,498 | $ 2,138 | $ 1,906 | $ 1,318 |

(1) See GLOSSARY for information about our portfolios.

(2) Single-family delinquency information is based on the number of loans that are 90 days or more past due and those in the process of foreclosure. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not included if the borrower is less than 90 days delinquent under the modified terms. The number of delinquent loan additions represents loans that became 90 days or more delinquent or in foreclosure during the respective quarter. See RISK MANAGEMENT Credit Risks *Portfolio Management Activities Credit Performance Delinquencies* for further information, including information about changes in our method of presenting delinquency rates.

(3) Consists of the unpaid principal balance of loans in our single-family credit guarantee portfolio that have undergone a troubled debt restructuring or that are 90 days or more past due or in foreclosure and the net carrying value of our REO assets.

(4) Consists of the combination of: (a) our allowance for loan loss on mortgage loans held for investment; and (b) our reserve for guarantee losses associated with non-consolidated single-family mortgage securitization trusts and other mortgage-related financial guarantees, the latter of which is included within other liabilities beginning January 1, 2010.

(5) Represents the number of completed modifications under agreement with the borrower during the quarter. Excludes forbearance agreements, under which reduced or no payments are required during a defined period, repayment plans, which are separate agreements with the borrower to repay past due amounts and return to compliance with the original mortgage terms, and loans in the trial period under HAMP.

(6) Calculated as the aggregate amount of our losses recorded on disposition of REO properties during the respective quarterly period divided by the aggregate unpaid principal balances of the related loans with the borrowers. The

amount of losses recognized on disposition of the properties is equal to the amount by which the unpaid principal balance of the loans exceeds the amount of net sales proceeds from disposition of the properties. Excludes other related expenses, such as property maintenance and costs, as well as related recoveries from credit enhancements, such as mortgage insurance.

(7) See endnote (3) of Table 56 Credit Loss Performance for information on the composition of our credit losses.

As shown in the table above, although the number of delinquent loan additions (those borrowers who became 90 days or more past due or in foreclosure) declined in the first quarter of 2010, the credit statistics of our single-family credit guarantee portfolio reflect a high level of defaults. The credit losses of our single-family credit guarantee portfolio continued to increase in the first quarter of 2010 due to several factors, including the following:

- The housing and economic downturn affected a broad group of borrowers and we believe that high unemployment rates are contributing to further increases in delinquencies. The unemployment rate in the U.S. rose from 8.6% at March 31, 2009 to 9.7% at March 31, 2010. In the first quarter of 2010, our portfolio continued to experience an increase in the delinquency rate of single-family interest-only, Alt-A and option ARM loans as well as 30-year fixed-rate amortizing loans, which is a more traditional mortgage product. The delinquency rate for 30-year single-family fixed-rate amortizing loans increased to 4.2% at March 31, 2010 as compared to 4.0% at December 31, 2009.

- Certain loan groups within the single-family credit guarantee portfolio, such as those underwritten with certain lower documentation standards and interest-only loans, as well as 2006 and 2007 vintage loans, continue to be large contributors to our credit losses.

We believe the credit quality of the single-family loans we acquired in the first quarter of 2010 (excluding those refinance mortgages in the Home Affordable Refinance Program) is strong as compared to loans acquired from 2006 through 2008 as measured by original LTV ratios and FICO scores. We believe this improvement was, in part, the result of: (a) changes in our underwriting guidelines implemented during 2009; (b) increases in the relative amount of refinance mortgages we acquired in the first quarter of 2010; (c) less purchase volume in the first quarter of 2010 comprised of loans with higher risk characteristics as more of those loans were insured by FHA and securitized through Ginnie Mae; and (d) changes in mortgage insurers and lenders underwriting practices. Our purchase of interest-only loans during the first quarter of 2010 was not significant. In February 2010, we announced that as of September 1, 2010 we will no longer purchase interest-only loans.

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### *Multifamily Mortgage Portfolio*

The following table provides certain credit statistics for our multifamily mortgage portfolio, which consists of loans held by us on our consolidated balance sheets as well as those underlying non-consolidated PCs, Structured Securities and other mortgage-related financial guarantees, but excluding those underlying Structured Transactions and our guarantees of HFA bonds.

**Table 3 Credit Statistics, Multifamily Mortgage Portfolio**

| | As of | | | | |
|---|---|---|---|---|---|
| | **3/31/2010** | **12/31/2009** | **9/30/2009** | **6/30/2009** | **3/31/2009** |
| Delinquency rate 60 days or more[1] | 0.24% | 0.19% | 0.14% | 0.15% | 0.10% |
| Delinquency rate 90 days or more[1] | 0.18% | 0.15% | 0.11% | 0.11% | 0.09% |
| Non-performing assets, on balance sheet (in millions)[2] | $ 419 | $ 351 | $ 274 | $ 209 | $ 221 |
| Non-performing assets, off-balance sheet (in millions)[2] | $ 203 | $ 218 | $ 198 | $ 154 | $ 108 |
| Multifamily loan loss reserve (in millions)[3] | $ 842 | $ 831 | $ 404 | $ 330 | $ 275 |

(1) Based on the unpaid principal balance of mortgages 60 or 90 days or more delinquent, respectively. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not included if the borrower is less than 60 days delinquent under the modified terms. See RISK MANAGEMENT Credit Risks *Portfolio Management Activities Credit Performance Delinquencies* for further information, including information about changes in our method of presenting delinquency rates. The 60-day delinquency rate for multifamily loans, including Structured Transactions, was 0.24% and 0.19% as of March 31, 2010 and December 31, 2009, respectively.

(2) Consists of the unpaid principal balance of loans that: (a) have undergone a troubled debt restructuring; (b) are more than 90 days past due; or (c) are deemed credit-impaired based on management s judgment and are at least 30 days delinquent. Non-performing assets on balance sheet include the net carrying value of our REO assets.

(3) Includes our reserve for guarantee losses that beginning January 1, 2010 is presented within other liabilities on our consolidated balance sheets.

Our multifamily delinquency rates and non-performing loans continued to increase in the first quarter of 2010. In the first quarter of 2010, there was some stabilization in the national unemployment rate, albeit, at very high levels. Certain other multifamily market indicators, such as occupancy rates and effective rents, were essentially unchanged after experiencing deterioration for several quarters. Our delinquency rates remain low relative to other participants in the market. However, delinquency rates are historically a lagging indicator and, as a result, we may continue to experience increased delinquencies even if the market stabilizes, which could cause us to incur additional credit losses. Market fundamentals for multifamily properties that we monitor continued to be challenging during the first quarter of 2010, particularly in certain states in the Southeast and West regions, with a continued increase in borrowers seeking assistance and loan modifications. As of March 31, 2010, approximately half of our multifamily loans 60 days or more delinquent (measured both in terms of number of loans and on a UPB basis) have credit enhancements that we believe will mitigate our expected losses on those loans.

### *Loss Mitigation*

We continue to increase our use of foreclosure alternatives, including those under the MHA Program, and have expanded our staff to assist our seller/servicers in completing loan modifications and other outreach programs with the

objective of keeping more borrowers in their homes. Our loss mitigation activity included the following:

- We completed 71,314 and 39,623 single-family foreclosure alternatives during the first quarters of 2010 and 2009, respectively, including 9,619 and 3,093, respectively, of pre-foreclosure sales. We completed 44,076 and 24,623 loan modifications during the first quarters of 2010 and 2009, respectively, including 39,018 and 1,369 that were considered troubled debt restructurings. Due to various foreclosure suspensions and the implementation of HAMP, we developed a substantial backlog of delinquent loans during 2009. Significant numbers of these loans are beginning to transition to a completed modification or are otherwise being resolved in foreclosure and pre-foreclosure sales.

- Based on information provided by the MHA Program administrator, we had assisted approximately 198,000 single-family borrowers through HAMP as of March 31, 2010, of whom approximately 149,000 had made their first payment under the trial period and nearly 49,000 had completed modifications. FHFA reported that approximately 203,000 of our loans were in active trial periods or were modified under HAMP as of February 28, 2010. Unlike the MHA Program administrator s data, FHFA s HAMP information includes: (a) loans in the trial period regardless of the first payment date; and (b) modifications that are pending the borrower s acceptance.

Some of our loss mitigation activities have created fluctuations in our credit statistics. For example, our temporary suspensions of foreclosure transfers of occupied homes reduced the rate of growth of our REO inventory and of charge-offs, a component of our credit losses, in certain periods since November 2008, but caused our loan loss reserves to rise. This also created an increase in the number of delinquent loans that remain in our single-family credit guarantee portfolio, which results in higher reported delinquency rates than without the suspension of foreclosure transfers. In addition, since we include loans in the HAMP trial period as delinquent in our statistical reporting, this results in a

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temporary rise in our delinquency rate until the modifications become effective and are removed from delinquent status. Insufficient empirical information exists to estimate the extent to which costs associated with HAMP may be offset, if at all, by the prevention or reduction of potential future costs of loan defaults and foreclosures due to these changes in business practices.

***Investments in Non-Agency Mortgage-Related Securities***

Our investments in non-agency mortgage-related securities continue to be adversely affected by the ongoing weak housing and credit conditions, as reflected in poor underlying collateral performance, limited liquidity and large risk premiums in the non-agency mortgage market.

In the table below, we provide delinquency rates for the loans that back our subprime first lien, option ARM and Alt-A securities. The information in the table on gross unrealized losses and net impairment of available-for-sale securities recognized in earnings also includes securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.

**Table 4 Credit Statistics, Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM and Alt-A Loans**

| | As of | | | | |
|---|---|---|---|---|---|
| | 03/31/2010 | 12/31/2009 | 09/30/2009 | 06/30/2009 | 03/31/2009 |
| | (dollars in millions) | | | | |
| Delinquency rates:(1)(2) | | | | | |
| Non-agency mortgage-related securities backed by: | | | | | |
| Subprime first lien | 49% | 49% | 46% | 44% | 42% |
| Option ARM | 46 | 45 | 42 | 40 | 36 |
| Alt-A | 27 | 26 | 24 | 22 | 20 |
| Cumulative collateral loss:(2)(3) | | | | | |
| Non-agency mortgage-related securities backed by: | | | | | |
| Subprime first lien | 15% | 13% | 12% | 10% | 7% |
| Option ARM | 9 | 7 | 6 | 4 | 2 |
| Alt-A | 5 | 4 | 3 | 3 | 2 |
| Gross unrealized losses, pre-tax(4)(5) | $ 29,613 | $ 33,124 | $ 38,039 | $ 41,157 | $ 27,475 |
| Net impairment of available-for-sale securities recognized in earnings for the three months ended(5) | $ 453 | $ 581 | $ 1,130 | $ 2,157 | $ 6,956 |

(1) Determined based on the number of loans that are 60 days or more past due that underlie the securities using information obtained from a third-party data provider.
(2) Excludes non-agency mortgage-related securities backed by other loans primarily comprised of securities backed by home equity lines of credit.
(3) Based on the actual losses incurred on the collateral underlying these securities. Actual losses incurred on the securities that we hold are significantly less than the losses on the underlying collateral as presented in this table, as a majority of the securities we hold include significant credit enhancements, particularly through subordination.
(4) Gross unrealized losses, pre-tax, represent the aggregate of the amount by which amortized cost exceeds fair value measured at the individual lot level.

(5) Upon the adoption of an amendment to the accounting standards for investments in debt and equity securities on April 1, 2009, the amount of credit losses and other-than temporary impairment related to securities where we have the intent to sell or where it is more likely than not that we will be required to sell is recognized in our consolidated statements of operations within the line captioned net impairment on available-for-sale securities recognized in earnings. The amount of other-than-temporary impairment related to all other factors is recognized in AOCI. Includes non-agency mortgage-related securities backed by other loans primarily comprised of securities backed by home equity lines of credit.

We held unpaid principal balances of $97.4 billion of non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans as of March 31, 2010, compared to $100.7 billion as of December 31, 2009. This decrease is due to the receipt of monthly remittances of principal repayments from both the recoveries of liquidated loans and, to a lesser extent, voluntary prepayments on the underlying collateral representing a partial return of our investment in these securities. We recorded net impairment of available-for-sale securities recognized in earnings on non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans of approximately $453 million during the first quarter of 2010.

Pre-tax unrealized losses on securities backed by subprime, option ARM, Alt-A and other loans reflected in AOCI decreased to $29.6 billion at March 31, 2010. These unrealized losses declined during the first quarter of 2010 reflecting increases in fair value of $3.5 billion. Although mortgage OAS levels were relatively unchanged for these securities, we recognized fair value gains as these securities moved closer to maturity.

FHFA, as conservator, has directed us to work to mitigate our losses as an investor in non-agency mortgage-related securities. The documents governing the securities trusts in which we have invested do not provide us with any direct right of enforcement. Furthermore, other investors involved in these securities trusts may have competing financial interests to our own. As a result, the effectiveness of our loss mitigation efforts is uncertain and any potential recoveries may take significant time to realize.

For additional information on our investments in non-agency mortgage-related securities backed by subprime first lien, option ARM and Alt-A loans, including the credit enhancements on such securities, see CONSOLIDATED

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

## Legislative and Regulatory Matters

### *Proposed Legislation*

Congress continues to consider legislation that would, if enacted, significantly change the regulation of the financial services industry, and affect the business and operations of Freddie Mac by potentially subjecting us to new and additional regulatory oversight and standards, including with respect to our activities, products and capital adequacy. For example, a substantial portion of our derivatives transactions could become subject to centralized clearing and increased capital and margin requirements. Among recent developments, on March 22, 2010 the Senate Committee on Banking, Housing and Urban Affairs passed a financial services regulatory reform bill that addresses many topics that are covered by the bill passed by the House of Representatives on December 11, 2009. For more information, see BUSINESS Regulation and Supervision *Legislative Developments* and RISK FACTORS Legal and Regulatory Risks in our 2009 Annual Report.

### *State Actions*

A number of states have enacted laws allowing localities to create energy loan assessment programs for the purpose of financing energy efficient home improvements. While the specific terms may vary, these laws generally treat the new energy assessments like property tax assessments and allow for the creation of a new lien to secure the assessment that is senior to any existing first mortgage lien. If numerous localities adopt such programs and borrowers obtain this type of financing, these laws could have a negative impact on Freddie Mac s credit losses.

Various states, cities, and counties have implemented mediation programs that could delay or otherwise change their foreclosure processes. The processes, requirements, and duration of mediation programs may vary for each state but are designed to bring servicers and borrowers together to negotiate foreclosure alternatives. These actions could increase our expenses, including by potentially delaying the final resolution of delinquent mortgage loans and the disposition of non-performing assets.

### *Affordable Housing Goals for 2009*

In March 2010, we reported to FHFA that we did not meet the 2009 underserved areas housing goal, special affordable housing goal, underserved areas home purchase subgoal and multifamily special affordable target. We believe that achievement of such goals was infeasible under the terms of the GSE Act, due to market and economic conditions and our financial condition. Accordingly, in January 2010 we submitted an infeasibility analysis to FHFA, which is reviewing our submission.

### *Proposed Affordable Housing Goals for 2010 and 2011*

Effective beginning calendar year 2010, the Reform Act requires that FHFA establish, by regulation, three single-family owner-occupied housing goals, a single-family refinancing mortgage goal, one multifamily special affordable housing goal and requirements relating to multifamily housing for very low-income families.

On February 26, 2010, FHFA published in the Federal Register a proposed rule for public comment that would establish new affordable housing goals for 2010 and 2011 for Freddie Mac and Fannie Mae. The proposed goals and the proposed rules governing our performance under such goals differ substantially from those in effect prior to 2010.

For 2010 and 2011, FHFA is proposing levels for four goals for single-family owner-occupied housing, one multifamily special affordable housing goal and one multifamily special affordable housing subgoal. The single-family housing goals target purchase money mortgages for low-income families, very low-income families, and families that reside in low-income areas; and refinancing mortgages for low-income families. The multifamily special affordable housing goal targets multifamily rental housing affordable to low-income families, and the multifamily special affordable housing subgoal targets multifamily rental housing affordable to very low-income families. The proposed single-family goals are expressed as a percentage of the total number of eligible dwelling units underlying our total mortgage purchases, as was the case with the housing goals in effect prior to 2010. The multifamily goals are expressed in terms of minimum numbers of units financed.

With respect to the single-family goals, the proposed rule includes: (a) an assessment of performance as compared to the actual share of the market that meets the criteria for each goal; and (b) a benchmark level to measure performance. The benchmark levels for the single-family goals are set forth in Table 5 below. Where our performance on a single-family goal falls short of the benchmark for a goal, we still could achieve the goal if our performance meets or exceeds the actual share of the market that meets the criteria for the goal for that year. For example, if the actual market share of purchase money mortgages to low-income families relative to all purchase money mortgages

originated to finance owner-occupied single-family properties is lower than the 27% benchmark rate, we would still satisfy this goal if we achieve that actual market percentage.

FHFA s proposed affordable housing goals for Freddie Mac for 2010 and 2011 are set forth below.

**Table 5 Proposed Affordable Housing Goals for 2010 and 2011**

| | Goals for 2010 and 2011 |
|---|---|
| Single-family purchase money goals (benchmark levels): | |
| Low-income | 27% |
| Very low-income | 8% |
| Low-income areas | 13% |
| Single-family refinance low-income goal (benchmark level) | 25% |
| Multifamily low-income goal | 215,000 units |
| Multifamily very low-income subgoal | 28,000 units |

The proposed rule would exclude private-label mortgage-related securities and REMICs from counting toward meeting our housing goals, broaden our ability to count mortgage revenue bonds toward meeting our housing goals, and permit jumbo conforming loans to count toward meeting our housing goals. As was the case with respect to our housing goals for 2009, the proposed rule would permit loans we own or guarantee that are modified in accordance with the MHA Program to be treated as mortgage purchases and counted toward the housing goals.

FHFA stated that it does not intend for Freddie Mac and Fannie Mae to undertake uneconomic or high-risk activities in support of the goals, nor does it intend for the enterprises state of conservatorship to be a justification for withdrawing support from these market segments.

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## SELECTED FINANCIAL DATA[1]

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009[2] |
| | (dollars in millions, except share related amounts) | |
| **Statement of Operations Data** | | |
| Net interest income | $ 4,125 | $ 3,859 |
| Provision for credit losses | (5,396) | (8,915) |
| Non-interest income (loss) | (4,854) | (3,088) |
| Non-interest expense | (667) | (2,768) |
| Net loss attributable to Freddie Mac | (6,688) | (9,975) |
| Net loss attributable to common stockholders | (7,980) | (10,353) |
| Total comprehensive income (loss) attributable to Freddie Mac | (1,880) | (5,921) |
| Per common share data: | | |
| Loss: | | |
| Basic | (2.45) | (3.18) |
| Diluted | (2.45) | (3.18) |
| Cash common dividends | | |
| Weighted average common shares outstanding (in thousands):[3] | | |
| Basic | 3,251,295 | 3,255,718 |
| Diluted | 3,251,295 | 3,255,718 |

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (dollars in millions) | |
| **Balance Sheet Data** | | |
| Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses) | $ 1,745,765 | $ |
| All other assets | 614,445 | 841,784 |
| Debt securities of consolidated trusts held by third parties | 1,545,227 | |
| Other debt | 806,621 | 780,604 |
| All other liabilities | 18,887 | 56,808 |
| Total Freddie Mac stockholders equity (deficit) | (10,614) | 4,278 |
| **Portfolio Balances**[4] | | |
| Mortgage-related investments portfolio | 753,321 | 755,272 |
| Total PCs and Structured Securities[5] | 1,787,939 | 1,854,813 |
| Non-performing assets[6] | 116,112 | 103,919 |

| | For the Three Months Ended March 31, |
|---|---|

| | 2010 | 2009 |
|---|---|---|
| **Ratios**(7) | | |
| Return on average assets(8) | (1.1)% | (4.4)% |
| Non-performing assets ratio(9) | 5.8 | 3.2 |
| Equity to assets ratio(10) | (0.1) | (2.0) |
| Preferred stock to core capital ratio(11) | N/A | N/A |

(1) See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for information regarding accounting changes impacting the current period. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards in our 2009 Annual Report for information regarding accounting changes impacting previously reported results.

(2) See QUARTERLY SELECTED FINANCIAL DATA in our 2009 Annual Report for an explanation of the changes in the Statement of Operations Data for the three months ended March 31, 2009.

(3) Includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included in basic loss per share for both the first quarter of 2010 and the first quarter of 2009, because it is unconditionally exercisable by the holder at a cost of $0.00001 per share.

(4) Represents the unpaid principal balance and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(5) For 2009, this included PCs and Structured Securities that we held for investment. See CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings Table 12 Segment Portfolio Composition for the composition of our total mortgage portfolio. Excludes Structured Securities for which we have resecuritized our PCs and Structured Securities. These resecuritized securities do not increase our credit-related exposure and consist of single-class Structured Securities backed by PCs, Structured Securities, and principal-only strips. The notional balances of interest-only strips are excluded because this line item is based on unpaid principal balance.

(6) See RISK MANAGEMENT Credit Risks *Mortgage Credit Risk Credit Performance Non-Performing Assets* Table 54 Non-Performing Assets for a description of our non-performing assets.

(7) The return on common equity ratio is not presented because the simple average of the beginning and ending balances of Total Freddie Mac stockholders equity (deficit), net of preferred stock (at redemption value), is less than zero for all periods presented. The dividend payout ratio on common stock is not presented because we are reporting a net loss attributable to common stockholders for all periods presented.

(8) Ratio computed as annualized net loss attributable to Freddie Mac divided by the simple average of the beginning and ending balances of total assets. To calculate the simple average for the three months ended March 31, 2010, the beginning balance of total assets is based on the January 1, 2010 total assets included in NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES Table 2.1 Impact of the Change in Accounting for Transfers of Financial Assets and Consolidation of Variable Interest Entities on Our Consolidated Balance Sheet to our consolidated financial statements so that both the beginning and ending balances of total assets reflect the changes in accounting principles.

(9) Ratio computed as non-performing assets divided by the total mortgage portfolio, excluding non-Freddie Mac securities.

(10) Ratio computed as the simple average of the beginning and ending balances of Total Freddie Mac stockholders equity (deficit) divided by the simple average of the beginning and ending balances of total assets.

(11) Ratio computed as preferred stock (excluding senior preferred stock), at redemption value divided by core capital. Senior preferred stock does not meet the statutory definition of core capital. Ratio is not computed for periods in which core capital is less than zero. See NOTE 17: REGULATORY CAPITAL to our consolidated financial statements for more information regarding core capital.

## CONSOLIDATED RESULTS OF OPERATIONS

The following discussion of our consolidated results of operations should be read in conjunction with our consolidated financial statements including the accompanying notes. Also see CRITICAL ACCOUNTING POLICIES AND ESTIMATES for more information concerning our more significant accounting policies and estimates applied in determining our reported financial position and results of operations.

### Change in Accounting Principles

In June 2009, the FASB issued two new accounting standards that amended guidance applicable to the accounting for transfers of financial assets and the consolidation of VIEs. The guidance in these standards was effective for fiscal years beginning after November 15, 2009. The accounting standard for transfers of financial assets was applicable on a prospective basis to new transfers, while the accounting standard relating to consolidation of VIEs was applied prospectively to all entities within its scope as of the date of adoption. We adopted these new accounting standards prospectively for all existing VIEs effective January 1, 2010. The adoption of these two standards had a significant impact on our consolidated financial statements and other financial disclosures beginning in the first quarter of 2010.

We use securitization trusts in our securities issuance process. Prior to January 1, 2010, these trusts met the definition of QSPEs and were not subject to consolidation. Effective January 1, 2010, the concept of a QSPE was removed from GAAP and entities previously considered QSPEs were required to be evaluated for consolidation. We must now consolidate VIEs when we hold a controlling financial interest. An enterprise has a controlling interest in, and thus is the primary beneficiary of, a VIE if it has both: (a) the power to direct the activities of the VIE that most significantly impact its economic performance; and (b) exposure to losses or benefits of the VIE that could potentially be significant to the VIE.

PCs are designed so that we bear the credit risk inherent in the loans underlying the PCs through our guarantee of principal and interest payments on the PCs. The PC holders bear the interest rate or prepayment risk on the mortgage loans and the risk that we will not perform on our obligation as guarantor. For purposes of our consolidation assessments, our evaluation of power and economic exposure with regard to PC trusts focuses on credit risk because the credit performance of the underlying mortgage loans was identified as the activity that most significantly impacts the economic performance of these entities. We have the power to impact the activities related to this risk in our role as guarantor and master servicer.

Specifically, in our role as master servicer, we establish requirements for how mortgage loans are serviced and what steps are to be taken to avoid credit losses (*e.g.*, modification, foreclosure). Additionally, in our capacity as guarantor, we have the ability to purchase defaulted mortgage loans out of the PC trust to help manage credit losses. See NOTE 5: MORTGAGE LOANS Loans Acquired under Financial Guarantees to our consolidated financial statements for further information regarding our purchase of mortgage loans out of PC trusts. These powers allow us to direct the activities of the VIE (*i.e.*, the PC trust) that most significantly impact its economic performance. In addition, we determined that our guarantee to each PC trust to provide principal and interest payments exposes us to losses that could potentially be significant to the PC trusts.

Based on our consolidation evaluation, we determined that we are the primary beneficiary of trusts that issue our single-family PCs and certain Structured Transactions, and thus needed to consolidate the assets and liabilities of these trusts. Therefore, effective January 1, 2010, we consolidated on our balance sheet the assets and liabilities of these trusts at their unpaid principal balances, with accrued interest, allowance for credit losses or other-than-temporary impairments recognized as appropriate, using the practical expedient permitted upon adoption since we determined

that calculation of historical carrying values was not practical. Other newly consolidated assets and liabilities that either do not have an unpaid principal balance or are required to be carried at fair value were measured at fair value. As a result of this consolidation, we recognized on our consolidated balance sheets the mortgage loans underlying our issued single-family PCs and certain Structured Transactions as mortgage loans held-for-investment by consolidated trusts, at amortized cost. We also recognized the corresponding single-family PCs and certain Structured Transactions held by third parties on our consolidated balance sheets as debt securities of consolidated trusts held by third parties. After January 1, 2010, new consolidations of trust assets and liabilities are recorded at either their: (a) carrying value if the underlying assets are contributed by us to the trust and consolidated at the time of the transfer; or (b) fair value for the assets and liabilities that are consolidated under the securitization trusts for our guarantor swap program, rather than their unpaid principal balance.

In light of the consolidation of our single-family PC trusts and certain Structured Transactions as discussed above, effective January 1, 2010 we elected to change the amortization method for deferred items (*e.g.*, premiums, discounts and other basis adjustments) related to mortgage loans and investments in securities. We made this change to align the amortization method for these assets with the amortization method for deferred items associated with the related

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liabilities. As a result of this change, deferred items are amortized into interest income using an effective interest method over the contractual lives of these assets instead of the estimated life that was used for periods prior to 2010. It was impracticable to retrospectively apply this change to prior periods, so we recognized this change as a cumulative effect adjustment to the opening balance of retained earnings (accumulated deficit), and future amortization of these deferred items will be recognized using this new method. The effect of the change in the amortization method for deferred items was immaterial to our consolidated financial statements for the current period.

The cumulative effect of these changes in accounting principles was a net decrease of $11.7 billion to total equity (deficit) as of January 1, 2010, which includes changes to the opening balances of retained earnings (accumulated deficit) and AOCI, net of taxes. This net decrease was driven principally by: (a) the elimination of unrealized gains resulting from the extinguishment of PCs held as investment securities upon consolidation of the PC trusts, representing the difference between the unpaid principal balance of the loans underlying the PC trusts and the fair value of the PCs, including premiums, discounts and other basis adjustments; (b) the elimination of the guarantee asset and guarantee obligation established for guarantees issued to securitization trusts we consolidated; and (c) the application of our nonaccrual policy to delinquent mortgage loans consolidated as of January 1, 2010.

See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES and NOTE 22: SELECTED FINANCIAL STATEMENT LINE ITEMS to our consolidated financial statements for additional information regarding these changes.

As these changes in accounting principles were applied prospectively, our results of operations for the first quarter of 2010 (on both a GAAP and segment basis), which reflect the consolidation of trusts that issue our single-family PCs and certain Structured Transactions, are not directly comparable with the results of operations for the first quarter of 2009, which reflect the accounting policies in effect during that time (*i.e.*, securitization entities were accounted for off-balance sheet).

**Consolidated Statements of Operations GAAP Results**

Table 6 summarizes the GAAP Consolidated Statements of Operations.

**Table 6 Summary Consolidated Statements of Operations GAAP Results[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Net interest income | $ 4,125 | $ 3,859 |
| Provision for credit losses | (5,396) | (8,915) |
| Net interest income after provision for credit losses | (1,271) | (5,056) |
| Non-interest income (loss): | | |
| Gains (losses) on extinguishment of debt securities of consolidated trusts | (98) | |
| Gains (losses) on retirement of other debt | (38) | (104) |
| Gains (losses) on debt recorded at fair value | 347 | 467 |
| Derivative gains (losses) | (4,685) | 181 |
| Impairment of available-for-sale securities[2]: | | |
| Total other-than-temporary impairment of available-for-sale securities | (417) | (7,130) |

| | | |
|---|---|---|
| Portion of other-than-temporary impairment recognized in AOCI | (93) | |
| Net impairment of available-for-sale securities recognized in earnings | (510) | (7,130) |
| Other gains (losses) on investment securities recognized in earnings | (416) | 2,182 |
| Other income | 546 | 1,316 |
| Total non-interest income (loss) | (4,854) | (3,088) |
| Non-interest expense: | | |
| Administrative expenses | (395) | (372) |
| REO operations expense | (159) | (306) |
| Other expenses | (113) | (2,090) |
| Total non-interest expense | (667) | (2,768) |
| Loss before income tax benefit | (6,792) | (10,912) |
| Income tax benefit | 103 | 937 |
| Net loss | $ (6,689) | $ (9,975) |
| Less: Net (income) loss attributable to noncontrolling interest | 1 | |
| Net loss attributable to Freddie Mac | $ (6,688) | $ (9,975) |

(1) See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for information regarding accounting changes impacting the current period.

(2) We adopted an amendment to the accounting standards for investments in debt and equity securities effective April 1, 2009. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards in our 2009 Annual Report for additional information regarding the impact of this amendment.

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## Net Interest Income

Table 7 presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

**Table 7 Net Interest Income/Yield and Average Balance Analysis**

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Average Balance(1)(2) | Interest Income (Expense)(1) | Average Rate | Average Balance(1)(2) | Interest Income (Expense)(1) | Average Rate |
| | (dollars in millions) | | | | | |
| Interest-earning assets: | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Cash and cash equivalents, excluding consolidated trusts | $ 50,468 | $ 16 | 0.13% | $ 49,932 | $ 76 | 0.61% |
| Cash and cash equivalents, held by consolidated trusts | 9,751 | 1 | 0.05 | | | |
| Total cash and cash equivalents | 60,219 | 17 | 0.12 | 49,932 | 76 | 0.61 |
| Federal funds sold and securities purchased under agreements to resell: | | | | | | |
| Federal funds sold and securities purchased under agreements to resell, excluding consolidated trusts | 42,792 | 13 | 0.12 | 33,605 | 18 | 0.22 |
| Federal funds sold and securities purchased under agreements to resell, held by consolidated trusts | 8,853 | 3 | 0.11 | | | |
| Total federal funds sold and securities purchased under agreements to resell | 51,645 | 16 | 0.12 | 33,605 | 18 | 0.22 |
| Mortgage-related securities: | | | | | | |
| Mortgage-related securities(3) | 593,512 | 7,279 | 4.91 | 698,464 | 8,760 | 5.02 |
| Extinguishment of PCs held by Freddie Mac | (245,022) | (3,441) | (5.62) | | | |
| Total mortgage-related securities, net | 348,490 | 3,838 | 4.41 | 698,464 | 8,760 | 5.02 |
| Non-mortgage-related securities(3) | 20,189 | 61 | 1.21 | 11,197 | 211 | 7.53 |
| Mortgage loans held by consolidated trusts(4) | 1,786,834 | 22,732 | 5.09 | | | |
| Unsecuritized mortgage loans(4) | 160,688 | 1,961 | 4.88 | 118,555 | 1,580 | 5.33 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total interest-earning assets | $ 2,428,065 | $ 28,625 | 4.72 | $ 911,753 | $ 10,645 | 4.67 |
| Interest-bearing liabilities: | | | | | | |
| Debt securities of consolidated trusts including PCs held by Freddie Mac | $ 1,801,525 | $ (23,084) | (5.13) | $ | $ | |
| Extinguishment of PCs held by Freddie Mac | (245,022) | 3,441 | 5.62 | | | |
| Total debt securities of consolidated trusts held by third parties | 1,556,503 | (19,643) | (5.05) | | | |
| Other debt: | | | | | | |
| Short-term debt | 242,938 | (141) | (0.23) | 362,566 | (1,122) | (1.24) |
| Long-term debt[5] | 556,907 | (4,458) | (3.20) | 521,151 | (5,364) | (4.12) |
| Total other debt | 799,845 | (4,599) | (2.30) | 883,717 | (6,486) | (2.94) |
| Total interest-bearing liabilities | 2,356,348 | (24,242) | (4.12) | 883,717 | (6,486) | (2.94) |
| Income (expense) related to derivatives[6] | | (258) | (0.04) | | (300) | (0.13) |
| Impact of net non-interest bearing funding | 71,717 | | 0.12 | 28,036 | | 0.09 |
| Total funding of interest-earning assets | $ 2,428,065 | $ (24,500) | (4.04) | $ 911,753 | $ (6,786) | (2.98) |
| Net interest income/yield | | $ 4,125 | 0.68 | | $ 3,859 | 1.69 |

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) For securities, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (*e.g.*, premiums and discounts), but excluded the effect of mark-to-fair-value changes.
(3) Interest income (expense) includes the portion of impairment charges recognized in earnings expected to be recovered.
(4) Non-performing loans, where interest income is recognized when collected, are included in average balances.
(5) Includes current portion of long-term debt.
(6) Represents changes in fair value of derivatives in cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt and mortgage purchase transactions affect earnings.

Our adoption of the change to the accounting standards for consolidation, as discussed above, had the following impact on net interest income and net interest yield for the first quarter of 2010, and will have similar effects on future periods:

we include in net interest income both: (a) the interest income earned on the average balance of $1.8 trillion of interest-earning assets held in our consolidated single-family trusts, comprised primarily of mortgage loans, restricted cash and cash equivalents and investments in securities purchased under agreements to resell (the investing activities are performed in our capacity as securities administrator); and (b) the interest expense related to the average balance of $1.6 trillion of debt in the form of PCs and Structured Transactions issued by these trusts held by third parties. Prior to January 1, 2010, we reflected the earnings impact of these securitization activities as management and guarantee income, which was recorded within non-interest income on our

consolidated statements of operations; and interest income on single-family PCs and certain Structured Transactions we held;

we now reverse interest income recognized in prior periods on non-performing loans, where the collection of interest is not reasonably assured, as well as the foregone interest income associated with these loans upon their placement on nonaccrual status. Prior to consolidation of these trusts, the foregone interest income on non-performing loans of the trusts did not affect net interest income or net interest yield, as it was accounted for through a charge to provision for credit losses; and

we changed the amortization method for deferred items related to mortgage loans and investments in securities in order to align the amortization terms of these assets with those of their related liabilities. As a result of this change, beginning in 2010, deferred items, including premiums, discounts and other basis adjustments, are amortized into interest income using an effective interest method over the contractual lives of these assets instead of the estimated life that was used for periods prior to 2010. As it was impractical to retrospectively apply this change to prior periods, this change was applied prospectively. The effect of the change in the amortization method for deferred items was immaterial to our consolidated financial statements for the current period.

See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for additional information.

Net interest income increased by $266 million during the three months ended March 31, 2010 compared to the three months ended March 31, 2009. Net interest yield decreased substantially during the same period as a result of our adoption of amendments to accounting standards for transfers of financial assets and the consolidation of VIEs. Beginning on January 1, 2010, our net interest yield now reflects a blended rate between the yield on our retained investments portfolio and the yield on our securitization guarantee contracts, adjusted to suspend the recognition of interest income on delinquent loans where the collection of interest is not reasonably assured.

The increase in net interest income was primarily due to a decrease in funding costs of other debt as a result of the replacement of higher cost short- and long-term debt with lower cost debt partially offset by: (a) a decrease in interest income resulting from the significantly increased average balance of non-performing mortgage loans, where the collection of interest is not reasonably assured; and (b) the impact of declining interest rates on our floating-rate mortgage-related and non-mortgage-related securities.

The decrease in net interest yield was primarily due to: (a) the low net interest yield on the interest-earning assets of our consolidated single-family trusts when compared to our historical net interest yield; and (b) the funding costs associated with the increased balance of non-performing mortgage loans.

During the three months ended March 31, 2010, spreads on our debt and our access to the debt markets remained favorable. We believe the Federal Reserve s purchases in the secondary market of our long-term debt under its purchase program contributed to the favorable spreads on our debt. As a result, when compared to the three months ended March 31, 2009, we were able to replace some higher cost short- and long-term debt with lower cost floating-rate long-and short-term debt, resulting in a decrease in our funding costs. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity.

During the three months ended March 31, 2010, compared to the three months ended March 31, 2009, the average balance of our mortgage-related securities declined because we did not purchase sufficient amounts of mortgage-related securities to offset ongoing liquidations of our existing holdings. Our purchase activity has been limited due to continued tight spreads on mortgage assets, which have made investment opportunities less favorable.

We believe these tight spreads resulted from the Federal Reserve and Treasury actively purchasing agency mortgage-related securities in the secondary market during 2009 and, with respect to the Federal Reserve, during 2010.

**Provision for Credit Losses**

Our allowance for loan losses reflects our best projection of defaults we believe are likely as a result of loss events that have occurred through March 31, 2010 on mortgage loans, held-for-investment. The ongoing weakness in the national housing market, the uncertainty in other macroeconomic factors, such as trends in unemployment rates, and the uncertainty of the effect of government actions to address the economic and housing crisis, make forecasting default rates and loss severity on defaults inherently imprecise. Our allowance for loan losses also reflects: (a) the projected recoveries of losses through credit enhancements; (b) the projected impact of strategic loss mitigation initiatives (such as our efforts under the MHA Program), including an expected higher volume of loan modifications; and (c) the projected recoveries through repurchases by seller/servicers of defaulted loans. An inability to realize the projected benefits of our loss mitigation plans, a lower than projected realized rate of seller/servicer repurchases or default rates that exceed our current projections would cause our losses to be higher than those currently estimated.

The provision for credit losses was $5.4 billion in the first quarter of 2010 compared to $8.9 billion in the first quarter of 2009. During the first quarter of 2010, we experienced less significant increases than in the first quarter of 2009 in: (a) average loss severity rates; (b) increases in rates of delinquency; and (c) the rate of growth in the balance of our non-performing assets. These factors moderated the increase in our loan loss reserves and consequently, our provision for credit losses in the first quarter of 2010 was less than that recognized in the first quarter of 2009.

