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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

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

FreddieMac

Federal Home Loan Mortgage Corporation

(Exact name of registrant as specified in its charter)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act:

Voting Common Stock, no par value per share (OTCQB: FMCC)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCI)
5% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKK)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCG)
5.1% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCH)
5.79% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCK)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCL)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCM)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCN)
5.81% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCO)
6% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCP)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCJ)
5.7% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKP)
Variable Rate, Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCS)
6.42% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCT)
5.9% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKO)
5.57% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKM)
5.66% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKN)
6.02% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKL)
6.55% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKI)
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKJ)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the common stock held by non-affiliates computed by reference to the price at which the common stock was last sold on June 28, 2019 (the last business day of the registrant's most recently completed second fiscal quarter) was $1.7 billion.

As of January 31, 2020, there were 650,059,033 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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Introduction

This Annual Report on Form 10-K 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-K. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-K. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in the **Forward-Looking Statements** *and* **Risk Factors** *sections of this Form 10-K.*

Throughout this Form 10-K, we use certain acronyms and terms that are defined in the **Glossary**. *In addition, throughout this Form 10-K, we refer to the three months ended December 31, 2020, the three months ended December 31, 2019, the three months ended September 30, 2019, the three months ended June 30, 2019, the three months ended March 31, 2019, the three months ended December 31, 2018, the three months ended September 30, 2018, the three months ended June 30, 2018, the three months ended March 31, 2018, and the three months ended December 31, 2017 as "4Q 2020," "4Q 2019," "3Q 2019," "2Q 2019," "1Q 2019," "4Q 2018," "3Q 2018," "2Q 2018," "1Q 2018," and "4Q 2017," respectively.*

ABOUT FREDDIE MAC

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We do this primarily by purchasing residential mortgage loans originated by lenders. In most instances, we package these loans into guaranteed mortgage-related securities, which are sold in the global capital markets and transfer interest-rate and liquidity risks to third-party investors. In addition, we transfer mortgage credit risk exposure to third-party investors through our credit risk transfer programs, which include securities- and insurance-based offerings. We also invest in mortgage loans and mortgage-related securities. We do not originate loans or lend money directly to mortgage borrowers.

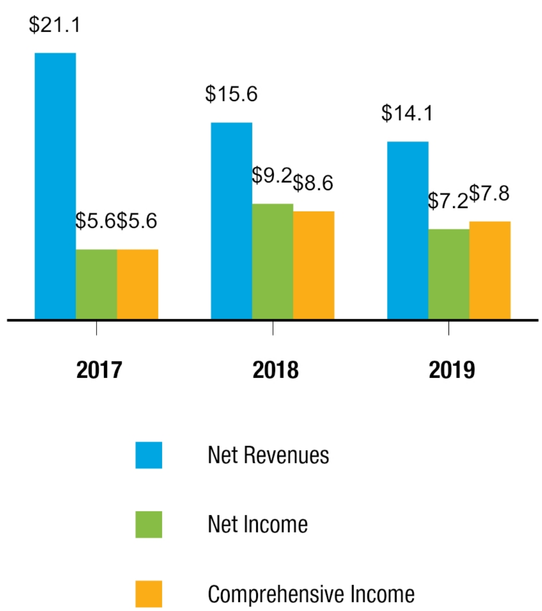
We support the U.S. housing market and the overall economy by enabling America's families to access mortgage loan funding with better terms and by providing consistent liquidity to the multifamily mortgage market. We have helped many distressed borrowers keep their homes or avoid foreclosure. We are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

Business Results

Consolidated Financial Results

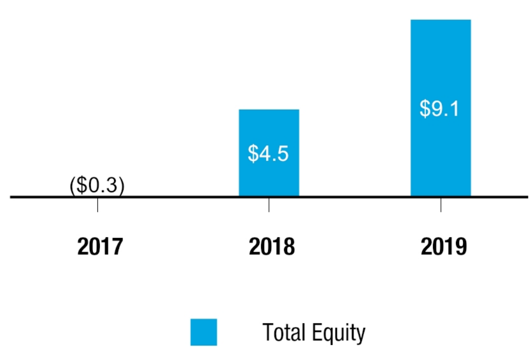
Net Revenues, Net Income, and Comprehensive Income

(In billions)



Total Equity as of December 31,

(In billions)



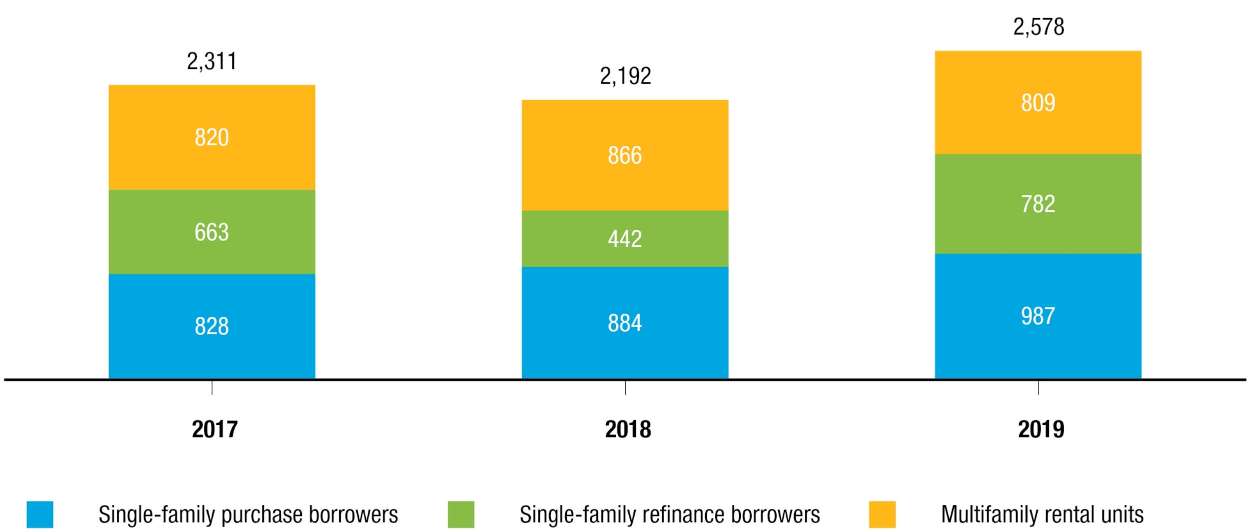
Key Drivers:

- **2019 vs. 2018**
  - Comprehensive income was $7.8 billion for 2019, driven by strong business performance in a declining interest rate environment. The decline of $0.8 billion, or 10%, from 2018, was primarily due to higher costs related to transferring credit risk and investments to improve the efficiency of our business operations.
  - Net revenues declined $1.5 billion compared to 2018, primarily due to lower investment gains (losses), net, partially offset by higher contractual net interest income on the single-family guarantee portfolio and higher income on the multifamily guarantee portfolio. The decline in net revenues was also partially offset by a $1.2 billion increase in other comprehensive income.
  - Total equity was $9.1 billion as of December 31, 2019, up from $4.5 billion as of December 31, 2018, as a result of our ability to retain earnings pursuant to the September 2019 Letter Agreement.
  - We expect to recognize a decrease to retained earnings of $0.2 billion upon our adoption of CECL on January 1, 2020. See **Note 1** for additional information about our adoption of CECL.
- **2018 vs. 2017**
  - Comprehensive income was $8.6 billion for 2018, an increase of 55% compared to comprehensive income of $5.6 billion for 2017. The increase in comprehensive income primarily reflects two significant items in 2017: a non-cash charge of $5.4 billion due to the enactment of tax reform legislation and a $4.5 billion, or $2.9 billion after-tax, benefit from a litigation settlement related to non-agency mortgage-related securities in which we no longer invest.
  - Total equity was $4.5 billion as of December 31, 2018, compared to ($0.3) billion as of December 31, 2017. The increase primarily reflects our ability to retain earnings pursuant to the December 2017 Letter Agreement.

Housing Market Support

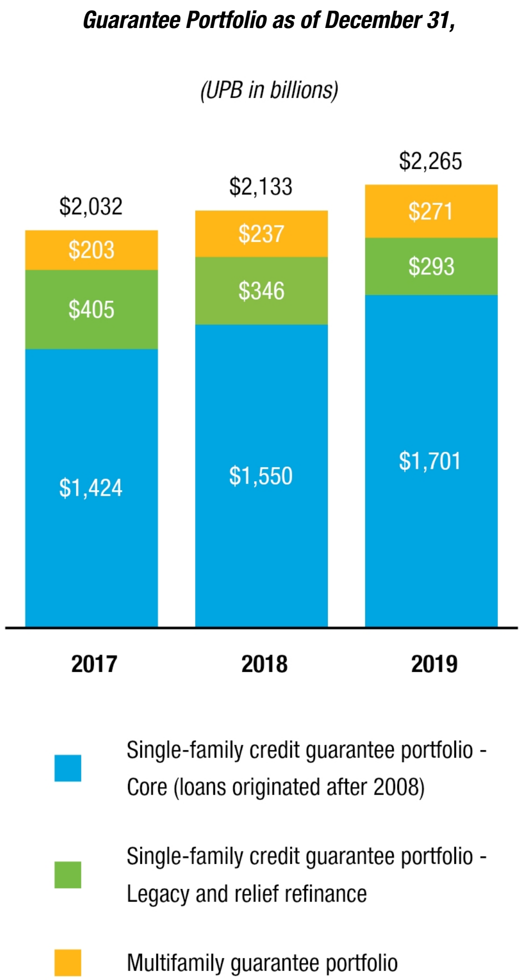
Housing Market Support

(In thousands)



We support the U.S. housing market by executing our Charter Mission to ensure credit availability for new and refinanced single-family mortgages as well as for rental housing. We provided $558 billion in liquidity to the mortgage market in 2019, which enabled the financing of 2.6 million home purchases, refinancings, or rental units.

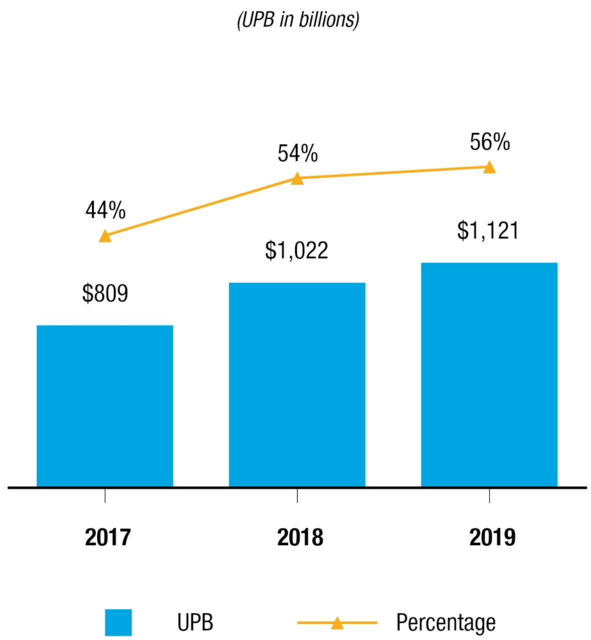
Portfolio Balances



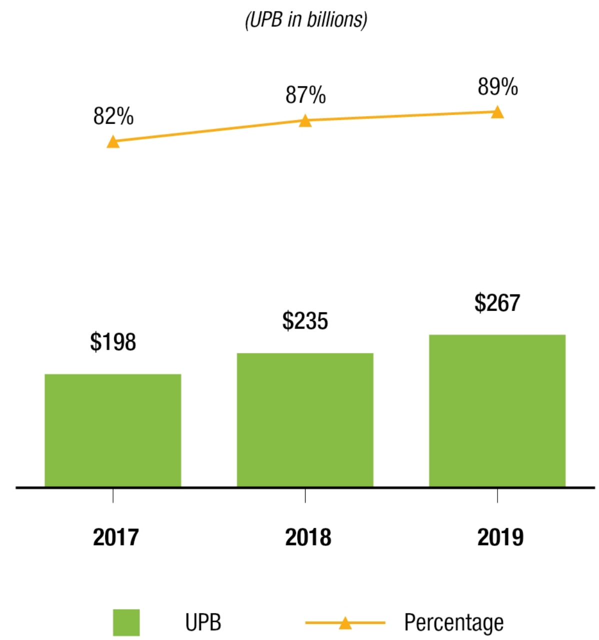
- The total guarantee portfolio grew $132 billion, or 6%, in 2019, driven by a 5% increase in our single-family credit guarantee portfolio and a 14% increase in our multifamily guarantee portfolio. The total guarantee portfolio grew $101 billion, or 5%, in 2018, driven by a 4% increase in our single-family credit guarantee portfolio and a 17% increase in our multifamily guarantee portfolio.
  - The growth in our single-family credit guarantee portfolio outpaced increases in U.S. single-family mortgage debt outstanding of 2% in 2019 and 3% in 2018. Continued home price appreciation contributed to new business acquisitions having a higher average loan size compared to older vintages that continued to run off.
  - The growth in our multifamily guarantee portfolio also outpaced increases in U.S. multifamily mortgage debt outstanding of 6% in 2019 and 9% in 2018, primarily driven by strong loan purchase and securitization activity, attributable to healthy multifamily market fundamentals and strong demand for multifamily loan products.
- Our total investments portfolio increased $35 billion, or 12%, in 2019 primarily due to an increase in our other investments portfolio driven by higher loan prepayments, higher near-term cash needs for upcoming debt maturities and anticipated calls of other debt, and a higher expected loan purchase forecast. Our total investments portfolio decreased $62 billion, or 18%, in 2018, primarily due to a reduction in the balance of our mortgage-related investments portfolio pursuant to the portfolio limits established by the Purchase Agreement and FHFA. In February 2019, FHFA directed us to maintain the mortgage-related investments portfolio at or below $225 billion at all times.

Credit Risk Transfer

Single-Family Credit Guarantee Portfolio with Credit Enhancement as of December 31,



Multifamily Mortgage Portfolio with Credit Enhancement as of December 31,



In addition to transferring interest-rate and liquidity risk to third-party investors through our securitization activities, we have developed innovative CRT programs that distribute mortgage credit risk to third-party investors and have transformed our business model from one where we buy and hold credit risk to one where we buy and transfer a portion of such credit risk. Our programmatic offerings regularly transfer a portion of the credit risk primarily on recently acquired loans, with the percentage of our single-family credit guarantee portfolio and the percentage of our multifamily mortgage portfolio covered by credit enhancements increasing to 56% and 89%, respectively, as of December 31, 2019.

See **MD&A - Our Business Segments - Single-Family Guarantee - *Products and Activities*** and **MD&A - Our Business Segments - Multifamily - *Products and Activities*** for additional information on our credit enhancements.

Common Securitization Platform and UMBS

On June 3, 2019, we, Fannie Mae, and FHFA announced the implementation of Release 2 of the CSP and the Single Security Initiative for Freddie Mac and Fannie Mae, under which we and Fannie Mae began issuing a single (common) security called the UMBS. The objective of the Single Security Initiative is to enhance the overall liquidity of Freddie Mac and Fannie Mae securities in the TBA market by supporting their fungibility without regard to which company is the issuer.

Release 2 added to the functionality of the CSP by, among other things, enabling commingling of Freddie Mac and Fannie Mae UMBS and other TBA-eligible mortgage securities in resecuritization transactions. SIFMA also revised its good-delivery guidelines to permit UMBS TBA contracts to be settled by delivery of UMBS issued by either Freddie Mac or Fannie Mae.

As part of the June 3, 2019 implementation of Release 2, we entered into an agreement with Fannie Mae regarding the commingling of certain of our mortgage securities under the Single Security Initiative. This agreement provides that Freddie Mac and Fannie Mae will indemnify each other for materially inaccurate or misleading disclosure and for certain adverse events, such as failures to perform obligations as issuer, master servicer, trustee, and guarantor related to the mortgage securities. In May 2019, we entered into an amended customer services agreement with Fannie Mae and CSS, which sets forth the terms and conditions of the mortgage securitization services provided by CSS.

In January 2020, FHFA directed Freddie Mac and Fannie Mae to amend the limited liability company (LLC) agreement for CSS to change the structure of the CSS Board of Managers (CSS Board). The revised LLC agreement also removed the requirement that any CSS Board decision must be approved by at least one of the CSS Board members appointed by Freddie Mac and one appointed by Fannie Mae. These amendments reduce Freddie Mac's and Fannie Mae's ability to control CSS Board decisions, even after conservatorship, including decisions about strategy, business operations, and funding.

Under the revised CSS LLC agreement, the CSS Board will continue to include two Freddie Mac representatives and two Fannie Mae representatives, and it will also include two new members: the Chief Executive Officer of CSS and an independent, non-Executive Chair. During conservatorship, the CSS Board Chair will be designated by FHFA, and all CSS Board decisions will require the affirmative vote of the Board Chair. During conservatorship, FHFA also may appoint up to three additional independent members to the CSS Board, who along with the Board Chair and the Chief Executive Officer of CSS may continue to serve on the CSS Board after conservatorship. FHFA appointed a new CSS Board member to serve as Chair in January 2020. If FHFA appoints three additional CSS Board members, the CSS Board members we and Fannie Mae appoint could be outvoted by non-GSE designated Board members on any matter during conservatorship and on a number of significant matters, including approval of the annual budget and strategic plan for CSS, if either we or Fannie Mae exits from conservatorship. Certain material post-conservatorship decisions, however, would require the approval of at least one Board member designated by us and one designated by Fannie Mae, including those decisions involving a material change in CSS's functionality, such as the addition of a new business line or reduction in CSS's support of the UMBS, capital contributions beyond those necessary to support CSS's ordinary business operations, appointment or removal of the CSS Chief Executive Officer, and admission of new members.

We are still evaluating how these changes to the CSS governance structure will affect Freddie Mac, and it is possible that FHFA may require us to make additional changes to the CSS LLC agreement, or may otherwise impose restrictions or provisions relating to CSS or the UMBS, that may adversely affect us. For additional information on CSS-related risks, see **Risk Factors - Conservatorship and Related Matters -** ***FHFA, as our Conservator, controls our business activities. We may be required to take actions that reduce our profitability, are difficult to implement, or expose us to additional risk.***

Implementation of Release 2 of the CSP and the Single Security Initiative represents a significant change for the single-family mortgage market and for our business. For additional information, see **MD&A - Our Business Segments - Single-Family Guarantee** and **Risk Factors** in this Form 10-K.

Conservatorship and Government Support for Our Business

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

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

Under the Purchase Agreement, we issued Treasury both senior preferred stock and a warrant to purchase common stock. The senior preferred stock and warrant were issued as an initial commitment fee in consideration of Treasury's commitment to provide funding to us under the Purchase Agreement. Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as, and if declared by the Conservator, acting as successor to the rights, titles, powers, and privileges of our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator.

Under the August 2012 amendment to the Purchase Agreement, our cash dividend requirement each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. Pursuant to the September 2019 Letter Agreement, the applicable Capital Reserve Amount is $20.0 billion. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the unpaid amount would be added to the liquidation preference and the applicable Capital Reserve Amount would thereafter be zero. This would not affect our ability to draw funds from Treasury under the Purchase Agreement.

The September 2019 Letter Agreement also provides that the liquidation preference of the senior preferred stock will be increased, at the end of each fiscal quarter, beginning on September 30, 2019, by an amount equal to the increase in the Net Worth Amount, if any, during the immediately prior fiscal quarter, until the liquidation preference has increased by $17.0 billion. See **Note 2** for more information about our Purchase Agreement with Treasury.

Under the September 2019 Letter Agreement, Freddie Mac and Treasury also agreed to negotiate and execute an amendment to the Purchase Agreement that further enhances taxpayer protections by adopting covenants broadly consistent with recommendations for administrative reform contained in the Treasury's September 2019 Housing Reform Plan. For more information regarding Treasury's Plan, see **Regulation and Supervision** ***- Legislative and Regulatory Developments - Treasury Housing Reform Plan***.

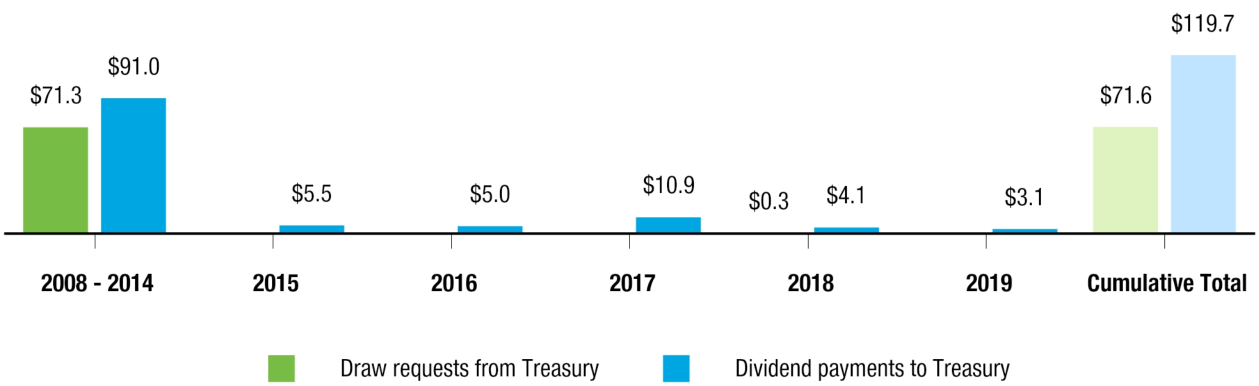
Draw Requests From and Dividend Payments To Treasury

At December 31, 2019, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. In addition, as a result of the increase in the applicable Capital Reserve Amount pursuant to the September 2019 Letter Agreement, we did not declare or pay a dividend to Treasury on the senior preferred stock during the three months ended September 30, 2019 and December 31, 2019. The amount of available funding remaining under the Purchase Agreement was $140.2 billion at December 31, 2019, and will be reduced by any future draws.

The graph below shows our cumulative draw requests from Treasury and cumulative dividend payments to Treasury. The Treasury draw request amounts reflect the total draws requested based on our quarterly net deficits for the periods presented. Draw requests are funded in the quarter subsequent to any net deficit. The dividend payment amounts reflect the total dividend payments made to Treasury as required by the Purchase Agreement for the periods presented. Dividend payments are based on the prior quarter's Net Worth Amount. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock. For more information on the conservatorship and government support for our business, see **MD&A - Conservatorship and Related Matters** and **Note 2.**

Draw Requests From and Dividend Payments To Treasury

(In billions)



OUR BUSINESS

Primary Business Strategies

Freddie Mac's overall strategic direction is established by management and affirmed by the Board through its approval of a strategic plan, which sets forth our primary business strategies and generally covers a three-year timeframe. FHFA, the Administration, or Congress could take actions that cause us to alter our strategic plan.

Charter Mission

We are a GSE with a specific and limited corporate purpose (i.e., Charter Mission) to support the liquidity, stability, and affordability of the U.S. housing market as a participant in the secondary mortgage market, while operating as a commercial enterprise earning an appropriate return. Everything we do must be done within the constraints of our Charter Mission.

Our Strategic Goals

Our primary business strategies are currently focused on three strategic goals: exit conservatorship, create a world class operating platform, and become the leader in housing.

Exit Conservatorship

We seek to exit from conservatorship with an attractive, sustainable business model. We are focused on meeting or exceeding milestones set by FHFA and Treasury, including those relating to capital, remediation of deficiencies, and risk management, as well as our own internal metrics designed to facilitate our exit from conservatorship.

Create a World-Class Operating Platform

We seek to create and operate a modern, resilient, flexible, and efficient platform that allows us to better assess and manage risk, while also enabling us to best meet the needs and demands of our company, customers, business partners, and the market in a safe, sound, and efficient manner by focusing on activities such as:

- Enhancing our capability to effectively manage risk and capital through our underwriting, purchase, servicing, and credit risk distribution activities;
- Increasing the resiliency of our infrastructure and operations; and
- Reducing costs for us and our customers in order to pass through savings to borrowers and renters.

Become the Leader in Housing

We seek to emerge from conservatorship as the nation's leader in housing by continuing to provide leadership through innovation and collaboration to enhance liquidity, stability, and affordability. We seek to help the housing industry better serve the needs of homebuyers and renters, particularly in the context of the current affordability challenges, including from fundamental problems related to housing supply. We intend to do so by identifying and implementing new and innovative ways to expand fair and responsible access to credit, including achieving the single-family and multifamily housing goals and Duty to Serve plan, continuing to create innovative CRT structures that attract new and varied investors and additional private capital to the housing market, and engaging in activities to support the UMBS.

For further information on our goals and detailed strategies for each of our business segments, see **MD&A — Our Business Segments**.

Our Charter

Our Charter forms the framework for our business activities. Our Charter Mission is to:

- Provide stability in the secondary mortgage market for residential loans;
- Respond appropriately to the private capital market;
- Provide ongoing assistance to the secondary mortgage market for residential loans (including activities relating to loans for low- and moderate-income families, involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- Promote access to mortgage loan credit throughout the United States (including central cities, rural areas, and other underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

Our Charter permits us to purchase first-lien single-family loans with LTV ratios at the time of our purchase of less than or equal to 80%. Our Charter also permits us to purchase first-lien single-family loans that do not meet this criterion if we have certain specified credit protections, which include mortgage insurance from a qualified insurer on the portion of the UPB of the loan that exceeds an 80% LTV ratio, a seller's agreement to repurchase or replace a defaulted loan, or the retention by the seller of at least a 10% participation interest in the loan.

This Charter requirement does not apply to multifamily loans or to loans that have the benefit of any guarantee, insurance, or other obligation by the United States or any of its agencies or instrumentalities (e.g., the FHA, VA, or USDA Rural Development). Additionally, as part of our Enhanced Relief Refinance[SM] program, we purchase single-family refinanced loans we currently own or guarantee without obtaining additional credit enhancement in excess of that already in place for any such loan, even when the LTV ratio of the new loan is above 80%.

Our Charter does not permit us to originate loans or lend money directly to mortgage borrowers in the primary mortgage market. Our Charter limits our purchase of single-family loans to the conforming loan market, which consists of loans originated with UPBs at or below limits determined annually based on changes in FHFA's housing price index. In most of the United States, the maximum conforming loan limit for a one-family residence has been set at $510,400 for 2020, an increase from $484,350 for 2019, $453,100 for 2018, $424,100 for 2017, and $417,000 from 2006 to 2016. Higher limits have been established in certain "high-cost" areas (for 2020, up to $765,600 for a one-family residence). Higher limits also apply to two- to four-family residences and to one- to four-family residences in Alaska, Guam, Hawaii, and the U.S. Virgin Islands.

Business Segments

We have three reportable segments: Single-family Guarantee, Multifamily, and Capital Markets. Certain activities that are not part of a reportable segment are included in the All Other category. For more information on our segments, see **MD&A - Our Business Segments** and **Note 13**.

Employees

At January 31, 2020, we had 6,871 full-time and 41 part-time employees. In 4Q 2019, we offered a Voluntary Early Retirement Program (VERP) to employees meeting certain age and service requirements. As of January 31, 2020, 700 employees had accepted the VERP, with a separation date of March 31, 2020 generally expected.

Properties

Our principal offices consist of four office buildings we own in McLean, Virginia, comprising approximately 1.3 million square feet. We operate our business in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

Available Information

We file reports and other information with the SEC. In view of the Conservator's succession to all of the voting power of our stockholders, we have not prepared or provided proxy statements for the solicitation of proxies from stockholders since we entered into conservatorship, and do not expect to do so while we remain in conservatorship. Pursuant to SEC rules, our annual reports on Form 10-K contain certain information typically provided in an annual proxy statement.

We make available, free of charge through our website at **www.freddiemac.com**, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with the SEC. The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC.

We are providing our website addresses and the website address of the SEC here and elsewhere in this Form 10-K solely for your information. Information appearing on our website or on the SEC's website is not incorporated into this Form 10-K.

We provide disclosure about our debt securities on our website at **www.freddiemac.com/debt**. From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities. Similar information about our STACR® transactions and SCR notes is available at **crt.freddiemac.com** and **mf.freddiemac.com/investors**, respectively.

We provide disclosure about our mortgage-related securities, some of which are off-balance sheet obligations (e.g., K Certificates and SB Certificates), on our website at **www.freddiemac.com/mbs**. From this address, investors can access information and documents, including offering circulars and offering circular supplements, for mortgage-related securities offerings.

We provide additional information, including product descriptions, investor presentations, securities issuance calendars, transaction volumes and details, redemption notices, Freddie Mac research, and material developments or other events that may be important to investors, in each case as applicable, on the websites for our business segments, which can be found at **www.freddiemac.com/singlefamily**, **mf.freddiemac.com**, and **www.freddiemac.com/capital-markets**.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-K, contain "forward-looking statements." Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily, and Capital Markets segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, the costs and benefits of our CRT transactions, and our results of operations and financial condition on a GAAP, Segment Earnings, and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. Forward-looking statements are often accompanied by, and identified with, terms such as "could," "may," "will," "believe," "expect," "anticipate," "forecast," and similar phrases. 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, including those described in the **Risk Factors** section of this Form 10-K and:

- The actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to support the housing markets or to implement the recommendations in the Treasury Housing Reform Plan or FHFA's Conservatorship Scorecards and other objectives for us;
- The effect of the restrictions on our business due to the conservatorship and the Purchase Agreement;
- Changes in our Charter or in applicable legislative or regulatory requirements (including changes pursuant to the Treasury Housing Reform Plan or pursuant to any legislation affecting the future status of our company);
- Changes in the fiscal and monetary policies of the Federal Reserve, including the balance sheet normalization program to reduce the Federal Reserve's holdings of mortgage-related securities;
- Changes in tax laws;
- Changes in accounting policies, practices, or guidance (e.g., our adoption of CECL);
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance vs. purchase and fixed-rate vs. ARM);
- The success of our efforts to mitigate our losses on our legacy and relief refinance single-family loan portfolio;
- The success of our strategy to transfer mortgage credit risk through STACR debt note, STACR Trust note, ACIS®, K Certificate, SB Certificate, and other CRT transactions;
- Our ability to maintain adequate liquidity to fund our operations;
- Our ability to maintain the security and resiliency of our operational systems and infrastructure, including against cyberattacks;
- Our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- The adequacy of our risk management framework, including the adequacy of the CCF for measuring risk;
- Our ability to manage mortgage credit risk, including the effect of changes in underwriting and servicing practices;
- Our ability to limit or manage our economic exposure and GAAP earnings exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;
- Our operational ability to issue new securities, make timely and correct payments on securities, and provide initial and ongoing disclosures;
- Our reliance on CSS and the CSP for the operation of the majority of our single-family securitization activities, our reduced influence over CSS Board decisions as a result of recent FHFA-required changes to the CSS LLC agreement, and any additional changes FHFA may require in our relationship with, or support of, CSS;
- Changes or errors in the methodologies, models, assumptions, and estimates we use to prepare our financial statements, make business decisions, and manage risks;
- Changes in investor demand for our debt or mortgage-related securities, as well as market acceptance of the UMBS;
- Changes in the practices of loan originators, servicers, investors, and other participants in the secondary mortgage market;
- The discontinuance of or transition from LIBOR and the adverse consequences it could have on our business and operations;
- The occurrence of a major natural or other disaster in areas in which our offices or significant portions of our total mortgage portfolio are located; and
- Other factors and assumptions described in this Form 10-K, including in the **MD&A** section.

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

Selected Financial Data

The selected financial data presented below should be reviewed in conjunction with **MD&A** and our consolidated financial statements and accompanying notes.

Table 1 - Selected Financial Data

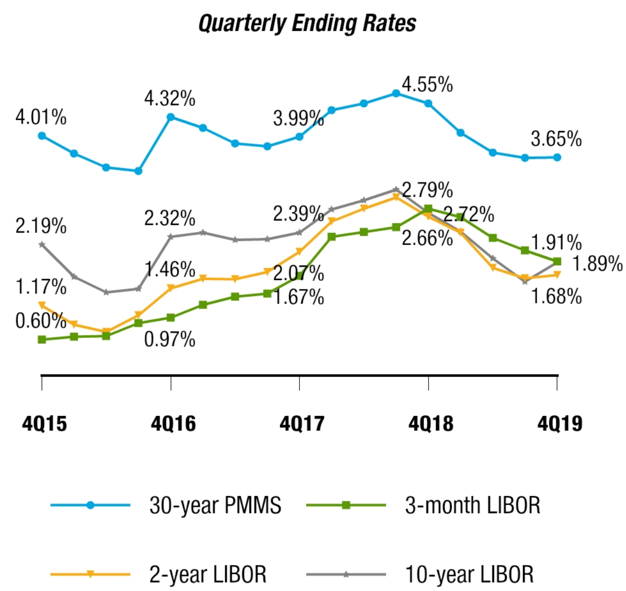
	As of or For the Year Ended December 31,				
(Dollars in millions, except share-related amounts**)**	**2019**	**2018**	**2017**	**2016**	**2015**
Statements of Comprehensive Income Data					
Net interest income	$11,848	$12,021	$14,164	$14,379	$14,946
Non-interest income (loss)	2,230	3,549	6,893	454	(3,731)
Benefit (provision) for credit losses	746	736	84	803	2,665
Non-interest expense	(5,775)	(4,832)	(4,307)	(3,997)	(4,606)
Income tax (expense) benefit	(1,835)	(2,239)	(11,209)	(3,824)	(2,898)
Net income	7,214	9,235	5,625	7,815	6,376
Comprehensive income	7,787	8,622	5,558	7,118	5,799
Net income (loss) attributable to common stockholders	(573)	3,612	(3,244)	97	(23)
Net income (loss) per common share - basic and diluted	(0.18)	1.12	(1.00)	0.03	(0.01)
Cash dividends per common share	—	—	—	—	—
Balance Sheets Data					
Loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$1,940,523	$1,842,850	$1,774,286	$1,690,218	$1,625,184
Total assets	2,203,623	2,063,060	2,049,776	2,023,376	1,985,892
Debt securities of consolidated trusts held by third parties	1,898,355	1,792,677	1,720,996	1,648,683	1,556,121
Other debt	281,173	252,273	313,634	353,321	414,148
All other liabilities	14,973	13,633	15,458	16,297	12,683
Total stockholders' equity	9,122	4,477	(312)	5,075	2,940
Portfolio Balances - UPB					
Total guarantee portfolio	$2,265,301	$2,133,510	$2,031,955	$1,912,717	$1,821,896
Mortgage-related investments portfolio	212,673	218,080	253,455	298,426	346,911
Other investments portfolio	103,421	62,917	89,955	95,041	100,913
TDRs on accrual status	32,262	41,914	51,720	77,399	82,347
Non-accrual	11,197	11,217	17,817	16,272	22,649
Ratios					
Return on average assets	0.3%	0.4%	0.3%	0.4%	0.3%
Allowance for loan losses as percentage of loans, held-for-investment	0.2	0.3	0.5	0.7	0.9

Management's Discussion and Analysis of Financial Condition and Results of Operations

MARKET CONDITIONS AND ECONOMIC INDICATORS

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

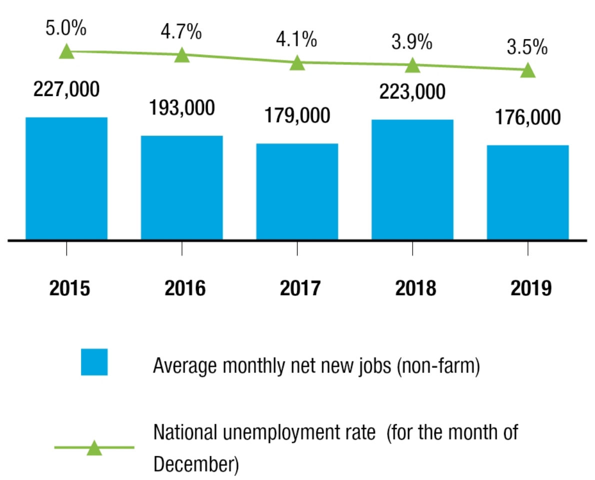
Interest Rates(1)



(1) 30-year PMMS interest rates are as of the last week in each quarter.

- The 30-year Primary Mortgage Market Survey (PMMS) interest rate is indicative of what a consumer could expect to be offered on a first-lien prime conventional conforming home purchase mortgage with an LTV of 80%. Increases (decreases) in the PMMS rate typically result in decreases (increases) in refinancing activity and originations.
- Changes in the 10-year and 2-year LIBOR interest rates can significantly affect the fair value of our debt, derivatives, mortgage loans, and mortgage and non-mortgage-related securities. In addition, the GAAP accounting treatment for our financial assets and liabilities, including derivatives, (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates change. We have elected hedge accounting for certain assets and liabilities in an effort to reduce GAAP earnings variability.
- Changes in the 3-month LIBOR rate affect the interest earned on our short-term investments and interest expense on our short-term funding and derivatives.
- Long-term rates continued to decline throughout most of 2019, resulting in an inverted yield curve, before trending up near year end as a result of the Federal Reserve's decision to cut rates in the second half of the year.

Unemployment Rate and Monthly Net New Jobs

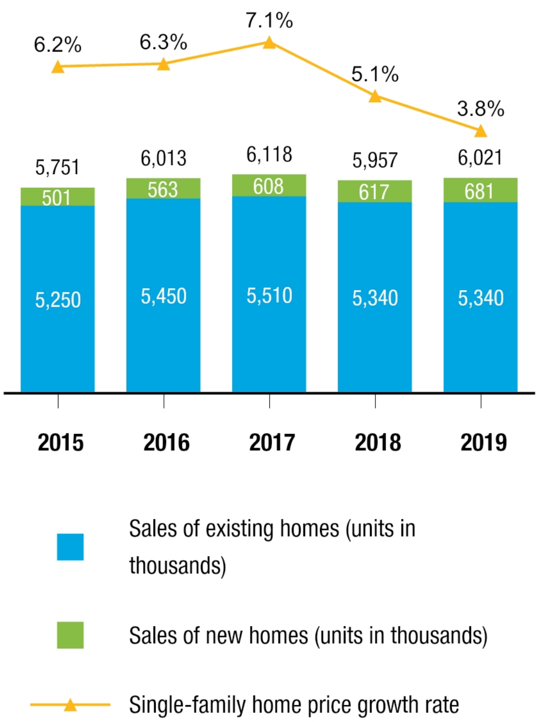


Source: U.S. Bureau of Labor Statistics.

- Changes in the national unemployment rate can affect several market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.
- Continued job growth, a declining unemployment rate, and generally favorable economic conditions supported strong credit performance.

