FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
November 06, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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**
(State or other jurisdiction of incorporation or organization)	*(Address of principal executive offices, including zip code)*	*(I.R.S. Employer Identification No.)*	*(Registrant s telephone number, including area code)*

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

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

Large accelerated filer ¨	Accelerated filer x
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 x

As of October 24, 2012, there were 650,033,623 shares of the registrant s common stock outstanding.

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PART I   FINANCIAL INFORMATION

We continue to operate under the conservatorship that commenced on September 6, 2008, under the direction of FHFA as our Conservator. The Conservator succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any shareholder, officer or director thereof, with respect to the company and its assets. The Conservator has delegated certain authority to our Board of Directors to oversee, and management to conduct, day-to-day operations. The directors serve on behalf of, and exercise authority as directed by, the Conservator. See   BUSINESS Conservatorship and Related Matters   in our Annual Report on Form 10-K for the year ended December 31, 2011, or 2011 Annual Report, and   Legislative and Regulatory Matters   in this Form 10-Q for information on the terms of the conservatorship, the powers of the Conservator, and related matters, including the terms of our Purchase Agreement with Treasury.

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 and 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 2011 Annual Report, and our Quarterly Reports on Form 10-Q for the first and second quarters of 2012; (b) the   RISK FACTORS   section of this Form 10-Q and our 2011 Annual Report; and (c) the   BUSINESS section of our 2011 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 consolidated financial statements and related notes for the three and nine months ended September 30, 2012 included in   FINANCIAL STATEMENTS,   and our 2011 Annual Report.

EXECUTIVE SUMMARY

Overview

Freddie Mac is a GSE chartered by Congress in 1970 with a public mission to provide liquidity, stability, and affordability to the U.S. housing market. We have maintained a consistent market presence since our inception, providing mortgage liquidity in a wide range of economic environments. We are working to support the recovery of the housing market and the nation s economy by providing essential liquidity to the mortgage market and helping to stem the rate of foreclosures. We believe our actions are helping communities across the country by providing America s families with access to mortgage funding at low rates while helping distressed borrowers keep their homes and avoid foreclosure, where feasible.

Summary of Financial Results

We continue to be affected by the ongoing weakness in the economy. However, certain actions taken since early 2009, including our participation in HAMP and HARP, are helping to stabilize the housing market. During the nine months ended September 30, 2012, we observed certain signs of stabilization in the housing market, which contributed positively to our financial results in the third quarter of 2012. Our comprehensive income for the third quarter of 2012 was $5.6 billion, consisting of $2.9 billion of net income and $2.7 billion of total other comprehensive income. By comparison, our comprehensive income (loss) for the third quarter of 2011 was $(4.4) billion, consisting of $(4.4) billion of net income (loss) and $46 million of total other comprehensive income.

Our total equity was $4.9 billion at September 30, 2012, reflecting our total equity balance of $1.1 billion at June 30, 2012, comprehensive income of $5.6 billion for the third quarter of 2012 and our dividend payment of $1.8 billion on our senior preferred stock in September 2012. As a result of our positive net worth at September 30, 2012, no draw is being requested from Treasury under the Purchase Agreement for the third quarter of 2012.

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Amendment to the Purchase Agreement with Treasury

On August 17, 2012, Freddie Mac, acting through FHFA, as Conservator, and Treasury entered into a third amendment to the Purchase Agreement that, among other items, replaced the fixed dividend rate on our senior preferred stock with a net worth sweep dividend beginning in the first quarter of 2013. This effectively ends the circular practice of Treasury advancing funds to us to pay dividends back to Treasury. As a result of this amendment, over the long term, our future profits will effectively be distributed to Treasury. The amendment also accelerates the wind down of our mortgage-related investments portfolio. See LEGISLATIVE AND REGULATORY MATTERS Amendment to the Purchase Agreement for additional information regarding these changes.

Our Primary Business Objectives

We are focused on the following primary business objectives: (a) providing credit availability for mortgages and maintaining foreclosure prevention activities; (b) minimizing our credit losses; (c) developing mortgage market enhancements in support of a new infrastructure for the secondary mortgage market; (d) maintaining sound credit quality on the loans we purchase or guarantee; (e) contracting the dominant presence of the GSEs in the marketplace; and (f) strengthening our infrastructure and improving overall efficiency while also focusing on retention of key employees.

Our business objectives reflect direction we have received from the Conservator. On March 8, 2012, FHFA instituted a scorecard for use by both us and Fannie Mae that establishes objectives, performance targets and measures for 2012, and provides the implementation roadmap for FHFA s strategic plan for Freddie Mac and Fannie Mae. We continue to align our resources and internal business plans to meet the goals and objectives laid out in the 2012 conservatorship scorecard. See LEGISLATIVE AND REGULATORY MATTERS FHFA s Strategic Plan for Freddie Mac and Fannie Mae Conservatorships and 2012 Conservatorship Scorecard. Based on our charter, other legislation, public statements from FHFA and Treasury officials, and other guidance and directives from our Conservator, we have a variety of different, and potentially competing, objectives. For more information, see BUSINESS Conservatorship and Related Matters *Impact of Conservatorship and Related Actions on Our Business* in our 2011 Annual Report.

Providing Credit Availability for Mortgages and Maintaining Foreclosure Prevention Activities

Our consistent market presence provides lenders with a constant source of liquidity for conforming mortgage products even when other sources of capital have withdrawn. We believe this liquidity provides our customers with confidence to continue lending in difficult environments. We estimate that we, Fannie Mae, and Ginnie Mae collectively guaranteed more than 90% of the single-family conforming mortgages originated during the third quarter of 2012. We also enable mortgage originators to offer homebuyers and homeowners lower mortgage rates on conforming loan products, in part because of the value investors place on GSE-guaranteed mortgage-related securities. In September 2012, we estimate that borrowers were paying an average of 53 basis points less on these conforming loans than on non-conforming loans. These estimates are based on data provided by HSH Associates, a third-party provider of mortgage market data.

During the three and nine months ended September 30, 2012, we purchased or guaranteed $102.8 billion and $296.6 billion in UPB of single-family conforming mortgage loans, representing approximately 491,000 and 1,415,000 loans, respectively.

We are focused on reducing the number of foreclosures and helping to keep families in their homes. Our relief refinance initiative, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), is a significant part of our effort to keep families in their homes. HARP loans have been provided to more than 802,000 borrowers since the initiative began in 2009, including approximately 322,000 borrowers during the nine months ended September 30, 2012.

Pursuant to the policies in our servicing guide, we have authorized our mortgage servicers to provide a full range of mortgage relief options to homeowners with mortgages owned or guaranteed by us whose homes were damaged or destroyed by Hurricane Sandy and are located in jurisdictions that the Administration has declared to be Major Disaster Areas and where the Administration has made federal Individual Assistance programs available to affected individuals and households. The options available to the servicers include: (a) forbearance on mortgage payments for up to one year; (b) suspending foreclosure and eviction proceedings for up to twelve months; (c) waiving assessments of penalties or late fees against borrowers with disaster-damaged homes; and (d) not reporting forbearance or delinquencies caused by the disaster to the nation s credit bureaus. We have communicated this authorization to our servicers and referred them to relevant policies in our servicing guide for further information.

Our loan workout programs, including HAMP and the non-HAMP standard modification, are designed to help borrowers experiencing hardship avoid foreclosure. Under each of these programs, borrowers are required to complete a trial period before the loan modification becomes effective. Based on information provided by the MHA Program administrator, our servicers had completed 209,851 loan modifications under HAMP from the introduction of the initiative in 2009 through September 30, 2012. As of September 30, 2012, approximately 25,000 borrowers were in modification trial periods, including approximately 15,000 borrowers in trial periods for our non-HAMP standard modification. Our completed modification volume during the first six months of 2012 was below what otherwise would be expected, as servicers completed the transition to the non-HAMP standard modification initiative; the volume of our non-HAMP standard modifications however, increased in the third quarter of 2012 compared to the second quarter of 2012.

Short sale activity continues to increase. Short sale activity as a percentage of the combined total of short sales and foreclosure transfers increased from 27% in the third quarter of 2011 to 35% in the third quarter of 2012 primarily resulting from our increased focus on this foreclosure alternative. At the direction of FHFA and as part of the servicing alignment initiative, we announced a new standard short sale process during the third quarter of 2012 designed to help more struggling borrowers use short sales to avoid foreclosure. This new process became effective November 1, 2012, and represents a significant change from our previous process. We believe that these changes will lead to further increases in short sales in the future.

Since 2009, we have helped more than 742,000 borrowers experiencing hardship complete a loan workout. The table below presents our single-family loan workout activities for the last five quarters.

Table 1 Total Single-Family Loan Workout Volumes[(1)]

	For the Three Months Ended				
	09/30/2012	06/30/2012	03/31/2012	12/31/2011	09/30/2011
	(number of loans)				
Loan modifications	20,864	15,142	13,677	19,048	23,919
Repayment plans	7,099	8,712	10,575	8,008	8,333
Forbearance agreements[(2)]	2,190	4,738	3,656	3,867	4,262
Short sales and deed in lieu of foreclosure transactions	14,383	12,531	12,245	12,675	11,744
Total single-family loan workouts	44,536	41,123	40,153	43,598	48,258

(1) Based on actions completed with borrowers for loans within our single-family credit guarantee portfolio. Excludes those modification, repayment, and forbearance activities for which the borrower has started the required process, but the actions have not been made permanent or effective, such as loans in modification trial periods. Also excludes certain loan workouts where our single-family seller/servicers have executed agreements in the current or prior periods, but these have not been incorporated into certain of our operational systems, due to delays in processing. These categories are not mutually exclusive and a loan in one category may also be included within another category in the same period.

(2) Excludes loans with long-term forbearance under a completed loan modification. Many borrowers enter into a short-term forbearance agreement before another loan workout is pursued or completed. We only report forbearance activity for a single loan once during each quarterly period; however, a single loan may be included under separate forbearance agreements in separate periods.

A number of FHFA-directed changes to HARP were announced in late 2011, including provisions for reduced representations and warranties by the seller. In July 2012, we announced changes to broaden the number of loans eligible for reduced representations and warranties by the seller on relief refinance mortgages. In September 2012, we announced further changes to our relief refinance process that are intended to reduce the seller/servicers operational complexities associated with originating these loans. These changes allow more borrowers to participate in the program and benefit from refinancing their home mortgages, including borrowers whose mortgages have LTV ratios above 125%. Our purchases of HARP loans increased to $65.1 billion in the first nine months of 2012, compared to $31.2 billion in the first nine months of 2011. However, the volume of our HARP and other relief refinance loan purchases has been limited by the ability of individual lenders, mortgage insurers, and other market participants to modify their processes to accommodate the recent changes in program requirements.

Minimizing Our Credit Losses

To help minimize the credit losses related to our guarantee activities, we are focused on:

pursuing a variety of loan workouts, including foreclosure alternatives, in an effort to reduce the severity of losses we experience over time;

managing foreclosure timelines to the extent possible, given the prolonged foreclosure process in many states;

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- managing our inventory of foreclosed properties to reduce costs and maximize proceeds; and
- pursuing contractual remedies against originators, lenders, servicers, and insurers, as appropriate.

We establish guidelines for our servicers to follow and provide them default management tools to use, in part, in determining which type of loan workout would be expected to provide the best opportunity for minimizing our credit losses. We require our single-family seller/servicers to first evaluate problem loans for a repayment or forbearance plan before considering modification. If a borrower is not eligible for a modification, our seller/servicers pursue other workout options before considering foreclosure.

We have contractual arrangements with our seller/servicers under which they agree to sell us mortgage loans, and represent and warrant that those loans have been originated under specified underwriting standards. In addition, our servicers represent and warrant to us that those loans will be serviced in accordance with our servicing contract. If we subsequently discover that the representations and warranties were breached (i.e., contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These contractual remedies include the ability to require the seller/servicer to repurchase the loan at its current UPB or make us whole for any credit losses realized with respect to the loan, after consideration of other recoveries, if any. The amount we expect to collect on outstanding repurchase requests is significantly less than the UPB of the loans subject to the repurchase requests primarily because many of these requests will likely be satisfied by the seller/servicers reimbursing us for realized credit losses. Some of these requests also may be rescinded in the course of the contractual appeals process. As of September 30, 2012, the UPB of loans subject to repurchase requests issued to our single-family seller/servicers was approximately $2.9 billion, and approximately 42% of these requests were outstanding for more than four months since issuance of our initial repurchase request (this figure includes repurchase requests for which appeals were pending). Of the total amount of repurchase requests outstanding at September 30, 2012, approximately $1.2 billion were issued due to mortgage insurance rescission or mortgage insurance claim denial.

Our credit loss exposure is also partially mitigated by mortgage insurance, which is a form of credit enhancement. Primary mortgage insurance is generally required to be purchased, typically at the borrower s expense, for certain mortgages with higher LTV ratios. Although we received payments under primary and other mortgage insurance of $1.5 billion and $2.0 billion in the nine months ended September 30, 2012 and 2011, respectively, which helped to mitigate our credit losses, many of our mortgage insurers remain financially weak. We expect to receive substantially less than full payment of our claims from three of our mortgage insurance counterparties that are currently partially paying claims under orders of their state regulators. We believe that certain other of our mortgage insurance counterparties lack sufficient ability to meet all their expected lifetime claims paying obligations to us as those claims emerge.

On September 11, 2012, FHFA announced that Freddie Mac and Fannie Mae are launching a new representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. The objective of the new framework, developed at the direction of FHFA, is to clarify lenders repurchase exposure and liability on future deliveries of mortgage loans to Freddie Mac and Fannie Mae. With the new framework, FHFA has directed Freddie Mac and Fannie Mae to:

- Conduct quality control reviews earlier in the loan process, generally between 30 to 120 days after loan purchase;
- Establish consistent timelines for lenders to submit requested loan files for review;
- Evaluate loan files on a more comprehensive basis to ensure a focus on identifying significant deficiencies;
- Leverage data from the tools used by Freddie Mac and Fannie Mae to enable earlier identification of potentially defective loans; and
- Make available more transparent appeals processes for lenders to appeal repurchase requests.

The new framework does not affect existing seller/servicer obligations under their contracts with us. For more information, see LEGISLATIVE AND REGULATORY MATTERS *New Representation and Warranty Framework* and CREDIT RISK Institutional Credit Risk *Single-Family Mortgage Seller/Servicers*.

Developing Mortgage Market Enhancements in Support of a New Infrastructure for the Secondary Mortgage Market

We continue efforts that we believe will create value for the industry by building the infrastructure for a future housing finance system. These efforts include the implementation of the Uniform Mortgage Data Program, or UMDP, which provides us with the ability to collect additional data that we believe will improve our risk management practices. In the first quarter of 2012, we completed a key milestone of the UMDP with the launch of the Uniform Collateral Data Portal for the electronic submission of appraisal reports for conventional mortgages. The implementation of the portal was effective for mortgages with application dates after November 30, 2011 that were delivered to us after March 22, 2012. In the second quarter of 2012, we implemented the Uniform Loan Delivery Dataset, or ULDD, which provides for the efficient collection and use of consistent information about loan terms, collateral, and borrowers. The implementation of ULDD was effective for mortgages with application dates after November 30, 2011, which were delivered to us after July 22, 2012, with a transition period allowing for optional usage of ULDD for mortgages delivered to us between April 23, 2012 and July 22, 2012.

We are also working with FHFA and others to develop a plan for the design and development of a single securitization platform that can be used in a future secondary mortgage market. On October 4, 2012, FHFA released a white paper for industry comment that described a proposed framework for a new securitization platform and a model pooling and servicing agreement. FHFA has stated that it anticipates that Freddie Mac and Fannie Mae will each maintain its own distinct securitization operations and continue to issue its own securities.

We are continuing to work with FHFA and Fannie Mae to develop recommendations to align certain of the terms of the contracts we and Fannie Mae use with our respective single-family seller/servicers, as well as certain practices we follow in managing our remedies and our respective business relationships with these companies. On October 3, 2012, we announced, pursuant to a directive by FHFA, changes to requirements in certain areas related to loan servicing, including the implementation of a servicer scorecard. These changes align our and Fannie Mae s requirements in these areas. See RISK MANAGEMENT Institutional Credit Risk Single-Family Mortgage Seller/Servicers for additional information.

Maintaining Sound Credit Quality on the Loans We Purchase or Guarantee

We continue to focus on maintaining credit policies, including our underwriting standards, that allow us to purchase and guarantee loans made to qualified borrowers that we believe will provide management and guarantee fee income (excluding the amounts associated with the Temporary Payroll Tax Cut Continuation Act of 2011), over the long-term, that exceeds our expected credit-related and administrative expenses on such loans.

HARP loans represented 9% of the UPB of our single-family credit guarantee portfolio as of September 30, 2012. Mortgages originated after 2008, including HARP loans, represented 60% of the UPB of our single-family credit guarantee portfolio as of September 30, 2012, while the single-family loans originated from 2005 through 2008 represented 26% of this portfolio. Relief refinance mortgages of all LTV ratios comprised approximately 16% and 11% of the UPB in our total single-family credit guarantee portfolio at September 30, 2012 and December 31, 2011, respectively.

Approximately 96% and 95% of the single-family mortgages we purchased in the three and nine months ended September 30, 2012, respectively, were fixed-rate, first lien amortizing mortgages, based on UPB. Approximately 79% and 82% of the single-family mortgages we purchased in the three and nine months ended September 30, 2012, respectively, were refinance mortgages, and approximately 30% and 27%, respectively, of these refinance mortgages were HARP loans, based on UPB. HARP loans comprised approximately 22% and 13% of our single-family purchase volume in the nine months ended September 30, 2012 and 2011, respectively.

Due to our participation in HARP, we purchase a significant number of loans that have original LTV ratios over 100%. The proportion of loans we purchased with LTV ratios over 100% increased from approximately 5% of our single-family mortgage purchases (including HARP loans) in the nine months ended September 30, 2011 to 13% of our single-family mortgage purchases in the nine months ended September 30, 2012 due to the changes in HARP announced in the fourth quarter of 2011, which allow borrowers with higher LTV ratios to refinance.

The credit quality of the single-family loans we acquired in the nine months ended September 30, 2012 (excluding HARP and other relief refinance mortgages, which represented approximately 31% of our single-family purchase volume during the nine months ended September 30, 2012) is significantly better than that of loans we acquired from 2005 through 2008 as measured by original LTV ratios, FICO scores, and the proportion of loans underwritten with fully documented income. The improvement in credit quality of loans we have purchased since 2008 (excluding HARP and other relief refinance mortgages) is primarily the result of: (a) changes in our credit policies, including changes in our underwriting standards; (b) fewer purchases of loans with higher risk characteristics; and (c) changes in mortgage insurers and lenders underwriting practices.