For more information regarding how we derive our estimate for the provision for credit losses, see MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES in our 2009 Annual Report. See Table 2 Credit Statistics, Single-Family Credit Guarantee Portfolio for quarterly trends in single-family credit statistics.

Our charge-offs, net of recoveries, increased to $2.8 billion in the first quarter of 2010, compared to $1.0 billion in the first quarter of 2009, primarily due to an increase in the volume of foreclosure transfers. We also recognized $2.7 billion of provision for credit losses above the level of our charge-offs, net during the first quarter of 2010 primarily as a result of:

- An increase in the number of loans subject to individual impairment rather than the collective reserve for loan losses at March 31, 2010, due to an increase in the number of completed loan modifications where a concession was granted to the borrower (that were accounted for as a troubled debt restructuring), including those under HAMP, during the first quarter of 2010. Impairment analysis for troubled debt restructurings requires giving recognition to the present value of the concession granted to the borrower, which generally resulted in an increase in our allowance for loan losses. We expect a continued increase in the number of delinquent loans during 2010 that will undergo a troubled debt restructuring due to HAMP and other loan modification efforts since the majority of our modifications in 2010 are anticipated to include a significant reduction in contractual interest;

- A continued increase in non-performing loans and foreclosures reflecting the combination of declining home values that began in 2006 and persistently high rates of unemployment. Although still increasing, the rate of growth in delinquency rates and balance of non-performing loans slowed during the first quarter of 2010. The delinquency rate of our single-family credit guarantee portfolio increased from 3.98% at December 31, 2009 to 4.13% at March 31, 2010, as compared to an increase from 1.83% at December 31, 2008 to 2.41% at March 31, 2009; and

- Higher average severity rates on loans that transition to a loss event, such as a pre-foreclosure sale or foreclosure transfer.

The level of our provision for credit losses in the remainder of 2010 will depend on a number of factors, including the actual level of mortgage defaults, the impact of the MHA Program and our other loss mitigation efforts, changes in property values, regional economic conditions, including unemployment rates, third-party mortgage insurance coverage and recoveries and the realized rate of seller/servicer repurchases. See RISK MANAGEMENT Credit Risks *Institutional Credit Risk* for additional information on seller/servicer repurchase obligations.

The amount of our loan loss reserve associated with multifamily properties, including our reserve for guarantee losses, was $842 million and $831 million as of March 31, 2010 and December 31, 2009, respectively and our total non-performing multifamily loans were $565 million and $538 million, respectively, as of such dates. Market fundamentals for multifamily properties we monitor continued to be challenging during the first quarter of 2010, particularly in certain states in the Southeast and West regions. See Table 3 Credit Statistics, Multifamily Mortgage Portfolio for quarterly trends in multifamily credit statistics.

**Non-Interest Income (Loss)**

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

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish a pro rata portion of the outstanding debt securities of the related consolidated trust. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to redeem the debt security differs from its carrying value adjusted for any related purchase commitments accounted for as derivatives. For the three months ended March 31, 2010, we extinguished debt securities of consolidated trusts with an unpaid principal balance of $4.4 billion (representing our purchase of single-family PCs with an unpaid principal balance of $4.4 billion) and our gains (losses) on extinguishment of these debt securities of consolidated trusts was $(98) million. For the three months ended March 31, 2009, we did not recognize a gain or loss on extinguishment of debt securities of consolidated trusts as our PCs trusts had not been consolidated prior to the change in the consolidation accounting for VIEs. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for additional information.

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### *Gains (Losses) on Retirement of Other Debt*

Gains (losses) on retirement of other debt were $(38) million and $(104) million during the three months ended March 31, 2010 and 2009, respectively. During the three months ended March 31, 2010, we recognized fewer losses on retirement compared to the three months ended March 31, 2009 due to declines in write-offs of concession fees and write-offs related to basis adjustments from previously discontinued hedging relationships.

### *Derivative Gains (Losses) and Gains (Losses) on Debt Recorded at Fair Value*

We use derivatives to: (a) regularly adjust or rebalance our funding mix in order to more closely match changes in the interest rate characteristics of our mortgage-related assets; (b) hedge forecasted issuances of debt; (c) synthetically create callable and non-callable funding; and (d) hedge foreign-currency exposure. We account for our derivatives pursuant to the accounting standards for derivatives and hedging. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Derivatives to our consolidated financial statements for additional information.

At March 31, 2010 and December 31, 2009, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges. Changes in fair value and interest accruals on derivatives not in hedge accounting relationships are recorded as derivative gains (losses) in our consolidated statements of operations. The deferred amounts in AOCI related to closed cash flow hedges are reclassified to earnings when the forecasted transactions affect earnings.

*Derivative Gains (Losses)*

Table 8 presents derivative gains and losses. Derivative gains (losses) includes the accrual of periodic settlements for derivatives. Although derivatives are an important aspect of our management of interest-rate risk, they generally increase the volatility of reported net income (loss), because not all of the assets and liabilities being hedged are recorded at fair value with changes reported in net income.

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**Table 8 Derivative Gains (Losses)**

| Derivatives not Designated as Hedging Instruments under the accounting standards for derivatives and hedging[2] | Derivative Gains (Losses)[1] Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| | (in millions) | |
| Interest-rate swaps: | | |
| Receive-fixed | | |
| Foreign-currency denominated | $ (8) | $ 187 |
| U.S. dollar denominated | 2,383 | (1,803) |
| Total receive-fixed swaps | 2,375 | (1,616) |
| Pay-fixed | (4,747) | 6,705 |
| Basis (floating to floating) | 38 | 1 |
| Total interest-rate swaps | (2,334) | 5,090 |
| Option-based: | | |
| Call swaptions | | |
| Purchased | 500 | (3,387) |
| Written | 59 | 117 |
| Put swaptions | | |
| Purchased | (974) | 45 |
| Written | (5) | 13 |
| Other option-based derivatives[3] | (162) | 25 |
| Total option-based | (582) | (3,187) |
| Futures | (54) | 28 |
| Foreign-currency swaps[4] | (331) | (573) |
| Commitments[5] | (35) | (412) |
| Credit derivatives | | 1 |
| Swap guarantee derivatives | | (31) |
| Subtotal | (3,336) | 916 |
| Accrual of periodic settlements: | | |
| Receive-fixed interest-rate swaps[6] | 1,532 | 1,088 |
| Pay-fixed interest-rate swaps | (2,884) | (1,942) |
| Foreign-currency swaps | 7 | 49 |
| Other | (4) | 70 |
| Total accrual of periodic settlements | (1,349) | (735) |
| Total | $ (4,685) | $ 181 |

(1) Gains (losses) are reported as derivative gains (losses) on our consolidated statements of operations.
(2)

See NOTE 11: DERIVATIVES to our consolidated financial statements for additional information about the purpose of entering into derivatives not designated as hedging instruments and our overall risk management strategies.

(3) Primarily represents purchased interest rate caps and floors, guarantees of stated final maturity of issued Structured Securities, and written options, including written call options on agency mortgage-related securities. For the three months ended March 31, 2009, other option-based derivatives also included purchased put options on agency mortgage-related securities.

(4) Foreign-currency swaps are defined as swaps in which net settlement is based on one leg calculated in a foreign-currency and the other leg calculated in U.S. dollars.

(5) Commitments include: (a) our commitments to purchase and sell investments in securities; and (b) our commitments to purchase and extinguish or issue debt securities of our consolidated trusts.

(6) Includes imputed interest on zero-coupon swaps.

Gains (losses) on derivatives are principally driven by changes in: (a) swap interest rates and implied volatility; and (b) the mix and volume of derivatives in our derivative portfolio.

During the first quarter of 2010, the fair value of our derivative portfolio was impacted by a decline in swap interest rates and implied volatility, resulting in a loss on derivatives of $4.7 billion. As a result of these factors, we recorded losses on our pay-fixed swaps, partially offset by gains on our receive-fixed swap positions as illustrated in the table above. We also recorded losses on our purchased put swaptions.

During the first quarter of 2009, we recorded a gain on derivatives of $181 million primarily due to rising long-term interest rates while implied volatility decreased. These changes in interest rates and volatility resulted in a gain on our pay-fixed swap positions, partially offset by losses on our receive-fixed swaps and a loss on our purchased call swaptions.

*Foreign Currency Swaps and Foreign-Currency Denominated Debt*

Gains (losses) on debt recorded at fair value primarily relates to changes in the fair value of our foreign-currency denominated debt. For the three months ended March 31, 2010, we recognized gains on debt recorded at fair value of $347 million due primarily to the U.S. dollar strengthening relative to the Euro. For the three months ended March 31, 2009, we recognized gains on debt recorded at fair value of $467 million primarily due to an increase in interest rates and the U.S. dollar strengthening relative to the Euro. We mitigate changes in the fair value of our foreign-currency denominated debt by using foreign currency swaps and foreign-currency denominated interest-rate swaps.

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During the first quarter of 2010 we recognized fair value gains of $346 million on our foreign-currency denominated debt. This amount included:

fair value gains related to translation of $321 million, which was offset by derivative losses on foreign-currency swaps of $(331) million; and

fair value gains relating to interest rate and instrument-specific credit risk adjustments of $25 million, which was partially offset by derivative losses on foreign-currency denominated receive-fixed interest rate swaps of $(8) million.

During the first quarter of 2009, we recognized fair value gains of $467 million on our foreign-currency denominated debt. This amount included:

fair value gains related to translation of $580 million, which was offset by derivative losses on foreign-currency swaps of $(573) million; and

fair value losses relating to interest rate and instrument-specific credit risk adjustments of $(113) million, which was offset by derivative gains on foreign-currency denominated receive-fixed interest-rate swaps of $187 million.

For a discussion of the instrument-specific credit risk and our election to adopt the fair value option on our foreign-currency denominated debt see NOTE 19: FAIR VALUE DISCLOSURES Fair Value Election *Foreign-Currency Denominated Debt with Fair Value Option Elected* to our consolidated financial statements.

***Investment Securities-Related Activities***

As a result of our adoption of amendments to the accounting standards for transfers of financial assets and consolidation of VIEs, we no longer account for the single-family PCs and certain Structured Transactions we hold as investments in securities. Instead, we now recognize the underlying mortgage loans on our consolidated balance sheets through consolidation of the related trusts. Our adoption of these amendments resulted in a decrease in our investments in securities of $286.5 billion on January 1, 2010. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for additional information.

*Impairments of Available-for-Sale Securities*

During the three months ended March 31, 2010, we recorded net impairment of available-for-sale securities recognized in earnings of $510 million, all of which related to expected credit losses on our non-agency mortgage-related securities. During the three months ended March 31, 2009, which was prior to the adoption of an amendment to the accounting standards for investments in debt and equity securities, we recognized in earnings approximately $6.9 billion of other-than-temporary impairment related to non-agency mortgage-related securities backed by subprime, option ARM and Alt-A and other loans that were probable of incurring a contractual principal or interest loss.

See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM and Alt-A Loans* and NOTE 7: INVESTMENTS IN SECURITIES to our consolidated financial statements for additional information regarding the accounting principles for investments in debt and equity securities and the other-than-temporary impairments recorded during the three months ended March 31, 2010 and 2009. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards *Change in the Impairment Model for Debt*

*Securities* in our 2009 Annual Report for information on how other-than-temporary impairments are recorded on our financial statements commencing in the second quarter of 2009.

*Other Gains (Losses) on Investment Securities Recognized in Earnings*

We recognized $(417) million and $2.1 billion related to gains (losses) on trading securities during the three months ended March 31, 2010 and 2009, respectively. The impact of declining interest rates on our interest-only securities classified as trading resulted in a mark-to-fair-value loss of $482 million during the three months ended March 31, 2010. The net gains on trading securities during the first quarter of 2009 related primarily to tightening OAS levels. Our sales of agency securities classified as trading with unpaid principal balances of approximately $36 billion generated realized gains of $1.1 billion.

The unpaid principal balance of our securities classified as trading was approximately $71 billion at March 31, 2010 compared to approximately $253 billion at March 31, 2009. The decline in unpaid principal balance was primarily due to our adoption of amendments to the accounting standards for transfers of financial assets and consolidation of VIEs on January 1, 2010.

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### *Other Income*

Table 9 summarizes the significant components of other income.

**Table 9 Other Income**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Other income (losses): | | |
| Management and guarantee income | $ 35 | $ 780 |
| Gains (losses) on guarantee asset | (12) | (156) |
| Income on guarantee obligation | 36 | 910 |
| Gains (losses) on sale of mortgage loans | 95 | 151 |
| Lower-of-cost-or-fair-value adjustments | | (129) |
| Gains (losses) on mortgage loans elected at fair value | 21 | (18) |
| Recoveries on loans impaired upon purchase | 169 | 50 |
| Low-income housing tax credit partnerships | | (106) |
| Trust management income (expense) | | (207) |
| All other | 202 | 41 |
| Total other income | $ 546 | $ 1,316 |

Other income primarily includes items associated with our guarantee business activities of non-consolidated trusts, including recoveries of loans impaired upon purchase, management and guarantee income, gains (losses) on guarantee asset and income on guarantee obligation, as well as all other income from non-guarantee related activities. Upon consolidation of our single-family PC trusts and certain Structured Transactions, guarantee-related items no longer have a material impact on our results and are therefore included in other income on our consolidated statements of operations. For additional information on the impact of consolidation of our single-family PC trusts and certain Structured Transactions, see NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES and NOTE 22: SELECTED FINANCIAL STATEMENT LINE ITEMS to our consolidated financial statements.

#### *Management and Guarantee Income*

Management and guarantee income decreased significantly during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. The significant decrease was due to the consolidation of our single-family PC trusts and certain Structured Transactions as a result of the change in the accounting for VIEs. Beginning January 1, 2010, the income associated with most of our securitization and guarantee activities relates to our consolidated securitization trusts and is recognized as a component of net interest income. The management and guarantee income recognized during the first quarter of 2010 was earned from our non-consolidated securitization trusts and other mortgage credit guarantees whose ending unpaid principal balance was $40.4 billion as of March 31, 2010 compared to $1.8 trillion as of March 31, 2009.

#### *Gains (Losses) on Guarantee Asset*

Gains (losses) on guarantee asset decreased significantly during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009, primarily due to the decrease in the balance of our recognized guarantee asset resulting from the consolidation of our single-family PC trusts and certain Structured Transactions. Beginning January 1, 2010, we no longer record a guarantee asset on our consolidated balance sheet for guarantees associated with our consolidated trusts, and therefore no longer recognize gains (losses) on guarantee assets related to such trusts. As of March 31, 2010 and December 31, 2009, our guarantee assets on our consolidated balance sheets were $482 million and $10.4 billion, respectively.

*Income on Guarantee Obligation*

Income on guarantee obligation decreased significantly during the three months ended March 31, 2010, as compared to the three months ended March 31, 2009 primarily due to the decrease in the balance of our recognized guarantee obligation resulting from the consolidation of our single-family PC trusts and certain Structured Transactions. Beginning January 1, 2010, we no longer recognize income on our guarantee obligation for guarantees associated with our consolidated trusts. As of March 31, 2010 and December 31, 2009, our guarantee obligations on our consolidated balance sheets were $656 million and $12.5 billion, respectively.

*Recoveries on Loans Impaired Upon Purchase*

During the three months ended March 31, 2010 and 2009, we recognized recoveries on loans impaired upon purchase of $169 million and $50 million, respectively. Our recoveries on loans impaired upon purchase increased due to a higher volume of foreclosure transfers combined with improvements in home prices in some geographical areas during the first quarter of 2010, as compared to the first quarter of 2009. Our recoveries on these loans may be volatile

in the short-term due to the effects of changes in home prices, among other factors. We expect our recoveries to remain higher in 2010, as compared to 2009, due to higher expected volumes of foreclosures in 2010.

*Low-income Housing Tax Credit Partnerships*

We wrote down the carrying value of our LIHTC investments to zero in the fourth quarter of 2009, as we will not be able to realize any value either through reductions to our taxable income and related tax liabilities or through a sale to a third party. See CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Low-Income Housing Tax Credit Partnerships* in our 2009 Annual Report for more information.

*Trust Management Income (Expense)*

Due to the change in consolidation accounting for VIEs, which resulted in the consolidation of our single-family PC trusts and certain Structured Transactions, there was no trust management income or expense in the three months ended March 31, 2010. Beginning January 1, 2010, trust management income and expense associated with consolidated trusts is recognized within net interest income.

**Non-Interest Expense**

Table 10 summarizes the components of non-interest expense.

**Table 10 Non-Interest Expense**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Administrative expenses: | | |
| Salaries and employee benefits | $ 234 | $ 207 |
| Professional services | 71 | 60 |
| Occupancy expense | 16 | 18 |
| Other administrative expenses | 74 | 87 |
| Total administrative expenses | 395 | 372 |
| REO operations expense | 159 | 306 |
| Other expenses | 113 | 2,090 |
| Total non-interest expense | $ 667 | $ 2,768 |

***Administrative Expenses***

Administrative expenses increased for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, in part due to an increase in the number of full-time employees, increased incentive awards as well as higher professional service costs that support corporate initiatives, including our HAMP efforts.

***REO Operations Expense***

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

**Table 11 REO Operations Expense**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (dollars in millions) | |
| Single-family: | | |
| REO property expenses(1) | $ 241 | $ 116 |
| Disposition (gains) losses(2) | 4 | 306 |
| Change in holding period allowance(3) | 70 | 32 |
| Recoveries | (159) | (148) |
| Total single-family REO operations expense | 156 | 306 |
| Multifamily REO operations expense | 3 | |
| Total REO operations expense | $ 159 | $ 306 |
| REO inventory (properties), at March 31, | 53,839 | 29,151 |
| REO property dispositions (properties) | 21,969 | 14,184 |

(1) Consists of costs incurred to maintain or protect a property after foreclosure acquisition, such as legal fees, insurance, taxes, cleaning and other maintenance charges.
(2) Represents the difference between the disposition proceeds, net of selling expenses, and the fair value of the property on the date of the foreclosure transfer. Excludes holding period writedowns while in REO inventory.
(3) Includes both the increase (decrease) in the holding period allowance for properties that remain in inventory at the end of the period as well as any reductions associated with dispositions during the period.

REO operations expense decreased to $159 million for the first quarter of 2010 from $306 million during the first quarter of 2009. Disposition losses during the first quarter of 2010 were lower as compared to the first quarter of 2009 due to the relative stabilization in national home prices in 2010 that included slight improvements in certain geographic

areas. Improvement in disposition losses was partially offset by higher property expenses in the first quarter of 2010 as compared to the first quarter of 2009 due to increased property inventory and acquisition volumes in the first quarter of 2010. We expect REO property expense to continue to increase for the remainder of 2010, as single-family REO acquisition volume continues to increase and property inventory continues to grow.

***Other Expenses***

Other expenses primarily consists of losses on loans purchased and other miscellaneous expenses. Our losses on loans purchased were $17 million during the first quarter of 2010 compared to $2.0 billion during the first quarter of 2009. Losses on delinquent and modified loans purchased from mortgage pools within our non-consolidated securitization trusts occur when the acquisition basis of the purchased loan exceeds the estimated fair value of the loan on the date of purchase. When a loan underlying our PCs is modified, we generally exercise our repurchase option and hold the modified loan as an unsecuritized mortgage loan, held-for-investment. See *Recoveries on Loans Impaired Upon Purchase* for additional information about the impacts from these loans on our financial results. Beginning January 1, 2010, our single-family PC trusts are consolidated as a result of the change in accounting for consolidation of VIEs. As a result, we no longer record losses on loans purchased when we purchase loans from these consolidated entities since the loans are already recorded on our consolidated balance sheets. In the first quarter of 2010, losses on loans purchased were associated solely with loans purchased pursuant to long-term standby agreements. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Impaired Loans and NOTE 22: SELECTED FINANCIAL STATEMENT LINE ITEMS to our consolidated financial statements for additional information.

**Income Tax Benefit**

For the three months ended March 31, 2010 and 2009, we reported an income tax benefit of $103 million and $937 million, respectively. See NOTE 13: INCOME TAXES to our consolidated financial statements for additional information.

**Segment Earnings**

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

The Investments segment includes our investment, funding and hedging activities. In our Investments segment, we invest principally in mortgage-related securities and single-family mortgage loans funded by debt issuances and hedged by asset and liability management. Segment Earnings for this segment consists primarily of the returns on these investments, less the related financing, hedging and administrative expenses.

The Single-family Guarantee segment includes our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase single-family mortgage loans originated by our lender customers in the primary mortgage market, primarily through our guarantor swap program. We securitize most of the mortgages we purchase. In this segment, we also guarantee the payment of principal and interest on single-family mortgage loans and mortgage-related securities in exchange for management and guarantee fees received over time and other up-front credit-related fees. Segment Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront fees, less the related credit costs (*i.e.*, provision for credit losses) and administrative expenses. Segment Earnings for this segment also includes management and guarantee fee revenues earned on loans held in the Investments segment related to single-family guarantee activities, net of allocated funding costs and amounts related to net float benefits or expenses.

The Multifamily segment includes our investments and guarantee activities in multifamily mortgage loans and securities. In our Multifamily segment, we primarily purchase multifamily mortgage loans and CMBS for investment and guarantee the payment of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. These activities support our mission to supply financing for affordable rental housing. Segment Earnings for this segment also includes management and guarantee fee revenues and the interest earned on assets related to multifamily guarantee and investment activities, net of allocated funding costs.

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. Beginning January 1, 2010, we revised our method for presenting Segment Earnings to reflect changes in how management measures and assesses the performance of each segment and the company as a whole. Under the revised method, the financial performance of our segments is measured based on each segment s contribution to GAAP net income (loss). Under the revised method, the sum of Segment Earnings for each segment and the All Other category will equal GAAP net income (loss) attributable to Freddie Mac for the first quarter of 2010 and subsequent periods.

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Segment Earnings for prior periods presented now include the following items that are included in our GAAP-basis earnings, but were deferred or excluded under the previous method for presenting Segment Earnings:

- Current period GAAP earnings impact of fair value accounting for investments, debt and derivatives;
- Allocation of the valuation allowance established against our net deferred tax assets;
- Gains and losses on investment sales and debt retirements;
- Losses on loans purchased and related recoveries;
- Other-than-temporary impairment of securities recognized in earnings in excess of expected losses; and
- GAAP-basis accretion income that may result from impairment adjustments.

Under the revised method of presenting Segment Earnings, the All Other category consists of material corporate level expenses that are: (a) non-recurring in nature; and (b) based on management decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments are more representative of the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods. Items included in the All Other category consist of: (a) the write-down of our LIHTC investments; and (b) the deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward due to our tax net operating loss carryback. Other items previously recorded in the All Other category prior to the revision to our method for presenting Segment Earnings have been allocated to our three reportable segments.

Effective January 1, 2010, we also made significant changes to our GAAP consolidated statements of operations as a result of our adoption of changes in accounting standards for transfers of financial assets and the consolidation of VIEs. These changes make it difficult to view results of our Investments, Single-family Guarantee and Multifamily segments. As a result, in presenting Segment Earnings we make significant reclassifications to line items for our segment businesses in order to reflect a measure of net interest income on investments and management and guarantee income on guarantees that is in line with our internal measures of performance.

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

As a result of these reclassifications and allocations, Segment Earnings for our reportable segments differs significantly from, and should not be used as a substitute for, net income (loss) as determined in accordance with GAAP. Our definition of Segment Earnings may differ from similar measures used by other companies. However, we believe that Segment Earnings provides us with meaningful metrics to assess the financial performance of each segment and our company as a whole.

We have restated Segment Earnings for the first quarter of 2009 to reflect changes in our method of measuring and assessing the performance of our reportable segments. The restated Segment Earnings for the first quarter of 2009 do not include changes to the guarantee asset, guarantee obligation or other items that were eliminated or changed as a result of our implementation of the amendments to the accounting standards for transfers of financial assets and consolidation of VIEs adopted on January 1, 2010, as this change was applied prospectively consistent with our GAAP results. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for

further information regarding the consolidation of certain of our securitization trusts.

See NOTE 16: SEGMENT REPORTING to our consolidated financial statements for further information regarding our segments, including the descriptions and activities of the segments and the reclassifications and allocations used to present Segment Earnings.

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Table 12 provides information about our various segment portfolios.

**Table 12 Segment Portfolio Composition**[1]

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (in millions) | |
| Segment portfolios: | | |
| *Investments Mortgage investments portfolio:* | | |
| Single-family unsecuritized mortgage loans | $ 48,176 | $ 44,135 |
| Guaranteed PCs and Structured Securities in the mortgage investments portfolio | 332,981 | 374,362 |
| Non-Freddie Mac mortgage-related securities in the mortgage investments portfolio | 171,052 | 179,330 |
| *Total Investments Mortgage investments portfolio* | 552,209 | 597,827 |
| *Single-family Guarantee Credit guarantee portfolio:* | | |
| Single-family mortgage loans[2] | 55,470 | 10,743 |
| Single-family PCs and Structured Securities in the mortgage investments portfolio | 313,881 | 354,439 |
| Single-family PCs and Structured Securities held by third parties | 1,442,673 | 1,471,166 |
| Single-family Structured Transactions in the mortgage investments portfolio | 17,431 | 18,227 |
| Single-family Structured Transactions held by third parties | 11,661 | 8,727 |
| *Total Single-family Guarantee Credit guarantee portfolio* | 1,841,116 | 1,863,302 |
| *Multifamily Guarantee portfolio:* | | |
| Multifamily PCs and Structured Securities | 14,786 | 14,277 |
| Multifamily Structured Transactions | 5,542 | 3,046 |
| *Total Multifamily Guarantee portfolio* | 20,328 | 17,323 |
| *Multifamily Mortgage investments portfolio:* | | |
| Multifamily investment securities portfolio | 62,634 | 62,764 |
| Multifamily loan portfolio | 83,008 | 83,938 |
| *Total Multifamily-mortgage investments portfolio* | 145,642 | 146,702 |
| *Total Multifamily portfolio* | 165,970 | 164,025 |
| Less: Guaranteed PCs and Structured Securities in the mortgage-related investments portfolio[3] | (333,641) | (374,615) |
| Total mortgage portfolio | $ 2,225,654 | $ 2,250,539 |

(1)

Based on unpaid principal balance and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) Represents unsecuritized non-performing single-family loans for which the Single-family Guarantee segment is actively performing loss mitigation.

(3) The amount of PCs and Structured Securities in our mortgage-related investments portfolio is included in both our Investments segment s mortgage investments portfolio and our Single-family Guarantee segment s credit guarantee portfolio, and certain multifamily securities are included in both the multifamily investment securities portfolio and the multifamily guarantee portfolio. Therefore, these amounts are deducted in order to reconcile to our total mortgage portfolio.

***Segment Earnings Results***

See NOTE 16: SEGMENT REPORTING Segments to our consolidated financial statements for information regarding the description and activities of our Investments, Single-family Guarantee and Multifamily Segments.

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*Investments*

Table 13 presents the Segment Earnings of our Investments segment.

**Table 13 Segment Earnings and Key Metrics Investments[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (dollars in millions) | |
| Segment Earnings: | | |
| Net interest income | $ 1,311 | $ 1,999 |
| Non-interest income (loss): | | |
| Net impairments of available-for-sale securities | (376) | (6,414) |
| Derivative gains (losses) | (2,702) | 1,164 |
| Other non-interest income (loss) | (22) | 2,452 |
| Total non-interest income (loss) | (3,100) | (2,798) |
| Non-interest expense: | | |
| Administrative expenses | (122) | (121) |
| Other non-interest expense | (7) | (7) |
| Total non-interest expense | (129) | (128) |
| Segment adjustments[2] | 510 | |
| Segment Earnings (loss) before income tax benefit | (1,408) | (927) |
| Income tax benefit | 97 | 1,445 |
| Less: Net (income) loss noncontrolling interest | (2) | |
| Segment Earnings (loss), net of taxes | $ (1,313) | $ 518 |
| Key metrics Investments: | | |
| *Growth*: | | |
| Purchases of securities mortgage investments portfolio:[3][4] | | |
| Freddie Mac securities | $ 5,090 | $ 84,180 |
| Non-Freddie Mac mortgage-related securities: | | |
| Agency | 47 | 31,321 |
| Non-agency | | 76 |
| Total purchases of securities mortgage investments portfolio | $ 5,137 | $ 115,577 |
| Growth rate of mortgage investments portfolio (annualized) | (30.52)% | 34.98% |
| *Portfolio balances:* | | |
| Average balances of interest-earning assets:[5] | | |
| Mortgage-related securities[6] | $ 530,865 | $ 631,404 |

| | | |
|---|---|---|
| Non-mortgage-related investments[7] | 132,052 | 94,735 |
| Unsecuritized single-family loans | 44,467 | 44,267 |
| Total average balances of interest-earning assets | $ 707,384 | $ 770,406 |
| *Return:* | | |
| Net interest yield Segment Earnings basis | 0.74% | 1.03% |

(1) Under our revised method of presenting Segment Earnings, Segment Earnings for the Investments segment equals GAAP net income (loss) attributable to Freddie Mac for the Investments segment. For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 16: SEGMENT REPORTING Table 16.2 Segment Earnings and Reconciliation to GAAP Results to our consolidated financial statements.
(2) For a description of our segment adjustments see NOTE 16: SEGMENT REPORTING Segment Earnings *Segment Adjustments* to our consolidated financial statements.
(3) Based on unpaid principal balance and excludes mortgage-related securities traded, but not yet settled.
(4) Excludes single-family mortgage loans.
(5) For securities, we calculated average balances based on their unpaid principal balance plus their associated deferred fees and costs (*e.g.*, premiums and discounts), but excluded the effect of mark-to-fair-value changes.
(6) Includes our investments in single-family PCs and certain Structured Transactions, which have been consolidated under GAAP on our consolidated balance sheet beginning on January 1, 2010.
(7) Includes the average balances of interest-earning cash and cash equivalents, non-mortgage-related securities and federal funds sold and securities purchased under agreements to resell.

Segment Earnings (loss) for this segment decreased to $(1.3) billion for the three months ended March 31, 2010 compared to $518 million for the three months ended March 31, 2009. Investments segment net interest income and net interest yield decreased during the three months ended March 31, 2010 compared to the three months ended March 31, 2009. In addition, our loss increased during the three months ended March 31, 2010 compared to the three months ended March 31, 2009 for Investments segment non-interest income (loss).

Segment Earnings net interest income decreased $688 million and Segment Earnings net interest yield decreased 29 basis points to 74 basis points during the three months ended March 31, 2010 compared to the three months ended March 31, 2009. The primary drivers underlying the decreases in Segment Earnings net interest income and Segment Earnings net interest yield were: (a) an increase in derivative interest carry on net pay-fixed interest-rate swaps, which is recognized within net interest income in Segment Earnings, due to short-term interest rate declines; (b) an increase

in low-yielding short-term investments during the first quarter of 2010 in order to facilitate the purchase of $56.6 billion in unpaid principal balance of loans from PC trusts, which settled during the three months ended March 31, 2010; and (c) a decrease in the average balance of mortgage-related securities. These items were partially offset by a decrease in funding costs as a result of the replacement of higher cost short- and long-term debt with lower cost debt.

Our non-interest losses increased $302 million for the three months ended March 31, 2010 compared to the three months ended March 31, 2009, primarily due to derivative losses for our Investments segment non-interest income (loss). Derivative gains (losses) for this segment were $(2.7) billion during the three months ended March 31, 2010, primarily due to the impact of declines in interest rates on our pay-fixed interest-rate swaps and the impact of the decline in implied volatility on our options portfolio compared to $1.2 billion for the three months ended March 31, 2009 primarily due to the impact of increases in interest rates on our pay-fixed interest-rate swaps. Impairments recorded in our Investments segment decreased by $6.0 billion during the three months ended March 31, 2010 compared to the three months ended March 31, 2009 primarily related to reduced impairment on available-for-sale non-agency mortgage-related securities. As our adoption of the amendment to the accounting standards for investments in debt and equity securities on April 1, 2009 significantly impacted both the identification and measurement of other-than-temporary impairments, the results for the three months ended March 31, 2010 and 2009 are not comparable. However, the underlying collateral performance of loans supporting our non-agency securities deteriorated to a lesser extent during the three months ended March 31, 2010 than during the three months ended March 31, 2009. See Non-Interest Income (Loss) *Derivative Gains (Losses) and Gains (Losses) on Debt Recorded at Fair Value* and CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Other-Than-Temporary Impairments on Available-for-Sale Mortgage-Related Securities* for additional information on our derivatives and impairments, respectively.

During the three months ended March 31, 2010, the mortgage investments portfolio of our Investments segment decreased at an annualized rate of (30.52)%, compared to an increase of 34.98% for the three months ended March 31, 2009. The unpaid principal balance of the mortgage investments portfolio of our Investments segment decreased from $598 billion at December 31, 2009 to $552 billion at March 31, 2010. The portfolio decreased during the three months ended March 31, 2010 due to a relative lack of favorable investment opportunities caused by tighter spreads on agency mortgage-related securities as a result of the Federal Reserve s purchases of agency mortgage-related securities.

We held $61.1 billion of non-Freddie Mac agency mortgage-related securities and $110.0 billion of non-agency mortgage-related securities as of March 31, 2010 compared to $65.6 billion of non-Freddie Mac agency mortgage-related securities and $113.7 billion of non-agency mortgage-related securities as of December 31, 2009. The decline in the unpaid principal balance of non-agency mortgage-related securities is due primarily to the receipt of monthly remittances of principal repayments from both the recoveries of liquidated loans and, to a lesser extent, voluntary prepayments on the underlying collateral of these securities. Agency securities comprised approximately 71% and 74% of the unpaid principal balance of the Investments segment mortgage investments portfolio at March 31, 2010 and December 31, 2009, respectively. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities for additional information regarding our mortgage-related securities.

The objectives set forth for us under our charter and conservatorship and restrictions set forth in the Purchase Agreement may negatively impact our Investments segment results over the long term. For example, the required reduction in our mortgage-related investments portfolio unpaid principal balance limit to $250 billion, through successive annual 10% declines, commencing in 2010, will cause a corresponding reduction in our net interest income from these assets. We expect this will negatively affect our Investments segment results. FHFA stated its expectation in the Acting Director s February 2, 2010 letter that any net additions to our mortgage-related investments portfolio would be related to purchasing delinquent mortgages out of PC pools.

For information on the potential impact of the completion of the Federal Reserve s purchase program and the requirement to reduce the mortgage-related investments portfolio limit by 10% annually, commencing in 2010, see MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity in our 2009 Annual Report and NOTE 3: CONSERVATORSHIP AND RELATED DEVELOPMENTS Impact of the Purchase Agreement and FHFA Regulation on the Mortgage-Related Investments Portfolio to our consolidated financial statements.

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*Single-Family Guarantee Segment*

Table 14 presents the Segment Earnings of our Single-family Guarantee segment.

**Table 14 Segment Earnings and Key Metrics Single-Family Guarantee[1]**

| | Three Months Ended March 31, 2010 | Three Months Ended March 31, 2009 |
|---|---|---|
| | (dollars in millions) | |
| Segment Earnings: | | |
| Net interest income | $ 59 | $ 54 |
| Provision for credit losses | (6,041) | (8,963) |
| Non-interest income: | | |
| Management and guarantee income | 848 | 873 |
| Other non-interest income | 210 | 134 |
| Total non-interest income | 1,058 | 1,007 |
| Non-interest expense: | | |
| Administrative expenses | (219) | (201) |
| REO operations expense | (156) | (306) |
| Other non-interest expense | (89) | (2,033) |
| Total non-interest expense | (464) | (2,540) |
| Segment adjustments[2] | (213) | |
| Segment Earnings (loss) before income tax benefit | (5,601) | (10,442) |
| Income tax benefit | 5 | 151 |
| Segment Earnings (loss), net of taxes | (5,596) | (10,291) |
| Reconciliation to GAAP net income (loss): | | |
| Credit guarantee-related adjustments[3] | | 546 |
| Tax-related adjustments | | (192) |
| Total reconciling items, net of taxes | | 354 |
| Net income (loss) attributable to Freddie Mac | $ (5,596) | $ (9,937) |
| Key metrics Single-family Guarantee: | | |
| *Balances and Growth (in billions, except rate):* | | |
| Average securitized balance of single-family credit guarantee portfolio[4] | $ 1,797 | $ 1,780 |
| Issuance Single-family credit guarantees[4] | $ 94 | $ 104 |
| Fixed-rate products Percentage of purchases[5] | 97.5% | 99.7% |
| Liquidation Rate Single-family credit guarantees (annualized)[6] | 34.7% | 21.2% |
| *Credit:* | | |
| Delinquency rate[7] | 4.13% | 2.41% |

| | | |
|---|---|---|
| REO inventory (number of units) | 53,831 | 29,145 |
| Single-family credit losses, in basis points (annualized)[8] | 62.3 | 28.9 |
| *Market:* | | |
| Single-family mortgage debt outstanding (total U.S. market, in billions)[9] | N/A | $ 10,423 |
| 30-year fixed mortgage rate[10] | 5.1% | 4.8% |

(1) Under our revised method of presenting Segment Earnings, Segment Earnings for the Single-family Guarantee segment will equal GAAP net income (loss) attributable to Freddie Mac for the Single-family Guarantee segment for the first quarter of 2010 and subsequent periods. For reconciliations of Segment Earnings for the Single-family Guarantee segment in the first quarter of 2009 and the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 16: SEGMENT REPORTING Table 16.2 Segment Earnings and Reconciliation to GAAP Results to our consolidated financial statements.

(2) For a description of our segment adjustments see NOTE 16: SEGMENT REPORTING Segment Earnings *Segment Adjustments* to our consolidated financial statements.

(3) Consists primarily of amortization and valuation adjustments pertaining to the guarantee obligation and guarantee asset which are excluded from Segment Earnings and cash compensation exchanged at the time of securitization, excluding buy-up and buy-down fees, which is amortized into earnings. These adjustments are recorded to periods prior to 2010 as the amendment to the accounting standards for transfers of financial assets and consolidation of VIEs was applied prospectively on January 1, 2010.

(4) Based on unpaid principal balance.

(5) Excludes Structured Transactions, but includes interest-only mortgages with fixed interest rates.

(6) Includes our purchases of delinquent loans from PC pools as discussed in our February 10, 2010 announcement that we would begin purchasing substantially all 120 days or more delinquent mortgages from our related fixed-rate and ARM PCs. See CONSOLIDATED BALANCE SHEET ANALYSIS Mortgage Loans for more information.

(7) Single-family delinquency rate information is based on the number of loans that are 90 days or more past due and those in the process of foreclosure. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not included if the borrower is less than 90 days delinquent under the modified terms. See RISK MANAGEMENT Credit Risks *Mortgage Credit Risk Portfolio Management Activities Credit Performance Delinquencies* for further information.

