FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
November 03, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2015
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission File Number: 001-34139

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

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

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. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of October 21, 2015, there were 650,045,962 shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

This Quarterly Report on Form 10-Q includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in: (a) the "FORWARD-LOOKING STATEMENTS" sections of this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2014, or 2014 Annual Report, and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015; and (b) the "RISK FACTORS" and "BUSINESS" sections of our 2014 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the "GLOSSARY."

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

You should read this MD&A in conjunction with our 2014 Annual Report and our condensed consolidated financial statements and accompanying notes for the three and nine months ended September 30, 2015 included in "FINANCIAL STATEMENTS."

EXECUTIVE SUMMARY

Overview

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

We support the U.S. housing market and the overall economy by: (a) providing America's families with access to mortgage funding at lower rates; (b) helping distressed borrowers keep their homes and avoid foreclosure; and (c) providing consistent liquidity to the multifamily mortgage market, which primarily includes providing financing for workforce rental housing. We are also working with FHFA, our customers and the industry to build a stronger housing finance system for the nation.

Conservatorship and Government Support for Our Business

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

Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury constrain our business activities. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. We cannot retain capital from the earnings generated by our business operations or return capital to stockholders other than Treasury.

Consolidated Financial Results

Comprehensive income (loss) was $(0.5) billion for the third quarter of 2015, compared to $2.8 billion for the third quarter of 2014. Comprehensive income (loss) for the third quarter of 2015 consisted of $(0.5) billion of net income (loss). The main drivers of our results for the third quarter of 2015 include net interest income and fair value losses on our derivatives.

During the third quarter of 2015 our results were negatively impacted by market-related items. We estimate that $1.5 billion of loss was driven by losses on derivatives used to economically hedge the interest rate risk related to certain financial assets and liabilities that were not measured at fair value. These derivative losses were driven by a decrease in interest rates and yield curve flattening during the quarter. In addition, an estimated $0.6 billion of loss was driven by changes in the fair value of certain mortgage loans and mortgage-related securities that are measured at fair value, due to credit spread widening.

Our total equity was $1.3 billion at September 30, 2015. Because our net worth was positive at September 30, 2015, we are not requesting a draw from Treasury under the Purchase Agreement for the third quarter of 2015. Through September 30, 2015, we have received aggregate funding of $71.3 billion from Treasury under the Purchase Agreement, and have paid $96.5 billion in aggregate cash dividends to Treasury.

Variability of Earnings

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

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- Interest-Rate Volatility — We hold assets and liabilities that expose us to interest-rate risk. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. However, the way we account for our financial assets and liabilities, including derivatives (i.e., some are measured at amortized cost, while others are measured at fair value), creates volatility in our earnings when interest rates fluctuate. This volatility is not indicative of the underlying economics of our business.

Given this volatility and the declining capital reserve permitted under the terms of the Purchase Agreement (ultimately reaching zero in 2018), the risk of our having a negative net worth and being required to make a draw from Treasury will increase. To mitigate this risk, we may enter into transactions or take other steps that could increase our costs or lower our returns.

- Spread Volatility — Spread volatility (i.e., credit spreads, liquidity spreads, risk premiums, etc.), or option-adjusted spreads, is the risk associated with changes in interest rates in excess of benchmark rates. We hold assets and liabilities that expose us to spread volatility. However, we have limited ability to manage spread volatility. Changes in spreads may contribute to significant earnings volatility period to period.

For information on how option-adjusted spreads may affect our earnings, see "RISK FACTORS — Competitive and Market Risks — Changes in OAS could materially affect our results of operations and net worth" in our 2014 Annual Report.

- Non-Recurring Events — From time to time, we have experienced and will likely continue to experience significant earnings volatility from non-recurring events related to the financial crisis, including settlements with counterparties and changes in certain valuation allowances (i.e., allowance for loan losses and deferred tax asset).

Our Primary Business Objectives

Our primary business objectives are:

- to support U.S. homeowning and renting families by maintaining mortgage availability even when other sources of financing are scarce and providing struggling homeowners with alternatives that allow them to stay in their homes or to avoid foreclosure;
- to reduce taxpayer exposure to losses by increasing the role of private capital in the mortgage market and reducing our overall risk profile;
- to build a commercially strong and efficient business enterprise to succeed in a to-be-determined “future state”; and
- to support and improve the secondary mortgage market.

Our business objectives reflect direction that we have received from the Conservator, including the 2015 Conservatorship Scorecard. For information on the Scorecard and the related 2014 Strategic Plan, see “BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments — FHFA’s Strategic Plan for Freddie Mac and Fannie Mae Conservatorships” in our 2014 Annual Report.

Supporting U.S. Homeowning and Renting Families

Maintaining Mortgage Availability

We maintain a consistent presence in the secondary mortgage market, and we are available to purchase mortgage loans even when other sources of financing are scarce. By providing this consistent source of liquidity for mortgage loans, we help provide our customers with confidence to continue lending even in difficult environments. During the nine months ended September 30, 2015, we purchased, or issued other guarantee commitments for, $274.9 billion in UPB of single-family conforming mortgage loans (representing approximately 1.2 million homes), compared to $184.3 billion during the nine months ended September 30, 2014 (representing approximately 884,000 homes). Origination volumes in the U.S. residential mortgage market increased during the nine months ended September 30, 2015, as compared to the nine months ended September 30, 2014, due to an increase in the volume of refinance mortgage loans driven by lower long-term mortgage interest rates.

During the nine months ended September 30, 2015, our total multifamily new business activity was $34.1 billion in UPB, which provided financing for more than 2,300 multifamily properties (representing approximately 480,000 apartment units). Nearly 90% of the units were affordable to families earning at or below the median income in their area. During the nine months ended September 30, 2014, our total multifamily new business activity was $14.1 billion in UPB, which provided financing for more than 900 multifamily properties (representing approximately 214,000 apartment units).

Providing Struggling Homeowners with Alternatives that Allow Them to Stay in Their Homes or to Avoid Foreclosure

We use a variety of borrower-assistance programs (such as HARP and HAMP) designed to provide struggling borrowers with alternatives to help them stay in their homes. We establish guidelines for our servicers to follow and provide them with default management programs to use in determining which type of borrower-assistance program (i.e., one of our mortgage loan workout activities or our relief refinance initiative) would be expected to enable us to manage our exposure to credit losses. In May 2015, FHFA announced an extension of our participation in HARP and HAMP through 2016.

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During the nine months ended September 30, 2015, we purchased or guaranteed $15.9 billion in UPB of relief refinance mortgage loans, including $6.2 billion of HARP mortgage loans. During the nine months ended September 30, 2014, we purchased or guaranteed $21.6 billion in UPB of relief refinance mortgage loans, including $11.6 billion of HARP mortgage loans. We have purchased HARP mortgage loans that were provided to nearly 1.4 million borrowers since the initiative began in 2009, including more than 36,000 borrowers during the nine months ended September 30, 2015.

During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we modified $7.8 billion and $10.1 billion in UPB of mortgage loans, respectively. When a home retention solution is not practicable, we require our servicers to pursue foreclosure alternatives, such as short sales, before initiating foreclosure. Since 2009, we have helped approximately 1.1 million borrowers experiencing hardship to complete a mortgage loan workout under our programs.

The table below presents our completed workout activities for mortgage loans within our single-family credit guarantee portfolio during the last five quarters.

Table 1 — Total Single-Family Mortgage Loan Workout Volumes[1]

Number of mortgage loans (000)

(1) Excludes modification, repayment, and forbearance activities that have not been made effective, such as mortgage loans in modification trial periods. As of September 30, 2015, more than 23,000 borrowers were in modification trial periods. These categories are not mutually exclusive and a mortgage loan in one category may also be included in another category in the same period.

As shown in the table above, the volume of completed mortgage loan workouts has generally declined over the past five quarters. We attribute this decline to overall improvements in the economy and mortgage market, including rising home prices, declining unemployment rates, and declining serious delinquency rates. While we believe our borrower-assistance programs have been largely successful, many borrowers still need assistance. We continue our efforts to: (a) encourage eligible borrowers to refinance their mortgage loans under HARP; (b) develop additional loss mitigation strategies and modify existing programs, as needed; and (c) execute certain neighborhood stabilization activities. As part of these efforts:

- We participated with FHFA and Fannie Mae in open forum meetings in several cities to inform community leaders about HARP eligibility criteria and benefits.
- In June 2015, we announced that we are extending our streamlined modification program indefinitely. In September 2015, we announced changes designed to expand the pool of borrowers eligible to participate in our modification programs.

- We also continued to work with FHFA and Fannie Mae to develop and execute neighborhood stabilization plans in certain cities. In these cities we continue to work with locally-based private entities to facilitate REO dispositions and provide an initial period for REO properties to be purchased by owner occupants and others before we consider offers from investors.

Reducing Taxpayer Exposure to Losses and Reducing our Risk Profile

We are working diligently with FHFA to reduce the taxpayers' exposure to losses and our risk profile by:

- transferring to private investors, insurers and selected sellers part of the credit risk of our New single-family book and our total multifamily portfolio;
- managing the performance of our servicers through our contracts with them;
- selling non-performing single-family mortgage loans;
- improving our returns on property dispositions;
- pursuing our rights against mortgage insurers;
- recovering losses on non-agency mortgage-related securities; and
- reducing our mortgage-related investments portfolio over time.

As discussed above, many of our borrower-assistance programs, such as mortgage loan modifications, also help reduce our risk of credit losses.

Transferring Credit Risk

We continue to reduce our exposure to credit risk in our New single-family book through the use of credit risk transfer transactions. During the nine months ended September 30, 2015, we completed six STACR debt note transactions, six ACIS transactions, one whole loan security transaction, and one seller indemnification transaction. These transactions transferred a portion of credit risk on certain groups of mortgage loans in the New single-family book to third-party investors, insurers and selected sellers. The value of these transactions to us is dependent on various economic scenarios, and we will primarily benefit from these transactions if we experience significant mortgage loan defaults.

During the nine months ended September 30, 2015, we completed 17 K Certificate transactions in which we transferred the first loss position associated with the underlying multifamily mortgage loans to third-party investors. We continue to develop other strategies intended to reduce our exposure to multifamily mortgage loans and securities by transferring credit risk to third parties.

Managing the Performance of Our Servicers

We continue to review and monitor the performance of our servicers and to seek improvements for the servicing of non-performing mortgage loans in our portfolio. From time to time, we facilitate the transfer of servicing for certain groups of mortgage loans that are delinquent or are deemed at risk of default to servicers that we believe have the capabilities and resources necessary to improve the loss mitigation associated with the mortgage loans.

As of September 30, 2015, the serious delinquency rate of our single-family credit guarantee portfolio was 1.41%, which is the lowest level since October 2008, compared to 1.88% as of December 31, 2014. Our loss mitigation activities (including sales of certain seriously delinquent mortgage loans) and foreclosures have contributed to this decline. However, we continue to have a large number of mortgage loans that have been seriously delinquent for extended periods of time in certain states, such as New York and New Jersey. The longer a mortgage loan remains delinquent, the more costs we incur. The number of our single-family mortgage loans delinquent for more than one year declined 28% during the nine months ended September 30, 2015.

Selling Non-Performing Single-Family Mortgage Loans

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we sold seriously delinquent mortgage loans totaling $1.9 billion in UPB during the nine months ended September 30, 2015. As of September 30, 2015, we held an additional $7.1 billion in UPB of seriously delinquent single-family mortgage loans for sale. We believe the sale of these mortgage loans provides better economic returns than continuing to hold them.

Improving Our Returns on Property Dispositions

When a seriously delinquent single-family mortgage loan cannot be resolved through a home retention solution (e.g., a mortgage loan modification), we typically seek to pursue a short sale transaction. A short sale is preferable to a borrower because we provide limited relief to the borrower from repaying the entire amount owed on the mortgage

loan and, in some cases, we also provide cash relocation assistance, while allowing the borrower to exit the home in an orderly manner. A short sale allows Freddie Mac to avoid the costs we would otherwise incur to complete the foreclosure. However, some of our seriously delinquent mortgage loans ultimately proceed to foreclosure. In a foreclosure, we may acquire the underlying property (which we refer to as REO), and later sell it, using the proceeds of the sale to reduce our losses.

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Pursuing Our Rights Against Mortgage Insurers

We received payments under primary and other mortgage insurance policies of $0.5 billion and $1.0 billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. Although the financial condition of certain of our mortgage insurers has improved in recent years, some have failed to fully meet their obligations to us and there remains a significant risk that others may fail to do so. We expect to receive substantially less than full payment of our claims from two of our mortgage insurers, as they are only permitted to make partial payments under orders from their respective regulators. Many of our mortgage insurers are currently operating below our newly issued eligibility standards that are scheduled to go into effect on December 31, 2015; however, these mortgage insurers have announced that they expect to be in compliance by the effective date.

We cannot differentiate pricing based on the financial strength of a mortgage insurer or revoke a mortgage insurer's status as an eligible insurer without FHFA approval. Further, we do not select the insurance provider on a specific mortgage loan. Instead, the selection is made by the lender at the time the mortgage loan is originated. Accordingly, we are unable to manage our concentration risk related to mortgage insurers.

Recovering Losses on Non-Agency Mortgage-Related Securities

We incurred substantial losses on our investments in non-agency mortgage-related securities in prior years. We are working, in some cases in conjunction with other investors, to mitigate or recover our losses through litigation and other means. In recent years, we and FHFA reached settlements with a number of institutions. Lawsuits against other institutions are currently pending. For more information on these lawsuits, see "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS."

Reducing Our Mortgage-Related Investments Portfolio Over Time

We are required to reduce the size of our mortgage-related investments portfolio over time pursuant to the Purchase Agreement and by FHFA. We are particularly focused on reducing the balance of less liquid assets in this portfolio. During the nine months ended September 30, 2015, the size of our mortgage-related investments portfolio declined by 10% or $41.3 billion, to $367.1 billion. Reductions in our less liquid assets accounted for the majority of this decline. Our less liquid assets are reduced through: (a) liquidations (including scheduled repayments, prepayments, charge-offs and cash shortfalls); (b) sales (including sales related to settlements of non-agency mortgage-related securities litigation); and (c) securitizations.

Building a Commercially Strong and Efficient Business Enterprise to Succeed in a To-Be-Determined “Future State”

We continue to take steps to build a stronger, profitable business model. Our goal is to strengthen the business model so we can run our business efficiently and effectively in support of homeowning and renting families and taxpayers and, if required as part of a future state for the enterprise, be ready to return to private sector ownership.

Our Single-family Guarantee segment is focused on strengthening our business model by:

- Better serving our customers: We continue to enhance our processes and programs to improve our customers' experience when doing business with us. This includes providing seller/servicers with greater certainty that the mortgage loans they sell to us or service for us meet our requirements. We continue to improve the tools we make available to our customers, including expanding and leveraging the data standards of the Uniform Mortgage Data Program. In 2015, we launched Loan Coverage Advisor, a new tool that allows our sellers to track significant events for the mortgage loans they sell us, including the dates when the seller obtains relief from certain representations and warranties. Additionally, effective June 1, 2015, we no longer charge a fee to use our Loan Prospector automated underwriting tool. Improvements in our latest customer satisfaction surveys show that our efforts are being recognized by our sellers and servicers. In October 2015, at the direction of FHFA, we and Fannie Mae released a uniform framework for representations and warranties remedies. The enhanced framework is intended to provide more clarity and transparency to lenders who do business with Freddie Mac on the process followed in categorizing origination defects, seller corrections of such defects, and available remedies. Also in October 2015, we announced Loan Advisor Suite, which is a set of integrated software applications designed to give lenders a way to originate and deliver high quality mortgage loans to us and to acquire insight into representation and warranty relief earlier in the mortgage loan production process.
- Providing market leadership and innovation: We continue to develop innovative programs and services that benefit the mortgage industry and better meet the needs of an evolving mortgage market. We accomplish this primarily by:

(a) continuing to execute our credit risk transfer transactions, including transactions that provide coverage based on actual losses as well as first losses realized on reference pools of single-family mortgage loans and seeking to expand and refine these offerings in the future; (b) expanding access to credit for credit-worthy borrowers, such as through the initiative we announced in December 2014 for loans with LTV ratios up to 97%; and (c) continuing to work with FHFA and Fannie Mae on enhancing the secondary mortgage loan market, including through the development of a new common securitization platform and a single (common) security. In July 2015, we began offering two new types of credit risk transfer transactions, including a whole loan security, which uses a senior/subordinated security structure

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and a seller indemnification transaction, in which the seller guarantees a portion of the credit losses. We expect to complete more of these transactions in the future, subject to market conditions.

- Maintaining sound underwriting practices: We manage our credit risk by setting our underwriting standards at a level commensurate with the long-term credit risk appetite of the company. We believe the credit quality of the single-family mortgage loans in our New single-family book reflects sound underwriting standards as evidenced by their average original LTV ratios and credit scores as well as their credit performance in recent periods.
- Reducing our credit losses and addressing emerging credit risks: As part of our loss mitigation strategy, we sold certain seriously delinquent mortgage loans during the nine months ended September 30, 2015. In addition, our mortgage portfolio includes several mortgage loan products with terms that may result in scheduled increases in monthly payments after specified initial periods (e.g., HAMP mortgage loans). A significant number of these mortgage loans have experienced, or will experience, payment changes beginning in 2015, which could increase the risk that the borrowers will default. We introduced several initiatives in 2015 designed to help reduce the risk that borrowers will default on their HAMP mortgage loans.
- Optimizing the economics of our single-family business: We seek to achieve strong economic returns on our single-family credit guarantee portfolio while considering and balancing our: (a) housing mission and goals; (b) seller diversification and market share; and (c) security price performance (i.e., the disparities in the trading value of our PCs relative to comparable Fannie Mae securities in the market). However, economic returns on our guarantee activities are limited by, and subject to, FHFA's oversight.
- Broadening access to credit: We continue to explore the feasibility of: (a) increasing our purchases of mortgage loans securitized by manufactured housing; (b) improving the effectiveness of pre-purchase and early delinquency counseling for borrowers; (c) utilizing alternative credit score models and credit history standards in mortgage loan eligibility decisions; and (d) increasing support for first-time home buyers. We are responsibly expanding our programs and outreach capabilities to better serve low and moderate income borrowers and underserved markets. In October 2015, we announced a partnership with Quicken Loans to pilot several new initiatives aimed at helping provide more families with the opportunity to achieve homeownership. This program will feature unique co-developed products designed to meet the needs of emerging markets and will also include continued home buyer education.

Our Investments segment is focused on strengthening our business model by:

- Reducing the balance of less liquid mortgage-related assets, specifically non-agency mortgage-related securities and single-family reperforming, performing modified and delinquent mortgage loans;
- Managing the corporate treasury function, including managing funding, interest-rate and liquidity risks, through the use of derivatives, our liquidity and contingency operating portfolio and unsecured debt;
- Continuing to maintain a presence and provide secondary market liquidity for our agency mortgage-related securities; and
- Continuing to manage our business based on economics, although we may forgo certain opportunities for a variety of reasons, including the mandated cap on the size of our mortgage-related investments portfolio or the potential accounting impacts. For more information on the mortgage-related investments portfolio cap, see "Limits on Our Mortgage-Related Investments Portfolio."

Our Multifamily segment is focused on strengthening our business model by:

- Increasing our commitment to customers: We consider customer focus to be a key priority in our efforts to build value and support the creation of a strong, long-lasting rental housing system that positively affects the economy and communities nationwide. We look to increase efficiencies for our customers by standardizing and improving the ways in which they provide data to us in order to foster greater transparency and liquidity in the market.
- Providing a reliable flow of capital for workforce housing: In May 2015, FHFA expanded the affordable housing categories that are excluded from the volume limit in our 2015 Scorecard. These revisions will enable us to further support the needs of the affordable rental housing market across more communities. In addition, we are continuing to grow our presence in the small balance mortgage loan and manufactured housing community mortgage loan markets.
- Continuing to create innovative programs to transfer credit risk: We are developing and enhancing programs and offerings that support risk transfer activities. We are pursuing alternative methods to transfer credit risk of

our multifamily mortgage portfolio using transactions other than our existing K Certificates to reduce exposure to mortgage credit risk for the company and U.S. taxpayers.