Single-Family Housing and Mortgage Market Conditions

U.S. Single-Family Home Sales and Home Prices

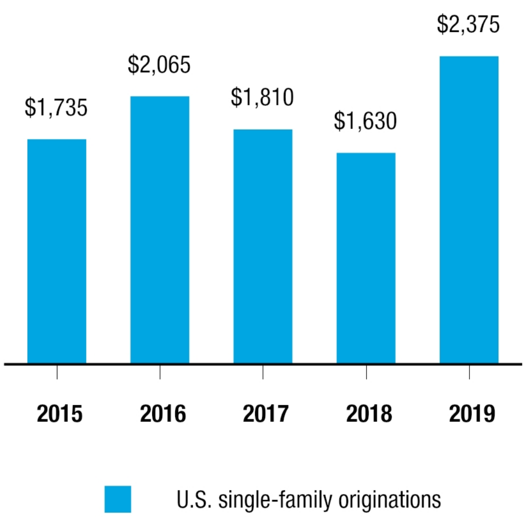


Sources: National Association of Realtors, U.S. Census Bureau, and Freddie Mac House Price Index.

- In 2020, we expect modest growth in U.S. single-family home purchase volume, while steady mortgage interest rates are expected to result in a lower refinance volume. Freddie Mac's single-family loan purchase volumes typically follow a similar trend.
- Changes in home prices affect the amount of equity that borrowers have in their homes. Borrowers with less equity typically have higher delinquency rates. As home prices decline, the severity of losses we incur on defaulted loans that we hold or guarantee increases because the amount we can recover from the property securing the loan decreases.
- Single-family home prices grew 3.8% in 2019 compared to 5.1% during 2018. We expect home price growth will continue in 2020, although at a slower pace than in 2019, due to increased supply.

U.S. Single-Family Mortgage Originations

(UPB in billions)

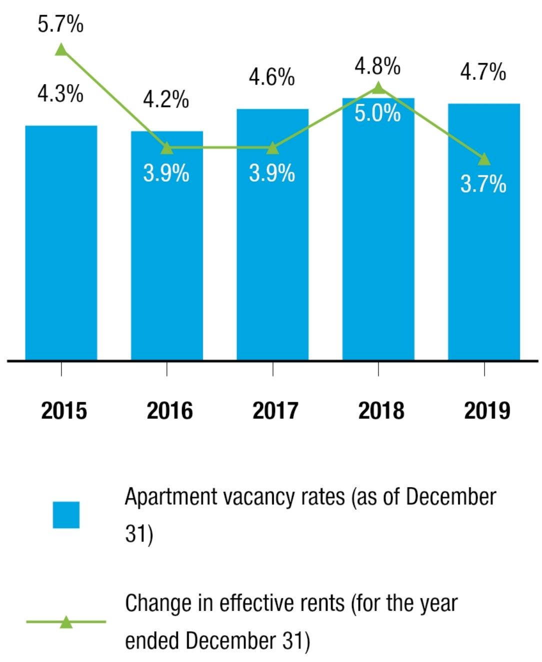


Source: Inside Mortgage Finance.

- U.S. single-family loan origination volumes increased in 2019 compared to 2018, driven by higher refinance volume as a result of lower average mortgage interest rates.

Multifamily Housing and Mortgage Market Conditions

Apartment Vacancy Rates and Change in Effective Rents

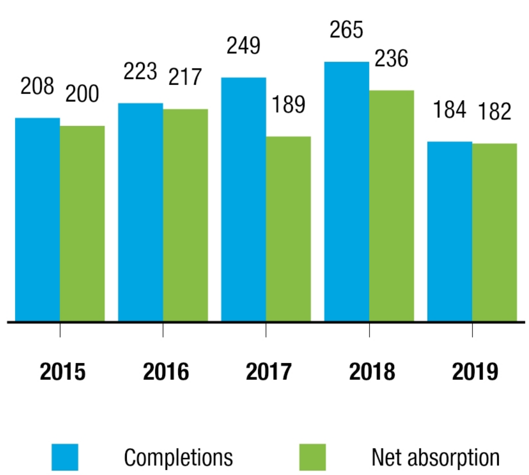


Source: Reis.

- Completions slightly outpaced net absorption in 2019, but vacancy rates remained relatively flat and below the long-term average of 5.4% from 2000 to 2019.
- Effective rent growth (i.e., the average rent paid by the tenant over the term of the lease, adjusted for concessions by the landlord and costs borne by the tenant) declined from prior years, but was higher than the long-term average of 3.1% from 2000 to 2019.
- Multifamily property prices continued to grow, with 9.6% annualized growth in 2019, indicating a healthy multifamily market.

Apartment Completions and Net Absorption

(Units in thousands)

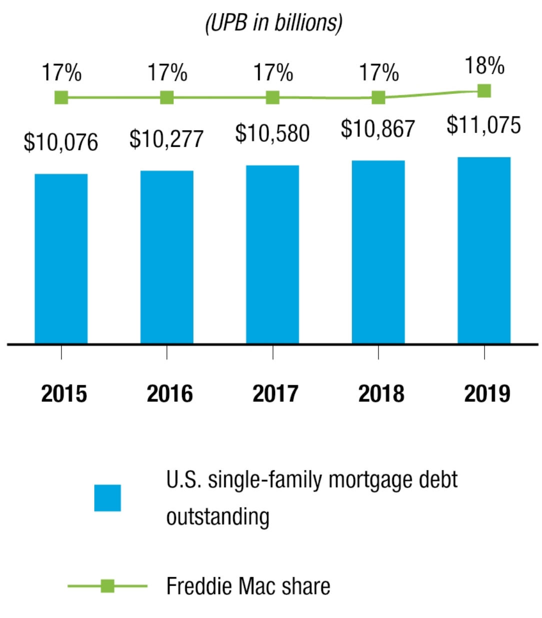


Source: Reis.

- Apartment completions are an indication of the supply of rental housing. Net absorption, which is a measurement of the rate at which available apartments are occupied, is an indication of demand for rental housing.
- Demand growth was in line with supply growth, as completions slightly outpaced net absorption.
- Although we expect continued strong demand, construction of multifamily units remains elevated and could outpace absorptions in 2020.

Mortgage Debt Outstanding

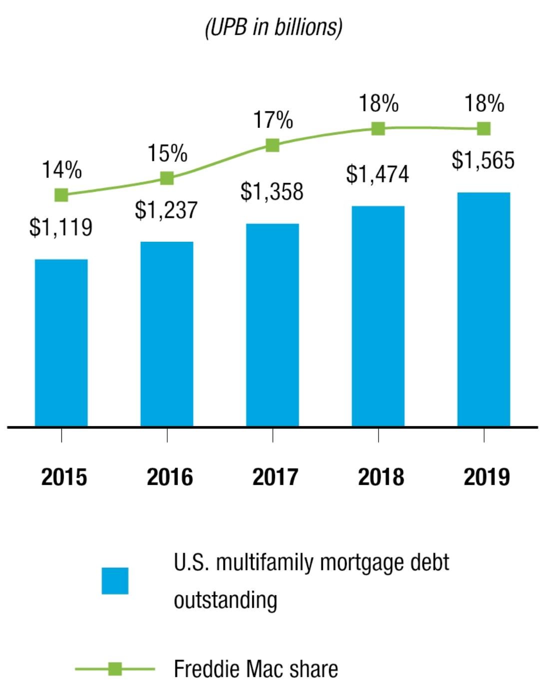
Single-Family Mortgage Debt Outstanding as of December 31,



Source: Federal Reserve Financial Accounts of the United States of America. For 2019, the amount is as of September 30, 2019 (latest available information).

- U.S. single-family mortgage debt outstanding increased in 2019 compared to 2018, primarily driven by house price appreciation. An increase in U.S. single-family mortgage debt outstanding typically results in growth of our single-family credit guarantee portfolio.

Multifamily Mortgage Debt Outstanding as of December 31,



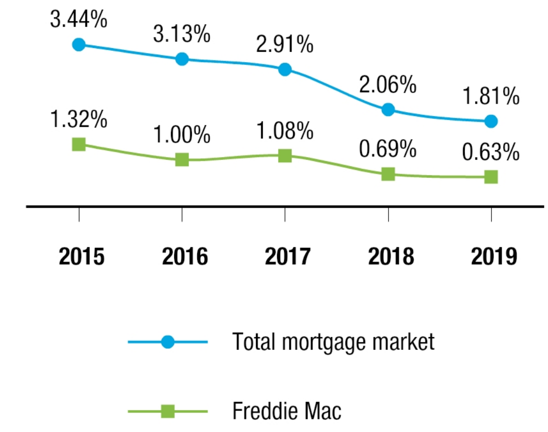
Source: Federal Reserve Financial Accounts of the United States of America. For 2019, the amount is as of September 30, 2019 (latest available information).

- During 2019, the multifamily mortgage market grew because of continued strong demand for multifamily loan products due to solid multifamily market fundamentals. Multifamily market fundamentals were primarily driven by a healthy job market, population growth, high propensity to rent among young adults, and rising single-family home prices. We expect continued growth in the multifamily mortgage market during 2020 due to these same drivers.

- While the multifamily mortgage market grew, our share of multifamily mortgage debt outstanding remained flat during 2019 due to ongoing competition from other market participants, which we expect to continue. Growth was also limited due to a revised loan purchase cap structure for the multifamily business announced by FHFA in 3Q 2019. The loan purchase cap will be $100.0 billion for the five-quarter period from 4Q 2019 through 4Q 2020 and applies to all multifamily business activity, with no exclusions. At least 37.5% of new multifamily business must be mission-driven, affordable housing over the same five-quarter period.

Delinquency Rates

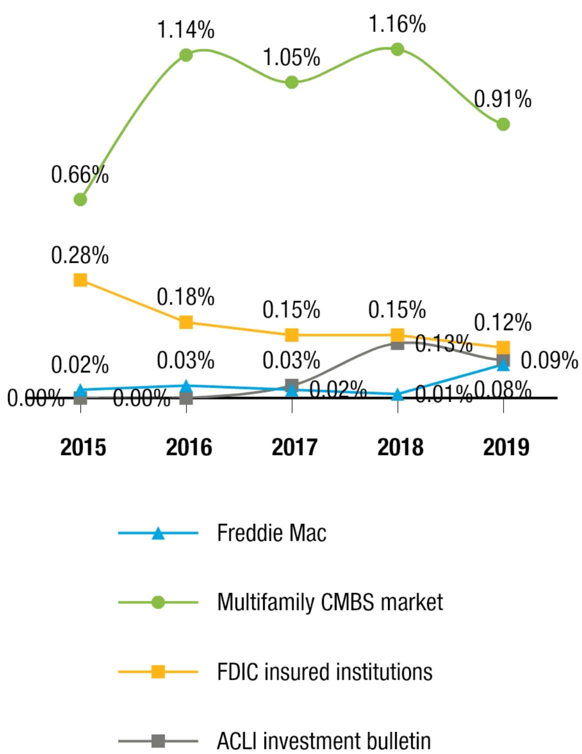
Single-Family Serious Delinquency Rates as of December 31,



Source: National Delinquency Survey from the Mortgage Bankers Association. For 2019, the rates (excluding Freddie Mac) are as of September 30, 2019 (latest available information).

- The U.S. single-family serious delinquency rate decreased in 2019 compared to 2018 due to macroeconomic factors such as a low unemployment rate and continued home price appreciation. Our single-family serious delinquency rate typically follows a similar trend. See **Risk Management - Single-Family Mortgage Credit Risk -** ***Monitoring Loan Performance and Characteristics - Delinquency Rates*** for additional information on our serious delinquency rate.

Multifamily Delinquency Rates as of December 31,



Source: Freddie Mac, FDIC Quarterly Banking Profile, Trepp, LLC, Intex Solutions, Inc., and Wells Fargo Securities (Multifamily CMBS market, excluding REOs), American Council of Life Insurers (ACLI). For 2019, the amounts for FDIC insured institutions and ACLI investment bulletin are as of September 30, 2019 and the amount for the Multifamily CMBS market is as of December 31, 2019 (latest available information).

- Our multifamily delinquency rates during 2019 remained low compared to other industry participants, ending the year at 8 basis points, primarily due to our prior-approval underwriting approach and strong multifamily market fundamentals. See **Risk Management - Multifamily Mortgage Credit Risk -** ***Managing Our Portfolio, Including Loss Mitigation Activities*** for additional information on our delinquency rates.

CONSOLIDATED RESULTS OF OPERATIONS

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

We have two primary sources of revenue:

- **Net interest income** - primarily consists of the guarantee fees from our single-family credit guarantee portfolio and the net interest income from our investments portfolio.
- **Guarantee fee income** - primarily consists of the guarantee fees from our multifamily guarantee portfolio.

We also earn revenue from (a) realized and unrealized gains (losses) on mortgage loans and investment securities and the debt and derivatives we use to fund and hedge them, which are primarily recognized in investment gains (losses), net, and may fluctuate significantly from period-to-period based on the volume and nature of our investment, funding, and hedging activities and changes in market conditions, such as interest rates and market spreads; and (b) fees that we charge to our single-family and multifamily sellers and servicers, which are recognized in other income.

Our primary expense items consist of credit-related expenses and operating expenses. Credit-related expenses consist of (a) provision for credit losses, which primarily represents probable incurred losses on our mortgage loans held-for-investment; (b) REO operations expense, which represents expenses related to foreclosed properties; and (c) credit enhancement expense, which represents the costs we incur to transfer credit risk to third-party investors under freestanding credit enhancements. Operating expenses consist of administrative expenses, the 10 basis point fee related to the Temporary Payroll Tax Cut Continuation Act of 2011, and other expenses we incur to run the business.

The table below compares our consolidated results of operations for the past three years. Certain amounts in prior periods have been reclassified to conform to the current presentation. See **Note 1** for additional information about the prior period reclassifications.

Table 2 - Summary of Consolidated Statements of Comprehensive Income (Loss)

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Net interest income	$11,848	$12,021	$14,164	($173)	(1)%	($2,143)	(15)%
Guarantee fee income	1,089	866	749	223	26	117	16
Investment gains (losses), net	818	1,921	1,160	(1,103)	(57)	761	66
Other income (loss)	323	762	4,984	(439)	(58)	(4,222)	(85)
Net revenues	**14,078**	**15,570**	**21,057**	**(1,492)**	**(10)**	**(5,487)**	**(26)**
Benefit (provision) for credit losses	746	736	84	10	1	652	776
Credit enhancement expense	(708)	(417)	(280)	(291)	(70)	(137)	(49)
REO operations expense	(229)	(169)	(189)	(60)	(36)	20	11
Credit-related expense	**(191)**	**150**	**(385)**	**(341)**	**(227)**	**535**	**139**
Administrative expense	(2,564)	(2,293)	(2,106)	(271)	(12)	(187)	(9)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(1,617)	(1,484)	(1,340)	(133)	(9)	(144)	(11)
Other expense	(657)	(469)	(392)	(188)	(40)	(77)	(20)
Operating expense	**(4,838)**	**(4,246)**	**(3,838)**	**(592)**	**(14)**	**(408)**	**(11)**
Income before income tax (expense) benefit	**9,049**	**11,474**	**16,834**	**(2,425)**	(21)	**(5,360)**	(32)
Income tax (expense) benefit	(1,835)	(2,239)	(11,209)	404	18	8,970	80
Net income (loss)	**7,214**	**9,235**	**5,625**	**(2,021)**	(22)	**3,610**	64
Total other comprehensive income (loss), net of taxes and reclassification adjustments	573	(613)	(67)	1,186	193	(546)	(815)
Comprehensive income (loss)	**$7,787**	**$8,622**	**$5,558**	**($835)**	**(10)%**	**$3,064**	**55 %**

See **Critical Accounting Policies and Estimates** for information concerning certain significant accounting policies and estimates applied in determining our reported results of operations and **Note 1** for information on our accounting policies and a summary of other significant accounting policies and the related notes in which information about them can be found.

Net Revenues

Net Interest Income

Net interest income consists of guarantee portfolio net interest income, investments portfolio net interest income, and income (expense) from hedge accounting.

- **Guarantee portfolio net interest income** - consists of two components:
  - Guarantee fees we receive for managing the credit risk associated with the mortgage loans held by consolidated trusts, which primarily consist of the loans in our single-family credit guarantee portfolio. We record interest income on loans held by consolidated trusts and interest expense on the debt securities issued by the trusts. The difference between these amounts represents the guarantee fee income we receive as compensation for our guarantee of the principal and interest payments of the issued debt securities. This difference includes the legislated 10 basis point increase in guarantee fees that is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011.
  - Amortization of cost basis adjustments, such as premiums and discounts on securitized mortgage loans, including upfront fees we receive when we acquire a loan, and debt securities of consolidated trusts. These cost basis adjustments are amortized into interest income or interest expense based on the effective yield over the contractual life of the associated financial instrument. The amortization of loans and debt securities of consolidated trusts may vary significantly from period to period and is primarily driven by actual prepayments on the underlying loans. Increases in actual prepayments result in a higher rate of amortization, while decreases in actual prepayments result in a lower rate of amortization. The timing of amortization of loans may differ from the timing of amortization of the securities backed by the loans, as the proceeds from the loans backing these securities are remitted to the security holders at a date subsequent to the date these proceeds are received by us.
- **Investments portfolio net interest income** - consists of two components:
  - The difference between the interest income earned on the assets in our investments portfolio and the interest expense incurred on the liabilities used to fund those assets, including interest expense related to CRT debt (STACR debt notes and SCR debt notes).
  - Amortization of cost basis adjustments, such as premiums and discounts on unsecuritized mortgage loans, investments securities, other assets, and other debt, which are amortized into interest income or interest expense based on the effective yield over the contractual life of the associated financial instrument.
- **Income (expense) from hedge accounting** - consists of two components:
  - Upon adoption of amended hedge accounting guidance in 4Q 2017, fair value changes for the hedging instrument, including the accrual of periodic cash settlements, fair value changes for the hedged item attributable to the risk being hedged for qualifying fair value hedge relationships, and amortization of hedge accounting related basis adjustments. See **Note 9** for additional detail on hedge accounting.
  - Deferred gains and losses on closed cash flow hedges related to forecasted debt issuances that are reclassified from AOCI to net interest income when the related forecasted transaction affects net interest income.

The table below presents the components of net interest income.

Table 3 - Components of Net Interest Income

	Year Ended December 31,			Year Over Year Change			
				2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Guarantee portfolio net interest income:							
Contractual net interest income	$3,767	$3,457	$3,270	$310	9%	$187	6%
Net interest income related to the Temporary Payroll Tax Cut Continuation Act of 2011	1,590	1,438	1,314	152	11	124	9
Amortization	2,436	2,900	3,258	(464)	(16)	(358)	(11)
Total guarantee portfolio net interest income	**7,793**	**7,795**	**7,842**	**(2)**	**—**	**(47)**	**(1)**
Investments portfolio net interest income:							
Contractual net interest income	6,004	6,556	7,227	(552)	(8)	(671)	(9)
Amortization	(593)	(305)	(78)	(288)	(94)	(227)	(291)
Interest expense related to CRT debt	(1,104)	(1,094)	(834)	(10)	(1)	(260)	(31)
Total investments portfolio net interest income	**4,307**	**5,157**	**6,315**	**(850)**	**(16)**	**(1,158)**	**(18)**
Income (expense) from hedge accounting	(252)	(931)	7	679	73	(938)	(13,400)
Net interest income	**$11,848**	**$12,021**	**$14,164**	**($173)**	**(1%)**	**($2,143)**	**(15%)**

Key Drivers:

- **Guarantee portfolio contractual net interest income**
  - **2019 vs. 2018 and 2018 vs. 2017** - Increased primarily due to the continued growth of the core single-family loan portfolio.
- **Guarantee portfolio amortization**
  - **2019 vs. 2018 and 2018 vs. 2017** - Decreased primarily due to the timing differences in amortization related to prepayments between debt of consolidated trusts and the underlying mortgage loans, partially offset by increases in amortization of upfront fees.
- **Investments portfolio contractual net interest income**
  - **2019 vs. 2018** - Decreased primarily due to the lower and flatter interest rate environment, coupled with a change in our investment mix as the other investments portfolio represented a larger percentage of our total investments portfolio.
  - **2018 vs. 2017** - Decreased primarily due to the continued reduction in the balance of our mortgage-related investments portfolio, pursuant to the portfolio limits established by the Purchase Agreement and FHFA. See **Conservatorship and Related Matters - *Limits on Our Mortgage-Related Investments Portfolio and Indebtedness*** for additional discussion of the limits on the mortgage-related investments portfolio.
- **Investments portfolio amortization**
  - **2019 vs. 2018 and 2018 vs. 2017** - Decreased primarily due to lower amortization related to unsecuritized mortgage loans, as certain of those loans were reclassified from held-for-investment to held-for-sale and ceased amortizing, and lower accretion of previously recognized other-than-temporary impairments, due to a decline in the population of impaired securities.
- **Interest expense related to CRT debt**
  - **2019 vs. 2018** - Remained relatively flat as higher short-term interest rates were offset by a decline in volume as we no longer issue STACR debt notes on a regular basis.
  - **2018 vs. 2017** - Increased primarily due to higher STACR debt yield as short-term interest rates increased combined with a higher average balance.
- **Income (expense) from hedge accounting**
  - **2019 vs. 2018** - Increased primarily due to a positive earnings mismatch and lower expense related to accruals of periodic cash settlements on derivatives in hedging relationships, partially offset by amortization of hedge accounting-related basis adjustments. The earnings mismatch is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.
  - **2018 vs. 2017** - Affected primarily by the inclusion of fair value hedge accounting results within net interest income beginning in 4Q 2017, due to the adoption of amended hedge accounting guidance. In prior periods, this activity was included in other income and derivative gains (losses).

Net Interest Yield Analysis

The table below presents an analysis of interest-earning assets and interest-bearing liabilities. To calculate the average balances, we generally use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in the average balances.

Table 4 - Analysis of Net Interest Yield

	Year Ended December 31,								
	2019			2018			2017		
(Dollars in millions)	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate
Interest-earning assets:									
Cash and cash equivalents	$8,925	$187	2.10 %	$7,189	$67	0.93 %	$10,965	$48	0.44 %
Securities purchased under agreements to resell	56,465	1,284	2.27	45,360	880	1.94	57,883	588	1.02
Secured lending	2,933	104	3.55	1,350	35	2.58	859	21	2.42
Mortgage-related securities:									
Mortgage-related securities	132,735	5,761	4.34	143,424	6,026	4.20	164,663	6,402	3.89
Extinguishment of debt securities of consolidated trusts held by Freddie Mac	(85,407)	(3,524)	(4.13)	(88,757)	(3,437)	(3.87)	(87,665)	(3,264)	(3.72)
Total mortgage-related securities, net	**47,328**	**2,237**	**4.73**	**54,667**	**2,589**	**4.74**	**76,998**	**3,138**	**4.08**
Non-mortgage-related securities	22,776	500	2.19	18,955	446	2.35	17,558	277	1.58
Loans held by consolidated trusts[1]	1,882,802	64,927	3.45	1,799,122	61,883	3.44	1,730,000	58,746	3.40
Loans held by Freddie Mac[1]	86,973	3,656	4.20	98,005	4,154	4.24	117,043	4,989	4.26
Total interest-earning assets	**2,108,202**	**72,895**	**3.46**	**2,024,648**	**70,054**	**3.46**	**2,011,306**	**67,807**	**3.37**
Interest-bearing liabilities:									
Debt securities of consolidated trusts including those held by Freddie Mac	1,907,818	(57,504)	(3.01)	1,826,429	(54,966)	(3.01)	1,753,983	(50,920)	(2.90)
Extinguishment of debt securities of consolidated trusts held by Freddie Mac	(85,407)	3,524	4.13	(88,757)	3,437	3.87	(87,665)	3,264	3.72
Total debt securities of consolidated trusts held by third parties	**1,822,411**	**(53,980)**	**(2.96)**	**1,737,672**	**(51,529)**	**(2.97)**	**1,666,318**	**(47,656)**	**(2.86)**
Other debt:									
Short-term debt	85,492	(1,910)	(2.23)	62,893	(1,193)	(1.90)	72,071	(615)	(0.85)
Long-term debt	192,100	(5,157)	(2.68)	216,484	(5,311)	(2.45)	264,354	(5,372)	(2.03)
Total other debt	**277,592**	**(7,067)**	**(2.55)**	**279,377**	**(6,504)**	**(2.33)**	**336,425**	**(5,987)**	**(1.78)**
Total interest-bearing liabilities	**2,100,003**	**(61,047)**	**(2.91)**	**2,017,049**	**(58,033)**	**(2.88)**	**2,002,743**	**(53,643)**	**(2.68)**
Impact of net non-interest-bearing funding	8,199	—	0.01	7,599	—	0.01	8,563	—	0.01
Total funding of interest-earning assets	**$2,108,202**	**($61,047)**	**(2.90)%**	**$2,024,648**	**($58,033)**	**(2.87)%**	**$2,011,306**	**($53,643)**	**(2.67)%**
Net interest income/yield		**$11,848**	**0.56 %**		**$12,021**	**0.59 %**		**$14,164**	**0.70 %**

(1) Loan fees, primarily consisting of amortization of upfront fees, included in interest income were $3.2 billion, $2.6 billion, and $2.4 billion for loans held by consolidated trusts and $112 million, $104 million, and $162 million for loans held by Freddie Mac during 2019, 2018, and 2017, respectively.

Net Interest Income Rate / Volume Analysis

The table below presents a rate and volume analysis of our net interest income. Our net interest income reflects the reversal of interest income accrued, net of interest received on a cash basis, related to mortgage loans that are on non-accrual status.

Table 5 - Net Interest Income Rate / Volume Analysis

	Variance Analysis					
	2019 vs. 2018			2018 vs. 2017		
(Dollars in millions)	Rate	Volume	Total Change	Rate	Volume	Total Change
Interest-earning assets:						
Cash and cash equivalents	$101	$19	$120	$45	($26)	$19
Securities purchased under agreements to resell	170	234	404	443	(151)	292
Secured lending	17	52	69	1	13	14
Mortgage-related securities	194	(459)	(265)	491	(867)	(376)
Extinguishment of debt securities of consolidated trusts held by Freddie Mac	(220)	133	(87)	(132)	(41)	(173)
Total mortgage-related securities, net	**(26)**	**(326)**	**(352)**	**359**	**(908)**	**(549)**
Non-mortgage-related securities	(31)	85	54	146	23	169
Loans held by consolidated trusts	159	2,885	3,044	767	2,370	3,137
Loans held by Freddie Mac	(34)	(464)	(498)	(28)	(807)	(835)
Total interest-earning assets	**356**	**2,485**	**2,841**	**1,733**	**514**	**2,247**
Interest-bearing liabilities:						
Debt securities of consolidated trusts including those held by Freddie Mac	(85)	(2,453)	(2,538)	(1,902)	(2,144)	(4,046)
Extinguishment of debt securities of consolidated trusts held by Freddie Mac	220	(133)	87	132	41	173
Total debt securities of consolidated trusts held by third parties	**135**	**(2,586)**	**(2,451)**	**(1,770)**	**(2,103)**	**(3,873)**
Other debt:						
Short-term debt	(237)	(480)	(717)	(665)	87	(578)
Long-term debt	(476)	630	154	(1,005)	1,066	61
Total other debt	**(713)**	**150**	**(563)**	**(1,670)**	**1,153**	**(517)**
Total interest-bearing liabilities	**(578)**	**(2,436)**	**(3,014)**	**(3,440)**	**(950)**	**(4,390)**
Net interest income	**($222)**	**$49**	**($173)**	**($1,707)**	**($436)**	**($2,143)**

Guarantee Fee Income

Guarantee fee income relates primarily to multifamily securitizations. For additional details on our multifamily securitizations, see **Our Business Segments - Multifamily - *Products and Activities - Securitization and Guarantee Products.***

Guarantee fee income consists of the following:

- **Contractual guarantee fee** - consists of the fees earned from guarantees issued to third parties and securitization trusts that we do not consolidate.
- **Guarantee obligation amortization** - represents the amortization of our obligation to perform over the term of the guarantee.
- **Guarantee asset fair value changes** - represents the change in fair value of our right to receive contractual guarantee fees. Because our multifamily loans contain prepayment protection, decreasing interest rates generally result in a higher guarantee asset fair value, with the opposite effect occurring when interest rates increase.

The table below presents the components of guarantee fee income.

Table 6 - Components of Guarantee Fee Income

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Contractual guarantee fee	$910	$810	$661	$100	12%	$149	23%
Guarantee obligation amortization	813	711	601	102	14	110	18
Guarantee asset fair value changes	(634)	(655)	(513)	21	3	(142)	(28)
Guarantee fee income	**$1,089**	**$866**	**$749**	**$223**	**26%**	**$117**	**16%**

Key Drivers:

- **2019 vs. 2018** - Increased primarily due to the continued growth in our multifamily guarantee portfolio, coupled with lower fair value losses on our guarantee asset due to declining interest rates.
- **2018 vs. 2017** - Increased primarily due to the continued growth in our multifamily guarantee portfolio, partially offset by increased fair value losses on our guarantee asset due to rising interest rates.

Investment Gains (Losses), Net

The table below presents the components of investment gains (losses), net.

Table 7 - Components of Investment Gains (Losses), Net

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Mortgage loans gains (losses)	$4,744	$746	$2,062	$3,998	536%	($1,316)	(64%)
Investment securities gains (losses)	389	(815)	935	1,204	148	(1,750)	(187)
Debt gains (losses)	201	720	151	(519)	(72)	569	377
Derivative gains (losses)	(4,516)	1,270	(1,988)	(5,786)	(456)	3,258	164
Investment gains (losses), net	**$818**	**$1,921**	**$1,160**	**($1,103)**	**(57%)**	**$761**	**66%**

Mortgage Loans Gains (Losses)

Mortgage loans gains (losses) consists of the following:

- **Gains (losses) on certain mortgage loan purchase commitments** - represents the change in fair value between the commitment date and settlement date for multifamily loan purchase commitments for which we have elected the fair value option.
- **Gains (losses) on mortgage loans** - includes changes in fair value on held-for-sale loans, including loans for which we have elected the fair value option, as well as any gains and losses on the sales of these loans.

Mortgage loans gains (losses) are affected by a number of factors, including:

- Volume of held-for-sale single-family seasoned mortgage loans;
- Volume of multifamily loan purchase commitments and mortgage loans for which we have elected the fair value option; and
- Changes in interest rates and market spreads.

The table below presents the components of mortgage loans gains (losses).

Table 8 - Components of Mortgage Loans Gains (Losses)

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Gains (losses) on certain loan purchase commitments	$1,913	$777	$1,098	$1,136	146%	($321)	(29)%
Gains (losses) on mortgage loans	2,831	(31)	964	2,862	9,232	(995)	(103)
Mortgage loans gains (losses)	**$4,744**	**$746**	**$2,062**	**$3,998**	**536%**	**($1,316)**	**(64)%**

Key Drivers:

- **2019 vs. 2018** - Increased due to fair value gains on multifamily held-for-sale mortgage loans and commitments driven by a decrease in long-term interest rates and targeted price increases related to changing market conditions, coupled with a higher volume of sales of single-family seasoned loans.
- **2018 vs. 2017** - Decreased due to fair value losses on multifamily mortgage loans and commitments as a result of spread widening and an increase in interest rates, coupled with higher fair value losses on single-family seasoned loans.

Investment Securities Gains (Losses)

Investment securities gains (losses) primarily consists of fair value gains and losses recognized on trading securities and realized gains and losses on the sale of available-for-sale securities.

Investment securities gains (losses) are affected by a number of factors, including changes in interest rates and market spreads and volume of sales of available-for-sale securities.

Key Drivers:

- **2019 vs. 2018** - Shifted to gains during 2019 primarily driven by higher gains on trading securities due to decreasing interest rates, partially offset by lower volume of sales at gains of non-agency mortgage-related securities.
- **2018 vs. 2017** - Shifted to losses during 2018 primarily driven by higher losses on trading securities due to increasing interest rates and spread widening, combined with lower volume of sales at gains of non-agency mortgage-related securities.

Debt Gains (Losses)

Debt gains (losses) consists of the following:

- **Fair value changes** - includes the gains and losses on debt for which we have elected the fair value option, primarily certain STACR debt notes.
- **Gains (losses) on extinguishment of debt** - represents the difference between the consideration paid and the debt carrying value when we purchase debt securities of consolidated trusts as investments in our mortgage-related investments portfolio and when we repurchase or call other debt.

Debt gains (losses) are affected by a number of factors, including:

- Changes in the market spreads between debt yields and benchmark interest rates and
- Amount and type of debt selected for repurchase based on our investment and funding strategies, including our efforts to support the liquidity and price performance of our mortgage-related securities.

The table below presents the components of debt gains (losses).

Table 9 - Components of Debt Gains (Losses)

	Year Ended December 31,			Year Over Year Change			
				2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Fair value changes:							
CRT-related debt	$105	$140	($212)	($35)	(25)%	$352	166%
Non-CRT-related debt	27	2	22	25	1,250	(20)	(91)
Total fair value changes	**132**	**142**	**(190)**	**(10)**	**(7)**	**332**	**175**
Gains (losses) on extinguishment of debt	69	578	341	(509)	(88)	237	70
Debt gains (losses)	**$201**	**$720**	**$151**	**($519)**	**(72)%**	**$569**	**377%**

Key Drivers:

- **2019 vs. 2018** - Decreased primarily due to losses from the extinguishment of fixed-rate debt securities of consolidated trusts, as market interest rates declined between the time of issuance and repurchase, partially offset by an increase in gains on callable debt due to an increase in call volume.
- **2018 vs. 2017** - Improved primarily due to higher gains from the extinguishment of fixed-rate debt securities of consolidated trusts, as market interest rates increased between the time of issuance and repurchase, coupled with fair value gains on STACR debt notes as a result of spread widening during 2018.

Derivative Gains (Losses)

Derivative instruments are a key component of our interest-rate risk management strategy. We use derivatives to economically hedge our interest-rate risk exposure. We primarily use interest-rate swaps, futures, and option-based derivatives, such as swaptions, to manage our exposure to changes in interest-rates. We consider the cost of derivatives used in interest-rate risk management to be an inherent part of the cost of funding our mortgage-related investments portfolio.

In addition, we routinely enter into commitments to purchase and sell loans and mortgage-related securities. The majority of these commitments are accounted for as derivative instruments.

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

Derivative gains (losses) consists of the following:

- **Fair value changes** - represents changes in the fair value of our derivatives while not designated in hedging relationships based on market conditions at the end of the period or at the time the derivative instrument is terminated. These amounts may or may not be realized over time, depending on future changes in market conditions and the terms of our derivative instruments.
- **Accrual of periodic cash settlements** - consists of the net amount we accrue during a period for interest-rate swap payments that we will make or receive for derivatives while not designated in hedging relationships. This accrual represents the ongoing cost of our hedging activities, and is economically equivalent to interest expense.

We apply fair value hedge accounting to certain single-family mortgage loans and long-term debt to reduce our GAAP earnings volatility. For the first three quarters of 2017, we included gains and losses on derivatives designated in qualifying hedge relationships in other income and the accrual of periodic cash settlements on derivatives in qualifying hedge relationships in derivatives gains (losses). Beginning in 4Q 2017, due to the adoption of amended hedge accounting guidance, we include gains and losses and the accrual of periodic cash settlements on derivatives designated in qualifying hedge relationships in the same line used to present the earnings effect of the hedged item. See **Note 9** for more information on hedge accounting and the adoption of amended hedge accounting guidance during 2017.

Derivative gains (losses) are affected by a number of factors, including:

- **Changes in interest rates** - Our primary derivative instruments are interest-rate swaps, including pay-fixed and receive-fixed interest-rate swaps. With a pay-fixed interest-rate swap, we pay a fixed rate of interest and receive a variable rate of interest based on a specified notional balance (the notional balance is for calculation purposes only). As interest rates decline, we recognize derivative losses, as the amount of interest we pay remains fixed, and the amount of interest we receive declines. As rates rise, we recognize derivative gains, as the amount of interest we pay remains fixed, but the amount of interest we receive increases. With a receive-fixed interest-rate swap, the opposite results occur.

- **Implied volatility** - Many of our assets and liabilities have embedded prepayment options. We use option-based derivatives, including swaptions, to economically hedge the prepayment options embedded in our mortgage assets and callable debt. Fair value gains and losses on swaptions are sensitive to changes in both interest rates and implied volatility, which reflects the market's expectation of future changes in interest rates. Assuming all other factors are unchanged, including interest rates, purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases, with the opposite being true for written swaptions.
- **Changes in the shape of the yield curve** - We own assets and have outstanding debt with different cash flows along the yield curve. We use derivatives to hedge the yield exposure of assets and debt, resulting in derivatives with different maturities. As a result, changes in the shape of the yield curve will affect our derivative gains (losses).
- **Changes in the composition of our derivative portfolio** - The mix and balance of our derivative portfolio changes from period to period as we enter into or terminate derivative instruments to respond to changes in interest rates and changes in the balances and modeled characteristics of our assets and liabilities. Changes in the composition of our derivative portfolio will affect the derivative gains and losses we recognize in a given period, thereby affecting the volatility of comprehensive income.

The table below presents the components of derivative gains (losses).

Table 10 - Components of Derivative Gains (Losses)

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Fair value changes:							
Interest-rate swaps	($3,085)	$1,422	$626	($4,507)	(317)%	$796	127%
Option-based derivatives	188	(630)	(1,041)	818	130	411	39
Futures	(946)	57	144	(1,003)	(1,760)	(87)	(60)
Commitments	(452)	606	(91)	(1,058)	(175)	697	766
CRT-related derivatives	(1)	(38)	(30)	37	97	(8)	(27)
Other	52	(6)	(6)	58	967	—	—
Total fair value changes	**(4,244)**	**1,411**	**(398)**	**(5,655)**	**(401)**	**1,809**	**455**
Accrual of periodic cash settlements	(272)	(141)	(1,590)	(131)	(93)	1,449	91
Derivative gains (losses)	**($4,516)**	**$1,270**	**($1,988)**	**($5,786)**	**(456)%**	**$3,258**	**164%**

Key Drivers:

- **2019 vs. 2018** - Decreases in long-term rates during 2019 resulted in derivative fair value losses compared to derivative fair value gains during 2018. The interest rate decreases during 2019 resulted in fair value losses on our pay-fixed interest rate swaps, forward commitments to issue mortgage-related securities, and futures, partially offset by fair value gains on our receive-fixed swaps and certain of our option-based derivatives.
- **2018 vs. 2017** - Increases in long-term rates during 2018 resulted in derivative fair value gains compared to derivative fair value losses during 2017. The interest rate increases during 2018 resulted in fair value gains on our pay-fixed interest rate swaps, forward commitments to issue mortgage-related securities, and futures, partially offset by fair value losses on our receive-fixed swaps and certain of our option-based derivatives. As a result of the adoption of amended hedge accounting guidance in 4Q 2017, fair value changes on derivatives in qualifying hedge relationships have been recorded within net interest income.

Other Income

Key Drivers:

- **2019 vs. 2018 and 2018 vs. 2017** - Primarily reflected the recognition of a $0.3 billion gain during 2018 from a judgment in litigation against Nomura Holding America, Inc. (Nomura) and $4.5 billion in proceeds received during 2017 from a litigation settlement with the Royal Bank of Scotland Group plc (RBS) related to certain of our non-agency mortgage related securities. See **Note 14** for additional information on the Nomura judgment and RBS settlement.