Our underwriting procedures for relief refinance mortgages are limited in many cases, and such procedures generally do not include all of the changes in underwriting standards we have implemented since 2008. As a result, relief refinance

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mortgages generally reflect many of the credit risk attributes of the original loans. However, borrower participation in our relief refinance mortgage initiative may help reduce our exposure to credit risk in cases where borrower payments under their mortgages are reduced, thereby strengthening the borrower s potential to make their mortgage payments.

Over time, HARP loans may not perform as well as other refinance mortgages because the continued high LTV ratios of these loans increases the probability of default. In addition, HARP loans may not be covered by mortgage insurance for the full excess of their UPB over 80%.

The table below presents the composition, loan characteristics, and serious delinquency rates of loans in our single-family credit guarantee portfolio, by year of origination at September 30, 2012.

Table 2 Single-Family Credit Guarantee Portfolio Data by Year of Origination[(1)]

	At September 30, 2012						For the Nine Months Ended September 30, 2012
	Percent of Portfolio	Average Credit Score[(2)]	Original LTV Ratio[(3)]	Current LTV Ratio[(4)]	Current LTV Ratio >100%[(4)(5)]	Serious Delinquency Rate[(6)]	Percent of Credit Losses
Year of Origination							
2012	15%	755	78%	77%	15%	0.02%	<1%
2011	15	753	71	68	4	0.19	<1
2010	16	752	71	69	5	0.45	1
2009	14	751	70	70	4	0.77	2
Combined-2009 to 2012	60	753	73	71	7	0.37	3
2008	5	721	74	89	31	6.50	9
2007	8	701	77	109	57	12.20	36
2006	6	706	75	107	52	11.31	26
2005	7	713	73	91	34	7.02	17
Combined-2005 to 2008	26	710	75	100	45	9.38	88
2004 and prior	14	716	72	58	7	3.08	9
Total	100%	737	73	77	17	3.37	100%

(1) Based on the loans remaining in the portfolio at September 30, 2012, which totaled $1.65 trillion, rather than all loans originally guaranteed by us and originated in the respective year. Includes loans acquired under our relief refinance initiative, which began in 2009. For credit scores, LTV ratios, serious delinquency rates, and other information about relief refinance mortgages, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk*.
(2) Based on FICO score of the borrower as of the date of loan origination and may not be indicative of the borrowers creditworthiness at September 30, 2012. Excludes less than 1% of loans in the portfolio because the FICO scores at origination were not available.
(3) See endnote (3) to Table 34 Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio for information on our calculation of original LTV ratios.
(4) We estimate current market values by adjusting the value of the property at origination based on changes in the market value of homes in the same geographical area since origination. See endnote (4) to Table 35 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of current LTV ratios.
(5) Calculated as a percentage of the aggregate UPB of loans with LTV ratios greater than 100% in relation to the total UPB of loans in the category.
(6) See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-family Mortgage Credit Risk Delinquencies* for further information about our reported serious delinquency rates.

Contracting the Dominant Presence of the GSEs in the Marketplace

We continue to take steps toward the goal of gradually shifting mortgage credit risk from Freddie Mac to private investors, while simplifying and shrinking certain of our operations. In the case of single-family credit guarantees, we are exploring several ways to accomplish this goal, including increasing guarantee fees, establishing loss-sharing arrangements, and evaluating new risk-sharing transactions beyond the traditional charter-required mortgage insurance coverage. Two increases in guarantee fees have occurred or were announced by FHFA in recent months, and FHFA has proposed additional fee adjustments, as discussed in LEGISLATIVE AND REGULATORY MATTERS *Increases to Guarantee Fees*.

The recent amendment to the Purchase Agreement accelerates the wind down of our mortgage-related investments portfolio. We are also studying the steps necessary for our competitive disposition of certain investment assets, including non-performing loans.

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Strengthening Our Infrastructure and Improving Overall Efficiency While Also Focusing On Retention of Key Employees

We are working to both enhance the quality of our infrastructure and improve our efficiency in order to preserve the taxpayers investment. We are focusing our resources primarily on key projects, many of which are related to FHFA mandated initiatives and will likely take several years to fully implement.

We continue to actively manage our general and administrative expenses, while also continuing to focus on retaining key talent. In the first half of 2012, we introduced a new compensation program for employees to help mitigate the uncertainty surrounding compensation. Under the program, the majority of employees have a more predictable income, as the program generally reduces the amount of compensation that is subject to variability. While uncertainty surrounding our future business model has contributed to employee turnover and low employee engagement, employee turnover in the second and third quarters of 2012 was lower than in the corresponding quarters of 2011. We are continuing to explore various strategic arrangements with outside firms to provide operational capability and staffing for key functions, as needed.

We believe the initiatives we are pursuing under the 2012 conservatorship scorecard and other FHFA-mandated initiatives will require additional resources and continue to affect our level of administrative expenses going forward.

Single-Family Credit Guarantee Portfolio

The UPB of our single-family credit guarantee portfolio declined approximately 5% during the nine months ended September 30, 2012, as the amount of single-family loan liquidations exceeded new loan purchase and guarantee activity. We believe this is due, in part, to declines in the amount of single-family mortgage debt outstanding in the market and a decline in our competitive position compared to other market participants.

The table below provides certain credit statistics for our single-family credit guarantee portfolio.

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Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio

	As of				
	9/30/2012	6/30/2012	3/31/2012	12/31/2011	9/30/2011
Payment status					
One month past due	2.02%	1.79%	1.63%	2.02%	1.94%
Two months past due	0.66%	0.60%	0.57%	0.70%	0.70%
Seriously delinquent[(1)]	3.37%	3.45%	3.51%	3.58%	3.51%
Non-performing loans (in millions)[(2)]	$ 131,106	$ 118,463	$ 119,599	$ 120,514	$ 119,081
Single-family loan loss reserve (in millions)[(3)]	$ 33,298	$ 35,298	$ 37,771	$ 38,916	$ 39,088
REO inventory (in properties)	50,913	53,271	59,307	60,535	59,596
REO assets, net carrying value (in millions)	$ 4,459	$ 4,715	$ 5,333	$ 5,548	$ 5,539
	For the Three Months Ended				
	9/30/2012	6/30/2012	3/31/2012	12/31/2011	9/30/2011
	(in units, unless noted)				
Seriously delinquent loan additions[(1)]	76,104	75,904	80,815	95,661	93,850
Loan modifications[(4)]	20,864	15,142	13,677	19,048	23,919
REO acquisitions	20,302	20,033	23,805	24,758	24,378
REO disposition severity ratio:[(5)]					
California	37.7%	41.6%	44.2%	44.6%	45.5%
Arizona	36.3%	40.4%	45.0%	46.7%	48.7%
Florida	44.7%	46.2%	48.6%	50.1%	53.3%
Nevada	50.6%	54.3%	56.5%	54.2%	53.2%
Illinois	47.7%	47.8%	49.3%	51.2%	50.5%
Total U.S	36.2%	37.9%	40.3%	41.2%	41.9%
Single-family provision for credit losses (in millions)	$ 650	$ 177	$ 1,844	$ 2,664	$ 3,643
Single-family credit losses (in millions)	$ 2,936	$ 2,858	$ 3,435	$ 3,209	$ 3,440

(1) See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Delinquencies* for further information about our reported serious delinquency rates.
(2) Consists of the UPB of loans in our single-family credit guarantee portfolio that have undergone a TDR or that are seriously delinquent. As of September 30, 2012 and December 31, 2011, approximately $64.4 billion and $44.4 billion in UPB of TDR loans, respectively, were no longer seriously delinquent. During the third quarter of 2012, we changed the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs, regardless of the borrowers payment status. As a result, we newly classified approximately $19.5 billion in UPB of loans discharged in Chapter 7 bankruptcy as TDRs. The majority of these loans were not seriously delinquent as of September 30, 2012.
(3) Consists of the combination of: (a) our allowance for loan losses on mortgage loans held for investment; and (b) our reserve for guarantee losses associated with non-consolidated single-family mortgage securitization trusts and other guarantee commitments.
(4) Represents the number of modification agreements with borrowers completed during the quarter. Excludes forbearance agreements, repayment plans, and loans in modification trial periods.
(5) States presented represent the five states where our credit losses were greatest during 2011 and the nine months ended September 30, 2012. Calculated as the amount of our losses recorded on disposition of REO properties during the respective quarterly period, excluding those subject to repurchase requests made to our seller/servicers, divided by the aggregate UPB of the related loans. The amount of losses recognized on disposition of the properties is equal to the amount by which the UPB of the loans exceeds the amount of sales proceeds from disposition of the properties. Excludes sales commissions and other expenses, such as property maintenance and costs, as well as applicable recoveries from credit enhancements, such as mortgage insurance.

In discussing our credit performance, we often use the terms credit losses and credit-related expenses. These terms are significantly different. Our credit losses consist of charge-offs and REO operations income (expense), while our credit-related expenses consist of our provision for credit losses and REO operations income (expense).

Since the beginning of 2008, on an aggregate basis, we have recorded provision for credit losses associated with single-family loans of approximately $75.9 billion, and have recorded an additional $4.0 billion in losses on loans purchased from PC trusts, net of recoveries. The majority of these losses are associated with loans originated in 2005 through 2008. While loans originated in 2005 through 2008 will give rise to additional credit losses that have not yet been incurred and, thus, have not yet been provisioned for, we believe that, as of September 30, 2012, we have reserved for or charged-off the majority of the total expected credit losses for these loans. Nevertheless, various factors, such as continued high unemployment rates or future declines in home prices, could require us to provide for losses on these loans beyond our current expectations.

The serious delinquency rate for our single-family credit guarantee portfolio improved at September 30, 2012, compared to December 31, 2011 and June 30, 2012; however, the earlier-stage (i.e., loans one or two months past due) delinquency rates worsened during the third quarter of 2012. We believe the increase in these early stage rates was largely due to there being fewer business days in the month of September, which resulted in a shorter period of time than our servicers normally have in a month to pursue collection from these borrowers. Excluding relief refinance loans, the improvement in borrower payment performance during 2012 reflects an improved credit profile of borrowers with loans originated since 2008. However, several factors, including the lengthening of the foreclosure process, have resulted in loans remaining in serious delinquency for longer periods than prior to 2008, particularly in states that require a judicial foreclosure process. As of September 30, 2012 and December 31, 2011, the percentage of seriously delinquent loans that have been delinquent for more than six months was 73% and 70%, respectively.

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The credit losses and loan loss reserves associated with our single-family credit guarantee portfolio remained elevated in the nine months ended September 30, 2012, due, in part, to:

- Losses associated with the continued high volume of foreclosures and foreclosure alternatives. These actions relate to the continued efforts of our servicers to resolve our large inventory of seriously delinquent loans. Due to the length of time necessary for servicers either to complete the foreclosure process or pursue foreclosure alternatives on seriously delinquent loans in our portfolio, we expect our credit losses will continue to remain high even if the volume of new serious delinquencies declines.

- Continued negative effect of certain loan groups within the single-family credit guarantee portfolio, such as those underwritten with certain lower documentation standards and interest-only loans, as well as 2005 through 2008 vintage loans. These groups continue to be large contributors to our credit losses.

- Cumulative decline in national home prices of 22% since June 2006, based on our own index. As a result of this price decline, approximately 17% of loans in our single-family credit guarantee portfolio, based on UPB, had estimated current LTV ratios in excess of 100% (i.e., underwater loans) as of September 30, 2012.

- Weak financial condition of many of our mortgage insurers, which has reduced our actual recoveries from these counterparties as well as our estimates of expected recoveries.

Some of our loss mitigation activities create fluctuations in our delinquency statistics. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-family Mortgage Credit Risk Credit Performance Delinquencies* for further information about factors affecting our reported delinquency rates.

Conservatorship and Government Support for our Business

We have been operating under conservatorship, with FHFA acting as our conservator, since September 6, 2008. The conservatorship and related matters have had a wide-ranging impact on us, including our regulatory supervision, management, business, financial condition, and results of operations. While the conservatorship has benefited us, we are subject to certain constraints on our business activities imposed by Treasury due to the terms of, and Treasury s rights under, the Purchase Agreement and by FHFA, as our Conservator.

We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. Under the Purchase Agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. The $200 billion cap on Treasury s funding commitment will increase as necessary to eliminate any net worth deficits we may have during 2010, 2011, and 2012. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities, although the costs of our debt funding could vary.

We currently pay cash dividends to Treasury at an annual rate of 10%. On August 17, 2012, Freddie Mac, acting through FHFA, as Conservator, and Treasury entered into a third amendment to the Purchase Agreement, that, among other items, changed our dividend payments on the senior preferred stock. For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our net worth at the end of the immediately preceding fiscal quarter, less the applicable capital reserve amount, exceeds zero. The applicable capital reserve amount will be $3 billion for 2013 and will be reduced by $600 million each year thereafter until it reaches zero on January 1, 2018. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our net worth at the end of the immediately preceding fiscal quarter exceeds zero. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend will accrue or be payable for that quarter. For a discussion of factors that could result in additional draws, see RISK FACTORS *We may request additional draws under the Purchase Agreement in future periods.* For more information on the changes to the Purchase Agreement, see LEGISLATIVE AND REGULATORY MATTERS Amendment to the Purchase Agreement.

The aggregate liquidation preference of the senior preferred stock remained unchanged at $72.3 billion at September 30, 2012 from June 30, 2012. At September 30, 2012, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the

Purchase Agreement.

Through September 30, 2012, we paid aggregate cash dividends to Treasury of $21.9 billion, an amount equal to 31% of our aggregate draws received under the Purchase Agreement. We expect to make a dividend payment of $1.8 billion to Treasury on the senior preferred stock during the fourth quarter of 2012.

Neither the U.S. government nor any other agency or instrumentality of the U.S. government is obligated to fund our mortgage purchase or financing activities or to guarantee our securities or other obligations.

On September 13, 2012, the Federal Reserve announced that it will purchase an additional $40 billion of agency mortgage-related securities per month and stated it will continue to reinvest principal payments from its holdings of agency debt and agency mortgage-related securities in agency mortgage-related securities. The Federal Reserve stated that these and other related actions should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative. The Federal Reserve stated that, if the outlook for the labor market does not improve substantially, it will continue its purchases of agency mortgage-related securities and take other actions as appropriate until such improvement is achieved. These purchases may not continue, and changes to Federal Reserve policy (including changes to these purchase programs) could negatively affect the market for agency mortgage-related securities.

For more information on conservatorship and the Purchase Agreement, see BUSINESS Conservatorship and Related Matters in our 2011 Annual Report.

Consolidated Financial Results

Net income (loss) was $2.9 billion and $(4.4) billion for the third quarters of 2012 and 2011, respectively. Key highlights of our financial results include:

- Net interest income for the third quarter of 2012 decreased to $4.3 billion from $4.6 billion in the third quarter of 2011, mainly due to the impact of a reduction in the average balances of our higher-yielding mortgage-related assets, partially offset by lower funding costs.

- Provision for credit losses for the third quarter of 2012 declined to $610 million, compared to $3.6 billion for the third quarter of 2011. The decrease in the provision for credit losses primarily reflects declines in the volume of new seriously delinquent loans (largely due to a decline in the size of our single-family credit guarantee portfolio originated in 2005 through 2008), and lower estimates of incurred loss due to the positive impact of an increase in national home prices.

- Non-interest income (loss) was $(560) million for the third quarter of 2012, compared to $(4.8) billion for the third quarter of 2011. The improvement was largely driven by a decrease in derivative losses during the third quarter of 2012 compared to the third quarter of 2011.

- Non-interest expense declined to $473 million in the third quarter of 2012, from $687 million in the third quarter of 2011, primarily due to REO operations income in the third quarter of 2012 due to improvements in home prices.

- Comprehensive income (loss) was $5.6 billion for the third quarter of 2012 compared to $(4.4) billion for the third quarter of 2011. Comprehensive income for the third quarter of 2012 consisted of $2.9 billion of net income and $2.7 billion of other comprehensive income, primarily due to a reduction in net unrealized losses on our available-for-sale securities as spreads tightened on our non-agency mortgage-related securities.

Mortgage Market and Economic Conditions

Overview

The U.S. real gross domestic product rose by 2.0% on an annualized basis during the third quarter of 2012, compared to 1.3% during the second quarter of 2012, according to the Bureau of Economic Analysis. The national unemployment rate was 7.8% in September 2012, compared to

8.2% in both June and March of 2012, based on data from the U.S. Bureau of Labor Statistics. In the data underlying the unemployment rate, an average of approximately 146,000 monthly net new jobs were added to the economy during the third quarter of 2012, which shows evidence of a slow, but steady positive trend for the economy and the labor market.

Single-Family Housing Market

The single-family housing market continued to exhibit certain signs of stabilization in the third quarter of 2012 despite continued weakness in the employment market and a significant inventory of seriously delinquent loans and REO properties in the market.

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Based on data from the National Association of Realtors, sales of existing homes in the third quarter of 2012 averaged 4.68 million (at a seasonally adjusted annual rate), increasing 3.1% from 4.54 million in the second quarter of 2012. Based on data from the U.S. Census Bureau and HUD, new home sales in the third quarter of 2012 averaged approximately 377,000 (at a seasonally adjusted annual rate) increasing approximately 4.1% from approximately 362,000 in the second quarter of 2012. Home prices increased during the third quarter of 2012, with our nationwide index registering approximately a 1.3% increase from June 2012 through September 2012 without seasonal adjustment. From September 2011 through September 2012 our nationwide home price index increased approximately 4.3%. These estimates were based on our own price index of mortgage loans on one-family homes funded by us or Fannie Mae. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions than our own.

The foreclosure process has lengthened significantly in recent years, due to a number of factors, but particularly in states that require a judicial foreclosure process. There have also been a number of legislative and regulatory developments in recent periods affecting single-family mortgage servicing and foreclosure practices. These developments have resulted in significant changes to mortgage servicing and foreclosure practices and further changes are possible that could adversely affect our business. For information on these matters, see RISK FACTORS Operational Risks *We have incurred, and will continue to incur, expenses and we may otherwise be adversely affected by delays and deficiencies in the foreclosure process* in our 2011 Annual Report and LEGISLATIVE AND REGULATORY MATTERS Developments Concerning Single-Family Servicing Practices.

Multifamily Housing Market

Multifamily market fundamentals continued to improve on a national level during the third quarter of 2012, although at a slower pace as compared to recent quarters. As reported by REIS, Inc., the national apartment vacancy rate was 4.6% and 4.7% at the end of the third and second quarters of 2012, respectively, and continues to remain at historic lows. The multifamily sector continued to experience strong interest from prospective borrowers and investors and continued to outperform other components of the commercial real estate sector. Vacancy rates and effective rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property and these factors significantly influence those cash flows. We believe positive market fundamentals, such as low vacancy rates and increasing effective rents, as well as optimism about demand for multifamily housing have contributed to improvement in property values in most markets during 2012.