- Improving our risk-adjusted returns: By leveraging private capital in our K Certificate and other credit risk transfer transactions, we are able to reduce capital allocation costs, decrease our potential exposure to credit losses, and build a steady source of management and guarantee fee income while increasing overall returns.

We continue to invest in our infrastructure and operations by:

- Improving our infrastructure: We are improving our information technology in a manner designed to address the evolving requirements of the company, the Conservator, and the mortgage industry. We have ongoing efforts to

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improve our information security and our out-of-region disaster recovery capability. We strive to operate our information technology at world class levels by investing in capabilities that will support the future mortgage market while also seeking to act as good stewards of our technology assets by maintaining, standardizing and simplifying our existing technology portfolio.

- Strengthening and streamlining our operations: We continue to strengthen and streamline our operations. We are improving our risk management capabilities by strengthening our three-lines-of-defense risk management framework. We are expanding our second-line-of-defense testing capabilities over our operational controls. We are also conducting a multi-year project focused on identifying and eliminating redundant control activities. In addition, we are conducting select organizational design reviews focused on reducing the number of operating layers within the organization.

Supporting and Improving the Secondary Mortgage Market

Under the direction of FHFA, we continue various efforts to build the infrastructure for a future housing finance system, including the following:

- Build the Common Securitization Platform: We continue to work with FHFA, Fannie Mae, and Common Securitization Solutions, LLC (or CSS) on the development of a new common securitization platform. CSS is equally owned by us and Fannie Mae, and was formed to build and operate the platform. We and FHFA expect this will be a multi-year effort. On September 15, 2015, FHFA issued a report titled "An Update on the Common Securitization Platform," which provides an update on this project. The update indicates that Freddie Mac will be the first GSE to use the platform, with FHFA planning to announce in 2016 the date on which this will occur.
- Implement the Single Security Initiative: FHFA is seeking ways to improve the overall liquidity of mortgage-related securities issued by us and Fannie Mae. This includes working towards the development of a single (common) security, which is intended to reduce the disparities in trading value between our PCs and Fannie Mae's single-class mortgage-related securities. The proposed single (common) security would be issued and guaranteed by either Freddie Mac or Fannie Mae. One of the goals for the proposed single security is for Freddie Mac PCs and Fannie Mae mortgage-related securities to be fungible with the single security to facilitate trading in a single TBA market for these securities. We continue to work on a detailed implementation plan, and we expect that the implementation will be a multi-year effort.
- Improve seller and servicer eligibility standards: In the second quarter of 2015, at the direction of FHFA, we and Fannie Mae announced changes to our single-family seller and servicer eligibility requirements. These changes include revisions to net worth requirements, adoption of new capital and liquidity requirements and enhancements to certain servicer operational requirements. Our revised operational requirements took effect on August 18, 2015 and our revised financial requirements will take effect on December 31, 2015.
- Implement the Uniform Mortgage Data Program: We and Fannie Mae continue to collaborate with the industry to develop and implement uniform data standards for single-family mortgage loans. This involves support for the mortgage loan data standardization initiatives, including the Uniform Closing Dataset and the Uniform Loan Application Dataset. This will enable us and Fannie Mae to drive improved loan quality and improve risk management.
- Improve mortgage insurer eligibility standards: In the second quarter of 2015, at the direction of FHFA, we published revised eligibility requirements for mortgage insurers that include financial requirements determined using a risk-based framework. The revised eligibility requirements will become effective for all Freddie Mac-approved mortgage insurers on December 31, 2015. These revised eligibility requirements are designed to strengthen the mortgage insurance industry and enable a financially strong and resilient system that can provide consistent liquidity throughout the mortgage cycle.
- Improve the underwriting processes with our single-family sellers: We meet with selected sellers to review and discuss improvements in their underwriting process. We also continually seek improvements to our automated tools for use in evaluating the credit and product eligibility of mortgage loans and identifying non-compliance issues.

Mortgage Market and Economic Conditions

Overview

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- The U.S. real gross domestic product rose by 1.5% on an annualized basis during the third quarter of 2015, compared to an annualized increase of 3.6% during the second quarter of 2015, according to the Bureau of Economic Analysis.
- The national unemployment rate continued its trend of improvement and was 5.1% in September 2015, compared to 5.6% in December 2014, based on data from the U.S. Bureau of Labor Statistics.
- An average of approximately 198,000 and 260,000 monthly net new jobs (non-farm) were added to the economy during the nine months ended September 30, 2015 and the full year of 2014, respectively.
- The average interest rate on new 30-year fixed-rate conforming mortgage loans was 4.0% during the third quarter of 2015 and 3.8% during the nine months ended September 30, 2015, compared to 3.8% during the second quarter of

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2015 and 4.2% during the nine months ended September 30, 2014, based on our weekly Primary Mortgage Market Survey.

- As reported by the U.S. Census Bureau, the U.S. homeownership rate was 63.7% in the third quarter of 2015, which was 5.5% lower than the high point of 69.2% in the fourth quarter of 2004.
- Long-term interest rates, including the 10-year LIBOR, declined in 2015. The 10-year LIBOR declined 44 basis points and 28 basis points during the three and nine months ended September 30, 2015, respectively, while the 10-year LIBOR increased 5 basis points and 41 basis points during the three and nine months ended September 30, 2014, respectively.

Single-Family Housing Market

- Sales of existing homes during the third quarter of 2015 were 5.48 million, increasing 3.4% from 5.30 million during the second quarter of 2015 (on a seasonally-adjusted annual basis), based on data from the National Association of Realtors.
- Sales of new homes during the third quarter of 2015 were approximately 500,000, increasing 0.6% from approximately 497,000 during the second quarter of 2015 (on a seasonally-adjusted annual basis), based on data from the U.S. Census Bureau and HUD.
- Total mortgage loan origination volume increased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, as lower average long-term mortgage interest rates caused the volume of refinance activity to increase.
- There was continued home price appreciation during the three and nine months ended September 30, 2015.

Home prices increased on a national basis by 0.8% during the third quarter of 2015 and 5.8% since September 2014 (based on our non-seasonally adjusted index), compared to a 0.4% increase during the third quarter of 2014 and a 4.9% increase from September 2013 to September 2014. These estimates were based on our own price index of one-family homes funded by mortgage loans owned or guaranteed by us or Fannie Mae.

Declines in the market’s inventory of vacant housing have supported stabilization and increases in home prices in a number of metropolitan areas.

National home prices at September 30, 2015 were approximately 5.8% below their peak levels in June 2006 (based on our index).

Multifamily Housing Market

- The multifamily housing market is in its sixth straight year of growth. Based on data reported by Reis, Inc.:

The national apartment vacancy rate was 4.3% at September 30, 2015 and remains low compared to the long-term average of 5.6% since 1980.

Effective rents (i.e., the average rent paid by the tenant over the term of the lease adjusted for concessions by the landlord and costs borne by the tenant) grew by 4.3% on an annualized basis during the third quarter of 2015, more than 1% higher than the long-term average. The annual growth rate in effective rents has not been less than 3% since 2011.

Significant Trends and Developments

Forward-looking statements, such as those discussed below, involve known and unknown risks and uncertainties, some of which are beyond our control. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties. See “FORWARD-LOOKING STATEMENTS” for additional information.

Single-Family Housing Market and our Single-Family Guarantee Segment

- Market Conditions - Near-term performance of the single-family housing market is affected by key macroeconomic drivers of the economy, such as income growth, employment, and inflation. In the near term, we believe:

Home price growth rates will continue to be consistent with long-term historical averages (approximately 2 to 5% per year).

Mortgage loan interest rates will remain relatively low compared to historical levels, but begin trending slowly upward.

Housing affordability for potential home buyers will remain relatively high in most metropolitan housing markets.

The volume of home sales during 2015 will likely be slightly higher than during 2014.

Relatively weak employment rates in certain areas and relatively modest family income growth are important factors that will continue to have a negative effect on single-family housing demand.

- Mortgage Loan Volumes

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Our mortgage loan purchase activity during the nine months ended September 30, 2015 increased to $274.9 billion in UPB, compared to $184.3 billion in UPB during the nine months ended September 30, 2014. We expect that the volume of refinance mortgage loans as a percentage of total originations will be lower during the fourth quarter of 2015 compared to the same period of 2014.
Refinance mortgage loans comprised approximately 58% of our single-family mortgage loan volume during the nine months ended September 30, 2015, compared to 46% during the nine months ended September 30, 2014.
The volume of our HARP mortgage loan purchases will likely remain low during the fourth quarter of 2015 since the pool of borrowers eligible to participate in the program has declined.

- Credit Performance

Our charge-offs, gross, were $0.7 billion during the third quarter of 2015 compared to $1.1 billion during the third quarter of 2014. We expect our charge-offs and credit losses to decline over time, but to remain elevated in the near term.
For the near term, we also expect REO disposition and short sale severity ratios to remain high relative to historic levels while the number of seriously delinquent mortgage loans and the volume of our mortgage loan workouts may continue to decline.

Multifamily Housing Market and our Multifamily Segment

- Market Conditions

Low vacancy rates and higher average rents present favorable conditions for the multifamily market and our business, as multifamily mortgage loans are dependent on the cash flow of the underlying properties.
We believe demand for rental housing will remain strong in the near term because of a strengthening job market and growth of household formations.

We expect that new supply of multifamily housing, at the national level, will be absorbed by market demand in the near term, driven by continued improvements in the economy and favorable demographics.

We believe there has been significant growth in the multifamily market during the nine months ended September 30, 2015. As reported by the Federal Reserve, total multifamily mortgage loan debt outstanding was more than $1.0 trillion at June 30, 2015 (the latest available information), representing an increase of $92.7 billion (or 9.8%) since June 30, 2014, the largest annual increase ever reported by the Federal Reserve.

- New Business Volumes

Our new multifamily business activity during the nine months ended September 30, 2015 was $34.1 billion compared to $14.1 billion during the nine months ended September 30, 2014.
Based on FHFA's revised 2015 Scorecard guidance, approximately 70% of our $34.1 billion in new business activity during the nine months ended September 30, 2015 was counted towards the 2015 volume limit of $30.0 billion and the remaining 30% was excluded from the limit.
While we continue exploring opportunities to provide financing for workforce housing, we expect to remain within the 2015 Scorecard limit for new business volume.

- Securitization Activity

Since the beginning of 2009, we have sold approximately $115 billion of mortgage loans through K Certificate transactions and transferred the expected credit risk to third party investors through the use of subordination, as this has become the primary focus of our business model.

- Credit Performance

The delinquency rate on our multifamily mortgage portfolio was 0.01% at September 30, 2015. Multifamily credit losses as a percentage of the average balance of our multifamily mortgage portfolio were 0.8 basis points in the nine months ended September 30, 2015.
We expect the credit losses and delinquency rates for the multifamily mortgage portfolio to remain low in the near term.

Limits on Our Mortgage-Related Investments Portfolio

Under the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the cap reaches $250 billion. As a result, the UPB of our mortgage-related investments portfolio may not exceed $399 billion as of December 31, 2015. Our 2014 Retained

Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement, subject to certain exceptions. For more information on the plan, see “BUSINESS — Executive Summary — Our Primary Business Objectives — Reducing Taxpayer Exposure to Losses — Reducing Our Mortgage-Related Investments Portfolio Over Time” in our 2014 Annual Report.

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Our decisions with respect to managing the decline of the mortgage-related investments portfolio may affect all three business segments. We plan to continue to reduce the balance of the portfolio over the remainder of 2015. In order to achieve all of our portfolio reduction goals, it is possible that we may forgo economic opportunities in one business segment in order to pursue opportunities in another business segment. The reduction in the mortgage-related investments portfolio will result in a decline in income from this portfolio over time.

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

Table 2 — Mortgage-Related Investments Portfolio

	September 30, 2015			December 31, 2014		
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total
	(in millions)					
Investments segment — Mortgage investments portfolio:						
Single-family unsecuritized mortgage loans	$—	$77,843	$77,843	$—	$82,778	$82,778
Freddie Mac mortgage-related securities	143,603	6,365	149,968	150,852	7,363	158,215
Non-agency mortgage-related securities	—	30,020	30,020	—	44,230	44,230
Non-Freddie Mac agency mortgage-related securities	14,063	—	14,063	16,341	—	16,341
Total Investments segment — Mortgage investments portfolio	157,666	114,228	271,894	167,193	134,371	301,564
Single-family Guarantee segment — Single-family unsecuritized seriously delinquent mortgage loans	—	21,352	21,352	—	28,738	28,738
Multifamily segment — Mortgage investments portfolio	3,573	70,326	73,899	1,911	76,201	78,112
Total mortgage-related investments portfolio	$161,239	$205,906	$367,145	$169,104	$239,310	$408,414
Percentage of total mortgage-related investments portfolio	44 %	56 %	100 %	41 %	59 %	100 %
Mortgage-related investments portfolio cap at December 31, 2015 and 2014, respectively			$399,181			$469,625
90% of mortgage-related investments portfolio cap at December 31, 2015[1]			$359,263			

(1) Represents the amount that we manage to under our 2014 Retained Portfolio Plan, subject to certain exceptions.

We evaluate the liquidity of the assets in our mortgage-related investments portfolio based on two categories:

- Single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities); and
- Assets that are less liquid than the agency securities noted above. Assets that we consider to be less liquid than agency securities include unsecuritized single-family and multifamily mortgage loans, certain structured agency securities collateralized by non-agency mortgage-related securities, and our investments in non-agency mortgage-related

securities.

We sold $12.5 billion of less liquid assets in the first nine months of 2015, including $1.9 billion in UPB of seriously delinquent unsecuritized single-family loans. In addition, we securitized $7.4 billion in UPB of single-family reperforming and modified loans, which includes HAMP loans, in the first nine months of 2015. These amounts do not include sales of mortgage loans we purchased for cash and subsequently securitized.

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SELECTED FINANCIAL DATA

The selected financial data presented below should be reviewed in conjunction with our condensed consolidated financial statements and accompanying notes.

Table 3 — Selected Financial Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in millions, except share-related amounts)			
Statements of Comprehensive Income Data				
Net interest income	$3,743	$3,663	$11,359	$10,676
Benefit (provision) for credit losses	528	(574)	1,884	(41)
Non-interest income (loss)	(3,841)	764	(3,447)	2,469
Non-interest expense	(1,099)	(816)	(3,599)	(2,267)
Income tax benefit (expense)	194	(956)	(1,979)	(3,374)
Net income (loss)	(475)	2,081	4,218	7,463
Comprehensive income (loss)	(501)	2,786	4,158	9,175
Net income (loss) attributable to common stockholders[1]	(475)	(705)	(441)	(1,712)
Net income (loss) per common share – basic and diluted	(0.15)	(0.22)	(0.14)	(0.53)
Cash dividends per common share	—	—	—	—
Weighted average common shares outstanding (in millions) – basic and diluted	3,234	3,236	3,235	3,236

	September 30, 2015	December 31, 2014
	(dollars in millions)	
Balance Sheets Data		
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$1,615,291	$1,558,094
Total assets	1,962,147	1,945,539
Debt securities of consolidated trusts held by third parties	1,539,108	1,479,473
Other debt	408,281	450,069
All other liabilities	13,459	13,346
Total stockholders' equity	1,299	2,651
Portfolio Balances - UPB		
Mortgage-related investments portfolio	$367,145	$408,414
Total Freddie Mac mortgage-related securities[2]	1,706,672	1,637,086
Total mortgage portfolio	1,931,342	1,910,106
TDRs on accrual status	83,169	82,908
Non-accrual loans	24,584	33,130

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Ratios[3]				

Return on average assets[4]	(0.1)%	0.4 %	0.3 %	0.5 %
Allowance for loans losses as percentage of mortgage loans, held-for-investment[5]	0.9	1.3	0.9	1.3
Equity to assets ratio[6]	0.2	0.2	0.1	0.5

(1) For a discussion of the manner in which the senior preferred stock dividend is determined and how it affects net income (loss) attributable to common stockholders, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Earnings Per Common Share" in our 2014 Annual Report.

(2) See ''Table 24 — Freddie Mac Mortgage-Related Securities'' for the composition of this line item.

(3) The dividend payout ratio on common stock is not presented because the amount of cash dividends per common share is zero for all periods presented. The return on common equity ratio is not presented because the simple average of the beginning and ending balances of total stockholders' equity, net of preferred stock (at redemption value) is less than zero for all periods presented.

(4) Ratio computed as net income divided by the simple average of the beginning and ending balances of total assets.

(5) Ratio computed as the allowance for loan losses divided by the total recorded investment of held-for-investment mortgage loans.

(6) Ratio computed as the simple average of the beginning and ending balances of total stockholders' equity divided by the simple average of the beginning and ending balances of total assets.

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CONSOLIDATED RESULTS OF OPERATIONS

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

Table 4 — Summary Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Variance	2015	2014	Variance
	(in millions)					
Net interest income	$3,743	$3,663	$80	$11,359	$10,676	$683
Benefit (provision) for credit losses	528	(574)	1,102	1,884	(41)	1,925
Net interest income after benefit (provision) for credit losses	4,271	3,089	1,182	13,243	10,635	2,608
Non-interest income (loss):						
Gains (losses) on extinguishment of debt securities of consolidated trusts	(5)	(132)	127	(139)	(308)	169
Gains (losses) on retirement of other debt	9	(8)	17	(16)	—	(16)
Derivative gains (losses)	(4,172)	(617)	(3,555)	(3,440)	(4,894)	1,454
Net impairment of available-for-sale securities recognized in earnings	(54)	(166)	112	(245)	(687)	442
Other gains (losses) on investment securities recognized in earnings	256	(109)	365	825	1,029	(204)
Other income (loss)	125	1,796	(1,671)	(432)	7,329	(7,761)
Total non-interest income (loss)	(3,841)	764	(4,605)	(3,447)	2,469	(5,916)
Non-interest expense:						
Administrative expense	(465)	(472)	7	(1,417)	(1,393)	(24)
REO operations expense	(116)	(103)	(13)	(243)	(112)	(131)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(248)	(198)	(50)	(705)	(563)	(142)
Other expense	(270)	(43)	(227)	(1,234)	(199)	(1,035)
Total non-interest expense	(1,099)	(816)	(283)	(3,599)	(2,267)	(1,332)
Income (loss) before income tax benefit (expense)	(669)	3,037	(3,706)	6,197	10,837	(4,640)
Income tax benefit (expense)	194	(956)	1,150	(1,979)	(3,374)	1,395
Net income (loss)	(475)	2,081	(2,556)	4,218	7,463	(3,245)
Other comprehensive income (loss), net of taxes and reclassification adjustments	(26)	705	(731)	(60)	1,712	(1,772)
Comprehensive income (loss)	$(501)	$2,786	$(3,287)	$4,158	$9,175	$(5,017)

Effects of Interest-Rate Risk Management on Consolidated Statements of Comprehensive Income

We use derivatives primarily to manage the interest rate risk associated with our investments in financial assets and related liabilities. We use derivatives to hedge interest-rate sensitivity mismatches between our assets and liabilities. For example, if rates increase and the duration of our assets extends more than the duration of our liabilities, we would rebalance our interest-rate exposure by entering into pay-fixed interest-rate swaps or selling Treasury-derivatives. If rates decrease and the duration of our assets shortens more than the duration of our liabilities, we would rebalance our interest rate exposure by entering into receive-fixed interest-rate swaps or purchasing Treasury-derivatives. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. For information about our interest-rate risk management, see "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK."

While our economic exposure to interest-rate risk is reduced, the accounting treatment for these assets and liabilities, including derivatives, creates volatility in our earnings when interest rates fluctuate. Some assets and liabilities are

measured at amortized cost and some are measured at fair value, while all derivatives are measured at fair value. These measurement differences create interest rate volatility in our earnings that is not indicative of the underlying economics of our business.