(8) Credit losses are equal to REO operations expenses plus charge-offs, net of recoveries, associated with single-family mortgage loans. Calculated as the amount of credit losses divided by the average balance of our single-family credit guarantee portfolio.

(9) Source: Federal Reserve Flow of Funds Accounts of the United States of America dated March 11, 2010.

(10) Based on Freddie Mac s PMMS rate for the last week in the quarter, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender. This commitment rate applies only to conventional financing on conforming mortgages with LTV ratios of 80% or less.

Segment Earnings (loss) for our Single-family Guarantee segment improved to a loss of $(5.6) billion for the first quarter of 2010, compared to a loss of $(10.3) billion for the first quarter of 2009, primarily due to a $2.9 billion decrease in provision for credit losses and a $2.1 billion decrease in non-interest expense. Other non-interest expense

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declined from $2.0 billion in the first quarter of 2009 to $89 million in the first quarter of 2010 due to changes in accounting standards that resulted in lower losses on loans purchased in 2010. Upon adoption of new accounting standards for transfers of financial assets and the consolidation of VIEs as of January 1, 2010, we no longer recognize losses on single-family loans purchased under our financial guarantees with deterioration in credit quality, except for those associated with long-term standby agreements. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for further information.

Table 15 below provides summary information about Segment Earnings management and guarantee income for this segment. Segment Earnings management and guarantee income consists of contractual amounts due to us related to our management and guarantee fees as well as amortization of credit fees.

**Table 15 Segment Earnings Management and Guarantee Income Single-Family Guarantee**

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Amount | Average Rate(1) | Amount | Average Rate(1) |
| | (dollars in millions, rates in basis points) | | | |
| Contractual management and guarantee fees | $ 625 | 13.3 | $ 658 | 14.4 |
| Amortization of credit fees | 223 | 4.8 | 215 | 4.7 |
| Total Segment Earnings management and guarantee income | $ 848 | 18.1 | $ 873 | 19.1 |

(1) Annualized, based on the average balance of our single-family credit guarantee portfolio.

Segment Earnings management and guarantee income decreased in the first quarter of 2010, as compared to the first quarter of 2009 due to a decline in the average rate of contractual management and guarantee fees. Our average contractual management and guarantee fee rates declined since newly issued PCs in 2009 and the first quarter of 2010 had lower average rates than those PCs that were liquidated during these periods, which in part reflects the impact of market-adjusted pricing on new business purchases and higher credit quality of the composition of mortgages within our new PC issuances in these periods (for which we receive a lower fee). Market adjusted pricing is a process in which we adjust our rates based on changes in spreads between the prices at which our PCs and Fannie Mae s mortgage-backed securities trade in the market.

Current market conditions have placed competitive pressure on our contractual management and guarantee fee rates, which has limited our ability to increase our rates as our customers renew their contracts. The Conservator s directive that we provide increased support to the mortgage market has also affected our guarantee pricing decisions by limiting our ability to adjust our fees for current expectations of credit risk, and will likely continue to do so. Due to these competitive and other pressures, we do not have the ability to raise our contractual management and guarantee fee rates to offset the increased provision for credit losses on existing business. Consequently, we expect to continue to report a net loss for the Single-family Guarantee segment for the foreseeable future.

Our Segment Earnings provision for credit losses for the Single-family Guarantee segment was $6.0 billion for the first quarter of 2010, compared to $9.0 billion for the first quarter of 2009. The provision for credit losses was lower in the first quarter of 2010 due to slower growth in the rate of delinquencies and non-performing loans in our single-family credit guarantee portfolio, as compared to the first quarter of 2009. See RISK MANAGEMENT Credit

Risks *Non-performing assets* for further information on growth of non-performing single-family loans. Our Segment Earnings provision for credit losses is generally higher than that recorded under GAAP primarily due to recognized provision associated with foregone interest income on non-performing loans, which is not recognized under GAAP since the loans are placed on non-accrual status.

The delinquency rate on our single-family credit guarantee portfolio, including Structured Transactions, increased to 4.13% as of March 31, 2010 from 3.98% as of December 31, 2009. Charge-offs, gross, for this segment increased to $3.4 billion in the first quarter of 2010 compared to $1.4 billion in the first quarter of 2009, primarily due to a considerable increase in the volume of REO properties we acquired through foreclosure transfers. REO activity continued to increase in the first quarter of 2010 in all regions of the U.S., particularly in the states of California, Florida, Arizona, Michigan, Illinois and Georgia. The West region represented approximately 29% of our REO property acquisitions during the first quarter of 2010 based on the number of units. The highest concentration in the West region is in the state of California. California accounted for a significant amount of our credit losses, comprising approximately 26% and 29% of our total credit losses in the first quarters of 2010 and 2009, respectively. We expect growth in foreclosure transfers will result in continued increases in charge-offs during the remainder of 2010. See RISK MANAGEMENT Credit Risks *Portfolio Management Activities* Table 57 Single-Family Credit Loss Concentration Analysis for additional information about our credit losses.

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The average securitized balance of our single-family credit guarantee portfolio was 1% higher in the first quarter of 2010, as compared to the first quarter of 2009. We continued to experience a high composition of refinance mortgages in our purchase volume during the first quarter of 2010 due to continued low interest rates and the growth of the Freddie Mac Relief Refinance Mortgages[sm]. In addition, our $89 billion in single-family purchase activity during the first quarter of 2010 contained a higher composition of fixed-rate amortizing mortgage loans than in recent years. Loans purchased in 2009 and the first quarter of 2010 comprised 28%, in aggregate, of our single-family credit guarantee portfolio at March 31, 2010 and had average credit scores of 756 and 751, respectively.

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*Multifamily Segment*

Table 16 presents the Segment Earnings of our Multifamily segment.

**Table 16 Segment Earnings and Key Metrics Multifamily[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (dollars in millions) | |
| Segment Earnings: | | |
| Net interest income | $ 238 | $ 195 |
| Provision for credit losses | (29) | |
| Non-interest income (loss): | | |
| Management and guarantee income | 24 | 21 |
| Security impairments | (55) | |
| Derivative gains (losses) | 5 | (31) |
| Other non-interest income (loss) | 108 | (121) |
| Total non-interest income (loss) | 82 | (131) |
| Non-interest expense: | | |
| Administrative expenses | (54) | (50) |
| REO operations expense | (3) | |
| Other non-interest expense | (17) | (5) |
| Total non-interest expense | (74) | (55) |
| Segment adjustments[2] | | |
| Segment Earnings (loss) before income tax benefit (expense) | 217 | 9 |
| LIHTC partnerships tax benefit | 147 | 151 |
| Income tax benefit (expense) | (146) | (152) |
| Less: Net (income) loss noncontrolling interest | 3 | |
| Segment Earnings (loss), net of taxes | 221 | 8 |
| Reconciliation to GAAP net income (loss): | | |
| Credit guarantee-related adjustments[3] | | 5 |
| Tax-related adjustments | | (2) |
| Total reconciling items, net of taxes | | 3 |
| Net income (loss) attributable to Freddie Mac | $ 221 | $ 11 |
| Key metrics Multifamily: | | |
| *Balances and Growth:* | | |
| Average balance of Multifamily loan portfolio | $ 83,456 | $ 74,243 |
| Average balance of Multifamily guarantee portfolio | $ 18,179 | $ 15,512 |

| | | | | |
|---|---|---|---|---|
| Average balance of Multifamily investment securities portfolio | $ | 62,501 | $ | 64,758 |
| Purchases, net Multifamily loan portfolio[4] | $ | (163) | $ | 3,648 |
| Issuances Multifamily guarantee portfolio | $ | 3,157 | $ | 177 |
| Growth rate (annualized) | | 8% | | 13% |
| Net interest yield Segment Earnings basis (annualized)[5] | | 0.65% | | 0.56% |
| Average Management and guarantee fee rate (annualized)[6] | | 52.8 bps | | 52.7 bps |
| Credit losses (annualized)[7] | | 8.2 bps | | 0.9 bps |
| Liquidation Rate Multifamily loan portfolio (annualized) | | 2.5% | | 3.5% |
| *Credit:* | | | | |
| Delinquency rate[8] | | 0.24% | | 0.10% |
| Allowance for loan losses and reserve for guarantee losses | $ | 842 | $ | 275 |

(1) Under our revised method of presenting Segment Earnings, Segment Earnings for the Multifamily segment will equal GAAP net income (loss) attributable to Freddie Mac for the Multifamily segment for the first quarter of 2010 and subsequent periods. For reconciliations of Segment Earnings for the Multifamily segment in the first quarter of 2009 and the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 16: SEGMENT REPORTING Table 16.2 Segment Earnings and Reconciliation to GAAP Results to our consolidated financial statements.

(2) For a description of our segment adjustments see NOTE 16: SEGMENT REPORTING Segment Earnings *Segment Adjustments* to our consolidated financial statements.

(3) Consists primarily of amortization and valuation adjustments pertaining to the guarantee asset and guarantee obligation which are excluded from Segment Earnings. These adjustments are recorded to periods prior to 2010 as the amendment to the accounting standards for transfers of financial assets and consolidation of VIEs was applied prospectively on January 1, 2010.

(4) Consists of unpaid principal balance of all multifamily mortgage loan purchases, net of $1.6 billion and $0 million in the first quarters of 2010 and 2009, respectively, associated with issuances for the Multifamily guarantee portfolio.

(5) Represents Multifamily Segment Earnings net interest income divided by the average balance of the multifamily mortgage investments portfolio.

(6) Represents the Multifamily Segment Earnings management and guarantee income, excluding prepayment and certain other fees, divided by the average balance of the multifamily guarantee portfolio.

(7) Credit losses are equal to REO operations expenses plus charge-offs, net of recoveries, associated with multifamily mortgage loans. Calculated as the amount of credit losses divided by the combined average balances of our multifamily loan portfolio and multifamily guarantee portfolio.

(8) Based on unpaid principal balances of mortgages 60 days or more delinquent as well as those in the process of foreclosure and excluding Structured Transactions. See RISK MANAGEMENT Credit Risks *Mortgage Credit Risk Portfolio Management Activities Credit Performance Delinquencies* for further information.

Segment Earnings (loss) for our Multifamily segment increased to $221 million for the first quarter of 2010 compared to $8 million for the first quarter of 2009, primarily due to higher net interest income and non-interest income, which was partially offset by higher provision for credit losses attributable to the segment. Net interest income

increased $43 million, or 22%, for the first quarter of 2010 compared to the first quarter of 2009, primarily driven by a 12% increase in the average balance of our Multifamily loan portfolio and higher Segment Earnings net interest yield. Our Multifamily provision for credit losses was $(29) million for the first quarter of 2010 compared to $0 million for the first quarter of 2009. Non-interest income (loss) was $82 million in the first quarter of 2010 compared to $(131) million in the first quarter of 2009. The increase in non-interest income was primarily due to net gains recognized on the sale of loans. We sold $1.8 billion in unpaid principal balance of multifamily loans during the first quarter of 2010, including $1.6 billion in sales through Structured Transactions. In addition, there was a $106 million decline in LIHTC partnership losses during the first quarter of 2010, compared to the first quarter of 2009, due to the write-down of these investments to zero in the fourth quarter of 2009. See MD&A CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Low-Income Housing Tax Credit Partnerships* in our 2009 Annual Report for more information.

Our multifamily delinquency rate increased in the first quarter of 2010, rising from 0.19% at December 31, 2009 to 0.24% at March 31, 2010. Our multifamily non-performing loans as of March 31, 2010 are principally loans on properties located in Texas, Florida, Georgia, Arizona and Nevada. Market fundamentals for multifamily properties that we monitor continued to be challenging during the first quarter of 2010, particularly in certain states in the Southeast and West regions of the U.S. See NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS to our consolidated financial statements for further information on geographical concentrations. As of March 31, 2010, approximately half of the multifamily loans that were 60 days or more delinquent (measured both in terms of number of loans and on a UPB basis) have credit enhancements that we believe will mitigate our expected losses on those loans. The delinquency rate of credit-enhanced loans in our multifamily mortgage portfolio as of March 31, 2010 and December 31, 2009, was 1.11% and 1.13%, respectively, while the delinquency rate for non-credit-enhanced loans in our multifamily mortgage portfolio was 0.13% and 0.07%, respectively. See Table 3 Credit Statistics, Multifamily Mortgage Portfolio for quarterly data on delinquency rates and non-performing loans.

## CONSOLIDATED BALANCE SHEETS ANALYSIS

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

### Change in Accounting Principles

Effective January 1, 2010, we adopted amendments to the accounting standards for transfers of financial assets and consolidation of VIEs. The accounting standard for transfers of financial assets was applicable on a prospective basis to new transfers, while the accounting standard relating to consolidation of VIEs was applied prospectively to all entities within its scope as of the date of adoption. The adoption of these amendments had a significant impact on our consolidated financial statements and other financial disclosures beginning in the first quarter of 2010. As a result of adoption, our consolidated balance sheet results as of March 31, 2010 reflect the consolidation of our single-family PC trusts and certain of our Structured Transactions.

The cumulative effect of these changes in accounting principles was an increase of $1.5 trillion to assets and liabilities, respectively, and a net decrease of $11.7 billion to total equity (deficit) as of January 1, 2010, which included changes to the opening balances of retained earnings (accumulated deficit) and AOCI, net of taxes.

See CONSOLIDATED RESULTS OF OPERATIONS Change in Accounting Principles, NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Consolidation and Equity Method of Accounting and NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for additional information on

the impacts of the adoption of these changes in accounting principles.

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

Cash and cash equivalents, federal funds sold and securities purchased under agreements to resell and liquid assets discussed in Investments in Securities *Non-Mortgage-Related Securities,* are important to our cash flow and asset and liability management and our ability to provide liquidity and stability to the mortgage market. We use these assets to help manage recurring cash flows and meet our other cash management needs. We also use these assets to manage our liquidity. We consider federal funds sold to be overnight unsecured trades executed with commercial banks that are members of the Federal Reserve System. We consider other unsecured lending to be unsecured trades with these commercial banks with a term longer than overnight. As discussed above, commencing January 1, 2010, we consolidated the assets of our single-family PC trusts and certain of our Structured Transactions. These assets included short-term non-mortgage assets, comprised primarily of restricted cash and cash equivalents and investments in

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securities purchased under agreements to resell (the investing activities are performed in our capacity as securities administrator).

We held $55.4 billion and $64.7 billion of cash and cash equivalents as of March 31, 2010 and December 31, 2009, respectively. The decrease in cash and cash equivalents from December 31, 2009 to March 31, 2010 is due, in part, to our purchase of $56.6 billion of unpaid principal balance of single-family loans from our PC trusts during the first quarter of 2010.

We held $4.1 billion and $0 billion of federal funds sold at March 31, 2010 and December 31, 2009, respectively. Securities purchased under agreements to resell increased $14.4 billion to $21.4 billion at March 31, 2010, compared to $7.0 billion at December 31, 2009. The amount at March 31, 2010 includes $8.8 billion as a result of the consolidation of our single-family PC trusts and certain of our Structured Transactions as discussed above. The increase in these assets and our non-mortgage-related securities was partially offset by the decreases in our cash and cash equivalents, as our liquid assets increased on an overall basis during the three months ended March 31, 2010.

**Investments in Securities**

Table 17 provides detail regarding our investments in securities as presented in our consolidated balance sheets. Due to the accounting changes noted above, Table 17 does not include our holdings of single-family PCs and certain Structured Transactions as of March 31, 2010. For information on our holdings of such securities, see CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings Table 12 Segment Portfolio Composition.

**Table 17 Investments in Securities**

| | Fair Value | |
|---|---|---|
| | **March 31, 2010** | **December 31, 2009** |
| | (in millions) | |
| Investments in securities: | | |
| Available-for-sale: | | |
| Available-for-sale mortgage-related securities: | | |
| Freddie Mac[1] | $ 91,674 | $ 223,467 |
| Subprime | 35,835 | 35,721 |
| Commercial mortgage-backed securities | 56,491 | 54,019 |
| Option ARM | 7,025 | 7,236 |
| Alt-A and other | 13,398 | 13,407 |
| Fannie Mae | 33,574 | 35,546 |
| Obligations of states and political subdivisions | 11,104 | 11,477 |
| Manufactured housing | 901 | 911 |
| Ginnie Mae | 335 | 347 |
| Total available-for-sale mortgage-related securities | 250,337 | 382,131 |
| Available-for-sale non-mortgage-related securities: | | |
| Asset-backed securities | 2,016 | 2,553 |
| Total available-for-sale non-mortgage-related securities | 2,016 | 2,553 |

| | | |
|---|---|---|
| Total investments in available-for-sale securities | 252,353 | 384,684 |
| Trading: | | |
| Trading mortgage-related securities: | | |
| Freddie Mac[1] | 12,890 | 170,955 |
| Fannie Mae | 31,798 | 34,364 |
| Ginnie Mae | 182 | 185 |
| Other | 25 | 28 |
| Total trading mortgage-related securities | 44,895 | 205,532 |
| Trading non-mortgage-related securities: | | |
| Asset-backed securities | 1,051 | 1,492 |
| Treasury bills | 29,568 | 14,787 |
| FDIC-guaranteed corporate medium-term notes | 441 | 439 |
| Total trading non-mortgage-related securities | 31,060 | 16,718 |
| Total investments in trading securities | 75,955 | 222,250 |
| Total investments in securities | $ 328,308 | $ 606,934 |

(1) Upon our adoption of amendments to the accounting standards for transfers of financial assets and consolidation of VIEs on January 1, 2010, we no longer account for single-family PCs and certain Structured Transactions we purchase as investments in securities because we now recognize the underlying mortgage loans on our consolidated balance sheets through consolidation of the related trusts. These loans are discussed below in Mortgage Loans. For further information, see NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements.

***Non-Mortgage-Related Securities***

We held investments in non-mortgage-related available-for-sale and trading securities of $33.1 billion and $19.3 billion as of March 31, 2010 and December 31, 2009, respectively. Our holdings of non-mortgage-related securities increased during the three months ended March 31, 2010 as we purchased Treasury bills to maintain required

liquidity and contingency levels. At March 31, 2010, investments in securities included $3.1 billion of non-mortgage-related asset-backed securities, $29.6 billion of Treasury bills and $0.4 billion of FDIC-guaranteed corporate medium-term notes that we could sell to meet mortgage funding needs, provide diverse sources of liquidity or help manage the interest rate risk inherent in mortgage-related assets. At December 31, 2009, investments in securities included $4.0 billion of non-mortgage-related asset-backed securities, $14.8 billion of Treasury bills and $0.4 billion of FDIC-guaranteed corporate medium-term notes.

We recorded net impairment of available-for-sale securities recognized in earnings during the three months ended March 31, 2010 and 2009 of $0 million and $0.2 billion, respectively, for our non-mortgage-related securities, as we could not assert that we did not intend to, or we will not be required to, sell these securities before a recovery of the unrealized losses. The decision to impair non-mortgage-related securities is consistent with our consideration of these securities as a contingent source of liquidity. We do not expect any contractual cash shortfalls related to these securities. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards *Change in the Impairment Model for Debt Securities* in our 2009 Annual Report for information on how other-than-temporary impairments are recorded on our financial statements commencing in the second quarter of 2009.

Table 18 provides credit ratings of our investments in non-mortgage-related asset-backed securities at March 31, 2010 classified as either available-for-sale or trading on our consolidated balance sheets.

**Table 18 Investments in Non-Mortgage-Related Asset-Backed Securities**

| | March 31, 2010 | | | | |
|---|---|---|---|---|---|
| **Collateral Type** | **Amortized Cost** | **Fair Value** | **Original% AAA-rated[1]** | **Current% AAA-rated[2]** | **Current Investment Grade[3]** |
| | (dollars in millions) | | | | |
| Non-mortgage-related asset-backed securities: | | | | | |
| Credit cards | $ 2,052 | $ 2,100 | 100% | 100% | 100% |
| Auto credit | 733 | 748 | 100 | 100 | 100 |
| Equipment lease | 95 | 99 | 100 | 100 | 100 |
| Student loans | 65 | 67 | 100 | 100 | 100 |
| Stranded assets[4] | 52 | 53 | 100 | 100 | 100 |
| Total non-mortgage-related asset-backed securities | $ 2,997 | $ 3,067 | 100 | 100 | 100 |

(1) Reflects the percentage of our investments that were AAA-rated as of the date of our acquisition of the security, based on unpaid principal balance and the lowest rating available.
(2) Reflects the AAA-rated composition of the securities as of April 21, 2010, based on unpaid principal balance as of March 31, 2010 and the lowest rating available.
(3) Reflects the composition of these securities with credit ratings BBB or above as of April 21, 2010, based on unpaid principal balance as of March 31, 2010 and the lowest rating available.
(4) Consists of securities backed by liens secured by fixed assets owned by regulated public utilities.

***Mortgage-Related Securities***

We are primarily a buy-and-hold investor in mortgage-related securities, which consist of securities issued by Fannie Mae, Ginnie Mae and other financial institutions. Upon our adoption of amendments to the accounting standards for transfers of financial assets and consolidation of VIEs on January 1, 2010, we no longer account for single-family PCs and certain Structured Transactions we purchase as investments in securities because we now recognize the underlying mortgage loans on our consolidated balance sheets through consolidation of the related trusts. Our mortgage-related securities are classified as either available-for-sale or trading on our consolidated balance sheets.

We include our investments in mortgage-related securities in the calculation of our mortgage-related investments portfolio. Our mortgage-related investments portfolio also includes: (a) our holdings of single-family PCs and certain Structured Transactions, which are presented in CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings Table 12 Segment Portfolio Composition ; and (b) our holdings of unsecuritized single-family and multifamily loans, which are presented in Mortgage Loans Table 25 Characteristics of Mortgage Loans on Our Consolidated Balance Sheets. The unpaid principal balance of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement and FHFA regulation, was $753.3 billion at March 31, 2010, and may not exceed $810 billion as of December 31, 2010. The unpaid principal balance of our mortgage-related investments portfolio under the Purchase Agreement is determined without giving effect to any change in accounting standards related to transfer of financial assets and consolidation of VIEs or any similar accounting standard. Accordingly, for purposes of the portfolio limit, PCs and certain Structured Transactions purchased into the mortgage-related investments portfolio are considered assets rather than debt reductions. FHFA stated its expectation that we will not be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio, except for purchases of delinquent mortgages out of PC trusts.

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Table 19 provides unpaid principal balances of our investments in mortgage-related securities classified as either available-for-sale or trading on our consolidated balance sheets. Due to the accounting changes noted above, Table 19 does not include our holdings of single-family PCs and certain Structured Transactions as of March 31, 2010. For information on our holdings of such securities, see CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings Table 12 Segment Portfolio Composition.

**Table 19 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets**

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Fixed Rate | Variable Rate(1) | Total | Fixed Rate | Variable Rate(1) | Total |
| | | | (in millions) | | | |
| PCs and Structured Securities:(2) | | | | | | |
| Single-family | $ 85,535 | $ 9,078 | $ 94,613 | $ 294,958 | $ 77,708 | $ 372,666 |
| Multifamily | 316 | 2,013 | 2,329 | 277 | 1,672 | 1,949 |
| Total PCs and Structured Securities | 85,851 | 11,091 | 96,942 | 295,235 | 79,380 | 374,615 |
| Non-Freddie Mac mortgage-related securities: | | | | | | |
| Agency mortgage-related securities:(3) | | | | | | |
| Fannie Mae: | | | | | | |
| Single-family | 34,148 | 26,482 | 60,630 | 36,549 | 28,585 | 65,134 |
| Multifamily | 431 | 89 | 520 | 438 | 90 | 528 |
| Ginnie Mae: | | | | | | |
| Single-family | 329 | 129 | 458 | 341 | 133 | 474 |
| Multifamily | 35 | | 35 | 35 | | 35 |
| Total agency mortgage-related securities | 34,943 | 26,700 | 61,643 | 37,363 | 28,808 | 66,171 |
| Non-agency mortgage-related securities: | | | | | | |
| Single-family:(4) | | | | | | |
| Subprime | 385 | 59,058 | 59,443 | 395 | 61,179 | 61,574 |
| Option ARM | | 17,206 | 17,206 | | 17,687 | 17,687 |
| Alt-A and other | 2,654 | 18,146 | 20,800 | 2,845 | 18,594 | 21,439 |
| Commercial mortgage-backed securities | 23,102 | 38,286 | 61,388 | 23,476 | 38,439 | 61,915 |
| Obligations of states and political subdivisions(5) | 11,336 | 40 | 11,376 | 11,812 | 42 | 11,854 |
| Manufactured housing(6) | 1,007 | 163 | 1,170 | 1,034 | 167 | 1,201 |
| | 38,484 | 132,899 | 171,383 | 39,562 | 136,108 | 175,670 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total non-agency mortgage-related securities[7] | | | | | | |
| Total unpaid principal balance of mortgage-related securities | $ 159,278 | $ 170,690 | 329,968 | $ 372,160 | $ 244,296 | 616,456 |
| Premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments | | | (9,654) | | | (5,897) |
| Net unrealized losses on mortgage-related securities, pre-tax | | | (25,083) | | | (22,896) |
| Total carrying value of mortgage-related securities | | | $ 295,231 | | | $ 587,663 |

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

(2) For our PCs and Structured Securities, we are subject to the credit risk associated with the underlying mortgage loan collateral. On January 1, 2010, we began prospectively recognizing on our consolidated balance sheets the mortgage loans underlying our issued single-family PCs and certain Structured Transactions as held-for-investment mortgage loans, at amortized cost. We do not consolidate our resecuritization trusts since we are not deemed to be the primary beneficiary of such trusts. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities to our consolidated financial statements for further information.

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

(4) Single-family non-agency mortgage-related securities backed by subprime first lien, option ARM and Alt-A loans include significant credit enhancements, particularly through subordination. For information about how these securities are rated, see Table 23 Ratings of Available-for-Sale Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans and CMBS at March 31, 2010 and December 31, 2009 and Table 24 Ratings Trend of Available-for-Sale Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans and CMBS.

(5) Consists of mortgage revenue bonds. Approximately 54% and 55% of these securities held at March 31, 2010 and December 31, 2009, respectively, were AAA-rated as of those dates, based on the lowest rating available.

(6) At both March 31, 2010 and December 31, 2009, 17% of mortgage-related securities backed by manufactured housing bonds were rated BBB or above, based on the lowest rating available. For both dates, 91% of manufactured housing bonds had credit enhancements, including primary monoline insurance, that covered 23% of the manufactured housing bonds based on the unpaid principal balance. At both March 31, 2010 and December 31, 2009, we had secondary insurance on 61% of these bonds that were not covered by primary monoline insurance, based on the unpaid principal balance. Approximately 3% of the mortgage-related securities backed by manufactured housing bonds were AAA-rated at both March 31, 2010 and December 31, 2009, based on the unpaid principal balance and the lowest rating available.

(7) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 25% and 26% of total non-agency mortgage-related securities held at March 31, 2010 and December 31, 2009, respectively, were AAA-rated as of those dates, based on the unpaid principal balance and the lowest rating available.

The total unpaid principal balance of our investments in mortgage-related securities decreased from $616.5 billion at December 31, 2009 to $330.0 billion at March 31, 2010 primarily as a result of a decrease of $286.5 billion related to our adoption of the amendments to the accounting standards for the transfer of financial assets and the consolidation of VIEs on January 1, 2010. Upon the adoption of these amendments, we no longer record the purchase of a PC or a single-class resecuritization security backed by PCs issued by our consolidated securitization trusts as an investment. We now account for these purchases as extinguishments of outstanding debt.

Table 20 summarizes our mortgage-related securities purchase activity for the three months ended March 31, 2010 and 2009. The purchase activity for the three months ended March 31, 2010 includes our purchase activity related to

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the single-family PCs and Structured Transactions issued by trusts that we consolidated. Due to the accounting changes noted above, effective January 1, 2010, purchases of single-family PCs and Structured Transactions issued by trusts that we consolidated are recorded as an extinguishment of debt securities of consolidated trusts held by third parties on our consolidated balance sheets. Prior to January 1, 2010, purchases of single-family PCs and Structured Transactions were recorded as either available-for-sale securities or trading securities on our consolidated balance sheets.

**Table 20 Total Mortgage-Related Securities Purchase Activity[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Non-Freddie Mac mortgage-related securities purchased for Structured Securities: | | |
| Ginnie Mae Certificates | $ 13 | $ 11 |
| Non-agency mortgage-related securities purchased for Structured Transactions | 5,621 | |
| *Total Non-Freddie Mac mortgage-related securities purchased for Structured Securities* | 5,634 | 11 |
| Non-Freddie Mac mortgage-related securities purchased as investments in securities: | | |
| Agency securities: | | |
| *Fannie Mae:* | | |
| Fixed-rate | | 30,109 |
| Variable-rate | 47 | 1,185 |
| *Total Fannie Mae* | 47 | 31,294 |
| *Ginnie Mae fixed-rate* | | 27 |
| *Total agency mortgage-related securities* | 47 | 31,321 |
| Non-agency securities: | | |
| *Mortgage revenue bonds fixed-rate* | | 76 |
| *Total non-agency mortgage-related securities* | | 76 |
| *Total non-Freddie Mac mortgage-related securities purchased as investments in securities* | 47 | 31,397 |
| Total non-Freddie Mac mortgage-related securities purchased | $ 5,681 | $ 31,408 |
| Freddie Mac mortgage-related securities repurchased:[2] | | |
| *Single-family:* | | |
| Fixed-rate | $ 4,840 | $ 83,931 |
| Variable-rate | 250 | 249 |
| *Multifamily:* | | |
| Fixed-rate | 40 | |
| Variable-rate | 367 | |

| | | |
|---|---|---|
| *Total Freddie Mac mortgage-related securities repurchased* | $ 5,497 | $ 84,180 |

(1) Based on unpaid principal balances. Excludes mortgage-related securities traded but not yet settled.
(2) Includes mortgage-related securities accounted for as investments in securities or extinguishments of debt based upon whether we are considered the primary beneficiary of the trusts that issue these securities.

Our purchases of mortgage-related securities continues to be very limited because of a relative lack of favorable investment opportunities, as evidenced by tight spreads on agency mortgage-related securities. We believe these tight spread levels were driven by the Federal Reserve s agency mortgage-related securities purchase program. The Federal Reserve completed its purchase program in March 2010.

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

As discussed below, we have exposure to subprime, option ARM, Alt-A and other loans as part of our investments in mortgage-related securities as follows:

*Single-family non-agency mortgage-related securities:* We hold non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans.

*Structured Transactions:* We hold certain Structured Transactions as part of our investments in securities. There are subprime and option ARM loans underlying some of our Structured Transactions. For more information on certain higher risk categories of single-family loans underlying our Structured Transactions, see RISK MANAGEMENT Credit Risks *Mortgage Credit Risk.*

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

During both the three months ended March 31, 2010 and 2009, we did not buy any non-agency mortgage-related securities backed by subprime, option ARM or Alt-A loans. As discussed below, we recognized significant impairment on our holdings of such securities during the three months ended March 31, 2010 and 2009. See Table 22 Net Impairment on Available-for-Sale Mortgage-Related Securities Recognized in Earnings for more information.

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We classify our non-agency mortgage-related securities as subprime, option ARM or Alt-A if the securities were labeled as such when sold to us. Table 21 presents information about our holdings of these securities.

**Table 21 Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM and Alt-A Loans[1]**

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Unpaid Principal Balance | Collateral Delinquency Rate[2] | Average Credit Enhancement[3] | Unpaid Principal Balance | Collateral Delinquency Rate[2] | Average Credit Enhancement[3] |
| | (dollars in millions) | | | | | |
| Mortgage loans: | | | | | | |
| Single-family:[4] | | | | | | |
| Subprime first lien | $ 58,912 | 49% | 28% | $ 61,019 | 49% | 29% |
| Option ARM | 17,206 | 46 | 15 | 17,687 | 45 | 16 |
| Alt-A | 17,476 | 27 | 10 | 17,998 | 26 | 11 |

| | Three Months Ended | |
|---|---|---|
| | March 31, 2010 | March 31, 2009 |
| | (in millions) | |
| Principal repayments:[5] | | |
| Subprime first and second liens | $ 2,130 | $ 3,855 |
| Option ARM | 481 | 386 |
| Alt-A and other | 639 | 903 |

(1) See *Ratings of Non-Agency Mortgage-Related Securities* for additional information about these securities.
(2) Determined based on loans that are 60 days or more past due that underlie the securities using information obtained from a third-party data provider.
(3) Reflects the average current credit enhancement on all such securities we hold provided by subordination of other securities held by third parties. Excludes securities with monoline bond insurance and credit enhancement provided by excess interest.
(4) Excludes non-agency mortgage-related securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.
(5) In addition to the contractual interest payments, we receive monthly remittances of principal repayments from both voluntary prepayments on the underlying collateral of these securities and the recoveries of liquidated loans, representing a partial return of our investment in these securities.

We have significant credit enhancements on the majority of the non-agency mortgage-related securities we hold backed by subprime first lien, option ARM and Alt-A loans, particularly through subordination. These credit enhancements are one of the primary reasons we expect our actual losses, through principal or interest shortfalls, to be less than the underlying collateral losses in aggregate. However, during the first quarter of 2010, we continued to experience depletion of credit enhancements on certain of the securities backed by subprime first lien, option ARM and Alt-A loans due to poor performance of the underlying collateral.

*Unrealized Losses on Available-for-Sale Mortgage-Related Securities*

At March 31, 2010, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were $35.2 billion, compared to $42.7 billion at December 31, 2009. See Total Equity (Deficit) for additional information regarding unrealized losses on our available-for-sale securities.

Our investments in CMBS, although backed by mortgage pools that include mortgages financing both multifamily properties and commercial properties, are subject primarily to the risks of the multifamily market, because they receive distributions of cash flow primarily from multifamily mortgages. However, our CMBS investments may be exposed to stresses in the commercial real estate market in two respects. First, delinquencies on commercial mortgages in a pool could reach a level that would reduce the effectiveness of any credit enhancement in the form of subordination that supports our CMBS backed by that pool. Second, it is possible that stresses in the commercial mortgage market might further affect the market value of our investments. We believe the unrealized losses related to these securities at March 31, 2010 were mainly attributable to the limited liquidity and large risk premiums in the CMBS market consistent with the broader credit markets. Similarly, we believe that unrealized losses on single-family non-agency mortgage-related securities at March 31, 2010 were attributable to poor underlying collateral performance, limited liquidity and large risk premiums in the non-agency mortgage market. All securities in an unrealized loss position are evaluated to determine if the impairment is other-than-temporary. See NOTE 7: INVESTMENTS IN SECURITIES to our consolidated financial statements for additional information regarding unrealized losses on available-for-sale securities.

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***Other-Than-Temporary Impairments on Available-for-Sale Mortgage-Related Securities***

Table 22 provides information about the mortgage-related securities for which we recognized other-than-temporary impairments during the three months ended March 31, 2010 and 2009.

**Table 22 Net Impairment on Available-for-Sale Mortgage-Related Securities Recognized in Earnings**

| | Three Months Ended March 31, 2010 | | Three Months Ended March 31, 2009 | |
|---|---|---|---|---|
| | Unpaid Principal Balance | Net Impairment of Available-for-Sale Securities Recognized in Earnings | Unpaid Principal Balance | Net Impairment of Available-for-Sale Securities Recognized in Earnings |
| | (in millions) | | | |
| Subprime: | | | | |
| 2006 & 2007 first lien | $ 19,084 | $ 317 | $ 10,305 | $ 3,996 |
| Other years first and second liens[1] | 643 | 15 | 363 | 101 |
| Total subprime first and second liens | 19,727 | 332 | 10,668 | 4,097 |
| Option ARM: | | | | |
| 2006 & 2007 | 7,251 | 88 | 1,348 | 769 |
| Other years | 223 | 14 | 397 | 248 |
| Total option ARM | 7,474 | 102 | 1,745 | 1,017 |
| Alt-A: | | | | |
| 2006 & 2007 | 1,625 | 9 | 1,405 | 559 |
| Other years | 292 | 2 | 1,039 | 490 |
| Total Alt-A | 1,917 | 11 | 2,444 | 1,049 |
| Other loans | 491 | 8 | 1,168 | 793 |
| Total subprime, option ARM, Alt-A and other loans | 29,609 | 453 | 16,025 | 6,956 |
| Commercial mortgage-backed securities | 1,629 | 55 | | |
| Manufactured housing | 83 | 2 | | |
| Total available-for-sale mortgage-related securities | $ 31,321 | $ 510 | $ 16,025 | $ 6,956 |

(1) Includes all second liens.

As of March 31, 2010, we had recognized a present value of future credit losses of $10.9 billion on our non-agency mortgage-related securities, of which $510 million was recognized in earnings during the three months ended

March 31, 2010. The present value of future credit losses relate to $70.1 billion of the total unpaid principal balance of $171.4 billion of our non-agency mortgage-related securities as of March 31, 2010. The $510 million impairment is primarily due to deterioration of the future expectation of collateral performance underlying these securities, particularly subprime, for our more recent vintages of non-agency mortgage-related securities. The deterioration in the performance of the collateral underlying these securities has not impacted our conclusion that we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities. Included in these net impairments are $453 million of impairments related to securities backed by subprime, option ARM, Alt-A and other loans.

As part of our impairment analysis, we identified CMBS with an unpaid principal balance of $1.6 billion that are expected to incur contractual losses, and recorded a total of $55 million of other-than-temporary impairment charges in earnings during the three months ended March 31, 2010. However, we view the performance of these securities as significantly worse than the vast majority of our CMBS, and while delinquencies for the remaining securities have increased, we believe the credit enhancement related to these securities is sufficient to cover expected losses. We do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before recovery of the unrealized losses.

We currently estimate that the future expected principal and interest shortfall on non-agency mortgage-related securities will be significantly less than the fair value declines. Since the beginning of 2007, we incurred actual principal cash shortfalls of $176 million on impaired securities backed by non-agency mortgage-related securities. However, many of our investments were structured so that realized collateral losses are not recognized until the investment matures.

The decline in mortgage credit performance has been particularly severe for subprime, option ARM, Alt-A and other loans. Many of the same economic factors impacting the performance of our single-family credit guarantee portfolio also impact the performance of our investments in non-agency mortgage-related securities. High unemployment, a large inventory of unsold homes, tight credit conditions and weak consumer confidence contributed to poor performance during the three months ended March 31, 2010. However, our expectations regarding future performance have generally improved. Both current and future performance are critical in assessing other-than-temporary impairments. In addition, the subprime, option ARM, Alt-A and other loans backing our

securities have significantly greater concentrations in the states that are undergoing the greatest economic stress, such as California, Florida, Arizona and Nevada.

Contributing to the impairments recognized were certain credit enhancements related to primary monoline bond insurers where we have determined that it is likely a principal and interest shortfall will occur, and that in such a case there is substantial uncertainty surrounding the insurer s ability to pay all future claims. We rely on monoline bond insurance, including secondary coverage, to provide credit protection on some of our investments in mortgage-related and non-mortgage-related securities. See NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers to our consolidated financial statements for additional information. The recent deterioration has not impacted our conclusion that we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities.