Mortgage Market and Business Outlook

Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties. For example, a number of factors could cause the actual performance of the housing and mortgage markets and the U.S. economy in the near term to be significantly worse than we expect, including adverse changes in national or international economic conditions and changes in the federal government s fiscal or monetary policies. See FORWARD-LOOKING STATEMENTS for additional information.

Overview

We continue to expect key macroeconomic drivers of the economy, such as income growth, employment, and inflation, will affect the performance of the housing and mortgage markets in the near term. Since we expect that economic growth will continue and mortgage interest rates will remain low in 2012, we believe that housing affordability will remain relatively high in the near term for potential home buyers. We also expect that the volume of home sales will likely continue to remain high in the fourth quarter of 2012, compared to the volume in the same period of 2011, but still remain relatively weak compared to historical levels. Important factors that we believe will continue to negatively impact single-family housing demand are the relatively high unemployment rate and relatively low consumer confidence measures. Consumer confidence measures, while up from recession lows, remain below long-term averages and suggest that households will likely continue to be cautious in home buying. We also expect to continue to experience a high level of refinancing activity in the near term, due to the impact of the expanded HARP initiative as well as the historically low interest rates on fixed-rate single-family mortgages. For information on the HARP initiative, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program.*

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While home prices remain at significantly lower levels from their peak in most areas, declines in the market s inventory of vacant housing have supported stabilization in home prices in a number of metropolitan areas. However, to the extent a large volume of loans complete the foreclosure process in a short time period, the resulting increase in the market s inventory of homes for sale could have a negative impact on home prices. National home prices increased in the second and third quarters of 2012. The increase in home prices during the third quarter of 2012 represents the first such increase in the July to September months in more than five years. While second and third quarter improvements were supported by economic growth, our expectation is that national average home prices will be weak (on an inflation-adjusted basis) in the fourth quarter of 2012 and a long-term housing recovery will begin with modest price increases in 2013.

Single-Family

Our charge-offs remained high during the first nine months of 2012, and we expect they will likely remain high during the fourth quarter of 2012 and into 2013. This is in part due to the substantial number of underwater mortgage loans in our single-family credit guarantee portfolio. For the near term, we also expect:

- REO disposition severity ratios and losses on short sale transactions to remain high, though home prices and the rate of home sales have seen recent improvements in many key markets and our recovery rates have been positively impacted by recent changes in our process for determining property list prices;
- the amount of non-performing assets and the volume of our loan workouts to continue to remain high; and
- continued high volume of loans in the foreclosure process as well as prolonged foreclosure timelines.

Multifamily

We expect continued strength in the multifamily market during the next twelve months. As a result of the positive market fundamentals and continuing strong portfolio performance, we expect our credit losses and delinquency rates to remain low in the near term.

We continued to serve as a stable source of liquidity and continued our support of the multifamily market and the nation s renters as evidenced by our $19.2 billion of multifamily purchase and guarantee volume in the first nine months of 2012, which provided financing for approximately 1,150 properties amounting to approximately 302,000 apartment units. The majority of these apartments were affordable to low and moderate income families. We expect an increase in our purchase and guarantee volumes for the full-year of 2012 when compared to 2011 levels as demand for multifamily financing remains strong.

Long-Term Outlook

There is significant uncertainty as to whether or when we will emerge from conservatorship, as it has no specified termination date, and as to what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term. Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term. We have no ability to predict the outcome of these deliberations. For a discussion of FHFA s strategic plan for us, see LEGISLATIVE AND REGULATORY MATTERS FHFA s Strategic Plan for Freddie Mac and Fannie Mae Conservatorships and 2012 Conservatorship Scorecard.

We do not have the ability over the long term to retain any capital generated by our business operations. Under the third amendment to the Purchase Agreement, we will be required to pay dividends to the extent that our net worth exceeds the permitted capital reserve. Accordingly, over the long term, we will not be able to build or retain any net worth surplus. The Acting Director of FHFA stated on September 19, 2011 that it ought to be clear to everyone at this point, given [Freddie Mac and Fannie Mae s] losses since being placed into conservatorship and the terms of the Treasury s financial support agreements, that [Freddie Mac and Fannie Mae] will not be able to earn their way back to a condition that allows them to emerge from conservatorship.

Limits on Investment Activity and Our Mortgage-Related Investments Portfolio

The conservatorship has significantly impacted our investment activity. FHFA has stated that we will not be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio. Additionally, the third amendment to the Purchase Agreement changed the limits on our investment activity. Under the terms of the amended Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio will not be allowed to exceed: (a) $650 billion on December 31, 2012; or (b) on December 31 of each year thereafter, 85% of the aggregate amount of the UPB we were permitted to own as of December 31 of the immediately preceding calendar year, until the portfolio reaches $250 billion. FHFA has indicated that such portfolio reduction targets should be viewed as minimum reductions and has encouraged us to reduce the mortgage-related investments portfolio at a faster rate than required, while indicating that the pace of reducing the portfolio may be moderated by conditions in the housing and financial markets. This strategy is designed to reduce the portfolio and provide the best return to the taxpayer while minimizing market disruption. In addition, we are subject to limits on the amount of mortgage assets we can sell in any calendar month without review and approval by FHFA and, if FHFA so determines, Treasury.

From time to time, we seek to support the liquidity of the market for our PCs and the relative price performance of our PCs to comparable Fannie Mae securities through a variety of activities conducted by our Investments segment. These activities can include the purchase and sale of Freddie Mac securities, purchases of loans, and dollar roll transactions, as well as the issuance of REMICs and Other Structured Securities. Dollar roll transactions are transactions in which we enter into an agreement to purchase and subsequently resell (or sell and subsequently repurchase) PCs. In the first half of 2012, we curtailed mortgage-related investments portfolio purchase and retention activities that were undertaken for the primary purpose of supporting the price performance of our PCs. However, during the third quarter of 2012, we began certain activities, as noted above, intended to improve the price performance of our PCs while minimizing market disruption. We may increase, reduce, or discontinue these or other related activities at any time. This could affect the liquidity and price performance of our mortgage-related securities.

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

Table 4 Mortgage-Related Investments Portfolio(1)

		September 30, 2012	December 31, 2011
		(in millions)	
Investments segment	Mortgage investments portfolio	$ 377,951	$ 449,273
Single-family Guarantee segment	Single-family unsecuritized mortgage loans(2)	56,596	62,469
Multifamily segment	Mortgage investments portfolio	133,419	141,571
Total mortgage-related investments portfolio		$ 567,966	$ 653,313

(1) Based on UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) Represents unsecuritized seriously delinquent single-family loans managed by the Single-family Guarantee segment.

We consider the liquidity of our assets in our mortgage-related investments portfolio based on three categories: (a) agency securities; (b) assets that are less liquid than agency securities; and (c) illiquid assets. Assets that are less liquid than agency securities include unsecuritized performing single-family mortgage loans, multifamily mortgage loans, CMBS, and housing revenue bonds. Our less liquid assets collectively represented approximately 28% of the UPB of the portfolio at September 30, 2012, compared to 32% as of December 31, 2011. Illiquid assets include unsecuritized seriously delinquent and modified single-family mortgage loans which we removed from PC trusts, and our investments in non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans. Our illiquid assets collectively represented approximately 35% of the UPB of the portfolio at September 30, 2012, as compared to 29% as of December 31, 2011. The elevated level of illiquid assets is primarily due to our removal of seriously delinquent and modified loans from PC trusts. The changing composition of our mortgage-related investments portfolio to a greater proportion of assets that are less liquid than agency securities and illiquid may influence our decisions regarding funding and hedging. The description above of the relative liquidity of our assets is based on our own internal expectations given current market conditions. Changes in market conditions could adversely affect the liquidity of our assets at any given time.

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SE LECTED FINANCIAL DATA[1]

The selected financial data presented below should be reviewed in conjunction with MD&A and our consolidated financial statements and related notes for the three and nine months ended September 30, 2012.

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(dollars in millions, except share-related amounts)			
Statements of Comprehensive Income Data				
Net interest income	$ 4,269	$ 4,613	$ 13,155	$ 13,714
Provision for credit losses	(610)	(3,606)	(2,590)	(8,124)
Non-interest income (loss)	(560)	(4,798)	(2,827)	(9,907)
Non-interest expense	(473)	(687)	(1,605)	(1,930)
Net income (loss)	2,928	(4,422)	6,525	(5,885)
Comprehensive income (loss)	5,630	(4,376)	10,311	(2,736)
Net income (loss) attributable to common stockholders	1,119	(6,040)	1,104	(10,725)
Net income (loss) per common share:				
Basic	0.35	(1.86)	0.34	(3.30)
Diluted	0.35	(1.86)	0.34	(3.30)
Cash dividends per common share				
Weighted average common shares outstanding (in thousands):[2]				
Basic	3,239,477	3,244,496	3,240,241	3,245,473
Diluted	3,239,477	3,244,496	3,240,241	3,245,473

	September 30, 2012	December 31, 2011
	(dollars in millions)	
Balance Sheets Data		
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$ 1,505,576	$ 1,564,131
Total assets	2,016,503	2,147,216
Debt securities of consolidated trusts held by third parties	1,432,632	1,471,437
Other debt	565,036	660,546
All other liabilities	13,928	15,379
Total equity (deficit)	4,907	(146)
Portfolio Balances[3]		
Mortgage-related investments portfolio	$ 567,966	$ 653,313
Total Freddie Mac mortgage-related securities[4]	1,568,311	1,624,684
Total mortgage portfolio[5]	1,972,905	2,075,394
Non-performing assets[6]	138,500	129,152

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Ratios[7]				
Return on average assets[8]	0.6%	(0.8)%	0.4%	(0.4)%
Non-performing assets ratio[9]	7.6	6.6	7.6	6.6
Equity to assets ratio[10]	0.1	(0.2)	0.1	(0.1)

(1) See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2011 Annual Report and within this Form 10-Q for information regarding our accounting policies and the impact of new accounting policies on our consolidated financial statements.
(2) Includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included in basic loss per share, because it is unconditionally exercisable by the holder at a cost of $0.00001 per share.
(3) Represents the UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(4) See Table 27 Freddie Mac Mortgage-Related Securities for the composition of this line item.
(5) See Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios for the composition of our total mortgage portfolio.

(6) See Table 45 Non-Performing Assets for a description of our non-performing assets.
(7) 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 equity (deficit), net of preferred stock (at redemption value) is less than zero for all periods presented.
(8) Ratio computed as net income divided by the simple average of the beginning and ending balances of total assets.
(9) Ratio computed as non-performing assets divided by the ending UPB of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities.
(10) Ratio computed as the simple average of the beginning and ending balances of total equity (deficit) divided by the simple average of the beginning and ending balances of total assets.

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CONSOLIDATED RESULTS OF OPERATIONS

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

Table 5 Summary Consolidated Statements of Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)			
Net interest income	$ 4,269	$ 4,613	$ 13,155	$ 13,714
Provision for credit losses	(610)	(3,606)	(2,590)	(8,124)
Net interest income after provision for credit losses	3,659	1,007	10,565	5,590
Non-interest income (loss):				
Gains (losses) on extinguishment of debt securities of consolidated trusts	(34)	(310)	(39)	(212)
Gains (losses) on retirement of other debt	11	19	(55)	34
Gains (losses) on debt recorded at fair value	(10)	133	35	15
Derivative gains (losses)	(488)	(4,752)	(2,426)	(8,986)
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	(332)	(459)	(942)	(1,743)
Portion of other-than-temporary impairment recognized in AOCI	65	298	13	37
Net impairment of available-for-sale securities recognized in earnings	(267)	(161)	(929)	(1,706)
Other gains (losses) on investment securities recognized in earnings	(330)	(541)	(974)	(452)
Other income	558	814	1,561	1,400
Total non-interest income (loss)	(560)	(4,798)	(2,827)	(9,907)
Non-interest expense:				
Administrative expenses	(401)	(381)	(1,139)	(1,126)
REO operations income (expense)	49	(221)	(92)	(505)
Other expenses	(121)	(85)	(374)	(299)
Total non-interest expense	(473)	(687)	(1,605)	(1,930)
Income (loss) before income tax benefit	2,626	(4,478)	6,133	(6,247)
Income tax benefit	302	56	392	362
Net income (loss)	2,928	(4,422)	6,525	(5,885)
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	2,599	(80)	3,508	2,764
Changes in unrealized gains (losses) related to cash flow hedge relationships	102	124	320	391
Changes in defined benefit plans	1	2	(42)	(6)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	2,702	46	3,786	3,149
Comprehensive income (loss)	$ 5,630	$ (4,376)	$ 10,311	$ (2,736)

Net Interest Income

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

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Table 6 Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended September 30,					
	2012			2011		
	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate
			(dollars in millions)			
Interest-earning assets:						
Cash and cash equivalents	$ 30,246	$ 5	0.07%	$ 51,225	$ 4	0.03%
Federal funds sold and securities purchased under agreements to resell	48,062	21	0.17	16,434	4	0.08
Mortgage-related securities:						
Mortgage-related securities(3)	346,738	3,807	4.39	443,135	5,050	4.56
Extinguishment of PCs held by Freddie Mac	(117,146)	(1,300)	(4.44)	(166,356)	(1,918)	(4.61)
Total mortgage-related securities, net	229,592	2,507	4.37	276,779	3,132	4.53
Non-mortgage-related securities(3)	20,363	15	0.30	18,175	18	0.40
Mortgage loans held by consolidated trusts(4)	1,517,472	15,838	4.17	1,626,583	19,140	4.71
Unsecuritized mortgage loans(4)	229,601	2,108	3.67	243,162	2,282	3.75
Total interest-earning assets	$ 2,075,336	$ 20,494	3.95	$ 2,232,358	$ 24,580	4.41
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 1,541,339	$ (14,884)	(3.86)	$ 1,641,905	$ (18,633)	(4.54)
Extinguishment of PCs held by Freddie Mac	(117,146)	1,300	4.44	(166,356)	1,918	4.61
Total debt securities of consolidated trusts held by third parties	1,424,193	(13,584)	(3.82)	1,475,549	(16,715)	(4.53)
Other debt:						
Short-term debt	126,430	(47)	(0.15)	188,004	(70)	(0.14)
Long-term debt(5)	447,067	(2,446)	(2.19)	495,188	(3,002)	(2.42)
Total other debt	573,497	(2,493)	(1.74)	683,192	(3,072)	(1.79)
Total interest-bearing liabilities	1,997,690	(16,077)	(3.22)	2,158,741	(19,787)	(3.67)
Expense related to derivatives(6)		(148)	(0.03)		(180)	(0.03)
Impact of net non-interest-bearing funding	77,646		0.12	73,617		0.12
Total funding of interest-earning assets	$ 2,075,336	$ (16,225)	(3.13)	$ 2,232,358	$ (19,967)	(3.58)
Net interest income/yield		$ 4,269	0.82		$ 4,613	0.83

	Nine Months Ended September 30,					
	2012			2011		
	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate
			(dollars in millions)			
Interest-earning assets:						
Cash and cash equivalents	$ 37,772	$ 15	0.05%	$ 40,817	$ 30	0.10%
Federal funds sold and securities purchased under agreements to resell	37,371	45	0.16	32,174	30	0.12
Mortgage-related securities:						
Mortgage-related securities(3)	362,748	12,208	4.49	450,227	15,581	4.61

Extinguishment of PCs held by Freddie Mac	(117,953)	(4,016)	(4.54)	(166,734)	(5,947)	(4.76)
Total mortgage-related securities, net	244,795	8,192	4.46	283,493	9,634	4.53
Non-mortgage-related securities(3)	24,535	45	0.25	24,520	74	0.40
Mortgage loans held by consolidated trusts(4)	1,538,476	50,112	4.34	1,640,276	58,986	4.79
Unsecuritized mortgage loans(4)	241,724	6,644	3.67	242,063	6,890	3.80
Total interest-earning assets	$ 2,124,673	$ 65,053	4.09	$ 2,263,343	$ 75,644	4.46
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 1,560,852	$ (47,478)	(4.06)	$ 1,654,554	$ (57,326)	(4.62)
Extinguishment of PCs held by Freddie Mac	(117,953)	4,016	4.54	(166,734)	5,947	4.76
Total debt securities of consolidated trusts held by third parties	1,442,899	(43,462)	(4.02)	1,487,820	(51,379)	(4.60)
Other debt:						
Short-term debt	134,807	(130)	(0.13)	192,326	(280)	(0.19)
Long-term debt(5)	469,559	(7,839)	(2.22)	504,603	(9,690)	(2.56)
Total other debt	604,366	(7,969)	(1.76)	696,929	(9,970)	(1.91)
Total interest-bearing liabilities	2,047,265	(51,431)	(3.35)	2,184,749	(61,349)	(3.74)
Expense related to derivatives(6)		(467)	(0.03)		(581)	(0.04)
Impact of net non-interest-bearing funding	77,408		0.12	78,594		0.13
Total funding of interest-earning assets	$ 2,124,673	$ (51,898)	(3.26)	$ 2,263,343	$ (61,930)	(3.65)
Net interest income/yield		$ 13,155	0.83		$ 13,714	0.81

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) We calculate average balances based on amortized cost.
(3) Interest income (expense) includes accretion of the portion of impairment charges recognized in earnings where we expect a significant improvement in cash flows.
(4) Non-performing loans, where interest income is generally recognized when collected, are included in average balances.
(5) Includes current portion of long-term debt.
(6) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt affects earnings.

Net interest income decreased by $344 million and $559 million during the three and nine months ended September 30, 2012, respectively, compared to the three and nine months ended September 30, 2011. Net interest yield decreased by one basis point during the three months ended September 30, 2012 and increased by two basis points during the nine months ended September 30, 2012, compared to the three and nine months ended September 30, 2011, respectively. The primary driver of the decreases in net interest income during the three and nine months ended September 30, 2012 and the decrease in net interest yield for the three months ended September 30, 2012 was the reduction in the average balance of higher-yielding mortgage-related assets due to continued liquidations, partially offset by lower funding costs from the replacement of debt at lower rates. The increase in net interest yield for the nine months ended September 30, 2012 was primarily due to the benefits of lower funding costs, partially offset by the negative impact of the reduction in the average balance of higher-yielding mortgage-related assets.

We recognize interest income on non-performing loans that have been placed on non-accrual status only when cash payments are received. We refer to the interest income that we do not recognize as foregone interest income (i.e., interest income we would have recorded if the loans had been current in accordance with their original terms). Foregone interest income and reversals of previously recognized interest income, net of cash received, related to non-performing loans was $0.8 billion and $2.4 billion during the three and nine months ended September 30, 2012, respectively, compared to $1.0 billion and $2.9 billion during the three and nine months ended September 30, 2011, respectively. These reductions were primarily due to the decreased volume of non-performing loans on non-accrual status.