During the three months ended September 30, 2015, derivative losses were $4.2 billion, which included a $0.5 billion loss for the accrual of periodic settlements, which is the net amount we accrued during the period for interest-rate swap payments we will make, and a $3.6 billion loss for changes in fair value of our derivatives during the period. Approximately $1.4 billion of the $3.6 billion loss for changes in fair value of our derivatives was offset by changes in fair value of assets and liabilities that are measured at fair value, which are recognized in non-interest income (loss) and other comprehensive income (loss), net of taxes. The remaining $2.2 billion of derivative losses, or $1.5 billion after taxes, is attributable to assets and liabilities not measured at fair value. For information about our derivative gains (losses), see “Derivative Gains (Losses).”

Net Interest Income

Net interest income represents the difference between interest income and interest expense (which includes income from management and guarantee fees) and is a primary source of our revenue. For securitization trusts that are consolidated, we record interest income on the loans held by the trust and interest expense on the debt securities (e.g. single-family PCs) issued

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by the trust. The difference between the interest income on the loans and the interest expense on the debt represents the management and guarantee fee we receive as compensation for our guarantee of the principal and interest payments of the issued debt securities. The table below presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

Table 5 — Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended September 30,					
	2015			2014		
	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Cash and cash equivalents	$11,849	$1	0.04 %	$9,842	$1	0.04 %
Federal funds sold and securities purchased under agreements to resell	53,046	18	0.13	43,205	7	0.06
Mortgage-related securities:						
Mortgage-related securities	217,830	2,092	3.84	252,205	2,465	3.91
Extinguishment of PCs held by Freddie Mac	(105,709)	(951)	(3.60)	(110,511)	(1,043)	(3.78)
Total mortgage-related securities, net	112,121	1,141	4.07	141,694	1,422	4.01
Non-mortgage-related securities	8,738	4	0.17	11,668	1	0.02
Mortgage loans held by consolidated trusts[1]	1,601,069	14,032	3.51	1,539,913	14,148	3.68
Unsecuritized mortgage loans[1]	156,248	1,563	4.00	167,683	1,643	3.92
Total interest-earning assets	$1,943,071	$16,759	3.45	$1,914,005	$17,222	3.60
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,621,197	$(12,315)	(3.04)	$1,558,023	$(12,845)	(3.30)
Extinguishment of PCs held by Freddie Mac	(105,709)	951	3.60	(110,511)	1,043	3.78
Total debt securities of consolidated trusts held by third parties	1,515,488	(11,364)	(3.00)	1,447,512	(11,802)	(3.26)
Other debt:						
Short-term debt	99,050	(40)	(0.16)	116,624	(35)	(0.12)
Long-term debt	310,204	(1,559)	(2.01)	326,610	(1,647)	(2.01)
Total other debt	409,254	(1,599)	(1.56)	443,234	(1,682)	(1.52)
Total interest-bearing liabilities	1,924,742	(12,963)	(2.70)	1,890,746	(13,484)	(2.84)
Expense related to derivatives[2]	—	(53)	(0.01)	—	(75)	(0.02)
Impact of net non-interest-bearing funding	18,329	—	0.03	23,259	—	0.03
Total funding of interest-earning assets	$1,943,071	$(13,016)	(2.68)	$1,914,005	$(13,559)	(2.83)
Net interest income/yield		$3,743	0.77		$3,663	0.77

	Nine Months Ended September 30,					
	2015			2014		
	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Cash and cash equivalents	$12,458	$6	0.06 %	$14,188	$2	0.02 %
Federal funds sold and securities purchased under agreements to resell	50,278	39	0.11	41,645	17	0.06

Mortgage-related securities:						
Mortgage-related securities	231,969	6,728	3.87	260,172	7,629	3.91
Extinguishment of PCs held by Freddie Mac	(109,167)	(3,002)	(3.67)	(112,553)	(3,177)	(3.76)
Total mortgage-related securities, net	122,802	3,726	4.05	147,619	4,452	4.02
Non-mortgage-related securities	9,965	10	0.12	9,952	5	0.06
Mortgage loans held by consolidated trusts(1)	1,579,720	41,641	3.51	1,535,099	42,881	3.72
Unsecuritized mortgage loans(1)	161,628	4,792	3.95	172,311	4,965	3.84
Total interest-earning assets	$1,936,851	$50,214	3.46	$1,920,814	$52,322	3.63
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,600,556	$(36,858)	(3.07)	$1,551,918	$(39,327)	(3.38)
Extinguishment of PCs held by Freddie Mac	(109,167)	3,002	3.67	(112,553)	3,177	3.76
Total debt securities of consolidated trusts held by third parties	1,491,389	(33,856)	(3.03)	1,439,365	(36,150)	(3.35)
Other debt:						
Short-term debt	107,941	(114)	(0.14)	117,795	(110)	(0.12)
Long-term debt	320,506	(4,709)	(1.96)	335,934	(5,156)	(2.05)
Total other debt	428,447	(4,823)	(1.50)	453,729	(5,266)	(1.55)
Total interest-bearing liabilities	1,919,836	(38,679)	(2.69)	1,893,094	(41,416)	(2.91)
Expense related to derivatives(2)	—	(176)	(0.01)	—	(230)	(0.02)
Impact of net non-interest-bearing funding	17,015	—	0.02	27,720	—	0.04
Total funding of interest-earning assets	$1,936,851	$(38,855)	(2.68)	$1,920,814	$(41,646)	(2.89)
Net interest income/yield		$11,359	0.78		$10,676	0.74

(1) Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in average balances.

(2) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the interest expense associated with the hedged forecasted issuance of debt affects earnings.

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Net interest income increased in the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014. Net interest yield remained flat for the three months ended September 30, 2015 and increased for the nine months ended September 30, 2015 compared to the same periods in 2014. These results were driven by:

- Higher management and guarantee fee income — Management and guarantee fee income increased in the three and nine months ended September 30, 2015, compared to the same periods in 2014, as the management and guarantee fees received on new business are higher than older vintages that continue to run off. The percentage of our net interest income derived from management and guarantee fees continues to increase, and we expect this trend will continue. We estimate that more than 40% of our net interest income during the three and nine months ended September 30, 2015 was derived from management and guarantee fee income. Net interest income includes the legislated 10 basis point increase in management and guarantee fees, which is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011. Net interest income includes $247 million and $699 million during the three and nine months ended September 30, 2015, respectively, compared to $196 million and $551 million during the three and nine months ended September 30, 2014, respectively, related to these fees.
- Increased amortization of upfront fees and basis adjustments — During the three and nine months ended September 30, 2015, average mortgage interest rates declined as compared to the same periods in 2014. This decline in average mortgage interest rates caused an increase in borrower refinance activity. As borrowers refinance and our liquidation rate increases, the amortization of the upfront fees and basis adjustments associated with these mortgage loans and the securities that are backed by these mortgage loans increases, which generally has a positive effect on net interest income and net interest yield. The timing of the amortization for the mortgage loans differs from the timing of the amortization for the securities that are backed by these mortgage loans, because proceeds received from the mortgage loans backing these securities are remitted to the security holders at a later date. This timing difference can contribute to short-term volatility in net interest income period over period. In addition, our balance of deferred upfront fees and basis adjustments continues to increase as we add new business.
- A decline in the average balance of our higher-yielding assets — The balance of our higher-yielding assets continues to decline, consistent with the required reduction of our mortgage-related investments portfolio. This decline has placed downward pressure on our net interest income and net interest yield and will likely continue to do so in the future.

Benefit (Provision) for Credit Losses

Our benefit (provision) for credit losses predominantly relates to single-family mortgage loans and reflects: (a) our estimate of incurred losses for newly impaired mortgage loans; (b) changes in our estimates of incurred losses for previously impaired mortgage loans; (c) a reduction of the portion of the loan loss reserve related to interest rate concessions as borrowers make payments under the terms of their mortgage loan modifications; and (d) reductions in our loan loss reserves associated with reclassifying mortgage loans from held-to-investment to held-for-sale.

The benefit for credit losses for the three and nine months ended September 30, 2015 was driven by the reclassification of mortgage loans from held-to-investment to held-for-sale. Excluding the effect of the reclassification of mortgage loans, the amount of our benefit (provision) for credit losses for the three and nine months ended September 30, 2015 was not significant. In the three and nine months ended September 30, 2015, we reclassified $2.5 billion and $10.6 billion, respectively, in UPB of certain seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale. This reclassification and other related subsequent activity affects several line items. The benefit for credit losses due to the reclassification and other related subsequent activity was $0.5 billion and $2.0 billion in the three and nine months ended September 30, 2015, respectively, and was offset by: (a) lower-of-cost-or-fair-value losses of approximately $0.3 billion and $1.5 billion for the three and nine months ended September 30, 2015, respectively, which were included in other non-interest income; and (b) increased non-interest expense of approximately $0.2 billion and $0.9 billion for the three and nine months ended September 30, 2015, respectively, related to property taxes and insurance associated with these mortgage loans.

The provision for credit losses for the three months ended September 30, 2014 reflected a slight increase in our estimate of incurred losses on previously impaired mortgage loans due to declines in home prices in certain areas. The provision for credit losses for the nine months ended September 30, 2014 reflected an increase in our loan loss reserve for newly impaired mortgage loans that was slightly offset by improvements in our estimate of incurred losses on

previously impaired mortgage loans primarily due to the positive effect of an increase in home prices.

Our single-family loan loss reserves declined from $21.8 billion at December 31, 2014 to $16.4 billion at September 30, 2015, primarily reflecting a high level of mortgage loan charge-offs related to our initial adoption of regulatory guidance that changed when we deem a mortgage loan uncollectible and the reclassification of certain seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale.

On January 1, 2015, we adopted regulatory guidance issued by FHFA that establishes guidelines for adverse classification and identification of specified single-family and multifamily assets, including guidelines for recognizing charge-offs on certain single-family mortgage loans. Upon adoption, we changed the timing of when we deem certain single-family mortgage loans to

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be uncollectible, and we began to charge-off the amount of recorded investment in excess of the fair value of the underlying collateral for mortgage loans that have been deemed uncollectible prior to foreclosure. These additional charge-offs did not have a material impact on our comprehensive income during the nine months ended September 30, 2015, as we had already reserved for these losses in our allowance for loan losses in prior periods. This adoption resulted in a reduction to both the recorded investment of mortgage loans, held-for-investment, and our allowance for loan losses of $1.9 billion on January 1, 2015.

As of September 30, 2015, approximately 64% of the loan loss reserves for single-family mortgage loans related to interest rate concessions associated with TDRs. A concession can result from various changes in a mortgage loan's contractual terms, but generally arises from a reduction in a mortgage loan's contractual interest rate when a mortgage loan is modified. Due to the large number of mortgage loan modifications completed in recent years, our loan loss reserves attributable to TDRs remain high.

Most of our modified mortgage loans were current and performing at September 30, 2015. However, we establish a reserve for TDR mortgage loans at the time of modification that largely relates to the reduction in the contractual interest rate of the mortgage loan for its remaining term. The portion of the reserve related to the interest rate concession is generally reduced over time as the borrower makes payments under the terms of the modification. We expect our loan loss reserves associated with existing TDRs will continue to decline over time as borrowers continue to make monthly payments under the modified terms and the interest rate concessions are recognized as income.

Mortgage loans that have been individually evaluated for impairment, such as modified mortgage loans, generally have a higher associated loan loss reserve than mortgage loans that have been collectively evaluated for impairment. As of September 30, 2015 and December 31, 2014, the recorded investment of single-family impaired mortgage loans with specific reserves recorded was $88.3 billion and $95.1 billion, respectively, and the loan loss reserves associated with these mortgage loans were $14.8 billion and $17.8 billion, respectively.

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

Table 6 — Single-Family Impaired Mortgage Loans with Specific Reserve Recorded

	2015		2014	
	Number of Mortgage Loans	Amount [1]	Number of Mortgage Loans	Amount
	(dollars in millions)			
TDRs, at January 1,	539,590	$94,401	514,497	$92,505
New additions	44,439	6,176	61,345	8,891
Repayments, charge-offs, and reclassifications to/from held-for-sale	(52,947)	(10,695)	(20,972)	(3,802)
Foreclosure transfers and foreclosure alternatives	(14,625)	(2,304)	(19,432)	(3,356)
TDRs, at September 30,	516,457	87,578	535,438	94,238
Mortgage loans impaired upon purchase	10,327	747	10,308	785
Total impaired mortgage loans with specific reserve	526,784	88,325	545,746	95,023
Total allowance for loan losses of individually impaired single-family mortgage loans		(14,847)		(18,199)
Net investment, at September 30,		$73,478		$76,824

(1) The net investment amount for 2015 includes charge-offs related to our January 1, 2015 adoption of regulatory guidance that changed when we deem mortgage loans to be uncollectible.

See "NOTE 5: IMPAIRED MORTGAGE LOANS" for further information about our TDRs and non-accrual and other impaired mortgage loans.

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

Table 7 — TDRs and Non-Accrual Mortgage Loans

	September 30, 2015	December 31, 2014	September 30, 2014
	(dollars in millions)		
TDRs on accrual status:			
Single-family	$82,830	$82,373	$82,152
Multifamily	339	535	597
Subtotal —TDRs on accrual status	83,169	82,908	82,749
Non-accrual mortgage loans:			
Single-family	24,342	32,745	34,145
Multifamily[(1)]	242	385	411
Subtotal — non-accrual mortgage loans	24,584	33,130	34,556
Total TDRs and non-accrual mortgage loans[(2)]	$107,753	$116,038	$117,305
Loan loss reserves associated with:			
TDRs on accrual status	$12,791	$13,749	$14,079
Non-accrual mortgage loans	2,975	6,966	7,336
Total loan loss reserves associated with TDRs and non-accrual mortgage loans	$15,766	$20,715	$21,415
Ratio of total loan loss reserves (excluding reserves for TDR concessions) to annualized net charge-offs for single-family mortgage loans	2.9	2.7	3.1
Ratio of total loan loss reserves to annualized net charge-offs for single-family mortgage loans	8.2	5.6	6.3

	Nine Months Ended September 30, 2015	2014
	(in millions)	
Foregone interest income on TDR and non-accrual mortgage loans:		
Single-family	$2,172	$2,574
Multifamily	3	4
Total foregone interest income on TDR and non-accrual mortgage loans	$2,175	$2,578

(1) Includes $242 million, $385 million, and $402 million in UPB of mortgage loans that were current as of September 30, 2015, December 31, 2014, and September 30, 2014, respectively.

(2) As of January 1, 2015, we adopted regulatory guidance that changed when we deem mortgage loans to be uncollectible. As of September 30, 2015, there was $6.4 billion in UPB of our TDR and non-accrual mortgage loans, of which we had charged-off $1.8 billion during the nine months ended September 30, 2015 that reduced our recorded investment in these mortgage loans.

Credit Loss Performance

Our single-family charge-offs, gross, were higher during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 due to our adoption on January 1, 2015 of regulatory guidance that changed when we deem a mortgage loan to be uncollectible. The level of charge-offs should decline as we continue our loss mitigation activities and our efforts to sell seriously delinquent single-family mortgage loans. Our single-family charge-offs, gross, were lower during the three months ended September 30, 2015 compared to the three months

ended September 30, 2014 primarily due to lower REO acquisitions.

The table below provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and mortgage loans underlying our non-consolidated mortgage-related financial guarantees.

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Table 8 — Credit Loss Performance

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in millions)			
REO				
REO balances, net:				
Single-family	$1,787	$2,911	$1,787	$2,911
Multifamily	8	—	8	—
Total	$1,795	$2,911	$1,795	$2,911
REO operations expense (income):				
Single-family	$116	$109	$243	$120
Multifamily	—	(6)	—	(8)
Total	$116	$103	$243	$112
Charge-offs				
Single-family:				
Charge-offs, gross[1]	$703	$1,109	$4,558	$3,826
Recoveries[2]	(177)	(190)	(547)	(1,100)
Single-family, net	$526	$919	$4,011	$2,726
Multifamily:				
Charge-offs, gross	$3	$—	$9	$2
Recoveries	—	(1)	—	(1)
Multifamily, net	$3	$(1)	$9	$1
Total Charge-offs:				
Charge-offs, gross	$706	$1,109	$4,567	$3,828
Recoveries	(177)	(191)	(547)	(1,101)
Total Charge-offs, net	$529	$918	$4,020	$2,727
Credit Losses:				
Single-family	$642	$1,028	$4,254	$2,846
Multifamily	3	(7)	9	(7)
Total	$645	$1,021	$4,263	$2,839
Total (in bps)[3]	13.8	22.6	30.7	20.9

(1) Charge-offs include $23 million and $21 million during the three months ended September 30, 2015 and the three months ended September 30, 2014, respectively, and $75 million and $59 million during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, related to losses on mortgage loans purchased under financial guarantees that were recorded within other expenses on our consolidated statements of comprehensive income.

(2) Includes $0.5 billion during the nine months ended September 30, 2014 related to repurchase requests made to our seller/servicers (including $0.3 billion related to settlement agreements with certain sellers to release specified mortgage loans from certain repurchase obligations in exchange for one-time cash payments). Excludes certain recoveries, such as pool insurance, which are included in non-interest income on our consolidated statements of comprehensive income.

(3) Includes charge-offs of $1.9 billion associated with our initial adoption of regulatory guidance on January 1, 2015. Excluding this amount, the total credit losses (in bps) during the nine months ended September 30, 2015 were 16.8.

Our 2005-2008 Legacy single-family book comprised approximately 11% of our single-family credit guarantee portfolio, based on UPB, at September 30, 2015; however, these mortgage loans accounted for approximately 80% of our credit losses during the nine months ended September 30, 2015. Our single-family credit losses during the nine

months ended September 30, 2015 were highest in Florida and New Jersey. Collectively, these two states comprised approximately 34% of our total credit losses during the nine months ended September 30, 2015.
At September 30, 2015, mortgage loans in states with a judicial foreclosure process comprised 39% of our single-family credit guarantee portfolio, based on UPB, while mortgage loans in these states contributed to approximately 72% of our credit losses during the nine months ended September 30, 2015. Foreclosures generally take longer to complete in states where a judicial foreclosure is required, compared to other states. We expect the portion of our credit losses related to mortgage loans in states with judicial foreclosure processes will remain high in the near term as the substantial backlog of mortgage loans awaiting court proceedings in those states transitions to REO or other loss events. See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS" for additional information about our credit losses.
The table below provides information on the severity of losses we experienced on mortgage loans in our single-family credit guarantee portfolio.

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Table 9 — Severity Ratios for Single-Family Mortgage Loans

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Severity ratios:				
REO dispositions and third-party sales[1]	34.3 %	33.3 %	34.5 %	33.8 %
Short sales	29.8	32.0	30.3	31.6

(1) Calculated as combined collateral losses on REO dispositions and third-party sales at foreclosure auction, divided by the combined UPB of the related mortgage loans. Includes selling and repair expenses. Excludes recoveries related to settlement agreements with certain sellers to release specified mortgage loans from certain repurchase obligations in exchange for one-time cash payments.

In recent periods, third-party sales at foreclosure auction have comprised an increasing portion of foreclosure transfers. Third-party sales at foreclosure auction allow us to avoid the REO property expenses that we would have otherwise incurred if we held the property in our REO inventory until disposition. Our severity ratios have remained relatively stable during the 2015 periods, compared to the 2014 periods. These severity ratios are influenced by several factors, including the geographic location of the property and the related selling expenses.

Non-Interest Income (Loss)

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

During the three and nine months ended September 30, 2015, we purchased single-family PCs which resulted in an extinguishment of debt securities of consolidated trusts with a UPB of $15.6 billion and $40.6 billion, respectively. During the three and nine months ended September 30, 2014, we purchased single-family PCs which resulted in an extinguishment of debt securities of consolidated trusts with a UPB of $14.8 billion and $37.6 billion, respectively. Losses recognized in the 2015 and 2014 periods as a result of these purchases were driven by interest rate declines between the time of issuance and the time of repurchase of these debt securities.