Credit-Related Expense

Benefit (Provision) for Credit Losses

Key Drivers:

- **2019 vs. 2018** - Remained relatively flat due to the strong credit performance of both our single-family and multifamily portfolios.
- **2018 vs. 2017** - Increased benefit for credit losses during 2018, primarily driven by estimated hurricane-related losses recognized in 2017.

Credit Enhancement Expense

Credit enhancement expense includes the premiums paid to transfer credit risk to third parties under freestanding credit enhancements and transaction and other costs incurred to enter into freestanding credit enhancements. Credit enhancement expense does not include costs associated with CRT-related debt, which are primarily recognized in interest expense, or the costs associated with CRT-related derivatives, which are recognized in investment gains (losses), net.

Key Drivers:

- **2019 vs. 2018 and 2018 vs. 2017** - Increased primarily due to higher volumes of CRT transactions.

See **MD&A - Our Business Segments - Single-Family Guarantee - *Products and Activities*** and **MD&A - Our Business Segments - Multifamily - *Products and Activities*** for additional information on our credit enhancements.

Operating Expense

Key Drivers:

- **2019 vs. 2018** - Increased primarily due to higher salaries and employee benefits driven by the VERP and higher technology costs.
- **2018 vs. 2017** - Increased primarily due to higher administrative expense.

Income Tax Expense

Key Drivers:

- **2019 vs. 2018** - Decreased primarily due to lower pre-tax income.
- **2018 vs. 2017** - Decreased due to the impact of the Tax Cuts and Jobs Act enacted in December 2017, which lowered the statutory corporate income tax rate from 35% in 2017 to 21% in 2018 and required us to measure our net deferred tax asset using the reduced rate and recognize a charge to income tax expense of $5.4 billion in 2017.

Other Comprehensive Income (Loss)

Our investments in securities classified as available-for-sale are measured at fair value on our consolidated balance sheets. The fair value of these securities is primarily affected by changes in interest rates, market spreads, and the movement of these securities towards maturity. All unrealized gains and losses on these securities are excluded from earnings and reported in other comprehensive income until realized. We reclassify our unrealized gains and losses from AOCI to earnings upon the sale of the securities or if the securities are determined to be other-than-temporarily impaired.

If, subsequent to the recognition of other-than-temporary impairment, our expectation of the cash flows we will receive on a previously impaired security has significantly increased, we will accrete that increase in cash flows into earnings. The accretion into earnings will generally reduce the amount of unrealized gains that we would have otherwise recognized if not for the accretion.

Key Drivers:

- ***2019 vs. 2018*** - Increased primarily due to fair value gains as long-term interest rates declined, partially offset by fair value losses due to spread widening on our agency mortgage-related securities.
- ***2018 vs. 2017*** - Decreased primarily due to higher fair value losses due to increasing long-term interest rates, coupled with smaller spread-related fair value gains driven by lower balances of non-agency mortgage-related securities.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

Table 11 - Summarized Consolidated Balance Sheets

	As of December 31,		Year Over Year Change	
(Dollars in millions)	**2019**	**2018**	**$**	**%**
Assets:				
Cash and cash equivalents	$5,189	$7,273	($2,084)	(29)%
Securities purchased under agreements to resell	66,114	34,771	31,343	90
Subtotal	**71,303**	**42,044**	**29,259**	**70**
Investments in securities, at fair value	75,711	69,111	6,600	10
Mortgage loans, net	2,020,200	1,926,978	93,222	5
Accrued interest receivable	6,848	6,728	120	2
Derivative assets, net	844	335	509	152
Deferred tax assets, net	5,918	6,888	(970)	(14)
Other assets	22,799	10,976	11,823	108
Total assets	**$2,203,623**	**$2,063,060**	**$140,563**	**7 %**
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	$6,559	$6,652	($93)	(1)%
Debt, net	2,179,528	2,044,950	134,578	7
Derivative liabilities, net	372	583	(211)	(36)
Other liabilities	8,042	6,398	1,644	26
Total liabilities	**2,194,501**	**2,058,583**	**135,918**	**7**
Total equity	**9,122**	**4,477**	**4,645**	**104**
Total liabilities and equity	**$2,203,623**	**$2,063,060**	**$140,563**	**7 %**

Key Drivers:

As of December 31, 2019 compared to December 31, 2018:

- **Cash and cash equivalents** and **securities purchased under agreements to resell** increased on a combined basis primarily due to higher loan prepayments, coupled with higher near-term cash needs for upcoming debt maturities and anticipated calls of other debt and a higher expected loan purchase forecast.
- **Other assets** increased primarily due to higher servicer receivables driven by an increase in mortgage loan payoffs reported but not yet remitted at the end of 4Q 2019 and a change in our servicing cycle in 2Q 2019 related to the implementation of Release 2 of the CSP and the Single Security Initiative.
- **Total equity** increased primarily as a result of our ability to retain earnings as a result of an increase in the applicable Capital Reserve Amount from $3.0 billion to $20.0 billion pursuant to the September 2019 Letter Agreement.

OUR BUSINESS SEGMENTS

As shown in the table below, we have three reportable segments, which are based on the way we manage our business. Certain activities that are not part of a reportable segment are included in the All Other category.

Segment/Category	Description
Single-family Guarantee	Reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk
Multifamily	Reflects results from our purchase, sale, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily mortgage credit risk and market risk
Capital Markets	Reflects results from managing our mortgage-related investments portfolio (excluding Multifamily segment investments, single-family seriously delinquent loans, and the credit risk of single-family performing and reperforming loans), single-family securitization activities, and treasury function, which includes interest-rate risk management for the company
All Other	Consists of material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments

Segment Earnings

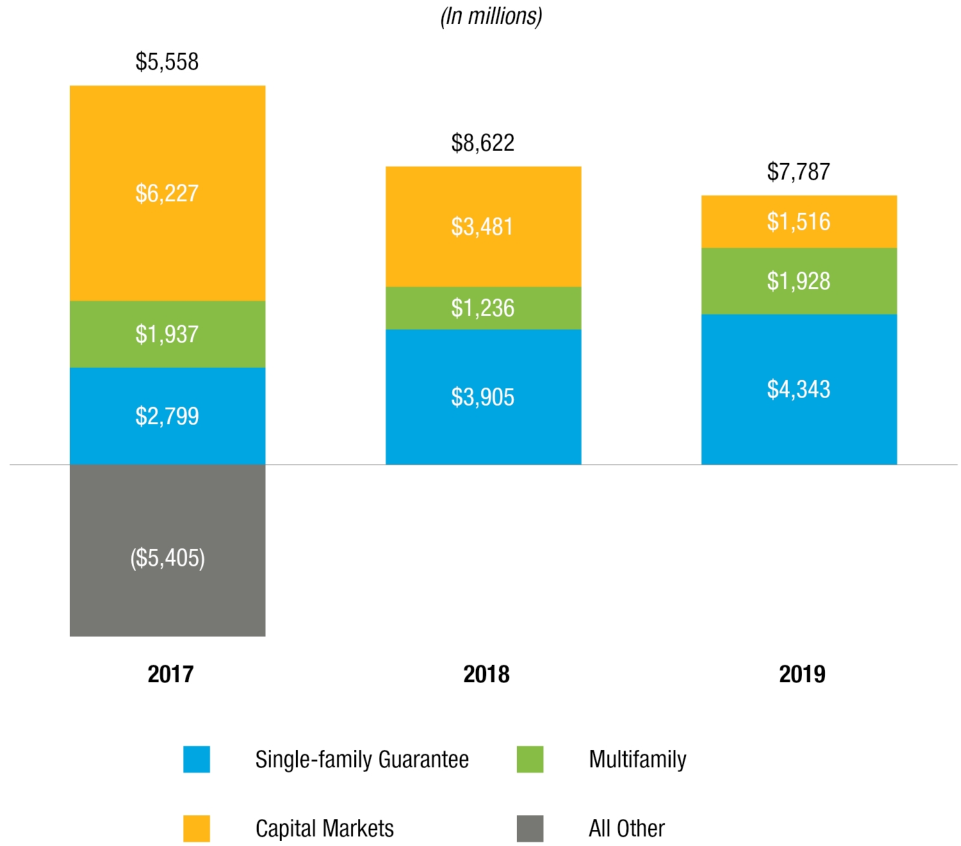
We evaluate segment performance and allocate resources based on a Segment Earnings approach:

- We make significant reclassifications among certain line items in our GAAP financial statements to reflect measures of guarantee fee income on guarantees, net interest income on investments, and benefit (provision) for credit losses on loans that are in line with how we manage our business.
- We allocate certain revenues and expenses, including certain returns on assets, funding and hedging costs, and all administrative expenses to our three reportable segments.
- 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).

Segment Earnings 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. 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 13** for additional details on Segment Earnings, including additional financial information for our segments.

Segment Comprehensive Income

The graph below shows our comprehensive income by segment.



Single-Family Guarantee

Business Overview

Our Single-family Guarantee segment supports our strategic goals to exit conservatorship, create a world-class operating platform, and become the leader in housing by:

- Maintaining strong financial and capital management and identifying growth opportunities;
- Positioning our business model to produce attractive, sustainable returns while preserving strong risk management discipline;
- Utilizing efficient and resilient operations to run our business, serve our clients, and fulfill our mission;
- Continuing to create innovative structures to cost-effectively transfer credit risk to third-party investors;
- Leveraging technology, processes, policies, and data to ensure we have a stable, flexible ecosystem that can evolve as we evolve;
- Identifying and implementing new and creative ways to support fair access to credit in a safe, sound, and responsible manner; and
- Maintaining a high performing, inclusive, and diverse workforce striving to achieve our mission and realize our vision of becoming the leader in housing.

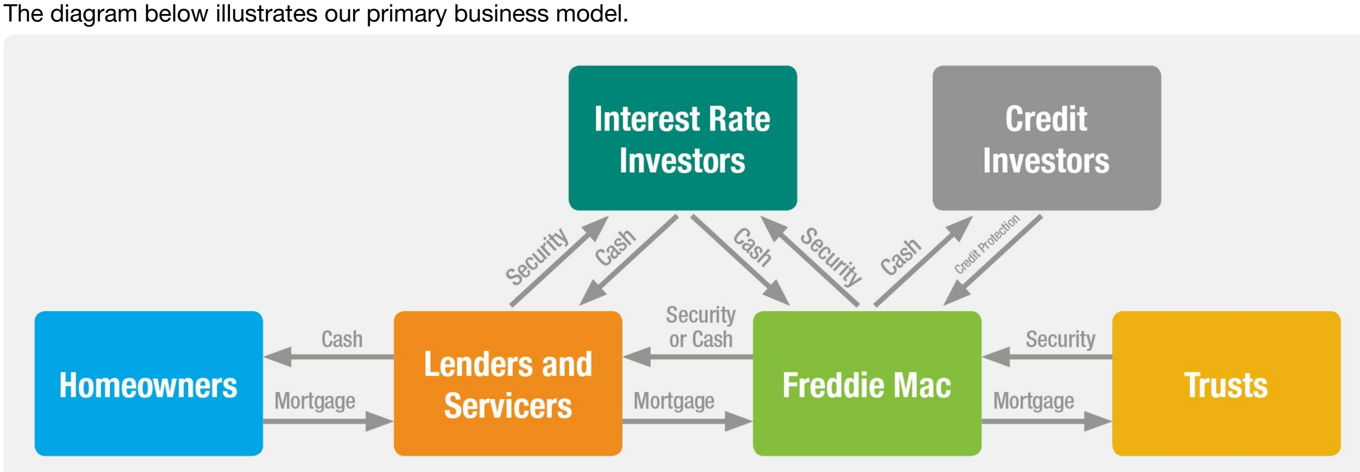
The U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders, and a secondary mortgage market that links lenders and investors. The size of the U.S. residential mortgage market is affected by many factors, including changes in interest rates, unemployment rates, homeownership rates, housing prices, the supply of housing, lender preferences regarding credit risk, and borrower preferences regarding mortgage debt.

In accordance with our Charter, we participate in the secondary mortgage market. The Single-family Guarantee segment provides liquidity and support to the single-family market through a variety of activities that include the purchase, securitization, and guarantee of single-family loans originated by sellers and servicers. The mix of loan products available for us to purchase is affected by several factors, including the volume of loans meeting the requirements of our Charter, our own preference for credit risk reflected in our purchase standards, and the loan purchase and securitization activity of other financial institutions.

Our primary business model is to acquire loans that lenders originate and then pool those loans into mortgage-related securities that transfer interest rate, prepayment, and liquidity risk to investors and can be sold in the capital markets. To reduce our exposure under our guarantees, we transfer credit risk on a portion of our single-family credit guarantee portfolio to the private market when it is cost-effective to do so. The returns we generate from these activities are primarily derived from the ongoing guarantee fee we receive in exchange for providing our guarantee of the principal and interest payments of the issued mortgage-related securities.

In order to issue mortgage-related securities, we establish trusts pursuant to our Master Trust Agreements and serve as the trustee of those trusts. The lender or servicer administers the collection of borrowers' payments on their loans and remits the collected funds to us. We administer the distribution of payments to the investors in the mortgage-related securities, net of any applicable guarantee fees.

The diagram below illustrates our primary business model.



When a borrower prepays a loan that we have securitized, the outstanding balance of the security owned by investors is reduced by the amount of the prepayment. If the borrower becomes delinquent, we continue to make the applicable payments to the investors in the mortgage-related securities pursuant to our guarantee until we purchase the loan out of the consolidated trust. We have the option to purchase specified loans, including certain delinquent loans, from consolidated trusts at a purchase price equal to the current UPB of the loan, less any outstanding advances of principal that have been previously distributed. However, in order to maintain alignment with Fannie Mae under the Single Security Initiative, FHFA requires us to purchase loans out of consolidated trusts if they are delinquent for 120 days, and we have the option to purchase sooner under certain circumstances (e.g., imminent default and seller breaches of representations and warranties). If borrowers become delinquent, we work with the borrowers through our servicers to mitigate our losses through our loan workout programs, which are discussed in more detail in **Risk Management**. If we are unable to achieve a successful loan workout, we will pursue foreclosure of the underlying property, which will result in a third-party sale or our acquisition of the property as REO. The purchase and sale of delinquent loans are done in conjunction with the Capital Markets segment.

Guarantee Fees

We enter into loan purchase agreements with many of our single-family customers that outline the terms under which we agree to purchase loans from them over a period of time. For most of the loans we purchase, the guarantee fees are not specified contractually. Instead, we bid for some or all of the lender's loan volume on a monthly basis at a guarantee fee that we specify. As a result, our loan purchase volumes from individual customers can fluctuate significantly.

We seek to issue guarantees with fee terms that are commensurate with the aggregate risks assumed and that will, over the long-term, provide guarantee fee income that exceeds the credit-related and administrative expenses on the underlying loans and also provide a return on the capital that would be needed to support the related credit risk. The guarantee fees charged on new acquisitions generally consist of:

- A contractual monthly fee paid as a percentage of the UPB of the underlying loan;
- Upfront fees, which primarily include delivery fees that are calculated based on credit risk factors such as the loan product type, loan purpose, LTV ratio, and credit score. These delivery fees are charged to compensate us for higher levels of risk in some loan products;
- Upfront payments made or received to buy up or buy down, respectively, the monthly contractual guarantee fee ("buy-up fees" or "buy-down fees"). These fees are paid in conjunction with the formation of a security to provide for a uniform coupon rate for the mortgage pool underlying the security. The payments made to buy-up the monthly contractual guarantee fee are allocated to the Capital Markets segment;
- Market adjusted pricing costs based on the market pricing of our securities relative to the market pricing of comparable Fannie Mae securities primarily for loans acquired prior to implementation of the Single Security Initiative in June 2019. We have not employed market adjusted pricing for new acquisitions following implementation, as the Single Security Initiative is designed to enhance the overall liquidity of Freddie Mac and Fannie Mae securities in the TBA market by supporting their fungibility without regard to which company is the issuer; and
- The legislated 10 basis point increase in guarantee fees under the Temporary Payroll Tax Cut Continuation Act of 2011.

We operate in a competitive market by varying our pricing for different customers, loan products, and underwriting characteristics. We seek to maintain a broad-ranging mix of loan quality for the loans we purchase. However, sellers may elect to retain loans with better credit characteristics. A seller's decision to retain these loans could result in our purchases having a more adverse credit profile.

We must obtain FHFA's approval to implement across-the-board changes to our guarantee fees. In addition, from time to time, FHFA issues directives or guidance to us affecting the levels of guarantee fees that we may charge.

Common Securitization Platform and the UMBS

We continue to work with FHFA, Fannie Mae, and CSS to support the CSP and the UMBS market. We have been using the CSP for data acceptance, issuance support, and bond administration activities related to Freddie Mac single-class fixed-rate mortgage-related securities since 2016. In June 2019, Freddie Mac, Fannie Mae, and FHFA announced the implementation of Release 2 of the CSP and the Single Security Initiative for Freddie Mac and Fannie Mae, under which we and Fannie Mae began issuing UMBS. Upon implementation of Release 2, we transitioned additional securities administration activities to the CSP. Release 2 also added to the functionality of the CSP by, among other things, enabling commingling of Freddie Mac and Fannie Mae UMBS and other TBA-eligible mortgage securities in resecuritization transactions. As a result, implementation of Release 2 of the CSP and the Single Security Initiative increased our counterparty risk exposure to Fannie Mae and our operational risk exposure to CSS. For additional information, see **Risk Management - Counterparty Credit Risk** and **Risk Management - Operational Risk**.

In connection with these developments, we extended the payment delay for newly issued fixed-rate mortgage securities from 45 days to 55 days, and in June 2019, we ceased issuing Gold PCs (which have a 45-day payment delay). We also updated our servicer reporting cycle to align with an industry standard monthly calendar cycle and adopted a single common remittance due date for principal and interest payments, excluding payoffs.

We are offering an optional exchange program for security holders to exchange certain existing 45-day payment delay fixed-rate Gold PCs and Giant PCs for the corresponding new UMBS and other applicable 55-day payment delay Freddie Mac mortgage securities. As part of this program, we make a one-time payment to exchanging security holders for the value of the 10 additional days of payment delay, based on "float compensation" rates we calculate. We do not expect the return from this additional float to fully offset our payments to the security holders. During 2019, we exchanged $282.6 billion in UPB of 45-day payment delay securities, including securities owned by Freddie Mac, for 55-day payment delay securities, and paid $0.1 billion in float compensation in connection with these exchanges.

Products and Activities

Securitization and Guarantee Products

We offer various types of guarantee and securitization products, primarily Level 1 Securitization Products and Resecuritization Products. In these securitization products, Freddie Mac functions in its capacity as depositor, guarantor, administrator, and trustee. We retain the credit risk and transfer the interest-rate, prepayment, and liquidity risks to the investors. While the Single-family Guarantee segment is responsible for the guarantee of our securities, the Capital Markets segment manages the securitization and resecuritization processes.

Level 1 Securitization Products

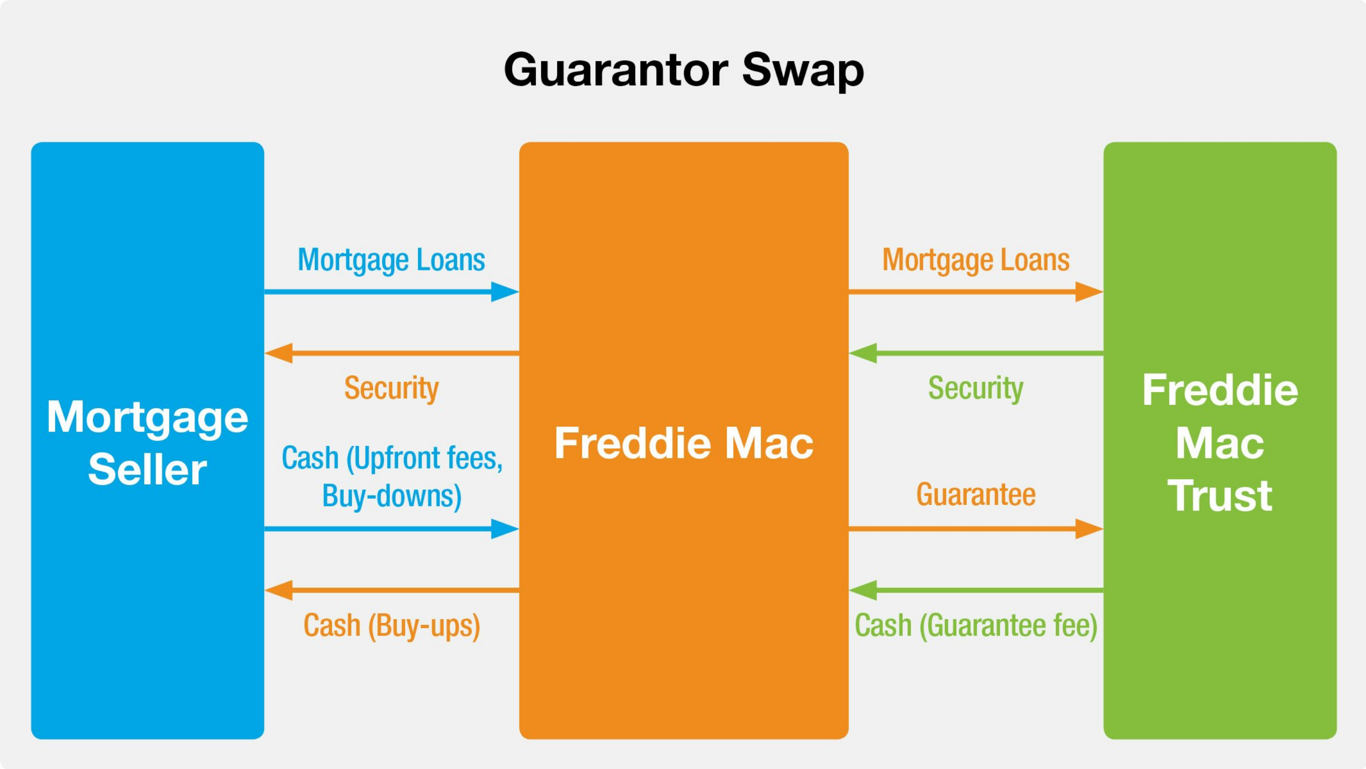
We offer a variety of Level 1 Securitization Products to our customers. Our Level 1 Securitization Products are pass-through securities that represent undivided beneficial interests in trusts that hold pools of loans. For our fixed-rate Level 1 Securitization Products, we guarantee the timely payment of principal and interest. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying loans. We also guarantee the full and final payment of principal, but not the timely payment of principal, on ARM PCs. In exchange for our guarantee, we receive fees as described in the ***Guarantee Fees*** section above.

We issue the following types of Level 1 Securitization Products:

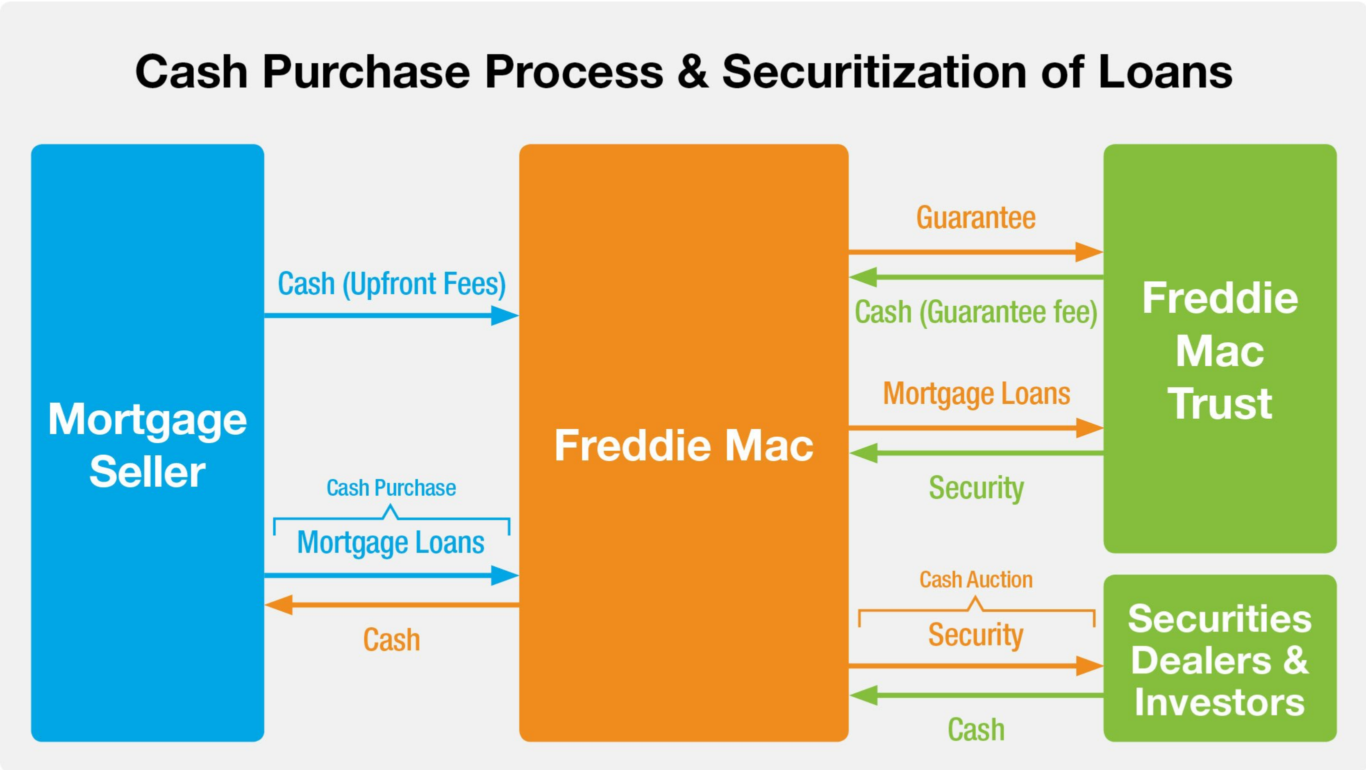
- **UMBS** - Single-class pass-through securities with a 55-day payment delay for TBA-eligible fixed-rate mortgage loans. We began issuing UMBS for all TBA-eligible fixed-rate mortgage loans on June 3, 2019.
- **55-day MBS** - Single-class pass-through securities with a 55-day payment delay for non-TBA-eligible fixed-rate mortgage loans. We began issuing 55-day MBS for all non-TBA-eligible fixed-rate mortgage loans on June 3, 2019.
- **PCs**
  - ***Gold PCs*** - Single-class pass-through securities with a 45-day payment delay that we issued for fixed-rate mortgage loans prior to June 3, 2019. With the implementation of Release 2 of the CSP and the Single Security Initiative, we no longer issue Gold PCs. Existing Gold PCs that are not entirely resecuritized are eligible for exchange into UMBS (for TBA-eligible securities) or 55-day MBS (for non-TBA-eligible securities).
  - ***ARM PCs*** - Single-class pass-through securities with a 75-day payment delay for ARM products. Implementation of Release 2 of the CSP and the Single Security Initiative did not affect our ARM PC offerings.

All Level 1 Securitization Products are backed only by mortgage loans that we have acquired. We offer (or previously offered) all of the above products through both guarantor swap and cash loan purchase programs.

In a guarantor swap execution, we offer transactions in which our customers, primarily large mortgage banking companies and commercial banks, provide us with loans in exchange for a security backed by those same loans, as shown in the diagram below:



In a cash loan purchase execution, we offer to pay cash to our customers, primarily community and regional banks. In these transactions, we purchase loans for cash and securitize them for retention in our mortgage-related investments portfolio or for sale to third parties. For the period of time between loan purchase and securitization, we refer to the loan as being in our securitization pipeline. The purchase of loans and sale of securities are managed by the Capital Markets segment. The diagram below illustrates a cash loan purchase execution.

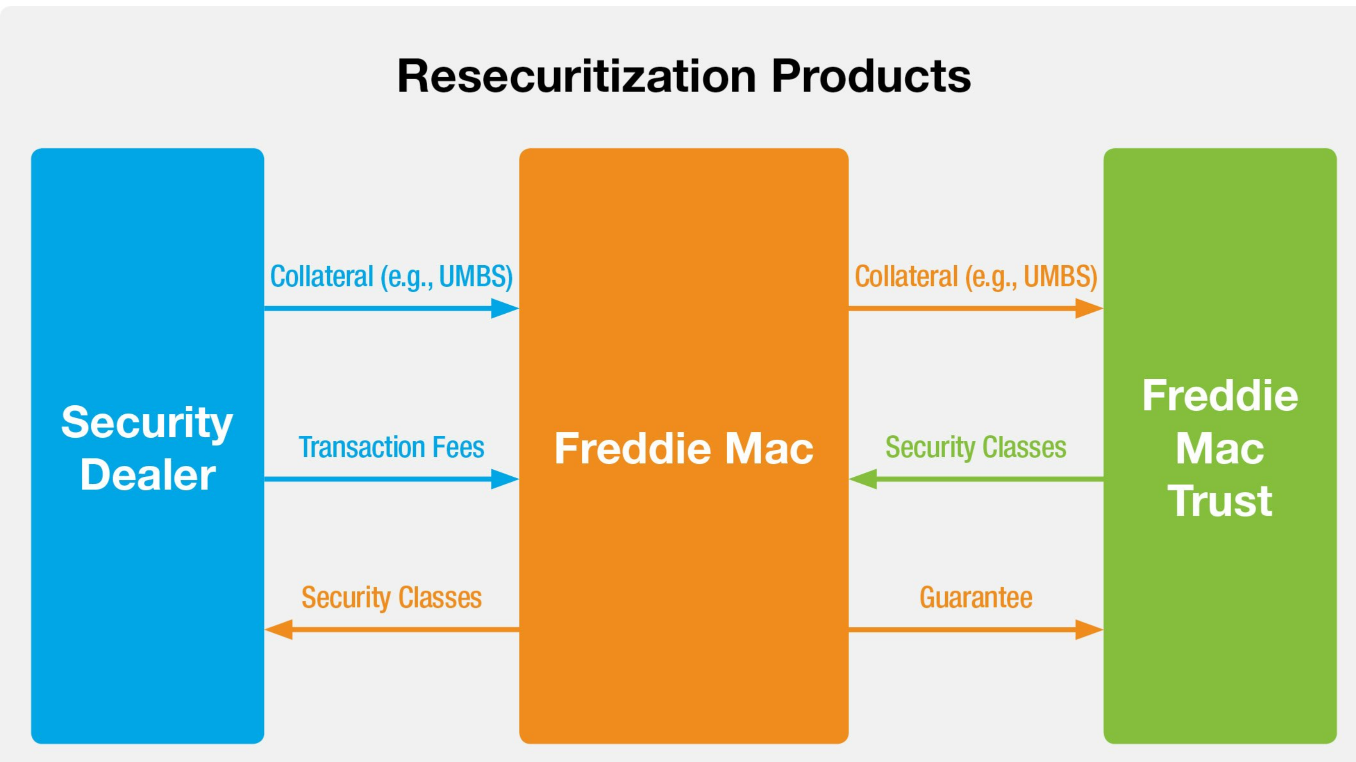


Resecuritization Products

We offer resecuritization products to our customers. Our resecuritization products represent beneficial interests in pools of Level 1 Securitization Products and certain other types of mortgage assets. We create these securities by using Level 1 Securitization Products or our previously issued resecuritization products as the underlying collateral. We leverage the issuance of these securities to expand the range of investors in our mortgage-related securities to include those seeking specific security attributes. Similar to our Level 1 Securitization Products, we guarantee the payment of principal and interest to the investors in our resecuritization products. We do not charge a guarantee fee for these securities if the underlying collateral is already guaranteed by us since no additional credit risk is introduced, although we typically receive a transaction fee as compensation for creating the security and future administrative responsibilities.

Upon implementation of Release 2 of the CSP and the Single Security Initiative, we have the ability to commingle TBA-eligible Fannie Mae collateral in certain of our resecuritization products. When we resecuritize Fannie Mae securities, which are separately guaranteed by Fannie Mae, in our commingled resecuritization products, our guarantee covers timely payment of principal and interest on such products from underlying Fannie Mae securities. If Fannie Mae were to fail to make a payment on a Fannie Mae security that we resecuritized, we would be responsible for making the payment. We do not charge an incremental guarantee fee to commingle Fannie Mae collateral in resecuritization transactions.

All the cash flows from the collateral underlying our resecuritization products are generally passed through to investors in these securities. We do not issue resecuritization products that have concentrations of credit risk beyond those embedded in the underlying assets. In many of our resecuritization transactions, securities dealers or investors deliver mortgage assets in exchange for the resecuritization product. In certain cases, we may also transfer our own mortgage assets in exchange for the resecuritization product. The resecuritization activities are managed by the Capital Markets segment. The following diagram provides a general example of how we create resecuritization products:



We offer the following types of resecuritization products:

- **Single-class resecuritization products** - Involve the direct pass-through of all cash flows of the underlying collateral to the beneficial interest holders and include:
  - ***Supers*** - Resecuritizations of UMBS and certain other mortgage securities. This structure allows commingling of Freddie Mac and Fannie Mae collateral, where newly issued or exchanged UMBS and Supers issued by us or Fannie Mae may be commingled to back Supers issued by us or Fannie Mae. Supers can be backed by:
    - UMBS and/or other Supers issued by us or Fannie Mae;
    - Existing TBA-eligible Fannie Mae "MBS" and/or "Megas"; and/or
    - UMBS and Supers that we have issued in exchange for TBA-eligible PCs and Giant PCs that have been delivered to us in response to our exchange offer.

- ***Giant MBS*** - Resecuritizations of:
  - Newly issued 55-day MBS and/or Giant MBS; and/or
  - 55-day MBS and/or Giant MBS that we have issued in exchange for non-TBA-eligible PCs and non-TBA-eligible Giant PCs that have been delivered to us in response to our exchange offer.
- ***Giant PCs*** - Resecuritizations of previously issued PCs or Giant PCs. Although we no longer issue Gold PCs, existing Gold PCs may continue to be resecuritized into Giant PCs. In addition, ARM PCs may continue to be resecuritized into ARM Giant PCs. Fixed-rate Giant PCs are eligible for exchange into Supers (for TBA-eligible securities) or Giant MBS (for non-TBA-eligible securities).

- **Multiclass resecuritization products**
  - ***REMICs*** - Resecuritizations of previously issued mortgage securities that divide all cash flows of the underlying collateral into two or more classes of varying maturities, payment priorities, and coupons. This structure allows commingling of TBA-eligible Freddie Mac and Fannie Mae collateral.
  - ***Strips*** - Resecuritizations of previously issued Level 1 Securitization Products or single-class resecuritization products and issuance of stripped securities, including principal-only and interest-only securities or floating rate and inverse floating rate securities, backed by the cash flows from the underlying collateral. This structure allows commingling of TBA-eligible Freddie Mac and Fannie Mae collateral.

Other Securitization Products

- **Senior subordinate securitization structures backed by recently originated loans (consolidated)** - In prior years, we created senior subordinate securitization structures in which we issued guaranteed senior securities and unguaranteed subordinated securities backed by recently originated single-family loans. The unguaranteed subordinated securities absorb first losses on the related loans and the loans are serviced in accordance with our Guide. We discontinued regular offerings of these transactions in 2019.
- **Other securitization products** - Guaranteed mortgage-related securities collateralized by non-Freddie Mac mortgage-related securities. However, we have not entered into these types of transactions as part of our Single-family Guarantee business in several years.

Long-Term Standby Commitments

We also offer a guarantee on mortgage assets held by third parties, in exchange for guarantee fees, without securitizing those assets. These long-term standby commitments obligate us to purchase seriously delinquent loans that are covered by those commitments. From time to time, we have consented to the termination of our long-term standby commitments and simultaneously entered into guarantor swap transactions with the same counterparty, issuing securities backed by many of the same loans.

The primary impacts of the aforementioned products and transactions to Segment Earnings are:

- Guarantee fee income earned on our guarantee of principal and interest payments on our mortgage-related securities and
- Benefit (provision) for credit losses, which is affected by changes in estimated probabilities of default and estimated loss severities, the actual level of loan defaults, the effect of loss mitigation efforts, and payment performance of our individually impaired mortgage portfolio.

CRT Transactions

To reduce our credit risk exposure, we engage in various types of credit enhancements, including CRT transactions and other credit enhancements. We define CRT transactions as those arrangements where we actively transfer the credit risk exposure on mortgages that we own or guarantee. We define other credit enhancements as those arrangements, such as traditional primary mortgage insurance, where we do not actively take part in the transfer of the credit risk exposure. Our CRT transactions are designed to reduce the amount of conservatorship capital needed under the CCF, to transfer portions of credit losses on groups of previously acquired loans to third-party investors, and to reduce the risk of future losses to us and taxpayers if borrowers go into default. The payments we make in exchange for this credit protection effectively reduce our guarantee fee income from the associated mortgages. The following strategic considerations were incorporated into the design of our CRT transactions:

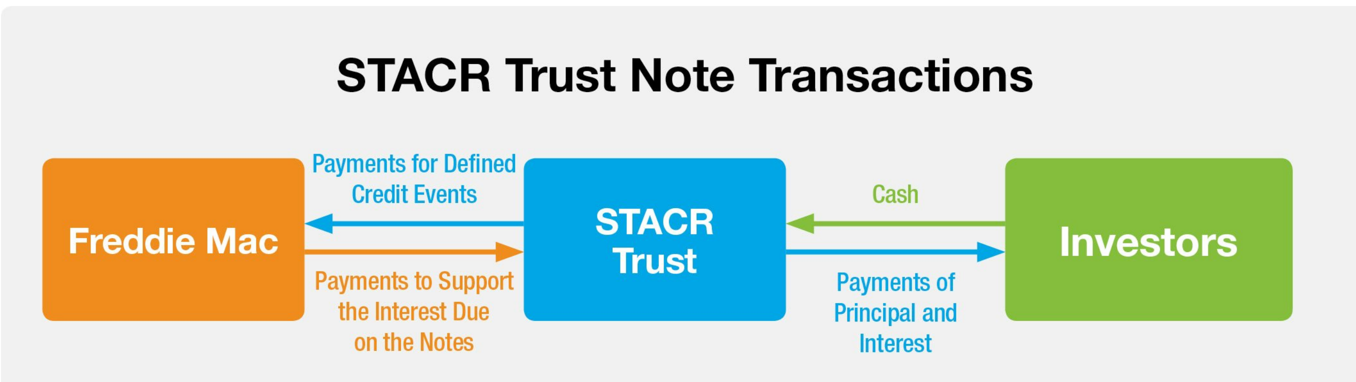
- Offer repeatable and scalable execution with a broad appeal to diversified investors;
- Execute at a cost that is economically sensible;
- Result in no or minimal effect on the TBA market;
- Minimize changes required of, and effects on, sellers and servicers by having Freddie Mac serve as the credit manager for investors; and
- Avoid or very substantially mitigate the risk that our losses are not reimbursed timely and in full.