During the three and nine months ended September 30, 2012, spreads on our debt and our access to the debt markets remained favorable relative to historical levels. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity.

Provision for Credit Losses

We maintain loan loss reserves at levels we believe are appropriate to absorb probable incurred losses on mortgage loans held-for-investment and loans underlying our financial guarantees. Our loan loss reserves are increased through the provision for credit losses and are reduced by net charge-offs. The provision for credit losses primarily reflects our estimate of incurred losses for newly impaired loans as well as changes in our estimates of loss for previously impaired loans based on the likelihood of ultimate transition to loss events and the expected severity rates of incurred losses.

Our provision for credit losses declined to $0.6 billion in the third quarter of 2012, compared to $3.6 billion in the third quarter of 2011, and was $2.6 billion in the nine months ended September 30, 2012 compared to $8.1 billion in the nine months ended September 30, 2011. The decrease in the provision for credit losses for the three and nine months ended September 30, 2012 compared to the respective periods in 2011 primarily reflects declines in the volume of new seriously delinquent loans (largely due to a decline in the size of our single-family credit guarantee portfolio originated in 2005 through 2008), and lower estimates of incurred loss due to the positive impact of an increase in national home prices. The provision for credit losses in the third quarter of 2012 also includes $0.2 billion related to the classification of single-family loans discharged in Chapter 7 bankruptcy as TDRs. Prior to the third quarter of 2012, we did not classify loans discharged in Chapter 7 bankruptcy as TDRs (unless they were already classified as such for other reasons) and we measured those loans collectively for impairment. In the third quarter of 2012, we classified all such loans as TDRs and measured them for impairment on an individual basis. This change represents the correction of an error that was not material to our previously reported financial statements. At September 30, 2012, the majority of these loans were not seriously delinquent and, in many cases, the borrower was continuing to make timely payments. The provision for credit losses in the third quarter of 2011 reflected a decline in the volume of early stage delinquencies and seriously delinquent loans, while the provision for credit losses in the nine months ended September 30, 2011 compared to 2010 reflected declines in the rate at which delinquent loans transition into serious delinquency.

During the three and nine months ended September 30, 2012, our charge-offs, net of recoveries for single-family loans exceeded the amount of our provision for credit losses. We believe our charge-offs in the nine months ended September 30, 2012 were less than they otherwise would have been because of the continued suppression of loan and collateral resolution activity due to the length of the foreclosure process. We believe the level of our charge-offs will continue to remain high for the fourth quarter of 2012 and into 2013.

As of September 30, 2012 and December 31, 2011, the UPB of our single-family non-performing loans was $131.1 billion and $120.5 billion, respectively. These amounts include $64.4 billion and $44.4 billion, respectively, of single-family TDRs that are less than three months past due. However, TDRs remain categorized as non-performing throughout the

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remaining life of the loan regardless of whether the borrower makes payments that return the loan to a current payment status after modification. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* for further information on our single-family credit guarantee portfolio, including credit performance, charge-offs, our loan loss reserves balance, and our non-performing assets.

The total number of seriously delinquent loans declined approximately 11% during the nine months ended September 30, 2012. However, our serious delinquency rates remain high compared to the rates we experienced in years prior to 2009 due to the continued weakness in home prices in the last several years, persistently high unemployment, extended foreclosure timelines, and continued challenges faced by servicers in processing large volumes of problem loans including adjusting their processes to accommodate changes in servicing standards, such as those dictated by legislative or regulatory authorities. Our seller/servicers have an active role in our loan workout activities, including under the servicing alignment initiative and the MHA Program, and a decline in their performance could result in a failure to realize the anticipated benefits of our loss mitigation plans.

Since the beginning of 2008, on an aggregate basis, we have recorded provision for credit losses associated with single-family loans of approximately $75.9 billion, and have recorded an additional $4.0 billion in losses on loans purchased from our PCs, net of recoveries. The majority of these losses are associated with loans originated in 2005 through 2008. While loans originated in 2005 through 2008 will give rise to additional credit losses that have not yet been incurred, and thus have not been provisioned for, we believe that, as of September 30, 2012, we have reserved for or charged-off the majority of the total expected credit losses for these loans. Nevertheless, various factors, such as continued high unemployment rates or future declines in home prices, could require us to provide for losses on these loans beyond our current expectations. See Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio for certain quarterly credit statistics for our single-family credit guarantee portfolio.

Our provision for credit losses and amount of charge-offs in the future will be affected by a number of factors. These factors include: (a) the actual level of mortgage defaults; (b) the effect of the MHA Program, the servicing alignment initiative, and other loss mitigation efforts, including any requirement to utilize principal forgiveness in our loan modification initiatives; (c) any government actions or programs that affect the ability of troubled borrowers to obtain modifications, including legislative changes to bankruptcy laws; (d) changes in property values; (e) regional economic conditions, including unemployment rates; (f) additional delays in the foreclosure process; (g) third-party mortgage insurance coverage and recoveries; and (h) the realized rate of seller/servicer repurchases.

In addition, in April 2012, FHFA issued an advisory bulletin that could have an effect on our provision for credit losses in the future. The accounting methods outlined in FHFA s advisory bulletin are significantly different from our current methods of accounting for single-family loans that are 180 days or more delinquent. We are currently assessing the operational and accounting impacts of this advisory bulletin and have not yet determined when or how we will implement this bulletin or its impact on our consolidated financial statements. We are also awaiting additional guidance from FHFA that we expect will have a significant impact on how and when we implement this bulletin. See LEGISLATIVE AND REGULATORY DEVELOPMENTS FHFA Advisory Bulletin for additional information. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk* for information on mortgage insurers and seller/servicer repurchase obligations.

We recognized a benefit for credit losses associated with our multifamily mortgage portfolio of $40 million and $37 million for the third quarters of 2012 and 2011, respectively, and $81 million and $110 million for the nine months ended September 30, 2012 and 2011, respectively. Our loan loss reserves associated with our multifamily mortgage portfolio were $453 million and $545 million as of September 30, 2012 and December 31, 2011, respectively. The decline in loan loss reserves for multifamily loans during the first nine months of 2012 was primarily caused by a decrease in our general reserve, which is the portion of our reserves associated with loans that are collectively evaluated for impairment, based on improvement in the expected performance of the related loans.

Non-Interest Income (Loss)

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

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish a pro rata portion of the outstanding debt securities of the related consolidated trusts. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to extinguish the debt security differs from its carrying value.

Losses on extinguishment of debt securities of consolidated trusts were $34 million and $310 million for the three months ended September 30, 2012 and 2011, respectively. For the three months ended September 30, 2012 and 2011, we extinguished debt securities of consolidated trusts with a UPB of $2.5 billion and $22.8 billion, respectively (representing our purchase of single-family PCs with a corresponding UPB amount). The losses during the three months ended September 30, 2012 and 2011 were primarily due to the repurchase of our debt securities of consolidated trusts at a net purchase premium driven by a decline in interest rates during the periods.

Losses on extinguishment of debt securities of consolidated trusts were $39 million and $212 million for the nine months ended September 30, 2012 and 2011, respectively. For the nine months ended September 30, 2012 and 2011, we extinguished debt securities of consolidated trusts with a UPB of $3.9 billion and $69.8 billion, respectively (representing our purchase of single-family PCs with a corresponding UPB amount). The losses during the nine months ended September 30, 2012 were primarily due to the repurchase of our debt securities of consolidated trusts at a net purchase premium driven by a decline in interest rates during the period. The losses for the nine months ended September 30, 2011 were due to the repurchase of our debt securities of consolidated trusts at a net purchase premium during the second and third quarters of 2011 driven by a decline in interest rates during those periods. The purchase of single-family PCs during the 2011 periods was primarily due to dollar roll transactions that were done primarily to support the market and pricing of our single-family PCs. See Table 19 Mortgage-Related Securities Purchase Activity for additional information regarding purchases of mortgage-related securities, including those issued by consolidated PC trusts.

Gains (Losses) on Retirement of Other Debt

Gains on retirement of other debt were $11 million and $19 million during the three months ended September 30, 2012 and 2011, respectively. Gains (losses) on retirement of other debt were $(55) million and $34 million during the nine months ended September 30, 2012 and 2011, respectively. We recognized gains on the retirement of other debt in the three months ended September 30, 2012 primarily due to the call of other debt securities held at premiums. We recognized losses on the retirement of other debt in the nine months ended September 30, 2012 primarily due to write-offs of unamortized deferred issuance costs related to calls of other debt securities. We recognized gains on the retirement of other debt in the three and nine months ended September 30, 2011 primarily due to calls of other debt securities held at premiums and the repurchase of other debt securities at less than par. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity *Other Debt Securities Other Debt Retirement Activities.*

Gains (Losses) on Debt Recorded at Fair Value

Gains (losses) on debt recorded at fair value primarily relate to changes in the fair value of our foreign-currency denominated debt. For the three and nine months ended September 30, 2012, we recognized gains (losses) on debt recorded at fair value of $(10) million and $35 million, respectively. Losses recognized for the three months ended September 30, 2012 were primarily from Euro Reference Notes due to the U.S. dollar weakening relative to the Euro. Gains during the nine months ended September 30, 2012 were primarily from Euro Reference Notes due to a combination of the U.S. dollar strengthening relative to the Euro in the first half of 2012 and changes in interest rates. For the three and nine months ended September 30, 2011, we recognized gains on debt recorded at fair value of $133 million and $15 million, respectively, primarily from Euro Reference Notes due to the U.S. dollar strengthening relative to the Euro. We mitigate changes in the fair value of our foreign-currency denominated debt by using foreign currency swaps and foreign-currency denominated interest-rate swaps.

Derivative Gains (Losses)

The table below presents derivative gains (losses) reported in our consolidated statements of comprehensive income. See NOTE 10: DERIVATIVES Table 10.2 Gains and Losses on Derivatives for information about gains and losses related to specific categories of derivatives. Changes in fair value and interest accruals on derivatives not in hedge accounting relationships are recorded as derivative gains (losses) in our consolidated statements of comprehensive income. At both September 30, 2012 and December 31, 2011, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges. Amounts recorded in AOCI associated with these closed cash flow hedges are reclassified to earnings when the forecasted transactions affect earnings. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the forecasted transaction is reclassified into earnings immediately.

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While derivatives are an important aspect of our strategy to manage interest-rate risk, they generally increase the volatility of reported net income because, while fair value changes in derivatives affect net income, fair value changes in several of the types of assets and liabilities being hedged do not affect net income. Beginning in the fourth quarter of 2011, we began to increase the portion of our debt issued with longer-term maturities. This allows us to take advantage of attractive long-term rates while decreasing our reliance on interest-rate swaps.

Table 7 Derivative Gains (Losses)

	Derivative Gains (Losses)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)			
Interest-rate swaps	$ 62	$ (8,278)	$ (1,236)	$ (10,304)
Option-based derivatives[1]	197	5,887	1,396	6,682
Other derivatives[2]	148	(1,092)	347	(1,494)
Accrual of periodic settlements[3]	(895)	(1,269)	(2,933)	(3,870)
Total	$ (488)	$ (4,752)	$ (2,426)	$ (8,986)

(1) Primarily includes purchased call and put swaptions and purchased interest-rate caps and floors.
(2) Includes futures, foreign-currency swaps, commitments, swap guarantee derivatives, and credit derivatives.
(3) Includes imputed interest on zero-coupon swaps.

Gains (losses) on derivatives not accounted for in hedge accounting relationships are principally driven by changes in: (a) interest rates and implied volatility; and (b) the mix and volume of derivatives in our derivative portfolio.

During the three and nine months ended September 30, 2012, we recognized losses on derivatives of $0.5 billion and $2.4 billion, respectively, primarily due to losses related to the accrual of periodic settlements on interest-rate swaps as we were in a net pay-fixed swap position. We recognized fair value losses on our pay-fixed swaps of $1.1 billion and $5.2 billion, respectively, which were offset by: (a) fair value gains on our receive-fixed swaps of $1.1 billion and $4.0 billion, respectively; and (b) fair value gains on our option-based derivatives of $0.2 billion and $1.4 billion, respectively, resulting from gains on our purchased call swaptions due to a decrease in interest rates. During the three and nine months ended September 30, 2012, the effect of the decline in interest rates was partially mitigated due to a change in the mix of our derivatives portfolio, whereby we increased our holdings of receive-fixed swaps relative to pay-fixed swaps to rebalance our portfolio during a period of steadily declining interest rates and increased our issuances of debt with longer-term maturities.

During the three and nine months ended September 30, 2011, we recognized losses on derivatives of $4.8 billion and $9.0 billion, respectively, primarily due to declines in interest rates in the second and third quarters. Specifically, during the three months and nine months ended September 30, 2011, we recognized fair value losses on our pay-fixed swap positions of $19.1 billion and $22.4 billion, respectively, partially offset by fair value gains on our receive-fixed swaps of $10.8 billion and $12.1 billion, respectively. We also recognized fair value gains of $5.9 billion and $6.7 billion during the three and nine months ended September 30, 2011, respectively, on our option-based derivatives, resulting from gains on our purchased call swaptions as interest rates decreased during the second and third quarters of 2011. Additionally, we recognized losses related to the accrual of periodic settlements during the three and nine months ended September 30, 2011 due to our net pay-fixed swap position in the prevailing interest rate environment.

Investment Securities-Related Activities

Impairments of Available-For-Sale Securities

We recorded net impairments of available-for-sale securities recognized in earnings, which were related to non-agency mortgage-related securities, of $267 million and $929 million during the three and nine months ended September 30, 2012, respectively, compared to $161 million and $1.7 billion during the three and nine months ended September 30, 2011, respectively. The increase in net impairments recognized in earnings during the three months ended September 30, 2012 was primarily driven by higher estimated defaults on certain of our investments in subprime mortgage-related securities, partially offset by improvements in forecasted home prices over the expected life of our available-for-sale securities. The decrease in net impairments recognized in earnings during the nine months ended September 30, 2012 was primarily driven by improvements in forecasted home prices over the expected life of our available-for-sale securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* *Other-Than-Temporary*

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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

Other gains (losses) on investment securities recognized in earnings primarily consist of gains (losses) on trading securities. Trading securities mainly include Treasury securities, agency fixed-rate and variable-rate pass-through mortgage-related securities, and agency REMICs, including inverse floating-rate, interest-only and principal-only securities. We recognized $(338) million and $(1.1) billion related to gains (losses) on trading securities during the three and nine months ended September 30, 2012, respectively, compared to $(547) million and $(473) million during the three and nine months ended September 30, 2011, respectively.

The increase in losses on trading securities during the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011, was primarily due to the movement of securities with unrealized gains towards maturity, partially offset by the increase in the fair value of our trading securities as a result of the decline in interest rates. In addition, a widening of OAS levels on principal-only and certain other agency securities contributed to losses recognized during the three months ended September 30, 2011.

Other Income

The table below summarizes the significant components of other income.

Table 8 Other Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions)			
Other income:				
Gains (losses) on sale of mortgage loans	$ 117	$ 46	$ 201	$ 302
Gains (losses) on mortgage loans recorded at fair value	310	216	650	319
Recoveries on loans impaired upon purchase	101	119	277	376
Guarantee-related income, net[(1)]	69	40	269	175
All other	(39)	393	164	228
Total other income	$ 558	$ 814	$ 1,561	$ 1,400

(1) Most of our guarantee-related income relates to securitized multifamily mortgage loans where we have not consolidated the securitization trusts on our consolidated balance sheets.

Gains (Losses) on Sale of Mortgage Loans

During the three months ended September 30, 2012 and 2011, we recognized $117 million and $46 million, respectively, of gains on sale of mortgage loans with associated UPB of $3.9 billion and $2.4 billion, respectively. During the nine months ended September 30, 2012 and 2011, we recognized $201 million and $302 million, respectively, of gains on sale of mortgage loans with associated UPB of $13.9 billion and $10.1 billion, respectively. All such amounts relate to our securitizations of multifamily loans on our consolidated balance sheets, which we elected to carry at fair value. We experienced increased investor demand for our multifamily securitizations during the third quarter of 2012, compared to the third quarter of 2011, which resulted in higher gains in the third quarter of 2012. We had lower gains on sale of mortgage loans during the nine months ended September 30, 2012, compared to the same period of 2011, as a significant portion of the improved fair value of the loans was recognized within gains (losses) on mortgage loans recorded at fair value during periods prior to the loans securitization.

Gains (Losses) on Mortgage Loans Recorded at Fair Value

During the three months ended September 30, 2012 and 2011, we recognized $310 million and $216 million, respectively, of gains on mortgage loans recorded at fair value, and we recognized $650 million and $319 million of such gains during the nine months ended September 30, 2012 and 2011, respectively. All such amounts relate to multifamily loans which we had elected to carry at fair value and were designated for securitization. We held higher balances of these loans on our consolidated balance sheets during the three and nine months ended September 30, 2012, compared to the same periods in 2011 which, when combined with improving fair values on those loans, resulted in higher gains during the 2012 periods.

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Recoveries on Loans Impaired upon Purchase

Recoveries on loans impaired upon purchase represent the recapture into income of previously recognized losses associated with purchases of delinquent loans from our PCs in conjunction with our guarantee activities. Recoveries occur when a loan that was impaired upon purchase is repaid in full or when at the time of foreclosure the estimated fair value of the acquired property, less costs to sell, exceeds the carrying value of the loan. For impaired loans where the borrower has made required payments that return the loan to less than three months past due, the recovery amounts are recognized as interest income over time as periodic payments are received.

During the three months ended September 30, 2012 and 2011, we recognized recoveries on loans impaired upon purchase of $101 million and $119 million, respectively, and these recoveries were $277 million and $376 million during the nine months ended September 30, 2012 and 2011, respectively. Our recoveries on loans impaired upon purchase declined in the three and nine months ended September 30, 2012, compared to the same periods of 2011, due to a lower volume of foreclosure transfers and payoffs associated with loans impaired upon purchase.

All Other

All other income consists primarily of transactional fees, fees assessed to our servicers, such as for technology use and late fees or other penalties, and other miscellaneous income. During the nine months ended September 30, 2012 and 2011, we recorded corrections of certain prior period accounting errors not material to our financial statements within all other income. The largest correction during the third quarter of 2012 related to an error associated with the consolidation of certain of our REMIC trusts for which we held substantially all of the beneficial interests issued by the trusts, but did not consolidate the trusts in prior periods. This correction reduced other income by approximately $106 million during the third quarter of 2012.

The largest correction in 2011 related to an error associated with the accrual of interest income for certain impaired mortgage-related securities during 2010 and 2009. This correction reduced other income by approximately $293 million during the second quarter of 2011 and increased other income by approximately $122 million in the third quarter of 2011 for a net decrease of approximately $171 million in the nine months ended September 30, 2011.