Derivative Gains (Losses)

The table below presents derivative gains (losses) reported in our consolidated statements of comprehensive income. See "NOTE 9: DERIVATIVES — Table 9.2 — Gains and Losses on Derivatives" for information about gains and losses related to specific categories of derivatives.

We did not have any derivatives in hedge accounting relationships at September 30, 2015 or December 31, 2014. However, AOCI includes amounts related to closed cash flow hedges.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they increase the volatility of reported comprehensive income because fair value changes on derivatives are included in comprehensive income, while fair value changes associated with some of the assets and liabilities being economically hedged are not. These differences in measurement (i.e., some are measured at amortized cost, while others are measured at fair value) create volatility in our earnings when interest rates fluctuate. This volatility is not indicative of the underlying economics of our business. The mix of our derivative portfolio, in conjunction with the mix of our assets and liabilities, also affects the volatility of comprehensive income.

Table 10 — Derivative Gains (Losses)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Interest-rate swaps	$(4,693)	$(184)	$(2,514)	$(3,505)
Option-based derivatives	1,171	78	722	344
Other derivatives[1]	(114)	116	(9)	241
Accrual of periodic settlements	(536)	(627)	(1,639)	(1,974)
Total	$(4,172)	$(617)	$(3,440)	$(4,894)

(1) Primarily includes futures, commitments, credit derivatives and swap guarantee derivatives.

Gains (losses) on our derivative portfolio include both derivative fair value changes and the accrual of periodic cash settlements. Gains (losses) on our derivative portfolio can change based on changes in interest rates, implied volatility, and the mix and balance of products in our derivative portfolio. The mix and balance of products in our derivative portfolio change from period to period as we respond to changing interest rate environments, as well as changes in our asset and liability balances and characteristics.

While our sensitivity to interest rates on an economic basis remains low as measured by our models, our exposure to earnings volatility resulting from our use of derivatives has increased in recent periods as we have changed the mix of our derivatives to align with the changing duration of our economically hedged assets and liabilities.

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During the three and nine months ended September 30, 2015, we recognized net losses on derivatives primarily as a result of a decline in longer-term interest rates. During these periods, we recognized fair value losses on our interest-rate swaps of $4.7 billion and $2.5 billion, respectively, and losses of $0.5 billion and $1.6 billion, respectively, related to the accrual of periodic settlements as we were a net payer based on the terms of the instruments. These losses were partially offset by fair value gains on our option-based derivatives of $1.2 billion and $0.7 billion, respectively.

During the three and nine months ended September 30, 2014, we recognized net losses on derivatives primarily as a result of a flattening of the yield curve as short-term interest rates increased and longer-term interest rates declined. During these periods, we recognized fair value losses on our interest-rate swaps of $0.2 billion and $3.5 billion, respectively and net losses of $0.6 billion and $2.0 billion, respectively, related to the accrual of periodic settlements as we were a net payer on our interest-rate swaps based on the terms of the instruments.

Impairments of Available-For-Sale Securities

During the three and nine months ended September 30, 2015 and 2014, we recorded net impairments of available-for-sale securities recognized in earnings related to non-agency mortgage-related securities. The impairments during all periods were mostly driven by the inclusion of additional securities in the population of available-for-sale securities in an unrealized loss position that we intend to sell. The addition of securities to this population during these periods generally reflects our efforts to reduce the balance of less liquid assets in the mortgage-related investments portfolio. During the three and nine months ended September 30, 2014, the impairments included amounts where our intent to sell changed as a result of the settlement of a non-agency mortgage-related securities lawsuit where a counterparty agreed to purchase the securities as part of the settlement. See “CONSOLIDATED BALANCE SHEETS ANALYSIS — Investments in Securities — Mortgage-Related Securities — Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities,” and “NOTE 7: INVESTMENTS IN SECURITIES” for additional information.

Other Gains (Losses) on Investment Securities Recognized in Earnings

The table below presents our other gains (losses) on investment securities recognized in earnings.

Table 11 — Other Gains (Losses) on Investment Securities Recognized in Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Gains (losses) on trading securities	$(56)	$(216)	$(329)	$(183)
Gains (losses) on sales of available-for-sale securities	312	107	1,154	1,212
Total	$256	$(109)	$825	$1,029

The losses on trading securities during the 2015 periods were primarily due to reductions in the fair value of securities carried at a premium (i.e., fair value exceeds par value), as these securities moved closer to their maturity. These losses were partially offset by gains due to declines in interest rates. As of September 30, 2015, our agency securities classified as trading were generally in an unrealized gain position, so we expect to recognize losses on these securities as they approach maturity and move closer to par.

The gains on sales of available-for-sale securities during the 2015 periods were primarily due to sales of non-agency mortgage-related securities consistent with our efforts to reduce the amount of less liquid assets we hold. The gains during the 2014 periods primarily resulted from sales related to our structuring activities. The structuring activities include resecuritizing existing agency securities into REMICs and selling some or all of the REMIC tranches.

Other Income (Loss)

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

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Table 12 — Other Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Other income (loss):				
Non-agency mortgage-related securities settlements	$—	$1,187	$—	$6,084
Gains (losses) on mortgage loans	(197)	168	(1,321)	383
Recoveries on mortgage loans acquired with deteriorated credit quality[1]	30	53	95	162
Management and guarantee fee-related income, net[2]	85	40	321	184
All other	207	348	473	516
Total other income (loss)	$125	$1,796	$(432)	$7,329

(1) Primarily relates to mortgage loans acquired with deteriorated credit quality prior to 2010. Consequently, our recoveries on these mortgage loans will generally decline over time.

(2) Primarily relates to securitized mortgage loans that we guarantee and have not consolidated the securitization trusts on our consolidated balance sheets.

Non-Agency Mortgage-Related Securities Settlements

We received proceeds from ten settlements of lawsuits regarding our investment in certain non-agency mortgage-related securities during the nine months ended September 30, 2014. We did not have any such settlements in the nine months ended September 30, 2015.

Gains (Losses) on Mortgage Loans

Gains (losses) on mortgage loans consist of three components:

- Gains (losses) on mortgage loans held-for-sale related to lower-of-cost-or-fair-value adjustments were $(0.3) billion and $0.1 billion during the three months ended September 30, 2015 and the three months ended September 30, 2014, respectively, and were $(1.5) billion and $(0.1) billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. The higher losses during the 2015 periods were primarily due to a larger volume of mortgage loans reclassified from held-for-investment to held-for-sale during the 2015 periods, compared to the 2014 periods.
- During the three and nine months ended September 30, 2015, we reclassified $2.5 billion and $10.6 billion, respectively, in UPB of single-family mortgage loans from held-for-investment to held-for-sale, compared to $0.7 billion in UPB during the nine months ended September 30, 2014. We did not have any such reclassification during the three months ended September 30, 2014.
- During the three and nine months ended September 30, 2015, we reclassified $1.8 billion and $2.1 billion, respectively, in UPB of multifamily mortgage loans from held-for-investment to held-for-sale. We did not have any such reclassification during the comparable 2014 periods.
- We held $7.1 billion and $2.1 billion in UPB of single-family and multifamily mortgage loans, respectively, for sale and evaluated at lower-of-cost-or-fair-value on our consolidated balance sheet at September 30, 2015.
- Gains (losses) realized on the sale of mortgage loans were not significant for the three and nine months ended September 30, 2015, or the comparable 2014 periods, as gains from declining interest rates were offset by losses from widening spreads.
- We sold $6.0 billion and $21.2 billion in UPB of multifamily mortgage loans during the three and nine months ended September 30, 2015, respectively. We sold $4.5 billion and $12.9 billion in UPB of multifamily mortgage loans during the comparable 2014 periods.
- We sold $0.6 billion and $1.9 billion in UPB of single-family mortgage loans during the three and nine months ended September 30, 2015, respectively. We sold $0.6 billion in UPB of single-family mortgage loans during the comparable 2014 periods.

- Gains resulting from changes in the fair value of multifamily mortgage loans for which we have elected the fair value option were $0.2 billion and $0.3 billion during the three and nine months ended September 30, 2015, respectively, compared to $0.1 billion and $0.4 billion during the three and nine months ended September 30, 2014, respectively. These gains were primarily due to declining interest rates, partially offset by losses due to widening spreads.

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All Other

All other income (loss) includes income recognized from transactional fees, fees assessed to our servicers for technology use and late fees or other penalties, changes in fair value of STACR debt notes (as we have elected to carry certain of these notes at fair value), and other miscellaneous income. The decrease in the third quarter of 2015 compared to the third quarter of 2014 was primarily due to lower fair value gains on certain STACR debt notes as credit spreads widened to a lesser extent and lower compensatory fees assessed on servicers in the 2015 period. The decrease in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 was primarily due to lower compensatory fees assessed on servicers and higher costs associated with the common securitization platform in the 2015 period. This decrease was partially offset by an increase in certain credit enhancement recoveries in the 2015 period associated with single-family mortgage loans. Previously, these recoveries were recognized within our provision for credit losses.

Non-Interest Expense

The table below summarizes the components of non-interest expense.

Table 13 — Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Administrative expense:				
Salaries and employee benefits	$231	$231	$742	$687
Professional services	130	128	361	392
Occupancy expense	14	16	40	43
Other administrative expense	90	97	274	271
Total administrative expense	465	472	1,417	1,393
REO operations expense	116	103	243	112
Temporary Payroll Tax Cut Continuation Act of 2011 expense	248	198	705	563
Other expense	270	43	1,234	199
Total non-interest expense	$1,099	$816	$3,599	$2,267

Administrative Expense

Administrative expense was relatively flat during the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014. During the nine months ended September 30, 2015, salaries and employee benefits expense increased primarily because of costs associated with the termination of our pension plans. This increase was partially offset by lower professional services expense driven by lower expenses associated with FHFA-led lawsuits regarding our investments in certain residential non-agency mortgage-related securities.

REO Operations Expense

Our REO operations expense includes: (a) REO property expenses; (b) net gains or losses incurred on disposition of REO properties; (c) adjustments to the holding period allowance associated with REO properties to record them at the lower of their carrying amount or fair value less the estimated costs to sell; and (d) recoveries from mortgage insurance and other credit enhancements. The increases in REO operations expense during the 2015 periods were primarily due to lower gains on REO dispositions and lower recoveries from mortgage insurance during the 2015 periods. For more information on our REO activity, see "CONSOLIDATED BALANCE SHEETS ANALYSIS — REO, Net."

Temporary Payroll Tax Cut Continuation Act of 2011 Expense

Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, we increased the management and guarantee fee on single-family mortgage loans sold to us by 10 basis points in April 2012. We refer to this fee increase, which we pay to Treasury on a quarterly basis, as the legislated 10 basis point increase in management and guarantee fees.

As of September 30, 2015 and September 30, 2014, mortgage loans with an aggregate UPB of $1.0 trillion (or 60% of the single-family credit guarantee portfolio) and $820.3 billion, respectively, were subject to these fees. As of September 30, 2015, the cumulative total of the amounts paid and due to Treasury for these fees was $2.1 billion. We expect the amount of these fees to continue to increase in the future as we add new business and increase the UPB of mortgage loans subject to these fees.

Other Expense

Other expense includes property taxes and insurance associated with mortgage loans reclassified as held-for-sale, HAMP servicer incentive fees, costs related to terminations and transfers of mortgage loan servicing, and other miscellaneous expenses. The increases during the 2015 periods were primarily driven by property taxes and insurance associated with mortgage loans reclassified as held-for-sale. Property tax and insurance amounts are included in loan loss reserves while the mortgage loans are classified as held-for-investment.

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Beginning January 1, 2015, FHFA directed us to allocate funds to the Housing Trust Fund and Capital Magnet Fund. During the nine months ended September 30, 2015, we completed $305.6 billion of new business purchases subject to this allocation and accrued $128 million of related expense. We expect to pay these amounts (and any additional amounts to be accrued based on our new business purchases in the fourth quarter of 2015) in February 2016.

Other Comprehensive Income (Loss)

The table below presents components of other comprehensive income (loss) reported in our condensed consolidated statements of comprehensive income.

Table 14 — Components of Other Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Other comprehensive income, excluding reclassifications and amortization	$217	$750	$754	$2,289
Other comprehensive income, amortization due to significant increases in expected cash flows on previously-impaired available-for-sale securities	(108)	(132)	(354)	(385)
Reclassifications from AOCI	(135)	87	(460)	(192)
Total	$(26)	$705	$(60)	$1,712

Other comprehensive income (loss) for the three and nine months ended September 30, 2015 was primarily driven by the reclassification of unrealized gains in AOCI to realized gains on investment activity resulting from sales of available-for-sale mortgage-related securities. Excluding the reclassification of these gains, net unrealized gains for the three months ended September 30, 2015 were due to a decline in interest rates, partially offset by spread widening. Excluding the reclassification of these gains, net unrealized gains for the nine months ended September 30, 2015 were due to a decline in interest rates and spread tightening.

Other comprehensive income for the three and nine months ended September 30, 2014 was driven by fair value gains on our available-for-sale securities resulting from a decline in longer-term interest rates coupled with the impact of spread tightening on our non-agency mortgage-related securities and the movement of these securities with unrealized losses towards maturity.

For more information about the components of other comprehensive income (loss) see "Table 11.1 — Changes in AOCI by Component, Net of Tax."

Segment Earnings

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

We evaluate segment performance and allocate resources based on a Segment Earnings approach. Segment financial performance is measured as follows:

- Our Single-family Guarantee segment is measured on its contribution to GAAP net income (loss);
- Our Investments segment is measured on its contribution to GAAP comprehensive income (loss); and
- Our Multifamily segment is measured on its contribution to GAAP comprehensive income (loss).

In presenting Segment Earnings, we make significant reclassifications among certain financial statement line items to reflect measures of management and guarantee fee income on guarantees and net interest income on investments that are in line with how we manage our business. We also allocate 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 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.

In the second quarter of 2015, we changed our Segment Earnings definition associated with the revenue and expense related to the Temporary Payroll Tax Cut Continuation Act of 2011. As a result of this change, the revenue and expense related to the legislated 10 basis point increase in management and guarantee fee income are now netted within the Single-family Guarantee segment. The purpose of this change is to better reflect how management evaluates the Single-family Guarantee segment. Prior period results have been revised to conform with the current period presentation. We reclassified $198 million and $563 million of Temporary Payroll Tax Cut Continuation Act of 2011 expense into management and guarantee fee income for the three months ended September 30, 2014 and the nine months ended September 30, 2014, respectively.

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The table below provides UPB information about our various segment mortgage and credit risk portfolios at September 30, 2015 and December 31, 2014.

Table 15 — Composition of Segment Mortgage Portfolios and Credit Risk Portfolios

	September 30, 2015	December 31, 2014
	(in millions)	
Segment mortgage portfolios:		
Single-family Guarantee — Managed loan portfolio[1]:		
Single-family unsecuritized seriously delinquent mortgage loans	$21,352	$28,738
Single-family Freddie Mac mortgage-related securities held by us	149,968	158,215
Single-family Freddie Mac mortgage-related securities held by third parties	1,458,057	1,397,050
Single-family other guarantee commitments	2,954	16,806
Total Single-family Guarantee — Managed loan portfolio	1,632,331	1,600,809
Investments — Mortgage investments portfolio:		
Single-family unsecuritized performing mortgage loans	77,843	82,778
Single-family Freddie Mac mortgage-related securities	149,968	158,215
Non-agency mortgage-related securities	30,020	44,230
Non-Freddie Mac agency mortgage-related securities	14,063	16,341
Total Investments — Mortgage investments portfolio	271,894	301,564
Multifamily — Guarantee portfolio:		
Multifamily Freddie Mac mortgage-related securities held by us	5,059	3,326
Multifamily Freddie Mac mortgage-related securities held by third parties	93,589	78,495
Multifamily other guarantee commitments	9,597	9,341
Total Multifamily — Guarantee portfolio	108,245	91,162
Multifamily — Mortgage investments portfolio:		
Multifamily investment securities portfolio	19,679	25,156
Multifamily unsecuritized mortgage loan portfolio	54,220	52,956
Total Multifamily — Mortgage investments portfolio	73,899	78,112
Total Multifamily portfolio	182,144	169,274
Less: single-family and multifamily Freddie Mac securities held by us	(155,027)	(161,541)
Total mortgage portfolio	$1,931,342	$1,910,106
Credit risk portfolios:		
Single-family credit guarantee portfolio:[1]		
Single-family mortgage loans, on-balance sheet	$1,687,770	$1,645,872
Non-consolidated Freddie Mac mortgage-related securities	5,617	6,233
Other guarantee commitments	2,954	16,806
Less: HFA initiative-related guarantees	(2,715)	(3,357)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates	(365)	(433)
Total single-family credit guarantee portfolio	$1,693,261	$1,665,121
Multifamily mortgage portfolio:		
Multifamily mortgage loans, on-balance sheet	$55,957	$53,480
Non-consolidated Freddie Mac mortgage-related securities	96,910	81,296
Other guarantee commitments	9,597	9,341
Less: HFA initiative-related guarantees	(711)	(772)
Total multifamily mortgage portfolio	$161,753	$143,345

(1) The balances of the mortgage-related securities in the Single-family Guarantee managed loan portfolio are based on the UPB of the security, whereas the balances of our single-family credit guarantee portfolio presented in this report are based on the UPB of the mortgage loans underlying the related security.

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Segment Earnings — Results

Single-Family Guarantee

The table below presents the Segment Earnings of our Single-family Guarantee segment.

Table 16 — Segment Earnings and Key Metrics — Single-Family Guarantee

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in millions)			
Segment Earnings:				
Net interest income (expense)	$52	$19	$(59)	$(27)
Benefit (provision) for credit losses	360	(818)	1,335	(742)
Non-interest income:				
Management and guarantee fee income	1,345	1,143	4,066	3,201
Other non-interest income (loss)	(142)	422	(1,088)	450
Total non-interest income	1,203	1,565	2,978	3,651
Non-interest expense:				
Administrative expense	(309)	(302)	(938)	(855)
REO operations expense	(116)	(109)	(243)	(120)
Other non-interest expense	(257)	(40)	(1,196)	(159)
Total non-interest expense	(682)	(451)	(2,377)	(1,134)
Segment adjustments	(62)	(75)	(202)	(233)
Segment Earnings before income tax expense	871	240	1,675	1,515
Income tax expense	(280)	(44)	(535)	(438)
Segment Earnings, net of taxes	591	196	1,140	1,077
Total other comprehensive income (loss), net of taxes	—	(1)	(1)	(1)
Total comprehensive income	$591	$195	$1,139	$1,076
Key metrics:				
Balances and Volume (dollars in billions):				
Average balance of single-family credit guarantee portfolio and HFA guarantees	$1,683	$1,653	$1,673	$1,652
Issuance — Single-family credit guarantees	$99	$78	$281	$189
Fixed-rate products — Percentage of purchases	96%	94%	96%	94%
Liquidation rate — Single-family credit guarantees (annualized)[1]	20%	17%	21%	15%
Average Management and Guarantee Fee Rate (in bps, annualized)				
Segment Earnings management and guarantee fee income[2]	32.0	27.6	32.4	25.8
Management and guarantee fee charged on new acquisitions[3]	44.0	47.2	44.3	47.4
Credit:				
Serious delinquency rate, at period end	1.41%	1.96%	1.41%	1.96%
REO inventory, at end of period (number of properties)	17,780	29,344	17,780	29,344
Single-family credit losses, in bps (annualized)[4]	15.1	24.6	33.5	22.7
Market:				
Single-family mortgage loan debt outstanding (total U.S. market, in billions)[5]	$9,901	$9,871	$9,901	$9,871

(1) Includes our removal of seriously delinquent and modified mortgage loans and balloon/reset mortgage loans from PC pools. Also includes terminations of other guarantee commitments.