While it is reasonably possible that collateral losses on our available-for-sale mortgage-related securities where we have not recorded an impairment earnings charge could exceed our credit enhancement levels, we do not believe that those conditions were likely at March 31, 2010. Based on our conclusion that we do not intend to sell our remaining available-for-sale mortgage-related securities and it is not more likely than not that we will be required to sell these securities before a sufficient time to recover all unrealized losses and our consideration of available information, we have concluded that the reduction in fair value of these securities was temporary at March 31, 2010 and as such has been recorded in AOCI.

We recognized impairment losses on non-agency mortgage-related securities of approximately $6.9 billion during the three months ended March 31, 2009. These impairment losses were recognized prior to the adoption of the amendment to the accounting standards for investments in debt and equity securities, and reflected mark-to-fair-value adjustments on non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans that were likely of incurring a contractual principal or interest loss. We believe that unrealized losses on non-agency mortgage-related securities at March 31, 2009 were attributable to poor underlying collateral performance, limited liquidity and large risk premiums in the non-agency mortgage market. During the three months ended March 31, 2009, we experienced significant deterioration in the performance of the underlying collateral of these securities and a lack of confidence in the credit enhancements provided by primary monoline bond insurance. For further information on our adoption of the amendment to the accounting standards for investments in debt and equity securities, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards *Change in the Impairment Model for Debt Securities* in our 2009 Annual Report.

Our assessments concerning other-than-temporary impairment require significant judgment and the use of models and are subject to change due to changes in the performance of the individual securities and mortgage market conditions. Bankruptcy reform, loan modification programs and other forms of government intervention in the housing market can significantly change the performance, including the timing of loss recognition, of the underlying loans and thus our securities. We use data provided by third-party vendors as an input in our evaluation of our non-agency mortgage-related securities. Given the extent of the housing and economic downturn over the past few years, it is difficult to forecast and estimate the future performance of mortgage loans and mortgage-related securities with any assurance, and actual results could differ materially from our expectations. Furthermore, different market participants could arrive at materially different conclusions regarding estimates of future cash shortfalls.

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### *Ratings of Non-Agency Mortgage-Related Securities*

Table 23 shows the ratings of available-for-sale non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans and CMBS held at March 31, 2010 based on their ratings as of March 31, 2010 as well as those held at December 31, 2009 based on their ratings as of December 31, 2009. Tables 23 and 24 use the lowest rating available for each security.

**Table 23 Ratings of Available-for-Sale Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans and CMBS at March 31, 2010 and December 31, 2009**

| **Credit Ratings as of March 31, 2010** | **Unpaid Principal Balance** | **Amortized Cost** | **Gross Unrealized Losses** | **Monoline Insurance Coverage[1]** |
|---|---|---|---|---|
| | | **(in millions)** | | |
| Subprime loans: | | | | |
| AAA-rated | $ 3,976 | $ 3,977 | $ (497) | $ 34 |
| Other investment grade | 5,966 | 5,965 | (1,316) | 603 |
| Below investment grade[2] | 49,492 | 44,444 | (16,741) | 1,838 |
| Total | $ 59,434 | $ 54,386 | $ (18,554) | $ 2,475 |
| Option ARM loans: | | | | |
| AAA-rated | $ | $ | $ | $ |
| Other investment grade | 340 | 336 | (131) | 162 |
| Below investment grade[2] | 16,866 | 12,815 | (6,016) | 156 |
| Total | $ 17,206 | $ 13,151 | $ (6,147) | $ 318 |
| Alt-A and other loans: | | | | |
| AAA-rated | $ 1,749 | $ 1,761 | $ (193) | $ 8 |
| Other investment grade | 4,115 | 4,120 | (756) | 503 |
| Below investment grade[2] | 14,936 | 12,420 | (3,963) | 2,668 |
| Total | $ 20,800 | $ 18,301 | $ (4,912) | $ 3,179 |
| Commercial mortgage-backed securities: | | | | |
| AAA-rated | $ 31,801 | $ 31,881 | $ (972) | $ 43 |
| Other investment grade | 25,836 | 25,801 | (2,521) | 1,657 |
| Below investment grade[2] | 3,713 | 3,499 | (1,461) | 1,708 |
| Total | $ 61,350 | $ 61,181 | $ (4,954) | $ 3,408 |

**Credit Ratings as of December 31, 2009**

Subprime loans:

| | | | | |
|---|---|---|---|---|
| AAA-rated | $ 4,600 | $ 4,597 | $ (643) | $ 34 |
| Other investment grade | 6,248 | 6,247 | (1,562) | 625 |
| Below investment grade(2) | 50,716 | 45,977 | (18,897) | 1,895 |
| Total | $ 61,564 | $ 56,821 | $ (21,102) | $ 2,554 |
| Option ARM loans: | | | | |
| AAA-rated | $ | $ | $ | $ |
| Other investment grade | 350 | 345 | (152) | 166 |
| Below investment grade(2) | 17,337 | 13,341 | (6,323) | 163 |
| Total | $ 17,687 | $ 13,686 | $ (6,475) | $ 329 |
| Alt-A and other loans: | | | | |
| AAA-rated | $ 1,825 | $ 1,844 | $ (247) | $ 9 |
| Other investment grade | 4,829 | 4,834 | (1,051) | 530 |
| Below investment grade(2) | 14,785 | 12,267 | (4,249) | 2,752 |
| Total | $ 21,439 | $ 18,945 | $ (5,547) | $ 3,291 |
| Commercial mortgage-backed securities: | | | | |
| AAA-rated | $ 32,831 | $ 32,914 | $ (2,108) | $ 43 |
| Other investment grade | 26,233 | 26,167 | (4,661) | 1,658 |
| Below investment grade(2) | 2,813 | 2,711 | (1,019) | 1,701 |
| Total | $ 61,877 | $ 61,792 | $ (7,788) | $ 3,402 |

(1) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

(2) Includes certain securities that are no longer rated.

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Table 24 shows: (a) the percentage of unpaid principal balance of available-for-sale non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans and CMBS held at March 31, 2010 based on the ratings of such securities as of March 31, 2010 and April 21, 2010; and (b) the percentage of unpaid principal balance of such securities at December 31, 2009 based on their December 31, 2009 ratings.

**Table 24 Ratings Trend of Available-for-Sale Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans and CMBS**

| | Percentage of Unpaid Principal Balance at March 31, 2010 | | Percentage of Unpaid Principal Balance at December 31, 2009 |
|---|---|---|---|
| | Credit Ratings as of | | |
| | April 21, 2010 | March 31, 2010 | December 31, 2009 |
| Subprime loans: | | | |
| AAA-rated | 6% | 7% | 7% |
| Other investment grade | 9 | 10 | 10 |
| Below investment grade[1] | 85 | 83 | 83 |
| Total | 100% | 100% | 100% |
| Option ARM loans: | | | |
| AAA-rated | % | % | % |
| Other investment grade | 2 | 2 | 2 |
| Below investment grade[1] | 98 | 98 | 98 |
| Total | 100% | 100% | 100% |
| Alt-A and other loans: | | | |
| AAA-rated | 8% | 8% | 9% |
| Other investment grade | 20 | 20 | 23 |
| Below investment grade[1] | 72 | 72 | 68 |
| Total | 100% | 100% | 100% |
| Commercial mortgage-backed securities: | | | |
| AAA-rated | 52% | 52% | 53% |
| Other investment grade | 42 | 42 | 42 |
| Below investment grade[1] | 6 | 6 | 5 |
| Total | 100% | 100% | 100% |

(1) Includes certain securities that are no longer rated.

Although certain non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans and CMBS may have experienced ratings downgrades during the first quarter and April of 2010, we believe the economic factors leading to these downgrades are already appropriately considered in our other-than-temporary impairment decisions and valuations.

**Mortgage Loans**

Mortgage loans consist of: (a) mortgage loans held-for-sale, at lower-of-cost-or-fair-value; and (b) mortgage loans held-for-investment, at amortized cost. Mortgage loans held-for-sale decreased, and mortgage loans held-for-investment increased from December 31, 2009 to March 31, 2010, primarily due to a change in the accounting for VIEs discussed in Change in Accounting Principles, which resulted in our consolidation of assets underlying approximately $1.817 trillion of our PCs and $21 billion of Structured Transactions as of January 1, 2010. Upon adoption of the new accounting standards on January 1, 2010, we redesignated all single-family loans that were held-for-sale as held-for-investment, which totaled $13.5 billion in unpaid principal balance and resulted in the recognition of a lower-of-cost-or-fair-value adjustment, which was recorded as an $80 million reduction in the beginning balance of retained earnings for 2010. As of March 31, 2010, our mortgage loans held-for-sale consists solely of multifamily mortgage loans that we purchase for securitization and sale to third parties. Prior to January 1, 2010, in addition to multifamily loans purchased for securitization, we also had investments in single-family mortgage loans held-for-sale related to mortgages purchased through cash window transactions. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for further information.

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Table 25 provides detail regarding our mortgage loans on our consolidated balance sheets, including: (a) mortgage loans underlying consolidated single-family PCs and certain Structured Transactions (regardless of whether such securities are held by us or third parties); and (b) unsecuritized single-family and multifamily mortgage loans.

**Table 25 Characteristics of Mortgage Loans on Our Consolidated Balance Sheets**

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Fixed Rate | Variable Rate | Total | Fixed Rate | Variable Rate | Total |
| | | | (in millions) | | | |
| Mortgage loans held by consolidated trusts: | | | | | | |
| Single-family:[1] | | | | | | |
| Conventional: | | | | | | |
| Amortizing | $ 1,563,797 | $ 63,716 | $ 1,627,513 | $ | $ | $ |
| Interest-only | 25,531 | 92,348 | 117,879 | | | |
| Total conventional | 1,589,328 | 156,064 | 1,745,392 | | | |
| USDA Rural Development/FHA/VA | 2,895 | 3 | 2,898 | | | |
| Structured Transactions | 9,199 | 8,905 | 18,104 | | | |
| Total unpaid principal balance of single-family mortgage loans held by consolidated trusts | $ 1,601,422 | $ 164,972 | 1,766,394 | | | |
| Premiums, discounts, deferred fees and other basis adjustments | | | 1,129 | | | |
| Allowance for loan losses on mortgage loans held-for-investment by consolidated trusts[2] | | | (21,758) | | | |
| Total carrying value of mortgage loans held by consolidated trusts | | | $ 1,745,765 | $ | $ | $ |
| Unsecuritized mortgage loans: | | | | | | |
| Single-family:[1] | | | | | | |
| Conventional: | | | | | | |
| Amortizing | $ 95,591 | $ 1,300 | $ 96,891 | $ 49,033 | $ 1,250 | $ 50,283 |
| Interest-only | 4,564 | 464 | 5,028 | 425 | 1,060 | 1,485 |
| Total conventional | 100,155 | 1,764 | 101,919 | 49,458 | 2,310 | 51,768 |
| | 1,727 | | 1,727 | 3,110 | | 3,110 |

| | | | | | | |
|---|---|---|---|---|---|---|
| USDA Rural Development/FHA/VA | | | | | | |
| Total single-family | 101,882 | 1,764 | 103,646 | 52,568 | 2,310 | 54,878 |
| Multifamily[3] | 70,667 | 12,341 | 83,008 | 71,939 | 11,999 | 83,938 |
| Total unpaid principal balance of unsecuritized mortgage loans | $ 172,549 | $ 14,105 | 186,654 | $ 124,507 | $ 14,309 | 138,816 |
| Premiums, discounts, deferred fees and other basis adjustments | | | (8,914) | | | (9,317) |
| Lower-of-cost-or-fair-value adjustments on loans held-for-sale | | | (49) | | | (188) |
| Allowance for loan losses on unsecuritized mortgage loans held-for-investment[2] | | | (14,872) | | | (1,441) |
| Total carrying value of unsecuritized mortgage loans | | | $ 162,819 | | | $ 127,870 |

(1) Based on the unpaid principal balance. Variable-rate single-family mortgage loans include those with a contractual coupon rate that is scheduled to change prior to the contractual maturity date. Single-family mortgage loans also include mortgages with balloon/reset provisions.

(2) See NOTE 5: MORTGAGE LOANS to our consolidated financial statements for information about our allowance for loan losses on mortgage loans held-for-investment.

(3) Based on the unpaid principal balance, excluding mortgage loans traded but not yet settled. Variable-rate multifamily mortgage loans include only those loans that, as of the reporting date, have a contractual coupon rate that is subject to change.

The unpaid principal balance of unsecuritized single-family mortgage loans increased by $48.7 billion, from $54.9 billion at December 31, 2009 to $103.6 billion at March 31, 2010, primarily due to increased purchases of delinquent and modified loans from the mortgage pools underlying our PCs discussed below. The unpaid principal balance of multifamily mortgage loans decreased from $83.9 billion at December 31, 2009 to $83.0 billion at March 31, 2010, primarily due to our limited purchases as well as our sale of $1.8 billion in loans during the first quarter, which included $1.6 billion through the sale of Structured Transactions. We expect to continue to make investments in multifamily loans in 2010, though our purchases may not exceed liquidations and securitizations.

As securities administrator, we are required to purchase a mortgage loan out of consolidated trusts under certain circumstances at the direction of a court of competent jurisdiction or a U.S. government agency. Additionally, we are required to repurchase all convertible ARMs when the borrower exercises the option to convert the interest rate from an adjustable rate to a fixed rate; and in the case of balloon/reset loans, shortly before the mortgage reaches its scheduled balloon reset date. During the three months ended March 31, 2010 and 2009, we purchased $457 million and $434 million, respectively, of convertible ARMs and balloon/reset loans out of PC pools.

As guarantor, we also have the right to purchase mortgages that back our PCs from the underlying loan pools when they are significantly past due or when we determine that loss of the property is likely or default by the borrower is imminent due to borrower incapacity, death or other extraordinary circumstances that make future payments unlikely or impossible. This right to repurchase mortgages or assets is known as our repurchase option, and we also exercise

this option when we modify a mortgage. When we purchase mortgage loans from consolidated trusts, we reclassify the loans from mortgage loans held-for-investment by consolidated trusts to unsecuritized mortgage loans

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held-for-investment and record an extinguishment of the corresponding portion of the debt securities of the consolidated trusts. We continue to purchase loans under financial guarantees related to our long-term standby agreements.

On February 10, 2010, we announced that we will purchase substantially all single-family mortgage loans that are 120 days or more delinquent from our PC trusts. The decision to effect these purchases was made based on a determination that the cost of guarantee, or debt payments to the security holders will exceed the cost of holding non-performing loans on our consolidated balance sheets. Due to our January 1, 2010 adoption of amendments to the accounting standards for transfers of financial assets and the consolidation of VIEs, the recognized cost of purchasing most delinquent loans from PC trusts will be less than the recognized cost of continued guarantee payments to security holders. We purchased $56.6 billion in unpaid principal balance of loans from PC trusts during the first quarter of 2010.

See RISK MANAGEMENT Credit Risks *Mortgage Credit Risk* and Table 47 Credit Performance of Certain Higher Risk Categories in the Single-Family Credit Guarantee Portfolio for information about single-family mortgage loans in our single-family credit guarantee portfolio that we believe have higher risk characteristics.

The tables below present the number and unpaid principal balances of loans 90-119 days delinquent and 120 days or more delinquent, respectively, that underlie our consolidated trusts as of March 31, 2010. Loans presented in the table that are 120 days or more delinquent at March 31, 2010 are those for which our purchase of the loans and extinguishment of the PC debt will settle at the next scheduled PC debt payment date (45 or 75 day delay, as appropriate).

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**Table 26 90-119 Day Delinquency Rates Loans in PC Trusts, By Loan Origination Year UPB $ in millions[1]**

| | As of March 31, 2010 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | upon | 5.0% PC Coupon | | | 5.5% PC Coupon | | | 6.0% PC Coupon | | | 6.5% PC Co | |
| cy | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 90-119 Day Delinquency Rate[3] | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 90-119 Day Delinquency Rate[3] | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 90-119 Day Delinquency Rate[3] | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 90-119 Day Delinquenc Rate[3] |
| % | 197 | $ 33 | 0.04% | 156 | $ 13 | 0.13% | 59 | $ 5 | 0.26% | 22 | $ < 1 | 0.00% |
| % | 41 | 198 | 0.33% | 758 | 387 | 0.55% | 1,602 | 304 | 0.80% | 1,426 | 107 | 1.14% |
| % | 26 | 133 | 0.71% | 543 | 571 | 0.82% | 2,531 | 874 | 1.13% | 4,461 | 369 | 1.58% |
| % | 9 | 63 | 0.61% | 273 | 355 | 0.79% | 1,585 | 650 | 0.94% | 3,319 | 210 | 1.19% |
| % | 173 | 354 | 0.50% | 1,757 | 420 | 0.66% | 2,320 | 159 | 0.95% | 987 | 22 | 1.39% |
| % | 158 | 239 | 0.24% | 1,484 | 386 | 0.35% | 2,683 | 175 | 0.43% | 1,464 | 93 | 0.43% |
| | | | | | | | | | | | | |
| % | 12 | < 1 | 0.03% | 2 | < 1 | 0.19% | 1 | < 1 | 0.00% | 0 | N/A | N/A |
| % | 46 | 12 | 0.15% | 80 | 5 | 0.20% | 44 | 2 | 0.35% | 24 | < 1 | 0.24% |
| % | 8 | 7 | 0.20% | 46 | 14 | 0.30% | 102 | 9 | 0.45% | 80 | 1 | 0.80% |
| % | 5 | 6 | 0.28% | 38 | 13 | 0.26% | 99 | 12 | 0.39% | 103 | 1 | 0.39% |
| % | 69 | 19 | 0.21% | 183 | 9 | 0.25% | 83 | 2 | 0.59% | 16 | < 1 | 0.69% |
| % | 515 | 46 | 0.11% | 589 | 17 | 0.13% | 245 | 9 | 0.14% | 198 | 4 | 0.17% |
| | | | | | | | | | | | | |
| | N/A | N/A | N/A | N/A | < 1 | 0.00% | 0 | N/A | N/A | N/A | N/A | N/A |
| % | 0 | 1 | 0.30% | 2 | 13 | 1.06% | 40 | 15 | 1.63% | 53 | 3 | 1.54% |
| % | 0 | 4 | 0.97% | 14 | 93 | 1.72% | 314 | 207 | 1.85% | 741 | 50 | 2.26% |
| % | 1 | 1 | 0.98% | 3 | 22 | 1.74% | 77 | 45 | 1.75% | 173 | 13 | 2.11% |
| % | 0 | < 1 | 0.00% | 0 | 7 | 1.43% | 28 | 9 | 1.71% | 38 | 1 | 1.52% |
| % | 0 | < 1 | 0.00% | 0 | 1 | 3.13% | 4 | < 1 | 0.00% | 0 | N/A | N/A |
| | | | | | | | | | | | | |
| % | 1,260 | $ 1,116 | 0.24% | 5,928 | $ 2,326 | 0.51% | 11,817 | $ 2,477 | 0.81% | 13,105 | $ 874 | 0.91% |
| | | | | | | | | | | | | |
| % | 0 | $ < 1 | 0.00% | 0 | $ < 1 | 0.00% | 0 | N/A | N/A | N/A | N/A | N/A |
| % | 24 | 14 | 0.59% | 48 | 2 | 0.37% | 9 | $ < 1 | 2.35% | 2 | $ < 1 | 0.00% |
| % | 1 | 2 | 0.92% | 8 | 17 | 1.53% | 77 | 28 | 2.01% | 128 | 7 | 3.45% |
| % | 0 | 4 | 1.14% | 19 | 37 | 1.12% | 167 | 31 | 1.33% | 139 | 11 | 2.47% |
| % | 66 | 35 | 0.57% | 172 | 20 | 1.27% | 99 | 5 | 3.67% | 28 | < 1 | 0.00% |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 83 | 10 | 0.28% | 53 | 1 | 0.25% | 8 | < 1 | 0.50% | 7 | < 1 | 0.33% |
| | | | | | | | | | | | |
| 0 | < 1 | 0.00% | 0 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 26 | 52 | 0.89% | 172 | 19 | 0.77% | 59 | < 1 | 2.50% | 2 | < 1 | 0.00% |
| 10 | 20 | 2.53% | 75 | 263 | 2.09% | 911 | 244 | 2.49% | 879 | 19 | 3.55% |
| 5 | 21 | 1.90% | 72 | 171 | 1.77% | 607 | 291 | 2.28% | 1,097 | 74 | 3.74% |
| 107 | 89 | 1.24% | 358 | 65 | 1.83% | 274 | 22 | 2.93% | 107 | 2 | 6.29% |
| 2 | 2 | 1.32% | 8 | < 1 | 0.49% | 1 | < 1 | 0.00% | 0 | < 1 | 0.00% |
| 324 | $ 249 | 0.85% | 985 | $ 595 | 1.65% | 2,212 | $ 621 | 2.25% | 2,389 | $ 113 | 3.37% |

(1) Table does not include loans underlying Fixed-rate 20, Fixed-rate 40 and Balloon PCs, as well as certain conforming Jumbo loans underlying non-TBA PCs. As of March 31, 2010, the outstanding unpaid principal balance (UPB) of mortgage loans in these categories that were 90-119 days delinquent was $197 million. An N/A indicates there were no PCs issued in the specified PC category or loan origination year.

(2) Loans in PCs with coupons less than 4.0% have been excluded. As of March 31, 2010, the outstanding UPB of mortgage loans that were 90-119 days delinquent for this category was $165 million.

(3) Based on the number of mortgage loans 90-119 days delinquent. The delinquency rate is calculated as the number of delinquent loans divided by the total number of loans in the relevant PC category.

(4) Represents loan-level UPB. The loan-level UPB may vary from the Fixed-rate PC UPB primarily due to guaranteed principal payments made by Freddie Mac on the PCs. In the case of Fixed-rate Initial Interest PCs, if they have not begun to amortize, there is no variance.

(5) ARM PC coupons are rounded to the nearest whole or half-percent-coupon. For example, the 5.0% PC Coupon category includes ARM PCs with coupons between 4.75% and 5.24%

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**Table 27 120 Days or More Delinquency Rates Loans in PC Trusts, By Loan Origination Year UPB $ in millions[1]**

| As of March 31, 2010 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| oupon | 5.0% PC Coupon | | | 5.5% PC Coupon | | | 6.0% PC Coupon | | | 6.5% PC Coup | | |
| ncy ) | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 120+ Day Delinquency Rate[3] | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 120+ Day Delinquency Rate[3] | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 120+ Day Delinquency Rate[3] | Number of Delinquent Loans[3] | UPB for Delinquent Loans[3],[4] | 120+ Day Delinquency Rate[3] |
| 1% | 138 | $ 23 | 0.02% | 100 | $ 5 | 0.06% | 26 | $ 2 | 0.13% | 11 | $ < 1 | 0.00% |
| 0% | 38 | 129 | 0.22% | 498 | 252 | 0.36% | 1,047 | 190 | 0.51% | 905 | 70 | 0.76% |
| 7% | 15 | 71 | 0.38% | 286 | 375 | 0.54% | 1,653 | 571 | 0.74% | 2,928 | 251 | 1.06% |
| 0% | 7 | 45 | 0.43% | 190 | 236 | 0.53% | 1,069 | 412 | 0.61% | 2,138 | 141 | 0.81% |
| 0% | 115 | 232 | 0.33% | 1,160 | 280 | 0.44% | 1,542 | 102 | 0.58% | 602 | 11 | 0.77% |
| 0% | 95 | 159 | 0.15% | 944 | 243 | 0.22% | 1,638 | 98 | 0.25% | 846 | 54 | 0.25% |
| | | | | | | | | | | | | |
| 1% | 7 | < 1 | 0.01% | 1 | < 1 | 0.00% | 0 | < 1 | 0.00% | 0 | N/A | N/A |
| 5% | 24 | 8 | 0.09% | 47 | 4 | 0.12% | 26 | 2 | 0.23% | 16 | < 1 | 0.71% |
| 0% | 5 | 4 | 0.12% | 27 | 10 | 0.19% | 65 | 5 | 0.25% | 44 | 1 | 0.23% |
| 3% | 2 | 3 | 0.18% | 24 | 9 | 0.17% | 67 | 8 | 0.26% | 68 | < 1 | 0.21% |
| 3% | 35 | 10 | 0.11% | 94 | 7 | 0.21% | 68 | 1 | 0.44% | 12 | < 1 | 0.00% |
| 5% | 293 | 28 | 0.06% | 339 | 10 | 0.08% | 150 | 6 | 0.08% | 109 | 2 | 0.09% |
| | | | | | | | | | | | | |
| A | N/A | N/A | N/A | N/A | < 1 | 0.00% | 0 | N/A | N/A | N/A | N/A | N/A |
| 0% | 0 | < 1 | 0.15% | 1 | 7 | 0.63% | 24 | 12 | 1.32% | 43 | 3 | 1.54% |
| 0% | 0 | 4 | 1.04% | 15 | 52 | 1.01% | 185 | 156 | 1.47% | 591 | 41 | 1.92% |
| 0% | 0 | < 1 | 0.33% | 1 | 14 | 1.11% | 49 | 33 | 1.37% | 135 | 11 | 1.86% |
| 0% | 0 | 1 | 0.92% | 3 | 4 | 0.97% | 19 | 7 | 1.58% | 35 | 1 | 1.14% |
| 0% | 0 | < 1 | 0.00% | 0 | < 1 | 1.56% | 2 | < 1 | 0.00% | 0 | N/A | N/A |
| 4% | 774 | $ 717 | 0.15% | 3,730 | $ 1,508 | 0.33% | 7,630 | $ 1,605 | 0.52% | 8,483 | $ 586 | 0.60% |
| | | | | | | | | | | | | |
| 1% | 1 | $ < 1 | 2.00% | 1 | $ < 1 | 0.00% | 0 | N/A | N/A | N/A | N/A | N/A |
| 0% | 18 | 8 | 0.38% | 31 | 4 | 0.66% | 16 | $ < 1 | 0.00% | 0 | $ < 1 | 0.00% |
| 4% | 1 | 1 | 0.80% | 7 | 11 | 0.97% | 49 | 25 | 1.79% | 114 | 5 | 2.51% |
| 0% | 0 | 1 | 0.24% | 4 | 30 | 0.94% | 141 | 24 | 1.06% | 111 | 8 | 2.11% |
| 5% | 57 | 30 | 0.50% | 150 | 12 | 0.69% | 54 | 3 | 1.97% | 15 | < 1 | 0.00% |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 5% | 67 | 7 | 0.22% | 43 | < 1 | 0.16% | 5 | < 1 | 0.29% | 4 | < 1 | 0.00% |
| 0% | 0 | < 1 | 0.56% | 1 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| 5% | 20 | 37 | 0.62% | 119 | 14 | 0.65% | 50 | < 1 | 1.25% | 1 | < 1 | 0.00% |
| 4% | 7 | 10 | 1.35% | 40 | 193 | 1.54% | 674 | 197 | 2.01% | 709 | 11 | 2.63% |
| 0% | 3 | 13 | 1.21% | 46 | 115 | 1.24% | 424 | 199 | 1.55% | 747 | 60 | 3.02% |
| 0% | 73 | 69 | 0.98% | 282 | 49 | 1.34% | 200 | 17 | 2.05% | 75 | 1 | 2.86% |
| 0% | 2 | < 1 | 0.16% | 1 | < 1 | 0.00% | 0 | < 1 | 0.00% | 0 | < 1 | 42.86% |
| 2% | 249 | $ 176 | 0.63% | 725 | $ 428 | 1.20% | 1,613 | $ 465 | 1.67% | 1,776 | $ 85 | 2.67% |

(1) Table does not include loans underlying Fixed-rate 20, Fixed-rate 40 and Balloon PCs, as well as certain conforming Jumbo loans underlying non-TBA PCs. As of March 31, 2010, the outstanding unpaid principal balance (UPB) of mortgage loans in these categories that were 120 days or more delinquent was $130 million. An N/A indicates there were no PCs issued in the specified PC category or loan origination year.

(2) Loans in PCs with coupons less than 4.0% have been excluded. As of March 31, 2010, the outstanding UPB of mortgage loans that were 120 days or more delinquent for this category was $1.3 billion.

(3) Based on the number of mortgage loans 120 or more days delinquent. The delinquency rate is calculated as the number of delinquent loans divided by the total number of loans in the relevant PC category.

(4) Represents loan-level UPB. The loan-level UPB may vary from the Fixed-rate PC UPB primarily due to guaranteed principal payments made by Freddie Mac on the PCs. In the case of Fixed-rate Initial Interest PCs, if they have not begun to amortize, there is no variance.

(5) ARM PC coupons are rounded to the nearest whole or half-percent-coupon. For example, the 5.0% PC Coupon category includes ARM PCs with coupons between 4.75% and 5.24%

Prior to January 1, 2010, and currently, for our remaining guarantees to non-consolidated VIEs and other mortgage-related financial guarantees, we record loans that we purchase in connection with our performance guarantees at fair value and record losses on loans purchased on our consolidated statements of operations in order to reduce our net investment in acquired loans to their fair value.

Our net investment in loans with deterioration in credit purchased under financial guarantees was $9.3 billion and $10.1 billion at March 31, 2010 and December 31, 2009, respectively, on an unpaid principal balance of $17.9 billion and $19.0 billion, respectively. During the first quarters of 2010 and 2009, we purchased approximately $85 million and $4.9 billion, respectively, in unpaid principal balances of these loans with a fair value at acquisition of $51 million and $2.0 billion, respectively. The decline in our purchases in the first quarter of 2010, as compared to the first quarter of 2009 was due to the adoption of changes in accounting for consolidation of VIEs at January 1, 2010. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for further information on the impact of these changes. The decline in the balance of these loans during the first quarter of 2010 was due to $820 million in unpaid principal balances of loans that were modified as a troubled debt restructuring or resolved in a foreclosure transfer and approximately $349 million of principal repayments. See NOTE 5: MORTGAGE LOANS to our consolidated financial statements for further information.

Table 28 summarizes our new mortgage loan activity for the first quarters of 2010 and 2009. Activity for the three months ended March 31, 2010 consists of mortgage loans on our consolidated balance sheets, including: (a) mortgage loans underlying consolidated single-family PCs and certain Structured Transactions (regardless of whether such securities are held by us or third parties); (b) unsecuritized single-family and multifamily mortgage loans; and (c) mortgage loans underlying our mortgage-related financial guarantees which are not consolidated on our balance sheets. Activity for the three months ended March 31, 2009 consists of: (a) mortgage loans underlying our mortgage-related financial guarantees, including those underlying our PCs and Structured Securities (regardless of whether such

securities are held by us or third parties) which were not consolidated on our balance sheets prior to January 1, 2010; and (b) unsecuritized single-family and multifamily mortgage loans on our consolidated balance sheets.

**Table 28 Mortgage Loan Activity[1]**

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | UPB Amount | % of Total | UPB Amount | % of Total |
| | (dollars in millions) | | | |
| Mortgage loan purchases and guarantee issuances: | | | | |
| Single-family: | | | | |
| Conventional: | | | | |
| 40-year amortizing fixed-rate | $ 1 | < 1% | $ 51 | < 1% |
| 30-year amortizing fixed-rate | 65,613 | 72 | 97,144 | 83 |
| 20-year amortizing fixed-rate | 3,358 | 4 | 3,256 | 3 |
| 15-year amortizing fixed-rate | 15,114 | 17 | 11,382 | 10 |
| ARMs/adjustable-rate[2] | 1,858 | 2 | 183 | < 1 |
| Interest-only[3] | 321 | < 1 | 220 | < 1 |
| Balloon/resets[4] | | | | |
| Conforming jumbo | | | 91 | < 1 |
| HFA bonds | 2,469 | 3 | | |
| FHA/VA[5] | 187 | < 1 | 218 | < 1 |
| USDA Rural Development and other federally guaranteed loans | 127 | < 1 | 69 | < 1 |
| *Total single-family* | 89,048 | 98 | 112,614 | 97 |
| Multifamily: | | | | |
| Conventional and other | 1,541 | 2 | 3,824 | 3 |
| HFA bonds | 572 | < 1 | | |
| *Total multifamily* | 2,113 | 2 | 3,824 | 3 |
| *Total mortgage loan purchases and guarantee issuances[6]* | $ 91,161 | 100% | $ 116,438 | 100% |
| Mortgage purchases and guarantee issuances with credit enhancements | 13% | | 8% | |
| Mortgage liquidations[7] | $ 83,088 | | $ 100,258 | |
| Mortgage liquidations rate (annualized)[7] | 17% | | 21% | |

(1) Based on unpaid principal balances. Excludes mortgage loans traded but not yet settled. Excludes net additions of delinquent mortgage loans and balloon/reset mortgages purchased out of PC pools.
(2) Includes amortizing ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods. We did not purchase any option ARM loans during the first quarter of 2009 or 2010.
(3) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed- and variable-rate interest-only loans.
(4) Represents mortgages whose terms require lump sum principal payments on contractually determined future dates unless the borrower qualifies for and elects an extension of the maturity date at an adjusted interest-rate.

(5) Excludes FHA/VA loans that back Structured Transactions.
(6) Includes issuances of unsecuritized mortgage-related financial guarantees on single-family loans of $2.8 billion and $0 million, and issuances of unsecuritized mortgage-related financial guarantees on multifamily loans of $639 million and $52 million during the three months ended March 31, 2010 and 2009, respectively.
(7) Excludes liquidations of non-Freddie Mac mortgage-related securities and loans related to our February 10, 2010 announcement that we would begin purchasing substantially all 120 days or more delinquent mortgages from our related fixed-rate and ARM PCs.

**Derivative Assets and Liabilities, Net**

At March 31, 2010, the net fair value of our total derivative portfolio was $(0.8) billion, as compared to $(0.4) billion at December 31, 2009. The decrease in the net fair value of our total derivative portfolio was primarily due to the decline in swap interest rates, which negatively impacted the fair value of our net pay-fixed interest-rate swap portfolio position. The fair value of our purchased put swaptions also decreased during the first quarter of 2010 as a result of a decrease in implied volatility and forward swap interest rates. See NOTE 11: DERIVATIVES to our consolidated financial statements for additional information regarding our derivatives, including the notional or contractual amounts and related fair values of our total derivative portfolio by product type at March 31, 2010 and December 31, 2009. Also see CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Derivative Gains (Losses) and Gains (Losses) on Debt Recorded at Fair Value* for a description of gains (losses) on our derivative positions.

Table 29 shows the fair value for each derivative type and the maturity profile of our derivative positions. A positive fair value in Table 29 for each derivative type is the estimated amount, prior to netting by counterparty, which we would be entitled to receive if we terminated the derivatives of that type. A negative fair value for a derivative type is the estimated amount, prior to netting by counterparty, which we would owe if we terminated the derivatives of that type. See RISK MANAGEMENT Credit Risks *Institutional Credit Risk* Table 41 Derivative Counterparty Credit Exposure for additional information regarding derivative counterparty credit exposure. Table 29 also provides the weighted average fixed rate of our pay-fixed and receive-fixed interest-rate swaps.

**Table 29 Derivative Fair Values and Maturities**

| | March 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | | | Fair Value[1] | | | |
| | Notional or Contractual Amount[2] | Total Fair Value[3] | Less than 1 Year | 1 to 3 Years | Greater than 3 and up to 5 Years | In Excess of 5 Years |
| | (dollars in millions) | | | | | |
| Interest-rate swaps: | | | | | | |
| Receive-fixed: | | | | | | |
| Swaps | $ 226,898 | $ (158) | $ 431 | $ 464 | $ 819 | $ (1,872) |
| Weighted average fixed rate[4] | | | 3.23% | 1.64% | 3.00% | 3.92% |
| Forward-starting swaps[5] | 29,042 | 567 | | 255 | 193 | 119 |
| Weighted average fixed rate[4] | | | | 3.46% | 4.48% | 4.42% |
| Total receive-fixed | 255,940 | 409 | 431 | 719 | 1,012 | (1,753) |
| Basis (floating to floating) | 54,070 | (24) | (21) | | (1) | (2) |
| Pay-fixed: | | | | | | |
| Swaps | 321,837 | (14,645) | (175) | (1,607) | (3,704) | (9,159) |
| Weighted average fixed rate[4] | | | 4.23% | 2.45% | 3.93% | 4.36% |
| Forward-starting swaps[5] | 60,308 | (2,804) | | | | (2,804) |
| Weighted average fixed rate[4] | | | | | | 4.96% |
| Total pay-fixed | 382,145 | (17,449) | (175) | (1,607) | (3,704) | (11,963) |
| Total interest-rate swaps | 692,155 | (17,064) | 235 | (888) | (2,693) | (13,718) |
| Option-based: | | | | | | |
| Call swaptions | | | | | | |
| Purchased | 151,695 | 7,562 | 2,140 | 2,361 | 1,081 | 1,980 |
| Written | 11,725 | (82) | (45) | (8) | (11) | (18) |
| Put swaptions | | | | | | |
| Purchased | 91,875 | 1,787 | 249 | 507 | 322 | 709 |
| Written | 1,500 | (25) | (25) | | | |
| Other option-based derivatives[6] | 64,672 | 1,518 | (14) | | (2) | 1,534 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total option-based | 321,467 | 10,760 | 2,305 | 2,860 | 1,390 | 4,205 |
| Futures | 142,499 | (107) | (91) | (16) | | |
| Foreign-currency swaps | 5,278 | 1,286 | 1,088 | 131 | 67 | |
| Commitments[7] | 13,642 | 21 | 21 | | | |
| Swap guarantee derivatives | 3,514 | (35) | | | (1) | (34) |
| Subtotal | 1,178,555 | (5,139) | $ 3,558 | $ 2,087 | $ (1,237) | $ (9,547) |
| Credit derivatives | 13,829 | 13 | | | | |
| Subtotal | 1,192,384 | (5,126) | | | | |
| Derivative interest receivable (payable), net | | (1,454) | | | | |
| Trade/settle receivable (payable), net | | 3 | | | | |
| Derivative cash collateral (held) posted, net | | 5,746 | | | | |
| Total | $ 1,192,384 | $ (831) | | | | |

(1) Fair value is categorized based on the period from March 31, 2010 until the contractual maturity of the derivative.
(2) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.
(3) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liabilities, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net.
(4) Represents the notional weighted average rate for the fixed leg of the swaps.
(5) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to fifteen years.
(6) Primarily represents purchased interest rate caps and floors, guarantees of stated final maturity of issued Structured Securities, and written options, including written call options on agency mortgage-related securities.
(7) Commitments include: (a) our commitments to purchase and sell investments in securities; and (b) our commitments to purchase and extinguish or issue debt securities of our consolidated trusts.

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Table 30 summarizes the changes in derivative fair values.