Non-Interest Expense

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

Table 9 Non-Interest Expense

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(in millions)			
Administrative expenses:				
Salaries and employee benefits	$ 202	$ 212	$ 605	$ 638
Professional services	93	73	245	193
Occupancy expense	15	14	43	44
Other administrative expense	91	82	246	251
Total administrative expenses	401	381	1,139	1,126
REO operations (income) expense	(49)	221	92	505
Other expenses	121	85	374	299
Total non-interest expense	$ 473	$ 687	$ 1,605	$ 1,930

Administrative Expenses

Administrative expenses increased during the three and nine months ended September 30, 2012 compared to the three and nine months ended September 30, 2011 due to an increase in professional services expense which was partially offset by lower salaries and employee benefits expense. Professional services expense increased as a result of initiatives we are pursuing under the 2012 conservatorship scorecard and other FHFA-mandated initiatives.

We currently expect that our general and administrative expenses for the full-year 2012 will be marginally higher than those we experienced in the full-year 2011, resulting from increased professional services expense, in part due to: (a) our need to respond to developments in the continually changing mortgage market; (b) an environment in which we are subject to

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increased regulatory oversight and mandates; and (c) strategic arrangements that we may enter into with outside firms to provide operational capability and staffing for key functions. We believe the initiatives we are pursuing under the 2012 conservatorship scorecard and other FHFA-mandated initiatives will require additional resources and continue to affect our level of administrative expenses going forward.

REO Operations (Income) Expense

The table below presents the components of our REO operations (income) expense, and REO inventory and disposition information.

Table 10 REO Operations (Income) Expense, REO Inventory, and REO Dispositions

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(dollars in millions)			
REO operations (income) expense:				
Single-family:				
REO property expenses[1]	$ 259	$ 298	$ 930	$ 906
Disposition (gains) losses, net[2]	(219)	29	(479)	211
Change in holding period allowance, dispositions	(8)	(87)	(98)	(371)
Change in holding period allowance, inventory[3]	9	127	(17)	283
Recoveries [4]	(81)	(141)	(238)	(511)
Total single-family REO operations (income) expense	(40)	226	98	518
Multifamily REO operations (income) expense	(9)	(5)	(6)	(13)
Total REO operations (income) expense	$ (49)	$ 221	$ 92	$ 505
REO inventory (in properties), at September 30:				
Single-family	50,913	59,596	50,913	59,596
Multifamily	6	20	6	20
Total	50,919	59,616	50,919	59,616
REO property dispositions (in properties):				
Single-family	22,660	25,381	73,762	86,356
Multifamily	7	6	18	14
Total	22,667	25,387	73,780	86,370

(1) Consists of costs incurred to maintain or protect a property after it is acquired in a foreclosure transfer, such as legal fees, insurance, taxes, and cleaning and other maintenance charges.
(2) Represents the difference between the disposition proceeds, net of selling expenses, and the fair value of the property on the date of the foreclosure transfer.
(3) Represents the (increase) decrease in the estimated fair value of properties that were in inventory during the period.
(4) Includes recoveries from primary mortgage insurance, pool insurance and seller/servicer repurchases.

REO operations (income) expense was $(49) million for the third quarter of 2012, as compared to $221 million during the third quarter of 2011, and was $92 million in the nine months ended September 30, 2012 compared to $505 million for the nine months ended September 30, 2011. The decline in expense for the 2012 periods was primarily due to improving home prices in certain geographical areas with significant REO activity, which resulted in gains on disposition of properties as well as lower write-downs of single-family REO inventory. Recoveries on REO properties also declined during the three and nine months ended September 30, 2012, compared to the same periods of 2011. Lower recoveries on REO properties were primarily due to lower REO disposition volume, reduced recoveries from mortgage insurers, and a decline in reimbursements of losses from seller/servicers associated with repurchase requests.

We believe the volume of our single-family REO acquisitions during the nine months ended September 30, 2012 was less than it otherwise would have been due to: (a) the length of the foreclosure process, particularly in states that require a judicial foreclosure process; and (b) resource constraints on foreclosure activities for five larger servicers involved in a recent settlement with a coalition of state attorneys general and federal agencies. In addition, our loss mitigation efforts, including short sales, are affecting our REO acquisition volumes. As a result of these efforts, fewer loans are being resolved through foreclosure and subsequent REO sales. The lower acquisition rate, coupled with high disposition levels, led to a lower REO property inventory level at September 30, 2012, compared to December 31, 2011. We expect that the length of the foreclosure process will continue to remain above historical levels. Additionally, we expect our REO activity to remain at elevated levels, as we have a large inventory of seriously delinquent loans in our single-family credit guarantee portfolio. To the extent a large volume of loans completes the foreclosure process in a short period of time, the resulting increase in the inventory of homes for sale could have a negative effect on the housing market. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Non-Performing Assets* for additional information about our REO activity.

Other Expenses

Other expenses were $121 million and $85 million in the third quarters of 2012 and 2011, respectively, and were $374 million and $299 million in the nine months ended September 30, 2012 and 2011, respectively. Other expenses consist primarily of the legislated 10 basis point increase in guarantee fees, HAMP servicer incentive fees, costs related to terminations and transfers of mortgage servicing, and other miscellaneous expenses. Other expenses included approximately $34 million and $44 million of expenses in the three and nine months ended September 30, 2012 associated with the legislated 10 basis point increase in guarantee fees.

Income Tax Benefit

For the three months ended September 30, 2012 and 2011, we reported an income tax benefit of $302 million and $56 million, respectively. For the nine months ended September 30, 2012 and 2011, we reported an income tax benefit of $392 million and $362 million, respectively. See NOTE 12: INCOME TAXES for additional information.

Comprehensive Income (Loss)

Our comprehensive income (loss) was $5.6 billion and $10.3 billion for the three and nine months ended September 30, 2012, respectively, consisting of: (a) $2.9 billion and $6.5 billion of net income, respectively; and (b) $2.7 billion and $3.8 billion of total other comprehensive income, respectively, primarily related to a reduction in net unrealized losses related to our available-for-sale securities.

Our comprehensive income (loss) was $(4.4) billion and $(2.7) billion for the three and nine months ended September 30, 2011, respectively, consisting of: (a) $(4.4) billion and $(5.9) billion of net income (loss), respectively; and (b) $46 million and $3.1 billion of total other comprehensive income, respectively, primarily due to changes in unrealized gains (losses) on cash flow hedge relationships and a reduction in net unrealized losses related to our available-for-sale securities, respectively. See CONSOLIDATED BALANCE SHEETS ANALYSIS Total Equity (Deficit) for additional information regarding total other comprehensive income.

Segment Earnings

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

The Investments segment reflects results from our investment, funding and hedging activities. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans, which are funded by other debt issuances and hedged using derivatives. In our Investments segment, we also provide funding and hedging management services to the Single-family Guarantee and Multifamily segments. The Investments segment reflects changes in the fair value of the Multifamily segment CMBS and held-for-sale loans that are associated with changes in interest rates. Segment Earnings for this segment consist primarily of the returns on these investments, less the related funding, hedging, and administrative expenses.

The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the purchased mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Segment Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront fees, less credit-related expenses, administrative expenses, allocated funding costs, and amounts related to net float benefits or expenses.

The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Although we hold multifamily mortgage loans and non-agency CMBS that we purchased for investment, our purchases of such multifamily mortgage loans for investment have declined significantly since 2010, and our purchases of CMBS have declined significantly since 2008. The only CMBS that we have purchased since 2008 have been senior, mezzanine, and interest-only tranches related to certain of our securitization

transactions, and these purchases have not been significant. Our primary business strategy is to purchase multifamily mortgage loans for aggregation and then securitization. We guarantee the senior tranches of these securitizations in Other Guarantee Transactions. Our Multifamily segment also issues Other Structured Securities, but does not issue REMIC securities. Our Multifamily segment also enters into other guarantee commitments for multifamily HFA bonds and housing revenue bonds held by third parties. Segment Earnings for this segment consist primarily of the interest earned on assets related to multifamily investment activities and management and guarantee fee income, less credit-related expenses, administrative expenses, and allocated funding costs. In addition, the Multifamily segment reflects gains on sale of mortgages and the impact of changes in fair value of CMBS and held-for-sale loans associated with market factors other than changes in interest rates, such as liquidity and credit.

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. The financial performance of our Single-family Guarantee segment and Multifamily segment are measured based on each segment s contribution to GAAP net income (loss). Our Investments segment is measured on its contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes. The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss). Likewise, the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive income (loss).

The All Other category consists of material corporate level expenses that are: (a) infrequent in nature; and (b) based on management decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods. The All Other category also includes the deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward.

In presenting Segment Earnings, we make significant reclassifications among certain financial statement line items in order to reflect a measure of net interest income on investments and a measure of management and guarantee income on guarantees that is in line with how we manage our business. We present Segment Earnings by: (a) reclassifying certain investment-related activities and credit guarantee-related activities between various line items on our GAAP consolidated statements of comprehensive income; and (b) allocating certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments.

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

See NOTE 14: SEGMENT REPORTING in our 2011 Annual Report for further information regarding our segments, including the descriptions and activities of the segments and the reclassifications and allocations used to present Segment Earnings.

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The table below provides information about our various segment mortgage and credit risk portfolios at September 30, 2012 and December 31, 2011. For a discussion of each segment s portfolios, see *Segment Earnings Results*.

Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios[1]

	September 30, 2012	December 31, 2011
	(in millions)	
Segment mortgage portfolios:		
Investments Mortgage investments portfolio:		
Single-family unsecuritized mortgage loans[2]	$ 88,836	$ 109,190
Freddie Mac mortgage-related securities	184,401	220,659
Non-agency mortgage-related securities	79,012	86,526
Non-Freddie Mac agency securities	25,702	32,898
Total Investments Mortgage investments portfolio	377,951	449,273
Single-family Guarantee Managed loan portfolio:[3]		
Single-family unsecuritized mortgage loans[4]	56,596	62,469
Single-family Freddie Mac mortgage-related securities held by us	184,401	220,659
Single-family Freddie Mac mortgage-related securities held by third parties	1,347,634	1,378,881
Single-family other guarantee commitments[5]	13,538	11,120
Total Single-family Guarantee Managed loan portfolio	1,602,169	1,673,129
Multifamily Guarantee portfolio:		
Multifamily Freddie Mac mortgage related securities held by us	2,326	3,008
Multifamily Freddie Mac mortgage related securities held by third parties	33,950	22,136
Multifamily other guarantee commitments[5]	9,817	9,944
Total Multifamily Guarantee portfolio	46,093	35,088
Multifamily Mortgage investments portfolio		
Multifamily investment securities portfolio	53,151	59,260
Multifamily loan portfolio	80,268	82,311
Total Multifamily Mortgage investments portfolio	133,419	141,571
Total Multifamily portfolio	179,512	176,659
Less : Freddie Mac single-family and certain multifamily securities[6]	(186,727)	(223,667)
Total mortgage portfolio	$ 1,972,905	$ 2,075,394
Credit risk portfolios:[7]		
Single-family credit guarantee portfolio:[3]		
Single-family mortgage loans, on-balance sheet	$ 1,637,442	$ 1,733,215
Non-consolidated Freddie Mac mortgage-related securities	9,646	10,735
Other guarantee commitments[5]	13,538	11,120
Less: HFA-related guarantees [8]	(7,104)	(8,637)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates[8]	(678)	(779)
Total single-family credit guarantee portfolio	$ 1,652,844	$ 1,745,654
Multifamily mortgage portfolio:		
Multifamily mortgage loans, on-balance sheet	$ 80,268	$ 82,311
Non-consolidated Freddie Mac mortgage-related securities	36,276	25,144

Other guarantee commitments(5)	9,817	9,944
Less: HFA-related guarantees (8)	(1,188)	(1,331)
Total multifamily mortgage portfolio	$ 125,173	$ 116,068

(1) Based on UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) Excludes unsecuritized seriously delinquent single-family loans managed by the Single-family Guarantee segment. The Single-family Guarantee segment earns management and guarantee fees associated with unsecuritized single-family loans in the Investments segment s mortgage investments portfolio.
(3) 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. The differences in the loan and security balances result from the timing of remittances to security holders, which is typically 45 or 75 days after the mortgage payment cycle of fixed-rate and ARM PCs, respectively.
(4) Represents unsecuritized seriously delinquent single-family loans managed by the Single-family Guarantee segment.
(5) Represents the UPB of mortgage-related assets held by third parties for which we provide our guarantee without our securitization of the related assets.
(6) Freddie Mac single-family mortgage-related securities held by us are included in both our Investments segment s mortgage investments portfolio and our Single-family Guarantee segment s managed loan portfolio, and Freddie Mac multifamily mortgage-related securities held by us are included in both the multifamily investment securities portfolio and the multifamily guarantee portfolio. Therefore, these amounts are deducted in order to reconcile to our total mortgage portfolio.
(7) Represents the UPB of loans for which we present characteristics, delinquency data, and certain other statistics in this report. See GLOSSARY for further description.
(8) We exclude HFA-related guarantees and our resecuritizations of Ginnie Mae certificates from our credit risk portfolios and most related statistics because these guarantees do not expose us to meaningful amounts of credit risk due to the credit enhancement provided on them by the U.S. government.

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Segment Earnings Results

Investments

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

Table 12 Segment Earnings and Key Metrics Investments[1]

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 1,368	$ 1,905	$ 4,690	$ 5,384
Non-interest income (loss):				
Net impairment of available-for-sale securities recognized in earnings	(180)	(116)	(690)	(1,284)
Derivative gains (losses)	557	(3,144)	993	(4,197)
Gains (losses) on trading securities	(364)	(525)	(1,175)	(503)
Gains (losses) on sale of mortgage loans	7		(1)	16
Gains (losses) on mortgage loans recorded at fair value	105	358	324	442
Other non-interest income (loss)	494	345	1,680	702
Total non-interest income (loss)	619	(3,082)	1,131	(4,824)
Non-interest expense:				
Administrative expenses	(110)	(97)	(310)	(293)
Other non-interest expense	(1)	(1)	(1)	(2)
Total non-interest expense	(111)	(98)	(311)	(295)
Segment adjustments[2]	191	137	510	466
Segment Earnings (loss) before income tax benefit	2,067	(1,138)	6,020	731
Income tax benefit	405	59	548	337
Segment Earnings (loss), net of taxes	2,472	(1,079)	6,568	1,068
Total other comprehensive income, net of taxes	2,015	1,347	2,377	3,106
Comprehensive income	$ 4,487	$ 268	$ 8,945	$ 4,174
Key metrics:				
Portfolio balances:				
Average balances of interest-earning assets:[3][4]				
Mortgage-related securities[5]	$ 299,700	$ 387,428	$ 312,859	$ 393,301
Non-mortgage-related investments[6]	98,664	85,819	99,670	97,505
Single-family unsecuritized loans[7]	90,832	97,059	99,432	91,638
Total average balances of interest-earning assets	$ 489,196	$ 570,306	$ 511,961	$ 582,444
Return:				
Net interest yield Segment Earnings basis (annualized)	1.12%	1.34%	1.22%	1.23%

(1) For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 13: SEGMENT REPORTING Table 13.2 Segment Earnings and Reconciliation to GAAP Results.
(2) For a description of our segment adjustments, see NOTE 14: SEGMENT REPORTING Segment Earnings in our 2011 Annual Report.
(3) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(4) We calculate average balances based on amortized cost.
(5) Includes our investments in single-family PCs and certain Other Guarantee Transactions, which have been consolidated under GAAP on our consolidated balance sheet since January 1, 2010.
(6) Includes the average balances of interest-earning cash and cash equivalents, non-mortgage-related securities, and federal funds sold and securities purchased under agreements to resell.
(7) Excludes unsecuritized seriously delinquent single-family mortgage loans.

Segment Earnings for our Investments segment increased by $3.6 billion and $5.5 billion to $2.5 billion and $6.6 billion during the three and nine months ended September 30, 2012, respectively, compared to $(1.1) billion and $1.1 billion during the three and nine months ended September 30, 2011, respectively, primarily due to derivative gains during the three and nine months ended September 30, 2012 versus losses during the three and nine months ended September 30, 2011.

Comprehensive income for our Investments segment increased by $4.2 billion and $4.8 billion to $4.5 billion and $8.9 billion during the three and nine months ended September 30, 2012, respectively, compared to $268 million and $4.2 billion during the three and nine months ended September 30, 2011, respectively, primarily due to higher Segment Earnings.

During the three and nine months ended September 30, 2012, the UPB of the Investments segment mortgage investments portfolio decreased at an annualized rate of 8.8% and 21.2%, respectively. We held $210.1 billion of agency securities and $79.0 billion of non-agency mortgage-related securities as of September 30, 2012, compared to $253.6 billion of agency securities and $86.5 billion of non-agency mortgage-related securities as of December 31, 2011. The decline in UPB of agency securities is due mainly to liquidations and reduced purchase activities. The decline in UPB of non-agency mortgage-related securities is due mainly to the receipt of monthly remittances of principal repayments from both the recoveries of liquidated loans and, to a lesser extent, voluntary repayments of the underlying collateral, representing a partial return of our investments in these securities. Since the beginning of 2007, we have incurred actual principal cash shortfalls of $2.4 billion on impaired non-agency mortgage-related securities in the Investments segment. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities for additional information regarding our mortgage-related securities.

During the three and nine months ended September 30, 2012, the UPB of the Investments segment single-family unsecuritized mortgage loans declined by $3.6 billion and $20.4 billion, respectively. The decline in the UPB of single-family unsecuritized mortgage loans is primarily related to our securitization of mortgage loans that we had purchased for cash.

Segment Earnings net interest income decreased by $537 million and $694 million and net interest yield decreased by 22 basis points and one basis point during the three and nine months ended September 30, 2012, respectively, compared to the three and nine months ended September 30, 2011, respectively. The primary driver of the decreases was the reduction in the average balance of higher-yielding mortgage-related assets due to continued liquidations, partially offset by lower funding costs, primarily due to the replacement of debt at lower rates.

Segment Earnings non-interest income (loss) was $619 million and $1.1 billion during the three and nine months ended September 30, 2012, respectively, compared to $(3.1) billion and $(4.8) billion during the three and nine months ended September 30, 2011, respectively. This improvement was primarily due to: (a) derivative gains during the three and nine months ended September 30, 2012 versus losses during the three and nine months ended September 30, 2011; (b) improvements in other non-interest income; and (c) lower net impairments of available-for-sale securities recognized in earnings for the nine months ended September 30, 2012. For the nine months ended September 30, 2012, these factors were partially offset by an increase in losses on trading securities, compared to the nine months ended September 30, 2011.