(2) Calculated based on the contractual management and guarantee fee rate as well as amortization of delivery and other upfront fees (using the original contractual maturity date of the related mortgage loans) for the entire single-family credit guarantee portfolio.

(3) Represents the estimated average rate of management and guarantee fees for new acquisitions during the period assuming amortization of delivery fees using the estimated life of the related mortgage loans rather than the original contractual maturity date of the related loans, net of expense for the legislated 10 basis point increase in management and guarantee fees. Prior periods have been revised to conform with the current period presentation.

(4) Includes charge-offs of $1.9 billion associated with our initial adoption of regulatory guidance on January 1, 2015. Excluding this amount, the single-family credit losses, in bps (annualized) during the nine months ended September 30, 2015 were 18.2.

(5) Source: Federal Reserve Financial Accounts of the United States of America dated September 18, 2015. The outstanding amounts reflect the balances as of June 30, 2015.

Segment Earnings

The primary drivers of Segment Earnings for the Single-family Guarantee segment generally consist of management and guarantee fee income and the benefit (provision) for credit losses.

Segment Earnings for our Single-family Guarantee segment increased during the 2015 periods, compared to the same periods of 2014, driven by increased management and guarantee fee income offset by losses resulting from the net effect of our

reclassification of certain seriously delinquent mortgage loans from held-for-investment to held-for-sale in the 2015 periods and related subsequent activity.

Single-Family Mortgage Loan Volume

- Origination volumes in the U.S. residential mortgage loan market increased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, driven by an increase in the volume of refinance mortgage loans. We attribute this increase to lower average long-term mortgage loan interest rates during the nine months ended September 30, 2015 compared to prior periods.
- Our purchase activity during the nine months ended September 30, 2015 increased to $274.9 billion in UPB, compared to $184.3 billion in UPB during the nine months ended September 30, 2014. During the nine months ended September 30, 2015, refinancings comprised approximately 58% of our single-family purchase and issuance volume, compared to 46% during the nine months ended September 30, 2014.

Credit Risk Transfer Activity

- During the nine months ended September 30, 2015, we completed 14 credit risk transfer transactions that transferred a portion of the credit risk associated with $128.5 billion in UPB of mortgage loans in our New single-family book from us to third-party investors, insurers, and selected sellers. These transactions consisted of:

Six STACR debt note transactions: All of these transactions transferred a portion of the first loss position, in addition to a portion of the mezzanine loss position, associated with the related reference pool;

Six ACIS transactions: Three of these transactions transferred a portion of the first loss position;

One whole loan security: This transaction uses a senior/subordinated security structure. We completed our first transaction in July 2015; and

One seller indemnification transaction: This transaction is an agreement where the seller will absorb first losses on the related single-family mortgage loans based upon a predetermined percentage. The indemnification amount was fully collateralized. We completed our first transaction in July 2015.

- Our scorecard goal is measured by FHFA based on the amount of risk we transfer in the specific transactions which differs from the total UPB of the underlying reference pools. We expect to meet our 2015 Conservatorship Scorecard goal of completing credit risk transfer transactions of at least $120 billion in UPB of single-family mortgage loans.

Single-Family Credit Guarantee Portfolio

- Our New single-family book comprised 65% of our overall single-family credit guarantee portfolio as of September 30, 2015, compared to 60% as of December 31, 2014.
- There were approximately 10.7 million and 10.6 million mortgage loans in our single-family credit guarantee portfolio at September 30, 2015 and December 31, 2014, respectively, including 2.0 million and 2.1 million of relief refinance mortgage loans, respectively.
- The average UPB of mortgage loans in our single-family credit guarantee portfolio was approximately $159,000 and $156,000 at September 30, 2015 and December 31, 2014, respectively.
- We expect the UPB of our single-family credit guarantee portfolio will be relatively unchanged at the end of 2015 compared to the end of 2014.

Credit Quality and Mortgage Loan Performance

- The serious delinquency rate on our single-family credit guarantee portfolio was 1.41% and 1.88% at September 30, 2015 and December 31, 2014, respectively. The serious delinquency rate for the New single-family book was 0.20% as of September 30, 2015 and its credit losses were $117 million during the nine months ended September 30, 2015.
- During the nine months ended September 30, 2015, our serious delinquency rate continued the decline that began in 2010, primarily due to lower volumes of single-family mortgage loans becoming seriously delinquent and continued loss mitigation (including sales of non-performing mortgage loans) and foreclosure activities for mortgage loans in the Legacy single-family books. See "Table 31 — Single-Family Serious Delinquency Rate Trend" for the recent trend in our serious delinquency rates.
- The total number of our mortgage loans delinquent for more than one year declined approximately 28% during the nine months ended September 30, 2015. In addition, we sold certain seriously delinquent unsecuritized single-family mortgage loans with an aggregate UPB of $1.9 billion, which contributed to this decline.

- Our single-family REO inventory (measured in number of properties) declined 31% from December 31, 2014 to September 30, 2015, primarily due to our loss mitigation efforts and a larger proportion of properties being sold to third parties at foreclosure auction.

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Key Drivers of Segment Earnings

- Segment Earnings management and guarantee fee income increased during the 2015 periods, compared to the same periods of 2014. These increases were primarily due to higher amortization of upfront fees and increased income from monthly base fees. The higher amortization was driven by a higher liquidation rate resulting from a lower interest rate environment. Income from monthly base fees increased because a higher percentage of our single-family credit guarantee portfolio consists of mortgage loans we acquired in recent years, which have a higher associated management and guarantee fee. Management and guarantee fees charged on new acquisitions decreased during the 2015 periods, compared to the same periods in 2014, due to a combination of competitive pricing and higher market-adjusted pricing costs based on the price performance of our PCs relative to Fannie Mae securities.
- Our Segment Earnings management and guarantee fee income is influenced by our PC price performance because we adjust our fees based on the price performance of our PCs relative to comparable Fannie Mae securities (we refer to this as market-adjusted pricing). A decline in this price performance could adversely affect our segment financial results. See "RISK FACTORS — Competitive and Market Risks — A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business. The profitability of our multifamily business could be adversely affected by a significant decrease in demand for K Certificates" in our 2014 Annual Report for additional information.
- Segment Earnings benefit (provision) for credit losses improved during the 2015 periods, compared to the same periods of 2014. The benefit for credit losses during the 2015 periods is primarily due to a reduction of loan loss reserves associated with the reclassification of mortgage loans from held-for-investment to held-for-sale during these periods. The 2015 periods also benefited from decreases in newly impaired mortgage loans while the 2014 periods benefited from settlement agreements. Excluding the effect of mortgage loan reclassifications and other related subsequent activity in the 2015 periods and settlement agreements in the 2014 periods, the benefit for credit losses increased primarily due to decreases in newly impaired loans. Segment Earnings benefit for credit losses in all periods presented also includes benefits associated with the positive payment performance of our TDR mortgage loans.
- Segment Earnings other non-interest income (loss) declined during the 2015 periods, compared to the same periods of 2014, primarily due to increased lower-of-cost-or-fair-value adjustments on single-family mortgage loans that were reclassified from held-for-investment to held-for-sale.
- Segment Earnings other non-interest expense increased during the 2015 periods, compared to the same periods of 2014, primarily due to property taxes and insurance associated with mortgage loans reclassified as held-for-sale and an accrual for expenses related to the Housing Trust and Capital Magnet Funds during the 2015 periods. REO operations expense increased during the nine months ended September 30, 2015 driven by lower gains on dispositions of REO properties due to decreased volume and lower recoveries.
- During the nine months ended September 30, 2015, we reclassified $10.6 billion in UPB of seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale. This reclassification and other related subsequent activity resulted in a pre-tax Segment Earnings net loss of approximately $0.4 billion.

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Investments

The table below presents the Segment Earnings of our Investments segment.

Table 17 — Segment Earnings and Key Metrics — Investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in millions)			
Segment Earnings:				
Net interest income	$394	$762	$1,479	$2,324
Non-interest income (loss):				
Net impairment of available-for-sale securities recognized in earnings	108	37	322	(95)
Derivative losses	(2,950)	(133)	(1,221)	(2,745)
Losses on trading securities	(103)	(202)	(329)	(243)
Non-agency mortgage-related securities settlements	—	1,187	—	6,084
Other non-interest income	1,028	407	2,949	1,920
Total non-interest income (loss)	(1,917)	1,296	1,721	4,921
Non-interest expense:				
Administrative expense	(76)	(104)	(239)	(339)
Other non-interest expense (income)	—	—	(2)	(6)
Total non-interest expense	(76)	(104)	(241)	(345)
Segment adjustments	205	168	602	468
Segment Earnings before income tax (expense) benefit	(1,394)	2,122	3,561	7,368
Income tax (expense) benefit	431	(682)	(1,137)	(2,308)
Segment Earnings, net of taxes	(963)	1,440	2,424	5,060
Total other comprehensive income (loss), net of taxes	(45)	819	22	1,893
Comprehensive income (loss)	$(1,008)	$2,259	$2,446	$6,953
Key metrics:				
Portfolio balances:				
Ending investments asset balances:				
Mortgage-related investments[1] (based on UPB)			$271,894	$306,043
Non-mortgage-related investments[2] (based on carrying value)			71,863	61,553
Total investments			$343,757	$367,596
Average balances of interest-earning assets (based on amortized cost):				
Mortgage-related investments[1]	$282,365	$316,248	$297,609	$322,075
Non-mortgage-related investments[2]	64,223	61,450	64,821	63,162
Total average balances of interest-earning assets	$346,588	$377,698	$362,430	$385,237
Return:				
Net interest yield — Segment Earnings basis (annualized)	0.46%	0.81%	0.54%	0.80%

(1) Includes our investments in single-family PCs and certain Other Guarantee Transactions, which are consolidated under GAAP on our consolidated balance sheets, and single-family unsecuritized performing loans.

(2) Includes interest-earning cash and cash equivalents, non-mortgage-related securities, federal funds sold and securities purchased under agreements to resell, and advances to lenders.

Comprehensive Income (Loss)

The primary drivers of comprehensive income for the Investments segment generally consist of: (a) net interest income generated on our investments; (b) derivative- and investments-related fair value gains and losses; and (c) other non-interest income, which includes gains (losses) on sales of available-for-sale securities.

Comprehensive income declined during the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to higher derivative losses recorded during 2015 compared to 2014. Also, income from settlements of non-agency mortgage-related securities litigation was recognized during the three months ended September 30, 2014, while no such income was recognized for the same period during 2015.

Comprehensive income declined during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to income from settlements of non-agency mortgage-related securities litigation recognized during 2014, while no such income was recognized during 2015. This decrease was partially offset by lower derivative losses recorded during 2015 compared to 2014.

Business Activities

- We held $164.0 billion and $174.6 billion of agency securities and $30.0 billion and $44.2 billion of non-agency mortgage-related securities at September 30, 2015 and December 31, 2014, respectively.

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- The UPB of our mortgage investments portfolio, which includes mortgage loans, declined $29.7 billion in the first nine months of 2015. This decline was primarily due to liquidations of the portfolio and sales of our less liquid assets, consistent with our efforts to reduce the amount of less liquid assets that we hold.
- We sold $10.3 billion of non-agency mortgage-related securities during the nine months ended September 30, 2015, compared to $11.2 billion for the same period of 2014. In addition, we securitized $7.4 billion of single-family re-performing or modified loans during the nine months ended September 30, 2015, compared to $7.0 billion for the same period of 2014.
- We continue to be able to access the capital markets and issued $307.8 billion of discount notes, $91.7 billion of callable debt and $30.3 billion of non-callable debt during the nine months ended September 30, 2015.
- Certain of our financial assets and liabilities are measured at amortized cost, while others, including derivatives, are measured at fair value. As a result, changes in interest rates create volatility in our Segment Earnings, as the volatility created by these changes is recognized solely by the Investments segment. The volatility in our Segment Earnings may not be indicative of the underlying economics of our business.
- We continue to maintain low sensitivity to interest rates on an economic basis as measured by our models, through the use of derivatives.

Duration averaged 0.2 months for the nine months ended September 30, 2015.

Portfolio Market Value Sensitivity to an adverse 50 basis point parallel movement in interest rates averaged $97 million for the nine months ended September 30, 2015.

Key Drivers of Segment Earnings and Other Comprehensive Income

- Net interest income and yields for the three and nine months ended September 30, 2015 declined compared to the three and nine months ended September 30, 2014, primarily from the continued reduction in the balance of higher-yielding mortgage-related assets, coupled with expense recognition related to the accelerated amortization of our basis adjustments for our mortgage-related assets due to increased prepayments.
- Net impairment of available-for-sale securities recognized in earnings for the three and nine months ended September 30, 2015 declined compared to the three and nine months ended September 30, 2014, primarily due to a decrease in the population of securities we intend to sell in the 2015 periods compared to the 2014 periods.
- Derivative losses for the three months ended September 30, 2015 increased compared to the three months ended September 30, 2014 primarily due to larger declines in longer-term interest rates. Derivative losses for the nine months ended September 30, 2015 decreased compared to the nine months ended September 30, 2014, primarily due to lower declines in longer-term interest rates in the 2015 periods compared to the 2014 periods.
- Non-interest income for the three and nine months ended September 30, 2015 did not include any income from settlements of non-agency mortgage-related securities litigation, while we recognized $1.2 billion and $6.1 billion of such income during the three and nine months ended September 30, 2014, respectively.
- Other non-interest income for the three and nine months ended September 30, 2015 increased compared to the three and nine months ended September 30, 2014 primarily due to increased amortization income related to deferred gains associated with PCs issued by our consolidated trusts that we previously held and subsequently transferred to third parties. The increase in amortization income was driven by higher liquidations of these securities resulting from higher prepayments on the underlying loans.
- Other comprehensive income (loss) for the three months ended September 30, 2015 decreased compared to the three months ended September 30, 2014 primarily due to fair value losses on our non-agency mortgage-related securities due to spread widening during the third quarter of 2015, compared to spread tightening during the third quarter of 2014. This decline was partially offset by higher fair value gains on our agency mortgage-related securities due to declines in interest rates. Other comprehensive income for the nine months ended September 30, 2015 decreased compared to the nine months ended September 30, 2014 primarily due to lower fair value gains on our non-agency mortgage-related securities due to less spread tightening in 2015 compared to 2014.

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Multifamily

The table below presents the Segment Earnings of our Multifamily segment.

Table 18 — Segment Earnings and Key Metrics — Multifamily

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(dollars in millions)			
Segment Earnings (loss):				
Net interest income	$148	$240	$671	$705
Benefit for credit losses	—	10	20	52
Non-interest income (loss):				
Management and guarantee fee income	87	65	239	186
Gains on mortgage loans	122	116	216	526
Derivative gains (losses)	(502)	310	7	507
Other non-interest income (loss)	92	(3)	84	203
Total non-interest income (loss)	(201)	488	546	1,422
Non-interest expense:				
Administrative expense	(80)	(66)	(240)	(199)
REO operations income	—	6	—	8
Other non-interest expense	(13)	(3)	(36)	(16)
Total non-interest expense	(93)	(63)	(276)	(207)
Segment Earnings (loss) before income tax expense	(146)	675	961	1,972
Income tax (expense) benefit	43	(230)	(307)	(633)
Segment Earnings (loss), net of taxes	(103)	445	654	1,339
Total other comprehensive income (loss), net of taxes	19	(113)	(108)	(180)
Total comprehensive income (loss)	$(84)	$332	$546	$1,159
Key metrics:				
New Business Activity:				
Multifamily new business activity	$10,914	$6,947	$34,053	$14,062
Multifamily mortgage loan purchase commitments outstanding, at period end	$16,971	$7,913	$16,971	$7,913
Multifamily units financed from new business activity	167,493	100,555	479,659	213,909
Securitization Activity:[1]				
Multifamily securitization transactions — guaranteed portion	$6,661	$4,048	$19,573	$11,226
Multifamily securitization transactions — unguaranteed portion[2]	$875	$647	$3,131	$1,870
Average subordination, at issuance	11.6%	13.8%	13.8%	14.3%
K Certificate guarantees:				
Average management and guarantee fee rate, in bps (annualized)[3]	24.8	21.5	23.8	20.8
Average K Certificate guaranteed UPB	$90,749	$67,885	$84,398	$64,938
Credit:				
Multifamily mortgage portfolio delinquency rate, at period end:				
K Certificates	0.02%	0.02%	0.02%	0.02%
All other	—%	0.04%	—%	0.04%
Total	0.01%	0.03%	0.01%	0.03%
REO inventory, at period end (number of properties)	1	—	1	—

(1) Consists primarily of K Certificate transactions.
(2) Represents subordinated securities (i.e., CMBS), which are not issued or guaranteed by us.
(3) Represents Multifamily Segment Earnings — management and guarantee fee income associated with K Certificates, divided by the sum of the average UPB of the outstanding K Certificates.

Comprehensive Income (Loss)

The primary drivers of comprehensive income for the Multifamily segment generally consist of: (a) net interest income; (b) management and guarantee fee income; and (c) gains (losses) on mortgage loans (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)). We use derivatives in the Multifamily segment to economically offset interest rate-related fair value changes of certain assets. The fair value changes of these economically hedged assets are included in gains (losses) on mortgage loans, other non-interest income (loss) and total other comprehensive income (loss). These changes and the interest rate-related derivative fair value changes that are included in derivative gains (losses) offset each other and, as a result, there is no net impact on total comprehensive income for the Multifamily segment from interest rate-related derivatives.

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Comprehensive income for the Multifamily segment declined during the three months ended September 30, 2015, compared to the same period during 2014, primarily due to: (a) lower gains on the sale of mortgage loans; and (b) lower fair value gains on mortgage loans and securities. Comprehensive income for the Multifamily segment declined during the nine months ended September 30, 2015, compared to the same period during 2014, primarily due to the two drivers described above and no gains on sales of available-for-sale securities during 2015.

Multifamily New Business Activity

- We continue to provide liquidity to the multifamily market and support affordable rental housing by acquiring and securitizing multifamily mortgage loans. Our total new business activity increased during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, due to the rapid and significant growth observed in the overall multifamily market since late 2014.
- The 2015 Conservatorship Scorecard sets a goal for us to maintain new multifamily business activity (excluding certain targeted mortgage loan types) at or below $30.0 billion in UPB. In May 2015, FHFA expanded the parameters for exclusion of mortgage loan amounts from its scorecard limit in order to facilitate continued liquidity for affordable rental housing in a growing multifamily market.
- We had $34.1 billion in new business activity during the nine months ended September 30, 2015. Approximately 70% of this amount was counted towards the 2015 Conservatorship Scorecard goal, while the remaining 30% was excluded.

Multifamily Mortgage Loan Purchase Commitments Outstanding

- Multifamily mortgage loan purchase commitments outstanding increased as of September 30, 2015, compared to September 30, 2014, reflecting the overall growth in the multifamily market.

Credit Risk Transfer Activity

- We sold $6.0 billion and $21.2 billion in UPB of multifamily mortgage loans during the three and nine months ended September 30, 2015, respectively, primarily through K Certificate transactions, compared to $4.5 billion and $12.9 billion during the three and nine months ended September 30, 2014, respectively.
- The percentage of our total multifamily mortgage portfolio protected by subordination was 59% and 56% at September 30, 2015 and December 31, 2014, respectively. This subordination is primarily provided by the unguaranteed securities sold to third parties in K Certificate transactions, which absorb first losses.
- Approximately 90% of the mortgage loans we purchased during the nine months ended September 30, 2015 were designated for securitization, and we continue to pursue strategies to transfer credit risk for mortgage loans that are not designated for securitization.

Multifamily Portfolio

- The UPB of the total multifamily portfolio increased to $182.1 billion as of September 30, 2015 from $169.3 billion as of December 31, 2014, primarily due to an increase in our guarantee portfolio and higher levels of new business activity that outpaced liquidations and the sale of mortgage loans in securitization transactions.