Each CRT transaction is designed to transfer a certain portion of the credit risk that we assume for loans with certain targeted characteristics. Risk positions may be transferred to third-party investors through one or more CRT transactions where economically sensible. The risk transfer could occur prior to, or simultaneously with, our purchase of the loan (i.e., front-end coverage) or after the purchase of the loan (i.e., back-end coverage). As CRT has become part of our normal business activities, we have established the following programs to regularly transfer portions of credit risk to diversified investors:

STACR and ACIS Offerings

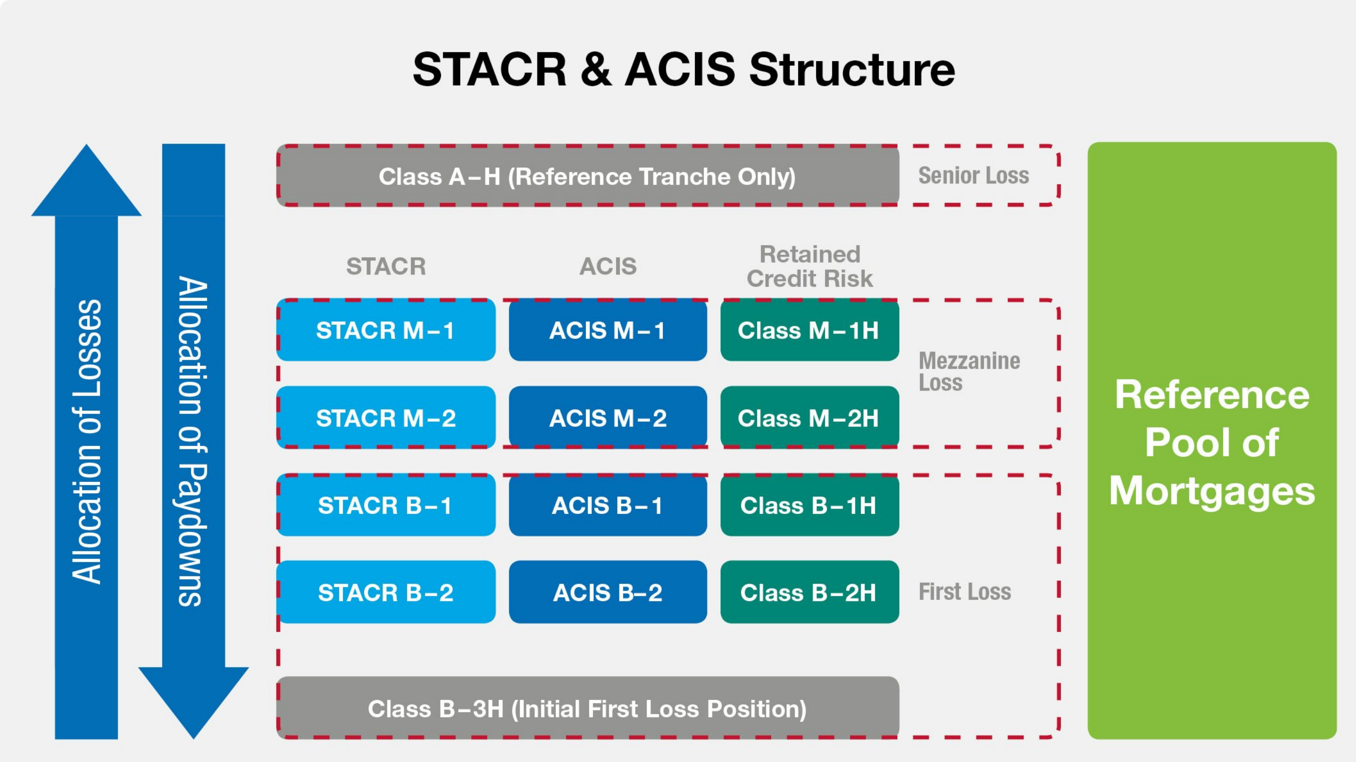
Our two primary CRT programs are STACR and ACIS.

- **STACR** - Our primary single-family securities-based credit risk sharing vehicle. STACR Trust note transactions transfer risk to the private capital markets through the issuance of unguaranteed notes using a third-party trust. In a STACR transaction, we create a reference pool of loans from our single-family loan portfolio and an associated securitization-like structure with notional credit risk positions (e.g., first loss, mezzanine, and senior positions). The trust issues notes linked to certain of the notional credit risk positions to third-party investors and makes periodic payments of principal and interest on the notes, but is not required to repay principal to the extent that the notional credit risk position is reduced as a result of specified credit events. We make payments to the trust to support payment of the interest due on the notes. The amount of risk transferred in each transaction affects the amounts we are required to pay. We receive payments from the trust that otherwise would have been made to the noteholders to the extent there are certain defined credit events on the mortgages in the related reference pool. The note balances are reduced by the amount of the payments to us, thereby transferring the related credit risk of the loans in the reference pool to the note investors. Generally, the notional amounts of the credit risk positions are also reduced based on principal payments that occur on the loans in the reference pool. We enhanced the STACR Trust note structure in 4Q 2019 to qualify the notes issued as interests in a REMIC that allow favorable tax treatment for certain types of investors. The following diagram illustrates a typical STACR transaction:



- **ACIS** - Our primary insurance-based credit risk sharing vehicle. ACIS transactions are insurance policies we enter into with global insurance and reinsurance companies to cover a portion of credit risk on the STACR or standalone reference pools. We pay monthly premiums to the insurers or reinsurers in exchange for claim coverage on their portion of the reference pool. We require our ACIS counterparties to partially collateralize their exposure to reduce the risk that we will not be reimbursed for our claims under the policies.

We have established programmatic offerings of STACR and ACIS transactions to regularly transfer credit risk on a targeted population of recently acquired mortgage loans ("on-the-run transactions"). STACR and ACIS are complementary programs issued from the same reference pool for on-the-run transactions. The targeted loan population for on-the-run transactions is recently acquired 30-year fixed-rate mortgage loans with LTV ratios between 60% and 97%, excluding loans acquired under our relief refinance programs, government guaranteed loans, and loans that do not meet certain eligibility criteria. Our typical on-the-run transactions are issued on a quarterly basis and provide back-end coverage for loans that we guaranteed 2 to 3 quarters prior to issuance (e.g., a transaction in 4Q 2019 would typically cover loans acquired in 1Q or 2Q 2019). Starting with our issuances in 3Q 2018, in a typical on-the-run transaction, we transfer to third-party investors a portion of the credit risk between an initial first loss position and a specified detachment point which may vary based on numerous factors, such as the type of collateral and market conditions. We retain the initial first loss position and at least 5% of the credit risk of all the positions sold to align our interests with those of the investors. We also retain all of the senior credit risk position. On-the-run STACR transactions typically have a 30-year maturity and on-the-run ACIS transactions typically have a 12.5-year maturity. The diagram below illustrates a typical on-the-run STACR and ACIS structure:



In addition to our regularly issued on-the-run transactions, we also periodically execute "off-the-run" STACR and ACIS transactions that provide back-end coverage on certain loans that are not in the on-the-run transaction targeted loan population. For example, we offer STACR and ACIS transactions that provide coverage on HARP and other relief refinance loans, STACR and ACIS transactions that provide coverage on unissued portions of the reference pools related to previous STACR and ACIS transactions, and ACIS transactions that provide coverage on loans with 15-year maturities not related to any STACR offering.

Prior to 2018, the majority of our STACR transactions were structured as unsecured debt issued directly by us (STACR debt notes) rather than as debt issued by a trust. These transactions operate similarly to STACR Trust notes, except that we make payments of principal and interest on the issued STACR debt notes and are not required to repay principal to the extent that the notional credit risk position is reduced as a result of a specified credit event on a loan in the reference pool. In certain of these transactions, we transferred risk in both first loss and mezzanine notional credit risk positions, while in other transactions we only transferred risk in the mezzanine notional credit risk position. For certain STACR debt notes issued in prior years (generally STACR debt notes issued prior to 2015), losses are allocated to the notional amounts of the credit risk positions based on calculated losses using a predefined formula when the loans experience a credit event, which predominantly occurs when a loan becomes 180 days delinquent. As a result, in these transactions, we receive reimbursement of losses based on these calculated loss amounts rather than based on actual losses. While we may issue STACR debt notes in the future, we expect to predominantly issue STACR Trust notes.

Additional Offerings

In addition to our primary offerings, we also offer the following CRT products:

- **ACIS Forward Risk Mitigation (AFRM)** - An additional offering in the ACIS program that provides front-end credit risk transfer as loans come into the portfolio. Under each of these insurance policies, we pay monthly premiums that are determined based on the outstanding balance of the reference pool. When specific credit events occur, we generally receive compensation from the insurance policy up to an aggregate limit based on actual losses.
- **Integrated Mortgage Insurance (IMAGIN℠)** - An insurance-based offering that provides loan-level front-end protection for loans with 80% and higher LTV ratios. IMAGIN is designed to expand and diversify sources of private capital supporting low down payment lending, while enabling better management of taxpayer exposure to our mortgage and counterparty risks. Mortgage insurance provided to each loan is generally underwritten by a group of insurers and reinsurers. IMAGIN is offered to a broad range of Freddie Mac sellers, who can choose IMAGIN or traditional primary mortgage insurance at their discretion.
- **Lender risk-sharing** - We offer a variety of transactions in which lenders may retain a portion of the credit risk on loans they originate and/or service. These transactions are generally collateralized so that our exposure to counterparty credit risk is not increased.

For additional information on single-family mortgage loan credit enhancements, see **Risk Management - Single-Family Mortgage Credit Risk -** ***Transferring Credit Risk to Third-Party Investors***.

The primary impacts of our credit risk transfer transactions to Segment Earnings are:
• Interest expense on our STACR debt notes, net of reinvestment income;
• Fair value gains and losses recognized on certain CRT transactions;
• Expenses to transfer credit risk for certain CRT transactions; and
• Benefits recognized from recoveries under certain CRT transactions.

Securitization and Sales of Seasoned Loans

We continually manage the balance of our less liquid single-family mortgage loans, many of which we acquired by purchasing delinquent or modified loans from guaranteed securities. We offer to sell select seasoned single-family mortgage loans through a variety of methods. In these transactions, we reduce or eliminate our credit risk, in addition to our interest-rate and prepayment risk, associated with the underlying mortgage loans. The sales of these mortgage loans are managed by the Capital Markets segment. Our seasoned loan transactions include the following:

- **Senior subordinate securitization structures backed by seasoned loans (non-consolidated) -** Transactions where we issue guaranteed senior securities and unguaranteed subordinated securities. The collateral for these structures primarily consists of reperforming loans. The unguaranteed subordinated securities absorb first losses on the related loans. Unlike senior subordinate securitization transactions backed by recently originated mortgage loans, in these transactions the loans are not serviced in accordance with our Guide and we do not control the servicing.
- **Level 1 Securitization Products** - We securitize reperforming loans using Level 1 Securitization Products through a similar process to that discussed above. We may subsequently resecuritize a portion of the guaranteed securities, with some of the resulting interests being sold to third parties. Our use of this strategy has declined over time, with our primary strategy now utilizing our senior subordinate securitization structures.
- **Whole loan sales** - Sales of seriously delinquent loans for cash.

The primary impacts of the aforementioned products and transactions to Segment Earnings are:
• Gains and losses recognized on the reclassification of loans held-for-investment to held-for-sale and subsequent sale of these loans.

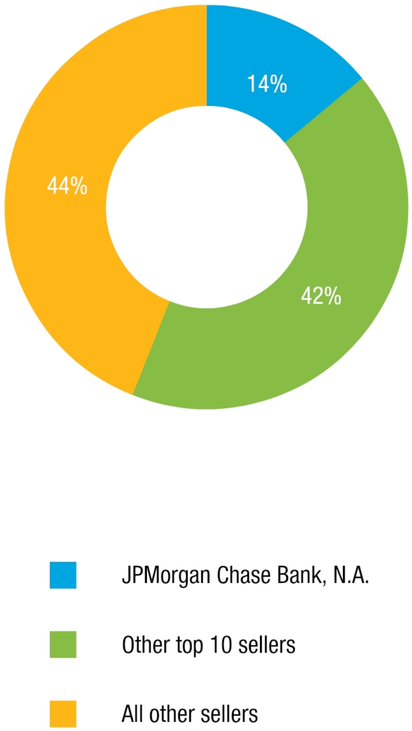
Customers

Our customers in the Single-family Guarantee segment are predominantly financial institutions that originate, sell, and perform the ongoing servicing of loans for new or existing homeowners. These companies include mortgage banking companies, commercial banks, regional banks, community banks, credit unions, HFAs, savings institutions, and non-depository financial institutions. Many of these companies are both sellers and servicers for us. In addition, we maintain relationships with investors and dealers in our guaranteed mortgage-related securities.

We acquire a significant portion of our loans from several lenders that are among the largest originators in the U.S. In addition, a significant portion of our single-family loans is serviced by several large servicers. The following charts show the concentration of our 2019 single-family purchase volume by our largest sellers and our loan servicing by our largest servicers as of December 31, 2019. Any seller or servicer with a 10% or greater share is listed separately.

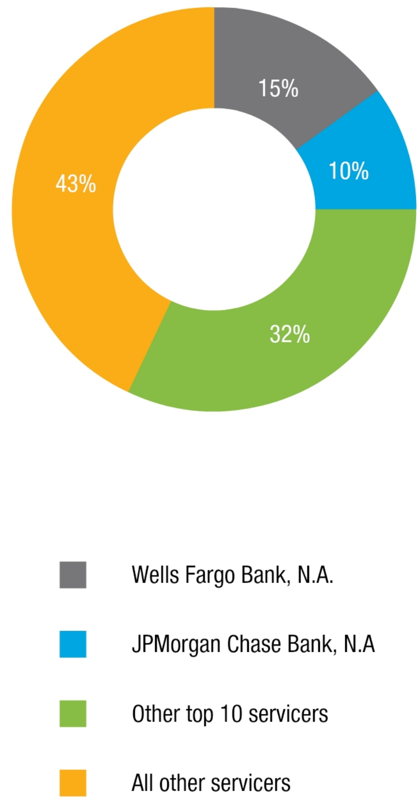
Percentage of Single-Family Purchase Volume

(Based on UPB of $453.5 billion)



Percentage of Single-Family Servicing Volume[(1)]

(Based on UPB of $1,994.4 billion)



(1) Percentage of servicing volume is based on the total single-family credit guarantee portfolio, which includes loans where we do not exercise servicing control. However, loans where we do not exercise servicing control are not included for purposes of determining the concentration of servicers who serviced more than 10% of our single-family credit guarantee portfolio because we do not know which entity serves as the primary servicer for such loans.

For additional information about seller and servicer concentration risk and our relationships with our seller and servicer customers, see **Risk Management - Counterparty Credit Risk -** ***Sellers and Servicers*** and **Note 14**.

Competition

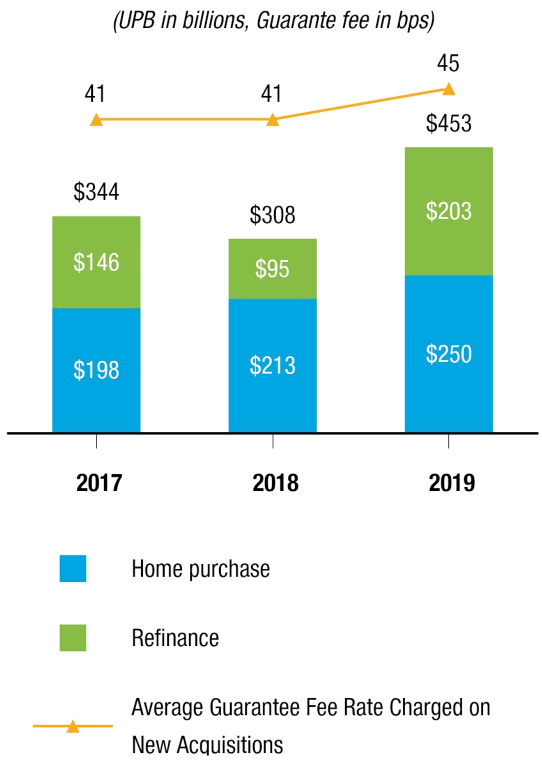
Our principal competitors in the Single-family Guarantee segment are Fannie Mae, FHA/VA (with Ginnie Mae securitization), and other financial institutions that retain or securitize loans, such as commercial and investment banks, dealers, and savings institutions. We compete on the basis of price, products, securities structure, and service. Competition to acquire single-family loans can also be significantly affected by changes in our credit standards. The conservatorship, including direction provided to us by our Conservator, may affect our ability to compete. The areas in which we and Fannie Mae compete have been limited by the Single Security Initiative as we have been required by FHFA to align certain of our single-family mortgage purchase offerings, servicing, and securitization practices with Fannie Mae to achieve market acceptance of the UMBS. In February 2019, FHFA issued a final rule that limits our and Fannie Mae's ability to compete with each other in areas that affect prepayment speeds of single-family mortgage-related securities. For more information, see **Risk Factors - Other Risks -** ***Competition from banking and non-banking institutions (including Fannie Mae and FHA/VA with Ginnie Mae securitization) may harm our business. FHFA's actions, as Conservator of both companies, could affect competition between us and Fannie Mae***.

Business Results

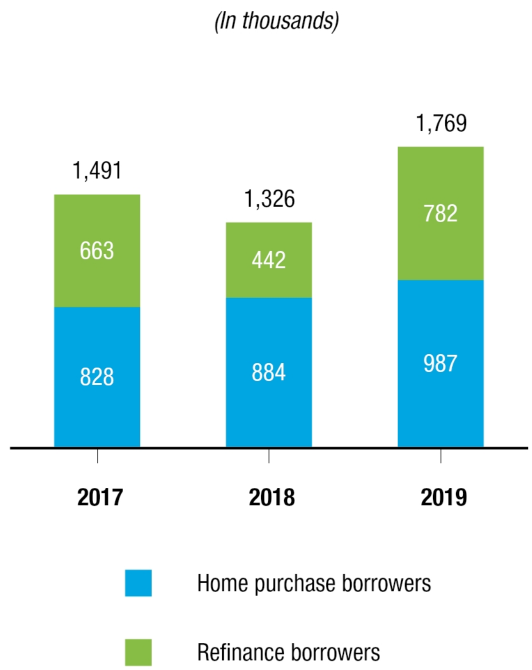
The following graphs and related discussion present the business results of our Single-family Guarantee segment.

New Business Activity

UPB of Single-Family Loan Purchases and Guarantees by Loan Purpose and Average Guarantee Fee Rate(1) Charged on New Acquisitions



Number of Families Helped to Own a Home



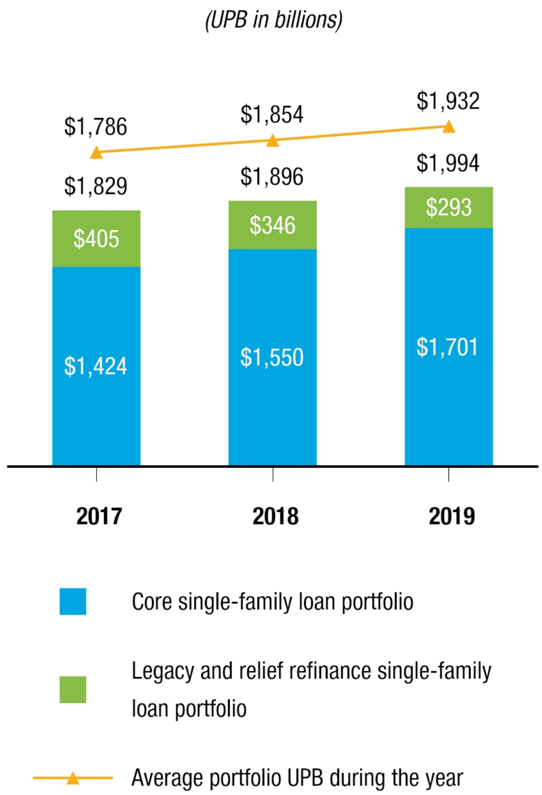
(1) Guarantee fee excludes legislated 10 basis point increase.

- We maintain a consistent market presence by providing lenders with a constant source of liquidity for conforming loan products. We have funded approximately 18.8 million single-family homes since January 1, 2009 and purchased approximately 1.4 million HARP loans since the initiative began in 2009. HARP was replaced by the Enhanced Relief Refinance program in 2019. Our loan purchase and guarantee activity increased in 2019 compared to 2018 primarily due to an increase in refinance activity as a result of lower average mortgage interest rates.
- The average guarantee fee rate charged on new acquisitions recognizes upfront fee income, including the expected gains (losses) from buy-up fees, over the estimated life of the related loans using our expectations of prepayments and other liquidations. See **Single-Family Guarantee - *Business Overview - Guarantee Fees*** for more information on our guarantee fees. The average guarantee fee rate charged on new acquisitions increased in 2019 compared to 2018 primarily due to an enhancement in our estimation methodology related to recognition of buy-up fees in 2Q 2019.
- We continued working to improve access to affordable housing, including through our Home Possible® loan initiatives. Our Home Possible loan initiatives offer down payment options as low as 3% and are designed to help qualified borrowers with limited savings buy a home. We purchased over 157,000 loans under these initiatives in 2019. We also continue to implement programs that support responsibly broadening access to affordable housing by:
  - Improving the effectiveness of pre-purchase and early delinquency counseling for borrowers;
  - Expanding our ability to support borrowers who do not have a credit score;
  - Implementing the Duty to Serve Underserved Markets plan; and
  - Increasing support for first-time home buyers and mortgage industry professionals.

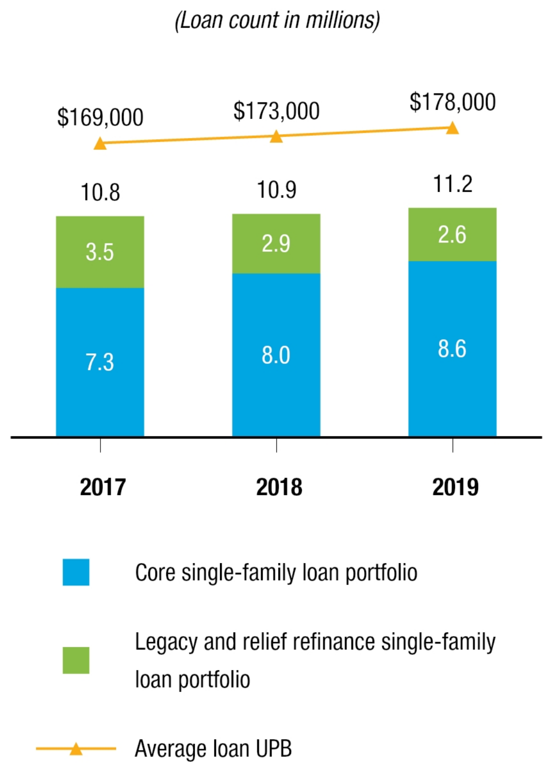
  While we are responsibly expanding our programs and outreach capabilities to better serve low- and moderate-income borrowers and underserved markets, these loans result in increased credit risk. Expanding access to affordable housing will continue to be a top priority in 2020. See **Regulation and Supervision - *Federal Housing Finance Agency - Duty to Serve Underserved Markets Plan*** for more information.

Single-Family Credit Guarantee Portfolio

Single-Family Credit Guarantee Portfolio as of December 31,



Single-Family Loans as of December 31,



- The single-family credit guarantee portfolio increased during 2019 by approximately 5%, driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation. New business acquisitions had a higher average loan size compared to older vintages that continued to run off.
- The core single-family loan portfolio grew to 85% of the single-family credit guarantee portfolio at December 31, 2019 compared to 82% at December 31, 2018.
- The legacy and relief refinance single-family loan portfolio declined to 15% of the single-family credit guarantee portfolio at December 31, 2019 compared to 18% at December 31, 2018.
- The average portfolio Segment Earnings guarantee fee rate recognizes upfront fee income over the contractual life of the related loans (usually 30 years). If the related loans prepay, the remaining upfront fee is recognized immediately. The effect of prepayments may be offset by our upfront fee hedging activities. See **Single-Family Guarantee - *Business Overview - Guarantee Fees*** for more information on our guarantee fees and **Note 13** for more information on the effect of our upfront fee hedging activities on Segment Earnings.
- The average portfolio Segment Earnings guarantee fee rate was 40 bps, 35 bps, and 36 bps at December 31, 2019, December 31, 2018, and December 31, 2017, respectively, excluding the legislated 10 basis point increase in guarantee fees. The rate increased in 2019 compared to 2018 due to an increase in the recognition of upfront fees, net of hedging, driven by a higher prepayment rate and an increase in contractual guarantee fees as older vintages were replaced by acquisitions of new loans with higher contractual guarantee fees.

CRT Activities

The table below provides the issuance amounts during 2019 on the protected UPB and maximum coverage by loss position associated with CRT transactions for loans in our single-family credit guarantee portfolio.

Table 12 - Single-Family Credit Guarantee Portfolio CRT Issuance

	Issuance for the Year Ended December 31, 2019				Issuance for the Year Ended December 31, 2018			
	Protected UPB(1)	Maximum Coverage(2)			Protected UPB(1)	Maximum Coverage(2)		
(In millions)	Total	First Loss(3)	Mezzanine	Total	Total	First Loss(3)	Mezzanine	Total
STACR	$203,239	$2,106	$4,565	$6,671	$243,007	$1,893	$5,042	$6,935
Insurance/reinsurance	210,650	864	1,823	2,687	270,084	834	2,306	3,140
Subordination	11,197	719	947	1,666	30,911	746	1,238	1,984
Lender risk-sharing	19,328	911	580	1,491	10,940	—	345	345
Less: UPB with more than one type of CRT activity	(181,738)	—	—	—	(219,072)	—	—	—
Total CRT Activities	**$262,676**	**$4,600**	**$7,915**	**$12,515**	**$335,870**	**$3,473**	**$8,931**	**$12,404**

(1) For STACR and certain insurance/reinsurance transactions (e.g., ACIS), represents the UPB of the assets included in the reference pool. For other insurance/reinsurance transactions, represents the UPB of the assets covered by the insurance policy. For subordination, represents the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities.

(2) For STACR transactions, represents the balance held by third parties at issuance. For insurance/reinsurance transactions, represents the aggregate limit of insurance purchased from third parties at issuance. For subordination, represents the UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

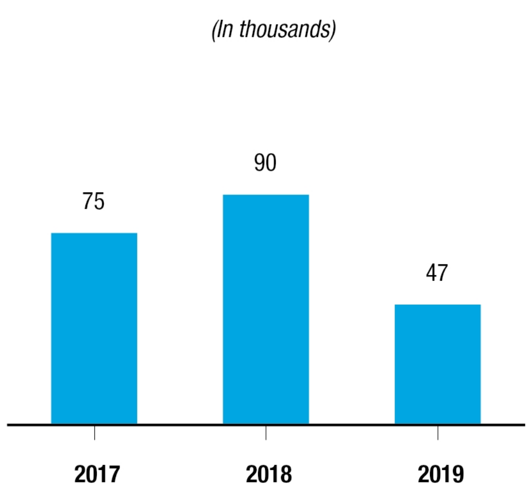
(3) First loss includes the most subordinate securities (i.e., B tranches) in our STACR Trust notes and their equivalent in ACIS and other CRT transactions.

We obtained maximum coverage of $12.5 billion on protected UPB of $262.7 billion through CRT transactions during 2019.

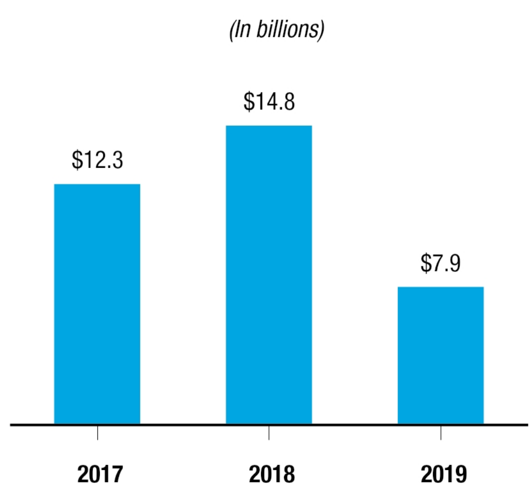
We are continually evaluating our CRT strategy and make changes depending on market conditions and our business strategy. The aggregate cost of our CRT activity, as well as the amount of risk transferred, will continue to increase as we continue to do new transactions. See **Risk Management - Single-Family Mortgage Credit Risk - *Transferring Credit Risk to Third-Party Investors*** for more information on CRT transactions and credit enhancements on our single-family guarantee portfolio.

Loss Mitigation Activities

Number of Families Helped to Avoid Foreclosure



Loan Workout Activity



- We continue to help struggling families retain their homes or otherwise avoid foreclosure through loan workouts. The reduced level of loan workout activity in 2019 compared to 2018 was primarily driven by elevated loan workout activity in 2018 as a result of the hurricanes that occurred in late 2017.

- As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we pursue sales of seriously delinquent and reperforming loans when we believe the sale of these loans provides better economic returns than continuing to hold them. See **Risk Management - Single-Family Mortgage Credit Risk - *Engaging in Loss Mitigation Activities*** for more information on our loss mitigation activities.
- The relief refinance program has been replaced with the Enhanced Relief Refinance program, which became available in January 2019 for loans originated on or after October 1, 2017. This program provides liquidity for borrowers who are current on their mortgages but are unable to refinance because their LTV ratios exceed our standard refinance limits. While the HARP program ended in December 2018, we continued to purchase HARP loans with application received dates on or prior to December 31, 2018 through September 30, 2019.

See **Risk Management** for additional information on our loan workout activities.

Financial Results

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

Table 13 - Single-Family Guarantee Segment Financial Results

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Guarantee fee income	$7,773	$6,581	$6,363	$1,192	18%	$218	3%
Investment gains (losses), net	964	307	116	657	214	191	165
Other income (loss)	391	841	896	(450)	(54)	(55)	(6)
Net revenues	**9,128**	**7,729**	**7,375**	**1,399**	**18**	**354**	**5**
Benefit (provision) for credit losses	418	448	(177)	(30)	(7)	625	353
Credit enhancement expense	(1,393)	(1,077)	(891)	(316)	(29)	(186)	(21)
REO operations expense	(245)	(189)	(203)	(56)	(30)	14	7
Credit-related expense	**(1,220)**	**(818)**	**(1,271)**	**(402)**	**(49)**	**453**	**36**
Administrative expense	(1,647)	(1,491)	(1,381)	(156)	(10)	(110)	(8)
Other expense	(786)	(568)	(516)	(218)	(38)	(52)	(10)
Operating expense	**(2,433)**	**(2,059)**	**(1,897)**	**(374)**	**(18)**	**(162)**	**(9)**
Segment Earnings before income tax expense	**5,475**	**4,852**	**4,207**	**623**	**13**	**645**	**15**
Income tax expense	(1,110)	(944)	(1,448)	(166)	(18)	504	35
Segment Earnings, net of taxes	**4,365**	**3,908**	**2,759**	**457**	12	**1,149**	**42**
Total other comprehensive income (loss), net of tax	(22)	(3)	40	(19)	(633)	(43)	(108)
Total comprehensive income (loss)	**$4,343**	**$3,905**	**$2,799**	**$438**	**11%**	**$1,106**	**40%**

Key Drivers:

- **2019 vs. 2018**
  - Higher guarantee fee income primarily due to increased upfront fee amortization income driven by higher prepayments and continued growth in our single-family credit guarantee portfolio.
  - Higher investment gains primarily due to higher realized gains on a higher volume of sales of, and lower unrealized lower-of-cost-or-fair-value losses related to, single-family held-for-sale loans.
  - Lower other income primarily due to higher non-cash premium/discount amortization expense driven by timing differences between liquidations of the loans and liquidations of the securities backed by these loans.
  - Higher credit enhancement expense primarily due to higher outstanding cumulative volumes of CRT transactions.
- **2018 vs. 2017**
  - Higher guarantee fee income due to continued growth in our single-family credit guarantee portfolio and increased credit fee/buy-down short-term returns.
  - Higher investment gains primarily driven by fair value gains on STACR debt notes as a result of spread widening.
  - Increased benefit for credit losses primarily driven by estimated losses from the hurricanes in 2017.
  - Higher credit enhancement expense primarily due to higher outstanding cumulative volumes of CRT transactions.

Multifamily

Business Overview

The Multifamily segment supports our strategic goals to exit conservatorship, create a world-class operating platform, and become the leader in housing by:

- Improving our risk-adjusted returns by leveraging private capital in our risk transfer transactions;
- Identifying new opportunities beyond our existing K Certificate and SB Certificate transactions to cost-effectively transfer risk to third parties and reduce taxpayer exposure;
- Maintaining strong credit and capital management discipline;
- Operating in a customer focused manner to build business value and support the creation of a strong, long-lasting rental housing system;
- Leveraging technology to make the multifamily loan process more efficient industry-wide;
- Fostering innovation through the development of products that expand the availability of workforce housing in the marketplace; and
- Continuing to provide financing to the multifamily mortgage market and expanding our market presence for workforce housing in line with our mission.

The Multifamily segment provides liquidity and support to the multifamily mortgage market through a variety of activities that include the purchase, guarantee, sale, and/or securitization of multifamily loans and mortgage-related securities. The overall market demand for multifamily loans is generally affected by local and regional economic factors, such as unemployment rates, construction cycles, property prices, preferences for homeownership versus renting, and the relative affordability of single-family homes, as well as certain macroeconomic factors, such as interest rates.

Our primary business model is to acquire multifamily loans for aggregation and then securitization. The returns we generate from these activities are primarily derived from (i) the net interest income we earn on the loans prior to their securitization, (ii) the price received upon securitization of the loans versus the price we paid to acquire the loans, and (iii) the ongoing guarantee fee we receive in exchange for providing our guarantee primarily on the issued senior securities. We evaluate these factors collectively to assess the profitability of any given transaction and to maximize our returns.

Our securitization activities generally (i) provide us with a mechanism to finance our loan product offerings, (ii) reduce our credit risk, interest-rate risk, and liquidity risk exposure on the loans that we purchase, and (iii) reduce our conservatorship capital required under CCF. For multifamily loans that we do not intend to securitize, we may pursue other strategies, including the execution of other CRT products designed to transfer to third parties all or a portion of the loans' credit risk, thereby reducing taxpayer exposure.

Our support of the multifamily market generally begins with our underwriting of the loans that we commit to purchase from our Optigo® network of approved lenders and typically ends with the disposition of those loans, generally through a borrower payoff. Through our support of the multifamily mortgage market, borrowers can obtain lower financing costs, which can benefit renters through lower rental rates and/or improved services or amenities.

Products and Activities

Loan Products

Through our Optigo network of approved lenders, we offer borrowers a variety of loan products for the acquisition, refinance, and/or rehabilitation of multifamily properties. While our Optigo lenders originate the loans that we purchase, we use a prior-approval underwriting approach, in contrast to the delegated underwriting approach used in our Single-family Guarantee segment and Fannie Mae's Delegated Underwriting and Servicing (DUS) program. Under this approach, we maintain credit discipline by completing our own underwriting, credit review, and legal review for each loan prior to issuing a loan purchase commitment, including reviewing third-party appraisals and performing cash flow analysis. We also price every loan or transaction based on the specific terms, structure, and type of execution.

Multifamily loans are typically originated by our Optigo lenders without recourse to the borrower, making repayment dependent on the cash flows generated by the underlying property. Cash flows generated by a property are significantly influenced by vacancy and rental rates, as well as conditions in the local rental market, the physical condition of the property, the quality of property management, and the level of operating expenses.

Our primary multifamily loan products include the following:

- **Conventional loans** - Financing that includes fixed-rate and floating-rate loans, loans in lease-up and with moderate property upgrades, manufactured housing community loans, senior housing loans, student housing loans, supplemental loans, and certain Green Advantage loans.
- **Small balance loans** - Financing provided to small rental property borrowers for the acquisition or refinance of multifamily properties. Financing ranges from $1 million to $7.5 million and is focused on affordable or workforce housing properties from 5 to 50 units.
- **Targeted affordable housing** - Financing provided to borrowers in underserved areas that have restricted units affordable to households with low income (earning up to 80% of AMI) and very-low income (earning up to 50% of AMI) and that typically receive government subsidies.

The amount and type of multifamily loans that we purchase is significantly influenced by the multifamily loan purchase cap that is established by FHFA. In 3Q 2019, FHFA announced a revised multifamily loan purchase cap of $100.0 billion for the five-quarter period from 4Q 2019 through 4Q 2020. This cap applies to all multifamily business activity, with no exclusions. To ensure a strong focus on affordable housing and traditionally underserved markets, at least 37.5% of the multifamily business must be mission-driven, affordable housing over the same five-quarter period. Examples of multifamily loans that qualify as mission-driven, affordable housing include certain senior housing loans, small balance loans, manufactured housing loans, and targeted affordable housing loans.

In addition, the amount and type of multifamily loans that we purchase is influenced by our current business strategy and overall market demand for multifamily loan products.

Index Lock Commitments

We offer borrowers an option to lock the Treasury index component of their fixed interest-rate loans at any time after the loan is under application with an Optigo lender. This option enables borrowers to lock the most volatile part of their coupon, thereby providing an enhanced level of risk mitigation against interest-rate volatility. The index lock commitment period for most loans is 45 days and is generally followed by a loan purchase commitment. We economically hedge our interest-rate exposure from these commitments primarily by entering into pay-fixed, receive-float interest rate swaps. These commitments do not qualify for accounting recognition and therefore temporarily introduce volatility through our hedges in our financial results until they proceed to a loan purchase commitment.

The primary impact to Segment Earnings is:

- Fair value gains or losses recognized on interest-rate derivatives. These gains or losses are generally offset once an index lock commitment becomes a loan purchase commitment and is accounted for at fair value.

Loan Purchase Commitments

Prior to issuing an unconditional commitment to purchase a multifamily loan, we negotiate with the lender and borrower the specific economic terms and conditions of our commitment, including the loan's purchase price, index, and mortgage spread. Targeted pricing decisions related to the commitment price and/or mortgage spread may affect our profitability and are generally influenced by our current business strategy, the type of loan that we acquire (i.e., whether it qualifies as mission-driven, affordable housing), the amount available under the loan purchase cap, and changing market conditions.

At the time we commit to purchase a multifamily loan, we preliminarily determine our intent with respect to that loan. For commitments to purchase loans that we intend to sell or securitize (i.e., held-for-sale commitments), we may elect the fair value option and therefore recognize and measure these commitments at fair value on our consolidated financial statements. No such election is made for commitments to purchase loans that we intend to hold for the foreseeable future (i.e., held-for-investment commitments), and therefore these commitments are not recognized on our consolidated financial statements.