Impairments recorded in our Investments segment were $180 million and $690 million during the three and nine months ended September 30, 2012, respectively, compared to $116 million and $1.3 billion during the three and nine months ended September 30, 2011. The decrease in net impairments recognized in earnings during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, was primarily driven by improvements in forecasted home prices over the expected life of the available-for-sale securities. During the three months ended September 30, 2012 compared to the three months ended September 30, 2011, larger net impairments recognized in earnings was driven by higher estimated defaults on certain of our investments in subprime mortgage-related securities, partially offset by improvements in forecasted home prices over the expected life of our available-for-sale securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* *Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities* for additional information on our impairments.

We recorded gains (losses) on trading securities of $(364) million and $(1.2) billion during the three and nine months ended September 30, 2012, respectively, compared to $(525) million and $(503) million during the three and nine months ended September 30, 2011, respectively. The increase in losses on trading securities during the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011, was primarily due to the movement of securities with unrealized gains towards maturity, partially offset by the increase in the fair value of our trading securities as a result of the decline in interest rates. In addition, a widening of OAS levels on principal-only and certain other agency securities contributed to losses recognized during the three months ended September 30, 2011.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they generally increase the volatility of reported Segment Earnings, because while fair value changes in derivatives affect Segment Earnings, fair value changes in several of the types of assets and liabilities being hedged do not affect Segment Earnings. We recorded derivative gains (losses) for this segment of $557 million and $993 million during the three and nine months ended September 30, 2012, respectively, compared to $(3.1) billion and $(4.2) billion during the three and nine months ended September 30, 2011, respectively. During the three and nine months ended September 30, 2012 and 2011, we recognized fair value losses on our pay-fixed swaps, which were more than offset by: (a) fair value gains on our receive-fixed swaps; and (b) fair value gains on our option-based derivatives, primarily related to our purchased call swaptions due to a decline in interest rates. During the three and nine months ended September 30, 2012, the effect of the decline in interest rates was partially mitigated by a change in the mix of our derivatives portfolio, whereby we increased our holdings of receive-fixed swaps relative to

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pay-fixed swaps as we rebalanced our portfolio during a period of steadily declining interest rates and increased our issuances of debt with longer-term maturities. In addition, during the three and nine months ended September 30, 2012 we also recognized gains on other derivative transactions, such as commitments to purchase mortgage loans. See Non-Interest Income (Loss) *Derivative Gains (Losses)* for additional information on our derivatives.

Other non-interest income (loss) for this segment was $494 million and $1.7 billion during the three and nine months ended September 30, 2012, respectively, compared to $345 million and $702 million during the three and nine months ended September 30, 2011, respectively. The improvement in other non-interest income was primarily due to an increase in amortization income related to premiums on debt securities of consolidated trusts held by third parties. This amortization income increased due to additional prepayments on the debt securities of consolidated trusts held by third parties due in part to the low interest rate environment. Basis adjustments related to these debt securities of consolidated trusts held by third parties are generated through the securitization and sale of retained mortgage loans or sales of Freddie Mac mortgage-related securities from our mortgage-related investments portfolio.

Our Investments segment s total other comprehensive income was $2.0 billion and $2.4 billion during the three and nine months ended September 30, 2012, respectively, compared to $1.3 billion and $3.1 billion during the three and nine months ended September 30, 2011, respectively. Net unrealized losses in AOCI on our available-for-sale securities for this segment decreased by $1.9 billion and $2.1 billion during the three and nine months ended September 30, 2012, respectively. The decrease in our net unrealized losses during the three and nine months ended September 30, 2012, was primarily due to fair value gains related to the movement of non-agency mortgage-related securities with unrealized losses towards maturity and fair value gains due to the impact of the decline in interest rates. In addition, during the three months ended September 30, 2012, the impact of tightening OAS levels on our non-agency single-family mortgage-related securities decreased our net unrealized losses, while during the nine months ended September 30, 2012, the impact of widening OAS levels on these securities partially offset the fair value gains mentioned above. The changes in fair value of CMBS, excluding impacts from the changes in interest rates which are included in the Investments segment, are reflected in the Multifamily segment.

For a discussion of items that may impact our Investments segment net interest income over time, see EXECUTIVE SUMMARY Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.

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Single-Family Guarantee

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

Table 13 Segment Earnings and Key Metrics Single-Family Guarantee[1]

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(dollars in millions)			
Segment Earnings:				
Net interest income (expense)	$ (61)	$ (98)	$ (94)	$ (28)
Provision for credit losses	(931)	(4,008)	(3,577)	(9,178)
Non-interest income:				
Management and guarantee income	1,108	913	3,145	2,631
Other non-interest income	219	331	571	750
Total non-interest income	1,327	1,244	3,716	3,381
Non-interest expense:				
Administrative expenses	(228)	(227)	(653)	(670)
REO operations income (expense)	40	(226)	(98)	(518)
Other non-interest expense	(111)	(69)	(266)	(241)
Total non-interest expense	(299)	(522)	(1,017)	(1,429)
Segment adjustments[2]	(189)	(161)	(577)	(489)
Segment Earnings (loss) before income tax (expense) benefit	(153)	(3,545)	(1,549)	(7,743)
Income tax (expense) benefit	(10)		(48)	(8)
Segment Earnings (loss), net of taxes	(163)	(3,545)	(1,597)	(7,751)
Total other comprehensive income (loss), net of taxes	1		(21)	(3)
Comprehensive income (loss)	$ (162)	$ (3,545)	$ (1,618)	$ (7,754)
Key metrics:				
Balances and Volume (in billions, except rate):				
Average balance of single-family credit guarantee portfolio and HFA guarantees	$ 1,671	$ 1,800	$ 1,706	$ 1,811
Issuance Single-family credit guarantees[3]	$ 107	$ 68	$ 318	$ 226
Fixed-rate products Percentage of purchases[4]	96%	89%	95%	91%
Liquidation rate Single-family credit guarantees (annualized)[5]	35%	20%	32%	22%
Management and Guarantee Fee Rate (in bps, annualized):				
Contractual management and guarantee fees[6]	15.7	13.8	14.9	13.7
Amortization of delivery fees	10.8	6.5	9.7	5.7
Segment Earnings management and guarantee income	26.5	20.3	24.6	19.4
Credit:				
Serious delinquency rate, at end of period	3.37%	3.51%	3.37%	3.51%
REO inventory, at end of period (number of properties)	50,913	59,596	50,913	59,596
Single-family credit losses, in bps (annualized)[7]	69.8	76.3	71.8	71.9
Market:				
Single-family mortgage debt outstanding (total U.S. market, in billions)[8]	$ 10,028	$ 10,224	$ 10,028	$ 10,224
30-year fixed mortgage rate[9]	3.4%	4.0%	3.4%	4.0%

(1) For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 13: SEGMENT REPORTING Table 13.2 Segment Earnings and Reconciliation to GAAP Results.
(2) For a description of our segment adjustments, see NOTE 14: SEGMENT REPORTING Segment Earnings in our 2011 Annual Report.
(3) Based on UPB.
(4) Excludes Other Guarantee Transactions.
(5) Represents principal repayments relating to loans underlying Freddie Mac mortgage-related securities and other guarantee commitments, including those related to our removal of seriously delinquent and modified mortgage loans and balloon/reset mortgage loans out of PC pools.
(6) Results for the 2012 periods include the effect of the legislated 10 basis point increase in guarantee fees that became effective April 1, 2012.
(7) Calculated as the amount of single-family credit losses divided by the sum of the average carrying value of our single-family credit guarantee portfolio and the average balance of our single-family HFA initiative guarantees.
(8) Source: Federal Reserve Flow of Funds Accounts of the United States of America dated September 20, 2012. The outstanding amount for September 30, 2012 reflects the balance as of June 30, 2012.
(9) Based on Freddie Mac s Primary Mortgage Market Survey rate for the last week in the period, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender. This commitment rate applies only to financing on conforming mortgages with LTV ratios of 80%.

Segment Earnings (loss) for our Single-family Guarantee segment improved to $(0.2) billion and $(1.6) billion for the three and nine months ended September 30, 2012, respectively, compared to $(3.5) billion and $(7.8) billion for the three and nine months ended September 30, 2011, respectively, primarily due to a decline in Segment Earnings provision for credit losses.

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The table below provides summary information about the composition of Segment Earnings (loss) for this segment for the nine months ended September 30, 2012 and 2011.

Table 14 Segment Earnings Composition Single-Family Guarantee Segment

	Nine Months Ended September 30, 2012				
	Segment Earnings Management and Guarantee Income[1]		Credit Expenses[2]		
	Amount	Average Rate[3]	Amount	Average Rate[3]	Net Amount[4]
	(dollars in millions, rates in bps)				
Year of origination:[5]					
2012	$ 245	23.0	$ (78)	6.6	$ 167
2011	566	27.3	(174)	8.5	392
2010	582	27.9	(255)	11.8	327
2009	562	28.5	(211)	10.7	351
2008	253	26.9	(176)	23.6	77
2007	238	19.7	(1,161)	107.8	(923)
2006	151	19.5	(767)	95.9	(616)
2005	174	19.7	(743)	81.5	(569)
2004 and prior	374	20.8	(110)	5.6	264
Total	$ 3,145	24.6	$ (3,675)	28.6	$ (530)
Administrative expenses					(653)
Net interest income (expense)					(94)
Other non-interest income and expenses, net					(320)
Segment Earnings (loss), net of taxes					$ (1,597)

	Nine Months Ended September 30, 2011				
	Segment Earnings Management and Guarantee Income[1]		Credit Expenses[2]		
	Amount	Average Rate[3]	Amount	Average Rate[3]	Net Amount[4]
	(dollars in millions, rates in bps)				
Year of origination:[5]					
2011	$ 202	19.9	$ (45)	5.7	$ 157
2010	555	21.2	(220)	8.1	335
2009	498	18.7	(256)	9.3	242
2008	292	23.1	(870)	82.7	(578)
2007	283	18.6	(3,354)	239.2	(3,071)
2006	172	17.4	(2,606)	249.2	(2,434)
2005	194	17.1	(1,617)	135.0	(1,423)
2004 and prior	435	18.3	(728)	27.7	(293)
Total	$ 2,631	19.4	$ (9,696)	71.4	$ (7,065)
Administrative expenses					(670)
Net interest income (expense)					(28)
Other non-interest income and expenses, net					12
Segment Earnings (loss), net of taxes					$ (7,751)

(1) Includes amortization of delivery fees of $1.2 billion and $769 million for the nine months ended September 30, 2012 and 2011, respectively.
(2) Consists of the aggregate of the Segment Earnings provision for credit losses and Segment Earnings REO operations expense. Historical rates of average credit expenses may not be representative of future results. In the first quarter of 2012, we enhanced our method of allocating credit expenses by loan origination year. Prior period amounts have been revised to conform to the current period presentation.
(3) Calculated as the annualized amount of Segment Earnings management and guarantee income or credit expenses, respectively, divided by the sum of the average carrying values of the single-family credit guarantee portfolio and the average balance of our single-family HFA initiative guarantees. Segment Earnings management and guarantee income and average rate for the nine months ended September 30, 2012 include the effect of the legislated 10 basis point increase in guarantee fees that became effective April 1, 2012.
(4) Calculated as Segment Earnings management and guarantee income less credit expenses.
(5) Segment Earnings management and guarantee income is presented by year of guarantee origination, whereas credit expenses are presented based on year of loan origination.

As of September 30, 2012, loans originated after 2008 have, on a cumulative basis, provided management and guarantee income that has exceeded the credit-related and administrative expenses associated with these loans. We currently believe our management and guarantee fee rates for guarantee issuances after 2008, when coupled with the higher credit quality of the mortgages within these new guarantee issuances, will provide management and guarantee fee income (excluding the amounts associated with the Temporary Payroll Tax Cut Continuation Act of 2011), over the long term, that exceeds our expected credit-related and administrative expenses associated with the underlying loans. Nevertheless, various factors, such as continued high unemployment rates, future declines in home prices, or negative impacts of HARP loans (which may not perform as well as other refinance mortgages, due in part to the high LTV ratios of the loans), could require us to incur expenses on these loans beyond our current expectations.

Based on our historical experience, we expect that the performance of the loans in an individual origination year will vary over time. The aggregate UPB of the loans from an origination year will decline over time due to repayments, refinancing, and other liquidation events, resulting in declining management and guarantee fee income from the loans in that origination year in future periods. In addition, we expect that the credit-related expenses related to the remaining loans in the origination year will increase over time, as some borrowers experience financial difficulties and default on their loans. As a result, there will likely be periods when an origination year is not profitable, though it may remain profitable on a cumulative basis.

Our management and guarantee income associated with guarantee issuances in 2005 through 2008 has not been adequate to cover the credit and administrative expenses associated with such loans, on a cumulative basis, primarily due to the high rate of defaults on the loans originated in those years coupled with the high volume of refinancing of these loans that has occurred since 2008. High levels of refinancing and delinquency since 2008 have significantly reduced the balance of performing loans from those years that remain in our portfolio and consequently reduced management and guarantee income associated with loans originated in 2005 through 2008 (we do not recognize Segment Earnings management and guarantee income on non-accrual mortgage loans). We also believe that the management and guarantee fees associated with originations after 2008 will not be sufficient to offset the future expenses associated with our 2005 to 2008 guarantee issuances for the foreseeable future. Consequently, we will likely report a net loss for the Single-family Guarantee segment for the full-year of 2012.

Segment Earnings management and guarantee income increased during the three and nine months ended September 30, 2012, compared to the three and nine months ended September 30, 2011, respectively, primarily due to an increase in amortization of delivery fees. This was driven by a higher volume of delivery fees in recent periods and a lower interest rate environment during the nine months ended September 30, 2012, which increased refinance activity.

Effective April 1, 2012, at the direction of FHFA, we increased the guarantee fee on single-family residential mortgages sold to Freddie Mac by 10 basis points. Under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this legislated increase are being remitted to Treasury to fund the payroll tax cut. We pay such fees to Treasury on a quarterly basis. The receipt of these fees is recognized within Segment Earnings management and guarantee income, and the remittance of these fees to Treasury is reported in Segment Earnings non-interest expense. We recognized $34 million of expense in the third quarter of 2012 (and a similar amount of income) associated with the legislated 10 basis point increase to single-family guarantee fees. While we expect these fees to become significant over time, the effect of the legislated 10 basis point increase was not significant to the average rate of our aggregate Segment Earnings management and guarantee income in the third quarter of 2012. As of September 30, 2012, there were approximately 919,000 loans totaling $189.0 billion in UPB in our single-family credit guarantee portfolio that are subject to the 10 basis point increase in guarantee fees associated with this legislation.

In August 2012, FHFA announced that it has directed us and Fannie Mae to further increase our guarantee fees on single-family mortgages sold to us by an average of 10 basis points. The announcement stated that the changes to the guarantee fee pricing represent a step toward encouraging greater participation in the mortgage market by private firms. For commitments on mortgage loans we purchase in cash transactions, the increase was effective starting November 1, 2012. For settlements of mortgage loans exchanged for mortgage-related securities, the increase will be effective December 1, 2012. FHFA stated that these changes to our guarantee fees are also intended to reduce disparities in fee pricing based on customer size, loan term, and certain other factors. In September 2012, FHFA also requested public comment on a proposed approach under which we and Fannie Mae would adjust the guarantee fees charged on single-family mortgages in states where costs related to foreclosure practices are statistically higher than the national average. FHFA stated that it expects to direct us and Fannie Mae to implement these pricing adjustments in 2013.

The UPB of the Single-family Guarantee managed loan portfolio was $1.6 trillion and $1.7 trillion at September 30, 2012 and December 31, 2011, respectively. The annualized liquidation rate on our securitized single-family credit guarantees was approximately 35% and 32% for the three and nine months ended September 30, 2012, respectively, and remained high in the third quarter of 2012 due to recent declines in interest rates and, to a lesser extent, the impact of the expanded HARP initiative, that resulted in significant refinancing activity. Refinance activity also resulted in an increase in our guarantee issuances from $226 billion in the nine months ended September 30, 2011 to $318 billion in the nine months ended

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September 30, 2012. However, we expect the size of our Single-family Guarantee managed loan portfolio will continue to decline during the remainder of 2012.

Refinance volumes represented 79% and 82% of our single-family mortgage purchase volume during the three and nine months ended September 30, 2012, respectively, compared to 67% and 75% of our single-family mortgage purchase volume during the three and nine months ended September 30, 2011, respectively, based on UPB. Relief refinance mortgages comprised approximately 37% and 35% of our total refinance volume during the nine months ended September 30, 2012 and 2011, respectively. Over time, relief refinance mortgages with LTV ratios above 80% (i.e., HARP loans) may not perform as well as other refinance mortgages because the continued high LTV ratios of these loans increase the probability of default. Based on our historical experience, there is an increase in borrower default risk as LTV ratios increase, particularly for loans with LTV ratios above 80%. In addition, HARP loans may not be covered by mortgage insurance for the full excess of their UPB over 80%. Approximately 22% and 13% of our single-family purchase volume in the nine months ended September 30, 2012 and 2011, respectively, were HARP loans. For more information about HARP loans and our relief refinance mortgage initiative, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program.*

The credit quality of the single-family loans we acquired beginning in 2009 (excluding HARP loans and other relief refinance mortgages) is significantly better than that of loans we acquired from 2005 through 2008, as measured by original LTV ratios, FICO scores, and the proportion of loans underwritten with fully documented income. HARP loans represented 9% of the UPB of our single-family credit guarantee portfolio as of September 30, 2012. Including HARP loans, mortgages originated after 2008 represent 60% of the UPB of our single-family credit guarantee portfolio as of September 30, 2012, and their composition of that portfolio continues to grow. Relief refinance mortgages of all LTV ratios comprised approximately 16% and 11% of the UPB in our total single-family credit guarantee portfolio at September 30, 2012 and December 31, 2011, respectively.

Provision for credit losses for the Single-family Guarantee segment declined to $0.9 billion and $3.6 billion for the three and nine months ended September 30, 2012, respectively, compared to $4.0 billion and $9.2 billion for the three and nine months ended September 30, 2011, respectively The decrease in Segment Earnings provision for credit losses for the three and nine months ended September 30, 2012 compared to the respective periods in 2011 primarily reflects declines in the volume of new seriously delinquent loans (largely due to a decline in the size of our single-family credit guarantee portfolio originated in 2005 through 2008), and lower estimates of incurred loss due to the positive impact of an increase in national home prices. Segment Earnings provision for credit losses in the third quarter of 2012 also includes approximately $0.2 billion related to the classification of single-family loans discharged in Chapter 7 bankruptcy as TDRs. Prior to the third quarter of 2012, we did not classify loans discharged in Chapter 7 bankruptcy as TDRs (unless they were already classified as such for other reasons) and we measured those loans collectively for impairment. In the third quarter of 2012, we classified all such loans as TDRs and measured them for impairment on an individual basis. This change represents the correction of an error that was not material to our previously reported financial statements. At September 30, 2012, the majority of these loans were not seriously delinquent and, in many cases, the borrower was continuing to make timely payments. The Segment Earnings provision for credit losses in the third quarter of 2011 reflected a decline in the volume of early stage delinquencies and seriously delinquent loans, while the provision for credit losses in the nine months ended September 30, 2011 compared to 2010 reflected declines in the rate at which delinquent loans transition into serious delinquency. See Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio for certain quarterly credit statistics for our single-family credit guarantee portfolio.