Credit Quality and Mortgage Loan Performance

- As a result of solid market fundamentals and strong underwriting policies, we believe that the credit quality of the multifamily mortgage portfolio remains strong.
- Multifamily credit losses as a percentage of the combined average balance of our multifamily mortgage loan and guarantee portfolios were 0.8 basis points during the nine months ended September 30, 2015, an increase compared to (0.7) basis points during the nine months ended September 30, 2014.
- Our low delinquency rates continue to reflect strong industry fundamentals.

Key Drivers of Segment Earnings and Other Comprehensive Income (Loss)

- Segment Earnings net interest income declined during the three and nine months ended September 30, 2015, compared to the same periods of 2014. This decline was primarily attributable to a segment allocation of debt extinguishment costs related to the transfer of $1.2 billion of seasoned mortgage loans to a consolidated K Certificate trust that did not have any subordination.
- Segment Earnings total non-interest income declined during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to: (a) lower gains on mortgage loans (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) and no gains on sales of available-for-sale

securities; partially offset by (b) higher management and guarantee fee income.

Segment Earnings management and guarantee fee income increased during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to the higher average balance of the multifamily guarantee portfolio, driven by the ongoing issuances of K Certificates.

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- Segment Earnings management and guarantee fee income will likely increase in future periods as we continue to issue K Certificates.
- Our guarantees of K Certificates generally have lower fees than our other multifamily guarantee activities as a result of our limited credit risk exposure due to the use of subordination.
- Segment Earnings gains on mortgage loans (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) declined during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to fair value losses on multifamily mortgage loans held-for-sale as a result of significant market spread volatility on a higher balance during the 2015 periods.
- Segment Earnings other non-interest income declined during the nine months ended September 30, 2015, compared to the same period of 2014, primarily due to gains recognized on the sale of available-for-sale securities during the 2014 period. We did not have any such sales in the 2015 period.
- Total other comprehensive income (loss) (excluding the interest rate-related fair value changes that are offset in derivative gains (losses)) improved during the three and nine months ended September 30, 2015, compared to the same periods of 2014, primarily due to lower fair value losses on available-for-sale securities during the 2015 periods.

CONSOLIDATED BALANCE SHEETS ANALYSIS

You should read this discussion of our consolidated balance sheets in conjunction with our condensed consolidated financial statements, including the accompanying notes.

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

The short-term assets on our condensed consolidated balance sheets, which include those related to our consolidated VIEs, consisted primarily of restricted cash, cash equivalents and securities purchased under agreements to resell at September 30, 2015. Short-term assets related to our consolidated VIEs increased by $4.9 billion from December 31, 2014 to September 30, 2015. Our consolidated VIEs include the trusts that issue our single-family PCs. The short-term assets held by these trusts primarily relate to payments of principal and interest received on the loans underlying the PCs that are held pending distribution to the investors in those PCs.

Excluding amounts related to our consolidated VIEs, we held $5.0 billion and $10.9 billion of cash and cash equivalents (including non-interest bearing deposits of $5.0 billion and $6.5 billion at the Federal Reserve Bank of New York), no federal funds sold, and $26.9 billion and $38.4 billion of securities purchased under agreements to resell at September 30, 2015 and December 31, 2014, respectively. The decrease in these liquid assets was due to a decline in forecasted short-term cash needs as compared to December 31, 2014.

Excluding amounts related to our consolidated VIEs, we held on average $6.5 billion and $8.6 billion of cash and cash equivalents and $34.5 billion and $31.2 billion of federal funds sold and securities purchased under agreements to resell during the three and nine months ended September 30, 2015, respectively. In recent years, our use of federal funds sold transactions has been minimal.

Investments in Securities

The disclosures in this section do not include our holdings of single-family PCs and certain Other Guarantee Transactions issued by consolidated trusts as these holdings are eliminated in consolidation.

The table below provides the fair values of our investments in securities on our consolidated balance sheets.

Table 19 — Investments in Securities on Our Consolidated Balance Sheets

	September 30, 2015	December 31, 2014
	(in millions)	
Investments in securities:		
Available-for-sale securities		
Mortgage-related securities		
Agency securities	$43,586	$50,611
Non-agency securities	37,987	55,939
Total available-for-sale securities	81,573	106,550
Trading securities		
Mortgage-related securities		

Agency securities	23,501	23,584
Non-agency securities	147	171
Total mortgage-related securities	23,648	23,755
Non-mortgage-related securities	12,158	6,682
Total trading securities	35,806	30,437
Total investments in securities	$117,379	$136,987

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Non-Mortgage-Related Securities

Our investments in non-mortgage-related securities, consisting of U.S. Treasury securities, provide an additional source of liquidity. Our investments in non-mortgage-related securities increased at September 30, 2015, compared to December 31, 2014, primarily due to a change in the mix of our liquidity and contingency operating portfolio.

Mortgage-Related Securities

Our investments in mortgage-related securities consist of securities issued by Fannie Mae, Ginnie Mae, and other financial institutions, as well as certain of our own mortgage-related securities. The table below provides information regarding our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets, based on UPB.

Table 20 — Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2015			December 31, 2014		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
	(in millions)					
Freddie Mac mortgage-related securities:						
Single-family	$34,354	$6,914	$41,268	$41,340	$6,552	$47,892
Multifamily	1,986	3,073	5,059	1,897	1,429	3,326
Total Freddie Mac mortgage-related securities	36,340	9,987	46,327	43,237	7,981	51,218
Non-Freddie Mac mortgage-related securities:						
Agency securities:						
Fannie Mae:						
Single-family	6,320	7,314	13,634	6,852	9,303	16,155
Ginnie Mae:						
Single-family	98	331	429	119	67	186
Multifamily	12	—	12	12	—	12
Total Non-Freddie Mac agency securities	6,430	7,645	14,075	6,983	9,370	16,353
Non-agency mortgage-related securities:						
Single-family:[1]						
Subprime	10	18,529	18,539	11	27,675	27,686
Option ARM	—	5,604	5,604	—	8,287	8,287
Alt-A and other	789	3,458	4,247	955	5,035	5,990
CMBS[2]	5,338	8,794	14,132	9,326	11,886	21,212
Obligations of states and political subdivisions	1,438	21	1,459	2,157	12	2,169
Manufactured housing	482	165	647	521	183	704
Total non-agency mortgage-related securities	8,057	36,571	44,628	12,970	53,078	66,048
Total UPB of mortgage-related securities	$50,827	$54,203	105,030	$63,190	$70,429	133,619
Premiums, discounts, deferred fees, impairments of UPB and other basis adjustments			(4,225)			(8,187)
Net unrealized gains (losses) on mortgage-related securities, pre-tax			4,416			4,873
Total carrying value of mortgage-related securities			$105,221			$130,305

(1) Approximately 4% and 3% of these securities held at September 30, 2015 and December 31, 2014, respectively, were investment grade as of those dates, based on the UPB and the lowest rating available.

(2) Approximately 88% and 92% of these securities held at September 30, 2015 and December 31, 2014, respectively, were investment grade as of those dates, based on the UPB and the lowest rating available.

The table below provides the UPB and fair value of our investments in agency and non-agency mortgage-related securities on our consolidated balance sheets.

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Table 21 — Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2015		December 31, 2014	
	UPB	Fair Value	UPB	Fair Value
	(in millions)			
Agency pass-through securities	$9,515	$10,260	$11,289	$12,196
Other agency securities:				
Interest-only securities	—	2,487	—	2,093
Principal-only securities	2,155	1,843	2,427	2,086
Inverse floating-rate securities[1]	858	1,241	1,156	1,619
REMICs and Other Structured Securities	47,874	51,256	52,699	56,201
Total agency securities	60,402	67,087	67,571	74,195
Non-agency securities	44,628	38,134	66,048	56,110
Total mortgage-related securities	$105,030	$105,221	$133,619	$130,305

(1) Represents securities where the holder receives interest cash flows that change inversely with the reference rate (i.e., higher cash flows when reference rates are low and lower cash flows when reference rates are high). Additionally, these securities receive a portion of principal cash flows associated with the underlying collateral.

The reduction in non-agency mortgage-related securities from December 31, 2014 to September 30, 2015 was due to liquidations and sales, consistent with our efforts to reduce the amount of less liquid assets in our mortgage-related investments portfolio, as described in "EXECUTIVE SUMMARY — Limits on Our Mortgage-Related Investments Portfolio."

The reduction in agency mortgage-related securities from December 31, 2014 to September 30, 2015 was mainly due to liquidations.

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

We have exposure to subprime, option ARM, interest only, and 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.
- Single-family Freddie Mac mortgage-related securities: We hold certain Other Guarantee Transactions as part of our investments in securities. There are subprime and option ARM loans underlying some of these Other Guarantee Transactions. For more information on single-family loans with certain higher-risk characteristics underlying our issued securities, see "RISK MANAGEMENT — Credit Risk — Single-Family Mortgage Credit Risk — Monitoring Mortgage Loan Performance."

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

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. Since the first quarter of 2008, we have not purchased any non-agency mortgage-related securities backed by subprime, option ARM, or Alt-A loans. The table below presents information about our holdings of available-for-sale non-agency mortgage-related securities backed by subprime, option ARM and Alt-A loans.

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Table 22 — Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans and Certain Related Credit Statistics

	As of 9/30/2015	6/30/2015	3/31/2015	12/31/2014	9/30/2014
	(dollars in millions)				
UPB:(1)					
Subprime	$18,539	$20,987	$23,790	$27,682	$30,706
Option ARM	5,604	6,938	7,704	8,287	8,493
Alt-A	3,066	3,622	4,318	4,549	4,995
Gross unrealized losses, pre-tax:					
Subprime	$394	$388	$497	$610	$880
Option ARM	74	85	164	183	223
Alt-A	22	22	30	32	30
Present value of expected future credit losses:(2)(3)					
Subprime	$2,717	$3,196	$2,894	$4,262	$4,568
Option ARM	731	885	745	987	1,161
Alt-A	219	262	290	457	546
Collateral delinquency rate:(4)					
Subprime	28 %	29 %	31 %	32 %	32 %
Option ARM	23	24	26	27	27
Alt-A	18	19	20	20	20
Average credit enhancement:(5)					
Subprime	7 %	8 %	9 %	9 %	9 %
Option ARM	(1)	(1)	—	—	—
Alt-A	1	1	2	2	2
Cumulative collateral loss:(6)					
Subprime	33 %	33 %	33 %	32 %	32 %
Option ARM	26	25	25	25	25
Alt-A	15	16	15	15	15

(1) Not affected by income from settlements of non-agency mortgage-related securities litigation. For more information, see “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Non-Agency Mortgage-Related Security Issuers” in our 2014 Annual Report.

(2) Represents our estimate of the present value of future contractual cash flows that we do not expect to collect, discounted at the effective interest rate determined based on the security’s contractual cash flows and the initial acquisition costs. This discount rate is only utilized to analyze the cumulative credit deterioration for securities since acquisition and may be lower than the discount rate used to measure ongoing other-than-temporary impairment to be recognized in earnings for securities that have experienced a significant improvement in expected cash flows since the last recognition of other-than-temporary impairment recognized in earnings.

(3) We regularly evaluate the underlying estimates and models we use when determining the present value of expected future credit losses and update our assumptions to reflect our historical experience and current view of economic factors. As a result, data in different periods may not be comparable.

(4) Determined based on the number of loans that are two monthly payments or more past due that underlie the securities using information obtained from a third-party data provider.

(5) Reflects the ratio of the current principal amount of the securities issued by a trust that will absorb losses in the trust before any losses are allocated to securities that we own. Percentage generally calculated based on the total UPB of securities subordinate to the securities we own, divided by the total UPB of all of the securities issued by the trust (excluding notional balances). Only includes credit enhancement provided by subordinated securities;

excludes credit enhancement provided by bond insurance. Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment.

(6) 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 non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements.

Our estimate of the present value of expected future credit losses on our available-for-sale non-agency mortgage-related securities decreased to $3.8 billion at September 30, 2015 from $4.4 billion at June 30, 2015. All of these amounts have been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decrease in the present value of expected future credit losses on our available-for-sale securities was primarily driven by sales and a decrease in interest rates.

The investments we hold in non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements. Bond insurance is an additional credit enhancement covering some of the non-agency mortgage-related securities. These credit enhancements are the primary reason we expect our actual losses, through principal or interest shortfalls, to be less than the underlying collateral losses in the aggregate. In most cases, we continued to experience the erosion of structural credit enhancements on securities backed by subprime, option ARM, and Alt-A loans due to poor

performance of the underlying collateral. There is also substantial uncertainty surrounding certain bond insurers' ability to pay our future claims on expected credit losses related to our non-agency mortgage-related security investments.

We incurred actual principal cash shortfalls of $47 million and $215 million and received principal repayments of $1.0 billion and $3.0 billion on available-for-sale non-agency mortgage-related securities backed by subprime, Option ARM, and Alt-A and other loans, during the three and nine months ended September 30, 2015, respectively. The timing of our recognition of principal cash shortfalls is based on the structure of our investments, as many of the trusts that issued non-agency mortgage-related securities we hold were structured so that realized collateral losses in excess of structural credit enhancements are not passed on to investors until the investment matures.

We and FHFA, as Conservator, are involved in various efforts to mitigate or recover our losses as an investor with respect to certain of the non-agency mortgage-related securities we hold.

Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities

We recorded net impairment of available-for-sale securities recognized in earnings of $54 million and $245 million during the three and nine months ended September 30, 2015, respectively, compared to $166 million and $687 million during the three and nine months ended September 30, 2014, respectively. At September 30, 2015, our gross unrealized losses, pretax, on available-for-sale mortgage-related securities were $549 million.

We review our investments in available-for-sale securities that are in an unrealized loss position to determine which securities, if any, we intend to sell, given market conditions and other information as of the balance sheet date. The UPB of non-agency mortgage-related securities which we had the intent to sell was $8.3 billion as of September 30, 2015. For these securities, we recorded the unrealized loss as a net impairment of available-for-sale securities recognized in earnings.

We determine the population of securities we intend to sell using management judgment based on a variety of factors, including economics and our current operational plans, models and strategies and, in the case of single-family non-agency mortgage-related securities, whether such securities are subject to FHFA-led lawsuits or other loss mitigation measures. The population of securities that we intend to sell may change from period to period. During the three and nine months ended September 30, 2015, net impairment of available-for-sale securities recognized in earnings included $38 million and $203 million, respectively, compared to $132 million and $598 million during the three and nine months ended September 30, 2014, respectively. Amounts in both years relate to the inclusion of additional securities in the population of available-for-sale securities in an unrealized loss position that we intend to sell. The addition of securities to this population during these periods generally reflects our efforts to reduce the balance of less liquid assets in the mortgage-related investments portfolio. We recorded the remaining impairments because of increases in our estimate of the present value of expected future credit losses on certain individual available-for-sale securities. Changes in our operational plans, models or strategies could change the population of securities we intend to sell and thereby have a potentially significant impact on earnings.

The credit performance of loans underlying our holdings of non-agency mortgage-related securities declined since 2007 and, although it has stabilized in recent periods, it remains weak. This decline was particularly severe for subprime, option ARM, and Alt-A and other loans. Our investments in non-agency mortgage-related securities were adversely affected by high unemployment, a large inventory of seriously delinquent mortgage loans and unsold homes, tight credit conditions, and weak consumer confidence. In addition, the loans which serve as collateral for the securities we hold have significantly greater concentrations in the states that have undergone the greatest economic stress during the housing crisis that began in 2006, such as California and Florida.

Our assessments concerning other-than-temporary impairment involve the use of models, require significant judgment and are subject to potentially significant change as conditions evolve. Changes in the performance of the individual securities and mortgage market conditions may also affect our impairment assessments. It is difficult to estimate the future performance of mortgage loans and mortgage-related securities with high assurance, and actual results could differ materially from our expectations. Furthermore, various market participants could arrive at materially different conclusions regarding estimates of future principal cash shortfalls.

For more information on risks associated with the use of models, see "RISK FACTORS — Operational Risks — We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to

make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties" in our 2014 Annual Report.

Mortgage Loans

The UPB of mortgage loans on our consolidated balance sheets was $1.7 trillion at both September 30, 2015 and December 31, 2014. Most of the mortgage loans on our consolidated balance sheets are securitized (e.g., held in PC trusts). The unsecuritized mortgage loans on our consolidated balance sheets generally consist of mortgage loans held for investment purposes, mortgage loans that are awaiting securitization, or delinquent or modified mortgage loans that we removed from PC trusts.

Based on the amount of the recorded investment of single-family mortgage loans classified as held-for-investment on our consolidated balance sheets, approximately $16.5 billion, or 1.0%, of these mortgage loans were seriously delinquent or in the

process of foreclosure as of September 30, 2015, compared to $31.8 billion, or 1.9%, as of December 31, 2014. The majority of these mortgage loans are unsecuritized and were removed by us from our PC trusts.

The UPB of unsecuritized single-family mortgage loans declined $12.3 billion to $99.2 billion at September 30, 2015 from $111.5 billion at December 31, 2014, primarily due to mortgage loan prepayments, foreclosure transfers, foreclosure alternative activities, securitization of mortgage loans purchased for cash, securitization of reperforming and modified mortgage loans and, to a lesser extent, sales of seriously delinquent mortgage loans. This decline was partially offset by our removal of seriously delinquent single-family mortgage loans from PC trusts. As of September 30, 2015 and December 31, 2014, the balance of unsecuritized single-family mortgage loans included $82.8 billion and $82.4 billion, respectively, in UPB of mortgage loans classified as TDRs that were no longer seriously delinquent.

The UPB of unsecuritized multifamily mortgage loans was $54.2 billion at September 30, 2015 and $53.0 billion at December 31, 2014. This increase was primarily due to the purchase of mortgage loans for future securitization through K Certificates, partially offset by liquidations of held-for-investment mortgage loans.

We maintain an allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets. We also maintain a reserve for guarantee losses related to single-family and multifamily mortgage loans underlying our non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves. Our loan loss reserves were $16.5 billion and $21.9 billion at September 30, 2015 and December 31, 2014, respectively, including $16.4 billion and $21.8 billion, respectively, related to single-family mortgage loans. At September 30, 2015 and December 31, 2014, our allowance for loan losses, as a percentage of mortgage loans, held-for-investment, on our consolidated balance sheets was 0.9% and 1.3%, respectively.

The table below summarizes the principal amount of mortgage loans we purchased and the amount of guarantees we issued in the applicable periods. The activity presented in the table consists of: (a) mortgage loans in consolidated PCs issued in the period (regardless of whether the PCs are held by us or third parties); (b) single-family and multifamily mortgage loans purchased, but not securitized, in the period; and (c) mortgage loans underlying our mortgage-related financial guarantees issued in the period, which are not consolidated on our balance sheets.

Table 23 — Mortgage Loan Purchases and Other Guarantee Commitment Issuances[1]

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(dollars in millions)							
Mortgage loan purchases and other guarantee commitment issuances:								
Single-family:								
30-year or more amortizing fixed-rate	$68,606	66 %	$58,545	70 %	$205,153	67 %	$138,794	70 %
20-year amortizing fixed-rate	4,362	4	2,293	3	13,404	4	6,040	3
15-year amortizing fixed-rate	16,943	16	11,161	13	46,102	15	28,054	14
Adjustable-rate	3,606	3	4,594	6	10,098	3	11,241	6
FHA/VA and other governmental	49	—	65	—	127	—	160	—
Total single-family[2]	93,566	89	76,658	92	274,884	89	184,289	93
Multifamily:								
10-year	5,528	5	2,566	3	16,851	6	4,436	2
7-year	2,693	3	3,004	4	10,320	3	6,741	3

Other	2,693	3		1,377	1		6,882	2		2,885	2	
Total multifamily	10,914	11		6,947	8		34,053	11		14,062	7	
Total mortgage loan purchases and other guarantee commitment issuances	$104,480	100	%	$83,605	100	%	$308,937	100	%	$198,351	100	%
Percentage of mortgage loan purchases and other guarantee commitment issuances with credit enhancements at acquisition	29	%		24	%		27	%		23	%	

(1) Excludes the removal of seriously delinquent mortgage loans and balloon/reset mortgage loans from PC trusts. Includes purchases of mortgage loans for securitization that were previously associated with other guarantee commitments.