Our multifamily held-for-sale commitments and held-for-sale loans that are measured at fair value are subject to changes in fair value due to two main risks: (i) interest-rate risk and (ii) spread risk. While we use derivatives to hedge the interest rate-related fair value changes of these assets measured at fair value, we continue to be exposed to spread-related fair value changes. We partially reduce our spread-related fair value exposure by purchasing or entering into certain spread-related derivatives, thereby obtaining some protection against significant adverse movements in market spreads. We refer to the fair value adjustments resulting from changes in these risks, net of any offsetting fair value adjustments from our derivatives, as our holding period fair value gains and losses.

The primary impacts to Segment Earnings are:

- At the commitment date, we recognize the estimated fair value of the held-for-sale commitments where we elected the fair value option;
- After the commitment date, but prior to purchase, we recognize changes in the fair value of commitments where we elected the fair value option. These fair value adjustments result from changes in the expected pricing of our securitizations due to changes in interest rates and securitization market spreads;
- Fair value gains or losses recognized on interest-rate derivatives. These changes generally offset interest-rate related fair value changes on the loan purchase commitments; and
- Fair value gains or losses recognized on spread-related derivatives. These changes may offset spread-related fair value changes on the loan purchase commitments.

Loan Purchases

When we purchase a loan, we finalize our intent with respect to that loan. Multifamily loans that we intend to hold for the foreseeable future are classified as held-for-investment and measured at amortized cost, while multifamily loans that we intend to sell or securitize are classified as held-for-sale and typically measured at fair value through a separate fair value option election.

The vast majority of all new multifamily loan purchases are initially classified as held-for-sale and included in our securitization pipeline. The holding period for loans in our securitization pipeline generally ranges between two and five months, as we aggregate sufficient loans with similar terms and risk characteristics to securitize. For example, loans purchased during the first quarter will generally be used as collateral for securitizations that settle in the second and third quarters of that same year.

The primary impacts to Segment Earnings are:

- During the holding period, we generally recognize changes in the fair value of loans classified as held-for-sale. These fair value adjustments result from changes in the expected pricing of our securitizations due to changes in interest rates and securitization market spreads;
- Fair value gains or losses recognized on interest-rate derivatives. These changes generally offset interest-rate related fair value changes on the loans;
- Fair value gains or losses recognized on spread-related derivatives. These changes may offset spread-related fair value changes on the loans; and
- Interest income on loans while held in our mortgage-related investments portfolio.

Securitization and Guarantee Products

We enter into various types of securitizations that generally result in the transfer of all or a portion of the underlying collateral's interest-rate risk, liquidity risk, and/or credit risk to third parties. These products make up substantially all of our guarantee portfolio.

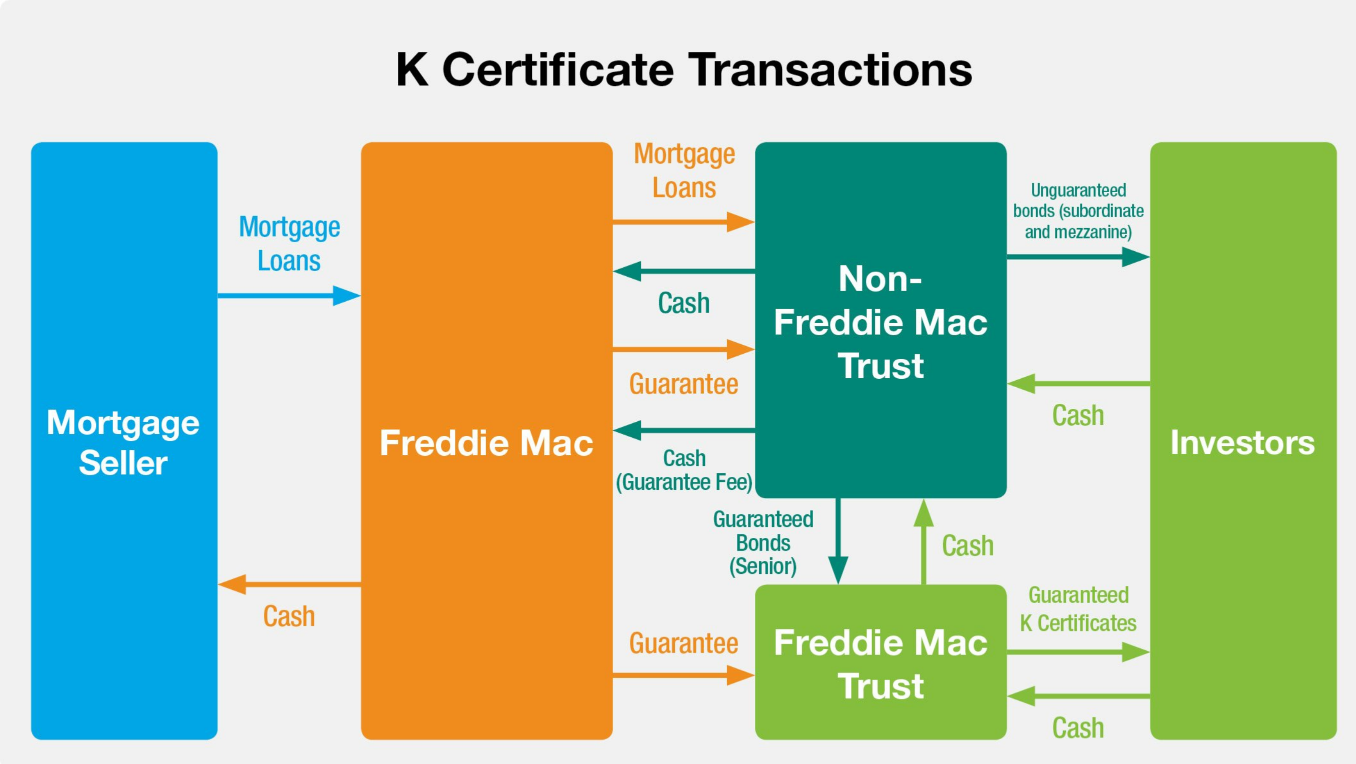
The collateral used in our securitization activities can vary and generally includes loans underwritten and purchased by us at loan origination. In our typical securitizations, we guarantee the issued senior securities. In exchange for providing this guarantee, we receive an ongoing guarantee fee that is commensurate with the risks assumed and that will, over the long-term, provide us with guarantee fee income that is expected to exceed the credit-related and administrative expenses of the underlying loans. Structural deal features, such as term, type of underlying loan product, and subordination levels, generally influence the deal's risk profile, which ultimately affects the guarantee fee rate we set at the time of securitization.

Our typical securitization structure and level of subordination are designed to maximize the return we earn when we sell loans for securitization. Depending on the securitization product and subordination levels selected, we may realize a higher (lower) gain on sale, but recognize lower (higher) ongoing guarantee fee income.

We continue to seek new and innovative risk transfer opportunities beyond our current product offerings so that we can provide further liquidity to the multifamily market and reduce taxpayer exposure.

Primary Securitization Products

Our primary securitization products are K Certificates and SB Certificates, which transfer substantially all of the interest-rate risk, liquidity risk, and credit risk of the underlying collateral. The structures of these transactions typically involve the issuance of senior, mezzanine, and subordinated securities that represent undivided beneficial interests in trusts that hold pools of multifamily loans that we previously purchased. The volume of our primary securitizations is generally influenced by the product mix and size of our securitization pipeline, along with market demand for multifamily securities. As shown in the diagram below, in a typical K Certificate transaction, we sell multifamily loans to a non-Freddie Mac securitization trust that issues senior, mezzanine, and subordinated securities, and simultaneously purchase and place the senior securities into a Freddie Mac securitization trust that issues guaranteed K Certificates. In these transactions, we guarantee the senior securities, but do not issue or guarantee the mezzanine or subordinated securities. As a result, the interest-rate risk, liquidity risk, and a large majority of expected and stress credit risk is sold to third-party investors through securitization, thereby reducing our risk exposure.



- **K Certificates** - Regularly issued structured pass-through securities backed by recently originated multifamily loans. This product offers investors a wide range of structural and collateral options that provide for stable cash flows and a structured credit enhancement. While the amount of guarantee fee we receive may vary by collateral type, it is generally fixed for those K Certificate series that we issue with regular frequency (e.g., 5, 7, and 10-year fixed-rate K Certificates and our Floating Rate K Certificates). The guarantee fee received on these standard K Certificates currently ranges between 20 basis points and 45 basis points.

  The guarantee fee on K Certificates that we do not issue on a regular basis, such as our single-sponsor K Certificates, is determined based on the specific risks associated with the underlying collateral and the structure of the securitization, including tranche sizes and risk distribution.
- **SB Certificates** - Regularly issued securities typically backed by multifamily small balance loans that we underwrite at loan origination and purchase prior to securitization. Similar to our K Certificate transactions, a non-Freddie Mac trust will issue the senior classes of securities, which we guarantee, as well as the unguaranteed subordinated securities. However, unlike our K Certificate transactions, while we may purchase a portion of the senior securities, we generally do not place those securities into a Freddie Mac trust. The guarantee fee we receive in these transactions is generally 35 basis points.

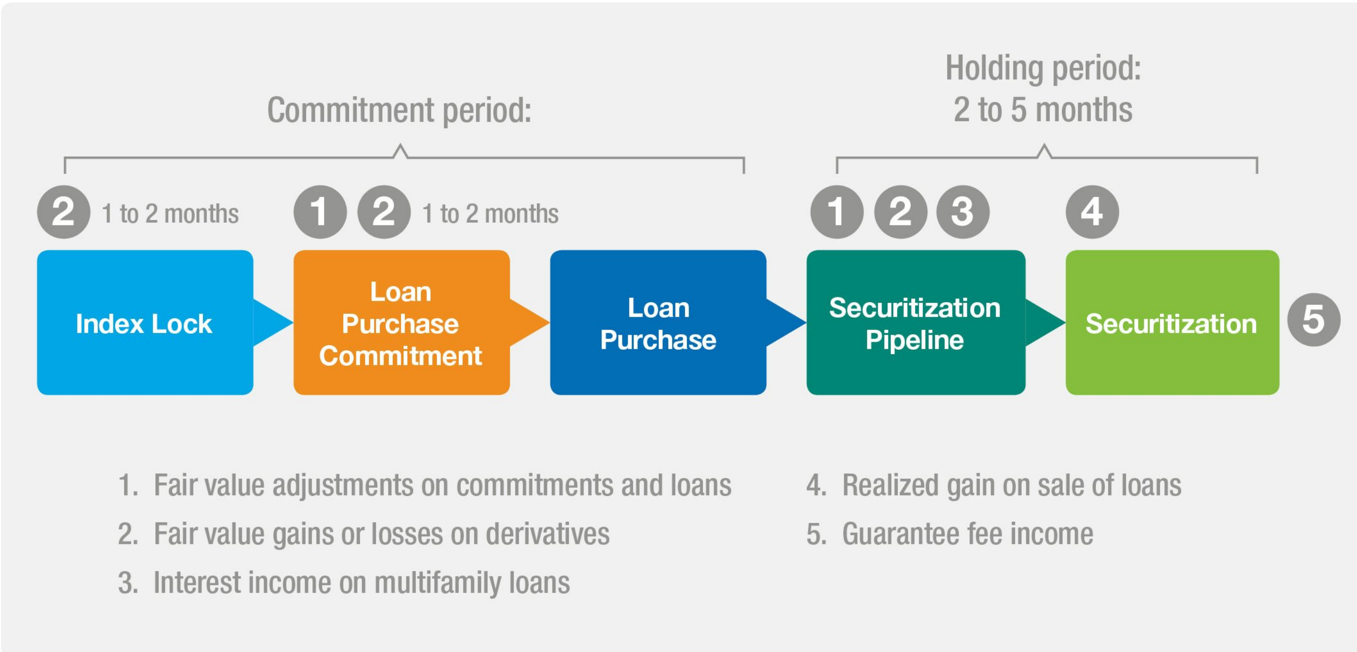
From time to time, we may undertake certain activities to support the liquidity of K Certificates and SB Certificates. For more information, see **Risk Factors - Other Risks** - ***The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates and SB Certificates.***

Other Securitization Products

Our other securitization products involve the issuance of pass-through securities that represent beneficial interests in trusts that hold pools of multifamily loans. The collateral for these securitizations may include loans underwritten and purchased by us at loan origination and loans we do not own prior to securitization and that we underwrite after (rather than at) origination.

Summary of Our Primary Business Model and Its Impacts to Segment Earnings

The following diagram summarizes the activities included in our primary business model and the corresponding impacts to our Segment Earnings.



Other Guarantee Products

- **Other mortgage-related guarantees** - We guarantee mortgage-related assets held by third parties in exchange for guarantee fee income, without securitizing those assets. For example, we provide guarantees on certain tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily loans.

Other CRT Products

For the multifamily assets for which we have not transferred credit risk through securitization, we may pursue other strategies to reduce our risk exposure. Our other CRT products include the following:

- **MCIP** - We purchase insurance coverage underwritten by a group of insurers and/or reinsurers that generally provide first loss and/or mezzanine loss credit protection. These transactions are similar in structure to the ACIS contracts purchased by the Single-family Guarantee segment, except the reference pool, in addition to loans, may include bonds underlying our other mortgage-related guarantees. When specific credit events occur, we receive compensation from the insurance policy up to an aggregate limit based on actual losses. We require our counterparties to partially collateralize their exposure to reduce the risk that we will not be reimbursed for our claims under the policies.
- **SCR notes** - Through the issuance of our SCR notes, which are unsecured and unguaranteed corporate debt obligations, we transfer to third parties a portion of the credit risk of the loans underlying certain of our consolidated other securitizations and certain of our other mortgage-related guarantees. The interest we pay on our SCR notes effectively reduces the guarantee fee income we would otherwise earn on the other mortgage-related guarantees. SCR notes are generally similar in structure to our Single-family Guarantee segment's STACR debt notes.

In addition to our other CRT products, we engage in whole loan sales, including sales of loans to funds to which we may also provide secured financing, to eliminate our interest-rate risk, liquidity risk, and credit risk exposure to certain loans.

For additional information on multifamily credit enhancements, see **Risk Management - Multifamily Mortgage Credit Risk - *Transferring Credit Risk to Third-Party Investors***.

Investing Activities

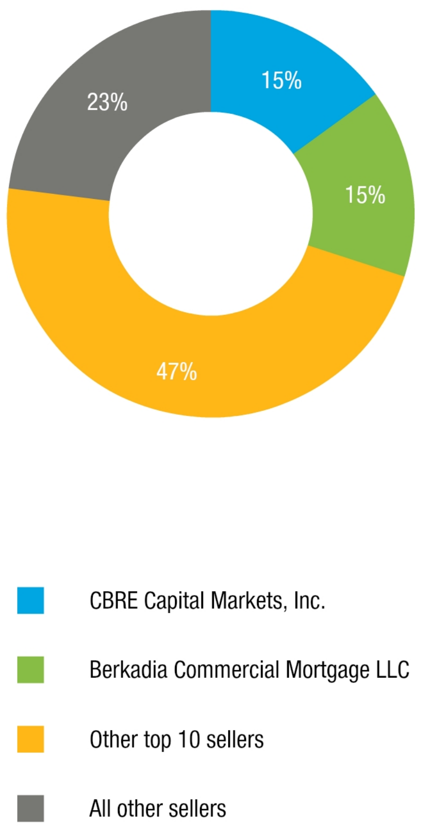
- **Mortgage loans** - We hold a portfolio of multifamily loans as part of a buy-and-hold investment strategy. However, this strategy is not part of our primary business model.
- **Mortgage-related securities** - Depending on market conditions and our business strategy, we may purchase or sell guaranteed K Certificates or SB Certificates at issuance or in the secondary market.
- **Other investments** - We invest in certain non-mortgage investments, including LIHTC partnerships and other secured lending activities. These LIHTC partnerships invest directly in limited partnerships that own and operate affordable multifamily rental properties that generate federal income tax credits and deductible operating losses.

Customers

Our multifamily loan activity is generally sourced through our Optigo network of approved lenders, who are primarily non-bank real estate finance companies and banks. We generally provide post-construction financing to apartment project operators with established performance records. The following charts show the concentration of our 2019 multifamily new business activity by our largest sellers and loan servicing by our largest servicers as of December 31, 2019. Any seller or servicer with a 10% or greater share is listed separately.

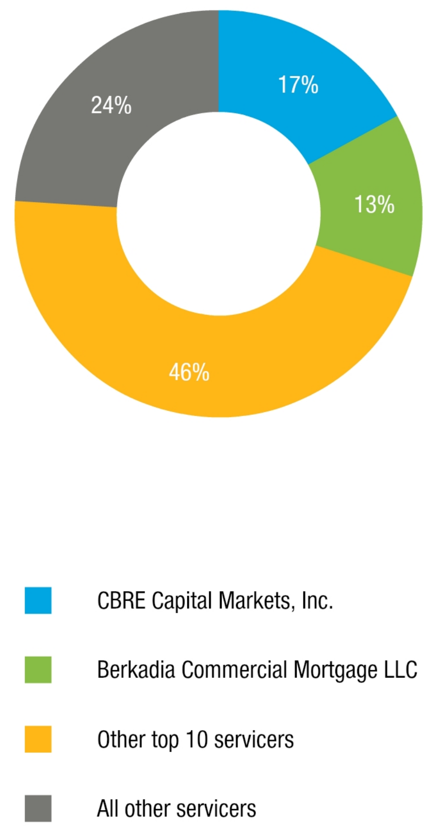
Percentage of New Business Activity(1)

(Based on UPB of $77.9 billion)



Percentage of Servicing Volume(2)

(Based on UPB of $300.1 billion)



(1) Excludes LIHTC new business activity.

(2) Percentage of servicing volume is based on the total multifamily mortgage portfolio, which includes loans where we do not exercise servicing control.

Competition

We compete on the basis of price, service and products, including our use of certain securitization structures. Our principal competitors in the multifamily market are Fannie Mae, FHA, commercial and investment banks, CMBS conduits, savings institutions, and life insurance companies.

Business Results

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

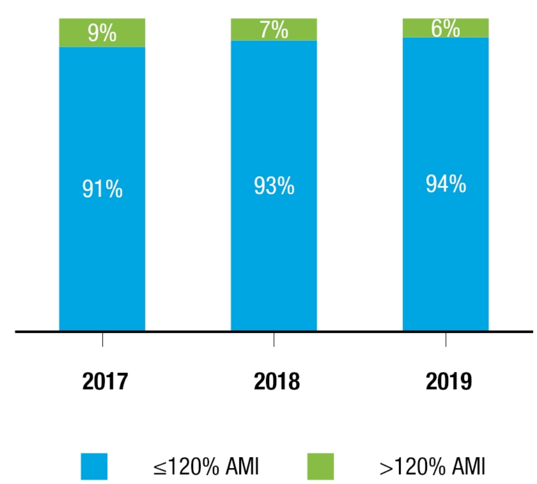
New Business Activity

New Business Activity for the Year Ended December 31,

(UPB in billions)

Acquisition of Units by AMI for the Year Ended December 31,

(% of eligible units financed by Freddie Mac)

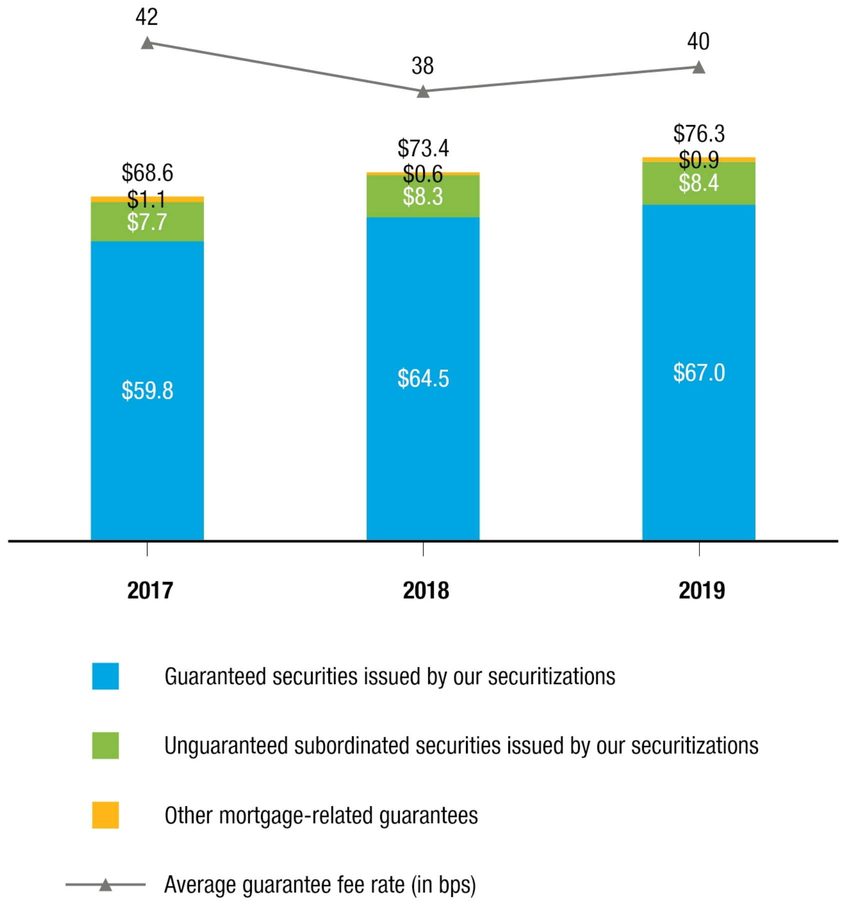


- In 3Q 2019, FHFA announced a revised loan purchase cap structure for the multifamily business. The loan purchase cap will be $100.0 billion for the five-quarter period from 4Q 2019 through 4Q 2020 and applies to all multifamily business activity, with no exclusions. To ensure a strong focus on affordable housing and traditionally underserved markets, at least 37.5% of the new multifamily business must be mission-driven, affordable housing over the same five-quarter period.
- During 4Q 2019, our total new business activity subject to the new cap was $17.5 billion. Approximately 36% of this activity was mission-driven, affordable housing. Furthermore, during 2019, we continued our support of workforce housing through our continued purchases of manufactured housing community loans and small balance loans.
- Outstanding commitments, including index lock commitments and commitments to purchase or guarantee multifamily assets, were $14.6 billion and $18.7 billion as of December 31, 2019 and December 31, 2018, respectively.
- Our new business activity was slightly higher for 2019 than 2018 due to continued strong demand for multifamily financing and healthy multifamily market fundamentals driving continued growth in overall multifamily mortgage debt outstanding.
- The portion of our new mortgage loan purchase activity that was classified as held-for-sale and intended for our securitization pipeline decreased to 87% in 2019 from 93% in 2018 due to an increase in the issuance of fully guaranteed and consolidated other securitizations as we continued to refine the disposition path for certain loan products. The purchase activity that remained in our securitization pipeline as of December 31, 2019, combined with market demand for our securities, will be a driver for our primary securitizations in the first two quarters of 2020.

Securitization, Guarantee, and Risk Transfer Activity

Securitization and Guarantee Activities for the Year Ended December 31,

(UPB in billions)



- Total securitization UPB increased during 2019 compared to 2018, primarily due to a higher volume of fully guaranteed other securitizations.
- Approximately 90% and 91% of total securitization UPB related to our primary securitizations during 2019 and 2018, respectively.
- The average guarantee fee rate on new guarantee contracts increased slightly during 2019 compared to 2018, primarily driven by a higher volume of fully guaranteed other securitizations that have higher negotiated guarantee fee rates due to the lack of structural subordination.
- In addition to the credit risk we transferred to third parties through our securitizations, we obtained credit protection up to $0.2 billion and $0.1 billion on $3.0 billion and $1.8 billion of UPB through our other CRT products and loss sharing arrangements during 2019 and 2018, respectively.
- We further reduced our risk exposure through loan sales to whole loan funds of $2.6 billion and $1.3 billion in UPB during 2019 and 2018, respectively.

Multifamily Portfolio and Market Support

The following table summarizes our multifamily portfolio and our support of the multifamily market.

Table 14 - Multifamily Portfolio and Market Support

(In millions)	December 31, 2019	December 31, 2018
Guarantee portfolio:		
Primary securitizations	$240,134	$210,419
Other securitizations	20,205	16,499
Other mortgage-related guarantees	10,514	10,405
Total guarantee portfolio	**270,853**	**237,323**
Mortgage-related investments portfolio:		
Unsecuritized mortgage loans held-for-sale	18,954	23,959
Unsecuritized mortgage loans held-for-investment	10,831	10,828
Mortgage-related securities(1)	5,889	7,385
Total mortgage-related investments portfolio	**35,674**	**42,172**
Other investments(2)	2,945	708
Total multifamily portfolio	**309,472**	**280,203**
Add: Unguaranteed securities(3)	40,666	35,835
Less: Acquired mortgage-related securities(4)	(5,709)	(7,160)
Total multifamily market support	**$344,429**	**$308,878**

(1) Includes mortgage-related securities acquired by us from our securitizations.

(2) Includes the carrying value of LIHTC investments and the UPB of non-mortgage loans, including financing provided to whole loan funds.

(3) Reflects the UPB of unguaranteed securities issued as part of our securitizations and amounts related to loans sold to whole loan funds that were not financed by Freddie Mac.

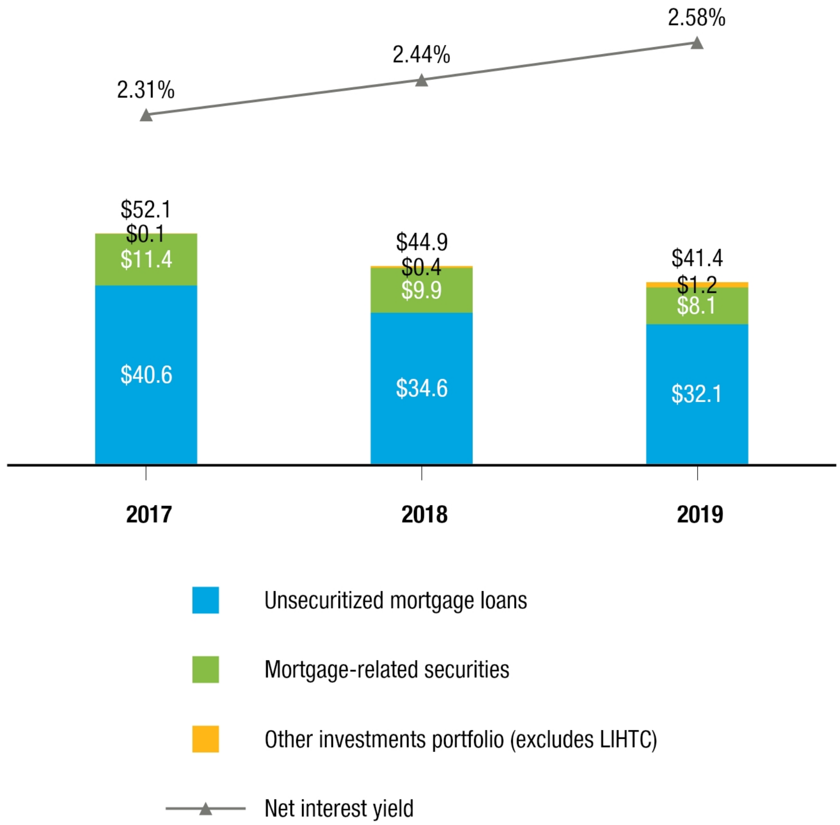
(4) Reflects the UPB of mortgage-related securities that were both issued as part of our securitizations and acquired by us. This UPB must be removed from the mortgage-related securities balance to avoid double-counting the exposure, as it is already reflected within the guarantee portfolio or unguaranteed securities.

- Our total multifamily portfolio increased during 2019, primarily due to our strong loan purchase and securitization activity. We expect continued growth in our total portfolio in 2020 as purchase and securitization activities should outpace run off.
- At December 31, 2019, approximately 75% of our held-for-sale loans were fixed-rate, while the remaining 25% were floating-rate.
- As of December 31, 2019, we had cumulatively transferred the large majority of expected and stress credit risk on the multifamily guarantee portfolio primarily through subordination in our securitizations. In addition, nearly all of our securitization activities shifted substantially all of the interest-rate and liquidity risk associated with the underlying collateral away from Freddie Mac to third-party investors.
- We earn guarantee fees in exchange for providing our guarantee of some or all of the securities we issue as part of our securitizations. The average guarantee fee rate that we earn on our guarantee portfolio was 37 bps, and the average remaining guarantee term was eight years, as of both December 31, 2019 and December 31, 2018. While we expect to earn future guarantee fees at the average guarantee fee rate over the average remaining guarantee term, the actual amount earned will depend on the performance of the underlying collateral subject to our financial guarantee.

Net Interest Yield

Net Interest Yield & Average Investment Portfolio Balance

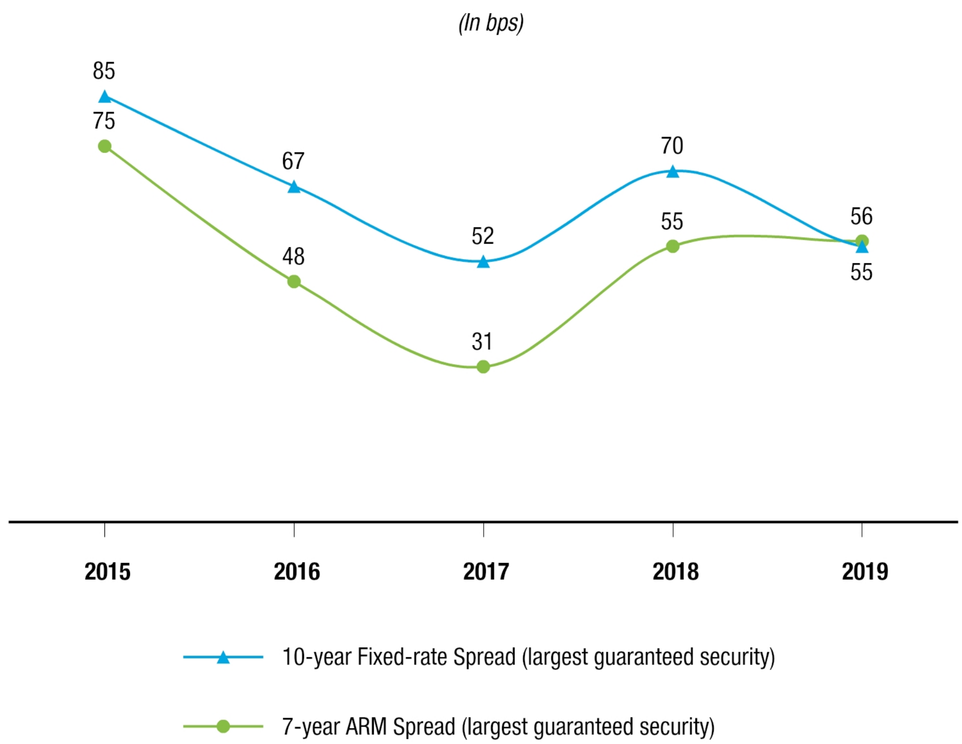
(Weighted average balance in billions)



- **2019 vs. 2018**
  - Net interest yield increased primarily due to a higher yield and higher prepayment income received from mortgage-related securities, coupled with lower funding costs on our held-for-sale mortgage loans driven by lower interest rates.
  - The weighted average investment portfolio balance of interest-earning assets decreased due to a reduction of our unsecuritized held-for-investment loans as we securitized more of these loans into fully guaranteed and consolidated other securitizations.
- **2018 vs. 2017**
  - Net interest yield increased primarily due to higher prepayment income received from mortgage-related securities, coupled with an increase in our interest-only security holdings which generally have higher yields relative to our non-interest-only securities and loans, partially offset by higher average funding costs on our held-for-sale mortgage loans driven by higher interest rates.

K Certificate Benchmark Spreads

K Certificate Benchmark Spreads as of December 31,



Source: Independent Dealers

- The valuation of our securitization pipeline and held-for-sale commitments for which we have elected the fair value option, along with the profitability of our primary securitization product, the K Certificate, are affected by both changes in K Certificate benchmark spreads and deal-specific attributes, such as tranche size, risk distribution, and collateral characteristics (loan term, coupon type, prepayment restrictions, and underlying property type). These market spread movements and deal-specific attributes contribute to our earnings volatility, which we manage by controlling the size of our securitization pipeline and by entering into certain spread-related derivatives. Spread tightening generally results in fair value gains, while spread widening generally results in fair value losses.
- K Certificate benchmark spreads generally tightened during 2019, primarily resulting in spread-related fair value gains on our held-for-sale mortgage loans and commitments.

Financial Results

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

Table 15 - Multifamily Segment Financial Results

	Year Ended December 31,			Year Over Year Change			
				2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Net interest income	$1,069	$1,096	$1,206	($27)	(2)%	($110)	(9)%
Guarantee fee income	1,101	861	750	240	28	111	15
Investment gains (losses), net	576	16	1,516	560	3,500	(1,500)	(99)
Other income (loss)	108	129	75	(21)	(16)	54	72
Net revenues	**2,854**	**2,102**	**3,547**	**752**	**36**	**(1,445)**	**(41)**
Credit-related expense	**(18)**	**9**	**(30)**	**(27)**	**(300)**	**39**	**130**
Administrative expense	(503)	(437)	(395)	(66)	(15)	(42)	(11)
Other expense	(41)	(36)	(48)	(5)	(14)	12	25
Operating expense	**(544)**	**(473)**	**(443)**	**(71)**	**(15)**	**(30)**	**(7)**
Segment Earnings before income tax expense	**2,292**	**1,638**	**3,074**	**654**	**40**	**(1,436)**	**(47)**
Income tax expense	(465)	(319)	(1,060)	(146)	(46)	741	70
Segment Earnings, net of taxes	**1,827**	**1,319**	**2,014**	**508**	**39**	**(695)**	**(35)**
Total other comprehensive income (loss), net of tax	101	(83)	(77)	184	222	(6)	(8)
Total comprehensive income (loss)	**$1,928**	**$1,236**	**$1,937**	**$692**	**56 %**	**($701)**	**(36)%**

Key Drivers:

- **2019 vs. 2018**
  - Net interest income remained relatively flat.
  - Increase in guarantee fee income primarily driven by continued growth in our multifamily guarantee portfolio, coupled with lower fair value losses on our guarantee asset due to declining interest rates.
  - Higher investment gains (net of other comprehensive income) primarily driven by higher fair value gains on held-for-sale commitments due to targeted price increases related to changing market conditions and spread tightening.
- **2018 vs. 2017**
  - Lower net interest income due to a decline in our weighted average portfolio balance of interest-earning assets, partially offset by higher net interest yields on an increased balance of interest-only securities.
  - Higher guarantee fee income due to continued growth in our multifamily guarantee portfolio, partially offset by lower average guarantee fee rates on new guarantee business volume and increased fair value losses on our guarantee asset due to rising interest rates.
  - Shift to investment losses (net of other comprehensive income) due to spread widening on mortgage loans and commitments and mortgage-related securities, coupled with lower fair value gains on held-for-sale commitments due to targeted price decreases related to our business strategy.

Capital Markets

Business Overview

The Capital Markets segment supports our strategic goals to exit conservatorship, create a world-class operating platform, and become the leader in housing by:

- Managing the mortgage-related investments portfolio's risk-versus-return profile using our internal economic framework;
- Distributing a portion of securitized loans from our cash purchase program through the investment portfolio;
- Engaging in economically sensible transactions to reduce our less liquid assets;
- Responding to market opportunities in funding our business activities;
- Managing our economic interest-rate risk through the use of derivatives and various debt instruments;
- Attempting to align prepayment profiles for Freddie Mac TBA programs with Fannie Mae's TBA characteristics; and
- Delivering mortgage capital markets services, including our cash loan purchase program, in conjunction with the Single-family Guarantee segment.

The Capital Markets segment is responsible for managing the majority of our mortgage-related investments portfolio, and providing company-wide treasury and interest-rate risk management functions. In addition, we are responsible for managing our securitization and resecuritization activities related to single-family loans, and supporting multifamily securitizations.

Our mortgage portfolio management activities primarily include single-family unsecuritized loans and purchases and sales of agency mortgage-related securities. In addition, we actively engage in the structuring of our agency mortgage-related securities. Our portfolio management activities also include responsibility for maintaining the other investments portfolio, which is primarily used for short-term liquidity management. However, certain portions of the mortgage-related investments portfolio are not managed by us, including the portions of the portfolio related to multifamily assets, single-family seriously delinquent loans, and the credit risk on single-family performing and reperforming loans.

We provide a company-wide treasury function, primarily managing our funding and liquidity needs on both a short- and long-term basis. The primary activities of the treasury function include issuing, calling and repurchasing other debt and maintaining a portfolio of non-mortgage investments.

Our interest-rate risk management function consolidates and manages the overall interest-rate risk of the company. We actively monitor and economically hedge this risk, primarily through the use of derivative instruments. In addition, we further reduce these interest-rate exposures through active management of our debt funding mix and through the structuring of our investments in mortgage-related securities. We use fair value hedge accounting to reduce the variability in our GAAP earnings due to changes in interest rates.

Finally, the Capital Markets segment is responsible for management of our securitization and resecuritization activities related to single-family loans, which are discussed in more detail in **Our Business Segments - Single-Family Guarantee.**

We may forgo certain investment opportunities for a variety of reasons, including the limit on the size of our mortgage-related investments portfolio or the risk that an accounting treatment may create earnings variability. For additional information on the limits on the mortgage-related investments portfolio established by the Purchase Agreement and by FHFA, see **Conservatorship and Related Matters -** ***Limits on Our Mortgage-Related Investments Portfolio and Indebtedness.***

Products and Activities

Investing, Liquidity Management, and Related Activities

In our Capital Markets segment, our objectives are to make appropriate risk and capital management decisions, effectively execute our strategy and be responsive to market conditions. We manage the following types of products:

- **Agency mortgage-related securities** - We primarily invest in Freddie Mac mortgage-related securities and may also invest in Fannie Mae and Ginnie Mae mortgage-related securities from time to time. Our activities with respect to these products may include purchases and sales, dollar roll transactions, and structuring activities (e.g., resecuritizing existing agency securities into REMICs and selling some or all of the resulting REMIC tranches).
- **Single-family unsecuritized loans** - We acquire single-family unsecuritized loans in two primary ways:
  - ***Loans acquired through our cash loan purchase program that are awaiting securitization*** - We securitize most of the loans acquired through our cash loan purchase program into Freddie Mac mortgage-related securities, which may be sold to investors or retained in our mortgage-related investments portfolio; and
  - ***Seriously delinquent or modified loans that we have removed from our consolidated trusts*** - Certain of these loans may reperform, either on their own or through modification. Reperforming loans are managed by both the Capital Markets and Single-family Guarantee segments, but are included in the Capital Markets segment's financial

results. Loans that remain seriously delinquent are also managed by both the Capital Markets and Single-family Guarantee segments, but are included in the Single-family Guarantee segment's financial results. We continue to reduce the balance of our seriously delinquent and reperforming loans through a variety of methods, including loss mitigation and foreclosure activities and securitizations and sales. For more information on securitization and sales of seasoned loans, see **Our Business Segments - Single-Family Guarantee - *Business Overview - Products and Activities - Securitization and Sales of Seasoned Loans.***

- **Other investments portfolio** - We invest in other investments, including: (i) the Liquidity and Contingency Operating Portfolio, primarily used for short-term liquidity management, (ii) cash and other investments held by consolidated trusts, (iii) investments used to pledge as collateral, and (iv) secured lending activities.