Single-family credit losses as a percentage of the average balance of the single-family credit guarantee portfolio and HFA-related guarantees were 72 basis points for both the nine months ended September 30, 2012 and 2011. Charge-offs, net of recoveries, associated with single-family loans were $9.1 billion and $9.3 billion in the nine months ended September 30, 2012 and 2011, respectively. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk* for further information on our single-family credit guarantee portfolio, including credit performance, charge-offs, and our non-performing assets.

The serious delinquency rate on our single-family credit guarantee portfolio was 3.37% and 3.58% as of September 30, 2012 and December 31, 2011, respectively, and declined during the nine months ended September 30, 2012 primarily due to a slowdown in new serious delinquencies, and the impact of our loss mitigation efforts, including short sales. Our serious delinquency rate remains high compared to the rates we experienced in years prior to 2009, due to the continued weakness in home prices, persistently high unemployment, extended foreclosure timelines, and continued challenges faced by servicers in processing large volumes of problem loans including adjusting their processes to accommodate changes in servicing standards, such as those dictated by legislative or regulatory authorities. In addition, our serious delinquency rate was higher than it otherwise would have been due to the decline in the size of our single-family credit guarantee portfolio during the nine months ended September 30, 2012 because this rate is calculated on a smaller number of loans at the end of the period.

REO operations income (expense) for the Single-family Guarantee segment was $40 million for the third quarter of 2012, as compared to $(226) million during the third quarter of 2011 and $(98) million in the nine months ended September 30, 2012 compared to $(518) million for the nine months ended September 30, 2011. The decline in expense for the 2012 periods was primarily due to improving home prices in certain geographical areas with significant REO activity, which resulted in gains on disposition of properties as well as lower write-downs of single-family REO inventory. Recoveries on REO properties also declined during the three and nine months ended September 30, 2012, compared to the same periods of 2011. Lower recoveries on REO properties were primarily due to lower REO disposition volume, reduced recoveries from mortgage insurers, and a decline in reimbursements of losses from seller/servicers associated with repurchase requests.

Our REO inventory (measured in number of properties) declined 16% from December 31, 2011 to September 30, 2012 as the volume of single-family REO dispositions exceeded the volume of single-family REO acquisitions. Although there was an improvement in REO disposition severity during the nine months ended September 30, 2012, the REO disposition severity ratios on sales of our REO inventory remain high as compared to periods before 2008. Likewise, the cumulative declines in property values have negatively impacted the proceeds and loss severity associated with our short sale transactions. We believe the volume of our single-family REO acquisitions during the nine months ended September 30, 2012 was less than it otherwise would have been due to: (a) the length of the foreclosure process, particularly in states that require a judicial foreclosure process; and (b) resource constraints on foreclosure activities for five larger servicers involved in a recent settlement with a coalition of state attorneys general and federal agencies. In addition, our loss mitigation efforts, including short sales, are affecting our REO acquisition volumes. As a result of these efforts, fewer loans are being resolved through foreclosure and subsequent REO sales.

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Multifamily

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

Table 15 Segment Earnings and Key Metrics Multifamily[1]

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 334	$ 314	$ 982	$ 897
(Provision) benefit for credit losses	40	37	81	110
Non-interest income (loss):				
Management and guarantee income	38	32	107	90
Net impairment of available-for-sale securities recognized in earnings	(29)	(27)	(64)	(344)
Gains (losses) on sale of mortgage loans	110	46	202	286
Gains (losses) on mortgage loans recorded at fair value	205	(142)	326	(123)
Other non-interest income (loss)	77	12	305	55
Total non-interest income (loss)	401	(79)	876	(36)
Non-interest expense:				
Administrative expenses	(63)	(57)	(176)	(163)
REO operations income (expense)	9	5	6	13
Other non-interest expense	(9)	(15)	(107)	(56)
Total non-interest expense	(63)	(67)	(277)	(206)
Segment Earnings before income tax benefit (expense)	712	205	1,662	765
Income tax benefit (expense)	(2)		(10)	(1)
Segment Earnings, net of taxes	710	205	1,652	764
Total other comprehensive income (loss), net of taxes	686	(1,301)	1,430	46
Comprehensive income	$ 1,396	$ (1,096)	$ 3,082	$ 810
Key metrics:				
Balances and Volume:				
Average balance of Multifamily loan portfolio	$ 80,627	$ 82,128	$ 81,665	$ 83,875
Average balance of Multifamily guarantee portfolio	$ 45,060	$ 31,283	$ 41,024	$ 28,566
Average balance of Multifamily investment securities portfolio	$ 53,989	$ 60,868	$ 55,926	$ 61,873
Multifamily new loan purchase and other guarantee commitment volume	$ 6,810	$ 4,888	$ 19,222	$ 12,449
Multifamily units financed from new volume activity	109,080	80,929	302,474	207,821
Multifamily Other Guarantee Transaction issuance	$ 3,239	$ 2,096	$ 11,687	$ 8,688
Yield and Rate:				
Net interest yield Segment Earnings basis (annualized)	0.99%	0.87%	0.95%	0.82%
Average Management and guarantee fee rate, in bps (annualized)[2]	34.1	41.5	36.2	43.5
Credit:				
Delinquency rate:				
Credit-enhanced loans, at period end	0.45%	0.77%	0.45%	0.77%
Non-credit-enhanced loans, at period end	0.18%	0.18%	0.18%	0.18%
Total delinquency rate, at period end[3]	0.27%	0.33%	0.27%	0.33%
Allowance for loan losses and reserve for guarantee losses, at period end	$ 453	$ 656	$ 453	$ 656
Allowance for loan losses and reserve for guarantee losses, in bps	35.8	57.6	35.8	57.6
Credit losses (gains), in bps (annualized)[4]	(1.7)	4.0	0.6	5.3
REO inventory, at net carrying value	$ 43	$ 91	$ 43	$ 91
REO inventory, at period end (number of properties)	6	20	6	20

(1) For reconciliations of Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 13: SEGMENT REPORTING Table 13.2 Segment Earnings and Reconciliation to GAAP Results.
(2) Represents Multifamily Segment Earnings management and guarantee income, excluding prepayment and certain other fees, divided by the sum of the average balance of the multifamily guarantee portfolio and the average balance of guarantees associated with the HFA initiative, excluding certain bonds under the NIBP.
(3) See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* *Multifamily Mortgage Credit Risk* for information on our reported multifamily delinquency rate.
(4) Calculated as the amount of multifamily credit losses divided by the sum of the average carrying value of our multifamily loan portfolio and the average balance of the multifamily guarantee portfolio, including multifamily HFA initiative guarantees.

Segment Earnings for our Multifamily segment increased to $0.7 billion and $1.7 billion for the three and nine months ended September 30, 2012, respectively, compared to $0.2 billion and $0.8 billion for the three and nine months ended September 30, 2011, respectively. The improvements in the 2012 periods were primarily due to increased gains on mortgage loans recorded at fair value in the three and nine months ended September 30, 2012 compared to the same periods in 2011. Segment Earnings were also higher in the nine months ended September 30, 2012 compared to the 2011 period due to lower impairments of available-for-sale securities and improvement in other non-interest income during 2012.

Comprehensive income for our Multifamily segment was $1.4 billion and $3.1 billion for the three and nine months ended September 30, 2012 respectively, consisting of: (a) Segment Earnings of $0.7 billion and $1.7 billion, respectively; and (b) $0.7 billion and $1.4 billion, respectively, of total other comprehensive income (loss), which was mainly attributable to favorable changes in fair value of available-for-sale securities during the three and nine month ended September 30, 2012. This increase was driven by favorable non-interest rate-related market spread movements in 2012.

Our multifamily loan purchase and guarantee volume increased to $6.8 billion for the third quarter of 2012, compared to $4.9 billion for the third quarter of 2011, representing an increase of 39%. We expect an increase in our purchase and guarantee volumes for the full-year of 2012 when compared to 2011 levels since demand for multifamily financing remains strong as historically low interest rates combined with positive multifamily market fundamentals are encouraging borrower interest. We completed Other Guarantee Transactions of $3.2 billion and $11.7 billion in UPB of multifamily loans in the three and nine months ended September 30, 2012, respectively, as compared to $2.1 billion and $8.7 billion in the three and nine months ended September 30, 2011, respectively. The UPB of the total multifamily portfolio increased slightly to $179.5 billion at September 30, 2012 from $176.7 billion at December 31, 2011. During the first nine months of 2012, increased issuances of new guarantees were partially offset by higher liquidations of our multifamily investment securities and multifamily loan portfolios.

Segment Earnings net interest income increased by $85 million, or 9%, to $982 million, in the nine months ended September 30, 2012 from $897 million in the nine months ended September 30, 2011, primarily due to the cumulative effect of new business volumes since 2008, which have higher yields relative to allocated funding costs. Net interest yield was 95 and 82 basis points for the nine months ended September 30, 2012 and 2011, respectively.

Segment Earnings non-interest income (loss) was $401 million and $(79) million for the three months ended September 30, 2012 and 2011, respectively, and was $876 million and $(36) million in the nine months ended September 30, 2012 and 2011, respectively. The improvement during the three and nine months ended September 30, 2012, compared to the same periods in 2011, was primarily driven by gains recognized on mortgage loans recorded at fair value in the three and nine months ended September 30, 2012, compared to losses during the same period in 2011. Higher gains on mortgage loan fair values in the nine months ended September 30, 2012, reflect favorable market spread movements and higher amounts of loans held for subsequent securitization as compared to the same period in 2011. Segment Earnings gains (losses) on mortgage loans recorded at fair value are presented net of changes in fair value due to changes in interest rates. Segment Earnings non-interest income also benefitted in the three and nine months ended September 30, 2012 from gains on the disposition of certain previously-impaired available-for-sale securities as compared to disposition losses on such securities during the comparable 2011 periods due to improved market pricing and overall improvement in the market for CMBS.

Our Multifamily Segment Earnings management and guarantee income increased 19% in the nine months ended September 30, 2012, compared to same period in 2011, reflecting the effect of an increased volume of Other Guarantee Transactions in recent periods. The average management and guarantee fee rate on our guarantee portfolio declined to 36.2 basis points for the nine months ended September 30, 2012 from 43.5 basis points for the nine months ended September 30, 2011, reflecting the effect of an increased volume of Other Guarantee Transactions, which have lower credit risk associated with our guarantee (and thus we receive a lower rate) relative to other issued guarantees because these transactions contain significant levels of credit enhancement through subordination.

Our Multifamily segment recognized a benefit for credit losses of $40 million and $81 million in the three and nine months ended September 30, 2012, respectively, compared to a benefit for credit losses of $37 million and $110 million in the three and nine months ended September 30, 2011, respectively. Our loan loss reserves associated with our multifamily mortgage portfolio were $453 million and $545 million as of September 30, 2012 and December 31, 2011, respectively. The decline in our loan loss reserves during the first nine months of 2012 was primarily caused by a decrease in our general reserve, which is the portion of our reserves associated with loans that are collectively evaluated for impairment, based on improvement in the expected performance of the related loans.

As a result of underwriting standards and practices, which we believe are prudent, and positive multifamily market fundamentals, the credit quality of the multifamily mortgage portfolio remains strong. Our portfolio performance continued to experience minimal credit losses due to low foreclosure activity and an increase in net operating income of the underlying multifamily properties in most regional areas. Multifamily credit losses as a percentage of the combined average balance of our multifamily loan and guarantee portfolios were 0.6 and 5.3 basis points in the nine months ended September 30, 2012 and 2011, respectively. The delinquency rate for loans in the multifamily mortgage portfolio was 0.27% and 0.22%, as of September 30, 2012 and December 31, 2011, respectively. As of September 30, 2012, more than half of the multifamily loans that were two or more monthly payments past due, measured on a UPB basis, had credit enhancements that we currently believe will mitigate our expected losses on those loans and guarantees. We expect our multifamily delinquency rate to remain low in the near term. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* *Multifamily Mortgage Credit Risk* for further information about our reported multifamily delinquency rates and credit enhancements on multifamily loans. For further information on delinquencies, including geographical and other concentrations, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS.

CONSOLIDATED BALANCE SHEETS ANALYSIS

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

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

Cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, and other liquid assets discussed in Investments in Securities *Non-Mortgage-Related Securities*, are important to our cash flow and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. We use these assets to help manage recurring cash flows and meet our other cash management needs. We consider federal funds sold to be overnight unsecured trades executed with commercial banks that are members of the Federal Reserve System. Securities purchased under agreements to resell principally consist of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities.

The short-term assets on our consolidated balance sheets also include those related to our consolidated VIEs, which consisted primarily of restricted cash and cash equivalents and securities purchased under agreements to resell at September 30, 2012. These short-term assets related to our consolidated VIEs increased by $1.8 billion from December 31, 2011 to September 30, 2012, primarily due to an increase in the level of refinancing activity.

Excluding amounts related to our consolidated VIEs, we held $7.8 billion and $28.4 billion of cash and cash equivalents, no federal funds sold, and $24.8 billion and $12.0 billion of securities purchased under agreements to resell at September 30, 2012 and December 31, 2011, respectively. The aggregate decrease in these assets was primarily driven by a decline in funding needs for debt redemptions. Excluding amounts related to our consolidated VIEs, we held on average $18.1 billion and $22.1 billion of cash and cash equivalents and $29.4 billion and $25.1 billion of federal funds sold and securities purchased under agreements to resell during the three and nine months ended September 30, 2012, respectively.

For information regarding our liquidity management practices and policies, see LIQUIDITY AND CAPITAL RESOURCES.

Investments in Securities

The table below provides detail regarding our investments in securities as of September 30, 2012 and December 31, 2011. The table does not include our holdings of single-family PCs and certain Other Guarantee Transactions. For information on our holdings of such securities, see Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.

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Table 16 Investments in Securities

	Fair Value September 30, 2012	Fair Value December 31, 2011
	(in millions)	
Investments in securities:		
Available-for-sale:		
Mortgage-related securities:		
Freddie Mac[1]	$ 63,680	$ 81,092
Fannie Mae	16,537	20,322
Ginnie Mae	219	249
CMBS	52,375	55,663
Subprime	26,820	27,999
Option ARM	5,624	5,865
Alt-A and other	11,002	10,879
Obligations of states and political subdivisions	6,527	7,824
Manufactured housing	720	766
Total available-for-sale mortgage-related securities	183,504	210,659
Total investments in available-for-sale securities	183,504	210,659
Trading:		
Mortgage-related securities:		
Freddie Mac[1]	11,501	16,047
Fannie Mae	11,398	15,165
Ginnie Mae	140	156
Other	148	164
Total trading mortgage-related securities	23,187	31,532
Non-mortgage-related securities:		
Asset-backed securities	543	302
Treasury bills		100
Treasury notes	21,554	24,712
FDIC-guaranteed corporate medium-term notes	1,312	2,184
Total trading non-mortgage-related securities	23,409	27,298
Total investments in trading securities	46,596	58,830
Total investments in securities	$ 230,100	$ 269,489

(1) For information on the types of instruments that are included, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities in our 2011 Annual Report.

Non-Mortgage-Related Securities

Our investments in non-mortgage-related securities provide an additional source of liquidity. We held investments in non-mortgage-related securities classified as trading of $23.4 billion and $27.3 billion as of September 30, 2012 and December 31, 2011, respectively. While balances of these securities may fluctuate from period to period, we continue to meet required liquidity and contingency levels.

Mortgage-Related Securities

Our investments in mortgage-related securities consist of securities issued by Fannie Mae, Ginnie Mae, and other financial institutions. We also invest in our own mortgage-related securities. However, the single-family PCs and certain Other Guarantee Transactions we purchase as investments are not accounted for as investments in securities because we recognize the underlying mortgage loans on our consolidated balance sheets through consolidation of the related trusts.

The table below provides the UPB of our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets. The table below does not include our holdings of our own single-family PCs and certain Other Guarantee Transactions. For further information on our holdings of such securities, see Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.

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Table 17 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2012			December 31, 2011		
	Fixed Rate	Variable Rate (1)	Total	Fixed Rate	Variable Rate (1)	Total
			(in millions)			
Freddie Mac mortgage-related securities: (2)						
Single-family	$ 55,123	$ 8,461	$ 63,584	$ 72,795	$ 9,753	$ 82,548
Multifamily	683	1,643	2,326	1,216	1,792	3,008
Total Freddie Mac mortgage-related securities	55,806	10,104	65,910	74,011	11,545	85,556
Non-Freddie Mac mortgage-related securities:						
Agency securities: (3)						
Fannie Mae:						
Single-family	12,165	13,226	25,391	16,543	15,998	32,541
Multifamily	36	63	99	52	76	128
Ginnie Mae:						
Single-family	217	94	311	253	104	357
Multifamily	15		15	16		16
Total Non-Freddie Mac agency securities	12,433	13,383	25,816	16,864	16,178	33,042
Non-agency mortgage-related securities:						
Single-family: (4)						
Subprime	322	45,188	45,510	336	48,696	49,032
Option ARM		12,477	12,477		13,949	13,949
Alt-A and other	1,876	13,438	15,314	2,128	14,662	16,790
CMBS	18,257	30,921	49,178	19,735	34,375	54,110
Obligations of states and political subdivisions (5)	6,338	20	6,358	7,771	22	7,793
Manufactured housing	758	128	886	831	129	960
Total non-agency mortgage-related securities (6)	27,551	102,172	129,723	30,801	111,833	142,634
Total UPB of mortgage-related securities	$ 95,790	$ 125,659	221,449	$ 121,676	$ 139,556	261,232
Premiums, discounts, deferred fees, impairments of UPB and other basis adjustments			(12,919)			(12,363)
Net unrealized (losses) on mortgage-related securities, pre-tax			(1,839)			(6,678)
Total carrying value of mortgage-related securities			$ 206,691			$ 242,191

(1) Variable-rate mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral.
(2) When we purchase REMICs and Other Structured Securities and certain Other Guarantee Transactions that we have issued, we account for these securities as investments in debt securities as we are investing in the debt securities of a non-consolidated entity. We do not consolidate our resecuritization trusts unless we are deemed to be the primary beneficiary of such trusts. We are subject to the credit risk associated with the mortgage loans underlying our Freddie Mac mortgage-related securities. Mortgage loans underlying our issued single-family PCs and certain Other Guarantee Transactions are recognized on our consolidated balance sheets as held-for-investment mortgage loans, at amortized cost. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities in our 2011 Annual Report for further information.
(3) Agency securities are generally not separately rated by nationally recognized statistical rating organizations, but have historically been viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.
(4)

For information about how these securities are rated, see Table 23 Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS.