(2) Includes $27.2 billion and $14.5 billion of conforming jumbo mortgage loan purchases and $0.4 billion and $0.2 billion of conforming jumbo mortgage loans underlying other guarantee commitment issuances during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. The UPB of conforming jumbo mortgage loans in our single-family credit guarantee portfolio as of September 30, 2015 and December 31, 2014 was $89.6 billion and $79.1 billion, respectively. Includes issuances of other guarantee commitments on single-family mortgage loans of $3.3 billion and $2.1 billion during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively.

Our single-family purchase activity increased during the 2015 periods compared to the 2014 periods primarily due to higher refinancing volume. We attribute this increase to lower average long-term mortgage loan interest rates during the 2015 periods compared to prior periods. During the nine months ended September 30, 2015, refinancings comprised approximately 58% of our single-family purchase and issuance volume, compared with 46% during the nine months ended September 30, 2014.

See "NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS — Table 15.2 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio" for information about certain mortgage loans in our single-family credit guarantee portfolio that, we believe, have higher-risk characteristics.

Derivative Assets and Liabilities, Net

The composition of our derivative portfolio changes from period to period as a result of purchases and terminations of derivatives, assignments of derivatives prior to their contractual maturity, and expiration of derivatives at their contractual maturity.

The net fair value of our total derivative portfolio was $(1.1) billion at both September 30, 2015 and December 31, 2014.

REO, Net

We typically acquire properties as a result of borrower defaults (and subsequent foreclosures) on mortgage loans that we own or guarantee. These properties are recorded as REO assets on our consolidated balance sheets. The balance of our REO, net, declined to $1.8 billion at September 30, 2015 from $2.6 billion at December 31, 2014. We expect our REO dispositions to remain at elevated levels in the near term, relative to historic levels, as we have a large REO inventory and a significant number of seriously delinquent mortgage loans that are in the process of foreclosure.

Deferred Tax Assets, Net

At September 30, 2015 and December 31, 2014, we had a net deferred tax asset of $17.8 billion and $19.5 billion, respectively. We determined that a valuation allowance was not necessary at either date.

Other Assets

Other assets consist of accounts and other receivables, the guarantee asset related to non-consolidated trusts and other guarantee commitments, our investment in CSS, and other miscellaneous assets. Other assets increased to $9.8 billion as of September 30, 2015 from $7.7 billion as of December 31, 2014 primarily due to an increase in receivables related to: (a) our advances to lenders associated with our single-family mortgage loan purchase and securitization activity; (b) an increase in servicer receivables resulting from an increase in mortgage loans paid off by borrowers at the end of the period that had not yet been remitted to us; and (c) an increase in our current income tax receivable. During the nine months ended September 30, 2015, we contributed $47 million of capital into CSS. For more information on other assets, see “NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS.”

Total Debt, Net

Total debt, net on our consolidated balance sheets consists of debt securities of consolidated trusts held by third parties and other debt.

The table below presents the UPB of Freddie Mac-issued mortgage-related securities by the underlying mortgage product type.

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Table 24 — Freddie Mac Mortgage-Related Securities

	September 30, 2015			December 31, 2014		
	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total
	(in millions)					
PCs and Other Structured Securities:						
Single-family:						
30-year or more amortizing fixed-rate	$1,141,618	$ —	$1,141,618	$1,088,340	$ —	$1,088,340
20-year amortizing fixed-rate	81,444	—	81,444	78,603	—	78,603
15-year amortizing fixed-rate	281,890	—	281,890	278,282	—	278,282
Adjustable-rate[1]	67,829	—	67,829	69,683	—	69,683
Interest-only	20,670	—	20,670	23,941	—	23,941
FHA/VA and other governmental	2,860	—	2,860	3,154	—	3,154
Total single-family	1,596,311	—	1,596,311	1,542,003	—	1,542,003
Multifamily	102	4,820	4,922	84	4,846	4,930
Total single-family and multifamily	1,596,413	4,820	1,601,233	1,542,087	4,846	1,546,933
Other Guarantee Transactions:						
Non-HFA bonds:						
Single-family[2]	6,097	2,537	8,634	7,030	2,760	9,790
Multifamily	1,635	91,379	93,014	440	75,730	76,170
Total Non-HFA bonds	7,732	93,916	101,648	7,470	78,490	85,960
HFA Initiative Bonds:						
Single-family	—	2,715	2,715	—	3,040	3,040
Multifamily	—	711	711	—	720	720
Total HFA Initiative Bonds	—	3,426	3,426	—	3,760	3,760
Total Other Guarantee Transactions	7,732	97,342	105,074	7,470	82,250	89,720
REMICs and Other Structured Securities backed by Ginnie Mae certificates	—	365	365	—	433	433
Total Freddie Mac Mortgage-Related Securities	$1,604,145	$ 102,527	$1,706,672	$1,549,557	$ 87,529	$1,637,086
Less: Repurchased Freddie Mac Mortgage-Related Securities	(107,253)			(109,232)		
Total UPB of debt securities of consolidated trusts held by third parties	$1,496,892			$1,440,325		

(1) Includes $0.7 billion and $0.8 billion in UPB of option ARM loans as of September 30, 2015 and December 31, 2014, respectively.

(2) Backed by non-agency mortgage-related securities that include prime, FHA/VA, and subprime mortgage loans and also include $4.4 billion and $4.9 billion in UPB of securities backed by option ARM loans as of September 30, 2015 and December 31, 2014, respectively.

Excluding Other Guarantee Transactions, the percentage of amortizing fixed-rate single-family loans underlying our consolidated trust debt securities, based on UPB, was approximately 94% as of both September 30, 2015 and December 31, 2014. The UPB of multifamily Other Guarantee Transactions, excluding HFA initiative-related bonds, increased to $93.0 billion as of September 30, 2015 from $76.2 billion as of December 31, 2014, due to K Certificate issuances.

The table below shows issuances and extinguishments of the debt securities of our consolidated trusts during the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014, as well as the debt securities of consolidated trusts held by third parties, based on UPB.

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Table 25 — Issuances and Extinguishments of Debt Securities of Consolidated Trusts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in millions)			
Beginning balance of debt securities of consolidated trusts held by third parties	$1,473,961	$1,416,905	$1,440,325	$1,399,456
Issuances of debt securities of new consolidated trusts	98,676	77,517	278,743	187,026
Debt securities of new consolidated trusts retained by us at issuance	(27,390)	(21,652)	(71,981)	(32,870)
Net issuances to third parties of debt securities of new consolidated trusts	71,286	55,865	206,762	154,156
Reissuances of debt securities of consolidated trusts previously held by us	37,199	29,817	100,079	69,296
Total issuances to third parties of debt securities of consolidated trusts	108,485	85,682	306,841	223,452
Extinguishments, net	(85,554)	(72,473)	(250,274)	(192,794)
Ending balance of debt securities of consolidated trusts held by third parties	$1,496,892	$1,430,114	$1,496,892	$1,430,114

Total issuances to third parties of debt securities of consolidated trusts and extinguishments, net increased during the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to an increase in refinance activity resulting from lower average long-term mortgage loan interest rates during the first nine months of 2015 compared to prior periods.

Other Liabilities

Other liabilities consist of servicer liabilities, the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts and other mortgage-related financial guarantees, accounts payable and accrued expenses, and other miscellaneous liabilities. Other liabilities increased to $5.7 billion as of September 30, 2015 from $5.1 billion as of December 31, 2014 primarily due to the purchase of non-mortgage-related securities classified as trading that had not settled by September 30, 2015, and an accrual of expenses for the Housing Trust Fund and Capital Magnet Fund in 2015. See "NOTE 19: SELECTED FINANCIAL STATEMENT LINE ITEMS" for additional information.

Total Equity

The table below presents the changes in total equity and certain capital-related disclosures.

Table 26 — Changes in Total Equity

	Three Months Ended					Nine Months Ended
	9/30/2015	6/30/2015	3/31/2015	12/31/2014	9/30/2014	9/30/2015
	(in millions)					
Beginning balance	$5,713	$2,546	$2,651	$5,186	$4,290	$2,651
Net income	(475)	4,169	524	227	2,081	4,218
Other comprehensive income (loss), net of taxes:						
Changes in unrealized gains (losses) related to available-for-sale securities	(61)	(314)	157	22	656	(218)
Changes in unrealized gains (losses) related to cash flow hedge relationships	35	38	59	46	50	132
Changes in defined benefit plans	—	20	6	(44)	(1)	26
Comprehensive income	(501)	3,913	746	251	2,786	4,158

Capital draw funded by Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	(3,913)	(746)	(851)	(2,786)	(1,890)	(5,510)
Total equity/Net worth	$1,299	$5,713	$2,546	$2,651	$5,186	$1,299
Aggregate draws under the Purchase Agreement (as of period end)[1]	$71,336	$71,336	$71,336	$71,336	$71,336	$71,336
Aggregate senior preferred stock dividends paid to Treasury in cash (as of period end)	$96,465	$92,552	$91,806	$90,955	$88,169	$96,465

(1) Does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference.

At September 30, 2015, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the third quarter of 2015. We paid cash dividends to Treasury of $5.5 billion during the nine months ended September 30, 2015. Because our Net Worth Amount at September 30, 2015 was below the 2015 Capital Reserve Amount of $1.8 billion, we will not have a dividend obligation under the Purchase Agreement in December 2015.

Our available-for-sale securities net unrealized gains (losses) recorded in AOCI was $2.3 billion and $2.5 billion at September 30, 2015 and December 31, 2014, respectively. This decline in AOCI was primarily due to fair value losses resulting

from the impact of decreasing interest rates on our available-for-sale securities and spread widening on our non-agency mortgage-related securities.

RISK MANAGEMENT

Risk Management

Overview

Our investment and credit guarantee activities expose us to three broad categories of risk: (a) credit risk; (b) interest-rate and other market risks (discussed in “Quantitative and Qualitative Disclosures About Market Risk”); and (c) operational risk. We discuss our liquidity risk and our management of that risk in “Liquidity and Capital Resources.”

Risk management is a critical aspect of our business. Our ability to identify, measure, mitigate, and report risk is critical to our ability to maintain risk at an appropriate level.

See “RISK FACTORS” in our 2014 Annual Report for additional information regarding certain risks material to our business.

Risk Management Framework

We manage risk using a three-lines-of-defense risk management framework. The first line of defense, defined generally as our business units, is responsible for identifying, assessing, measuring, mitigating and reporting risks. Each business unit is responsible for managing its risks in conformance with the risk guidelines, risk policies and risk limits approved by the Board, the Risk Committee of our Board and executive management. The second line of defense includes our Enterprise Risk Management and Compliance divisions and is accountable for: (a) reporting risk to senior management and, as needed, the Board; (b) setting the overall risk appetite and framework for monitoring risk; and (c) providing oversight of the first line. The second line of defense provides company-wide leadership and oversight to help ensure effective and consistent understanding and management of risks by our business units. The third line of defense, our Internal Audit division, provides independent assurance related to the design and effectiveness of the company’s risk management, internal control and governance processes through its audit, assurance, and advisory work. The Internal Audit division reports independently to the Audit Committee of our Board.

For more information about the Board’s role in oversight of risk management, see “CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE — Board Leadership Structure and Role in Risk Oversight" in our 2014 Annual Report.

The company has a governance structure that includes enterprise-wide oversight provided by the Board, CERO and CCO, as well as our Enterprise Risk Management Committee, which is chaired by the CERO. The Enterprise Risk Management Committee is responsible for: (a) maintaining a framework for managing market, operational, counterparty and credit risk; (b) overseeing enterprise risk policies; and (c) monitoring risk through risk reporting.

We use an internal economic capital framework as a component in our risk management process, which includes a risk-based measurement of capital, adjusted for relevant market, credit, counterparty, and operational risks. We assign economic capital internally to asset classes based on their respective risks. Economic capital is an input when we make economic decisions, establish risk limits and measure profitability.

Risk Profile

The following sections describe our current risk environment and provide quantitative and/or qualitative information concerning specific risks.

Credit Risk

We are subject primarily to two types of credit risk: mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage loan we own or guarantee. We are also exposed to mortgage credit risk related to certain investments in non-Freddie Mac mortgage-related securities. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations to us.

Single-Family Mortgage Credit Risk

We are exposed to mortgage credit risk principally in our single-family credit guarantee portfolio because we either hold the mortgage assets or have guaranteed mortgage loans in connection with the issuance of a Freddie Mac mortgage-related security or other guarantee commitment. All mortgage loans that we purchase or guarantee have an

inherent risk of default.

Conditions in the single-family mortgage market improved in most geographic areas during the last several years. The balance of seriously delinquent single-family mortgage loans in our single-family credit guarantee portfolio continued to decline during the nine months ended September 30, 2015, but remains at elevated levels compared to our historical experience.

We seek to issue our financial guarantees associated with single-family mortgage loans with fee terms that we believe are commensurate with the risks assumed and that will, over the long-term, provide income that, in aggregate, exceeds our

anticipated credit-related and administrative expenses. We actively manage our exposure to single-family mortgage credit risk. We discuss our principal strategies for managing single-family mortgage credit risk below.

Maintaining Policies and Procedures for our New Business Activity

We use a process of delegated underwriting for the single-family mortgage loans we purchase or securitize. In this process, our contracts with sellers describe mortgage loan eligibility and underwriting standards, and the sellers represent and warrant to us that the mortgage loans sold to us meet these standards. Through our delegated underwriting process, mortgage loans and the borrowers' ability to repay the loans are evaluated using a number of critical risk characteristics, including but not limited to, the credit profile of the borrower, the features of the mortgage loan, and the LTV ratio.

We do not have our own mortgage loan servicing operation. Instead, our servicers perform the primary servicing function on our mortgage loans on our behalf. We have contractual arrangements with our servicers under which they represent and warrant that they will service our mortgage loans in accordance with our standards. We monitor our sellers and servicers' compliance with our standards and periodically review their operational processes.

If we discover that representations and warranties were breached in either the underwriting or the servicing of a mortgage loan (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses on the mortgage loans. These contractual remedies may include the ability to require the seller or the servicer to repurchase the mortgage loan at its current UPB.

Monitoring the Characteristics of the Mortgage Loans that We Purchase or Guarantee

We monitor the characteristics of mortgage loans we purchase or guarantee, including original LTV ratios, credit scores, mortgage loan purpose and property and occupancy type. Our single-family credit guarantee portfolio consists predominantly of first-lien mortgage loans secured by the borrower's primary residence. Mortgage loans on properties occupied by the borrower as a primary residence tend to have a lower credit risk than mortgage loans on investment properties or second homes.

Risk Profile

We believe the credit quality of the single-family mortgage loans in our New single-family book reflects sound underwriting standards. We purchased or issued other guarantee commitments for approximately 1,235,000 and 884,000 single-family mortgage loans totaling $274.9 billion and $184.3 billion in UPB during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. Approximately 96% of the single-family mortgage loans we purchased or guaranteed during the nine months ended September 30, 2015 were fixed-rate amortizing mortgage loans, based on UPB, and the remainder were ARMs.

During the nine months ended September 30, 2015, refinancings comprised approximately 58% of our single-family purchase and issuance volume, compared with 46% during the nine months ended September 30, 2014. During the nine months ended September 30, 2015 and the nine months ended September 30, 2014, we purchased or guaranteed more than 727,000 and 438,000 refinance mortgage loans, totaling $159.5 billion and $85.4 billion in UPB, respectively. We attribute the increase in our purchases of refinance mortgage loans to lower average long-term mortgage loan interest rates in the nine months ended September 30, 2015 compared to prior periods. Approximately 6% and 12% of our single-family purchase and issuance volume during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, were relief refinance mortgage loans.

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The table below provides characteristics of single-family mortgage loans purchased or covered by other guarantee commitments during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, based on UPB.

Table 27 — Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio

	Percent of Purchases During the Nine Months Ended September 30,					
	2015			2014		
	Relief Refi	All Other	Total	Relief Refi	All Other	Total
Original LTV Ratio Range						
60% and below	1 %	18 %	19 %	2 %	14 %	16 %
Above 60% to 70%	1	14	15	1	11	12
Above 70% to 80%	1	41	42	2	40	42
Above 80% to 100%	2	21	23	4	23	27
Above 100% to 125%	1	—	1	2	—	2
Above 125%	—	—	—	1	—	1
Total	6 %	94 %	100 %	12 %	88 %	100 %
Weighted average original LTV ratio	75 %	74 %	74 %	83 %	76 %	77 %
Credit Score						
740 and above	3 %	63 %	66 %	6 %	55 %	61 %
700 to 739	1	19	20	2	20	22
660 to 699	1	9	10	2	10	12
620 to 659	1	2	3	1	3	4
Less than 620	—	1	1	1	—	1
Total	6 %	94 %	100 %	12 %	88 %	100 %
Weighted average credit score:						
Total mortgage loans	719	752	751	712	748	744

	Percent of Purchases During the Nine Months Ended September 30,	
	2015	2014
Mortgage Loan Purpose		
Purchase	42 %	54 %
Cash-out refinance	21	16
Other refinance[1]	37	30
Total	100 %	100 %
Property Type		
Detached/townhome[2]	92 %	92 %
Condo/Co-op	8	8
Total	100 %	100 %
Occupancy Type		
Primary residence	90 %	88 %
Second/vacation home	4	4
Investment	6	8
Total	100 %	100 %

(1) Other refinance mortgage loans include refinance mortgage loans with “no cash out” to the borrower and refinance mortgage loans for which the delivery data provided was not sufficient for us to determine whether the mortgage

loan was a cash-out or a no cash-out refinance transaction.

(2) Includes manufactured housing and homes within planned unit development communities.

Due to our participation in HARP, we have purchased a significant number of mortgage loans that have LTV ratios over 100% in the last several years. HARP loans with LTV ratios over 100% represented 1% and 3% of our single-family mortgage loan purchases during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively.

Transferring a Portion of our Mortgage Credit Risk

As guarantor, we remain responsible for the payment of principal and interest on our PCs regardless of whether the borrower performs on the underlying mortgage loan. We are also subject to mortgage credit risk for the unsecuritized mortgage loans we hold. We use credit enhancements to transfer a portion of our mortgage credit risk and mitigate some of our potential credit losses. By transferring a portion of the credit risk associated with mortgage loans in our single-family credit guarantee portfolio, we reduce our exposure to loss and, consequently, the amount of capital that would be required to operate our business.

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Credit enhancements at the time of purchase include: (a) primary mortgage insurance; (b) pool insurance; and (c) lender recourse and indemnifications. Approximately 22% and 25% of our single-family mortgage loan purchases during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, had credit enhancements (substantially comprised of primary mortgage insurance) at the time of our purchase of the mortgage loan.

Credit enhancements implemented after purchase include STACR debt notes and ACIS risk transfer transactions. For further information about STACR debt note and ACIS transactions, see "BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Credit Enhancements" in our 2014 Annual Report.

Risk Profile

As of September 30, 2015 and December 31, 2014, approximately $249.2 billion and $227.5 billion, respectively, in UPB of mortgage loans in our single-family credit guarantee portfolio were covered by primary mortgage insurance, and we had coverage on these loans totaling $63.7 billion and $57.9 billion, respectively.

We recognized recoveries from primary mortgage insurance (excluding recoveries that represent reimbursements for our expenses, such as REO operations expenses) of $0.4 billion and $0.6 billion that reduced our charge-offs of single-family mortgage loans during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively. We also recognized recoveries from primary mortgage insurance of $66 million and $162 million during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, respectively, as part of REO operations (expense) income.

We completed 14 credit risk transfer transactions during the nine months ended September 30, 2015. From 2013 through September 30, 2015, we completed credit risk transfer transactions that, upon execution of the transaction, covered $333.9 billion in principal of the mortgage loans in our New single-family book.