**Table 30 Changes in Derivative Fair Values**

| | Three Months Ended March 31,[1] | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Beginning balance net asset (liability) | $ (2,267) | $ (3,827) |
| Net change in: | | |
| Commitments[2] | 10 | (550) |
| Credit derivatives | (2) | 2 |
| Swap guarantee derivatives | (1) | (32) |
| Other derivatives:[3] | | |
| Changes in fair value | (3,302) | 1,361 |
| Fair value of new contracts entered into during the period[4] | 56 | (381) |
| Contracts realized or otherwise settled during the period | 380 | (310) |
| Ending balance net asset (liability) | $ (5,126) | $ (3,737) |

(1) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liabilities, net, and includes derivative interest receivable (payable), net, trade/settle receivable (payable), net and derivative cash collateral (held) posted, net. Refer to Table 29 Derivative Fair Values and Maturities for reconciliation of fair value to the amounts presented on our consolidated balance sheets as of March 31, 2010. Fair value excludes derivative interest payable, net of $0.6 billion, trade/settle receivable, net of $1 million and derivative cash collateral posted, net of $2.5 billion at January 1, 2010. Fair value excludes derivative interest payable, net of $0.6 billion, trade/settle receivable, net of $0.2 billion and derivative cash collateral posted, net of $3.3 billion at March 31, 2009. Fair value excludes derivative interest receivable, net of $1.1 billion, trade/settle receivable or (payable), net of $0 million and derivative cash collateral posted, net of $1.5 billion at January 1, 2009.
(2) Commitments include: (a) our commitments to purchase and sell investments in securities; and (b) our commitments to purchase and extinguish or issue debt securities of our consolidated trusts.
(3) Includes fair value changes for interest-rate swaps, option-based derivatives, futures, foreign-currency swaps and interest-rate caps and floors.
(4) Consists primarily of cash premiums paid or received on options.

Table 31 provides information on our outstanding written and purchased swaption and option premiums at March 31, 2010 and December 31, 2009, based on the original premium receipts or payments.

**Table 31 Outstanding Written and Purchased Swaption and Option Premiums**

| | Original Premium Amount (Paid) Received | Original Weighted Average Life to Expiration | Remaining Weighted Average Life |
|---|---|---|---|

| | (dollars in millions) | | |
|---|---|---|---|
| Purchased:[1] | | | |
| At March 31, 2010 | $ (7,800) | 7.0 years | 5.1 years |
| At December 31, 2009 | $ (8,399) | 6.5 years | 4.9 years |
| Written:[2] | | | |
| At March 31, 2010 | $ 202 | 2.1 years | 1.9 years |
| At December 31, 2009 | $ 41 | 6.5 years | 6.2 years |

(1) Purchased options exclude callable swaps.
(2) Excludes written options on guarantees of stated final maturity of Structured Securities.

**Real Estate Owned, Net**

We acquire residential properties as a result of borrower defaults on mortgage loans that we own or for which we have issued our financial guarantees. The balance of our REO, net increased to $5.5 billion at March 31, 2010 from $4.7 billion at December 31, 2009. Our temporary suspension of foreclosure transfers of occupied homes during portions of 2009 caused a buildup of non-performing loans in our single-family credit guarantee portfolio. Consequently, we experienced a higher volume of foreclosure activity during the first quarter of 2010 than in the first quarter of 2009, because many of these non-performing loans began to transition to REO. The most significant amount of REO acquisitions in the first quarter of 2010 were of properties in the states of California, Florida, Arizona, Michigan, Illinois and Georgia. We expect our REO inventory to continue to grow in 2010, as we expect our REO acquisitions to outpace our REO dispositions. See RISK MANAGEMENT Credit Risks *Mortgage Credit Risk Credit Performance Non-Performing Assets* for additional information.

**Deferred Tax Assets, Net**

Subsequent to our entry into conservatorship, we determined that it was more likely than not that a portion of our net deferred tax assets would not be realized due to our inability to generate sufficient taxable income and, therefore, we recorded a valuation allowance. After evaluating all available evidence, including the events and developments related to our conservatorship, other events in the market, and related difficulty in forecasting future profit levels, we reached a similar conclusion in the first quarter of 2010. We increased our valuation allowance by $5.6 billion in the first three months of 2010. This amount consisted of $2.5 billion attributable to temporary differences as well as tax net operating loss and tax credit carryforwards generated during the quarter and $3.1 billion attributable to the

adoption of new accounting standards that amended guidance applicable to the accounting for transfers of financial assets and the consolidation of VIEs. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for additional information regarding these changes and a related change to the amortization method for certain related deferred items. Our total valuation allowance as of March 31, 2010 was $30.7 billion. As of March 31, 2010, after consideration of the valuation allowance, we had a net deferred tax asset of $10.0 billion representing the tax effect of unrealized losses on our available-for-sale securities. Management believes the deferred tax asset related to these unrealized losses is more likely than not to be realized because of our conclusion that we have the intent and ability to hold our available-for-sale securities until any temporary unrealized losses are recovered. Our view of our ability to realize the net deferred tax assets may change in future periods, particularly if the mortgage and housing markets continue to decline. For additional information, see NOTE 13: INCOME TAXES Deferred Tax Assets, Net to our consolidated financial statements.

**Other Assets**

Other assets consist of the guarantee asset related to non-consolidated trusts and other mortgage-related financial guarantees, account and other receivables, and other miscellaneous assets. Upon consolidation of our single-family PC trusts and certain Structured Transactions, our guarantee asset does not have a material impact on our results and is, therefore, included in other assets on our consolidated balance sheets. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES and NOTE 22: SELECTED FINANCIAL STATEMENT LINE ITEMS to our consolidated financial statements for additional information. The decrease in our guarantee asset during the first quarter of 2010 is primarily due to the fact that we no longer recognize a guarantee asset on PCs and certain Structured Transactions that are issued by consolidated securitization trusts. Prior to 2008, we invested as a limited partner in LIHTC partnerships formed for the purpose of providing equity funding for affordable multifamily rental properties. We wrote down the carrying value of our LIHTC investments to zero in 2009, as we will not be able to realize any value either through reductions to our taxable income and related tax liabilities or through a sale to a third party. See NOTE 5: VARIABLE INTEREST ENTITIES in our 2009 Annual Report for additional details.

**Total Debt, Net**

Commencing January 1, 2010, we consolidated our single-family PC trusts and certain Structured Transactions in our financial statements. Consequently, PCs and Structured Transactions issued by the consolidated trusts and held by third parties are recognized as debt securities of consolidated trusts held by third parties on our consolidated balance sheets. Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts (*i.e.*, single-family PC trusts and certain Structured Transactions). The debt securities of our consolidated trusts are prepayable without penalty at any time.

Other debt includes unsecured short-term and long-term debt securities we issue to third parties to fund our business activities. See LIQUIDITY AND CAPITAL RESOURCES for a discussion of our management activities related to other debt.

Table 32 presents the unpaid principal balance for our issued PCs and Structured Securities based on the underlying mortgage product type. Balances as of December 31, 2009 are based on mortgage loans underlying our mortgage-related financial guarantees, including those underlying our PCs and Structured Securities (regardless of

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whether such securities are held by us or third parties) which were not consolidated on our balance sheets prior to January 1, 2010.

**Table 32 PCs and Structured Securities[1]**

| | March 31, 2010[2] | | | December 31, 2009[2] |
|---|---|---|---|---|
| | Issued by Consolidated Trusts | Issued by Non-Consolidated Trusts | Total | Total |
| | (in millions) | | | |
| Single-family: | | | | |
| Conventional: | | | | |
| 40-year amortizing fixed-rate | $ 1,153 | $ | $ 1,153 | $ 1,538 |
| 30-year amortizing fixed-rate | 1,280,634 | | 1,280,634 | 1,315,781 |
| 20-year amortizing fixed-rate | 56,559 | | 56,559 | 57,705 |
| 15-year amortizing fixed-rate | 238,601 | | 238,601 | 241,714 |
| ARMs/adjustable-rate | 57,130 | | 57,130 | 61,548 |
| Option ARMs[3] | 1,406 | | 1,406 | 1,388 |
| Interest-only[4] | 103,446 | | 103,446 | 130,867 |
| Balloon/resets | 4,092 | | 4,092 | 5,266 |
| Conforming jumbo | 1,354 | | 1,354 | 1,629 |
| FHA/VA | 2,168 | | 2,168 | 1,178 |
| USDA Rural Development and other federally guaranteed loans | 744 | | 744 | 165 |
| *Total single-family* | 1,747,287 | | 1,747,287 | 1,818,779 |
| Multifamily: | | | | |
| Multifamily conventional | | 5,042 | 5,042 | 5,085 |
| *Total single-family and multifamily conventional* | 1,747,287 | 5,042 | 1,752,329 | 1,823,864 |
| Structured Securities backed by non-Freddie Mac mortgage-related securities: | | | | |
| HFA bonds: | | | | |
| Single-family | | 6,216 | 6,216 | 3,113 |
| Multifamily | | 1,409 | 1,409 | 391 |
| Total HFA bonds | | 7,625 | 7,625 | 3,504 |
| Other Structured Securities[5] | 18,352 | 8,713 | 27,065 | 26,496 |
| Ginnie Mae Certificates[6] | | 920 | 920 | 949 |
| *Total Structured Securities backed by non-Freddie Mac mortgage-related securities* | 18,352 | 17,258 | 35,610 | 30,949 |

| | | | | |
|---|---|---|---|---|
| Total PCs and Structured Securities | 1,765,639 | $ 22,300 | $ 1,787,939 | $ 1,854,813 |
| Less: Repurchased PCs and Structured Transactions[7] | (222,577) | | | |
| Total unpaid principal balance of debt securities of consolidated trusts held by third parties | $ 1,543,062 | | | |

(1) Based on unpaid principal balance of the securities and excludes mortgage-related debt traded, but not yet settled.
(2) Excludes long-term standby commitments and other financial guarantees for mortgage assets held by third parties that require that we purchase loans from lenders when these loans meet certain delinquency criteria. Prior year amounts have been revised to conform to the current presentation.
(3) Excludes option ARM mortgage loans that back our Structured Securities. See endnote (5) for additional information.
(4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed- and variable-rate interest-only loans.
(5) Represents Structured Securities backed by non-agency securities that include prime, FHA/VA and subprime mortgage loans. Includes $9.4 billion and $9.6 billion of securities backed by option ARM mortgage loans at March 31, 2010 and December 31, 2009, respectively.
(6) Ginnie Mae Certificates that underlie Structured Securities are backed by FHA/VA loans.
(7) Represents the unpaid principal balances of repurchased PCs and certain Structured Transactions that are consolidated on our balance sheets and includes certain remittance amounts associated with our trust administration that are payable to third-party PC holders as of March 31, 2010. Our holdings of non-consolidated PCs and Structured Securities are presented in Table 19 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets.

Table 33 presents issuances and extinguishments of the debt securities of our consolidated trusts during the three months ended March 31, 2010. Debt securities of consolidated trusts held by third parties represents the unpaid principal balance of PCs and certain Structured Transactions held by third parties issued by our consolidated trusts.

**Table 33 Issuances and Extinguishments of Debt Securities of Consolidated Trusts[1]**

| | Three Months Ended March 31, 2010 (in millions) |
|---|---|
| Beginning balance of debt securities of consolidated trusts held by third parties[2] | $ 1,564,093 |
| Issuances of debt securities of consolidated trusts based on underlying mortgage product type: | |
| Single-family: | |
| Conventional: | |
| 30-year amortizing fixed-rate | 67,834 |
| 20-year amortizing fixed-rate | 2,873 |
| 15-year amortizing fixed-rate | 13,207 |
| ARMs/Variable Rate | 1,770 |
| Interest Only | 284 |
| USDA FHA/VA | 1,074 |
| Rural Development and other federally guaranteed loans | 590 |
| Total issuances of debt securities of consolidated trusts | 87,632 |
| Extinguishments, net[3] | (108,663) |
| Ending balance of debt securities of consolidated trusts held by third parties | $ 1,543,062 |

(1) Based on unpaid principal balance of debt securities of consolidated trusts.
(2) Represents unpaid principal balance of debt securities of consolidated trusts held by third parties upon adoption of amendments to the accounting standards for transfers of financial assets and consolidation of VIEs on January 1, 2010.
(3) Represents: (a) net unpaid principal balances of purchases and sales of PCs and certain Structured Securities issued by our consolidated trusts; (b) principal repayments related to PCs and Structured Transactions issued by our consolidated trusts; and (c) certain remittance amounts associated with our trust administration that are payable to third-party PC holders as of March 31, 2010.

**Other Liabilities**

Other liabilities consist of the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts, other mortgage-related financial guarantees, servicer advanced interest payable, and other miscellaneous liabilities. Upon consolidation of our single-family PC trusts and certain Structured Transactions, the guarantee obligation and related reserve for guarantee losses do not have a material effect on our results and are, therefore, included in other liabilities on our consolidated balance sheets. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES and NOTE 22: SELECTED FINANCIAL STATEMENT LINE ITEMS to our consolidated financial statements for additional information. As of March 31, 2010 and December 31, 2009, our guarantee obligation within other liabilities on our consolidated balance sheets was $656 million and $12.5 billion, respectively. The decrease in our guarantee obligation

during the first quarter of 2010 was primarily due to the fact that we no longer recognize a guarantee obligation on PCs and Structured Securities that are issued by consolidated securitization trusts. Our reserve for guarantee losses decreased by $32.2 billion during the first quarter of 2010 to $181 million as of March 31, 2010, primarily as a result of the consolidation of our single-family PC trusts and certain Structured Transactions, as noted above. Upon consolidation, reserves for credit losses related to mortgage loans held in consolidated securitization trusts are included in our allowance for loan losses.

**Total Equity (Deficit)**

Total equity (deficit) decreased from $4.4 billion at December 31, 2009 to $(10.5) billion at March 31, 2010, reflecting decreases due to: (a) the cumulative change in accounting principles of $(11.7) billion due to our adoption of amendments to the accounting standards for transfers of financial assets and consolidation of VIEs; (b) payment of the senior preferred stock dividend of $1.3 billion; and (c) a net loss of $6.7 billion for the three months ended March 31, 2010. These decreases in total equity (deficit) were partially offset by a $4.6 billion decrease in our unrealized losses in AOCI, net of taxes, on our available-for-sale securities excluding the impacts of our adoption of the amendments to the accounting standards.

The cumulative effect of these changes in accounting principles was a net decrease of $11.7 billion to total equity (deficit) as of January 1, 2010, which includes the changes to the opening balances of retained earnings (accumulated deficit) and AOCI, net of taxes. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for additional information.

The balance of AOCI at March 31, 2010 was a net unrealized loss of approximately $21.5 billion, net of taxes, compared to a net unrealized loss of $23.6 billion, net of taxes, at December 31, 2009 and $26.3 billion at January 1, 2010. Unrealized losses in AOCI, net of taxes, on our available-for-sale securities decreased by $2.0 billion during the three months ended March 31, 2010 primarily attributable to improved liquidity and fair value marks resulting from a net decrease in interest rates and net tightening of OAS levels related to CMBS.

## CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS

Our consolidated fair value balance sheets include the estimated fair values of financial instruments recorded on our consolidated balance sheets prepared in conformity with GAAP, as well as off-balance sheet financial instruments that represent our assets or liabilities that are not recorded on our GAAP consolidated balance sheets. See NOTE 19: FAIR VALUE DISCLOSURES Table 19.6 Consolidated Fair Value Balance Sheets to our consolidated financial statements for our fair value balance sheets.

These off-balance sheet financial instruments predominantly consist of: (a) certain commitments to purchase mortgage loans; and (b) certain credit enhancements on manufactured housing asset-backed securities. During the first quarter of 2010, our fair value results were impacted by several improvements in our approach for estimating the fair value of certain financial instruments. See OFF-BALANCE SHEET ARRANGEMENTS and CRITICAL ACCOUNTING POLICIES AND ESTIMATES as well as NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 19: FAIR VALUE DISCLOSURES to our consolidated financial statements for more information on fair values.

In conjunction with the preparation of our consolidated fair value balance sheets, we use a number of financial models. See RISK FACTORS, RISK MANAGEMENT Operational Risks and QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks in our 2009 Annual Report for information concerning the risks associated with these models.

Table 34 shows our summary of change in the fair value of net assets.

**Table 34 Summary of Change in the Fair Value of Net Assets**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in billions) | |
| Beginning balance | $ (62.5) | $ (95.6) |
| Changes in fair value of net assets, before capital transactions | 4.2 | (15.7) |
| Capital transactions: | | |
| Dividends, share repurchases and issuances, net[1] | (1.3) | 30.4 |
| Ending balance | $ (59.6) | $ (80.9) |

(1) Three months ended March 31, 2010 and 2009 includes funds received from Treasury of $0 billion and $30.8 billion, respectively, under the Purchase Agreement, which increased the liquidation preference of our senior preferred stock.

### Discussion of Fair Value Results

Our consolidated fair value measurements are a component of our risk management procedures, as we use daily estimates of the changes in fair value to calculate our PMVS and duration gap measures. During the first quarter of 2010, the fair value of net assets, before capital transactions increased by $4.2 billion compared to a $15.7 billion

decrease during the first quarter of 2009. Our fair value results for the first quarter of 2010 also included the $(1.3) billion of dividends paid to Treasury on our senior preferred stock. The fair value of net assets as of March 31, 2010 was $(59.6) billion, compared to $(62.5) billion as of December 31, 2009.

During the first quarter of 2010, the increase in the fair value of net assets, before capital transactions, was primarily due to high core spread income and an increase in the fair value of our investments in mortgage-related securities driven by the tightening of CMBS OAS levels. The fair value of net assets was also positively impacted by an increase in prepayment speeds on our PC debt securities. The increase in fair value was partially offset by an increase in the risk premium related to our single-family loans in the continued weak credit environment.

During the first quarter of 2009, the fair value of net assets, before capital transactions, declined primarily due to an increase in the guarantee obligation related to the declining credit environment. The fair value of net assets was also negatively impacted by net mortgage-to-debt OAS widening. This decline in fair value was partially offset by higher estimated core spread income.

When the OAS on a given asset widens, the fair value of that asset will typically decline, all other things being equal. However, we believe such OAS widening has the effect of increasing the likelihood that, in future periods, we will recognize income at a higher spread on this existing asset. The reverse is true when the OAS on a given asset tightens current period fair values for that asset typically increase due to the tightening in OAS, while future income recognized on the asset is more likely to be earned at a reduced spread. However, as market conditions change, our estimate of expected fair value gains and losses from OAS may also change, and the actual core spread income recognized in future periods could be significantly different from current estimates.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

Our business activities involve various inflows and outflows of cash and require that we maintain adequate liquidity to fund our operations, which may include the need to make payments of principal and interest on our debt securities and on our PCs and Structured Securities; make payments upon the maturity, redemption or repurchase of our debt securities; make net payments on derivative instruments; pay dividends on our senior preferred stock; purchase mortgage-related securities and other investments; and purchase mortgage loans, including modified or delinquent loans from PC pools. For more information on our liquidity needs, liquidity management and our agreement with FHFA to maintain and periodically test a liquidity management and contingency plan, see MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity in our 2009 Annual Report. For more information on our mortgage purchase commitments, see OFF-BALANCE SHEET ARRANGEMENTS.

We fund our cash requirements primarily by issuing short-term and long-term debt. Other sources of cash include:

- receipts of principal and interest payments on securities or mortgage loans we hold;
- other cash flows from operating activities, including guarantee activities;
- borrowings against mortgage-related securities and other investment securities we hold; and
- sales of securities we hold.

As discussed below, we believe that the support provided by Treasury pursuant to the Purchase Agreement will be sufficient to enable us to maintain our access to the debt markets and ensure that we have adequate liquidity to conduct our normal business activities through 2012.

We require cash to purchase modified or delinquent mortgage loans underlying our PCs and Structured Securities. During the three months ended March 31, 2010, we purchased $56.6 billion of unpaid principal balance of modified or delinquent loans underlying our PCs or Structured Securities. Our purchases of such loans increased significantly during the quarter, due, in part, to our decision to purchase substantially all of the single-family mortgage loans that are 120 days or more delinquent from our PCs and Structured Securities. For more information, see CONSOLIDATED BALANCE SHEETS ANALYSIS Mortgage Loans.

#### *Liquidity Management Practices*

Maintaining sufficient liquidity is of primary importance and we continually strive to enhance our liquidity management practices. As described below, these practices provide for us to maintain an amount of cash and cash equivalent reserves in the form of liquid, high quality short-term investments that is intended to enable us to meet outgoing cash obligations for an extended period, without access to short- and long-term unsecured debt markets. We also actively manage the concentration of debt maturities and closely monitor our monthly maturity profile. Under these practices, in addition to reserves that are intended to enable us to meet our short-term commitments, we maintain a backup core reserve portfolio of liquid non-mortgage securities designed to provide additional cushion in a crisis. Our liquidity management practices also provide for us to maintain an amount of unencumbered mortgage collateral intended to cover our largest projected cash shortfall on any day over the following 365 days.

In March 2010, in consultation with FHFA, we revised certain of our liquidity management policies. As revised, these policies provide for us to:

- maintain funds sufficient to cover our maximum cash liquidity needs for at least the following 35 calendar days, assuming no access to the short- and long-term unsecured debt markets. At least 50% of such funds, based on the average daily 35-day cash liquidity needs of the preceding quarter, must be held: (a) in U.S. Treasuries or other U.S. government-guaranteed securities with remaining maturities of one year or less; or (b) as uninvested cash at the Federal Reserve Bank of New York;

- closely monitor the proportion of debt maturing within the next year (effective short-term debt). We actively manage the composition of short- and long-term debt, as well as our patterns of redemption of callable debt, to manage the proportion of effective short-term debt to reduce roll-over risk;

- maintain a portfolio of liquid, high quality marketable non-mortgage-related securities with a market value of at least $10 billion, exclusive of the 35-day cash requirement discussed above. The portfolio must consist of securities with maturities greater than 35 days. The credit quality of these investments is monitored by our Credit Risk Management group on a daily basis; and

- maintain unencumbered collateral with a value greater than or equal to the largest projected cash shortfall on any day over the following 365 calendar days, assuming no access to the short- and long-term unsecured debt markets.

We also continue to manage our debt issuances to remain in compliance with the aggregate indebtedness limits set forth in the Purchase Agreement.

We report our liquidity position daily with respect to the above metrics to FHFA, as our regulator. The report includes a daily forecast of all existing contractual cash obligations over the following 365 calendar days to facilitate cash management. In addition, we forecast discretionary cash outflows associated with callable debt redemptions. This enables us to manage our liabilities with respect to asset purchases and runoff, when financial markets are not in crisis. For further information on our management of interest rate risk associated with asset and liability management, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. Notwithstanding these practices, our ability to maintain liquidity, including by pledging mortgage-related securities as collateral to other financial institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market confidence and other factors. For more information, see RISK FACTORS Competitive and Market Risks *Our business may be adversely affected by limited availability of financing, increased funding costs and uncertainty in our securitization financing* in our 2009 Annual Report.

***Dividend Obligation on the Senior Preferred Stock***

Following funding of the draw request in respect of our net worth deficit at March 31, 2010, that FHFA will submit on our behalf, our annual cash dividend obligation to Treasury on the senior preferred stock will increase from $5.2 billion to $6.2 billion, which exceeds our annual historical earnings in most periods. The senior preferred stock accrues quarterly cumulative dividends at a rate of 10% per year or 12% per year in any quarter in which dividends are not paid in cash until all accrued dividends have been paid in cash. We paid a quarterly dividend of $1.3 billion in cash on the senior preferred stock on March 31, 2010 at the direction of our Conservator. To date, we have paid $5.6 billion in cash dividends on the senior preferred stock. Continued cash payment of senior preferred dividends, combined with potentially substantial quarterly commitment fees payable to Treasury beginning in 2011 (the amounts of which must be determined by December 31, 2010) will have an adverse impact on our future financial condition and net worth.

The payment of dividends on our senior preferred stock in cash reduces our net worth. For periods in which our earnings and other changes in equity do not result in positive net worth, draws under the Purchase Agreement effectively fund the cash payment of senior preferred dividends to Treasury. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all.

As discussed in Capital Resources, we expect to make additional draws under the Purchase Agreement in future periods. Further draws would increase the liquidation preference of and the dividends we owe on the senior preferred stock.

***Actions of Treasury, the Federal Reserve and FHFA***

Since our entry into conservatorship, Treasury, the Federal Reserve and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements. The conservatorship, and the resulting support we received from Treasury and the Federal Reserve enabled us to access debt funding on terms sufficient for our needs. The support from Treasury and the Federal Reserve has included the following:

Purchase Agreement: Under the Purchase Agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. The Purchase Agreement provides that the $200 billion cap on Treasury s funding commitment will increase as necessary to accommodate any cumulative reduction in

our net worth during 2010, 2011 and 2012. While we believe that the support provided by Treasury pursuant to the Purchase Agreement will be sufficient to enable us to maintain our access to the debt markets and ensure that we have adequate liquidity to conduct our normal business activities through 2012, the costs of our debt funding could vary. For example, our funding costs for debt with maturities beyond 2012 could be high. In addition, uncertainty about the future of the GSEs could affect our debt funding costs. As a result of our negative net worth at March 31, 2010 and the draw request FHFA will submit on our behalf, our aggregate funding from Treasury under the Purchase Agreement will increase to $61.3 billion at June 30, 2010;

Federal Reserve s Debt Purchase Program: In November 2008, the Federal Reserve established a program to purchase our direct obligations and those of Fannie Mae and the FHLBs. According to information provided by the Federal Reserve, as of April 21, 2010 it held $66.4 billion of our direct obligations. The Federal Reserve completed its purchases under this program in March 2010. We have not experienced any immediate adverse effect on our business from the completion of the Federal Reserve s debt purchase program. However, it is

difficult to predict the impact that the completion of this program will have on our cost of debt funding and on our business over time.

For more information on these actions, see BUSINESS Conservatorship and Related Developments and Regulation and Supervision in our 2009 Annual Report.

***Other Debt Securities***

Spreads on our debt and our access to the debt markets remained favorable during the first quarter of 2010. We believe the Federal Reserve s purchases in the secondary market of our long-term debt under its purchase program contributed to the favorable spreads on our debt. As a result, we were able to replace some higher cost short- and long-term debt with lower cost floating-rate long-term debt and short-term debt.

The Purchase Agreement limits the amount of indebtedness we may incur. Because of this debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations. As of March 31, 2010, we estimate that the par value of our aggregate indebtedness totaled $831.4 billion, which was approximately $248.6 billion below the applicable limit of $1.08 trillion. Our aggregate indebtedness is calculated as: (a) total debt, net; less (b) debt securities of consolidated trusts held by third parties. We disclose the amount of our indebtedness on this basis monthly under the caption Debt Activities Total Debt Outstanding in our Monthly Volume Summary reports, which are available on our website and in current reports on Form 8-K we file with the SEC.

*Other Debt Issuance Activities*

Table 35 summarizes the par value of certain debt securities we issued, based on settlement dates, during the three months ended March 31, 2010 and 2009.

**Table 35 Other Debt Security Issuances by Product, at Par Value[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2010** | **2009** |
| | **(in millions)** | |
| Short-term debt: | | |
| Reference Bills® securities and discount notes | $ 153,603 | $ 203,816 |
| Medium-term notes callable | | 7,780 |
| Medium-term notes non-callable[2] | 500 | 11,350 |
| Total short-term debt | 154,103 | 222,946 |
| Long-term debt: | | |
| Medium-term notes callable[3] | 63,721 | 58,938 |
| Medium-term notes non-callable | 27,242 | 56,014 |
| U.S. dollar Reference Notes® securities non-callable | 10,500 | 24,500 |
| Total long-term debt | 101,463 | 139,452 |
| Total debt securities issued | $ 255,566 | $ 362,398 |

(1) Excludes federal funds purchased and securities sold under agreements to repurchase, debt securities of consolidated trusts held by third parties and lines of credit.
(2) Includes $500 million and $0 million of medium-term notes non-callable issued for the three months ended March 31, 2010 and 2009, respectively, which were accounted for as debt exchanges.
(3) Includes $0 million and $25 million of medium-term notes callable issued for the three months ended March 31, 2010 and 2009, respectively, which were accounted for as debt exchanges.

*Other Debt Retirement Activities*

We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage our mix of liabilities funding our assets. When our debt securities become seasoned or one-time call options on our debt securities expire, they may become less liquid, which could cause their price to decline. By repurchasing debt securities, we help preserve the liquidity of our debt securities and improve their price performance, which helps to reduce our funding costs over the long-term. Our repurchase activities also help us manage the funding mismatch, or duration gap, created by changes in interest rates.

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Table 36 provides the par value, based on settlement dates, of debt securities we repurchased, called and exchanged during the three months ended March 31, 2010 and 2009.

**Table 36 Other Debt Security Repurchases, Calls and Exchanges[(1)]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (in millions) | |
| Repurchases of outstanding Reference Notes® securities | $ 70 | $ |
| Repurchases of outstanding medium-term notes | | 20 |
| Calls of callable medium-term notes | 57,174 | 77,305 |
| Exchanges of medium-term notes | 500 | 15 |

(1) Excludes debt securities of consolidated trusts held by third parties.

***Subordinated Debt***

During the three months ended March 31, 2010, we did not call or issue any Freddie SUBS® securities. At both March 31, 2010 and December 31, 2009, the balance of our subordinated debt outstanding was $0.7 billion. See RISK MANAGEMENT AND DISCLOSURE COMMITMENTS and NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS Subordinated Debt Interest and Principal Payments to our consolidated financial statements for a discussion of changes affecting our subordinated debt as a result of our entry into conservatorship and the Conservator s suspension of certain requirements relating to our subordinated debt.

***Credit Ratings***

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent upon our credit ratings. Table 37 indicates our credit ratings as of April 21, 2010.

**Table 37 Freddie Mac Credit Ratings**

| | Nationally Recognized Statistical Rating Organization | | |
|---|---|---|---|
| | Standard & Poor s | Moody s | Fitch |
| Senior long-term debt[(1)] | AAA | Aaa | AAA |
| Short-term debt[(2)] | A-1+ | P-1 | F1+ |
| Subordinated debt[(3)] | A | Aa2 | AA– |
| Preferred stock[(4)] | C | Ca | C/RR6 |

(1) Consists of medium-term notes, U.S. dollar Reference Notes® securities and Reference Notes® securities.
(2) Consists of Reference Bills® securities and discount notes.
(3) Consists of Freddie SUBS® securities.
(4) Does not include senior preferred stock issued to Treasury.

A security rating is not a recommendation to buy, sell or hold securities. It may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

***Equity Securities***

The Purchase Agreement provides that, without the prior consent of Treasury, we cannot issue capital stock of any kind other than the senior preferred stock, the warrant issued to Treasury or any shares of common stock issued pursuant to the warrant or binding agreements in effect on the date of the Purchase Agreement. Therefore, absent Treasury s consent, we do not have access to equity funding except through draws under the Purchase Agreement.

***Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell and Non-Mortgage-Related Securities***

As of March 31, 2010, we held $114 billion in the aggregate of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell and non-mortgage-related securities. These investments are important to our cash flow and asset and liability management and our ability to provide liquidity and stability to the mortgage market. At March 31, 2010, our non-mortgage-related securities consisted of liquid, high quality non-mortgage-related asset-backed securities, FDIC-guaranteed corporate medium-term notes and Treasury bills that we could sell to provide us with an additional source of liquidity to fund our business operations. For additional information on these assets, see CONSOLIDATED BALANCE SHEETS ANALYSIS Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell and Investments in Securities *Non-Mortgage-Related Securities.* The non-mortgage-related asset-backed securities may expose us to institutional credit risk and the risk that the investments could decline in value due to market-driven events such as credit downgrades or changes in interest rates and other market conditions. See RISK MANAGEMENT Credit Risks *Institutional Credit Risk* for more information.

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*Mortgage Loans and Mortgage-Related Securities*

We invest principally in mortgage loans and mortgage-related securities, which consist of securities issued by us, Fannie Mae, Ginnie Mae and other financial institutions. Historically, our mortgage loans and mortgage-related securities have been a significant capital resource and a potential source of funding. A large majority of these assets is unencumbered.

During the three months ended March 31, 2010, the market for non-agency securities backed by subprime, option ARM, Alt-A and other loans continued to be illiquid as investor demand for these assets remained low. We expect this illiquidity to continue in the near future. These market conditions, and the continued poor credit quality of the assets, limit our ability to use these investments as a significant source of funds. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* for more information.

**Cash Flows**

Our cash and cash equivalents decreased approximately $9.2 billion to $55.4 billion during the three months ended March 31, 2010. Cash flows provided by operating activities during the three months ended March 31, 2010 were $2.1 billion, which primarily reflected a net decrease in our held-for-sale mortgage loans. Cash flows provided by investing activities during the three months ended March 31, 2010 were $60.6 billion, primarily resulting from net proceeds received on held-for-investment mortgage loans. Cash flows used for financing activities for the three months ended March 31, 2010 were $71.9 billion, largely attributable to repayments of debt securities of consolidated trusts held by third parties, net of proceeds from the issuance of debt securities of consolidated trusts held by third parties.

Our cash and cash equivalents increased approximately $8.4 billion to $53.8 billion during the three months ended March 31, 2009. Cash flows used for operating activities during the three months ended March 31, 2009 were $4.7 billion, which primarily reflected a reduction in cash as a result of a net increase in our held-for-sale mortgage loans. Cash flows used for investing activities during the three months ended March 31, 2009 were $84.7 billion, primarily resulting from a net increase in trading securities and federal funds sold and securities purchased under agreements to resell, partially offset by net proceeds from maturities of available-for-sale securities. Cash flows provided by financing activities for the three months ended March 31, 2009 were $97.8 billion, largely attributable to proceeds from the issuance of debt securities, net of repayments and $30.8 billion received from Treasury under the Purchase Agreement.

**Capital Resources**

At March 31, 2010, our liabilities exceeded our assets under GAAP by $10.5 billion principally due to the impact of our adoption of the change in accounting principles related to transfers of financial assets and consolidation of VIEs. Accordingly, we must obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid being placed into receivership by FHFA. FHFA, as Conservator, will submit a draw request to Treasury under the Purchase Agreement in the amount of $10.6 billion which we expect to receive by June 30, 2010. See BUSINESS Regulation and Supervision *Federal Housing Finance Agency Receivership* in our 2009 Annual Report for additional information on mandatory receivership.

We expect to make additional draws under the Purchase Agreement in future periods. The size and timing of such draws will be determined by a variety of factors that could adversely affect our net worth, including how long and to what extent the housing market will remain weak, which could increase credit expenses and cause additional other-than-temporary impairments of our non-agency mortgage-related securities; adverse changes in interest rates, the yield curve, implied volatility or mortgage-to-debt OAS, which could increase realized and unrealized

mark-to-fair-value losses recorded in earnings or AOCI; increased dividend obligations on the senior preferred stock; quarterly commitment fees payable to Treasury beginning in 2011; our inability to access the public debt markets on terms sufficient for our needs, absent continued support from Treasury; establishment of additional valuation allowances for our remaining net deferred tax asset; changes in accounting practices or standards; the effect of the MHA Program and other government initiatives; the introduction of additional public mission-related initiatives that may adversely impact our financial results; or changes in business practices resulting from legislative and regulatory developments.

To the extent our net worth is negative in any period, we would be required to make additional draws from Treasury under the Purchase Agreement. Payment of our dividend obligations in cash could contribute to the need for additional draws from Treasury and further draws from Treasury under the Purchase Agreement would increase the liquidation preference of and the dividends we owe on, the senior preferred stock.

For more information, see MD&A LIQUIDITY AND CAPITAL RESOURCES Capital Resources in our 2009 Annual Report.

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## MHA PROGRAM AND OTHER EFFORTS TO ASSIST THE U.S. HOUSING MARKET

### Making Home Affordable Program

On February 18, 2009, the Obama Administration announced the MHA Program, which includes HAMP and the Home Affordable Refinance Program as its key initiatives. The MHA Program is designed to help in the housing recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts and set market standards. Participation in the MHA Program is an integral part of our mission of providing stability to the housing market. Through our participation in this program, we help families maintain home ownership and help maintain the stability of communities.

#### *Home Affordable Modification Program*

HAMP commits U.S. government, Freddie Mac and Fannie Mae funds to help eligible homeowners avoid foreclosures and keep their homes through mortgage modifications, where possible. Under this program, we offer loan modifications to financially struggling homeowners with mortgages on their primary residences that reduce the monthly principal and interest payments on their mortgages. HAMP applies both to delinquent borrowers and to those current borrowers at risk of imminent default.

Table 38 presents single-family loans that completed or were in process of modification under HAMP as of March 31, 2010.

**Table 38 Single-Family Home Affordable Modification Program Volume[1]**

| | As of March 31, 2010 | |
|---|---|---|
| | Amount[2] | Number of Loans[3] |
| | (dollars in millions) | |
| Completed HAMP modifications[4] | $ 10,874 | 48,896 |
| Loans in the HAMP trial period | $ 31,951 | 148,881 |

(1) Based on information reported by our servicers to the MHA Program administrator.
(2) For loans in the HAMP trial period, this reflects the loan balance prior to modification. For completed HAMP modifications, the amount represents the balance of loans after modification under HAMP.
(3) FHFA reported that approximately 203,000 of our loans were in active trial periods or were modified under HAMP as of February 28, 2010. Unlike the MHA Program administrator s data, FHFA s HAMP information includes: (a) loans in the trial period regardless of the first payment date; and (b) modifications that are pending the borrower s acceptance.
(4) Completed HAMP modifications are those where the borrower has made the last trial period payment, has provided the required documentation to the servicer and the modification has become effective.

Of the HAMP modifications completed as of March 31, 2010, the borrower s monthly payment was reduced, on average, $576, which amounts to an average of $6,912 per year, and $338 million in annual reductions for all of our completed HAMP modifications. Each borrower s reduced payment will remain in effect for five years, after which it will gradually increase to a rate consistent with the market on the date of the modification. Although mortgage investors under the MHA Program are entitled to certain subsidies from Treasury for reducing the borrowers monthly

payments to as low as 31% of the borrower s income, we will not receive such subsidies on modified mortgages owned or guaranteed by us.

Approximately one-half of our loans in the HAMP trial period as of March 31, 2010 had been in the trial period for more than three months. Since the start of our HAMP effort, more than 21,000 borrowers, or 9% of those starting the program, dropped out of the HAMP trial period process, primarily due to either the failure to continue trial period payments or the failure to provide the income or other required documentation of the program. When a borrower drops out of the HAMP trial period, the loan is considered for modification under our other loan modification programs. In the second quarter of 2010, we expect to implement additional streamlined modification processes and other modification alternatives for borrowers that drop out of the HAMP trial period. These non-HAMP modification programs are intended to minimize the need for any additional documentation. See RISK MANAGEMENT Credit Risks *Mortgage Credit Risk* *Portfolio Management Activities* *Loss Mitigation Activities* for more information about our non-HAMP modification programs.