  In our secured lending activities: (i) we provide funds to lenders for mortgage loans that they will subsequently either sell through our cash purchase program or securitize into securities that they will deliver to us, (ii) we enter into securities purchased under agreements to resell as a mechanism to provide financing to investors in Freddie Mac securities to increase liquidity and expand the investor base for those securities, and (iii) we provide secured term financing through revolving lines of credit collateralized by the value of contractual mortgage servicing rights on certain mortgages that we own. However, we no longer extend such lines of credit to new customers.
- **Non-agency mortgage-related securities** - We generally no longer purchase non-agency mortgage-related securities, and have minimal investments in such securities from our acquisitions in prior years. Our activities with respect to this product are primarily sales. However, we may acquire such securities in connection with our senior subordinate securitization structures backed by seasoned loans. In recent years, we and FHFA reached settlements with a number of institutions to mitigate or recover losses we recognized in prior years.

The primary impacts to Segment Earnings are:

- Interest income on agency and non-agency mortgage-related securities, unsecuritized loans, and our other investments portfolio;
- Fair value gains and losses due to changes in interest rate and market spreads on our agency and non-agency mortgage-related securities and on certain securities held within our other investments portfolio that are accounted for as investment securities. These amounts are recognized in Segment Earnings or total other comprehensive income(loss) depending upon their classification (trading or available-for-sale, respectively);
- Amortization of cost basis adjustments, such as net amortization of loans from our cash purchase program and related debt securities in consolidated trusts and hedge accounting related basis adjustments; and
- Gains and losses on the sale of unsecuritized loans.

We evaluate the liquidity of our mortgage-related assets based on three categories (in order of liquidity):

- **Liquid** - single-class and multi-class agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities;
- **Securitization pipeline** - performing single-family loans purchased for cash and primarily held for a short period until securitized, with the resulting Freddie Mac issued securities being sold or retained; and
- **Less liquid** - assets that are less liquid than both agency securities and loans in the securitization pipeline (e.g., reperforming loans and non-agency mortgage-related securities).

We may undertake various activities to support our presence in the agency securities market or to support the liquidity of our securities, including their price performance relative to comparable Fannie Mae securities. These activities may include the purchase and sale of agency securities, dollar roll transactions, and structuring activities, such as resecuritization of existing agency securities and the sale of some or all of the resulting securities. Depending upon market conditions, there may be substantial variability in any period in the total amount of securities we purchase or sell. The purchase or sale of agency securities could, at times, adversely affect the price performance of our securities relative to comparable Fannie Mae securities.

We may incur costs to support our presence in the agency securities market and to support the liquidity and price performance of our securities. For more information, see **Risk Factors - Other Risks - *A significant decline in the price performance of or demand for our UMBS could have an adverse effect on the volume and/or profitability of our new single-family guarantee business***.

Funding and Liquidity Management Activities

Our treasury function manages the funding needs of the company, including the Capital Markets segment, primarily through the issuance of unsecured other debt. The type and term of debt issued is based on a variety of factors and is designed to meet our ongoing cash needs and to comply with our Liquidity Management Framework. This Framework provides a mechanism for us to sustain periods of market illiquidity, while being able to maintain certain business activities and remain current on our obligations. See **Liquidity and Capital Resources - *Liquidity Management Framework*** for additional discussion of our Liquidity Management Framework.

We primarily use the following types of products as part of our funding and liquidity management activities:

- **Discount notes and Reference Bills®** - We issue short-term instruments with maturities of one year or less. These products are generally sold on a discounted basis, paying principal only at maturity. Reference Bills are auctioned to dealers on a regular schedule, while discount notes are issued in response to investor demand and our cash needs.
- **Medium-term notes** - We issue a variety of fixed-rate and variable-rate medium-term notes, including callable and non-callable securities, and zero-coupon securities, with various maturities.
- **Reference Notes® securities** - Reference Notes securities are non-callable fixed-rate securities, which we generally issue with original maturities greater than or equal to two years.
- **Securities sold under agreements to repurchase** - Collateralized short-term borrowings where we sell securities to a counterparty with an agreement to repurchase those securities at a future date.

In addition, proceeds from STACR debt notes, SCR debt notes, upfront fees and net worth are used to meet the funding needs of the company. We expect the volume of our STACR debt issuance to continue to decline as STACR debt note transactions will be replaced with STACR Trust note transactions. We consider the issuance of these debt notes when managing the treasury function for the company. For a description of STACR debt notes, see**Our Business Segments - Single-Family Guarantee - *Business Overview - Products and Activities***, and for a description of SCR notes, see **Our Business Segments - Multifamily - *Business Overview - Products and Activities.***

The average life of our assets is longer than the average life of our liabilities, which creates liquidity risk. To manage short-term liquidity risk, we may hold a combination of cash, cash-equivalent, and non-mortgage-related investments in our Liquidity and Contingency Operating Portfolio. These instruments are limited to those we expect to be liquid or mature in the short term. We also lend available cash on a short-term basis through transactions where we purchase securities under agreements to resell. This portfolio is designed to allow us to meet all of our obligations in the event that we lose access to the unsecured debt markets for a period of time.

See **Liquidity and Capital Resources** for a further discussion of our funding and liquidity management activities.

The primary impacts to Segment Earnings are:

- Interest expense on our various funding products and
- Gains and losses on the early termination (call or repurchase) of our funding products.

Interest-Rate Risk Management Activities

We manage the economic interest-rate risk for the company and have management-approved limits for interest-rate risk, as measured by our models. See **Risk Management - Market Risk** for additional information, including the measurement of the interest-rate sensitivity of our financial assets and liabilities.

There is a cash flow mismatch between the company's assets and liabilities that we use to fund those assets. This mismatch in cash flows not only leads to liquidity risk, but also results in interest-rate risk. We typically use interest-rate derivatives to reduce the economic risk exposure due to this mismatch. Using our risk management practices described in the **Risk Management - Market Risk** section, we seek to reduce this impact to low levels. Additionally, assets that are likely to be sold prior to their final maturity may have a different debt and derivative mix than assets that we plan to hold for a longer period. As a result, interest-rate risk measurements for those assets may include additional assumptions (such as a view on expected changes in market spreads) concerning their price sensitivity rather than just a longer-term view of cash flows.

To manage our interest-rate risk, we primarily use interest rate swaps, options, swaptions, and futures. When we use derivatives to mitigate our risk exposures, we consider a number of factors, including cost, exposure to counterparty credit risk, and our overall risk management strategy.

While our interest-rate risk management activities are primarily focused on reducing our economic interest-rate risk, we also use hedge accounting strategies to reduce our GAAP earnings variability. We use hedge accounting to better align our earnings with the economics of our business, but hedge accounting is not intended to change the investment and portfolio management decisions that our segment would otherwise make. For more information on our use of hedge accounting see **Risk Management - Market Risk** - *GAAP Earnings Variability* and **Note 9**.

We have participated in transactions that support the development of the Secured Overnight Financing Rate (SOFR) as an alternative rate to LIBOR and expect to continue to do so for the foreseeable future. These transactions include investment in and issuance of SOFR indexed floating-rate debt securities and execution of SOFR indexed derivatives. For additional details on SOFR see **Risk Factors - Market Risk -** ***The discontinuance of LIBOR after 2021 could negatively affect the fair value of our financial assets and liabilities, results of operations, and net worth. A transition to an alternative reference interest rate could present operational problems and result in market disruption, including inconsistent approaches for different financial products, as well as disagreements with counterparties.***

The primary impacts to Segment Earnings are:

- Fair value gains and losses on derivatives not designated in qualifying hedge relationships;
- Interest income/expense on derivatives; and
- Differences between changes in the fair value of the hedged item attributable to the risk being hedged and changes in the fair value of the hedging instrument for derivatives designated in qualifying fair value hedge accounting relationships.

Summary of our Primary Business Model and Its Impacts to Segment Earnings

Securitization Activities

We manage the company's securitization and resecuritization activities related to single-family loans. See **Our Business Segments - Single-Family Guarantee** for a discussion of our single-family securitization and guarantee products.

Customers

Our customers include banks and other depository institutions, insurance companies, money managers, central banks, pension funds, state and local governments, REITs, brokers and dealers, and a variety of lenders as discussed in **Our Business Segments - Single-Family Guarantee -** ***Business Overview - Customers***. Our unsecured other debt securities and structured mortgage-related securities are initially purchased by dealers and redistributed to their customers.

Competition

Our competitors in the Capital Markets segment are firms that invest in loans and mortgage-related assets and issue corporate debt, including Fannie Mae, REITs, supranationals (international institutions that provide development financing for member countries), commercial and investment banks, dealers, savings institutions, insurance companies, the Federal Farm Credit Banks, the FHLBs, and non-bank loan aggregators, who are both our customers and competitors.

Business Results

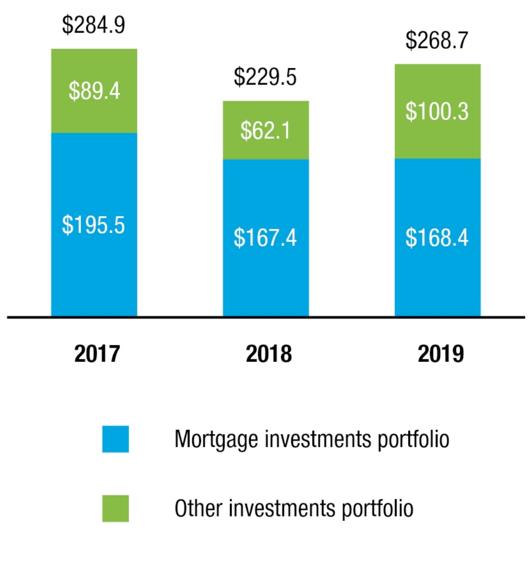
The graphs and related discussion below present the business results of our Capital Markets segment.

Investing Activity

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

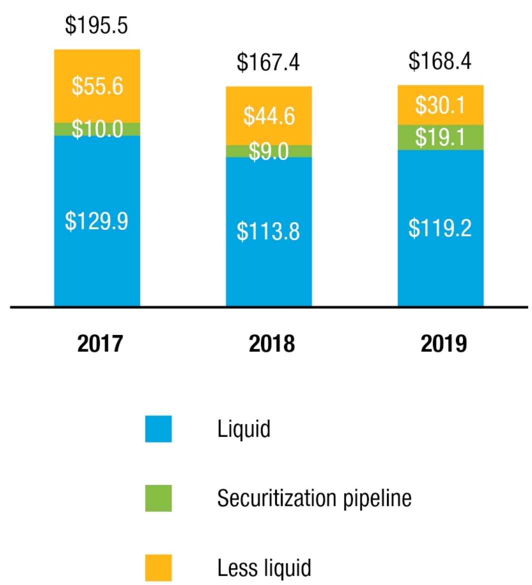
Investments Portfolio as of December 31,

(UPB in billions)



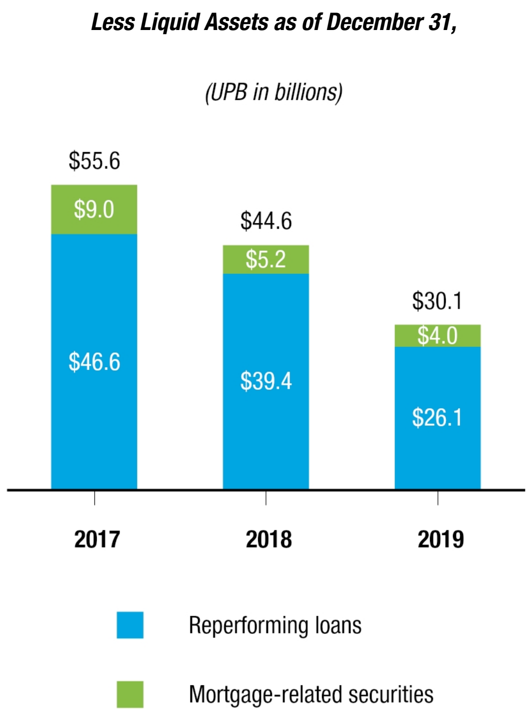
Mortgage Investments Portfolio as of December 31,

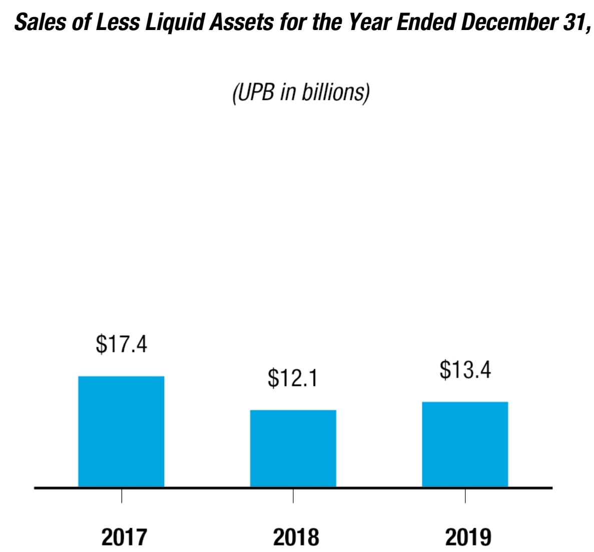
(UPB in billions)



- The balance of our mortgage investments portfolio remained relatively flat from December 31, 2018 to December 31, 2019. See **Conservatorship and Related Matters -** ***Managing Our Mortgage-Related Investments Portfolio Over Time*** for additional details.
- The balance of our other investments portfolio increased 61.5% primarily due to a higher consolidated trusts account balance driven by higher loan prepayments, coupled with higher near-term cash needs for upcoming maturities and anticipated calls of other debt, and a higher expected loan purchase forecast.
- The overall liquidity of our mortgage investments portfolio continued to improve as our less liquid assets decreased during 2019. The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 26.6% at December 31, 2018 to 17.9% at December 31, 2019, primarily due to repayments, securitizations, and sales.
- We continue to participate in transactions that support the development of SOFR as an alternate rate to LIBOR. These transactions include investment in and issuance of SOFR indexed floating-rate debt securities and execution of SOFR indexed derivatives.

Reduction in Less Liquid Assets



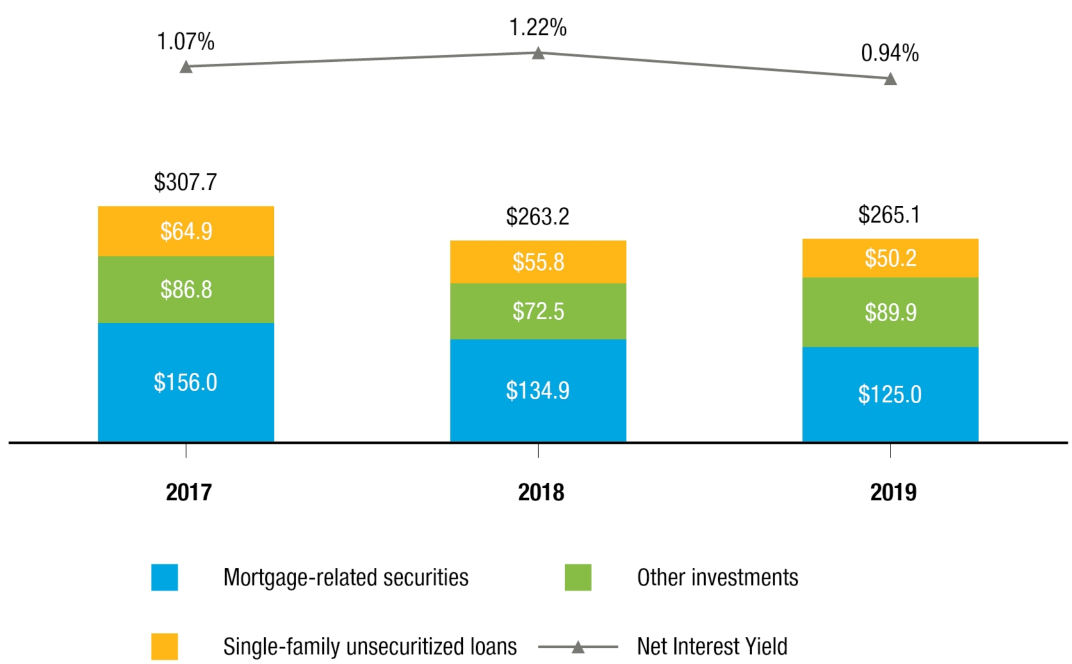


- Since 2013, we have focused on reducing, in an economically sensible manner, our holdings of certain less liquid assets, including single-family reperforming loans and non-agency mortgage-related securities. Our disposition strategies for our less liquid assets include securitizations and sales.
- During 2019, our sales of less liquid assets included $12.9 billion in UPB of reperforming loans using our senior subordinate securitization structures. As part of these transactions, we retained certain of the guaranteed senior securities for our mortgage-related investments portfolio. We also sold $0.5 billion of non-agency mortgage-related securities.
- In 2018 and 2017, we securitized $1.6 billion and $1.2 billion, respectively, of reperforming loans into Level 1 Securitization Products. We did not execute any such transactions in 2019, as our use of this strategy has declined over time with our primary strategy now utilizing senior subordinate securitization structures.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balances

(Weighted average balance in billions)



- **2019 vs. 2018** - Net interest yield decreased by 28 basis points primarily due to the lower and flatter interest rate environment, coupled with a change in our investment mix, as the other investments portfolio represented a larger percentage of our total investments portfolio, and an increase in amortization expense resulting from higher loan liquidation rates.
- **2018 vs. 2017** - Net interest yield increased by 15 basis points primarily due to higher yields on our newly acquired mortgage-related assets and other investments as a result of increases in interest rates, coupled with a change in our investment mix due to reductions in both our less liquid assets and the percentage of our other investments portfolio relative to our total investments portfolio and larger benefit provided by non-interest bearing funding due to increases in both short-term interest rates and the percentage of non-interest bearing funding relative to our total liabilities.
- Net interest yield for the Capital Markets segment is not affected by our hedge accounting programs due to reclassifications made for Segment Earnings. See **Note 13** for more information.

Financial Results

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

Table 16 - Capital Markets Segment Financial Results

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Net interest income	$2,486	$3,217	$3,279	($731)	(23)%	($62)	(2)%
Investment gains (losses), net	(36)	1,803	1,772	(1,839)	(102)	31	2
Other income (loss)	(700)	340	4,913	(1,040)	(306)	(4,573)	(93)
Net revenues	**1,750**	**5,360**	**9,964**	**(3,610)**	**(67)**	**(4,604)**	**(46)**
Administrative expense	(414)	(365)	(330)	(49)	(13)	(35)	(11)
Other expense	(54)	(11)	(81)	(43)	(391)	70	86
Operating expense	**(468)**	**(376)**	**(411)**	**(92)**	**(24)**	**35**	**9**
Segment Earnings before income tax expense	**1,282**	**4,984**	**9,553**	**(3,702)**	**(74)**	**(4,569)**	**(48)**
Income tax expense	(260)	(976)	(3,296)	716	73	2,320	70
Segment Earnings, net of taxes	**1,022**	**4,008**	**6,257**	**(2,986)**	**(75)**	**(2,249)**	**(36)**
Total other comprehensive income (loss), net of tax	494	(527)	(30)	1,021	194	(497)	(1,657)
Total comprehensive income (loss)	**$1,516**	**$3,481**	**$6,227**	**($1,965)**	**(56)%**	**($2,746)**	**(44)%**

The portion of total comprehensive income (loss) driven by interest rate-related and market spread-related fair value changes, after-tax, is presented in the table below. These amounts affect various line items in the table above, including investment gains (losses), net, income tax expense, and total other comprehensive income (loss), net of tax.

Table 17 - Capital Markets Segment Interest Rate-Related and Market Spread-Related Fair Value Changes, Net of Tax

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Interest rate-related	($0.4)	($0.3)	($0.3)	($0.1)	(33)%	$—	—%
Market spread-related	0.2	0.4	0.8	(0.2)	(50)	(0.4)	(50)

Key Drivers:

- **2019 vs. 2018**
  - Net interest income decreased primarily due to the lower and flatter interest rate environment, which also resulted in an increase in amortization expense due to higher loan liquidation rates and a change in our investment mix, as the other investments portfolio represented a larger percentage of our total investments portfolio.
  - Decrease in investment gains (losses), net of $1.8 billion, partially offset by an increase of $1.0 billion in other comprehensive income. The remaining decline in investment gains (losses) was primarily due to a decline of approximately $0.5 billion in gains from debt repurchase activity and the $0.3 billion increase in interest rate-related and market spread-related fair value losses shown in the table above. Both of these declines were primarily attributable to the decrease in long-term interest rates. Our derivative volume increased beginning in 2Q 2019 as we updated our interest-rate risk measures to include upfront fees (including buy-downs) related to single-family credit guarantee activity recorded in the single-family segment. This increase in derivative volume introduced additional volatility in our financial results that primarily drove our interest rate-related fair value losses. See **Risk Management - Market Risk** for additional information on the effect of market-related items on our comprehensive income.
  - Decrease in other income primarily due to lower net amortization income driven by the timing differences in amortization related to prepayment between debt of consolidated trusts and the underlying loans from our cash purchase program. For further discussion on timing differences in amortization, see **MD&A - Consolidated Results of Operations.**
- **2018 vs. 2017**
  - Net interest income decreased primarily due to the continued reduction in the balance of our mortgage-related investments portfolio. This decrease was partially offset by higher yields on our newly acquired mortgage-related assets and other investments as interest rates increased, coupled with changes in our investment mix due to

reductions in both our less liquid assets and the percentage of our other investments portfolio relative to our total investments portfolio, and larger benefit provided by non-interest bearing funding due to increases in both short-term interest rates and the percentage of non-interest bearing funding relative to our total liabilities.

- Decrease in investment gains (losses), net (net of other comprehensive income (loss)) primarily due to lower spread-related gains driven by lower non-agency mortgage-related securities balances and relatively flat interest rate-related fair value losses. These interest rate-related fair value losses were mostly offset by the change in fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs. See **Risk Management - Market Risk** for additional information on the effect of market-related items on our comprehensive income.
- Decrease in other income primarily due to recognition of $4.5 billion in proceeds received during 2017 from the RBS settlement compared to a $0.3 billion gain recognized from the Nomura judgment during 2018 related to certain of our non-agency mortgage related securities, coupled with lower amortization of debt securities of consolidated trusts during 2018 driven by a decrease in prepayments as a result of higher interest rates. For more information on these settlements, see **Note 14**.

All Other

Comprehensive Income

The table below shows our comprehensive income (loss) for the All Other category.

Table 18 - All Other Category Comprehensive Income

				Year Over Year Change			
	Year Ended December 31,			2019 vs. 2018		2018 vs. 2017	
(Dollars in millions)	2019	2018	2017	$	%	$	%
Comprehensive income (loss) - All Other	$—	$—	($5,405)	$—	—%	$5,405	100%

Key Drivers:

- **2018 vs. 2017** - Changes in comprehensive income (loss) driven by:
  - Higher income tax expense in 2017 due to the revaluation of our net deferred tax asset driven by the Tax Cuts and Jobs Act, which reduced the statutory corporate income tax rate from 35% to 21% for tax years after 2017. For more information on the statutory tax rate change, see **Note 12**.

RISK MANAGEMENT

Overview

To achieve our mission of providing liquidity, stability, and affordability to the U.S. housing market, we take risks as an integral part of our business activities. Risk is the possibility that events will adversely affect the achievement of our mission, strategy, and business objectives. Risk can manifest itself in many ways and the responsibility for risk management resides at all levels of the company. We seek to take risks in a safe and sound, well-controlled manner to earn acceptable risk-adjusted returns on both a corporate-wide and, where applicable, transaction basis. Our goal is to maintain a strong risk culture where employees are risk aware, collaborative, and transparent, individually accountable for their decisions, and conduct business in an effective, legal, and ethical manner.

We utilize a risk taxonomy to define and classify risks that we face in operating our business. These risks have the potential to adversely affect our current or projected financial and operational resilience. The risk taxonomy is also the basis for aligning corporate risk policies and standards. The key types of risks are:

- Credit Risk;
- Operational Risk;
- Market Risk;
- Liquidity Risk;
- Strategic Risk; and
- Reputation Risk.

Strategic and reputation risks are factored into business decisions and are a shared responsibility of senior management. For more discussion of these and other risks facing our business, see **Risk Factors**. See **Liquidity and Capital Resources** for a discussion of liquidity risk.

Enterprise Risk Framework

The enterprise risk framework establishes the foundation for how we manage risk to achieve our objectives and strategies. The enterprise risk framework:

- Serves as the basis for managing risk in a consistent manner and across a range of stressful conditions;
- Defines risk roles and responsibilities across the three lines of defense;
- Provides for independent risk assessment and oversight; and
- Promotes accountability and transparency in risk management decisions and execution.

The framework includes the following components:

- **Three Lines of Defense** - The business lines, with support from the enterprise divisions, ERM, and internal audit, make up the three lines of defense.
- **Risk Culture** - The Board and all levels of management support an effective risk culture by establishing and exercising accountability, promoting risk awareness, and by encouraging proactive risk discussions. A strong risk culture reinforces the importance of our risk management strategy, and promotes collaboration and transparency among the three lines of defense.
- **Risk Governance** - Risk governance comprises the risk responsibilities of the three lines of defense, the risk committee structure at the division, enterprise, and Board levels, and reporting and escalation requirements.
- **Risk Appetite** - The risk appetite is the aggregate level and types of risk that the Board and management are willing to assume to achieve the company's strategic objectives. The risk appetite is integrated and aligned with the strategic plans for the company and each business segment.
- **Risk Authority** - The Board delegates authority to the CEO. The CEO delegates authority to members of executive management. Authority delegated from the CEO is subject to limitations set forth in corporate risk policies or standards approved by the CRO or his/her delegate.
- **Corporate Risk Policies and Standards** - Corporate risk policies provide clarity on roles and responsibilities, establish approval requirements for risk decisions, and define escalation and reporting requirements. Corporate risk standards provide the minimum requirements to implement corporate risk policies and may also establish approval requirements for risk decisions.
- **Capital Framework** - We use both FHFA's CCF and internal capital methodologies to measure risk for making economically effective decisions. See **Liquidity and Capital Resources - *Capital Resources - Conservatorship Capital Framework.***

- **Risk-Adjusted Return** - We use risk-adjusted return, based on the CCF, to measure ROCC of business lines, transactions, and initiatives. We seek to achieve acceptable risk-adjusted returns consistent with pre-set targets.
- **Risk Profile** - The risk profile is a point-in-time assessment and measurement of inherent and/or residual risk for a specific risk type, measured at a divisional or enterprise level for the relevant risk types. The risk profile considers risk trends, the impact of emerging, escalated, and top risks, control performance, and risk indicators. The risk profile also incorporates results from stress testing or scenario analysis, judgmental evaluation of external and internal factors, or any development that may affect performance relative to the strategy and business objectives.

Enterprise Risk Governance Structure

We manage risk using a three-lines-of-defense risk management model and governance structure that includes enterprise-wide oversight by the Board and its committees, the CRO, the CCO, and our corporate ERC.

The information and diagram below present the responsibilities associated with our three-lines-of-defense risk management model and our risk governance structure. The risk governance structure also includes division risk committees to actively discuss and monitor business-specific risk profiles, risk decisions, and risk appetite metrics, limits and thresholds, and risk type committees to oversee specific risk types that are present in and span across business lines.

For more information on the role of the Board and its committees, see **Directors, Corporate Governance, and Executive Officers - Corporate Governance -** ***Board and Committee Information***.

Board of Directors

- Provides enterprise-wide risk oversight, including through its committees
- Evaluates the company's performance against the Corporate Scorecard and Strategic Plan goals related to risk management

Board Risk Committee

- Approves the ERP, which establishes the enterprise risk framework and the enterprise risk appetite, metrics, limits, and thresholds
- Assists the Board in the oversight of our enterprise risk framework
- Reviews significant enterprise risk exposures, risk management strategies, and top and emerging risks
- Reviews changes to key business practices and new business initiatives that may significantly alter the enterprise risk profile

Board Audit Committee

- Provides oversight of the integrity of the company's financial statements and internal controls and processes
- Reviews management's guidelines and policies governing the processes for assessing and managing our risks
- Reviews our major financial risk exposures and the steps management has taken to monitor and control such exposures
- Appoints and oversees independent public accountant
- Oversees performance of Internal Audit Division
- Reviews compliance with legal and regulatory requirements

Enterprise Risk Committee

- Established by the CEO and chaired by the CRO, comprising members of senior management
- Monitors, coordinates, and oversees the risk profile of each business line and the management of the company's risk consistent with the ER Policy
- Reviews aggregate enterprise-wide key risks, including top, emerging, and elevated risk exposures

1 FIRST LINE OF DEFENSE

Business Lines

- Responsible, with support from our Enterprise divisions, for identifying, measuring, monitoring, controlling, and reporting risks in adherence to the established risk appetite, risk limits, risk thresholds, and risk policies and standards approved by senior management and/or our Board or the Board Committees

2 SECOND LINE OF DEFENSE

Enterprise Risk Management

- Responsible for risk leadership and independent oversight of risk across the company
- Develops the enterprise risk framework and issues corporate risk policies and standards which include establishing a risk taxonomy, risk appetite, risk limits, and other monitoring metrics and indicators
- Monitors, evaluates, and reports on our performance against the enterprise risk framework and corporate risk policies and standards, including oversight and escalation of risk issues as appropriate
- Responsible for approval of significant risk activities
- Responsible for reporting on aggregate risk to senior management, the Board, and the Board Risk Committee
- Provides oversight of first line risk management activities

Compliance

- Responsible for the independent assessment and oversight of ethics and compliance risk across the company
- Advises employees and business lines on ethical and regulatory matters

3 THIRD LINE OF DEFENSE

Internal Audit

- Responsible for evaluating the design adequacy, operational effectiveness, and efficiency of governance, risk management, and control processes, for both the first and second lines of defense

Credit Risk

Overview

Credit risk is the risk associated with the inability or failure of a borrower, issuer, or counterparty to meet its financial and/or contractual obligations. We are exposed to both mortgage credit risk and counterparty credit risk.

Mortgage credit risk is the risk associated with the inability or failure of a borrower to meet its financial and/or contractual obligations. We are exposed to two types of mortgage credit risk:

- **Single-family mortgage credit risk**, through our ownership or guarantee of loans in the single-family credit guarantee portfolio and
- **Multifamily mortgage credit risk**, through our ownership or guarantee of loans in the multifamily mortgage portfolio.

Counterparty credit risk is the risk associated with the inability or failure of a counterparty to meet its contractual obligations.

In the sections below, we provide a general discussion of our enterprise risk framework and current risk environment for mortgage credit risk and for counterparty credit risk.

Single-Family Mortgage Credit Risk

We manage our exposure to single-family mortgage credit risk, which is a type of consumer credit risk, using the following principal strategies:

- Maintaining prudent underwriting standards and quality control practices and managing seller/servicer performance;
- Transferring credit risk to third-party investors;
- Monitoring loan performance and characteristics;
- Engaging in loss mitigation activities; and
- Managing foreclosure and REO activities.

Maintaining Prudent Underwriting Standards and Quality Control Practices and Managing Seller/Servicer Performance

We employ multiple strategies to maintain loan quality and data transparency:

- Underwriting standards, as published in our Guide and incorporated in Freddie Mac Loan Advisor℠, establish the requirements for eligibility, documentation, and representations and warranties;
- Loan quality control practices, including post-close credit review and the underwriting defects repurchase process, help to ensure that the loan origination process is in compliance with our Guide and that loans perform at or above expected levels; and
- Robust seller/servicer management, including in-house quality control and performance monitoring, provides that quality control is maintained for loans sold and/or serviced by third-parties.

Underwriting Standards

We use a delegated underwriting process in connection with our acquisition of single-family loans whereby we set eligibility and underwriting standards, and sellers represent and warrant to us that loans they sell to us meet these standards. Our eligibility and underwriting standards are used to assess loans based on a number of characteristics.

Limits are established on the purchase of loans with certain higher risk characteristics. These limits are designed to balance our credit risk exposure while supporting affordable housing in a responsible manner. Our purchase guidelines generally provide for a maximum original LTV ratio of 97% for creditworthy first-time homebuyers and for a targeted segment of creditworthy borrowers meeting certain AMI requirements under our affordable housing initiatives, a maximum original LTV ratio of 95% for all other home purchase and no cash out refinance loans, a maximum original LTV ratio of 80% for cash-out refinance loans, and no maximum LTV ratio for fixed-rate HARP loans and fixed-rate Enhanced Relief Refinance program loans. In July 2019, we lowered the AMI requirements under our Home Possible loan initiative which will reduce the amount of 97% LTV loans we buy under the initiative.

Loan Advisor is our main tool for assessing loan eligibility and documentation. Loan Advisor is a set of integrated software applications and services designed to give lenders access to our view of risk, loan quality, and eligibility during the origination process, which promotes efficient commerce between lenders and Freddie Mac. As a key component of Loan Advisor, Loan Product Advisor® takes advantage of proprietary data models and intelligent automation to ensure all loans meet our underwriting standards. Loan Product Advisor features innovative tools and offerings leveraging algorithms to enhance the origination process and generates an assessment of a loan's credit risk and overall quality.

Historically, the majority of our purchase volume was assessed using either Loan Product Advisor, Fannie Mae's comparable software Desktop Underwriter (DU), or the seller's proprietary automated underwriting system. During 2019, we initiated steps to require the loans we purchase to be assessed by one of Freddie Mac's proprietary underwriting software tools, Loan Product Advisor or Loan Quality Advisor®, prior to purchase. We have made significant progress in this initiative such that by the end of 2019, the majority of loans we purchase are now assessed by Freddie Mac proprietary software ensuring their compatibility with our risk appetite and reducing the volume of loans we acquire with layered risk.

With Loan Advisor, lenders can actively monitor representation and warranty relief earlier in the mortgage loan production process. Loan Advisor offers limited representation and warranty relief for certain loan components that satisfy automated data analytics related to appraisal quality, valuation, borrower assets, and borrower income. In general, limited representation and warranty relief is only offered when information provided by lenders is validated through the use of independent data sources.

If we discover that the representations or warranties related to a loan were breached (i.e., that 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 or servicer to repurchase the loan at its current UPB, reimburse us for losses realized with respect to the loan after consideration of any other recoveries, and/or indemnify us. Our current remedies framework provides for the categorization of loan origination defects for loans with settlement dates on or after January 1, 2016. Among other items, the framework provides that "significant defects" will result in a repurchase request or a repurchase alternative, such as recourse or indemnification.

Under our current selling and servicing representation and warranty framework for our mortgage loans, we relieve sellers of repurchase obligations for breaches of certain selling representations and warranties for certain types of loans, including:

- Loans that have established an acceptable payment history for 36 months (12 months for relief refinance loans) of consecutive, on-time payments after purchase, subject to certain exclusions and
- Loans that have satisfactorily completed a quality control review.

An independent dispute resolution process for alleged breaches of selling or servicing representations and warranties on our loans allows for a neutral third party to render a decision on demands that remain unresolved after the existing appeal and escalation processes have been exhausted.

Quality Control Practices

We employ a quality control process to review loan underwriting documentation for compliance with our standards using both random and targeted samples. We also perform quality control reviews of many delinquent loans and review all loans that have resulted in credit losses before the representations and warranties are relieved. Sellers may appeal our ineligible loan determinations prior to repurchase of the loan.

We use a standard quality control process that facilitates more timely reviews and is designed to identify breaches of representations and warranties early in the life of the loan. Proprietary tools, such as Quality Control Advisor®, provide greater transparency into our customer quality control reviews.

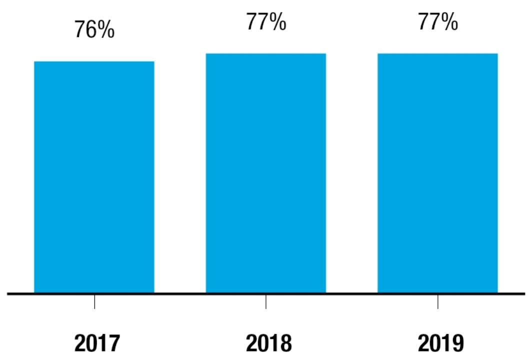
Managing Seller/Servicer Performance

We actively monitor seller and servicer performance, including compliance with our standards. We maintain approval standards for our seller/servicers, which include requiring our sellers to maintain an in-house quality control program with written procedures that operates independently of the seller's underwriting and origination functions. We monitor servicer performance using our Servicer Success Scorecard and periodically review our seller/servicers' operational processes. We also periodically change seller/servicer guidelines based on the results of our mortgage portfolio monitoring, if warranted.

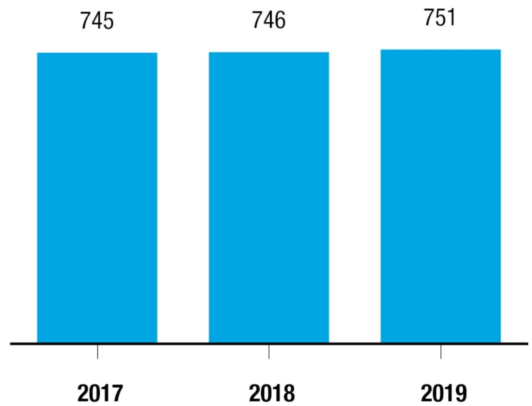
Loan Purchase Credit Characteristics

The credit quality of our single-family loan purchases remains strong by historical standards. Risk decreased during 2019 as our refinance volume increased due to declining interest rates and the reduction in the volume of higher risk loans we acquire, including loans with layered risk. The graphs below show the credit profile of the single-family loans we purchased or guaranteed in each of the last three years.

Weighted Average Original LTV Ratio



Weighted Average Original Credit Score [(1)]



(1) Original credit score is based on three credit bureaus (Equifax, Experian, and TransUnion).

The table below contains additional information about the single-family loans we purchased or guaranteed in the last three years.