(5) Consists of housing revenue bonds. Approximately 37% of these securities held at both September 30, 2012 and December 31, 2011, were AAA-rated as of those dates, based on the UPB and the lowest rating available.

(6) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 21% of total non-agency mortgage-related securities held at both September 30, 2012 and December 31, 2011, were AAA-rated as of those dates, based on the UPB and the lowest rating available.

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The table below provides the UPB and fair value of our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets.

T able 18 Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2012		December 31, 2011	
	UPB	Fair Value	UPB	Fair Value
	(in millions)			
Agency pass-through securities(1)	$ 18,972	$ 20,688	$ 24,283	$ 26,193
Agency REMICs and Other Structured Securities:				
Interest-only securities(2)		2,168		2,863
Principal-only securities(3)	2,638	2,532	3,569	3,344
Inverse floating-rate securities(4)	3,515	5,029	4,839	6,826
Other Structured Securities	66,601	73,058	85,907	93,805
Total agency securities	91,726	103,475	118,598	133,031
Non-agency securities(5)	129,723	103,216	142,634	109,160
Total mortgage-related securities	$ 221,449	$ 206,691	$ 261,232	$ 242,191

(1) Represents an undivided beneficial interest in trusts that hold pools of mortgages.
(2) Represents securities where the holder receives only the interest cash flows.
(3) Represents securities where the holder receives only the principal cash flows.
(4) Represents securities where the holder receives interest cash flows that change inversely with the reference rate (i.e., higher cash flows when interest rates are low and lower cash flows when interest rates are high). Additionally, these securities receive a portion of principal cash flows associated with the underlying collateral.
(5) Includes fair values of $3 million and $2 million of interest-only securities at September 30, 2012 and December 31, 2011, respectively.

The total UPB of our investments in mortgage-related securities on our consolidated balance sheets decreased from $261.2 billion at December 31, 2011 to $221.4 billion at September 30, 2012, while the fair value of these investments decreased from $242.2 billion at December 31, 2011 to $206.7 billion at September 30, 2012. The reduction in UPB resulted from liquidations and reduced purchase activities, consistent with our efforts to reduce the size of our mortgage-related investments portfolio, as described in EXECUTIVE SUMMARY Limits on Investment Activity and Our Mortgage-Related Investments Portfolio.

The table below summarizes our mortgage-related securities purchase activity for the three and nine months ended September 30, 2012 and 2011. This activity includes purchases of single-family PCs and certain Other Guarantee Transactions issued by trusts that we consolidated. Our purchases of single-family PCs and certain Other Guarantee Transactions issued by trusts that we consolidated are recorded as an extinguishment of debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

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Table 19 Mortgage-Related Securities Purchase Activity[1]

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	(in millions)			
Non-Freddie Mac mortgage-related securities purchased for resecuritization:				
Ginnie Mae Certificates	$ 5	$ 1	$ 10	$ 73
Non-agency mortgage-related securities purchased for Other Guarantee Transactions	3,240	2,088	11,673	8,600
Total non-Freddie Mac mortgage-related securities purchased for resecuritization	3,245	2,089	11,683	8,673
Non-Freddie Mac mortgage-related securities purchased as investments in securities:				
Agency securities:				
Fannie Mae:				
Fixed-rate		1,550		4,750
Variable-rate		927	50	1,155
Total agency securities		2,477	50	5,905
Non-agency mortgage-related securities:				
CMBS:				
Fixed-rate			10	14
Variable-rate	23	6	58	52
Total non-agency mortgage-related securities	23	6	68	66
Total non-Freddie Mac mortgage-related securities purchased as investments in securities	23	2,483	118	5,971
Total non-Freddie Mac mortgage-related securities purchased	$ 3,268	$ 4,572	$ 11,801	$ 14,644
Freddie Mac mortgage-related securities purchased:				
Single-family:				
Fixed-rate	$ 21,649	$ 23,607	$ 34,115	$ 84,590
Variable-rate	1,317	587	4,452	3,591
Multifamily:				
Fixed-rate		125	39	176
Variable-rate		52		117
Total Freddie Mac mortgage-related securities purchased	$ 22,966	$ 24,371	$ 38,606	$ 88,474

(1) Based on UPB. Excludes mortgage-related securities traded but not yet settled.

During the three months ended September 30, 2012, our purchases of Freddie Mac mortgage-related securities primarily related to our securitization of mortgage loans that we had purchased for cash, and our retention of the PCs created from such securitizations. Our purchases during the three and nine months ended September 30, 2011 reflected in Table 19 Mortgage-Related Securities Purchase Activity are attributed primarily to dollar roll transactions, primarily used to support the market and pricing of our PCs. When these transactions involve our consolidated PC trusts, the purchase and sale represents an extinguishment and issuance of debt securities, respectively, and impacts our net interest income and recognition of gain or loss on the extinguishment of debt on our consolidated statements of comprehensive income. These transactions can cause short-term fluctuations in the balance of our mortgage-related investments portfolio. For more information, see EXECUTIVE SUMMARY Limits on Investment Activity and Our Mortgage-Related Investments Portfolio in this Form 10-Q and BUSINESS Our Business Segments *Investments Segment PC Support Activities* and RISK FACTORS Competitive and Market Risks *Any decline in the price performance of or demand for our PCs could have an adverse effect on the volume and profitability of our new single-family guarantee* *business* in our 2011 Annual Report.

Unrealized Losses on Available-For-Sale Mortgage-Related Securities

At September 30, 2012, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were $15.0 billion, compared to $20.1 billion at December 31, 2011. The decrease was primarily due to fair value gains related to: (a) the movement of our single-family non-agency mortgage-related securities with unrealized losses towards maturity; (b) the impact of spread tightening on our CMBS; and (c) the impact of declining interest rates. We believe the unrealized losses related to these securities at September 30, 2012 were mainly attributable to poor underlying collateral performance, limited liquidity and large risk premiums in the market for residential non-agency mortgage-related securities. All available-for-sale securities in an unrealized loss position are evaluated to determine if the impairment is other-than-temporary. See Total Equity (Deficit) and NOTE 7: INVESTMENTS IN SECURITIES for additional information regarding unrealized losses on our available-for-sale securities.

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

As discussed below, 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 *Mortgage Credit Risk*.

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 two tables below present 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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T able 20 Non-Agency Mortgage-Related Securities Backed by Subprime First Lien, Option ARM, and Alt-A Loans and Certain Related Credit Statistics [(1)]

	9/30/2012	6/30/2012	As of 3/31/2012 (dollars in millions)	12/31/2011	9/30/2011
UPB:					
Subprime first lien [(2)]	$ 45,166	$ 46,306	$ 47,478	$ 48,644	$ 49,794
Option ARM	12,477	12,958	13,508	13,949	14,351
Alt-A [(3)]	13,055	13,471	13,885	14,260	14,643
Gross unrealized losses, pre-tax: [(4)]					
Subprime first lien [(2)]	$ 10,464	$ 12,810	$ 12,661	$ 13,401	$ 14,132
Option ARM	2,502	2,997	2,909	3,169	3,216
Alt-A [(3)]	1,488	2,082	2,094	2,612	2,468
Present value of expected future credit losses: [(5)]					
Subprime first lien [(2)]	$ 7,129	$ 6,571	$ 7,325	$ 6,746	$ 5,414
Option ARM	3,442	3,296	3,908	4,251	4,434
Alt-A [(3)]	1,699	1,956	2,237	2,235	2,204
Collateral delinquency rate: [(6)]					
Subprime first lien [(2)]	39%	40%	42%	42%	42%
Option ARM	40	42	43	44	44
Alt-A [(3)]	24	24	25	25	25
Average credit enhancement: [(7)]					
Subprime first lien [(2)]	17%	19%	20%	21%	22%
Option ARM	4	5	6	7	8
Alt-A [(3)]	5	5	6	7	7
Cumulative collateral loss: [(8)]					
Subprime first lien [(2)]	25%	24%	23%	22%	21%
Option ARM	20	19	18	17	16
Alt-A [(3)]	10	9	9	8	8

(1) See *Ratings of Non-Agency Mortgage-Related Securities* for additional information about these securities.
(2) Excludes non-agency mortgage-related securities backed exclusively by subprime second liens. Certain securities identified as subprime first lien may be backed in part by subprime second-lien loans, as the underlying loans of these securities were permitted to include a small percentage of subprime second-lien loans.
(3) Excludes non-agency mortgage-related securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.
(4) Represents the aggregate of the amount by which amortized cost, after other-than-temporary impairments, exceeds fair value measured at the individual lot level.
(5) 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.
(6) 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.
(7) 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: (a) the total UPB of securities subordinate to the securities we own, divided by (b) 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, overcollateralization and other forms of credit enhancement.
(8) 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 structured to include credit enhancements, particularly through subordination and other structural enhancements.

For purposes of our cumulative credit deterioration analysis, our estimate of the present value of expected future credit losses on our non-agency mortgage-related securities increased to $13.1 billion at September 30, 2012 from $12.8 billion at June 30, 2012. 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 increase in the present value of expected future credit losses was primarily driven by higher estimated defaults on certain of our investments in subprime mortgage-related securities, partially offset by improvements in forecasted home prices over the expected life of our available-for-sale securities.

The investments in non-agency mortgage-related securities we hold backed by subprime, option ARM, and Alt-A loans were 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. During the three and nine months ended September 30, 2012, we continued to experience the erosion of structural credit enhancements on many securities backed by subprime, option ARM, and Alt-A loans due to poor performance of the underlying collateral. For more information, see RISK MANAGEMENT Credit Risk *Institutional Credit Risk Bond Insurers*.

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

	Three Months Ended				
	9/30/2012	6/30/2012	3/31/2012	12/31/2011	9/30/2011
			(in millions)		
Principal repayments and cash shortfalls:[2]					
Subprime:					
Principal repayments	$ 1,149	$ 1,180	$ 1,175	$ 1,159	$ 1,287
Principal cash shortfalls	4	7	6	7	6
Option ARM:					
Principal repayments	$ 269	$ 300	$ 272	$ 298	$ 318
Principal cash shortfalls	211	234	169	103	109
Alt-A and other:					
Principal repayments	$ 393	$ 405	$ 374	$ 385	$ 425
Principal cash shortfalls	101	106	97	80	81

(1) See *Ratings of Non-Agency Mortgage-Related Securities* for additional information about these securities.
(2) In addition to the contractual interest payments, we receive monthly remittances of principal repayments from both the recoveries of liquidated loans and, to a lesser extent, voluntary repayments of the underlying collateral of these securities representing a partial return of our investment in these securities.

Since the beginning of 2007, we have incurred actual principal cash shortfalls of $2.5 billion on impaired non-agency mortgage-related securities, including $327 million and $941 million related to the three and nine months ended September 30, 2012, respectively. 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 currently estimate that the future expected principal and interest shortfalls on non-agency mortgage-related securities we hold will be significantly less than the fair value declines experienced on these securities.

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

The table below provides information about the mortgage-related securities for which we recognized other-than-temporary impairments in earnings.

Table 22 Net Impairment of Available-For-Sale Mortgage-Related Securities Recognized in Earnings

	Net Impairment of Available-For-Sale Securities Recognized in Earnings Three Months Ended				
	9/30/2012	6/30/2012	3/31/2012	12/31/2011	9/30/2011
			(in millions)		
Subprime:[1]					
2006 & 2007	$ 159	$ 51	$ 433	$ 472	$ 29
Other years	1	7	8	8	2
Total subprime	160	58	441	480	31
Option ARM:					
2006 & 2007	62	18	32	40	15
Other years			16	19	4
Total option ARM	62	18	48	59	19

Alt-A:					
2006 & 2007			16	22	29
Other years		1	36	21	10
Total Alt-A		1	52	43	39
Other loans		1	5	3	41
Total subprime, option ARM, Alt-A and other loans	222	78	546	585	130
CMBS	45	19	16	8	27
Manufactured housing		1	2	2	4
Total available-for-sale mortgage-related securities	$ 267	$ 98	$ 564	$ 595	$ 161

(1) Includes all first and second liens.

We recorded net impairment of available-for-sale mortgage-related securities recognized in earnings of $267 million and $929 million during the three and nine months ended September 30, 2012, respectively, compared to $161 million and $1.7 billion during the three and nine months ended September 30, 2011, respectively. We recorded these impairments because our estimate of the present value of expected future credit losses on certain individual securities increased during the periods. These impairments include $222 million and $846 million related to securities backed by subprime, option ARM, and Alt-A and other loans during the three and nine months ended September 30, 2012, respectively, compared to

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$130 million and $1.4 billion during the three and nine months ended September 30, 2011, respectively. During the three and nine months ended September 30, 2011, we recognized the unrealized fair value losses of $27 million and $181 million related to certain investments in CMBS as a net impairment of available-for-sale securities recognized in earnings because we had the intent to sell these securities prior to the recovery of the unrealized losses. We did not recognize any net impairment of available-for-sale securities in earnings during the three months ended September 30, 2012 as a result of an intent to sell available-for-sale securities prior to the recovery of the unrealized losses. For more information, see NOTE 7: INVESTMENTS IN SECURITIES Other-Than-Temporary Impairments on Available-for-Sale Securities.

While it is reasonably possible that collateral losses on our available-for-sale mortgage-related securities where we have not recorded an impairment charge in earnings could exceed our credit enhancement levels, we do not believe that those conditions were likely at September 30, 2012. Based on our conclusion that we do not intend to sell our remaining available-for-sale mortgage-related securities in an unrealized loss position and it is not more likely than not that we will be required to sell these securities before a sufficient time to recover all unrealized losses and our consideration of other available information, we have concluded that the reduction in fair value of these securities was temporary at September 30, 2012 and have recorded these unrealized losses in AOCI.

The credit performance of loans underlying our holdings of non-agency mortgage-related securities has declined since 2007. This decline has been particularly severe for subprime, option ARM, and Alt-A and other loans. Economic factors negatively impacting the performance of our investments in non-agency mortgage-related securities include high unemployment, a large inventory of seriously delinquent mortgage loans and unsold homes, tight credit conditions, and weak consumer confidence during recent years. In addition, subprime, option ARM, and Alt-A and other loans backing the securities we hold have significantly greater concentrations in the states that are undergoing the greatest economic stress, such as California and Florida. Loans in these states undergoing economic stress are more likely to become seriously delinquent and the credit losses associated with such loans are likely to be higher than in other states.

We rely on bond insurance, including secondary coverage, to provide credit protection on some of our investments in non-agency mortgage-related securities. We have determined that there is 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. This uncertainty contributed to the impairments recognized in earnings during the three and nine months ended September 30, 2012 and 2011. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk Bond Insurers* and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers for additional information.

Our assessments concerning other-than-temporary impairment require significant judgment and the use of models, and are subject to potentially significant change as conditions evolve. In addition, changes in the performance of the individual securities and in mortgage market conditions may also affect our impairment assessments. Depending on the structure of the individual mortgage-related security and our estimate of collateral losses relative to the amount of credit support expected to be available for the tranches we own, a change in collateral loss estimates can have a disproportionate impact on the loss estimate for the security. Additionally, servicer performance, loan modification programs and backlogs, bankruptcy reform and other forms of government intervention in the housing market can significantly affect the performance of these securities, including the timing of loss recognition of the underlying loans and thus the timing of losses we recognize on our securities. Impacts related to changes in interest rates may also affect our losses due to the structural credit enhancements on our investments in non-agency mortgage-related securities. The lengthening of the foreclosure timelines that has occurred in recent years can also affect our losses. For example, while defaulted loans remain in the trusts prior to completion of the foreclosure process, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments, rather than absorbing default losses. This may reduce the amount of funds available for the tranches we own. Given the uncertainty of the housing and economic environment, 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 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 internal 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 2011 Annual Report. For more information on how the lengthening of foreclosure timelines could adversely affect the values of, and the losses on, the non-agency mortgage-related securities we hold, see RISK FACTORS Operational Risks *We* *have incurred, and will continue to incur, expenses and we may otherwise be adversely affected by delays and deficiencies in the foreclosure process* in our 2011 Annual Report.

For information regarding our efforts to mitigate losses on our investments in non-agency mortgage-related securities, see RISK MANAGEMENT Credit Risk *Institutional Credit Risk*.

Ratings of Non-Agency Mortgage-Related Securities

The table below shows the ratings of non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans, and CMBS held at September 30, 2012 based on their ratings as of September 30, 2012, as well as those held at December 31, 2011 based on their ratings as of December 31, 2011 using the lowest rating available for each security.

Table 23 Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS

Credit Ratings as of September 30, 2012	UPB	Percentage of UPB	Amortized Cost	Gross Unrealized Losses	Bond Insurance Coverage (1)
			(dollars in millions)		
Subprime loans:					
AAA-rated	$ 345	1%	$ 345	$ (26)	$ 18
Other investment grade	2,233	5	2,202	(153)	370
Below investment grade (2)	42,932	94	34,667	(10,287)	1,515
Total	$ 45,510	100%	$ 37,214	$ (10,466)	$ 1,903
Option ARM loans:					
AAA-rated	$	%	$	$	$
Other investment grade	38		38	(3)	38
Below investment grade (2)	12,439	100	8,055	(2,499)	14
Total	$ 12,477	100%	$ 8,093	$ (2,502)	$ 52
Alt-A and other loans:					
AAA-rated	$ 68	%	$ 68	$ (3)	$ 6
Other investment grade	2,071	14	2,084	(191)	273
Below investment grade (2)	13,175	86	10,268	(1,417)	1,932
Total	$ 15,314	100%	$ 12,420	$ (1,611)	$ 2,211
CMBS:					
AAA-rated	$ 24,190	49%	$ 24,223	$ (6)	$ 41
Other investment grade	22,131	45	22,084	(106)	1,581
Below investment grade (2)	2,857	6	2,710	(259)	1,690
Total	$ 49,178	100%	$ 49,017	$ (371)	$ 3,312
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$ 24,603	20%	$ 24,636	$ (35)	$ 65
Other investment grade	26,473	22	26,408	(453)	2,262
Below investment grade (2)	71,403	58	55,700	(14,462)	5,151
Total	$ 122,479	100%	$ 106,744	$ (14,950)	$ 7,478
Total investments in mortgage-related securities	$ 221,449				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	55%				
Credit Ratings as of December 31, 2011					
Subprime loans:					
AAA-rated	$ 1,000	2%	$ 1,000	$ (115)	$ 23
Other investment grade	2,643	5	2,643	(399)	383
Below investment grade (2)	45,389	93	37,704	(12,894)	1,641
Total	$ 49,032	100%	$ 41,347	$ (13,408)	$ 2,047
Option ARM loans:					
AAA-rated	$	%	$	$	$