Treasury has recently issued guidelines for the following changes to HAMP. We have not yet determined to what extent we will apply these changes to mortgages that we own or guarantee. Our determination will require FHFA approval, and it is possible that FHFA might direct us to implement some or all of these changes.

*Borrower Outreach:* On March 24, 2010, Treasury issued rules requiring enhanced borrower solicitation requirements, including clear performance timeframes, and increased guidance regarding the initiation and processing of foreclosures pending completion of a permanent modification, as well as guidance for borrowers in bankruptcy.

*FHA-HAMP:* On March 26, 2010, Treasury expanded HAMP to include borrowers with FHA-insured loans, including incentives comparable to the incentive structure of HAMP.

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*Foreclosure Alternatives (HAFA):* On March 26, 2010, Treasury updated the Foreclosure Alternative Program for short sales and deeds-in-lieu of foreclosure. The changes increased payments of incentive fees to servicers, relocation assistance to borrowers, and the amounts that may be paid for junior liens.

On March 26, 2010, Treasury announced that it will in the near future be making the following additional changes to the HAMP program. Treasury has not yet issued formal guidelines for these changes. When Treasury issues such guidelines and we have had an opportunity to evaluate the changes, we will determine to what extent we will implement the changes for loans that we own or guarantee. Our determination will require FHFA approval, and it is possible that FHFA might direct us to implement some or all of these changes.

*Unemployed Homeowners:* Treasury announced that it will implement a plan to provide temporary assistance for unemployed borrowers while they search for employment. Under this plan, certain borrowers may receive forbearance plans of three to six months. At the end of the forbearance period or when the borrowers financial situation changes, the borrowers must then be evaluated for a HAMP modification or other HAMP alternative.

*Principal Write-down Approach and Incentives:* Treasury announced an initiative under which servicers will be required to consider an alternative modification approach including a possible write-down of principal for loans with LTV ratios over 115%. Servicers will be required to consider this alternative not only for new modifications but also for borrowers who have already received permanent modifications or are in trial plans. Investors will not be required to write-down principal, but servicers must have a process for considering the approach. Lenders will receive incentives based on the amount of reduced principal.

***Home Affordable Refinance Program***

The Home Affordable Refinance Program gives eligible homeowners with loans owned or guaranteed by Freddie Mac or Fannie Mae an opportunity to refinance into loans with more affordable monthly payments and fixed-rate terms. Under the Home Affordable Refinance Program, we allow eligible borrowers who have mortgages with high current LTV ratios to refinance their mortgages without obtaining new mortgage insurance in excess of what was already in place.

The Freddie Mac Relief Refinance Mortgage$^{sm}$, which we announced in March 2009, is our implementation of the Home Affordable Refinance Program. We have worked with FHFA to provide us the flexibility to implement this element of the MHA Program. The Home Affordable Refinance Program is targeted at borrowers with current LTV ratios above 80%; however, our program also allows borrowers with LTV ratios below 80% to participate. We began purchasing mortgages that refinance higher-LTV loans, those with LTV ratios up to 125%, on October 1, 2009. We will continue to bear the credit risk for refinanced loans under this program, to the extent that such risk is not covered by existing mortgage insurance or other existing credit enhancements. In March 2010, FHFA announced that the Home Affordable Refinance Program is extended until June 2011.

Table 39 below presents the composition of our purchases of refinanced single-family loans during the three months ended March 31, 2010.

**Table 39 Single-Family Refinance Loan Volume[1]**

| | Three Months Ended March 31, 2010 | | |
|---|---|---|---|
| | Amount | Number of Loans | Percent |

| | (dollars in millions) | | |
|---|---|---|---|
| Freddie Mac Relief Refinance Mortgage[sm]: | | | |
| Above 105% LTV | $ 608 | 2,508 | 0.8% |
| 80% to 105% LTV | 10,355 | 44,459 | 13.8 |
| Below 80% LTV | 10,816 | 60,640 | 18.8 |
| Total Freddie Mac Relief Refinance Mortgage[sm] | $ 21,779 | 107,607 | 33.4% |
| Total refinance loan volume[(2)] | $ 68,014 | 321,886 | 100% |

(1) Consists of all single-family mortgage loans that we either purchased or guaranteed during the period, excluding those underlying long-term standby commitments and Structured Transactions.
(2) Includes Freddie Mac Relief Refinance Mortgage[sm] and other refinance mortgages.

***Expected Impact of MHA Program on Freddie Mac***

As previously discussed, the MHA Program is intended to provide borrowers the opportunity to obtain more affordable monthly payments and to reduce the number of delinquent mortgages that proceed to foreclosure and, ultimately, to mitigate our credit losses by reducing or eliminating a portion of the costs related to foreclosed properties. At present, it is difficult for us to predict the full extent of these initiatives and assess their impact on us since the impact is in part dependent on the number of borrowers who remain current on the modified loans versus the number who redefault. In addition, insufficient empirical information exists to estimate whether, and the extent to

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which, costs incurred in the near term will be offset by the prevention or reduction of potential future costs of loan defaults and foreclosures due to these initiatives.

It is likely that the costs we incur related to loan modifications and other activities under HAMP may be significant, to the extent that borrowers participate in this program in large numbers, for the following reasons:

We incur incentive fees to the servicer and borrower associated with each HAMP loan once the modification is completed and reported to the MHA Program administrator, and we paid $24 million of such fees in the first quarter of 2010. We also have the potential to incur up to $8,000 of additional servicer incentive fees and borrower compensation fees per modification as long as the borrower remains current on a loan modified under HAMP. We accrued $147 million in the first quarter of 2010 for both initial fees and recurring incentive fees not yet due. Except for certain Structured Transactions and loans underlying our long-term stand-by agreements that are modified by servicers before they reach the duration of delinquency that triggers our obligation to purchase them, we will bear the full cost of the monthly payment reductions related to modifications of loans we own or guarantee and all servicer and borrower incentive fees, and we will not receive a reimbursement of these costs from Treasury.

To the extent borrowers successfully complete HAMP trial periods, we will experience significant increases in the number of troubled debt restructurings, such as we experienced in the first quarter of 2010. Troubled debt restructurings are a type of loan modification in which the changes to the contractual terms result in concessions to borrowers that are experiencing financial difficulties. Concessions to borrowers include interest rate reductions and interest forbearance on a portion of the unpaid principal balance, and may result in further increases in our allowance for loan losses.

Some borrowers will fail to complete the HAMP trial period and others will default on their HAMP modified loans. Some affected borrowers may qualify for non-HAMP modifications under our other programs. HAMP generally delays the foreclosure process and could increase our losses, to the extent the prices we ultimately receive for the foreclosed properties are less than the prices we could have received had we foreclosed upon the properties earlier.

We expect that non-GSE mortgages modified under HAMP will include mortgages backing our investments in non-agency mortgage-related securities. Such modifications will reduce the monthly payments due from affected borrowers, and thus could reduce the payments we receive on these securities (to the extent the payment reductions have not been absorbed by subordinated investors or by other credit enhancement). Incentive payments from Treasury passed through to us as a holder of the applicable securities may partially offset such reductions.

We are devoting significant internal resources to the implementation of the various initiatives under the MHA Program, which has increased, and will continue to increase our expenses. The size and scope of our efforts under the MHA Program may also limit our ability to pursue other business opportunities or corporate initiatives. We expect to be compensated by Treasury for some or all of our services as compliance agent. We do not expect to be compensated for the consulting services we are providing to Treasury.

If our efforts under the MHA Program and other initiatives to support the U.S. residential mortgage market do not achieve their desired results, or are otherwise perceived to have failed to achieve their objectives, we may experience damage to our reputation, which may impact the extent of future government support to our business and the ultimate resolution of the conservatorship.

See MD&A– MHA PROGRAM AND OTHER EFFORTS TO ASSIST THE U.S. HOUSING MARKET in our 2009 Annual Report for more information on our efforts under the MHA Program, including HAMP, the Home Affordable Refinance Program, HAFA and the Second Lien Program (2MP), and our role as compliance agent for Treasury.

**Other Efforts to Assist the U.S. Housing Market**

During the first quarters of 2010 and 2009, we provided liquidity to the mortgage market by purchasing or guaranteeing approximately $96.8 billion and $147.8 billion, respectively, in unpaid principal balance of mortgage loans and mortgage-related securities in our total mortgage portfolio. See MD&A MHA PROGRAM AND OTHER EFFORTS TO ASSIST THE U.S. HOUSING MARKET in our 2009 Annual Report for more information on the Housing Finance Agency Initiative and the Warehouse Lines of Credit Initiative. See RISK MANAGEMENT Credit Risks *Mortgage Credit Risk* *Loss Mitigation Activities* for information about our non-MHA Program related foreclosure alternative efforts.

## RISK MANAGEMENT

Our investment and credit guarantee activities expose us to three broad categories of risk: (a) credit risks; (b) interest-rate risk and other market risks; and (c) operational risks. Risk management is a critical aspect of our business. See MD&A RISK MANAGEMENT and RISK FACTORS in our 2009 Annual Report and RISK FACTORS in this Form 10-Q for further information regarding these and other risks.

### Credit Risks

We are subject primarily to two types of credit risk: institutional credit risk and mortgage credit risk. Institutional credit risk is the risk that a counterparty (other than a borrower under a mortgage) that has entered into a business contract or arrangement with us will fail to meet its obligations. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee. We are exposed to mortgage credit risk because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a PC, Structured Security or other mortgage-related guarantees. For more information on factors negatively affecting the mortgage and credit markets, see MD&A EXECUTIVE SUMMARY Credit Risks and MD&A RISK MANAGEMENT Credit Risks in our 2009 Annual Report.

#### *Institutional Credit Risk*

Challenging market conditions in recent periods adversely affected, and may continue to adversely affect, the liquidity and financial condition of a number of our counterparties. Many of our counterparties recently experienced ratings downgrades or liquidity constraints and other counterparties may also experience these concerns. The weak financial condition and liquidity position of some of our counterparties may adversely affect their ability to perform on their obligations to us, or the quality of the services that they provide to us. Consolidation in the industry and any efforts we take to reduce exposure to financially weakened counterparties could further increase our exposure to individual counterparties. The failure of any of our primary counterparties to meet their obligations to us could have a material adverse effect on our results of operations and financial condition.

For more information on our institutional credit risk, including developments concerning our counterparties and how we seek to manage institutional credit risk, see MD&A RISK MANAGEMENT Credit Risks *Institutional Credit Risk* and NOTE 19: CONCENTRATION OF CREDIT AND OTHER RISKS in our 2009 Annual Report.

*Cash and Other Investments Counterparties*

We are exposed to institutional credit risk from the potential insolvency or non-performance of counterparties of non-mortgage-related investment agreements and cash equivalent transactions, including those on behalf of our securitization trusts. These instruments are investment grade at the time of purchase and primarily short-term in nature, thereby mitigating institutional credit risk. See BUSINESS Our Business and Statutory Mission *Our Business Segments Single-Family Guarantee Segment Securitization Activities* in our 2009 Annual Report for further information on these transactions associated with securitization trusts.

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Table 40 below summarizes our counterparty credit exposure for cash equivalents, federal funds sold and securities purchased under agreements to resell that are presented both on our consolidated balance sheets as well as those off-balance sheet that we have entered into on behalf of non-consolidated securitization trusts.

**Table 40 Counterparty Credit Exposure Cash Equivalents and Federal Funds Sold and Securities Purchased Under Agreements to Resell[(1)]**

| | March 31, 2010 | | |
|---|---|---|---|
| Rating[(2)] | Number of Counterparties[(3)] | Contractual Amount[(4)] | Weighted Average Contractual Maturity (in days) |
| | (dollars in millions) | | |
| On-balance sheet exposure: | | | |
| Unrestricted: | | | |
| *Cash equivalents, unrestricted[(5)]* | | | |
| A-1+ | 22 | $ 29,231 | 9 |
| A-1 | 19 | 7,574 | 29 |
| *Federal funds sold and securities purchased under agreements to resell, unrestricted* | | | |
| A-1+ | 1 | 2,000 | 1 |
| A-1 | 11 | 14,501 | 9 |
| A-2 | 1 | 240 | 1 |
| Subtotal | 54 | 53,546 | 12 |
| Restricted, held by consolidated trusts:[(6)] | | | |
| *Cash equivalents, restricted* | | | |
| A-1+ | 10 | 9,000 | 1 |
| *Federal funds sold and securities purchased under agreements to resell, restricted* | | | |
| A-1 | 1 | 8,750 | 19 |
| Subtotal | 11 | 17,750 | 10 |
| Off-balance sheet exposure: | | | |
| Total | 65 | $ 71,296 | 11 |

| | December 31, 2009 | | |
|---|---|---|---|
| | | | Weighted Average Contractual |

| Rating[2] | Number of Counterparties[3] | Contractual Amount[4] | Maturity (in days) |
|---|---|---|---|
| | | (dollars in millions) | |
| On-balance sheet exposure: | | | |
| *Cash equivalents[5]* | | | |
| A-1+ | 22 | $ 30,153 | 3 |
| A-1 | 27 | 9,439 | 54 |
| *Federal funds sold and securities purchased under agreements to resell* | | | |
| A-1 | 1 | 7,000 | 25 |
| Subtotal | 50 | 46,592 | 17 |
| Off-balance sheet exposure:[7] | | | |
| *Cash equivalents[8]* | | | |
| A-1+ | 7 | 6,775 | 1 |
| *Federal funds sold and securities purchased under agreements to resell* | | | |
| A-1 | 1 | 7,500 | 26 |
| Subtotal | 8 | 14,275 | 14 |
| Total | 58 | $ 60,867 | 16 |

(1) Excludes restricted cash balances as well as cash deposited with the Federal Reserve Bank and other federally-chartered institutions.
(2) Represents the lower of S&P and Moody s short-term credit ratings as of each period end; however, in this table, the rating of the legal entity is stated in terms of the S&P equivalent.
(3) Based on legal entities. Affiliated legal entities are reported separately.
(4) Represents the par value or outstanding principal balance.
(5) Consists of highly liquid securities that have an original maturity of three months or less. Excludes $18.6 billion and $25.1 billion of cash deposited with the Federal Reserve Bank as of March 31, 2010 and December 31, 2009, respectively.
(6) Represents the non-mortgage-related assets managed by us on behalf of consolidated securitization trusts. Due to our January 1, 2010 adoption of the amendments to accounting standards on accounting for transfers of financial assets and consolidation of VIEs, the assets of single-family PCs were consolidated on our balance sheet, which caused a significant increase in on-balance sheet restricted assets and a corresponding decrease in off-balance sheet restricted assets as of March 31, 2010. These assets may only be used to settle the obligations of the trusts. Excludes $0.4 billion of cash deposited with the Federal Reserve Bank as of March 31, 2010.
(7) Represents the non-mortgage-related assets managed by us on behalf of non-consolidated securitization trusts, excluding cash held at the Federal Reserve Bank.
(8) Consists of highly liquid securities that have an original maturity of three months or less. Excludes $8.2 billion of cash deposited with the Federal Reserve Bank as of December 31, 2009.

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*Derivative Counterparties*

We are exposed to institutional credit risk arising from the possibility that a derivative counterparty will not be able to meet its contractual obligations. All of our OTC derivative counterparties are major financial institutions and are experienced participants in the OTC derivatives market. A large number of OTC derivative counterparties have credit ratings below AA . Our OTC derivative counterparties that have credit ratings below AA are subject to a collateral posting threshold of $1 million or less. See NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS to our consolidated financial statements for additional information.

The relative concentration of our derivative exposure among our primary derivative counterparties has increased in recent periods due to industry consolidation and the failure of counterparties, and could further increase. Table 41 summarizes our exposure to our derivative counterparties, which represents the net positive fair value of derivative contracts, related accrued interest and collateral held by us from our counterparties, after netting by counterparty as applicable (*i.e.*, net amounts due to us under derivative contracts).

**Table 41 Derivative Counterparty Credit Exposure**

| | March 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| **Rating[1]** | **Number of Counterparties[2]** | **Notional or Contractual Amount[3]** | **Total Exposure at Fair Value[4]** | **Exposure, Net of Collateral[5]** | **Weighted Average Contractual Maturity (in years)** | **Collateral Posting Threshold[6]** |
| | (dollars in millions) | | | | | |
| AA | 3 | $ 45,492 | $ | $ | 6.9 | $10 million or less |
| AA | 4 | 267,423 | 1,352 | 13 | 6.7 | $10 million or less |
| A+ | 7 | 425,237 | 19 | 1 | 5.7 | $1 million or less |
| A | 4 | 259,597 | 17 | 1 | 4.4 | $1 million or less |
| Subtotal[7] | 18 | 997,749 | 1,388 | 15 | 5.7 | |
| Other derivatives[8] | | 177,479 | | | | |
| Commitments[9] | | 13,642 | 36 | 36 | | |
| Swap guarantee derivatives | | 3,514 | | | | |
| Total derivatives[10] | | $ 1,192,384 | $ 1,424 | $ 51 | | |

| | December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| **Rating[1]** | **Number of Counterparties[2]** | **Notional or Contractual Amount[3]** | **Total Exposure at** | **Exposure, Net of Collateral[5]** | **Weighted Average Contractual Maturity (in years)** | **Collateral Posting Threshold[6]** |

| | | Fair Value[4] (dollars in millions) | | | | |
|---|---|---|---|---|---|---|
| AA+ | 1 | $ 1,150 | $ | $ | 6.4 | $ |
| AA | 3 | 61,058 | | | 7.3 | $10 million or less |
| AA | 4 | 265,157 | 2,642 | 78 | 6.4 | $10 million or less |
| A+ | 7 | 440,749 | 61 | 31 | 6.0 | $1 million or less |
| A | 4 | 241,779 | 511 | 19 | 4.6 | $1 million or less |
| Subtotal[7] | 19 | 1,009,893 | 3,214 | 128 | 5.9 | |
| Other derivatives[8] | | 199,018 | | | | |
| Commitments[9] | | 13,872 | 81 | 81 | | |
| Swap guarantee derivatives | | 3,521 | | | | |
| Total derivatives[10] | | $ 1,226,304 | $ 3,295 | $ 209 | | |

(1) We use the lower of S&P and Moody s ratings to manage collateral requirements. In this table, the rating of the legal entity is stated in terms of the S&P equivalent.
(2) Based on legal entities. Affiliated legal entities are reported separately.
(3) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged.
(4) For each counterparty, this amount includes derivatives with a net positive fair value (recorded as derivative assets, net), including the related accrued interest receivable/payable (net) and trade/settle fees.
(5) Calculated as Total Exposure at Fair Value less collateral held as determined at the counterparty level. Includes amounts related to our posting of cash collateral in excess of our derivative liability as determined at the counterparty level.
(6) Counterparties are required to post collateral when their exposure exceeds agreed-upon collateral posting thresholds. These thresholds are typically based on the counterparty s credit rating and are individually negotiated.
(7) Consists of OTC derivative agreements for interest-rate swaps, option-based derivatives (excluding certain written options), foreign-currency swaps and purchased interest-rate caps.
(8) Consists primarily of exchange-traded contracts, certain written options and certain credit derivatives. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.
(9) Commitments include: (a) our commitments to purchase and sell investments in securities; and (b) our commitments to purchase and extinguish or issue debt securities of our consolidated trusts.
(10) The difference between the exposure, net of collateral column above and derivative assets, net on our consolidated balance sheets primarily represents exchange-traded contracts which are settled daily through a clearinghouse, and thus, do not present counterparty credit exposure.

Over time, our exposure to individual counterparties for OTC interest-rate swaps, option-based derivatives, foreign-currency swaps and purchased interest rate caps varies depending on changes in fair values, which are affected

by changes in period-end interest rates, the implied volatility of interest rates, foreign currency exchange rates and the amount of derivatives held. If all of our counterparties for these derivatives were to default simultaneously on March 31, 2010, our uncollateralized exposure to these counterparties, or our maximum loss for accounting purposes after applying netting agreements and collateral, would have been approximately $15 million. Our uncollateralized exposure as of December 31, 2009 was $128 million. One of our counterparties, HSBC Bank USA, which was rated AA as of April 21, 2010, accounted for greater than 10% of our net uncollateralized exposure to derivatives counterparties at March 31, 2010.

As indicated in Table 41, approximately 99% of our counterparty credit exposure for OTC interest-rate swaps, option-based derivatives, foreign-currency swaps and purchased interest rate caps was collateralized at March 31, 2010.

In the event of counterparty default, our economic loss may be higher than the uncollateralized exposure of our derivatives if we are not able to replace the defaulted derivatives in a timely and cost-effective fashion. We could also incur economic loss if the collateral held by us cannot be liquidated at prices that are sufficient to recover the amount of such exposure. We monitor the risk that our uncollateralized exposure to each of our OTC counterparties for interest-rate swaps, option-based derivatives, foreign-currency swaps and purchased interest rate caps will increase under certain adverse market conditions by performing daily market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming certain changes in the level and implied volatility of interest rates and certain changes in foreign currency exchange rates over a brief time period.

As indicated in Table 41, the total exposure on our OTC commitments of $36 million and $81 million at March 31, 2010 and December 31, 2009, respectively, which are treated as derivatives, was uncollateralized. Because the typical maturity of our commitments is less than 60 days and they are generally settled through a clearinghouse, we do not require master netting and collateral agreements for the counterparties of these commitments. However, we monitor the credit fundamentals of the counterparties to our forward purchase and sale commitments on an ongoing basis to ensure that they continue to meet our internal risk-management standards.

*Mortgage Seller/Servicers*

We acquire a significant portion of our mortgage loans from several large lenders. These lenders, or seller/servicers, are among the largest mortgage loan originators in the U.S. Our top 10 single-family seller/servicers provided approximately 81% of our single-family purchase volume during the three months ended March 31, 2010. Wells Fargo Bank, N.A., Bank of America, N.A. and Chase Home Finance LLC, together represented approximately 56%, of our single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of our purchase volume during the three months ended March 31, 2010.

We are exposed to institutional credit risk arising from the potential insolvency or non-performance by our mortgage seller/servicers, including non-performance of their repurchase obligations arising from breaches of the representations and warranties made to us for loans they underwrote and sold to us. Pursuant to their repurchase obligations, our seller/servicers repurchase mortgages sold to us, whether we subsequently securitized the loans or held them on our consolidated balance sheets. In lieu of repurchase, we may choose to allow a seller/servicer to indemnify us against losses on such mortgages. During the three months ended March 31, 2010 and 2009, the aggregate unpaid principal balance of single-family mortgages repurchased by our seller/servicers (without regard to year of original purchase) was approximately $1.3 billion and $789 million, respectively.

Some of our seller/servicers failed to perform their repurchase obligations due to lack of financial capacity, while many of our larger seller/servicers have not fully performed their repurchase obligations in a timely manner. As of

March 31, 2010 and December 31, 2009, we had outstanding repurchase requests to our seller/servicers with respect to loans with an unpaid principal balance of approximately $4.8 billion and $3.8 billion, respectively. At March 31, 2010 and December 31, 2009, approximately 34% and 30%, respectively, of our outstanding repurchase requests were outstanding more than 90 days. Three of our larger seller/servicers collectively had more than 30% of their repurchase obligations outstanding more than ninety days at both March 31, 2010 and December 31, 2009. Our credit losses may increase to the extent our seller/servicers do not fully perform their repurchase obligations. Enforcing repurchase obligations with lender customers who have the financial capacity to perform those obligations could also negatively impact our relationships with such customers and ability to retain market share.

Our seller/servicers have an active role in our loss mitigation efforts, including under the MHA Program, and therefore we also have exposure to them to the extent a decline in their performance results in a failure to realize the anticipated benefits of our loss mitigation plans. For information on our loss mitigation plans, see *Mortgage Credit Risk Portfolio Management Activities Loss Mitigation Activities.*



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On August 4, 2009, we notified Taylor, Bean & Whitaker Mortgage Corp., or TBW, that we had immediately terminated its eligibility as an approved seller/servicer, for cause. On August 24, 2009, TBW filed for bankruptcy. TBW accounted for approximately 1.9% of our single-family mortgage purchase volume activity for the year ended December 31, 2009. See RISK MANAGEMENT Credit Risks *Institutional Credit Risk Mortgage Seller/Servicers* in our 2009 Annual Report for more information about TBW. Our estimate of potential exposure to TBW at March 31, 2010 for loan repurchase obligations, excluding the estimated fair value of servicing rights, was approximately $800 million. In addition to this amount, Freddie Mac filed a proof of claim aggregating approximately $595 million in November 2009 against Colonial Bank. In a related matter, both TBW and Bank of America, N.A., have sought discovery against Freddie Mac. While no actions against Freddie Mac related to TBW have been initiated in bankruptcy court or elsewhere, the information is assertedly sought to determine whether the bankruptcy estate has any potential rights to seek to recover assets transferred to Freddie Mac or other entities prior to bankruptcy. At this time, we are unable to estimate our potential exposure, if any, to such claims. See NOTE 20: LEGAL CONTINGENCIES to our consolidated financial statements for additional information on our claim arising from TBW s bankruptcy.

GMAC Mortgage, LLC and Residential Funding Company, LLC (collectively GMAC), indirect subsidiaries of GMAC Inc., are seller/servicers that together serviced approximately 2% of the single-family loans in our single-family credit guarantee portfolio as of March 31, 2010. In March 2010, we entered into an agreement with GMAC under which they made a one-time payment to us for the partial release of repurchase obligations relating to loans sold to us prior to January 1, 2009. The partial release does not affect any of GMAC s potential repurchase obligations for loans sold to us by GMAC after January 1, 2009.

Our loan loss reserves include estimates for collections from seller/servicers for amounts owed to us resulting from loan repurchase obligations. Our estimates of these collections are adjusted for probable losses related to our counterparty exposure to seller/servicers. We believe we have adequately provided for these exposures, based upon our estimates of incurred losses, in our loan loss reserves at March 31, 2010 and December 31, 2009; however, our actual losses may exceed our estimates.

During the three months ended March 31, 2010, our top two multifamily lenders, Berkadia Commercial Mortgage LLC and CBRE Capital Markets, Inc., each accounted for more than 10% of our multifamily mortgage purchase volume, and together represented approximately 27% of our multifamily purchase volume. We are exposed to the risk that if multifamily seller/servicers come under financial pressure due to the current stressful economic environment, they could be adversely affected, which could potentially cause degradation in the quality of service they provide or, in certain cases, reduce the likelihood that we could recover losses on loans covered by recourse agreements or other credit enhancements. We continue to monitor the status of all our multifamily servicers in accordance with our counterparty credit risk management framework.

*Mortgage Insurers*

We have institutional credit risk relating to the potential insolvency or non-performance of mortgage insurers that insure single-family mortgages we purchase or guarantee. As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. If any of our mortgage insurers that provides credit enhancement fails to fulfill its obligation, we could experience increased credit-related costs.

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Table 42 presents our exposure to mortgage insurers, excluding bond insurance, as of March 31, 2010. In the event that a mortgage insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses resulting from such failure.

**Table 42 Mortgage Insurance by Counterparty**

| | | | As of March 31, 2010 | | |
|---|---|---|---|---|---|
| **Counterparty Name** | **Credit Rating**[1] | **Credit Rating Outlook**[1] | **Primary Insurance**[2] | **Pool Insurance**[2] | **Coverage Outstanding**[3] |
| | | | | (in billions) | |
| Mortgage Guaranty Insurance Corporation (MGIC) | B+ | Negative | $ 56.6 | $ 39.4 | $ 15.0 |
| Radian Guaranty Inc. | B+ | Negative | 40.7 | 18.9 | 11.8 |
| Genworth Mortgage Insurance Corporation | BBB- | Negative | 37.2 | 1.1 | 9.4 |
| PMI Mortgage Insurance Co. | B | Negative | 29.7 | 2.9 | 7.4 |
| United Guaranty Residential Insurance Co. | BBB | Negative | 30.8 | 0.5 | 7.5 |
| Republic Mortgage Insurance Company (RMIC) | BB+ | Negative | 25.3 | 3.0 | 6.3 |
| Triad Guaranty Insurance Corp.[4] | NR | N/A | 11.9 | 2.2 | 3.0 |
| CMG Mortgage Insurance Co. | BBB | Negative | 2.7 | 0.1 | 0.7 |
| Total | | | $ 234.9 | $ 68.1 | $ 61.1 |

(1) Latest rating available as of April 21, 2010. Represents the lower of S&P and Moody s credit ratings and outlooks. In this table, the rating and outlook of the legal entity is stated in terms of the S&P equivalent.
(2) Represents the amount of unpaid principal balance at the end of the period for our single-family credit guarantee portfolio covered by the respective insurance type.
(3) Represents the remaining aggregate contractual limit for reimbursement of losses of principal incurred under policies of both primary and pool insurance. These amounts are based on our gross coverage without regard to netting of coverage that may exist on some of the related mortgages for double-coverage under both types of insurance.
(4) Beginning June 1, 2009, Triad began paying valid claims 60% in cash and 40% in deferred payment obligations.

We received proceeds of $294 million and $201 million during the three months ended March 31, 2010 and 2009, 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, net of associated reserves, of $1.1 billion and $1.0 billion as of March 31, 2010 and December 31, 2009, respectively. Mortgage insurer rescissions of mortgage insurance coverage continued to increase in the first quarter of 2010. When an insurer rescinds coverage, the seller/servicer generally is in breach of contract with us and we may require the seller/servicer to repurchase the mortgage.

Based upon currently available information, we believe that all of our mortgage insurance counterparties will continue to pay all claims as due in the normal course for the near term, except for claims obligations of Triad that are deferred after June 1, 2009, under order of Triad s state regulator. However, we believe that several of our mortgage insurance counterparties are at risk of falling out of compliance with regulatory capital requirements, which may result in regulatory actions that could restrict the insurer s ability to write new business, at least in certain states, and negatively impact our access to mortgage insurance for high LTV loans. During 2009, several mortgage insurers requested that

we approve new subsidiaries or affiliates to write new mortgage insurance business in any state where the insurers regulatory capital requirements were breached, and the regulator did not issue a waiver. In February and March 2010, we approved such requests from MGIC, RMIC and PMI Mortgage Insurance Co.

*Bond Insurers*

We have institutional credit risk relating to the potential insolvency or non-performance of bond insurers that insure some of the bonds we hold as investment securities on our consolidated balance sheets. Bond insurance, including primary and secondary policies, is a credit enhancement covering some of our non-agency mortgage-related securities that we hold. Primary policies are acquired by the issuing trust while secondary policies are acquired directly by us. Bond insurance exposes us to the risks related to the bond insurer s ability to satisfy claims. At March 31, 2010, we had insurance coverage, including secondary policies, on non-agency mortgage-related securities totaling $11.5 billion.

Table 43 presents our coverage amounts of monoline bond insurance, including secondary coverage, for non-agency mortgage-related securities held on our consolidated balance sheets. In the event a monoline bond insurer fails to perform, the coverage outstanding represents our maximum exposure to loss related to such a failure.

**Table 43 Monoline Bond Insurance by Counterparty**

| | | | March 31, 2010 | |
|---|---|---|---|---|
| Counterparty Name | Credit Rating[1] | Credit Rating Outlook[1] | Coverage Outstanding[2] | Percent of Total[2] |
| | | (dollars in billions) | | |
| Ambac Assurance Corporation (Ambac) | R | N/A | $ 5.0 | 43% |
| Financial Guaranty Insurance Company (FGIC)[3] | NR | N/A | 2.2 | 20 |
| MBIA Insurance Corp. | B− | Negative | 1.6 | 14 |
| Assured Guaranty Municipal Corp. | AA− | Negative | 1.4 | 12 |
| National Public Finance Guarantee Corp. | BBB+ | Developing | 1.2 | 10 |
| Others | | | 0.1 | 1 |
| Total | | | $ 11.5 | 100% |

(1) Latest ratings available as of April 21, 2010. Represents the lower of S&P and Moody s credit ratings. In this table, the rating and outlook of the legal entity is stated in terms of the S&P equivalent.
(2) Represents the remaining contractual limit for reimbursement of losses, including lost interest and other expenses, on non-agency securities.
(3) Neither S&P or Moody s provide ratings for FGIC.

In November 2009, the New York State Insurance Department ordered FGIC to restructure in order to improve its financial condition and to suspend paying any and all claims effective immediately. On March 25, 2010, FGIC made an exchange offer to the holders of various residential mortgage-backed securities insured by FGIC. We are assessing the impact of this development.

In March 2010, Ambac established a segregated account for certain Ambac-insured securities, including those held by Freddie Mac, and consented to the rehabilitation of the segregated account requested by the Wisconsin Office of the Commissioner of Insurance. On March 24, 2010, a Wisconsin state circuit court issued an order for rehabilitation and an order for temporary injunctive relief regarding the segregated account. Among other things, no claims arising under the segregated account will be paid, and policyholders are enjoined from taking certain actions until the plan of rehabilitation is approved by the circuit court. We incorporated the impact of this development into our impairment determination at March 31, 2010.

In accordance with our risk management policies we will continue to actively monitor the financial strength of our bond insurers. We believe that, in addition to FGIC and Ambac, some of our bond insurers lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge. In the event one or more of these bond insurers were to become insolvent, it is likely that we would not collect all of our claims from the affected insurer, and it would impact our ability to recover certain unrealized losses on our mortgage-related securities. See NOTE 7: INVESTMENTS IN SECURITIES Other-Than-Temporary Impairments on Available-for-Sale Securities to our consolidated financial statements for additional information regarding impairment losses on securities covered by monoline bond insurers.

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Table 44 shows our non-agency mortgage-related securities covered by primary monoline bond insurance at March 31, 2010 and December 31, 2009.

**Table 44 Non-Agency Mortgage-Related Securities Covered by Primary Monoline Bond Insurance**

| | Ambac Assurance Corporation | | Financial Guaranty Insurance Company | | MBIA Insurance Corp. | | Assured Guaranty Municipal Corp. | | Other[1] | | To |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Unpaid Principal Balance[2] | Gross Unrealized Losses[3] | Unpaid Principal Balance[2] | Gross Unrealized Losses[3] | Unpaid Principal Balance[2] | Gross Unrealized Losses[3] | Unpaid Principal Balance[2] | Gross Unrealized Losses[3] | Unpaid Principal Balance[2] | Gross Unrealized Losses[3] | Unpaid Principal Balance[2] |
| | (in millions) | | | | | | | | | | |
| , 2010: | | | | | | | | | | | |
| prime | $ 718 | $ (289) | $ 1,024 | $ (401) | $ 16 | $ (3) | $ 445 | $ (110) | $ 6 | $ | $ 2,209 |
| subprime | | | 266 | (63) | | | | | | | 266 |
| I | 156 | (27) | | | | | 162 | (56) | | | 318 |
| her[4] | 1,298 | (596) | 902 | (386) | 500 | (240) | 402 | (128) | 77 | (36) | 3,179 |
| ed housing | 103 | (23) | | | 166 | (27) | | | | | 269 |
| | 2,212 | (391) | | | | | | | 1,196 | (247) | 3,408 |
| of states | | | | | | | | | | | |
| | 457 | (28) | 38 | (2) | 247 | (13) | 381 | (10) | 17 | (2) | 1,140 |
| | $ 4,944 | $ (1,354) | $ 2,230 | $ (852) | $ 929 | $ (283) | $ 1,390 | $ (304) | $ 1,296 | $ (285) | $ 10,789 |
| r 31, 2009: | | | | | | | | | | | |
| prime | $ 737 | $ (325) | $ 1,061 | $ (432) | $ 18 | $ (3) | $ 452 | $ (160) | $ 6 | $ | $ 2,274 |
| subprime | | | 280 | (70) | | | | | | | 280 |
| I | 163 | (47) | | | | | 166 | (65) | | | 329 |
| her[4] | 1,340 | (657) | 927 | (430) | 522 | (265) | 422 | (136) | 80 | (38) | 3,291 |
| ed housing | 105 | (24) | | | 171 | (30) | | | | | 276 |
| | 2,206 | (495) | | | | | | | 1,196 | (307) | 3,402 |
| of states | | | | | | | | | | | |
| | 459 | (33) | 38 | (3) | 247 | (13) | 390 | (13) | 17 | (3) | 1,151 |
| | $ 5,010 | $ (1,581) | $ 2,306 | $ (935) | $ 958 | $ (311) | $ 1,430 | $ (374) | $ 1,299 | $ (348) | $ 11,003 |

(1) Represents monoline insurance provided by Syncora Guarantee Inc., Radian Group Inc. and CIFG Holdings Ltd.
(2) Represents the amount of unpaid principal balance covered by monoline insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers unpaid interest.
(3) Represents the amount of gross unrealized losses at the respective reporting date on the securities with monoline insurance.

(4) The majority of the Alt-A and other loans covered by monoline bond insurance are securities backed by home equity lines of credit.

***Mortgage Credit Risk***

Mortgage credit risk is primarily influenced by the credit profile of the borrower on the mortgage, the features of the mortgage itself, the type of property securing the mortgage and the general economy. All mortgages that we purchase and hold on our consolidated balance sheets or that we guarantee have an inherent risk of default. To manage our mortgage credit risk, we focus on three key areas: underwriting standards and quality control process; portfolio diversification; and portfolio management activities, including loss mitigation and the use of credit enhancements. For more information on our mortgage credit risk, including how we seek to manage mortgage credit risk, see MD&A RISK MANAGEMENT Credit Risks *Mortgage Credit Risk* in our 2009 Annual Report.

Conditions in the mortgage market continued to remain challenging in the first quarter of 2010. All types of single-family mortgage loans, whether classified as prime or non-prime, have been affected by the compounding pressures on household wealth caused by declines in home values that began in 2006 and the weak employment environment. Due to delays in loss mitigation activities, including servicer processing delays and HAMP trial period and related processes, our seriously delinquent rates steadily rose during 2009. Although our single-family delinquency rates and totals of our single-family non-performing loans continued to increase during the first quarter of 2010, the rate of increase in new delinquencies has moderated. The table below shows the quarterly credit performance of our single-family credit guarantee portfolio for the last several quarters as compared to certain industry averages.