Table 19 - Single-Family New Business Activity

	Year Ended December 31,					
	2019		2018		2017	
(Dollars in millions)	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
30-year or more amortizing fixed-rate	$389,515	86%	$266,995	87%	$275,677	80%
20-year amortizing fixed-rate	15,381	3	8,373	3	12,338	4
15-year amortizing fixed-rate	43,164	10	28,878	9	45,597	13
Adjustable-rate	5,257	1	3,848	1	9,841	3
FHA/VA and other governmental	164	—	103	—	113	—
Total	**$453,481**	**100%**	**$308,197**	**100%**	**$343,566**	**100%**
Percentage of purchases						
DTI ratio > 45%		14%		18%		13%
Detached/townhome property type		92		92		91
Primary residence		90		90		89
Loan purpose						
Purchase		55		69		58
Cash-out refinance		18		19		22
Other refinance		27		12		20

Transferring Credit Risk to Third-Party Investors

Types of Credit Enhancements

Our Charter requires coverage by specified credit enhancements or participation interests on single-family loans with LTV ratios above 80% at the time of purchase. Most of our loans with LTV ratios above 80% are protected by primary mortgage insurance, which provides loan-level protection against loss up to a specified amount, the premium for which is typically paid by the borrower. Generally, an insured loan must be in default and the borrower's interest in the underlying property must have been extinguished, such as through a short sale or foreclosure sale, before a claim can be filed under a primary mortgage insurance policy. The mortgage insurer has a prescribed period of time within which to process a claim and make a determination as to its validity and amount.

In addition to obtaining credit enhancements required by our Charter, we also enter into various CRT transactions in which we transfer mortgage credit risk to third parties. The table below contains a summary of the types of credit enhancements we use to transfer credit risk on our single-family loans. See **Single-Family Guarantee - *Business Overview - Products and Activities*** for more information on our CRT transactions.

Category	Products	CRT	Coverage type	Accounting treatment
Primary mortgage insurance	Primary mortgage insurance	No	Front-end	Attached
STACR	STACR Trust notes	Yes	Back-end	Freestanding
	STACR debt notes	Yes	Back-end	Debt
Insurance/reinsurance	ACIS	Yes	Back-end	Freestanding
	AFRM	Yes	Front-end	Freestanding
	IMAGIN	Yes	Front-End	Freestanding
Subordination	Senior subordinate securitization structures backed by seasoned loans (non-consolidated)	Yes	Back-end	Attached
	Senior subordinate securitization structures backed by recently originated loans (consolidated)	Yes	Back-end	Debt
Lender risk-sharing	Lender risk sharing	Yes	Front-end	Freestanding

Credit Enhancement Coverage for Single-Family Credit Guarantee Portfolio

The tables below provide information on the total protected UPB and maximum coverage associated with credit enhanced loans in our single-family credit guarantee portfolio as of December 31, 2019 and December 31, 2018, respectively.

Table 20 - Details of Credit Enhanced Loans in Our Single-Family Credit Guarantee Portfolio

	Outstanding as of December 31, 2019				
	Protected UPB(1)	Percentage of Single-Family Credit Guarantee Portfolio	Maximum Coverage(2)		
(Dollars in millions)	Total	Total	First Loss(3)	Mezzanine	Total
Primary mortgage insurance	$421,870	21%	$107,690	$—	$107,690
STACR	824,359	41	5,874	19,238	25,112
Insurance/reinsurance	863,149	43	2,483	7,674	10,157
Subordination	44,941	2	2,608	2,791	5,399
Lender risk-sharing	24,078	1	5,077	580	5,657
Other	1,056	—	1,051	—	1,051
Less: UPB with multiple CRT and/or other credit enhancements	(1,058,402)	(52)	—	—	—
Single-family credit guarantee portfolio with credit enhancement	1,121,051	56	124,783	30,283	155,066
Single-family credit guarantee portfolio without credit enhancement	873,398	44	—	—	—
Total	**$1,994,449**	**100%**	**$124,783**	**$30,283**	**$155,066**

	Outstanding as of December 31, 2018				
	Protected UPB(1)	Percentage of Single-Family Credit Guarantee Portfolio	Maximum Coverage(2)		
(Dollars in millions)	Total	Total	First Loss(3)	Mezzanine	Total
Primary mortgage insurance	$378,594	20%	$96,996	$—	$96,996
STACR	766,415	40	3,777	18,845	22,622
Insurance/reinsurance	808,484	43	1,706	7,572	9,278
Subordination	41,277	2	1,923	2,046	3,969
Lender risk-sharing	17,458	1	4,830	340	5,170
Other	1,305	—	1,290	—	1,290
Less: UPB with multiple CRT and/or other credit enhancements	(991,109)	(52)	—	—	—
Single-family credit guarantee portfolio with credit enhancement	1,022,424	54	110,522	28,803	139,325
Single-family credit guarantee portfolio without credit enhancement	873,762	46	—	—	—
Total	**$1,896,186**	**100%**	**$110,522**	**$28,803**	**$139,325**

(1) For STACR and certain insurance/reinsurance transactions (e.g., ACIS), represents the UPB of the assets included in the reference pool. For other insurance/reinsurance transactions, represents the UPB of the assets covered by the insurance policy. For subordination, represents the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities.

(2) For STACR transactions, represents the outstanding balance held by third parties. For insurance/reinsurance transactions, represents the remaining aggregate limit of insurance purchased from third parties. For subordination, represents the outstanding UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

(3) First loss includes the most subordinate securities (i.e., B tranches) in our STACR transactions and their equivalent in ACIS and other CRT transactions.

We had coverage remaining of $155.1 billion and $139.3 billion on our single-family credit guarantee portfolio as of December 31, 2019 and December 31, 2018, respectively. CRT transactions provided 29.8% and 29.4% of the coverage remaining at those dates.

The table below provides information on the credit-enhanced and non-credit-enhanced loans in our single-family credit guarantee portfolio. The credit enhanced categories are not mutually exclusive as a single loan may be covered by both primary mortgage insurance and other credit protection.

Table 21 - Credit-Enhanced and Non-Credit-Enhanced Loans in Our Single-Family Credit Guarantee Portfolio

	As of December 31,					
	2019		2018		2017	
(Percentage of portfolio based on UPB)	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate
Credit-enhanced						
Primary mortgage insurance	21%	0.79%	20%	0.86%	18%	1.43%
Other	55	0.40	48	0.31	37	0.53
Non-credit-enhanced	45	0.70	47	0.83	56	1.16
Total	**N/A**	**0.63%**	**N/A**	**0.69%**	**N/A**	**1.08%**

Credit Enhancement Expenses and Recoveries

The recognition of expenses and estimated probable recoveries associated with credit enhancements in our consolidated financial statements depends on the type of credit enhancement as follows:

- **Attached credit enhancements** - Attached credit enhancements are obtained contemporaneously with, and in contemplation of, the origination of a financial instrument, and effectively travel with the financial instrument upon sale. Attached credit enhancements are accounted for on a net basis with the associated financial instrument. As a result, we do not explicitly recognize a separate expense in our consolidated statements of comprehensive income for attached credit enhancements. Rather, the cost of attached credit enhancements is reflected as lower revenue. For example, we charge a lower guarantee fee for a loan with primary mortgage insurance than we otherwise would for the same loan without primary mortgage insurance. Similarly, credit losses on loans with attached credit enhancements are accounted for on a net basis. We do not recognize a provision for credit losses on loans with attached credit enhancements unless the estimated incurred loss exceeds the amount of credit protection provided by the attached credit enhancement and do not separately recognize a recovery asset. For additional information on the effect of attached credit enhancements on our credit losses, see the ***Monitoring Loan Performance and Characteristics - Credit Losses and Recoveries*** section below.

- **Freestanding credit enhancements** - Freestanding credit enhancements are contracts that are entered into separately and apart from any other financial instruments or entered into in conjunction with some other transaction and are legally detachable and separately exercisable. Freestanding credit enhancements are accounted for on a gross basis separately from the associated financial instrument. We recognize the payments we make to transfer credit risk under freestanding credit enhancements as credit enhancement expense. We recognize expected recoveries from freestanding credit enhancements as separate assets when the claim for recovery is deemed probable, which typically occurs at the same time we recognize a provision for credit losses on the associated loan.
- **Debt with embedded credit enhancements** - Credit enhancements that are structured as debt issuances are accounted for on a gross basis separately from the associated mortgage loan. We primarily recognize expenses associated with debt with embedded credit enhancements as interest expense. We recognize recoveries from debt with embedded credit enhancements as debt extinguishment gains within investment gains (losses) when the loss confirming event occurs and we are legally released from our debt obligation, which typically occurs after we recognize a provision for credit losses on the associated loan. Such recoveries have not been significant. We no longer issue debt with embedded credit enhancements as part of our primary CRT strategy and therefore expect the effect of these transactions on our financial results to become less significant over time.

Certain of our credit enhancements are accounted for at fair value, with changes in fair value recognized in earnings as a component of investment gains (losses), net. See **Note 6** for additional information on our credit enhancements.

The table below contains details on the costs associated with our single-family credit enhancements.

Table 22 - Details of Single-Family Credit Enhancement Expense

	Year Ended December 31,		
(In millions)	2019	2018	2017
Credit enhancement costs: (1)			
Credit enhancement expense	($693)	($402)	($263)
Interest expense related to CRT debt	(1,060)	(1,047)	(808)
Total costs	**(1,753)**	**(1,449)**	**(1,071)**
Estimated reinvestment income from proceeds of CRT debt issuance	360	372	180
Single-family credit enhancement expense	**($1,393)**	**($1,077)**	**($891)**

(1) Excludes fair value gains and losses on CRT derivatives and CRT debt recorded at fair value. See **MD&A - Consolidated Results of Operations** for additional information on these items.

Impact of CRT Transactions on Conservatorship Capital

We use FHFA's risk-based CCF guidelines to determine the amount of total conservatorship capital needed for our single-family credit guarantee portfolio. We reduce the amount of conservatorship capital needed for credit risk by shifting the risk of credit losses from Freddie Mac to third-party investors through our CRT transactions, primarily our STACR and ACIS transactions. The table below presents information on the impact of certain CRT transactions on the amount of capital needed for credit risk (conservatorship credit capital) pursuant to the CCF. For more information on the CCF, see **Liquidity and Capital Resources - *Capital Resources - Conservatorship Capital Framework.***

Table 23 - Reduction in Conservatorship Credit Capital (1) as a Result of Certain CRT Transactions

	As of December 31, 2019			As of December 31, 2018		
(Dollars in billions)	Single-Family Credit Guarantee Portfolio	Single-Family Credit Guarantee Portfolio - covered by certain CRT transactions	Single-Family Credit Guarantee Portfolio - Other	Single-Family Credit Guarantee Portfolio	Single-Family Credit Guarantee Portfolio - covered by certain CRT transactions	Single-Family Credit Guarantee Portfolio - Other
Conservatorship credit capital prior to CRT (2)	$31.9	$16.1	$15.8	$29.8	$14.6	$15.2
Conservatorship credit capital reduced by CRT (3)	(11.8)	(11.8)	—	(9.3)	(9.3)	—
Conservatorship credit capital needed after CRT	**$20.1**	**$4.3**	**$15.8**	**$20.5**	**$5.3**	**$15.2**
Reduction in conservatorship credit capital (%) (4)	**37.0%**	**73.3%**	**—%**	**31.2%**	**63.7%**	**—%**
UPB	**$1,994**	**$945**	**$1,049**	**$1,896**	**$875**	**$1,021**
% of portfolio	100%	47%	53%	100%	46%	54%

(1) Conservatorship credit capital figures for each period are based on the CCF in effect during the period. The CCF in effect as of December 31, 2019 was largely unchanged from the CCF as of December 31, 2018. The conservatorship credit capital figures for 2019 are preliminary and subject to change until official submission to FHFA.

(2) Represents the total conservatorship credit capital prior to CRT on the outstanding balance of our single-family credit guarantee portfolio as of December 31, 2019 and December 31, 2018 based on prescribed CCF guidelines.

(3) Represents the amount of conservatorship credit capital released from certain CRT transactions, including STACR, ACIS/AFRM, certain senior subordination securitization structures, and certain lender risk-sharing transactions, based on prescribed CCF guidelines.

(4) Calculated as conservatorship credit capital reduced by CRT divided by conservatorship credit capital prior to CRT.

Monitoring Loan Performance and Characteristics

We review loan performance, including delinquency statistics and related loan characteristics in conjunction with housing market and economic conditions, to determine if our pricing and eligibility standards reflect the risk associated with the loans we purchase and guarantee. We review the payment performance of our loans to facilitate early identification of potential problem loans, which could inform our loss mitigation strategies. We also review performance metrics for additional loan characteristics that may expose us to concentrations of credit risk, including:

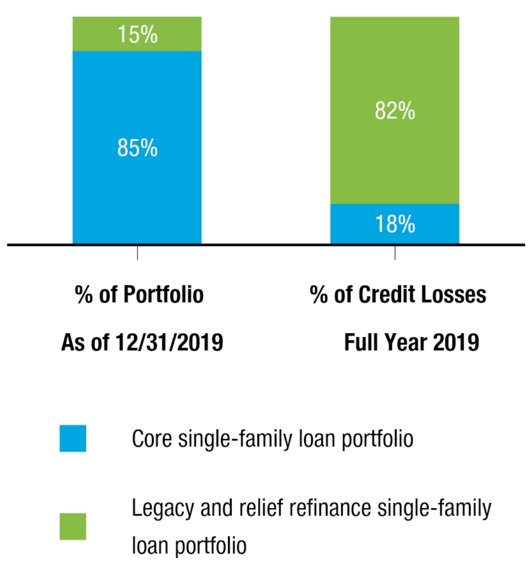
- Higher risk loan attributes and attribute combinations;
- Higher risk loan product types; and
- Geographic concentrations.

Delinquency Rates

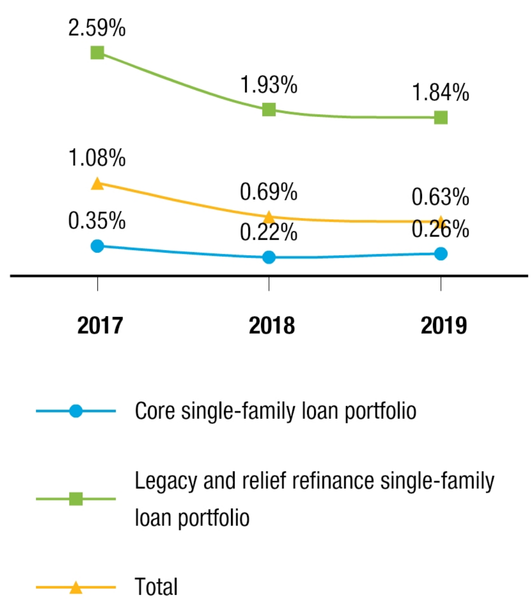
Our single-family serious delinquency rate declined in 2019 compared to 2018 due to the continued shift in the single-family credit guarantee portfolio mix, as the legacy and relief refinance loan portfolio runs off and we add higher credit quality loans to our core single-family loan portfolio. This decline is also attributable to our continued loss mitigation efforts and sales of certain seriously delinquent loans, as well as home price appreciation and a low unemployment rate.

The charts below show the credit losses and serious delinquency rates for each of our single-family loan portfolios. Our core single-family loan portfolio continues to perform well and account for a small percentage of our credit losses, as shown below. Our legacy and relief refinance single-family loan portfolio continues to decline as a percentage of our overall portfolio, but continues to account for the majority of our credit losses.

Portfolio Composition and Credit Losses



Serious Delinquency Rates as of December 31,



Loan Characteristics

The table below contains a description of some of the loan characteristics we monitor in our single-family credit guarantee portfolio.

Characteristic	Description	Impact on Credit Quality
LTV ratio	Ratio of the UPB of the loan to the value of the underlying property collateralizing the loan. Original LTV ratio is measured at loan origination, while current LTV (CLTV) ratio is defined as the ratio of the current loan UPB to the estimated current property value	• Measures ability of the underlying property to cover our exposure on the loan • Higher LTV ratios indicate higher risk, as proceeds from sale of the property may not cover our exposure on the loan • Lower LTV ratios indicate borrowers are more likely to repay
Credit score	Statistically-derived number used by lenders to assess a borrower's likelihood to repay debt. We use FICO scores, which are currently the most commonly used credit scores for mortgages. Original credit score represents each borrower's FICO score at the time of origination or our purchase, while current credit score represents each borrower's most recent FICO score, which is obtained by Freddie Mac as of the first month of the most recent quarter	• Borrowers with higher credit scores are generally more likely to repay or have the ability to refinance their loans than those with lower scores
Loan purpose	Indicates how the borrower intends to use the proceeds from a loan (i.e., purchase, cash-out refinance, or other refinance)	• Cash-out refinancings, which increase the LTV ratios, generally have a higher risk of default than loans originated in purchase or other refinance transactions
Property type	Indicates whether the property is a detached single-family house, townhouse, condominium, or co-op	• Detached single-family houses and townhouses are the predominant type of single-family property • Condominiums historically have experienced greater volatility in home prices than detached single-family houses, which may expose us to more risk
Occupancy type	Indicates whether the borrower intends to use the property as a primary residence, second home, or investment property	• Loans on primary residence properties tend to have lower credit risk than loans on second homes or investment properties
Product type	Indicates the type of loan based on key loan terms, such as the contractual maturity, type of interest rate, and payment characteristics of the loan	• Loan products that contain terms which result in scheduled changes in monthly payments may result in higher risk • Shorter loan terms result in faster repayment of principal and may indicate lower risk
Second liens	Indicates whether the underlying property is covered by more than one loan at the time of origination	• Second liens can increase the risk of default • Borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so
DTI ratio	Ratio of the borrower's total monthly debt payments to gross monthly income. One indicator of the creditworthiness of borrowers, as it measures borrowers' ability to manage monthly payments and repay debts	• Borrowers with lower DTI ratios are generally more likely to repay their loans than those with higher DTI ratios, holding all other factors equal • DTI ratios are at the time of origination and may not be indicative of the borrowers' current credit worthiness

The tables below contain details on characteristics of the loans in our single-family credit guarantee portfolio.

Table 24 - Credit Quality Characteristics of Our Single-Family Credit Guarantee Portfolio

	As of December 31, 2019						
(Dollars in billions)	UPB	Original Credit Score (1)	Current Credit Score (1)	Original LTV Ratio	Current LTV Ratio	Current LTV Ratio >100%	Alt-A %
Core single-family loan portfolio	$1,701	750	752	75%	60%	—%	—%
Legacy and relief refinance single-family loan portfolio	293	712	692	83	52	2	7
Total	**$1,994**	**745**	**749**	**76%**	**59%**	**—%**	**1%**

	As of December 31, 2018						
(Dollars in billions)	UPB	Original Credit Score (1)	Current Credit Score (1)	Original LTV Ratio	Current LTV Ratio	Current LTV Ratio >100%	Alt-A %
Core single-family loan portfolio	$1,550	750	753	74%	59%	—%	—%
Legacy and relief refinance single-family loan portfolio	346	705	690	78	45	2	7
Total	**$1,896**	**743**	**748**	**76%**	**58%**	**1%**	**1%**

(1) Original credit score is based on three credit bureaus (Equifax, Experian, and TransUnion). Current credit score is based on Experian only.

Table 25 - Characteristics of the Loans in Our Single-Family Credit Guarantee Portfolio

	As of December 31,		
(Percentage of portfolio based on UPB)	2019	2018	2017
Original LTV ratio range			
60% and below	18%	19%	20%
Above 60% to 80%	52%	52%	52%
Above 80% to 100%	28%	26%	24%
Above 100%	2%	3%	4%
Portfolio weighted average original LTV ratio	76%	76%	75%
Current LTV ratio range			
60% and below	51%	51%	49%
Above 60% to 80%	35%	36%	37%
Above 80% to 100%	14%	12%	13%
Above 100%	—%	1%	1%
Portfolio weighted average current LTV ratio	59%	58%	59%
Original credit score (1)			
740 and above	61%	60%	60%
700 to 739	21%	22%	21%
660 to 699	12%	12%	12%
620 to 659	4%	4%	5%
Less than 620	2%	2%	2%
Portfolio weighted average original credit score	745	743	743
Current credit score (1)			
740 and above	66%	66%	65%
700 to 739	16%	16%	16%
660 to 699	9%	9%	10%
620 to 659	4%	4%	4%
Less than 620	5%	5%	5%
Portfolio weighted average current credit score	749	748	747
Loan purpose			
Purchase	46%	45%	39%
Cash-out refinance	20%	20%	21%
Other refinance	34%	35%	40%

(1) Original credit score is based on three credit bureaus (Equifax, Experian, and TransUnion). Current credit score is based on Experian only.

In addition, at December 31, 2019, December 31, 2018, and December 31, 2017:

- More than 90% of our loans were secured by detached homes or townhomes;
- Approximately 90% of our loans were secured by properties used as the borrower's primary residence at origination; and
- More than 90% of our loans were fixed-rate.

At December 31, 2019, approximately 7% of our loans had second-lien financing by the originator or other third party at origination, and these loans comprised approximately 13% of our seriously delinquent loan population. It is likely that additional borrowers have post-origination second-lien financing.

Higher Risk Loan Attributes and Attribute Combinations

Certain of the loan attributes shown above may indicate a higher risk of default. For example, loans with original LTV ratios over 90% and/or credit scores below 620 at origination may be higher risk. The tables below provide information on loans in our portfolio with these characteristics. The tables include a presentation of each higher risk category in isolation. A single loan may fall within more than one category.

Table 26 - Single-Family Credit Guarantee Portfolio Higher Risk Loan Data

	As of December 31, 2019			
(Dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Original LTV ratio greater than 90%, HARP loans	$71.5	65%	2.7%	0.89%
Original LTV ratio greater than 90%, all other loans	286.0	79	3.2	0.98
Loans with credit scores below 620 at origination	33.1	60	15.4	4.52

	As of December 31, 2018			
(Dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Original LTV ratio greater than 90%, HARP loans	$85.1	70%	2.9%	0.90%
Original LTV ratio greater than 90%, all other loans	248.3	79	4.4	1.10
Loans with credit scores below 620 at origination	33.6	62	20.0	4.59

In addition, certain combinations of loan attributes can indicate an even higher degree of credit risk, such as loans with both higher LTV ratios and lower credit scores. The following tables show the combination of credit score and CLTV ratio attributes of loans in our single-family credit guarantee portfolio.

Table 27 - Single-Family Credit Guarantee Portfolio Attribute Combinations for Higher Risk Loans

	As of December 31, 2019								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(Original Credit score)	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate	% Modified
Core single-family loan portfolio:									
< 620	0.3%	2.68%	—%	NM	—%	NM	0.3%	2.87%	3.5%
620 to 659	2.1	1.26	0.4	1.59%	—	NM	2.5	1.30	1.9
≥ 660	69.8	0.20	12.6	0.26	—	NM	82.4	0.20	0.3
Not available	0.1	1.23	—	NM	—	NM	0.1	1.96	3.6
Total	**72.3%**	**0.24%**	**13.0%**	**0.33%**	**—%**	**NM**	**85.3%**	**0.26%**	**0.4%**
Legacy and relief refinance single-family loan portfolio:									
< 620	1.1%	4.16%	0.2%	9.33%	0.1%	15.03%	1.4%	4.83%	17.7%
620 to 659	1.5	3.01	0.2	7.91	0.1	12.84	1.8	3.52	16.3
≥ 660	10.5	1.06	0.7	3.91	0.2	6.32	11.4	1.23	5.9
Not available	0.1	4.39	—	NM	—	NM	0.1	4.68	19.6
Total	**13.2%**	**1.58%**	**1.1%**	**5.39%**	**0.4%**	**8.96%**	**14.7%**	**1.84%**	**8.3%**

	As of December 31, 2018								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(Original Credit score)	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate	% Modified
Core single-family loan portfolio:									
< 620	0.3%	2.18%	—%	NM	—%	NM	0.3%	2.34%	3.7%
620 to 659	2.0	1.13	0.3	1.27	—	NM	2.3	1.15	1.9
≥ 660	69.0	0.17	10.0	0.25	—	NM	79.0	0.18	0.3
Not available	0.1	1.52	—	NM	—	NM	0.1	2.60	3.6
Total	**71.4%**	**0.21%**	**10.3%**	**0.30%**	**—%**	**NM**	**81.7%**	**0.22%**	**0.4%**
Legacy and relief refinance single-family loan portfolio:									
< 620	1.2%	4.16%	0.2%	8.76%	0.1%	14.34%	1.5%	4.94%	22.6%
620 to 659	1.7	3.13	0.3	6.78	0.1	11.69	2.1	3.68	19.8
≥ 660	13.0	1.12	1.2	3.60	0.4	5.81	14.6	1.33	7.1
Not available	0.1	4.62	—	NM	—	NM	0.1	4.98	19.5
Total	**16.0%**	**1.62%**	**1.7%**	**4.78%**	**0.6%**	**8.18%**	**18.3%**	**1.93%**	**10.0%**

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

Higher Risk Loan Product Types

There are several types of loan products that contain terms which result in scheduled changes in the borrower's monthly payments after specified initial periods, such as interest-only and option ARM loans. These products may result in higher credit risk because the payment changes may increase the borrower's monthly payment, resulting in a higher risk of default. The majority of these loans are in our legacy and relief refinance single-family loan portfolio. Only a small percentage of our core single-family loan portfolio consists of ARM loans. We fully discontinued purchases of option ARM loans in 2007, Alt-A loans in 2009, and interest-only loans in 2010.

The balance of our interest-only and option ARM loans has continued to decline in recent years as many of these borrowers have repaid or refinanced their loans, received loan modifications, or completed foreclosure alternatives or foreclosure sales.

While we have not categorized option ARM loans as either subprime or Alt-A for presentation in this Form 10-K and elsewhere in our reporting, they could exhibit similar credit performance to collateral sometimes referred to as subprime or Alt-A by market participants. For reporting purposes, loans within the option ARM category continue to be presented in that category following a modification of the loan, even though the modified loan no longer provides for optional payment provisions.

The tables below provide credit characteristic information on higher risk loan product types.

Table 28 - Higher Risk Single-Family Loan Credit Characteristics

	As of December 31, 2019			
(Dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Amortizing ARM and option ARM (1)	$40.1	49%	2.2%	0.84%
Interest-only	10.9	64	—	2.72
Step-rate modified	8.7	59	100	6.27

	As of December 31, 2018			
(Dollars in billions)	UPB	CLTV	% Modified	SDQ Rate
Amortizing ARM and option ARM (1)	$47.7	50%	1.9%	0.88%
Interest-only	11.0	64	0.1	3.43
Step-rate modified	14.5	64	100	6.12

(1) Includes $2.5 billion and $3.0 billion in UPB of option ARM loans as of December 31, 2019 and December 31, 2018, respectively. As of December 31, 2019 and December 31, 2018, the option ARM loans had: (a) current LTV ratios of 51% and 54%, (b) loan modification percentages of 20.4% and 17.9%, and (c) serious delinquency rates of 2.94% and 3.40%, respectively.

The table below shows the timing of scheduled payment changes for certain types of loans within our single-family credit guarantee portfolio. The amounts in the table below are aggregated by product type and categorized by the year in which the loan will experience a payment change. The timing of the actual payment change may differ from that presented in the table due to a number of factors, including if the borrower refinances the loan. Loans where the year of first payment change is 2019 or prior have already had one or more payment changes as of December 31, 2019; loans where the year of first payment change is 2020 or later have not had a payment change as of December 31, 2019 and will not experience a payment change until a future period. Step-rate modified loans are shown in each year that the borrower will experience a scheduled interest-rate increase; therefore, a single loan may be included in multiple periods. However, the total of step-rate loans in the table reflects the ending UPB of such loans as of December 31, 2019.

Table 29 - Timing of Scheduled Payment Changes for Certain Single-Family Loan Types

	As of December 31, 2019							
(In millions)	2019 and Prior	2020	2021	2022	2023	2024	Thereafter	Total[1]
ARM/amortizing	$9,097	$3,860	$3,647	$4,967	$3,930	$4,552	$7,281	$37,334
ARM/interest-only	4,692	80	—	—	—	—	—	4,772
Fixed/interest-only	513	1	10	28	2	—	—	554
Step-rate modified	8,179	1,225	900	201	52	26	—	8,657
Total	**$22,481**	**$5,166**	**$4,557**	**$5,196**	**$3,984**	**$4,578**	**$7,281**	**$51,317**

(1) Excludes loans underlying certain other securitization products since the payment change information is not available to us for these loans.

We believe that the performance of these types of loans has been affected by prior adverse macroeconomic conditions, such as unemployment rates and home price declines in many geographic areas, in addition to the increase in the borrower's monthly payment. However, we continue to monitor the performance of these loans as many have experienced a payment change or are scheduled to have a payment change in 2020 or thereafter, which is likely to subject the borrowers to higher monthly payments. Since a substantial portion of these loans were originated in 2005 through 2008 and are located in geographic areas that were most affected by declines in home prices that began in 2006, we believe that the serious delinquency rate for these types of loans will remain high in 2020.

Other Higher Risk Loans - Alt-A and Subprime Loans

While we have referred to certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-K, there is no universally accepted definition of subprime or Alt-A, and the classification of such loans may differ from company to company. We do not rely on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

Participants in the mortgage market have characterized single-family loans based upon their overall credit quality at the time of origination, including as prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately $0.8 billion and $0.9 billion of security collateral underlying our other securitization products at December 31, 2019 and December 31, 2018, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between their prime and subprime categories, if they are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continue to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, part of our relief refinance initiative or part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-K and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller or servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to December 31, 2019, we have purchased approximately $36.4 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio.

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

Table 30 - Alt-A Loans in Our Single-Family Credit Guarantee Portfolio

	As of December 31, 2019				As of December 31, 2018			
(Dollars in billions)	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate
Alt-A	$21.1	61%	18.4%	3.75%	$23.9	63%	23.2%	4.13%

The UPB of Alt-A loans in our single-family credit guarantee portfolio is continuing to decline due to borrowers refinancing into other mortgage products, foreclosure sales, and other liquidation events.

Geographic Concentrations

We purchase mortgage loans from across the U.S. and maintain a geographically diverse portfolio. However, local economic conditions can affect borrowers' ability to repay and the value of the underlying collateral, leading to concentrations of credit risk in certain geographic areas.

The following table presents certain geographic concentrations in our single-family credit guarantee portfolio. The states presented below had the largest number of seriously delinquent loans as of December 31, 2019. See **Note 14** for additional information on the concentration of credit risk in our single-family credit guarantee portfolio.

Table 31 - Geographic Concentration in Our Single-Family Credit Guarantee Portfolio

	As of December 31, 2019			Full Year 2019	As of December 31, 2018			Full Year 2018	As of December 31, 2017			Full Year 2017
(Dollars in millions)	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Credit Losses	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Credit Losses	SDQ Loan Count	% of SDQ Loans	SDQ Rate	Credit Losses
New York	5,741	8%	1.21%	$109	6,312	8%	1.37%	$289	8,117	7%	1.74%	$415
Florida	5,430	8	0.77	208	6,888	9	1.01	263	22,253	19	3.33	614
Illinois	4,747	7	0.85	151	4,750	6	0.86	244	6,228	5	1.13	445
California	4,584	7	0.34	116	4,610	6	0.35	275	5,514	5	0.41	884
Texas	3,950	6	0.54	49	4,081	5	0.59	55	8,908	8	1.36	44
All Others	45,269	64	0.61	881	48,499	66	0.67	1,454	64,669	56	0.90	2,413
Total	**69,721**	**100%**	**0.63%**	**$1,514**	**75,140**	**100%**	**0.69%**	**$2,580**	**115,689**	**100%**	**1.08%**	**$4,815**

The following table presents our single-family charge-offs and recoveries in each geographic region. See ***Single-Family Credit Guarantee Portfolio*** in **Note 14** for a description of these regions.

Table 32 - Single-Family Charge-Offs and Recoveries by Region

	Year Ended December 31,								
	2019			2018			2017		
(In millions)	Charge-offs, gross (1)	Recoveries	Charge-offs, net	Charge-offs, gross (1)	Recoveries	Charge-offs, net	Charge-offs, gross (1)	Recoveries	Charge-offs, net
Northeast	$619	($157)	$462	$1,105	($175)	$930	$1,690	($155)	$1,535
Southeast	414	(105)	309	515	(98)	417	1,001	(95)	906
North Central	307	(76)	231	544	(88)	456	774	(81)	693
West	252	(73)	179	522	(72)	450	1,382	(62)	1,320
Southwest	145	(41)	104	199	(42)	157	204	(32)	172
Total	**$1,737**	**($452)**	**$1,285**	**$2,885**	**($475)**	**$2,410**	**$5,051**	**($425)**	**$4,626**

(1) 2019, 2018, and 2017 include charge-offs of $1.3 billion, $2.1 billion and $3.8 billion, respectively, related to the transfer of loans from held-for-investment to held-for-sale.

The tables below present the concentration of loans in each geographic region by CLTV ratio.

Table 33 - Concentration of Single-Family Loans in Each Region by CLTV Ratio

	As of December 31, 2019							
	CLTV <= 80%		CLTV > 80% to 100%		CLTV > 100%		All Loans	
	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of	SDQ Rate(1)	% of Portfolio	SDQ Rate
North Central	13%	0.55%	3%	0.80%	—%	NM	16%	0.61%
Northeast	20	0.75	4	1.28	—	NM	24	0.87
Southeast	14	0.68	2	0.91	—	NM	16	0.73
Southwest	12	0.54	2	0.46	—	NM	14	0.54
West	27	0.34	3	0.54	—	NM	30	0.36
Total	**86%**	**0.57%**	**14%**	**0.83%**	**—%**	**NM**	**100%**	**0.63%**

	As of December 31, 2018							
	CLTV <= 80%		CLTV > 80% to 100%		CLTV > 100%		All Loans	
	% of Portfolio	SDQ Rate	% of Portfolio	SDQ Rate	% of	SDQ Rate(1)	% of Portfolio	SDQ Rate
North Central	14%	0.55%	2%	0.93%	—%	NM	16%	0.63%
Northeast	21	0.79	3	1.62	—	NM	24	0.96
Southeast	14	0.79	2	1.37	—	NM	16	0.90
Southwest	12	0.56	2	0.58	—	NM	14	0.57
West	27	0.35	2	0.76	1	3.81	30	0.38
Total	**88%**	**0.60%**	**11%**	**1.09%**	**1%**	**7.98%**	**100%**	**0.69%**

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

Credit Losses and Recoveries

The table below contains certain credit performance metrics of our single-family credit guarantee portfolio.

Table 34 - Single-Family Credit Guarantee Portfolio Credit Performance Metrics

	Year Ended December 31,		
(Dollars in millions)	2019	2018	2017
Charge-offs, gross(1)	$1,737	$2,885	$5,051
Recoveries	(452)	(475)	(425)
Charge-offs, net	1,285	2,410	4,626
REO operations expense	229	170	189
Total credit losses	**$1,514**	**$2,580**	**$4,815**
Total credit losses(1) (in bps)	7.7	13.7	27.0

(1) 2019, 2018, and 2017 include charge-offs of $1.3 billion, $2.1 billion, and $3.8 billion, respectively, related to the transfer of loans from held-for-investment to held-for-sale.

We recognized recoveries from primary mortgage insurance (excluding recoveries that represent reimbursements for our expenses, such as REO operations expenses) of $117 million, $151 million, and $263 million that reduced our charge-offs of single-family loans during 2019, 2018, and 2017, respectively. We also recognized recoveries from primary mortgage insurance of $52 million, $47 million, and $50 million during 2019, 2018, and 2017, respectively, as part of REO operations (expense) income.

Our credit losses and seriously delinquent loan population are concentrated in the legacy and relief refinance single-family loan portfolio. In addition, our credit losses and seriously delinquent loan population are also concentrated within loans having certain characteristics, as shown in the table below. These categories are not mutually exclusive; for example, an Alt-A loan can be associated with a property located in a judicial foreclosure state and/or have a CLTV ratio of greater than 100%. Additional detail on loans in judicial foreclosure states is presented in the ***Managing Foreclosure and REO Activities*** section below.

Table 35 - Credit Characteristics of Certain Single-Family Loan Categories

	2019			2018		
	As of December 31		Year Ended December 31	As of December 31		Year Ended December 31
	% of Portfolio	SDQ Rate	% of Credit Losses	% of Portfolio	SDQ Rate	% of Credit Losses
CLTV > 100%	0.4%	8.22%	16%	1%	7.98%	16%
Alt-A loans	1	3.75	12	1	4.13	16
Judicial foreclosure states	38	0.81	61	38	0.92	59

Allowance for Credit Losses

Our allowance for credit losses continued to decline in 2019, primarily driven by charge-offs as a result of our transfer of loans from held-for-investment to held-for-sale.

On January 1, 2017, we elected a new accounting policy for loan reclassifications from held-for-investment to held-for-sale. Under the new policy, when we reclassify (transfer) a loan from held-for-investment to held-for-sale, we charge off the entire difference between the loan's recorded investment and its fair value if the loan has a history of credit-related issues. See **Note 4** for further information about this change.

The table below summarizes our single-family allowance for credit losses activity.

Table 36 - Single-Family Allowance for Credit Losses Activity

	Year Ended December 31,				
(Dollars in millions)	2019	2018	2017	2016	2015
Beginning balance	$6,176	$8,979	$13,463	$15,348	$21,793
Provision (benefit) for credit losses	(749)	(712)	(97)	(781)	(2,639)
Charge-offs, gross[1]	(1,737)	(2,885)	(5,051)	(1,938)	(5,071)
Recoveries	452	475	425	497	717
Other[2]	126	319	239	337	548
Ending balance	**$4,268**	**$6,176**	**$8,979**	**$13,463**	**$15,348**
As a percentage of our single-family credit guarantee portfolio	0.21%	0.33%	0.49%	0.77%	0.90%

(1) 2016 and 2015 do not include lower-of-cost-or-fair-value adjustments recognized when we transfer loans from held-for-investment to held-for-sale, which totaled $1.2 billion and $3.4 billion, respectively. 2019, 2018, and 2017 include charge-offs of$1.3 billion, $2.1 billion, and $3.8 billion, respectively, related to the transfer of loans from held-for-investment to held-for-sale.

(2) Primarily includes capitalization of past due interest on modified loans.

TDRs and Individually Impaired Loans

Single-family loans that have been individually evaluated for impairment, such as modified loans, generally have a higher associated allowance for loan losses than loans that have been collectively evaluated for impairment. Due to the large number of loan modifications completed in recent years, a significant portion of our allowance for loan losses is attributable to individually impaired single-family loans. As of December 31, 2019, 43% of the allowance for loan losses for single-family loans related to interest rate concessions provided to borrowers as part of loan modifications. Most of our modified single-family loans, including TDRs, were current and performing at December 31, 2019. We expect our allowance for loan losses associated with existing single-family TDRs to decline over time as we continue to sell reperforming loans. In addition, these allowances for loan losses will decline as borrowers continue to make monthly payments under the modified terms and interest rate concessions are amortized into earnings.

The table below summarizes the carrying value on our consolidated balance sheets for individually impaired single-family loans for which we have recorded an allowance determined on an individual basis.