The table below provides information about the UPB of STACR debt note transactions and the notional amount of ACIS transactions completed during the nine months ended September 30, 2015 and the nine months ended September 30, 2014, and balances of STACR debt notes and ACIS related amounts as of September 30, 2015 and December 31, 2014.

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Table 28 — STACR Debt Note and ACIS Transactions

	Nine Months Ended September 30,					
	2015			2014		
	Retained by Freddie Mac	Transferred to Third Parties	Total	Retained by Freddie Mac	Transferred to Third Parties	Total
	(in millions)					
Issuance information:						
First loss positions						
STACR debt notes	$—	$505	$505	$—	$—	$—
Non-issued (and ACIS)	865	147	1,012	536	—	536
Subtotal first loss positions	$865	$652	1,517	$536	$—	536
Mezzanine loss positions:						
STACR debt notes	$—	$4,067	4,067	$—	$3,876	3,876
Non-issued (and ACIS)	794	209	1,003	1,626	284	1,910
Subtotal mezzanine loss positions	$794	$4,276	5,070	$1,626	$4,160	5,786
Senior (remaining) loss positions	$120,846	$—	120,846	$117,421	$—	117,421
Total reference pools			$127,433			$123,743
Additional STACR debt notes issued related to reference pools used in transactions in prior periods			$426			$—
Additional ACIS transactions related to STACR debt notes issued in earlier periods			$707			$270

	As of September 30, 2015			As of December 31, 2014		
	Retained by Freddie Mac	Transferred to Third Parties	Total	Retained by Freddie Mac	Transferred to Third Parties	Total
	(in millions)					
Remaining balance information:						
First loss positions						
STACR debt notes	$—	$581	$581	$—	$—	$—
Non-issued (and ACIS)	1,736	147	1,883	853	—	853
Subtotal first loss positions	$1,736	$728	2,464	$853	$—	853
Mezzanine loss positions:						
STACR debt notes	$—	$9,614	9,614	$—	$5,896	5,896
Non-issued (and ACIS)	1,224	1,564	2,788	1,680	761	2,441
Subtotal mezzanine loss positions	$1,224	$11,178	12,402	$1,680	$6,657	8,337
Senior (remaining) loss positions	$272,597	$—	272,597	$183,336	$—	183,336
Total reference pools			$287,463			$192,526

For mortgage loans that are covered by credit risk transfer transactions based on calculated losses, we may write down STACR debt notes or receive reimbursement of losses when the mortgage loans experience a credit event, which includes a mortgage loan becoming 180 days delinquent. For mortgage loans that are covered by risk transfer transactions based on actual losses, we may write down STACR debt notes or receive reimbursement of losses once an actual loss event (e.g., foreclosure, short sale, or REO disposition) occurs. As shown in the table above, as of

September 30, 2015, we are exposed to $1.7 billion of first loss position losses on the remaining $287.5 billion in UPB of the total reference pools of covered mortgage loans. As of September 30, 2015 an insignificant number of mortgage loans in our STACR debt note reference pools had experienced a credit event. As a result, we have only recognized a small amount of credit-related write downs on our STACR debt notes and have begun to make minimal claims for reimbursement of losses under our ACIS transactions.

In July 2015, we completed an offering of a whole loan security, which is a credit risk transfer transaction involving the issuance of guaranteed senior securities and unguaranteed subordinated securities, backed by single-family mortgage loans. The subordinated securities will absorb first losses on the related mortgage loans. We issued $278 million in UPB of guaranteed securities and $23 million in UPB of unguaranteed subordinated securities in this transaction. Also, in July 2015, we completed a seller indemnification transaction where the seller will absorb first losses on the related single-family mortgage loans.

See "NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES" for additional information about credit protection and other forms of credit enhancements covering mortgage loans in our single-family credit guarantee portfolio.

Monitoring Mortgage Loan Performance

A number of factors influence mortgage loan performance and single-family mortgage credit risk, including mortgage loan and borrower characteristics and local and regional economic conditions (such as home prices and unemployment rates).

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We monitor the performance of our single-family credit guarantee portfolio using a variety of metrics, including delinquency statistics and estimated current LTV ratios. Our single-family business unit reviews mortgage loan performance, in conjunction with housing market and economic conditions, to determine if our pricing and mortgage loan eligibility standards reflect the risk associated with the mortgage loans we purchase and guarantee. We also review the payment performance of our mortgage loans in order to facilitate early identification of potential problem mortgage loans, which could inform our loss mitigation strategies. We periodically make changes to our seller/servicer guidelines if warranted.

Risk Profile

An increase in estimated current LTV ratio indicates that the borrower's equity in the home has declined and we believe this increases the risk of borrower default and the magnitude of our loss exposure on the associated mortgage loan. The percentage of mortgage loans in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 100% was approximately 4% and 6% at September 30, 2015 and December 31, 2014, respectively, and the serious delinquency rate for these mortgage loans was 8.09% and 9.06%, respectively.

Improvement in home prices in many areas of the U.S. during the nine months ended September 30, 2015 generally led to improved estimated current LTV ratios of the mortgage loans in our portfolio as of September 30, 2015. For the mortgage loans in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 80%, the borrowers had a weighted average credit score at origination of 723 and 721 at September 30, 2015 and December 31, 2014, respectively. We continue to purchase non-HARP mortgage loans with original LTV ratios greater than 80% if they are covered by credit enhancements for the UPB in excess of 80%.

The table below provides characteristics of single-family mortgage loans in our single-family credit guarantee portfolio at September 30, 2015 and December 31, 2014, based on UPB.

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Table 29 — Characteristics of the Single-Family Credit Guarantee Portfolio[1]

	Portfolio Balance at			
	September 30, 2015		December 31, 2014	
Original LTV Ratio Range				
60% and below	21	%	21	%
Above 60% to 70%	14		14	
Above 70% to 80%	39		38	
Above 80% to 100%	21		21	
Above 100%	5		6	
Total	100	%	100	%
Weighted average original LTV ratio	75	%	75	%
Estimated Current LTV Ratio Range[2]				
60% and below	41	%	39	%
Above 60% to 70%	19		18	
Above 70% to 80%	19		19	
Above 80% to 90%	11		12	
Above 90% to 100%	6		6	
Above 100% to 120%	3		4	
Above 120%	1		2	
Total	100	%	100	%
Weighted average estimated current LTV ratio:				
Relief refinance mortgage loans	72	%	75	%
All other mortgage loans	62		64	
Total mortgage loans	64		66	
Credit Score[3]				
740 and above	59	%	58	%
700 to 739	20		20	
660 to 699	13		13	
620 to 659	5		6	
Less than 620	3		3	
Total	100	%	100	%
Weighted average credit score:				
Relief refinance mortgage loans	731		733	
All other mortgage loans	744		742	
Total mortgage loans	741		740	
Loan Purpose				
Purchase	32	%	30	%
Cash-out refinance	20		21	
Other refinance[4]	48		49	
Total	100	%	100	%
Property Type				
Detached/townhome	93	%	93	%
Condo/Co-op	7		7	
Total	100	%	100	%
Occupancy Type				
Primary residence	90	%	90	%
Second/vacation home	4		4	
Investment	6		6	
Total	100	%	100	%

(1) Other Guarantee Transactions with ending balances of approximately $1 billion at both September 30, 2015 and December 31, 2014 are excluded since these securities are backed by non-Freddie Mac issued securities for which the mortgage loan characteristics data was not available.

(2) The current LTV ratios are management estimates, which are updated on a monthly basis. Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographic area since that time.

(3) Credit score data (at the time of mortgage loan origination) was not available for less than 0.5% of mortgage loans in the single-family credit guarantee portfolio at both September 30, 2015 and December 31, 2014.

(4) Other refinance mortgage loans include refinance mortgage loans with “no cash out” to the borrower and refinance mortgage loans for which the delivery data provided was not sufficient for us to determine whether the mortgage loan was a cash-out or a no cash-out refinance transaction.

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The table below presents certain credit information about mortgage loans in our single-family credit guarantee portfolio by year of origination as of September 30, 2015 and for the nine months ended September 30, 2015.

Table 30 — Single-Family Credit Guarantee Portfolio Data by Year of Origination[1]

	September 30, 2015							Nine Months Ended September 30, 2015
	Percent of Portfolio	Average Credit Score[2]	Original LTV Ratio	Current LTV Ratio[3]	Current LTV Ratio >100%[3]	Serious Delinquency Rate	Foreclosure and Short Sale Rate[4]	Percent of Credit Losses
Year of Origination								
2015	12 %	752	74 %	74 %	— %	— %	— %	— %
2014	11	747	76	70	—	0.07	—	—
2013	14	755	71	59	—	0.10	0.01	—
2012	13	762	69	53	—	0.09	0.03	—
2011	5	757	69	51	—	0.26	0.08	—
2010	5	754	69	53	—	0.46	0.19	1
2009	5	750	68	56	1	0.87	0.47	2
Subtotal - New single-family book	65	754	72	61	—	0.20	0.15	3
HARP and other relief refinance mortgage loans[5]	18	731	89	72	12	0.70	0.90	7
2005-2008 Legacy single-family book	11	700	75	79	19	6.26	8.94	80
Pre-2005 Legacy single-family book	6	707	74	45	1	2.64	1.46	10
Total	100 %	741	75	64	4	1.41		100 %

(1) Except for the foreclosure and short sale rate, the data presented is based on the mortgage loans remaining in the portfolio at September 30, 2015, which totaled $1.7 trillion.

(2) Excludes less than 0.5% of mortgage loans in the portfolio because the credit scores at origination were not available.

(3) See endnote (2) to "Table 29 — Characteristics of the Single-Family Credit Guarantee Portfolio" for information about current LTV ratios.

(4) Calculated for each year of origination as the number of mortgage loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, during the period from origination to September 30, 2015, divided by the number of mortgage loans originated in that year that were acquired in our single-family credit guarantee portfolio. The foreclosure and short sale rate presented for the Pre-2005 Legacy single-family book represents the rate associated with mortgage loans originated in 2000 through 2004.

(5) HARP and other relief refinance mortgage loans are presented separately rather than in the year that the refinancing occurred (from 2009 to 2015). All other refinance mortgage loans are presented in the year that the refinancing occurred.

We monitor the single-family serious delinquency rates of our portfolio, which are based on the number of mortgage loans that are three monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Our single-family delinquency rates include all single-family mortgage loans that we own, that back Freddie Mac securities, and that are covered by our other guarantee commitments, except Freddie Mac financial guarantees that are

backed by either Ginnie Mae Certificates or HFA bonds due to the credit enhancements provided on them by the U.S. government.

Some of our workout and other loss mitigation activities may create fluctuations in our delinquency statistics. Single-family mortgage loans for which the borrower is subject to a modification trial period, a forbearance agreement, or a repayment plan continue to reflect the past due status of the borrower. In addition, temporary lags in the reporting of payment status and modification completion due to differing practices of our servicers may also affect our delinquency reporting.

During the nine months ended September 30, 2015, the serious delinquency rate of our single-family credit guarantee portfolio continued the trend of improvement that began in 2010, declining to 1.41% as of September 30, 2015 (which is the lowest level since October 2008) from 1.88% as of December 31, 2014. The improvement in our serious delinquency rate during the nine months ended September 30, 2015 is primarily due to lower volumes of single-family mortgage loans becoming seriously delinquent, continued loss mitigation and foreclosure activities for mortgage loans in the Legacy single-family books, and the sale of certain seriously delinquent mortgage loans. The total number of our mortgage loans that had been delinquent for more than one year declined approximately 28% during the nine months ended September 30, 2015.

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The table below presents the serious delinquency rate for our single-family mortgage loans at the end of the last five quarters.

Table 31 — Single-Family Serious Delinquency Rate Trend

Although the serious delinquency rate for all of our single-family mortgage loans was 1.41% at September 30, 2015, the rate for our New single-family book was 0.20% at that date, which we believe reflects both improvements in underwriting and relatively stable or improving economic conditions in recent years. The gradual reduction of our 2005-2008 Legacy single-family book has contributed to the improvement in the payment performance of our single-family credit guarantee portfolio.

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The table below presents serious delinquency rates and information about other problem mortgage loans in our single-family credit guarantee portfolio.

Table 32 — Single-Family Serious Delinquency Statistics

	As of September 30, 2015				As of December 31, 2014			
	Percentage		Serious Delinquency Rate		Percentage		Serious Delinquency Rate	
Credit Protection:								
Non-credit-enhanced	72	%	1.36	%	77	%	1.74	%
Credit-enhanced:[1]								
Primary mortgage insurance	15	%	2.26	%	14	%	3.10	%
Other	18	%	0.67	%	12	%	1.21	%
Total[2]			1.41	%			1.88	%

	# of Seriously Delinquent Mortgage Loans	Percent		Serious Delinquency Rate		# of Seriously Delinquent Mortgage Loans	Percent		Serious Delinquency Rate	
State:[3][4]										
Florida	15,872	11	%	2.44	%	25,656	13	%	3.92	%
New York	15,149	10		3.18		19,462	10		4.06	
New Jersey	13,273	9		4.32		16,960	8		5.49	
Illinois	9,411	6		1.72		11,902	6		2.17	
California	8,197	6		0.65		11,386	6		0.92	
All others	87,049	58		1.18		112,700	57		1.52	
Total	148,951	100	%			198,066	100	%		

	# of Seriously Delinquent Mortgage Loans	Percent		# of Seriously Delinquent Mortgage Loans	Percent	
Aging, by locality:[4]						
Judicial states:[5]						
Less than or equal to 1 year	40,395	27	%	50,138	25	%
More than 1 year and less than or equal to 2 years	17,539	12		21,919	11	
More than 2 years	33,018	22		48,984	25	
Non-judicial states:[5]						
Less than or equal to 1 year	38,158	26	%	49,657	25	%
More than 1 year and less than or equal to 2 years	9,806	6		12,989	7	
More than 2 years	10,035	7		14,379	7	
Combined:[5]						
Less than or equal to 1 year	78,553	53	%	99,795	50	%
More than 1 year and less than or equal to 2 years	27,345	18		34,908	18	
More than 2 years	43,053	29		63,363	32	
Total	148,951	100	%	198,066	100	%

Payment Status:				
One month past due	1.42	%	1.52	%
Two months past due	0.43	%	0.49	%

(1) The credit enhanced categories are not mutually exclusive as a single mortgage loan may be covered by both primary mortgage insurance and other credit protection. See "Institutional Credit Risk" for information about our counterparties that provide credit enhancement on mortgage loans in our single-family credit guarantee portfolio.

(2) As of September 30, 2015 and December 31, 2014, approximately 52% and 53%, respectively, of the single-family mortgage loans reported as seriously delinquent were in the process of foreclosure.

(3) States presented have the highest number of seriously delinquent mortgage loans as of September 30, 2015.

(4) Excludes mortgage loans underlying certain single-family Other Guarantee Transactions since the geographic information is not available to us for these mortgage loans. The serious delinquency rate for all single-family Other Guarantee Transactions was 8.94% and 10.11% as of September 30, 2015 and December 31, 2014, respectively. Single-family Other Guarantee Transactions generally have underlying mortgage loans with higher risk characteristics.

(5) The states and territories classified as having a judicial foreclosure process consist of: CT, DC, DE, FL, HI, IA, IL, IN, KS, KY, LA, ME, ND, NE, NJ, NM, NY, OH, OK, OR, PA, PR, SC, SD, VI, VT, and WI. All other states are classified as having a non-judicial foreclosure process.

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We also monitor mortgage loans with identified second liens at origination since the presence of a second lien can increase the risk that a borrower will default. Based on data collected by us at mortgage loan delivery, approximately 13% and 14% of the mortgage loans in our single-family credit guarantee portfolio as of September 30, 2015 and December 31, 2014, respectively, had second-lien financing by the originator or other third party at origination of the first mortgage loan. As of both September 30, 2015 and December 31, 2014, we estimate that these mortgage loans comprised 18% of our seriously delinquent mortgage loans based on UPB. Borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgage loans.

Higher-Risk Mortgage Loans

We monitor certain higher-risk mortgage loans in our portfolio. The table below presents information about certain categories of single-family mortgage loans in our single-family credit guarantee portfolio that we believe have certain higher-risk characteristics. These mortgage loans include categories based on product type and borrower characteristics present at origination. The table includes a presentation of each higher risk category in isolation. A single mortgage loan may fall within more than one category (for example, an interest-only mortgage loan may also have an original LTV ratio greater than 90%). Mortgage loans with a combination of these characteristics will have an even higher risk of default than those with a single characteristic. However, we may continue to purchase certain of these mortgage loans if they are covered by credit enhancements for the UPB in excess of 80% or if they are HARP mortgage loans.

Table 33 — Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio[1]

	As of September 30, 2015			
	UPB	Estimated Current LTV[2]	Percentage Modified	Serious Delinquency Rate
	(dollars in billions)			
Mortgage loans with one or more specified characteristics	$358.8	85 %	8.8 %	3.23 %
Categories (individual characteristics):				
Alt-A	42.4	79	22.4	7.01
Interest-only[3]	23.4	82	0.1	7.11
Option ARM[4]	5.2	73	13.6	8.46
Original LTV ratio greater than 90%, non-HARP mortgage loans	138.9	85	8.8	2.90
Original LTV ratio greater than 90%, HARP mortgage loans	137.9	91	1.2	1.13
Lower credit scores at origination (less than 620)	42.3	75	20.5	6.89

	As of December 31, 2014			
	UPB	Estimated Current LTV[2]	Percentage Modified	Serious Delinquency Rate
	(dollars in billions)			
Mortgage loans with one or more specified characteristics	$364.3	88 %	8.5 %	4.16 %
Categories (individual characteristics):				
Alt-A	48.3	82	19.9	8.53
Interest-only[3]	27.8	87	0.2	9.36
Option ARM[4]	5.7	79	12.5	9.87
Original LTV ratio greater than 90%, non-HARP mortgage loans	123.2	87	9.4	3.97

Original LTV ratio greater than 90%, HARP mortgage loans	149.0	96	0.8	1.18
Lower credit scores at origination (less than 620)	44.9	79	19.2	8.57

(1) Categories are not additive and exclude mortgage loans underlying certain Other Guarantee Transactions for which data was not available.
(2) See endnote (2) to "Table 29 — Characteristics of the Single-Family Credit Guarantee Portfolio" for information about current LTV ratios.
(3) When an interest-only mortgage loan is modified to require repayment of principal, the mortgage loan is removed from the interest-only category. The percentages of interest-only mortgage loans which have been modified at period end reflect mortgage loans that have not yet been assigned to their new product category (post-modification), primarily due to delays in processing.
(4) For reporting purposes, mortgage loans in the option ARM category continue to be reported in that category following modification, even though the modified mortgage loan no longer provides for optional payment provisions.

A significant portion of the mortgage loans in the higher-risk categories presented in the table above (other than HARP mortgage loans) are included in our 2005-2008 Legacy single-family book. The UPB of mortgage loans with one or more of these higher-risk characteristics in our single-family credit guarantee portfolio was $358.8 billion and $364.3 billion at September 30, 2015 and December 31, 2014, respectively.

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Mortgage Loans with Payment Changes

There are several types of mortgage loan products that contain terms which result in scheduled changes in the borrower's monthly payments after specified initial periods. In most cases, the change will result in an increase in the borrower's monthly payment, which may increase the risk that the borrower will default on the mortgage loan.

The table below presents information for mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, at September 30, 2015 that contain terms that will result in payment changes for the borrower, but have not yet experienced any such payment change. The UPB amounts in the table below are aggregated by product type and categorized by the year in which the mortgage loan will first experience a payment change. The timing of the actual payment change may differ from that presented in the table due to a number of factors, including if the borrower refinances the mortgage loan.

Table 34 — Single-Family Mortgage Loans with Scheduled Payment Changes by Year at September 30, 2015[1]

	Last Three Months of 2015	2016	2017	2018	2019	Thereafter	Total
	(in millions)						
ARM/interest-only[2]	$1,976	$3,085	$5,025	$1,992	$114	$263	