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**Table 45 Single-Family Mortgage Credit Performance Comparison**

| | As of | | | | |
|---|---|---|---|---|---|
| | **03/31/2010** | **12/31/2009** | **09/30/2009** | **06/30/2009** | **03/31/2009** |
| Delinquency rate: | | | | | |
| Freddie Mac s single-family credit guarantee portfolio[1] | 4.13% | 3.98% | 3.43% | 2.89% | 2.41% |
| Industry prime loans[2] | N/A | 7.01 | 6.26 | 5.44 | 4.70 |
| Industry subprime loans[2] | N/A | 30.56 | 28.68 | 26.52 | 24.88 |

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| | **03/31/2010** | **12/31/2009** | **09/30/2009** | **06/30/2009** | **03/31/2009** |
| Foreclosures starts ratio:[3] | | | | | |
| Freddie Mac s single-family credit guarantee portfolio[1] | 0.64% | 0.57% | 0.59% | 0.62% | 0.61% |
| Industry prime loans[2] | N/A | 0.86 | 1.14 | 1.01 | 0.94 |
| Industry subprime loans[2] | N/A | 3.66 | 3.76 | 4.13 | 4.65 |

(1) Based on the number of loans 90 days or more past due, as well as those in the process of foreclosure. Our temporary suspensions of foreclosure sales on occupied homes during 2009 and our participation in the MHA Program resulted in more loans remaining delinquent and fewer foreclosures than without the suspensions. See *Portfolio Management Activities Credit Performance Delinquencies* for further information on the delinquency rates of our single-family credit guarantee portfolio and our temporary suspensions of foreclosure transfers.
(2) Source: Mortgage Bankers Association s National Delinquency Survey representing the total of first lien single-family loans in the survey categorized as prime or subprime, respectively. Excludes FHA and VA loans. Data is not yet available for the first quarter of 2010.
(3) Represents the ratio of the number of loans that entered the foreclosure process during the respective quarter divided by the number of loans in the portfolio at the end of the quarter. Excludes Structured Transactions and mortgages covered under long-term standby commitment agreements.

*Single-family Underwriting Standards and Quality Control Process*

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, our contracts with seller/servicers describe mortgage underwriting standards and, except to the extent we waive or modify these standards, the seller/servicers represent and warrant to us that the mortgages sold to us meet these standards. Our single-family underwriting standards focus on several critical risk characteristics, such as the borrower s credit score, original LTV ratio and occupancy type. We subsequently review a sample of these loans and, if we determine that any loan is not in compliance with our contractual standards, we may require the seller/servicer to repurchase that mortgage or make us whole in the event of a default. The percentage of our single-family mortgage purchase volume evaluated by the loan originator using Loan Prospector, our automated underwriting software tool, prior to being purchased by us was 34% during the first quarter of 2010, as compared to 45% during full year 2009. The decline in the use of Loan Prospector by seller/servicers in the first quarter of 2010, as compared to the first quarter of 2009, was attributed to an increase in the composition of purchase activity from seller/servicers that used their own or Fannie Mae s automated evaluation software during the first quarter of 2010.

In response to the changes in the residential mortgage market during the last several years, we made several changes to our underwriting standards in 2008, and many of these took effect in early 2009, or as our customers contracts permitted. While some of these changes will not apply to mortgages purchased under the refinancing initiative of the MHA Program, we believe that they improved the credit profile of many of the mortgages we purchased in 2009 and the first quarter of 2010, and that they will continue to positively affect our purchases going forward. In the first quarter of 2010, we continued to expand our reviews of loans that default in order to assess the sellers compliance with our purchase contracts. For more information on our seller/servicers repurchase obligations, including recent performance under those obligations, see *Institutional Credit Risk Mortgage Seller/Servicers.*

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by one or more of the following: (a) mortgage insurance for mortgage amounts above the 80% threshold; (b) a seller s agreement to repurchase or replace any mortgage upon default; or (c) retention by the seller of at least a 10% participation interest in the mortgages. In addition, we employ other types of credit enhancements to manage credit risk, including pool insurance, indemnification agreements, collateral pledged by lenders and subordinated security structures.

In April 2009, we began purchasing mortgages originated pursuant to the refinancing initiative under the MHA Program. The Freddie Mac Relief Refinance Mortgage$^{SM}$ is our implementation of this program for our loans. These mortgages allow for refinancing of existing loans guaranteed by Freddie Mac or Fannie Mae under terms such that we may not have mortgage insurance for some or all of the unpaid principal balance of the mortgage in excess of 80% of the value of the property for certain of these loans. We allow refinancing with this product for loans up to a maximum LTV ratio of 125%. FHFA recently announced the extension of the program until June 2011. Although we discontinued purchases of new mortgage loans with lower documentation standards for assets or income, categorized as Alt-A, beginning March 1, 2009 (or as our customers contracts permitted), we continue to purchase these mortgages if

the loan qualifies as a refinance mortgage under the Freddie Mac Relief Refinance Mortgage[sm] or in another refinance mortgage program and the pre-existing mortgage was originated under less than full documentation standards.

For more information about our underwriting standards and processes, see MD&A RISK MANAGEMENT Credit Risks *Mortgage Credit Risk Single-Family Underwriting Requirements and Quality Control Standards* and *Multifamily Underwriting Requirements and Quality Control Standards* in our 2009 Annual Report.

*Characteristics of the Single-Family Credit Guarantee Portfolio*

As shown in the table below, the percentage of borrowers in our single-family credit guarantee portfolio, based on unpaid principal balance, with estimated current LTV ratios greater than 100% was 18% at both March 31, 2010 and December 31, 2009, respectively. As estimated current LTV ratios increase, the borrower s equity in the home decreases, which negatively affects the borrower s ability to refinance or to sell the property for an amount at or above the balance of the outstanding mortgage loan. If a borrower has an estimated current LTV ratio greater than 100%, the borrower is underwater and is more likely to default than other borrowers, regardless of the borrower s financial condition. The delinquency rate for single-family loans with estimated current LTV ratios greater than 100% was 15.5% and 14.8% as of March 31, 2010 and December 31, 2009, respectively. For the loans in our single-family credit guarantee portfolio with greater than 80% estimated current LTV ratios, the borrowers had a weighted average credit score at origination of 719 at both March 31, 2010 and December 31, 2009, respectively.

As discussed above, we implemented the Relief Refinance Mortgage in April 2009 and these mortgages allow for refinancing of borrowers with single-family mortgages having original LTV ratios of up to 125%. Relief Refinance Mortgage purchases are reflected in the loan characteristics table shown below. As a result, the LTV ratios of our single-family loan purchases were higher in the first quarter of 2010, as compared to the first quarter of 2009. In addition, the credit scores of borrowers associated with our purchases during the first quarter of 2010 were lower than those in the first quarter of 2009, which, in part, also reflects the inclusion of borrower credit statistics for Freddie Mac Relief Refinance Mortgages[sm].

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Table 46 provides characteristics of single-family mortgage loans purchased during the three months ended March 31, 2010 and 2009, and of our single-family credit guarantee portfolio at March 31, 2010 and December 31, 2009.

**Table 46 Characteristics of the Single-Family Credit Guarantee Portfolio[1]**

| | Purchases During the Three Months Ended March 31, | | Portfolio at | |
|---|---|---|---|---|
| | 2010 | 2009 | March 31, 2010 | December 31, 2009 |
| **Original LTV Ratio Range[2]** | | | | |
| 60% and below | 30% | 34% | 24% | 23% |
| Above 60% to 70% | 16 | 18 | 16 | 16 |
| Above 70% to 80% | 37 | 40 | 44 | 45 |
| Above 80% to 90% | 9 | 6 | 8 | 8 |
| Above 90% to 100% | 6 | 2 | 7 | 8 |
| Above 100% | 2 | | 1 | |
| Total | 100% | 100% | 100% | 100% |
| Weighted average original LTV ratio | 69% | 66% | 71% | 71% |
| **Estimated Current LTV Ratio Range[3]** | | | | |
| 60% and below | | | 29% | 28% |
| Above 60% to 70% | | | 12 | 12 |
| Above 70% to 80% | | | 16 | 16 |
| Above 80% to 90% | | | 15 | 16 |
| Above 90% to 100% | | | 10 | 10 |
| Above 100% to 110% | | | 6 | 6 |
| Above 110% to 120% | | | 4 | 4 |
| Above 120% | | | 8 | 8 |
| Total | | | 100% | 100% |
| Weighted average estimated current LTV ratio | | | 77% | 77% |
| **Credit Score[4]** | | | | |
| 740 and above | 68% | 73% | 50% | 50% |
| 700 to 739 | 20 | 17 | 22 | 22 |
| 660 to 699 | 9 | 7 | 16 | 16 |
| 620 to 659 | 2 | 2 | 8 | 8 |
| Less than 620 | 1 | 1 | 3 | 3 |
| Not available | | | 1 | 1 |

| | | | | |
|---|---|---|---|---|
| Total | 100% | 100% | 100% | 100% |
| Weighted average credit score | 751 | 757 | 730 | 730 |
| **Loan Purpose** | | | | |
| Purchase | 21% | 16% | 34% | 35% |
| Cash-out refinance | 23 | 28 | 30 | 30 |
| Other refinance(5) | 56 | 56 | 36 | 35 |
| Total | 100% | 100% | 100% | 100% |
| **Property Type** | | | | |
| 1 unit | 98% | 99% | 97% | 97% |
| 2-4 units | 2 | 1 | 3 | 3 |
| Total | 100% | 100% | 100% | 100% |
| **Occupancy Type** | | | | |
| Primary residence | 92% | 94% | 91% | 91% |
| Second/vacation home | 5 | 4 | 5 | 5 |
| Investment | 3 | 2 | 4 | 4 |
| Total | 100% | 100% | 100% | 100% |

(1) Purchases and ending balances are based on the unpaid principal balance of the single-family credit guarantee portfolio. Structured Transactions with ending balances of $2 billion at both March 31, 2010 and December 31, 2009, are excluded since these securities are backed by non-Freddie Mac issued securities for which the loan characteristics data was not available.
(2) Original LTV ratios are calculated as the amount of the mortgage we guarantee including the credit-enhanced portion, divided by the lesser of the appraised value of the property at time of mortgage origination or the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation.
(3) Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes since origination. Estimated current LTV ratio range is not applicable to purchases we made during the first quarter of 2010 and includes the credit-enhanced portion of the loan and excludes any secondary financing by third parties.
(4) Credit score data is based on FICO scores. Although we obtain updated credit information on certain borrowers after the origination of a mortgage, such as those borrowers seeking a modification, the scores presented in this table represent only the credit score of the borrower at the time of loan origination.
(5) Other refinance transactions include: (a) refinance mortgages with no cash-out to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction.

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*Single-Family Mortgage Product Types*

The primary mortgage products in our single-family credit guarantee portfolio are conventional first lien, fixed-rate mortgage loans. During 2009 and the first quarter of 2010, a higher proportion of our single-family mortgage purchases were of fixed-rate loans as compared to earlier periods, due to continued low interest rates for conventional mortgages which increased refinancing activity by borrowers that desire fixed-rate products as well as increased modification volume. Our loan modifications generally result in new terms that include fixed interest rates after modification.

The following paragraphs provide information on the interest-only and option ARM loans in our single-family credit guarantee portfolio. These types of loans have experienced significantly higher delinquency rates than other mortgage products. For more information, see *Higher Risk Loans in the Single-Family Credit Guarantee Portfolio* below.

*Interest-Only Loans*

At March 31, 2010, interest-only loans represented approximately 7% of the unpaid principal balance of our single-family credit guarantee portfolio. We purchased $0.3 billion and $0.2 billion of these loans during the three months ended March 31, 2010 and 2009, respectively. The average FICO score at origination associated with interest-only loans in our single-family credit guarantee portfolio was 720 at both March 31, 2010 and December 31, 2009, respectively. These loans have an initial period during which the borrower pays interest-only and at a specified date the monthly payment changes to begin reflecting repayment of principal until maturity. We announced that as of September 1, 2010 we will no longer purchase interest-only loans.

*Option ARM Loans*

At March 31, 2010, option ARM loans represented approximately 1% of the unpaid principal balance of our single-family credit guarantee portfolio. Originations of option ARM loans in the market declined substantially since 2007, and we did not purchase option ARM loans in our single-family credit guarantee portfolio during the three months ended March 31, 2010. Most option ARM loans have initial periods during which the payment options are in place before the loans reach the initial end date and the terms are recast. For information on our exposure to option ARM loans through our holdings of non-agency mortgage-related securities, see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

*Other Categories of Single-Family Mortgage Loans*

While we classified certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-Q, there is no universally accepted definition of subprime or Alt-A, and our classifications of such loans may differ from those used by other companies. In addition, we do not rely primarily on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio. Through our delegated underwriting process, mortgage loans and the borrowers ability to repay the loans are evaluated using several critical risk characteristics, including but not limited to the borrower s credit score and credit history, the borrower s monthly income relative to debt payments, LTV ratio, type of mortgage product and occupancy type.

*Alt-A Loans*

We implemented several changes in our underwriting and eligibility criteria in 2008 and 2009 to reduce our acquisition of certain higher-risk loan products, including Alt-A loans. As a result, we did not purchase any new single-family Alt-A mortgage loans in our single-family credit guarantee portfolio during the three months ended March 31, 2010, compared to $0.5 billion of Alt-A purchases for the three months ended March 31, 2009. Although

we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009 (or as our customers contracts permitted), we continued to purchase certain amounts of these mortgages in cases where the loan was either a Freddie Mac Relief Refinance Mortgage[sm] or in another refinance mortgage program and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. However, in the event we purchase a refinanced mortgage in one of these programs that had been previously identified as Alt-A, such loan may no longer be categorized or reported as an Alt-A mortgage in this Form 10-Q and our other financial reports because the new refinanced loan replacing the original loan would not be identified by the 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 refinancings not occurred.

We also invest in non-agency mortgage-related securities backed by single-family Alt-A loans. At March 31, 2010 and December 31, 2009, we held investments of $20.8 billion and $21.4 billion, respectively, of non-agency mortgage-related securities backed by Alt-A and other mortgage loans. For more information on our exposure to Alt-A mortgage

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loans through our investments in non-agency mortgage-related securities, see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

*Subprime Loans*

While we have not historically characterized the single-family loans underlying our PCs and Structured Securities as either prime or subprime, we do monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk (see *Higher Risk Loans in the Single-Family Credit Guarantee Portfolio* below for further information). We estimate that approximately $4.4 billion and $4.5 billion in unpaid principal balance of collateral underlying our Structured Transactions at March 31, 2010 and December 31, 2009, respectively, were classified as subprime, based on our determination that they are also higher-risk loan types.

We generally categorize our investments in non-agency mortgage-related securities as subprime if they were labeled as subprime when we purchased them. At March 31, 2010 and December 31, 2009, we held $59.4 billion and $61.6 billion, respectively, in unpaid principal balances of non-agency mortgage-related securities backed by subprime loans. For more information on our exposure to subprime mortgage loans through our investments in non-agency mortgage-related securities, see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

*Higher Risk Loans in the Single-Family Credit Guarantee Portfolio*

Although we generally do not categorize loans in our single-family credit guarantee portfolio as prime or subprime, there are loan types we recognize as having higher risk characteristics. Table 47 presents information about certain categories of single-family mortgage loans within our single-family credit guarantee portfolio that we believe have certain higher risk characteristics. 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%).

**Table 47 Credit Performance of Certain Higher Risk[1] Categories in the Single-Family Credit Guarantee Portfolio**

| | As of March 31, 2010 | | | |
|---|---|---|---|---|
| | Unpaid Principal Balance | Estimated Current LTV[2] | Percentage Modified[3] | Delinquency Rate[4] |
| | (dollars in billions) | | | |
| Loans with one or more specified characteristics | $ 403.9 | 98% | 3.5% | 11.1% |
| Categories (individual characteristics): | | | | |
| Alt-A loans[5] | 140.5 | 95% | 3.4% | 12.8% |
| Interest-only loans | 122.6 | 107% | 0.7% | 18.5% |
| Option ARM loans[6] | 10.5 | 113% | N/A | 19.8% |
| Original LTV greater than 90% loans[7] | 146.9 | 104% | 3.6% | 9.1% |
| Lower original FICO scores (less than 620)[7] | 66.4 | 87% | 7.1% | 15.1% |

**As of December 31, 2009**

| | Unpaid Principal Balance | Estimated Current LTV[2] | Percentage Modified[3] | Delinquency Rate[4] |
|---|---|---|---|---|
| | (dollars in billions) | | | |
| Loans with one or more specified characteristics | $ 413.3 | 97% | 2.7% | 10.8% |
| Categories (individual characteristics): | | | | |
| Alt-A loans[5] | 147.9 | 94% | 2.2% | 12.3% |
| Interest-only loans | 129.9 | 106% | 0.2% | 17.6% |
| Option ARM loans[6] | 10.8 | 111% | N/A | 17.9% |
| Original LTV greater than 90% loans[7] | 144.4 | 104% | 3.0% | 9.1% |
| Lower original FICO scores (less than 620)[7] | 67.7 | 87% | 6.0% | 14.9% |

(1) Categories are not additive and a single loan may be included in multiple categories if more than one characteristic is associated with the loan. Loans with a combination of these characteristics will have an even higher risk of default than those with an individual characteristic.

(2) See endnote (3) to Table 46 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of estimated current LTV ratios.

(3) Represents the percentage of loans based on loan count in our single-family credit guarantee portfolio that have been modified under agreement with the borrower, including those with no changes in interest rate or maturity date, but where past due amounts are added to the outstanding principal balance of the loan. Excludes loans underlying our Structured Transactions for which we do not have servicing rights nor available data.

(4) Based on the number of mortgages 90 days or more delinquent or in foreclosure. See *Portfolio Management Activities Credit Performance Delinquencies* for further information about our reported delinquency rates.

(5) Alt-A loans may not include loans that were previously classified as Alt-A and that have been refinanced as a Freddie Mac Relief Refinance Mortgage[sm] or in another refinance mortgage program.

(6) Option ARM loans in our single-family credit guarantee portfolio underlie certain Structured Transactions and Structured Securities for which we do not retain the servicing rights and the loan modification data is not currently available to us.

(7) See endnotes (2) and (4) to Table 46 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of original LTV ratios and our use of FICO scores, respectively.

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Loans with one or more of the above attributes comprised approximately 22% of our single-family credit guarantee portfolio as of both March 31, 2010 and December 31, 2009. The total unpaid principal balance of loans in our single-family credit guarantee portfolio with one or more of these higher risk characteristics declined approximately 2% during the first quarter of 2010, from $413.3 billion as of December 31, 2009 to $403.9 billion as of March 31, 2010, and was principally due to liquidations resulting from repayments, payoffs, refinancing activity and other principal curtailments as well as those resulting from foreclosure events. However, the delinquency rates associated with these loans increased from 10.8% as of December 31, 2009 to 11.1% as of March 31, 2010.

Certain combinations of loan characteristics often can also indicate a higher degree of credit risk. For example, single-family mortgages with both high LTV ratios and borrowers who have lower credit scores typically experience higher rates of delinquency and default. However, our participation in these categories contributes to our performance under our affordable housing goals. Certain mortgage product types, such as interest-only or option ARM loans, that have additional higher risk characteristics, such as lower credit scores or higher LTV ratios, will also have a higher risk of default than those same products without these characteristics. In addition, in years prior to 2006, as home prices increased, many borrowers used second liens at the time of purchase to reduce the LTV ratio on first lien mortgages. A borrower who obtains a second lien mortgage, either at the time of origination or subsequently reduces the equity in their home to a lower level than if there were no second lien, thus increasing the default risk on the first lien. We obtain second lien information on loans we purchase only if the second lien mortgage was established at the time of origination. As of both March 31, 2010 and December 31, 2009 approximately 14% of loans in our single-family credit guarantee portfolio had second lien, third-party financing at the time of origination and we estimate that these loans comprised 20% and 21%, respectively, of our delinquent loans, based on unpaid principal balances.

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Table 48 presents statistics for combinations of certain characteristics of the mortgages in our single-family credit guarantee portfolio as of March 31, 2010 and December 31, 2009.

**Table 48 Single-Family Credit Guarantee Portfolio by Attribute Combinations**

| | As of March 31, 2010 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ct Type | Current LTV(1) £ 80 | | | Current LTV(1) of 81-100 | | | Current LTV(1) > 100 | | | Current LTV(1) All | |
| | Percentage of Portfolio(2) | Percentage Modified(3) | Delinquency Rate(4) | Percentage of Portfolio(2) | Percentage Modified(3) | Delinquency Rate(4) | Percentage of Portfolio(2) | Percentage Modified(3) | Delinquency Rate(4) | Percentage of Portfolio(2) | Percentage Modified(3) |
| 20: | | | | | | | | | | | |
| nortizing 5) | 1.2% | 4.5% | 9.6% | 0.8% | 8.6% | 17.0% | 0.9% | 17.4% | 29.7% | 2.9% | 8.8% |
| nortizing | 0.2 | 1.6 | 4.8 | 0.0 | 2.5 | 11.8 | 0.0 | 3.7 | 21.2 | 0.2 | 1.7 |
| ustable-rate(6) | 0.2 | 0.3 | 12.1 | 0.0 | 0.7 | 19.5 | 0.0 | 1.1 | 31.4 | 0.2 | 0.6 |
| ly | 0.0 | 0.8 | 18.3 | 0.1 | 1.3 | 27.7 | 0.1 | 2.1 | 44.0 | 0.2 | 1.7 |
| sets | 0.0 | 0.2 | 17.2 | 0.0 | 1.2 | 18.6 | 0.0 | 0.9 | 24.2 | 0.0 | 0.5 |
| | 0.0 | 2.3 | 3.1 | 0.0 | 2.4 | 5.7 | 0.0 | 3.6 | 11.4 | 0.0 | 2.4 |
| ral ent | 0.0 | 5.3 | 13.9 | 0.0 | 2.4 | 10.2 | 0.0 | 2.1 | 10.2 | 0.0 | 2.8 |
| ) < 620 | 1.6 | 3.5 | 8.4 | 0.9 | 7.8 | 17.2 | 1.0 | 15.1 | 30.3 | 3.5 | 7.1 |
| 20 to 659: | | | | | | | | | | | |
| nortizing 5) | 2.6 | 2.5 | 5.5 | 1.7 | 4.7 | 10.5 | 1.9 | 10.5 | 21.4 | 6.2 | 5.0 |
| nortizing | 0.6 | 0.8 | 2.8 | 0.1 | 1.0 | 7.1 | 0.0 | 1.8 | 13.3 | 0.7 | 0.8 |
| ustable-rate(6) | 0.1 | 0.1 | 6.0 | 0.1 | 0.5 | 13.6 | 0.1 | 0.9 | 26.9 | 0.3 | 0.4 |
| ly | 0.1 | 0.5 | 13.4 | 0.2 | 1.2 | 22.6 | 0.3 | 1.7 | 38.4 | 0.6 | 1.4 |
| sets | 0.0 | 0.2 | 9.9 | 0.0 | 0.7 | 15.5 | 0.0 | 0.7 | 18.5 | 0.0 | 0.4 |
| | 0.0 | 0.6 | 0.9 | 0.0 | 0.3 | 2.3 | 0.0 | 0.5 | 4.3 | 0.0 | 0.6 |
| ral ent | 0.0 | 1.8 | 8.2 | 0.0 | 1.0 | 5.4 | 0.0 | 0.8 | 4.4 | 0.0 | 1.0 |
| ) of 620 to | 3.4 | 1.9 | 4.9 | 2.1 | 4.2 | 11.1 | 2.3 | 8.9 | 23.2 | 7.8 | 4.0 |
| 660: | | | | | | | | | | | |
| nortizing 5) | 38.0 | 0.3 | 1.1 | 18.3 | 0.9 | 3.0 | 10.1 | 3.5 | 10.2 | 66.4 | 0.9 |
| nortizing | 11.4 | 0.1 | 0.4 | 0.9 | 0.1 | 1.4 | 0.2 | 0.5 | 5.9 | 12.5 | 0.1 |
| ustable-rate(6) | 1.6 | 0.0 | 1.8 | 0.8 | 0.2 | 5.9 | 0.8 | 0.5 | 17.4 | 3.2 | 0.1 |
| ly | 1.1 | 0.1 | 4.0 | 1.6 | 0.4 | 10.3 | 3.0 | 1.0 | 25.2 | 5.7 | 0.6 |
| sets | 0.1 | 0.1 | 2.7 | 0.0 | 0.2 | 6.8 | 0.1 | 0.3 | 12.0 | 0.2 | 0.1 |
| | 0.0 | 0.1 | 0.8 | 0.0 | 0.0 | 0.4 | 0.0 | 0.1 | 0.9 | 0.0 | 0.1 |
| | 0.1 | 1.0 | 3.2 | 0.0 | 0.2 | 1.9 | 0.0 | 0.3 | 1.2 | 0.1 | 0.3 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ral ent O >= 660 | 52.3 | 0.2 | 0.9 | 21.6 | 0.8 | 3.4 | 14.2 | 2.9 | 12.9 | 88.1 | 0.7 |
| ICO not | 0.4 | 1.7 | 5.0 | 0.1 | 2.8 | 14.6 | 0.1 | 8.3 | 28.1 | 0.6 | 2.2 |
| nortizing 5) | 42.1 | 0.7 | 1.7 | 20.9 | 1.6 | 4.4 | 12.8 | 5.5 | 13.3 | 75.8 | 1.6 |
| nortizing | 12.2 | 0.2 | 0.7 | 1.0 | 0.3 | 2.1 | 0.2 | 0.8 | 7.3 | 13.4 | 0.2 |
| ustable-rate(6) | 1.8 | 0.1 | 2.6 | 0.9 | 0.2 | 7.6 | 1.0 | 0.6 | 19.3 | 3.7 | 0.2 |
| ly | 1.3 | 0.2 | 5.0 | 1.8 | 0.5 | 12.0 | 3.4 | 1.1 | 27.2 | 6.5 | 0.7 |
| sets | 0.2 | 0.1 | 4.0 | 0.0 | 0.3 | 8.5 | 0.0 | 0.4 | 13.2 | 0.2 | 0.2 |
| | 0.1 | 1.7 | 10.7 | 0.1 | 0.5 | 12.5 | 0.1 | 1.1 | 13.8 | 0.3 | 1.6 |
| ral ent | 0.0 | 2.0 | 6.5 | 0.0 | 0.7 | 3.9 | 0.1 | 0.7 | 3.2 | 0.1 | 0.8 |
| le-Family arantee ) | 57.7% | 0.5% | 1.5% | 24.7% | 1.4% | 4.8% | 17.6% | 4.5% | 15.5% | 100.0% | 1.2% |

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| | As of March 31, 2010 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| egion[8] | Current LTV[1] £ 80 | | | Current LTV[1] of 81-100 | | | Current LTV[1] > 100 | | | Current LTV[1] All Loan | | |
| | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinqu Rate |
| ) < 620: | | | | | | | | | | | | |
| n Central | 0.2% | 3.5% | 8.0% | 0.2% | 7.5% | 15.0% | 0.2% | 14.6% | 23.5% | 0.6% | 7.6% | 14 |
| neast | 0.5 | 3.8 | 10.0 | 0.3 | 9.2 | 21.1 | 0.1 | 18.0 | 31.9 | 0.9 | 6.9 | 15 |
| heast | 0.3 | 3.6 | 9.0 | 0.2 | 7.7 | 17.6 | 0.3 | 14.4 | 33.9 | 0.8 | 7.4 | 17 |
| hwest | 0.3 | 3.7 | 6.7 | 0.1 | 7.9 | 14.4 | 0.1 | 16.0 | 23.8 | 0.5 | 5.8 | 10 |
| | 0.3 | 2.8 | 7.3 | 0.1 | 5.8 | 18.4 | 0.3 | 14.4 | 34.6 | 0.7 | 7.5 | 19 |
| FICO < | 1.6 | 3.5 | 8.4 | 0.9 | 7.8 | 17.2 | 1.0 | 15.1 | 30.3 | 3.5 | 7.1 | 15 |
| ) of 620 9: | | | | | | | | | | | | |
| n Central | 0.5 | 1.9 | 4.7 | 0.5 | 4.2 | 10.0 | 0.5 | 8.5 | 16.7 | 1.5 | 4.2 | 9 |
| neast | 1.1 | 1.9 | 5.4 | 0.5 | 5.0 | 13.7 | 0.3 | 10.4 | 22.4 | 1.9 | 3.7 | 9 |
| heast | 0.6 | 2.0 | 5.6 | 0.4 | 4.1 | 11.0 | 0.6 | 8.1 | 26.9 | 1.6 | 4.1 | 12 |
| hwest | 0.6 | 2.2 | 3.9 | 0.3 | 4.1 | 8.8 | 0.1 | 8.6 | 14.9 | 1.0 | 3.2 | 6 |
| | 0.6 | 1.4 | 4.4 | 0.4 | 3.5 | 12.6 | 0.8 | 9.5 | 27.8 | 1.8 | 4.7 | 14 |
| FICO of o 659 | 3.4 | 1.9 | 4.9 | 2.1 | 4.2 | 11.1 | 2.3 | 8.9 | 23.2 | 7.8 | 4.0 | 10 |
| ) >= 660: | | | | | | | | | | | | |
| n Central | 8.8 | 0.2 | 0.8 | 4.8 | 0.8 | 2.9 | 2.5 | 2.4 | 7.5 | 16.1 | 0.6 | 2 |
| neast | 15.0 | 0.2 | 1.0 | 5.0 | 1.0 | 4.4 | 1.7 | 3.4 | 10.7 | 21.7 | 0.5 | 2 |
| heast | 7.6 | 0.3 | 1.2 | 4.0 | 0.7 | 3.3 | 3.6 | 2.4 | 15.2 | 15.2 | 0.7 | 4 |
| hwest | 7.7 | 0.3 | 0.8 | 2.6 | 0.7 | 2.4 | 0.3 | 2.3 | 6.0 | 10.6 | 0.4 | 1 |
| | 13.2 | 0.2 | 0.8 | 5.2 | 0.7 | 3.9 | 6.1 | 3.5 | 15.8 | 24.5 | 0.9 | 4 |
| FICO >= | 52.3 | 0.2 | 0.9 | 21.6 | 0.8 | 3.4 | 14.2 | 2.9 | 12.9 | 88.1 | 0.7 | 2 |
| FICO vailable | 0.4 | 1.7 | 5.1 | 0.1 | 2.8 | 14.7 | 0.1 | 8.3 | 28.2 | 0.6 | 2.2 | 10 |
| ICO: | | | | | | | | | | | | |
| n Central | 9.6 | 0.4 | 1.3 | 5.5 | 1.4 | 4.2 | 3.2 | 4.2 | 10.2 | 18.3 | 1.2 | 3 |
| neast | 16.7 | 0.5 | 1.6 | 5.8 | 1.8 | 6.2 | 2.2 | 5.7 | 14.3 | 24.7 | 1.0 | 3 |
| heast | 8.6 | 0.6 | 2.0 | 4.6 | 1.4 | 4.8 | 4.5 | 4.0 | 18.3 | 17.7 | 1.4 | 5 |
| hwest | 8.6 | 0.6 | 1.4 | 3.1 | 1.6 | 4.0 | 0.5 | 5.2 | 10.1 | 12.2 | 1.0 | 2 |
| | 14.2 | 0.3 | 1.1 | 5.7 | 1.0 | 4.9 | 7.2 | 4.7 | 18.0 | 27.1 | 1.4 | 5 |
| e-Family t antee olio[7] | 57.7% | 0.5% | 1.5% | 24.7% | 1.4% | 4.8% | 17.6% | 4.5% | 15.5% | 100.0% | 1.2% | 4 |

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| | As of December 31, 2009 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ct Type | Current LTV[1] £ 80 | | | Current LTV[1] of 81-100 | | | Current LTV[1] > 100 | | | Current LTV[1] All | |
| | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] De |
| 20: | | | | | | | | | | | |
| nortizing 5) | 1.2% | 4.0% | 9.5% | 0.9% | 7.2% | 16.6% | 0.9% | 14.9% | 29.1% | 3.0% | 7.6% |
| nortizing | 0.2 | 1.0 | 4.4 | 0.0 | 1.3 | 11.4 | 0.0 | 2.0 | 18.6 | 0.2 | 1.0 |
| ustable-rate[6] | 0.1 | 0.1 | 11.9 | 0.0 | 0.2 | 20.0 | 0.1 | 0.3 | 29.8 | 0.2 | 0.2 |
| ly | 0.0 | 0.2 | 17.9 | 0.1 | 0.2 | 27.1 | 0.1 | 0.8 | 44.2 | 0.2 | 0.5 |
| sets | 0.0 | 0.0 | 15.5 | 0.0 | 0.5 | 18.4 | 0.0 | 0.0 | 27.2 | 0.0 | 0.1 |
| | 0.0 | 2.1 | 3.6 | 0.0 | 1.7 | 5.2 | 0.0 | 2.1 | 12.3 | 0.0 | 2.1 |
| ral ent | 0.0 | 6.0 | 15.0 | 0.0 | 1.9 | 12.3 | 0.0 | 2.0 | 11.4 | 0.0 | 2.7 |
| D < 620 | 1.5 | 3.1 | 8.2 | 1.0 | 6.4 | 16.8 | 1.1 | 12.7 | 29.7 | 3.6 | 6.0 |
| 20 to 659: | | | | | | | | | | | |
| nortizing 5) | 2.6 | 2.2 | 5.3 | 1.8 | 3.7 | 10.0 | 1.8 | 8.3 | 20.4 | 6.2 | 4.1 |
| nortizing | 0.6 | 0.5 | 2.6 | 0.1 | 0.5 | 5.9 | 0.0 | 1.4 | 11.9 | 0.7 | 0.5 |
| ustable-rate[6] | 0.1 | 0.1 | 5.8 | 0.2 | 0.2 | 13.2 | 0.1 | 0.4 | 25.2 | 0.4 | 0.2 |
| ly | 0.1 | 0.1 | 11.9 | 0.1 | 0.3 | 21.3 | 0.4 | 0.5 | 38.1 | 0.6 | 0.4 |
| sets | 0.0 | 0.1 | 8.4 | 0.0 | 0.3 | 11.7 | 0.0 | 0.3 | 17.7 | 0.0 | 0.1 |
| | 0.0 | 0.6 | 1.3 | 0.0 | 0.3 | 3.3 | 0.0 | 0.5 | 3.2 | 0.0 | 0.5 |
| ral ent | 0.0 | 2.0 | 6.8 | 0.0 | 1.0 | 6.8 | 0.0 | 0.7 | 4.3 | 0.0 | 1.0 |
| D of 620 to | 3.4 | 1.6 | 4.7 | 2.2 | 3.3 | 10.6 | 2.3 | 6.9 | 22.3 | 7.9 | 3.2 |
| 660: | | | | | | | | | | | |
| nortizing 5) | 36.2 | 0.3 | 1.0 | 19.4 | 0.6 | 2.8 | 10.1 | 2.2 | 9.4 | 65.7 | 0.6 |
| nortizing | 11.3 | 0.0 | 0.4 | 1.0 | 0.1 | 1.3 | 0.2 | 0.2 | 4.9 | 12.5 | 0.0 |
| ustable-rate[6] | 1.6 | 0.0 | 1.7 | 0.8 | 0.1 | 5.5 | 0.9 | 0.1 | 16.4 | 3.3 | 0.0 |
| ly | 1.2 | 0.0 | 3.4 | 1.8 | 0.1 | 9.6 | 3.1 | 0.3 | 24.2 | 6.1 | 0.2 |
| sets | 0.2 | 0.0 | 2.0 | 0.0 | 0.0 | 6.2 | 0.0 | 0.1 | 8.7 | 0.2 | 0.0 |
| | 0.0 | 0.1 | 1.1 | 0.0 | 0.0 | 0.5 | 0.0 | 0.1 | 0.6 | 0.0 | 0.1 |
| ral ent | 0.0 | 0.9 | 3.4 | 0.0 | 0.3 | 2.0 | 0.1 | 0.2 | 1.5 | 0.1 | 0.3 |
| D >= 660 | 50.5 | 0.2 | 0.8 | 23.0 | 0.5 | 3.2 | 14.4 | 1.7 | 12.1 | 87.9 | 0.4 |
| ICO not | 0.4 | 1.6 | 4.8 | 0.1 | 2.3 | 14.1 | 0.1 | 7.4 | 28.9 | 0.6 | 2.0 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| nortizing 5) | 40.2 | 0.6 | 1.7 | 22.1 | 1.2 | 4.1 | 12.9 | 4.0 | 12.5 | 75.2 | 1.3 |
| nortizing | 12.1 | 0.1 | 0.6 | 1.1 | 0.1 | 1.9 | 0.2 | 0.4 | 6.1 | 13.4 | 0.1 |
| ustable-rate[6] | 1.8 | 0.0 | 2.5 | 1.1 | 0.1 | 7.1 | 1.0 | 0.2 | 18.2 | 3.9 | 0.1 |
| ly | 1.3 | 0.0 | 4.2 | 2.0 | 0.1 | 11.2 | 3.6 | 0.3 | 26.4 | 6.9 | 0.2 |
| sets | 0.3 | 0.0 | 3.1 | 0.0 | 0.0 | 7.5 | 0.0 | 0.1 | 10.6 | 0.3 | 0.0 |
| | 0.1 | 1.7 | 10.7 | 0.0 | 0.4 | 12.9 | 0.1 | 0.7 | 15.2 | 0.2 | 1.3 |
| ral ent | 0.0 | 2.2 | 6.6 | 0.0 | 0.7 | 4.7 | 0.1 | 0.6 | 3.5 | 0.1 | 0.8 |
| le-Family arantee ) | 55.8% | 0.4% | 1.4% | 26.3% | 1.0% | 4.6% | 17.9% | 3.2% | 14.8% | 100.0% | 0.9% |

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| | As of December 31, 2009 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Region[8] | Current LTV[1] £ 80 | | | Current LTV[1] of 81-100 | | | Current LTV[1] > 100 | | | Current LTV[1] All Loan | | |
| | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinquency Rate[4] | Percentage of Portfolio[2] | Percentage Modified[3] | Delinqu Rate |
| D < 620: | | | | | | | | | | | | |
| h Central | 0.2% | 3.0% | 7.9% | 0.3% | 6.4% | 14.8% | 0.2% | 12.7% | 23.6% | 0.7% | 6.7% | 14 |
| heast | 0.5 | 3.1 | 9.4 | 0.2 | 7.3 | 20.3 | 0.2 | 14.6 | 30.4 | 0.9 | 5.7 | 14 |
| heast | 0.3 | 3.1 | 9.1 | 0.2 | 6.6 | 18.0 | 0.3 | 12.4 | 33.6 | 0.8 | 6.3 | 17 |
| hwest | 0.3 | 3.4 | 6.5 | 0.1 | 6.4 | 13.3 | 0.1 | 13.7 | 22.0 | 0.5 | 5.3 | 9 |
| t | 0.2 | 2.4 | 7.3 | 0.2 | 4.3 | 18.3 | 0.3 | 11.6 | 34.8 | 0.7 | 5.9 | 18 |
| l FICO < | 1.5 | 3.1 | 8.2 | 1.0 | 6.4 | 16.8 | 1.1 | 12.7 | 29.7 | 3.6 | 6.0 | 14 |
| D of 620 9: | | | | | | | | | | | | |
| h Central | 0.5 | 1.5 | 4.5 | 0.5 | 3.4 | 9.6 | 0.5 | 6.9 | 16.5 | 1.5 | 3.5 | 9 |
| heast | 1.0 | 1.5 | 5.0 | 0.5 | 3.7 | 12.3 | 0.4 | 7.8 | 21.3 | 1.9 | 2.9 | 8 |
| heast | 0.7 | 1.7 | 5.5 | 0.4 | 3.2 | 11.3 | 0.6 | 6.5 | 26.0 | 1.7 | 3.3 | 12 |
| hwest | 0.6 | 1.9 | 3.6 | 0.4 | 3.2 | 8.0 | 0.1 | 6.9 | 13.6 | 1.1 | 2.8 | 5 |
| t | 0.6 | 1.2 | 4.3 | 0.4 | 2.4 | 12.5 | 0.7 | 6.8 | 27.5 | 1.7 | 3.3 | 13 |
| l FICO of to 659 | 3.4 | 1.6 | 4.7 | 2.2 | 3.3 | 10.6 | 2.3 | 6.9 | 22.3 | 7.9 | 3.2 | 10 |
| D >= 660: | | | | | | | | | | | | |
| h Central | 8.3 | 0.2 | 0.8 | 5.1 | 0.5 | 2.7 | 2.7 | 1.6 | 7.0 | 16.1 | 0.4 | 2 |
| heast | 14.3 | 0.2 | 0.8 | 5.4 | 0.6 | 3.7 | 1.9 | 2.0 | 10.0 | 21.6 | 0.3 | 1 |
| heast | 7.8 | 0.2 | 1.2 | 4.1 | 0.5 | 3.6 | 3.4 | 1.5 | 14.6 | 15.3 | 0.5 | 4 |
| hwest | 6.8 | 0.2 | 0.7 | 3.2 | 0.5 | 2.0 | 0.6 | 1.4 | 4.9 | 10.6 | 0.4 | 1 |
| t | 13.3 | 0.1 | 0.7 | 5.2 | 0.3 | 3.9 | 5.8 | 1.9 | 15.6 | 24.3 | 0.5 | 4 |
| l FICO >= | 50.5 | 0.2 | 0.8 | 23.0 | 0.5 | 3.2 | 14.4 | 1.7 | 12.1 | 87.9 | 0.4 | 2 |
| l FICO vailable | 0.4 | 1.6 | 4.8 | 0.1 | 2.3 | 14.1 | 0.1 | 7.4 | 28.9 | 0.6 | 2.0 | 7 |
| FICO: | | | | | | | | | | | | |
| h Central | 9.1 | 0.3 | 1.3 | 5.8 | 1.1 | 3.9 | 3.4 | 3.2 | 9.8 | 18.3 | 1.0 | 3 |
| heast | 16.0 | 0.4 | 1.5 | 6.2 | 1.2 | 5.4 | 2.4 | 3.9 | 13.5 | 24.6 | 0.8 | 3 |
| heast | 8.8 | 0.5 | 2.0 | 4.8 | 1.1 | 5.2 | 4.3 | 3.0 | 17.8 | 17.9 | 1.1 | 5 |
| hwest | 7.7 | 0.5 | 1.3 | 3.8 | 1.1 | 3.4 | 0.8 | 3.8 | 8.6 | 12.3 | 0.9 | 2 |
| t | 14.2 | 0.2 | 1.1 | 5.7 | 0.6 | 5.0 | 7.0 | 2.9 | 17.8 | 26.9 | 0.9 | 5 |
| l le-Family it rantee folio[7] | 55.8% | 0.4% | 1.4% | 26.3% | 1.0% | 4.6% | 17.9% | 3.2% | 14.8% | 100.0% | 0.9% | 4 |

(1) The current LTV ratios are our estimates. See endnote (3) to Table 46 Characteristics of the Single-Family Credit Guarantee Portfolio for further information.
(2) Based on unpaid principal balance of the single-family credit guarantee portfolio. Those categories shown as 0.0% represent less than 0.1% of the loan balance of the single-family credit guarantee portfolio.
(3) See endnote (3) to Table 47 Credit Performance of Certain Higher Risk Categories in the Single-Family Credit Guarantee Portfolio.
(4) Based on the number of mortgages 90 days or more delinquent or in foreclosure in our single-family credit guarantee portfolio. Structured Transactions with ending balances of $2 billion are included in the single-family credit guarantee portfolio total, but are excluded at March 31, 2010 and December 31, 2009, in the product and regional detail rates since these securities are backed by non-Freddie Mac issued securities for which the loan characteristics data is not available. See *Portfolio Management Activities Credit Performance Delinquencies* for further information about our reported delinquency rates.
(5) Includes 40-year and 20-year mortgage loans.
(6) Includes option ARM mortgage loans.
(7) The total of all FICO categories may not sum due to the inclusion of loans where FICO is not available in the respective total for all loans. See endnote (4) to Table 46 Characteristics of the Single-Family Credit Guarantee Portfolio for further information about our use of FICO scores.
(8) Presentation of non-credit-enhanced delinquency rates with the following regional designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

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*Portfolio Management Activities*

*Credit Enhancements*

Our charter generally requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests. In addition, for some mortgage loans, we elect to share the default risk by transferring a portion of that risk to various third parties through a variety of other credit enhancements. In many cases, the lender s or third party s risk is limited to a specific level of losses at the time the credit enhancement becomes effective. At both March 31, 2010 and December 31, 2009, our credit-enhanced mortgages and mortgage-related securities represented approximately 16% of the $2.0 trillion of the unpaid principal balance of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities, that portion of issued Structured Securities that is backed by Ginnie Mae Certificates and Structured Transactions, including those backed by HFA bonds. We exclude non-Freddie Mac mortgage-related securities since we do not service the underlying loans. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* for additional information on credit enhancement coverage of our investments in non-Freddie Mac mortgage-related securities. We exclude that portion of Structured Securities backed by Ginnie Mae Certificates and HFA bonds because we consider the incremental credit risk to which we are exposed to be insignificant. Although many of our Structured Transactions are credit enhanced, we discuss the credit enhancement coverage information separately below due to the use of subordination in many of the securities structures.

Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is typically provided on a loan-level basis. Other types of credit enhancement that we use are lender recourse and indemnification agreements (under which we may require a lender to reimburse us for credit losses realized on mortgages), as well as pool insurance. Pool insurance provides insurance on a pool of loans up to a stated aggregate loss limit. In addition to a pool-level loss coverage limit, some pool insurance contracts may have limits on coverage at the loan level. As shown in the table below, the unpaid principal balance of single-family loans covered by pool insurance declined during the first quarter of 2010 since we reached the maximum limit of recovery on certain of these contracts. In certain other instances, the cumulative losses we incurred as of March 31, 2010 combined with our expectations of potential future claims will likely exceed the maximum limit of loss allowed by the policy. See *Institutional Credit Risk Mortgage Insurers* for further discussion about our mortgage loan insurers.

Table 49 provides information on coverage and maximum amounts of potential loss recovery by type of credit enhancement on loans in our single-family credit guarantee and multifamily mortgage portfolios.

**Table 49 Credit Protection and Other Forms of Recourse[1]**

| | Unpaid Principal at | | Maximum Coverage at | |
|---|---|---|---|---|
| | March 31, 2010 | December 31, 2009 | March 31, 2010 | December 31, 2009 |
| | (in millions) | | | |
| Single-family: | | | | |
| Primary mortgage insurance | $ 234,984 | $ 239,339 | $ 57,134 | $ 58,226 |
| Lender recourse and indemnifications | 12,829 | 13,075 | 10,959 | 11,083 |
| Pool insurance | 66,496 | 71,202 | 3,568 | 3,649 |
| HFA indemnification[2] | 9,487 | 3,915 | 3,320 | 1,370 |
| Other credit enhancements | 819 | 848 | 266 | 271 |

| | | | | |
|---|---|---|---|---|
| Total | $ 324,615 | $ 328,379 | $ 75,247 | $ 74,599 |
| Multifamily: | | | | |
| HFA indemnification[2] | $ 1,991 | $ 405 | $ 697 | $ 142 |
| Other credit enhancements | 11,017 | 10,962 | 3,018 | 2,989 |
| Total | $ 13,008 | $ 11,367 | $ 3,715 | $ 3,131 |

(1) Includes the credit protection associated with unsecuritized mortgage loans, mortgage loans within our consolidated trusts, and mortgage loans of our non-consolidated mortgage guarantees. Excludes credit enhancements related to Structured Transactions, which had unpaid principal balances that totaled $27.1 billion and $26.5 billion at March 31, 2010 and December 31, 2009, respectively. Prior periods have been revised to conform to the current period presentation.

(2) Represents the amount of potential reimbursement of losses on securities we have guaranteed that are backed by state and local HFA bonds, under which Treasury bears initial losses on these securities up to 35% of those issued under the HFA initiative on a combined basis. Treasury will also bear losses of unpaid interest.

We also have credit protection for certain of the mortgage loans on our consolidated balance sheets that are covered by insurance or partial guarantees issued by federal agencies (*i.e.*, FHA, VA and USDA). The total unpaid principal balance of these loans was $5.4 billion and $3.9 billion as of March 31, 2010 and December 31, 2009, respectively. Certain of our Structured Transactions include subordination protection or other forms of credit enhancement. At March 31, 2010 and December 31, 2009, the unpaid principal balance of Structured Transactions with subordination coverage was $4.4 billion and $4.5 billion, respectively, and the average subordination coverage on these securities was 17%, at both dates.

The delinquency rates associated with single-family Structured Transactions categorized as pass-through structures increased from 4.5% at December 31, 2009 to 5.2% at March 31, 2010. We increased our provision for credit losses on these loans during the first quarter of 2010. We recognized credit losses on Structured Transactions of $111 million and $53 million for the first quarters of 2010 and 2009, respectively, and the majority of these related to Structured Transactions with pass-through structures. We continue to work with the servicers of the loans underlying our Structured Transactions on their loss mitigation efforts. See *Institutional Credit Risk Mortgage Seller/Servicers* for further information.

We may also use credit enhancements to mitigate risk of loss on certain multifamily mortgages and revenue bonds. The total unpaid principal balance of our multifamily mortgage portfolio for which we have credit enhancement coverage was $13.0 billion and $11.4 billion as of March 31, 2010 and December 31, 2009, respectively, and we had maximum potential coverage on these loans of $3.7 billion and $3.1 billion, respectively.

*Loss Mitigation Activities*

Loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention in delinquent mortgages and providing alternatives to foreclosure. For more detailed explanation of the types of foreclosure alternatives, see MD&A RISK MANAGEMENT Credit Risks *Mortgage Credit Risk Loss Mitigation Activities* in our 2009 Annual Report.

We are currently focusing our loan modification efforts on HAMP. If a borrower is not eligible for a HAMP modification, the loan is considered for modification under our other loan modification programs. In the second quarter of 2010, we expect to implement additional streamlined modification processes and other modification alternatives for borrowers that drop out of the HAMP trial period. These non-HAMP modification programs are intended to minimize the need for any additional documentation. We will pay servicer incentive fees that may differ in amount from the incentive fees that are paid under HAMP. If the borrower is not eligible for any such programs, the borrower will be considered for other foreclosure alternatives, such as a pre-foreclosure sale, including those borrowers who are eligible under HAFA. For more information on HAMP and other MHA program activities, including new guidelines issued by Treasury in January 2010, see MD&A MHA PROGRAM AND OTHER EFFORTS TO ASSIST THE U.S. HOUSING MARKET in our 2009 Annual Report and this Form 10-Q.

We devote significant internal resources to the implementation of our various loss mitigation activities, including our initiatives under the MHA Program, and incur significant expenses. It is not possible at present to estimate whether, and the extent to which, costs incurred in the near term, will be offset by the prevention or reduction of potential future costs of loan defaults and foreclosures due to these activities.

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Table 50 presents our single-family foreclosure alternative volumes for the three months ended March 31, 2010 and 2009, respectively.

**Table 50 Single-Family Foreclosure Alternatives[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (number of loans) | |
| Loan modifications: | | |
| with no change in terms[2] | 726 | 1,816 |
| with change in terms | 33,948 | 22,807 |
| with change in terms and principal forbearance | 9,402 | |
| Total loan modifications[3] | 44,076 | 24,623 |
| Repayment plans[4] | 8,761 | 10,459 |
| Forbearance agreements[5] | 8,858 | 1,448 |
| Pre-foreclosure sales | 9,619 | 3,093 |
| Total foreclosure alternatives | 71,314 | 39,623 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (loan balances, in millions) | |
| Loan modifications[3] | $ 9,823 | $ 4,905 |
| Forbearance agreements | $ 1,856 | $ 191 |
| Pre-foreclosure sales | $ 2,165 | $ 709 |

(1) Based on completed actions with borrowers for loans within our single-family credit guarantee portfolio. The reported volumes for the first quarter of 2009 exclude Structured Transactions and non-securitized mortgage-related financial guarantees, whereas the first quarter 2010 excludes only non-consolidated Structured Transactions and other mortgage-related financial guarantees. Excludes those modification, repayment and forbearance activities for which the borrower has started the required process, but the actions have not been made permanent, or effective, such as loans in the trial period under HAMP. These categories are not mutually exclusive and a loan in the forbearance agreement category may also be included within another category (see endnote 5).

(2) Under this modification type, past due amounts are added to the principal balance of the original contractual loan amount.

(3) Based on the number of modifications offered by our servicers and accepted, or acknowledged by us and the borrower during the period. Includes completed loan modifications under HAMP for the three months ended March 31, 2010; however, the number of such completions differs from that reported by the MHA Program administrator in part due to differences in the timing of recognizing the completions by us and the administrator.

(4)

Represents the number of borrowers that have completed the full term of a repayment plan for past delinquent amounts. Excludes the number of borrowers that are actively repaying past due amounts under a repayment plan, which totaled 21,358 and 24,558 borrowers as of March 31, 2010 and 2009, respectively.

(5) Many borrowers complete a forbearance agreement before beginning the trial period of HAMP or before another foreclosure alternative is pursued or completed. Our reported activity has been revised such that we only report activity for a single loan in one foreclosure alternative category during each quarterly period; however, a single loan may be reported under different foreclosure alternatives in separate periods.

We had significant increases in loan modifications as well as pre-foreclosure sales during the three month period ended March 31, 2010 compared to the three month period ended March 31, 2009. These higher activity volumes reflect our efforts to assist at-risk and delinquent borrowers and we expect continued volume growth during 2010.

Since it was introduced in the second quarter of 2009, we have focused our loan modification efforts on HAMP. Approximately 49,000 borrowers had completed modifications in the HAMP process as of March 31, 2010, as compared to approximately 14,000 as of December 31, 2009. FHFA reported that approximately 203,000 of our loans were in active trial periods or were modified under HAMP as of February 28, 2010. Unlike the MHA Program administrator s data, FHFA s HAMP information includes: (a) loans in the trial period regardless of the first payment date; and (b) modifications that are pending the borrower s acceptance. Based on information reported by the MHA Program administrator, approximately 149,000 of our loans were in the HAMP trial period as of March 31, 2010 and approximately one-half of these loans had been in the trial period for more than three months.

The completion rate for HAMP modifications, which is the percentage of borrowers that successfully exit the trial period and receive final modifications, remains uncertain primarily due to the challenges faced by servicers in implementing this program and the difficulty of obtaining income and other documentation from borrowers. Guidelines for HAMP provide that, beginning with trial periods that take effect on or after June 1, 2010, borrowers must provide income documentation before entering into a HAMP trial period. However, we have urged our servicers to implement this requirement sooner, if possible.

Beginning March 7, 2009, we began suspension of foreclosure transfers of owner-occupied homes where the borrower may be eligible to receive a loan modification under the MHA Program. The MHA Program further restricts foreclosure while the borrower is being evaluated for HAMP and during the borrower s trial period.

We increased our efforts to complete pre-foreclosure sale transactions during the first quarter of 2010. The number of completed pre-foreclosure sales during the first quarter of 2010 was 9,619, compared to 3,093 in the first

quarter of 2009. We expect that the growth in pre-foreclosure sales will continue in 2010, in part due to our implementation of HAFA in the second quarter of the year. HAFA is designed to permit borrowers who meet basic HAMP eligibility requirements to sell their homes in short sales, if such borrowers did not participate in trial periods, failed to complete their trial period or defaulted on their modified loan. In a short sale, the owner sells the home and the lender accepts proceeds that are less than the outstanding mortgage indebtedness. The program also provides a process for borrowers to convey title to their homes through a deed-in-lieu of foreclosure. In both cases, the program will offer incentives to the servicer and the borrower. We will pay certain incentive fees to servicers of and borrowers under mortgages that we own or guarantee that become the subject of HAFA short sales. We will not receive reimbursement of these fees from Treasury. A borrower who does not qualify for a HAFA short sale may qualify for a non-HAFA short sale. We have historically paid and may continue to pay incentive fees for non-HAFA short sales, in amounts that may differ from those paid in HAFA short sales.

*Credit Performance*

*Delinquencies*

We revised our method of presenting delinquency rate information in MD&A. Under the revised method, as described below, we no longer exclude Structured Transactions backed by single-family loans. We also report multifamily loans as delinquent when they are 60 days past due, instead of the previous 90 days. Prior period delinquency rates have been revised to conform to the current presentation.

We report single-family delinquency rate information based on the number of loans that are 90 days or more past due and those in the process of foreclosure. For multifamily loans, we report delinquency rates based on the unpaid principal balance of mortgage loans that are 60 days or more past due and those in the process of foreclosure. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not counted as delinquent for purposes of reporting delinquency rates if the borrower is less than 60 days (multifamily) or 90 days (single-family) delinquent under the modified terms. Our single-family and multifamily delinquency rates include all single-family and multifamily loans that we own, that are collateral for our PCs and Structured Securities and for which we issue a non-securitized financial guarantee, except as follows:

- We exclude that portion of our Structured Securities and other mortgage-related financial guarantees that are backed by either Ginnie Mae Certificates or HFA bonds because these securities do not expose us to meaningful amounts of credit risk due to the guarantee or credit enhancements provided on these securities by the U.S. government.

- We exclude Structured Transactions from multifamily delinquency rates, except as indicated otherwise, because these are backed by non-Freddie Mac securities, and, consequently, we do not service the underlying loans. Structured Transactions backed by multifamily mortgage loans represented approximately 4% and 3% of our multifamily mortgage portfolio at March 31, 2010 and December 31, 2009, respectively. The delinquency rate of multifamily Structured Transactions, excluding those backed by HFA bonds, was 0.19% and 0.25% at March 31, 2010 and December 31, 2009, respectively.

Temporary actions to suspend foreclosure transfers of occupied homes as well as the longer foreclosure process timeframes of certain states (including Florida) caused our single-family delinquency rates to increase more rapidly in 2009 and the first quarter of 2010 than they would have otherwise, as loans that would have been foreclosed have instead remained in delinquent status. In general, suspension or delays of foreclosure transfers and any imposed delays in the foreclosure process by regulatory or governmental agencies will cause our delinquency rates to rise. Our single-family delinquency rates are also adversely affected by the large number of borrowers who participate in HAMP, since many of these loans are counted as delinquent while in the trial period. Although delinquency rates of

our single-family credit guarantee portfolio continued to increase during the first quarter of 2010, the rate of increase in new delinquencies has moderated.

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Table 51 presents delinquency rates for our single-family credit guarantee and multifamily mortgage portfolios.

**Table 51 Delinquency Rates**

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Percent of Portfolio | Delinquency Rate(1) | Percent of Portfolio | Delinquency Rate(1) |
| Single-family: | | | | |
| Non-credit-enhanced | 84% | 3.18% | 84% | 3.02% |
| Credit-enhanced | 16 | 8.87 | 16 | 8.68 |
| Total single-family credit guarantee portfolio | 100% | 4.13 | 100% | 3.98 |
| Multifamily: | | | | |
| Non-credit-enhanced | 89% | 0.13 | 89% | 0.07 |
| Credit-enhanced | 11 | 1.11 | 11 | 1.13 |
| Total multifamily mortgage portfolio | 100% | 0.24 | 100% | 0.19 |

(1) Single-family rates are based on the number of loans 90 days or more delinquent and include Structured Transactions whereas multifamily rates are based on the unpaid principal balances of loans 60 days or more delinquent and exclude Structured Transactions. Prior period multifamily delinquency rates have been revised to conform to the current year presentation. See *Portfolio Management Activities Credit Performance Delinquencies* for further information about our reported delinquency rates.

Delinquency rates for nearly all single-family mortgage product types increased during the first quarter of 2010, but were most significant for interest-only, Alt-A and option ARM mortgage loans. Delinquency rates for interest-only and option ARM products, which together represented approximately 8% of our total single-family credit guarantee portfolio at March 31, 2010, increased to 18.5% and 19.8% at March 31, 2010, respectively, compared with 17.6% and 17.9% at December 31, 2009, respectively. Delinquency rates of single-family 30-year, fixed-rate amortizing loans, which is a more traditional mortgage product, increased to 4.2% at March 31, 2010 as compared to 4.0% at December 31, 2009.

During 2009 and the first quarter of 2010, home prices in certain regions and states improved modestly, but remained weak overall due to significant inventories of unsold homes in every region of the U.S. In some geographical areas, particularly in certain states within the West, Southeast and Northeast regions, home price declines of the past three years combined with higher rates of unemployment resulted in significant increases in delinquency rates. See Table 48 Single-Family Credit Guarantee Portfolio by Attribute Combinations and NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS to our consolidated financial statements for additional information. We also continued to experience higher rates of delinquency on single-family loans originated between 2006 and 2008, as changes in other financial institutions underwriting standards allowed for the origination of significant amounts of higher risk mortgage products during that period. In addition, those borrowers are more susceptible to the recent declines in home prices than those homeowners that have built equity over time.

The table below presents delinquency information on our single-family credit guarantee and multifamily mortgage portfolios by year of origination.

**Table 52 Single-Family Credit Guarantee and Multifamily Mortgage Portfolios by Year of Origination**

| | March 31, 2010 | | | December 31, 2009 | | |
|---|---|---|---|---|---|---|
| | Percent of UPB | Delinquency Rate(1) | Cumulative Default Rate(2) | Percent of UPB | Delinquency Rate(1) | Cumulative Default Rate(2) |
| **Single-Family:** | | | | | | |
| Year of Origination | | | | | | |
| 2004 and prior | 26% | 2.34% | N/A | 28% | 2.20% | N/A |
| 2005 | 11 | 5.68 | 1.93% | 12 | 5.24 | 1.63% |
| 2006 | 10 | 9.99 | 3.20 | 11 | 9.35 | 2.70 |
| 2007 | 14 | 11.24 | 2.80 | 14 | 10.47 | 2.24 |
| 2008 | 11 | 3.92 | 0.54 | 12 | 3.38 | 0.37 |
| 2009 | 25 | 0.08 | | 23 | 0.05 | |
| 2010 | 3 | | | | | |
| Total | 100% | 4.13 | | 100% | 3.98 | |
| **Multifamily:** | | | | | | |
| Year of Origination | | | | | | |
| 2004 and prior | 19% | 0.25% | | 19% | 0.08% | |
| 2005 | 8 | | | 8 | | |
| 2006 | 12 | 0.06 | | 12 | 0.16 | |
| 2007 | 22 | 0.80 | | 22 | 0.56 | |
| 2008 | 24 | 0.07 | | 24 | 0.13 | |
| 2009 | 13 | | | 15 | | |
| 2010 | 2 | | | | | |
| Total | 100% | 0.24 | | 100% | 0.19 | |

(1) Single-family rates are based on the number of loans 90 days or more delinquent whereas multifamily rates are based on the unpaid principal balances of loans 60 days or more delinquent. Prior period multifamily delinquency rates have been revised to conform to the current year presentation.
(2) Represents the cumulative transition rate of loans to a default event, and is calculated for each year of origination as the number of loans that have proceeded to foreclosure acquisition or other disposition events during the period from origination to March 31, 2010 and December 31, 2009, respectively, excluding loan defaults without loss due to our full recovery from either seller repurchase or preforeclosure sales and liquidations through voluntary pay-off and repurchases, divided by the number of loans in our single-family credit guarantee portfolio. Excludes certain Structured Transactions for which data is unavailable. Cumulative default rate is applicable to single-family only.

At March 31, 2010, approximately 25% of our single-family credit guarantee portfolio consisted of mortgage loans originated in 2009. These loans experienced significantly better delinquency trends at this stage than did the 2006, 2007 and 2008 vintage years, which we believe reflects recent improvements in our underwriting standards. Mortgage

loans originated in 2006 through 2008, and to a lesser extent 2005, experienced higher delinquency rates in the earlier years of their terms as compared to our historical experience. Our single-family credit guarantee portfolio was positively affected by low interest rates and high refinance activity in 2009 and the first quarter of 2010. As a result, our new purchases during these periods contained a relatively higher composition of fixed-rate amortizing mortgage loans than earlier years. Loans originated in 2010 comprise 3% of our single-family credit guarantee portfolio and had an average original LTV ratio of 69% and an average borrower credit score of 751.

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Table 53 provides delinquency information by attribute of our multifamily mortgage portfolio as of March 31, 2010 and December 31, 2009.

**Table 53 Multifamily Mortgage Portfolio by Attribute[1]**

| | Percentage of Portfolio at | | Delinquency Rate[2] (60 days or more) at | |
|---|---|---|---|---|
| | March 31, 2010 | December 31, 2009 | March 31, 2010 | December 31, 2009 |
| **Original LTV Ratio[3]** | | | | |
| Below 75% | 64% | 64% | 0.14% | 0.06% |
| 75% to 80% | 29 | 29 | 0.18 | 0.13 |
| Above 80% | 7 | 7 | 1.53 | 1.63 |
| Total | 100% | 100% | 0.24% | 0.19% |
| Weighted average LTV ratio at origination | 70% | 70% | | |
| **Geographic Distribution** | | | | |
| California | 18% | 18% | % | % |
| Texas | 12 | 12 | 0.71 | 0.26 |
| New York | 8 | 9 | | |
| Virginia | 6 | 5 | | |
| Florida | 6 | 5 | | 0.35 |
| Georgia | 5 | 5 | 0.79 | 0.67 |
| All other states | 45 | 46 | 0.27 | 0.23 |
| Total | 100% | 100% | 0.24% | 0.19% |
| **Maturity Date** | | | | |
| 2010 | 2% | 2% | 1.86% | 0.21% |
| 2011 | 3 | 3 | | |
| 2012 | 4 | 5 | | |
| 2013 | 7 | 7 | | |
| 2014 | 9 | 9 | 0.09 | |
| Beyond 2014 | 75 | 74 | 0.28 | 0.25 |
| Total | 100% | 100% | 0.24% | 0.19% |

(1) Based on unpaid principal balance of the multifamily mortgage portfolio, which includes multifamily loans underlying issued PCs and Structured Securities. As of March 31, 2010 and December 31, 2009, the multifamily

mortgage portfolio was approximately $97.6 billion and $98.6 billion, respectively, which excludes securities and guarantees backed by HFA bonds and multifamily Structured Transactions.

(2) Based on unpaid principal balances. Prior period has been revised to conform to the current period presentation.

(3) Original LTV ratios are calculated as the amount of the mortgage we guarantee including the credit-enhanced portion, divided by the lesser of the appraised value of the property at time of mortgage origination or the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation.

Our multifamily mortgage portfolio delinquency rate, excluding Structured Transactions, increased to 0.24% at March 31, 2010 from 0.19% at December 31, 2009. As of March 31, 2010, approximately half of our multifamily loans 60 days or more delinquent (measured both in terms of number of loans and a UPB basis) have credit enhancement that we believe will mitigate our expected losses on those loans. The two key apartment market fundamentals, monthly rental and occupancy rates, were essentially unchanged in the first quarter of 2010, representing stabilization after several quarters of decline. Market fundamentals for multifamily properties that we monitor experienced the greatest stress during the first quarter of 2010 in certain states in the Southeast and West regions. We experienced an increase in the number of borrowers seeking assistance or modification of loan terms.

We estimate that the percentage of loans in our multifamily mortgage portfolio with a current DSCR less than 1.0 was 11% and 8% as of March 31, 2010 and December 31, 2009, respectively, based on the latest available information for these properties, and the delinquency rate for these loans was 1.3% for both periods. For further information on credit concentrations in our multifamily mortgage portfolio, see NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS to our consolidated financial statements.

*Non-Performing Assets*

Non-performing assets consist of non-performing loans that have undergone a troubled debt restructuring, loans that are more than 90 days past due or in foreclosure, multifamily loans that are deemed impaired based on management s judgment and are at least 30 days delinquent and REO assets, net. Troubled debt restructurings are a type of loan modification in which the changes to the contractual terms result in concessions to borrowers that are experiencing financial difficulties. We classify loans as non-performing and place them on nonaccrual status when we believe collectibility of interest and principal on a loan is not reasonably assured, unless the loan is well secured and in the process of collection. Interest income on nonaccrual loans is recognized on a cash basis. There were no loans 90 days or more past due for which we continued to accrue interest in the first quarter of 2010. Table 54 provides detail of non-performing assets on our consolidated balance sheets.

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**Table 54 Non-Performing Assets[1]**

| | March 31, 2010 | December 31, 2009 | March 31, 2009 |
|---|---|---|---|
| | | (dollars in millions) | |
| Non-performing mortgage loans on balance sheet: | | | |
| Single-family troubled debt restructurings: | | | |
| Reperforming or less than 90 days delinquent | $ 8,493 | $ 711 | $ 618 |
| 90 days or more delinquent | 1,560 | 477 | 250 |
| Multifamily troubled debt restructurings | 233 | 229 | 140 |
| Total troubled debt restructurings | 10,286 | 1,417 | 1,008 |
| Other single-family non-performing loans[2][3] | 98,139 | 12,106 | 7,927 |
| Other multifamily non-performing loans | 129 | 91 | 41 |
| Total non-performing mortgage loans on balance sheet | 108,554 | 13,614 | 8,976 |
| Non-performing mortgage loans off-balance sheet: | | | |
| Single-family loans | 1,887 | 85,395 | 49,881 |
| Multifamily loans | 203 | 218 | 108 |
| Total non-performing mortgage loans off-balance sheet[3] | 2,090 | 85,613 | 49,989 |
| Real estate owned, net | 5,468 | 4,692 | 2,948 |
| Total non-performing assets | $ 116,112 | $ 103,919 | $ 61,913 |
| Loan loss reserves as a percentage of our non-performing mortgage loans | 33.3% | 34.1% | 38.7% |
| Total non-performing assets as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities | 5.8% | 5.2% | 3.2% |

(1) Mortgage loan amounts are based on unpaid principal balances and REO, net is based on carrying values.
(2) Represents loans recognized by us on our consolidated balance sheets, including loans purchased from PC trusts due to the borrower s delinquency.
(3) The significant increase in other single-family non-performing loans on balance sheet and the significant decrease in the non-performing single-family mortgage loans-off-balance sheet from December 31, 2009 to March 31, 2010 is primarily related to the adoption of amendments of the accounting standards for transfers of financial assets and consolidation of VIEs. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES to our consolidated financial statements for further information.

The amount of non-performing assets increased to approximately $116.1 billion at March 31, 2010, from $103.9 billion at December 31, 2009, due to continued weak home prices and employment market, extended foreclosure timelines in many states and constraints on servicers capacity to service high volumes of delinquent loans. The unpaid principal balance of loans categorized as a troubled debt restructuring increased to $10.3 billion at March 31, 2010 from $1.4 billion as of December 31, 2009, due to a significant increase in loan modifications during

the first quarter of 2010 in which we decreased the contractual interest rate, deferred the balance on which contractual interest is computed, or made a combination of both of these changes. Many of the completed modifications during the first quarter of 2010 were those under HAMP, but an increasing number of our non-HAMP modifications have similar reductions in interest terms. In addition, HAMP and other programs depressed the rate at which loans transition to REO, which caused us to build up a substantial backlog of non-performing loans in 2009 and the first quarter of 2010. Growth in non-performing assets was less pronounced during the first quarter of 2010 than the last several quarters, but we expect our non-performing assets, including loans deemed troubled debt restructurings, to continue to increase in 2010.

Table 55 provides detail by region for REO activity. Our REO activity relates almost entirely to single-family residential properties. Consequently, our regional REO acquisition trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends of our single-family credit guarantee portfolio. See Table 48 Single-Family Credit Guarantee Portfolio by Attribute Combinations and NOTE 18: CONCENTRATION OF CREDIT AND OTHER RISKS to our consolidated financial statements for additional information about regional delinquency rates.

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**Table 55 REO Activity by Region[1]**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (number of units) | |
| REO Inventory | | |
| Beginning property inventory | 45,052 | 29,346 |
| Adjustment to beginning balance[2] | 1,340 | |
| Properties acquired by region: | | |
| Northeast | 2,644 | 1,123 |
| Southeast | 8,034 | 3,555 |
| North Central | 7,199 | 2,754 |
| Southwest | 3,090 | 1,659 |
| West | 8,449 | 4,898 |
| Total properties acquired | 29,416 | 13,989 |
| Properties disposed by region: | | |
| Northeast | (1,912) | (1,240) |
| Southeast | (5,262) | (3,038) |
| North Central | (4,897) | (3,478) |
| Southwest | (2,332) | (1,545) |
| West | (7,566) | (4,883) |
| Total properties disposed | (21,969) | (14,184) |
| Ending property inventory | 53,839 | 29,151 |

(1) See Table 48 Single-Family Credit Guarantee Portfolio by Attribute Combinations for a description of these regions.
(2) Represents REO assets associated with previously non-consolidated mortgage trusts recognized upon adoption of the amendment to the accounting standard for consolidation of VIEs on January 1, 2010.

Our REO property inventory increased 20% during the first quarter of 2010 due to increased levels of foreclosures associated with borrowers that did not qualify or that did not successfully complete a modification. We pursue non-HAMP modifications of loans for eligible borrowers when those borrowers do not qualify for HAMP.

During 2009 and the first quarter of 2010, we experienced a significant increase in the number of delinquent loans in our single-family credit guarantee portfolio. However, due to the effect of HAMP, our suspensions of foreclosure transfers and other programs, many of these loans have not yet transitioned to REO, or their transition to REO was delayed. This resulted in a substantial backlog of non-performing loans, and also slowed the rate of growth of our REO inventory in 2009. In 2010, we expect many of these loans will not complete the modification process or may redefault and result in a foreclosure transfer. Consequently, we expect our REO activity to continue to increase in 2010.

Our single-family REO acquisitions during the first quarter of 2010 have been most significant in the states of California, Florida, Arizona, Michigan, Illinois and Georgia. The West region represents approximately 29% of the new REO acquisitions during the three months ended March 31, 2010, based on the number of units, and the highest concentration in that region is in the state of California. At March 31, 2010, our REO inventory in California comprised approximately 23% of our total REO property inventory, based on loan amount prior to acquisition.

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*Credit Loss Performance*

Many loans that are delinquent or in foreclosure result in credit losses. Table 56 provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and underlying our non-consolidated mortgage-related financial guarantees.

**Table 56 Credit Loss Performance**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2010 | 2009 |
| | (dollars in millions) | |
| REO | | |
| REO balances, net: | | |
| Single-family | $ 5,411 | $ 2,908 |
| Multifamily | 57 | 40 |
| Total | $ 5,468 | $ 2,948 |
| REO operations expense: | | |
| Single-family | $ 156 | $ 306 |
| Multifamily | 3 | |
| Total | $ 159 | $ 306 |
| Charge-offs:[1] | | |
| Single-family: | | |
| Charge-offs, gross (including $3.25 billion and $1.33 billion relating to loan loss reserve, respectively) | $ 3,367 | $ 1,366 |
| Recoveries[2] | (616) | (354) |
| Single-family, net | $ 2,751 | $ 1,012 |
| Multifamily: | | |
| Charge-offs, gross (including $18 million and $2 million relating to loan loss reserve, respectively) | $ 18 | $ 2 |
| Recoveries[2] | | |
| Multifamily, net | $ 18 | $ 2 |
| Total charge-offs: | | |
| Charge-offs, gross (including $3.27 billion and $1.33 billion relating to loan loss reserves, respectively) | $ 3,385 | $ 1,368 |
| Recoveries[2] | (616) | (354) |
| Total charge-offs, net | $ 2,769 | $ 1,014 |

| | | |
|---|---|---|
| Credit losses:[3] | | |
| Single-family | $ 2,907 | $ 1,318 |
| Multifamily | 21 | 2 |
| Total | $ 2,928 | $ 1,320 |
| Total in basis points[4] (annualized) | 59.5 | 27.7 |

(1) Represents the amount of the unpaid principal balance of a loan that has been discharged, regardless of when the impact of the credit loss was recorded on our consolidated statements of operations through the provision for credit losses or losses on loans purchased. The amount of charge-offs for credit loss performance is generally calculated as the contractual balance of a loan at the date it is discharged less the estimated value in final disposition.

(2) Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers or other third parties through credit enhancements.

(3) Equal to REO operations expense plus charge-offs, net. Excludes interest forgone on non-performing loans, which reduces our net interest income but is not reflected in our total credit losses. In addition, excludes other market-based credit losses: (a) incurred on our mortgage loans and mortgage-related securities; and (b) recognized in our consolidated statements of operations, including losses on loans purchased and losses on certain credit guarantees.

(4) Calculated as annualized credit losses divided by the average total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Our credit loss performance is a historic metric that generally measures losses at the conclusion of the loan and related collateral resolution process. There is a significant lag in time from the implementation of loss mitigation activities until the final resolution of delinquent mortgage loans as well as the disposition of non-performing assets. Our credit loss performance is based on our charge-offs and REO expenses and differs from our provision for credit losses and losses on loans purchased. We expect our credit losses to continue to increase during 2010, as our troubled debt restructuring, pre-foreclosure sales and REO acquisition volume will likely remain high and market conditions, such as home prices and the rate of home sales, continue to remain weak, which may cause our loss severity rates to remain relatively high.

Single-family charge-offs, gross, for the three months ended March 31, 2010 increased to $3.4 billion, compared to $1.4 billion for the three months ended March 31, 2009, primarily due to an increase in the volume of foreclosure transfers and continued weakness of residential real estate markets. We expect our charge-offs will continue to increase in the remainder of 2010.

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Average loss severity rates on loans that transition to a loss event, such as a pre-foreclosure sale or foreclosure transfer were 39.0% during the first quarter of 2010, as compared to 36.7% during the first quarter of 2009. Our per-property loss rates during the first quarter of 2010 continued to be more severe in California, Florida, Nevada and Arizona than most other states. In addition, although Alt-A loans comprise approximately 7% of our single-family credit guarantee portfolio as of March 31, 2010, these loans have contributed approximately 42% of our credit losses during the three months ended March 31, 2010.

Table 57 presents the credit loss concentration of loans in our single-family credit guarantee portfolio for the three months ended March 31, 2010 and 2009.

**Table 57 Single-Family Credit Loss Concentration Analysis**

| | Unpaid Principal Balance[1] As of March 31, | | Credit Losses[2] Three Months Ended | |
|---|---|---|---|---|
| | | | March 31, | March 31, |
| | 2010 | 2009 | 2010 | 2009 |
| | (in billions) | | (in millions) | |
| Year of origination: | | &nbs | | |