Table 37 - Single-Family Individually Impaired Loans with an Allowance Recorded

	2019		2018	
(Dollars in millions)	Loan Count	Amount	Loan Count	Amount
TDRs, at January 1	290,255	$42,254	364,704	$54,415
New additions	30,568	4,871	52,300	8,115
Repayments and reclassifications to held-for-sale	(85,181)	(14,016)	(119,366)	(19,285)
Foreclosure sales and foreclosure alternatives	(4,502)	(605)	(7,383)	(991)
TDRs, at December 31	**231,140**	**32,504**	**290,255**	**42,254**
Loans impaired upon purchase	1,600	102	2,555	170
Total impaired loans with an allowance recorded	**232,740**	**32,606**	**292,810**	**42,424**
Allowance for loan losses		(2,872)		(4,369)
Net investment, at December 31		**$29,734**		**$38,055**

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

Table 38 - Single-Family TDR and Non-Accrual Loans

	As of December 31,				
(In millions)	2019	2018	2017	2016	2015
TDRs on accrual status	$32,188	$41,839	$51,644	$77,122	$82,026
Non-accrual loans	11,183	11,197	17,748	16,164	22,460
Total TDRs and non-accrual loans	**$43,371**	**$53,036**	**$69,392**	**$93,286**	**$104,486**
Allowance for loan losses associated with:					
TDRs on accrual status	$2,452	$3,612	$5,257	$10,295	$12,105
Non-accrual loans	597	1,003	1,883	2,290	2,677
Total	**$3,049**	**$4,615**	**$7,140**	**$12,585**	**$14,782**

	Year Ended December 31,				
(In millions)	2019	2018	2017	2016	2015
Foregone interest income on TDRs and non-accrual loans[1]	$790	$1,122	$1,604	$2,109	$2,690

(1) Represents the amount of interest income that we did not recognize but would have recognized during the period for loans outstanding at the end of each period, had the loans performed according to their original contractual terms.

Engaging in Loss Mitigation Activities

Servicers perform loss mitigation activities as well as foreclosures on loans that they service for us. Our loss mitigation strategy emphasizes early intervention by servicers in delinquent loans and offers alternatives to foreclosure by providing servicers with default management programs designed to manage non-performing loans more effectively and to assist borrowers in maintaining home ownership or to facilitate foreclosure alternatives.

We offer a variety of borrower assistance programs, including refinance programs for certain eligible loans and loan workout activities for struggling borrowers. Our loan workouts include both home retention options and foreclosure alternatives. We also engage in transfers of servicing for and sales of certain seriously delinquent and reperforming loans.

Relief Refinance Program

Our relief refinance initiative allows eligible homeowners whose loans we already own or guarantee to refinance with more favorable terms (such as reduction in payment, reduction in interest rate or movement to a more stable loan product) and without the need to obtain additional mortgage insurance. Prior to January 2019, our relief refinance program included HARP, the portion of our relief refinance initiative for loans with LTV ratios above 80%. The HARP program ended on December 31, 2018, although we continued to purchase HARP loans with application received dates on or prior to December 31, 2018 through September 30, 2019.

The relief refinance program has been replaced with the Enhanced Relief Refinance program, which became available in January 2019 for loans originated on or after October 1, 2017. This program provides liquidity for borrowers who are current on their mortgages but are unable to refinance because their LTV ratios exceed our standard refinance limits.

The following table includes information about the performance of our relief refinance mortgage portfolio.

Table 39 - Single-Family Relief Refinance Loans

	As of December 31,					
	2019			2018		
(Dollars in millions)	UPB	Loan Count	SDQ Rate	UPB	Loan Count	SDQ Rate
Above 125% Original LTV	$15,906	103,401	0.93%	$18,847	117,410	0.97%
Above 100% to 125% Original LTV	31,072	200,227	0.96	37,084	228,419	0.93
Above 80% to 100% Original LTV	52,020	362,647	0.76	61,843	410,027	0.77
80% and below Original LTV	70,752	681,232	0.43	83,647	762,477	0.42
Total	**$169,750**	**1,347,507**	**0.64%**	**$201,421**	**1,518,333**	**0.64%**

Loan Workout Activities

When refinancing is not practicable, we require our servicers first to evaluate the loan for a forbearance agreement, repayment plan, or loan modification, because our level of recovery on a loan that reperforms is often much higher than for a loan that proceeds to a foreclosure alternative or foreclosure. We offer the following types of home retention options:

- **Forbearance agreements** - Arrangements that require reduced or no payments during a defined period, generally less than one year, to allow borrowers to return to compliance with the original mortgage terms or to implement another loan workout. For agreements completed in 2019, the average time period for reduced or suspended payments was between four and five months.
- **Repayment plans** - Contractual plans designed to repay past due amounts to allow borrowers to return to compliance with the original mortgage terms. For plans completed in 2019, the average time period to repay past due amounts was approximately four months. Servicers are paid incentive fees for repayment plans that are paid in full and loans brought to current status.
- **Loan modifications** - Contractual plans that may involve changing the terms of the loan, adding outstanding indebtedness, such as delinquent interest, to the UPB of the loan, or a combination of both, including principal forbearance. Our modification programs generally require completion of a trial period of at least three months prior to receiving the modification. If a borrower fails to complete the trial period, the loan is considered for our other workout activities. These modification programs offer eligible borrowers extension of the loan's term up to 480 months and a fixed interest rate. Servicers are paid incentive fees for each completed modification, and there are limits on the number of times a loan may be modified.

The reduced level of loan workout activity in 2019 compared to 2018 was primarily driven by elevated loan workout activity in 2018 as a result of the hurricanes that occurred in late 2017.

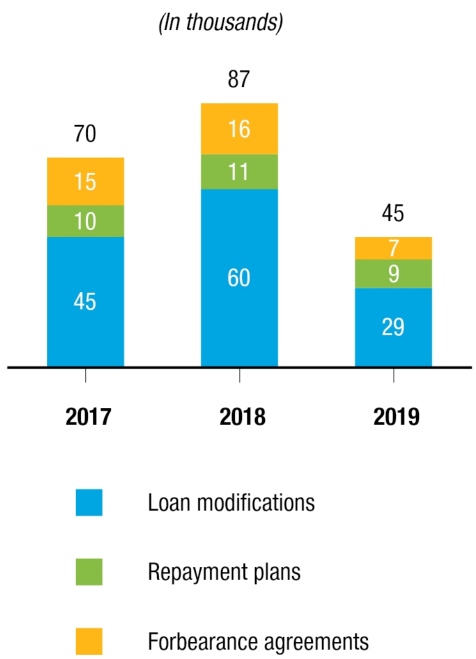
When a seriously delinquent single-family loan cannot be resolved through an economically sensible home retention option, we typically seek to pursue a foreclosure alternative or sale of the seriously delinquent loan. We pay servicers incentive fees for each completed foreclosure alternative. In some cases, we provide cash relocation assistance to the borrower, while allowing the borrower to exit the home in an orderly manner. We offer the following types of foreclosure alternatives:

- **Short sale** - The borrower sells the property for less than the total amount owed under the terms of the loan. A short sale is preferable to a borrower because we provide limited relief to the borrower from repaying the entire amount owed on the loan. A short sale allows Freddie Mac to avoid the costs we would otherwise incur to complete the foreclosure and subsequently sell the property.
- **Deed in lieu of foreclosure** - The borrower voluntarily agrees to transfer title of the property to us without going through formal foreclosure proceedings.

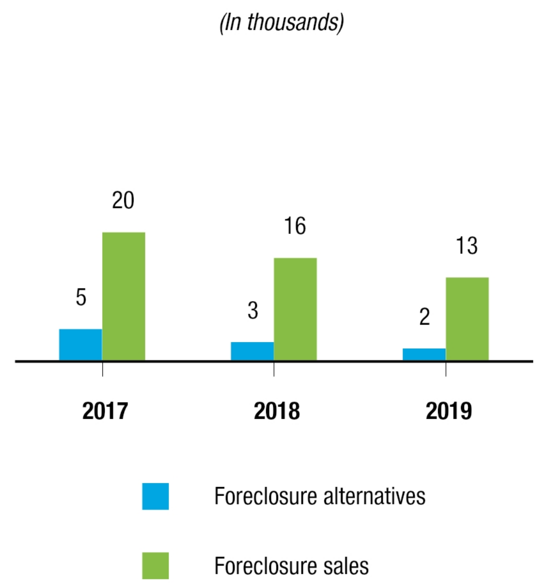
The volume of foreclosures moderated in recent periods, primarily due to generally declining volumes of seriously delinquent loans, the success of our loan workout programs, and our sales of certain seriously delinquent loans. The volume of our short sale transactions declined in 2019 compared to 2018, continuing the trend in recent periods. Similarly, the volume of short sales in the overall market also declined in recent periods as home prices have continued to increase.

The following graphs provide details about our single-family loan workout activities and foreclosure sales.

Home Retention Actions



Foreclosure Alternatives and Foreclosure Sales



The tables below contain credit characteristic data on our single-family modified loans.

Table 40 - Credit Characteristics of Single-Family Modified Loans

	As of December 31, 2019			
(Dollars in billions)	UPB	% of Portfolio	CLTV Ratio	SDQ Rate
Loan Modifications	$40.8	2%	64%	10.59%

	As of December 31, 2018			
(Dollars in billions)	UPB	% of Portfolio	CLTV Ratio	SDQ Rate
Loan Modifications	$55.4	3%	68%	9.16%

The table below contains information about the payment performance of modified loans in our single-family credit guarantee portfolio, based on the number of loans that were current or paid off one year and, if applicable, two years after modification.

Table 41 - Payment Performance of Single-Family Modified Loans

	Quarter of Loan Modification Completion							
	4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017
Current or paid off one year after modification:	68%	76%	75%	66%	63%	60%	62%	62%
Current or paid off two years after modification:	N/A	N/A	N/A	N/A	68	67	64	64

Servicing Transfers and Sales and Securitization of Certain Seasoned Loans

From time to time, we facilitate the transfer of servicing for certain groups of loans that are delinquent or are deemed at risk of default to servicers that we believe have capabilities and resources necessary to improve the loss mitigation associated with the loans. See ***Sellers and Servicers*** in **Counterparty Credit Risk** for additional information on these activities.

We pursue sales of seriously delinquent loans when we believe the sale of these loans provides better economic returns than continuing to hold them. During 2019 and 2018, we completed sales of $0.2 billion and $0.7 billion, respectively, in UPB of seriously delinquent single-family loans. Of the $18.5 billion in UPB of single-family loans classified as held-for-sale at December 31, 2019, $4.1 billion related to loans that were seriously delinquent. The FHFA requirements guiding these transactions, including bidder qualifications, loan modifications, and performance reporting, are designed to improve borrower outcomes.

Certain seriously delinquent loans may reperform, either on their own or through modification. In addition to sales of seriously delinquent loans, we sell certain reperforming loans. Our sales of reperforming loans typically involve securitization of the loans using our senior subordinate securitization structures. During 2019 and 2018, we sold $12.9 billion and $9.5 billion, respectively, in UPB of reperforming loans through these structures. In prior years, we have securitized reperforming loans using Level 1 Securitization Products, which may be resecuritized and sold to third parties subsequently. During 2018, we securitized $1.6 billion in UPB of reperforming loans using this strategy. We did not execute any such transactions in 2019. Our use of this strategy has declined over time with our primary strategy now utilizing senior subordinate securitization structures.

Managing Foreclosure and REO Activities

In a foreclosure, we may acquire the underlying property and later sell it, using the proceeds of the sale to reduce our losses.

We typically acquire properties as a result of borrower defaults and subsequent foreclosures on loans that we own or guarantee. We evaluate the condition of, and market for, newly acquired REO properties, determine if repairs will be performed, determine occupancy status and whether there are legal or other issues to be addressed, and determine our sale or disposition strategy. When we sell REO properties, we typically provide an initial period where we consider offers by owner occupants and entities engaged in community stabilization activities before offers by investors. We also consider disposition strategies, such as auctions, as appropriate to improve collateral recoveries and/or when traditional sales strategies (i.e., marketing via Multiple Listing Service and a real estate agent) may not be as effective.

The pace and volume of REO acquisitions are affected by the length of the foreclosure process, which extends the time it takes for loans to be foreclosed upon and the underlying properties to transition to REO.

Delays in Foreclosure Process and Average Length of Foreclosure Process

Our serious delinquency rates and credit losses may be adversely affected by delays in the foreclosure process in states where a judicial foreclosure is required. Foreclosures generally take longer to complete in such states, resulting in concentrations of delinquent loans in those states, as shown in the table below. At December 31, 2019, loans in states with a judicial foreclosure process comprised 38% of our single-family credit guarantee portfolio.

The table below presents the length of time our loans have been seriously delinquent, by jurisdiction type.

Table 42 - Seriously Delinquent Single-Family Loans by Jurisdiction

	As of December 31,					
	2019		2018		2017	
Aging, by locality	Loan Count	Percent	Loan Count	Percent	Loan Count	Percent
Judicial states						
<= 1 year	26,063	37%	27,811	37%	50,554	44%
> 1 year and <= 2 years	7,416	11	8,268	11	10,649	9
> 2 years	5,336	8	6,871	9	10,863	9
Non-judicial states						
<= 1 year	24,997	36	25,675	34	34,850	30
> 1 year and <= 2 years	3,928	5	4,133	6	5,406	5
> 2 years	1,981	3	2,382	3	3,367	3
Combined						
<= 1 year	51,060	73	53,486	71	85,404	74
> 1 year and <= 2 years	11,344	16	12,401	17	16,055	14
> 2 years	7,317	11	9,253	12	14,230	12
Total	**69,721**	**100%**	**75,140**	**100%**	**115,689**	**100%**

The longer a loan remains delinquent, the greater the associated costs we incur. Loans that remain delinquent for more than one year are more challenging to resolve as many of these borrowers may not be in contact with the servicer, may not be eligible for loan modifications or may determine that it is not economically beneficial for them to enter into a loan modification due to the amount of costs incurred on their behalf while the loan was delinquent. We expect the portion of our credit losses related to loans in states with judicial foreclosure processes will remain high as loans awaiting court proceedings in those states transition to REO or other loss events. The number of our single-family loans delinquent for more than one year declined 14% during 2019.

Our servicing guidelines do not allow initiation of the foreclosure process on a primary residence until a loan is at least 121 days delinquent, regardless of where the property is located. However, we evaluate the timeliness of foreclosure completion by our servicers based on the state where the property is located. Our servicing guide provides for instances of allowable foreclosure delays in excess of the expected timelines for specific situations involving delinquent loans, such as when the borrower files for bankruptcy or appeals a denial of a loan modification.

The table below presents average completion times for foreclosures of our single-family loans.

Table 43 - Average Length of Foreclosure Process for Single-Family Loans

	Year Ended December 31,		
(Average days)	2019	2018	2017
Judicial states			
Florida	1,143	1,173	1,069
New Jersey	1,089	1,343	1,497
New York	1,765	1,790	1,658
All other judicial states	692	710	704
Judicial states, in aggregate	**872**	**926**	**907**
Non-judicial states, in aggregate	**520**	**530**	**545**
Total	**730**	**766**	**751**

As indicated in the table above, the average length of the foreclosure process for our single-family loans has been trending downward in recent years for some jurisdictions, particularly in states with a non-judicial foreclosure process, but it has remained elevated in others, particularly in states with a judicial foreclosure process, such as Florida and New York.

Our REO inventory continued to decline in 2019 primarily due to a decrease in REO acquisitions driven by the improved credit quality of our portfolio, effective loss mitigation strategies, effective and innovative REO disposition strategies, and a large proportion of property sales to third parties at foreclosure. Third-party sales at foreclosure auction allow us to avoid the REO property expenses that we would have otherwise incurred if we held the property in our REO inventory until disposition.

We expect the rate of decline in our REO inventory may slow as a large portion of newly acquired REO properties are older, lower value, and more geographically disbursed, thus creating additional challenges in marketing and selling them. In addition, legal-related delays (i.e., redemption periods, litigations, and eviction procedures) continue to result in extended holding periods.

The table below shows our single-family REO activity.

Table 44 - Single-Family REO Activity

	Year Ended December 31,					
	2019		2018		2017	
(Dollars in millions)	Number of Properties	Amount	Number of Properties	Amount	Number of Properties	Amount
Beginning balance - REO	7,100	$780	8,299	$900	11,418	$1,215
Additions	7,910	786	10,442	1,012	12,240	1,191
Dispositions	(10,021)	(1,001)	(11,641)	(1,132)	(15,359)	(1,506)
Ending balance - REO	**4,989**	**565**	**7,100**	**780**	**8,299**	**900**
Beginning balance, valuation allowance		(11)		(14)		(17)
Change in valuation allowance		1		3		3
Ending balance, valuation allowance		**(10)**		**(11)**		**(14)**
Ending balance - REO, net		**$555**		**$769**		**$886**

Severity Ratios

Severity ratios are the percentages of our realized losses when loans are resolved by the completion of REO dispositions and third-party foreclosure sales or short sales. Severity ratios are calculated as the amount of our recognized losses divided by the aggregate UPB of the related loans. The amount of recognized losses is equal to the amount by which the UPB of the loans exceeds the amount of sales proceeds from disposition of the properties, net of capitalized repair and selling expenses, if applicable. Loss severity excludes the cost of funding the loans after they are repurchased from the associated security pool.

The table below presents single-family severity ratios.

Table 45 - Single-Family Severity Ratios

	Year Ended December 31,		
	2019	2018	2017
REO dispositions and third-party foreclosure sales	21.7%	24.2%	27.2%
Short sales	24.5	26.6	27.7

Our severity ratios declined during 2019 compared to 2018, primarily driven by home price appreciation as well as effective cost control and disposition strategies.

REO Property Status

A significant portion of our REO portfolio is unable to be marketed at any given time because the properties are occupied, involved in legal matters (e.g., bankruptcy, litigation, etc.), or subject to a redemption period, which is a post-foreclosure period during which borrowers may reclaim a foreclosed property. Redemption periods increase the average holding period of our inventory by as much as 10% or more. As of December 31, 2019, approximately 27% of our REO properties were unable to be marketed because the properties were occupied, located in states with a redemption period or subject to other legal matters. Another 23% of the properties were being prepared for sale (i.e., valued, marketing strategies determined, and repaired). As of December 31, 2019, approximately 30% of our REO properties were listed and available for sale, and 20% of our inventory was pending the settlement of sales. Though it varied significantly in different states, the average holding period of our single-family REO properties, excluding any redemption period, was 234 days and 244 days for our REO dispositions during 2019 and 2018, respectively.

Multifamily Mortgage Credit Risk

We manage our exposure to multifamily mortgage credit risk, which is a type of commercial real estate credit risk, using the following principal strategies:

- Maintaining policies and procedures for new business activity, including prudent underwriting standards;
- Transferring credit risk to third-party investors; and
- Managing our portfolio, including loss mitigation activities.

Maintaining Policies and Procedures for New Business Activity, Including Prudent Underwriting Standards

We use a prior approval underwriting approach for multifamily loans, in contrast to the delegated underwriting approach used for single-family loans and Fannie Mae's DUS program. Under this approach, we maintain credit discipline by completing our own underwriting and credit review for each new loan prior to issuing a loan purchase commitment, including reviewing third-party appraisals and performing cash flow analysis. Our underwriting standards focus on the LTV ratio and DSCR, which estimates a borrower's ability to repay the loan using the secured property's cash flows, after expenses. A higher DSCR indicates lower credit risk. Our standards require maximum LTV ratios and minimum DSCRs that vary based on the characteristics and features of the loan. Loans are generally underwritten with a maximum original LTV ratio of 80% and a DSCR of greater than 1.25, assuming monthly payments that reflect amortization of principal. However, certain loans may have a higher LTV ratio and/or a lower DSCR, typically where this will serve our mission and contribute to achieving our affordable housing goals.

Consideration is also given to other qualitative factors, such as borrower experience, the type of loan, location of the property, and the strength of the local market. Sellers provide certain representations and warranties regarding the loans they sell to us, and are required to repurchase loans for which there has been a breach of representation or warranty. However, repurchases of multifamily loans have been rare due to our underwriting approach, which is completed prior to issuance of a loan purchase commitment.

Multifamily loans may be amortizing or interest-only (for the full term or a portion thereof) and have a fixed or variable rate of interest. Multifamily loans generally amortize over a thirty-year period, but have shorter contractual maturity terms than single-family loans, typically ranging from five to ten years. As a result, most multifamily loans require a balloon payment at maturity, making a borrower's ability to refinance or pay off the loan at maturity a key attribute. Some borrowers may be unable to refinance during periods of rising interest rates or adverse market conditions, increasing the likelihood of borrower default.

Occasionally, we may take on additional credit risk through the issuance of certain other securitizations when the loans or bonds underlying the issued securities are contributed by third parties and are underwritten by us after (rather than at) origination. Prior to securitization, we are not exposed to the credit risk of these underlying loans or bonds. However, as we may guarantee some or all of the securities issued by the trusts used in these transactions, we effectively assume credit risk equal to the guaranteed UPB. Similar to our primary securitizations, these other securitizations generally provide for structural credit enhancements (e.g., subordination or other loss sharing arrangements) that allocate first loss exposure to third parties.

The table below presents the key risk characteristics of our multifamily new business activity.

Table 46 - Multifamily New Business Activity Key Risk Characteristics

	Year Ended December 31,		
	2019	2018	2017
Weighted average original LTV ratio	68%	67%	68%
Original LTV ratio greater than 80%(1)	2	1	2
Original DSCR less than or equal to 1.10(1)	1	1	1

(1) Shown as a percentage of multifamily new business activity.

Transferring Credit Risk to Third-Party Investors

Types of Credit Enhancements

In connection with the acquisition or securitization of a loan or group of loans, we may obtain various forms of credit protection that reduce our credit risk exposure to the underlying mortgage borrower and reduce our required conservatorship capital. For example, at the time of loan acquisition, we may obtain recourse and/or indemnification protection from our lenders or sellers. After acquisition, we primarily reduce our credit risk exposure to the underlying borrower by using one or more of our securitization products.

The following table summarizes our principal types of credit enhancements. See **Our Business Segments - Multifamily - *Business Overview - Products and Activities*** for additional information on our securitization and credit risk transfer products.

Category	Products	CRT	Coverage Type	Accounting Treatment
Subordination	Primary securitization products	Yes	Back-end	Attached
	Other securitization products:			
	• Securitizations of purchased collateral	Yes	Back-end	Attached/Debt
	• Securitizations of collateral contributed by third parties	No	Front-end	Attached
Lender risk-sharing	Securitizations in which we issue fully guaranteed securities and simultaneously enter into a separate loss sharing agreement.	Yes	Front-end	Freestanding
Insurance/reinsurance	MCIP	Yes	Back-end	Freestanding
SCR	SCR notes	Yes	Back-end	Debt

Credit Enhancement Coverage for Multifamily Mortgage Portfolio

We report multifamily delinquency rates based on the UPB of loans in our multifamily mortgage portfolio that are two monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Loans that have been modified (or are subject to forbearance agreements) are not counted as delinquent as long as the borrower is less than two monthly payments past due under the modified (or forbearance) terms.

The table below shows the delinquency rates for both credit-enhanced and non-credit-enhanced loans in our multifamily mortgage portfolio.

Table 47 - Credit-Enhanced and Non-Credit-Enhanced Loans Underlying Our Multifamily Mortgage Portfolio

	As of December 31,								
	2019			2018			2017		
(Dollars in billions)	UPB	% of Portfolio	Delinquency Rate	UPB	% of Portfolio	Delinquency Rate	UPB	% of Portfolio	Delinquency Rate
Credit-enhanced	$267.0	89%	0.09%	$234.9	87%	0.01%	$198.1	82%	0.01%
Non-credit-enhanced	33.1	11	—	36.6	13	—	42.6	18	0.06
Total	**$300.1**	**100%**	**0.08%**	**$271.5**	**100%**	**0.01%**	**$240.7**	**100%**	**0.02%**

Our securitizations remain our principal risk transfer mechanism. Through securitizations, we have transferred a large majority of the expected and stress credit risk on the multifamily guarantee portfolio, thereby reducing our overall credit risk exposure and required conservatorship capital. Since 2009, we have transferred a portion of the credit risk related to $389.6 billion in UPB of multifamily loans through our securitizations, primarily K Certificates and SB Certificates, and other credit risk transfer products.

The following table provides information on the level of subordination on our securitizations.

Table 48 - Level of Subordination on Our Securitizations

	As of December 31,			
	2019		2018	
(Dollars in billions)	UPB	Delinquency Rate	UPB	Delinquency Rate
Subordination level at issuance				
No subordination	$9.3	—%	$7.7	—%
Less than 10%	1.2	—	3.1	—
Greater than 10%	249.8	0.09	216.1	0.01
Total	**$260.3**	**0.09%**	**$226.9**	**0.01%**

The average remaining level of subordination on our outstanding primary securitizations was 14% at both December 31, 2019 and December 31, 2018, respectively. Since we began issuing our primary securitizations, we have not experienced credit losses associated with our guarantees on these securities.

In addition to the credit enhancements listed above, we have various other credit enhancements related to our multifamily unsecuritized loans, securitizations, and other mortgage-related guarantees, in the form of collateral posting requirements, pool insurance, bond insurance, loss sharing agreements, and other similar arrangements, that along with the proceeds received from the sale of the underlying mortgage collateral, are designed to enable us to recover all or a portion of our losses on our mortgage loans or the amounts paid under our financial guarantee contracts. Our historical losses paid under our guarantee contracts and related recoveries pursuant to these agreements have not been significant. See **Note 6** for more information on the total current and protected UPB of our multifamily mortgage portfolio that is credit-enhanced and the associated maximum coverage.

We continue to develop other strategies to reduce our credit risk exposure to multifamily loans and securities. See **Our Business Segments - Multifamily -** ***Business Overview - Products and Activities - Securitization and Guarantee Products*** for additional information.

Managing Our Portfolio, Including Loss Mitigation Activities

To help mitigate our potential losses, we generally require sellers to act as the primary servicer for loans they have sold to us, including property monitoring tasks beyond those typically performed by single-family servicers. We typically transfer the role of master servicer in our K Certificate transactions to third parties, while retaining that role in our SB Certificate transactions. Servicers for unsecuritized loans over $1 million must generally provide us with an assessment of the mortgaged property at least annually based on the servicer's analysis of the property as well as the borrower's financial statements. In situations where a borrower or property is in distress, the frequency of communications with the borrower may be increased. We rate servicing performance on a regular basis, and we may conduct on-site reviews to confirm compliance with our standards.

Our primary credit risk exposure results from our unsecuritized loans. By their nature, loans awaiting securitization that we hold for sale remain on our balance sheet for a shorter period than loans we hold for investment and are generally covered by general seller representations and warranties. For unsecuritized loans, we may offer a workout option to give the borrower an opportunity to bring the loan current and retain ownership of the property, such as providing a short-term extension of up to 12 months. These arrangements are entered into with the expectation that we will recover our initial investment or minimize our losses. We do not enter into these arrangements in situations where we believe we would experience a loss in the future that is greater than or equal to the loss we would experience if we foreclosed on the property at the time of the agreement. Our multifamily loan modification and other workout activities have been minimal in the last three years.

The table below presents information about the composition and delinquency rates of the multifamily mortgage portfolio.

Table 49 - Multifamily Mortgage Portfolio Attributes

	As of December 31,			
	2019		2018	
(Dollars in billions)	UPB	Delinquency Rate	UPB	Delinquency Rate
Unsecuritized loans	$29.8	0.01%	$34.8	0.01%
Securitization-related products	260.3	0.09	226.9	0.01
Other mortgage-related guarantees	10.0	0.09	9.8	—
Total	**$300.1**	**0.08%**	**$271.5**	**0.01%**
Unsecuritized HFI loans				
Original LTV ratio				
Below 75%	$7.7	—%	$7.1	—%
75% to 80%	2.5	—	3.0	—
Above 80%	0.6	—	0.7	—
Total	**$10.8**	**—%**	**$10.8**	**—%**
Weighted average LTV ratio at origination	68%		69%	
Maturity dates				
2019	N/A	N/A	$1.7	—%
2020	$1.2	—%	1.5	—
2021	1.1	—	1.8	—
2022	1.0	—	1.4	—
2023	0.8	—	1.1	—
Thereafter	6.7	—	3.3	—
Total	**$10.8**	**—%**	**$10.8**	**—%**

REO Activity

Our REO activity has remained low in the past several years as a result of the strong property performance of our multifamily mortgage portfolio. As of December 31, 2019, we had no REO properties.

Credit Losses and Allowance for Credit Losses

Our multifamily credit losses remain low due to the strong property performance of our multifamily mortgage portfolio. See **Note 4** for additional information regarding multifamily credit losses and allowance for credit losses.

Counterparty Credit Risk

We are exposed to counterparty credit risk, which is a type of institutional credit risk, as a result of our contracts with sellers and servicers, credit enhancement providers (mortgage insurers, investors, etc.), financial intermediaries, clearinghouses, and other counterparties. We manage our exposure to counterparty credit risk using the following principal strategies:

- Maintaining eligibility standards;
- Evaluating creditworthiness and monitoring performance; and
- Working with underperforming counterparties and limiting our losses from their nonperformance of obligations, when possible.

In the sections below, we discuss our management of counterparty credit risk for each type of counterparty to which we have significant exposure.

Sellers and Servicers

Overview

In our single-family guarantee business, we do not originate loans or have our own loan servicing operation. Instead, our sellers and servicers perform the primary loan origination and loan servicing functions on our behalf. We establish underwriting and servicing standards for our sellers and servicers to follow and have contractual arrangements with them under which they represent and warrant that the loans they sell to us meet our standards and that they will service loans in accordance with our standards. If we discover that the representations or warranties related to a loan were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. If our sellers or servicers lack appropriate controls, experience a failure in their controls, or experience an operating disruption, including as a result of financial pressure, legal or regulatory actions or ratings downgrades, we could experience a decline in mortgage servicing quality and/or be less likely to recover losses through lender repurchases, recourse agreements, or other credit enhancements, where applicable.

In our multifamily business, we are exposed to the risk that multifamily sellers and servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property's financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements, or other credit enhancements, where applicable. This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk.

In addition, our single-family guarantee and multifamily businesses are exposed to settlement risk on the non-performance of sellers and servicers as a result of our forward settlement loan purchase programs. For additional details, see the ***Financial Intermediaries, Clearinghouses, and Other Counterparties - Other Counterparties - Forward Settlement Counterparties*** section below.

Maintaining Eligibility Standards

Our eligibility standards for sellers and servicers require the following: a demonstrated operating history in residential mortgage origination and servicing, or an eligible agent acceptable to us; adequate insurance coverage; a quality control program that meets our standards; and sufficient net worth, capital, liquidity, and funding sources.

Evaluating Counterparty Creditworthiness and Monitoring Performance

We perform ongoing monitoring and review of our exposure to individual sellers or servicers in accordance with our institutional credit risk management framework, including requiring our counterparties to provide regular financial reporting to us. We also monitor and rate our sellers and servicers' compliance with our standards and periodically review their operational processes. We may disqualify or suspend a seller or servicer with or without cause at any time. Once a seller or servicer is disqualified or suspended, we no longer purchase loans originated by that counterparty and generally no longer allow that counterparty to service loans for us, while seeking to transfer servicing of existing portfolios.

As discussed in more detail in **Our Business Segments**, we acquire a significant portion of both our single-family and multifamily loan purchase volume from several large lenders, and a large percentage of our loans are also serviced by several large servicers.

We have significant exposure to non-depository and smaller depository financial institutions in our single-family business. These institutions may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight, as large depository institutions.

Although our business with our single-family loan sellers is concentrated, a number of our largest single-family loan seller counterparties reduced or eliminated their purchases of loans from mortgage brokers and correspondent lenders in recent years. As a result, we acquire a greater portion of our single-family business volume directly from non-depository and smaller depository financial institutions.

Since the financial crisis, there has been a shift in our single-family servicing from depository institutions to non-depository institutions. Some of these non-depository institutions have grown rapidly in recent years and now service a large share of our loans. The table below summarizes the concentration of non-depository servicers of our single-family credit guarantee portfolio.

Table 50 - Single-Family Credit Guarantee Portfolio Non-Depository Servicers

	As of December 31,			
	2019		2018	
	% of Portfolio(1)	% of Serious Delinquent Single-Family Loans	% of Portfolio(1)	% of Serious Delinquent Single-Family Loans
Top five non-depository servicers	18%	13%	16%	17%
Other non-depository servicers	20	55	20	40
Total	**38%**	**68%**	**36%**	**57%**

(1) Excludes loans where we do not exercise control over the associated servicing.

Working with Underperforming Counterparties and Limiting Our Losses from Their Nonperformance of Obligations, When Possible

We actively manage the current quality of loan originations of our largest single-family sellers by performing loan quality control sampling reviews and communicating loan defect rates and the causes of those defects to such sellers on a monthly basis. If necessary, we work with these sellers to develop an appropriate plan of corrective action.

We use a variety of tools and techniques to engage our single-family sellers and servicers and limit our losses, including the following:

- **Repurchases and other remedies** - For certain violations of our single-family selling or servicing policies, we can require the counterparty to repurchase loans or provide alternative remedies, such as reimbursement of realized losses or indemnification, and/or suspend or terminate the selling and servicing relationship. We typically first issue a notice of defect and allow a period of time to correct the problem prior to issuing a repurchase request. The UPB of loans subject to repurchase requests issued to our single-family sellers and servicers was $0.3 billion and $0.4 billion at December 31, 2019 and December 31, 2018, respectively. See **Note 14** for additional information about loans subject to repurchase requests.
- **Incentives and compensatory fees** - We pay various incentives to single-family servicers for completing workouts of problem loans. We also assess compensatory fees if single-family servicers do not achieve certain benchmarks with respect to servicing delinquent loans.
- **Servicing transfers** - From time to time, we may facilitate the transfer of servicing as a result of poor servicer performance, or for certain groups of single-family loans that are delinquent or are deemed at risk of default, to servicers that we believe have the capabilities and resources necessary to improve the loss mitigation associated with the loans. We may also facilitate the transfer of servicing on loans at the request of the servicer.

Credit Enhancement Providers

Overview

We have exposure to credit enhancement providers through credit enhancements we obtain on single-family loans. If any of our credit enhancement providers fail to fulfill their obligations, we may not receive reimbursement for credit losses to which we are contractually entitled pursuant to our credit enhancements.

With respect to primary mortgage insurers, we currently cannot differentiate pricing based on counterparty strength or revoke a primary mortgage insurer's status as an eligible insurer without FHFA approval. Further, we generally do not select the insurance provider on a specific loan, because the selection is made by the lender at the time the loan is originated. Accordingly, we are unable to manage our concentration risk with respect to primary mortgage insurers.

As part of our insurance/reinsurance CRT transactions, we regularly obtain insurance coverage from global insurers and reinsurers. These transactions incorporate several features designed to increase the likelihood that we will recover on the claims we file with the insurers and reinsurers, including the following:

- In each transaction, we require the individual insurers and reinsurers to post collateral to cover portions of their exposure, which helps to promote certainty and timeliness of claim payment and

- While private mortgage insurance companies are required to be monoline (i.e., to participate solely in the mortgage insurance business, although the holding company may be a diversified insurer), our insurers and reinsurers generally participate in multiple types of insurance businesses, which helps to diversify their risk exposure.

Maintaining Eligibility Standards

We maintain eligibility standards for mortgage insurers and other insurers and reinsurers. Our eligibility requirements include financial requirements determined using a risk-based framework and were designed to promote the ability of mortgage insurers to fulfill their intended role of providing consistent liquidity throughout the mortgage cycle. Our mortgage insurers are required to submit audited financial information and certify compliance with the Private Mortgage Insurer Eligibility Requirements on an annual basis.

Evaluating Counterparty Creditworthiness and Monitoring Our Exposure

We monitor our exposure to individual insurers by performing periodic analysis of the financial capacity of each insurer under various adverse economic conditions. Monitoring performance and potentially identifying underperformance allows us to plan for loss mitigation.

The table below summarizes our exposure to single-family mortgage insurers as of December 31, 2019. In the event a mortgage insurer fails to perform, the coverage amounts represent our maximum exposure to credit losses resulting from such a failure.

Table 51 - Single-Family Mortgage Insurers

			As of December 31, 2019	
(In millions)	Credit Rating[(1)]	Credit Rating Outlook[(1)]	UPB	Coverage
Arch Mortgage Insurance Company	A-	Stable	$93,440	$23,956
Radian Guaranty Inc. (Radian)	BBB+	Stable	84,434	21,397
Mortgage Guaranty Insurance Corporation (MGIC)	BBB+	Stable	73,371	18,845
Genworth Mortgage Insurance Corporation	BB+	Watch Dev	63,071	16,139
Essent Guaranty, Inc.	BBB+	Stable	63,865	16,260
National Mortgage Insurance (NMI)	BBB	Stable	37,147	9,476
PMI Mortgage Insurance Co. (PMI)	Not Rated	N/A	2,889	723
Republic Mortgage Insurance Company (RMIC)	Not Rated	N/A	2,156	536
Triad Guaranty Insurance Corporation (Triad)	Not Rated	N/A	1,241	312
Others	N/A	N/A	256	46
Total			**$421,870**	**$107,690**

(1) Ratings and outlooks are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of December 31, 2019. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

The majority of our mortgage insurance exposure is concentrated with five mortgage insurers. Although the financial condition of our mortgage insurers improved in recent years, there is still a risk that some of these counterparties may fail to fully meet their obligations under a stress economic scenario since they are monoline entities primarily exposed to mortgage credit risk.

On October 23, 2016, Genworth Financial, Inc. announced that it had entered into an agreement to be acquired by China Oceanwide Holdings Group Co., Ltd. Because Genworth Mortgage Insurance Corporation, a subsidiary of Genworth Financial, Inc., is an approved mortgage insurer, Freddie Mac evaluated the planned acquisition and approved China Oceanwide Holdings Group's control of Genworth Mortgage Insurance Corporation. In January 2020, Freddie Mac reapproved the acquisition. Regulatory and other approvals of the acquisition are still pending. For more information about counterparty credit risk associated with mortgage insurers, see **Note 14**.

PMI and Triad are both under the control of their state regulators and no longer issue new insurance. Both of these insurers pay a substantial portion of their claims as deferred payment obligations. RMIC is under regulatory supervision and is no longer issuing new insurance; however, it continues to pay its claims in cash.

If, as we currently expect, PMI and Triad do not pay the full amount of their deferred payment obligations in cash, we would lose a portion of the coverage from these insurers shown in the table above. As of December 31, 2019, we had cumulative unpaid deferred payment obligations of $0.5 billion from these insurers. We have reserved substantially all of these unpaid amounts as collectability is uncertain.

Except for those insurers under regulatory supervision, which no longer issue new coverage, we continue to acquire new loans with mortgage insurance from the mortgage insurers shown in the table above, some of which have credit ratings below investment grade.

Single Security Initiative

The Single Security Initiative has increased our counterparty credit risk exposure to Fannie Mae. With the implementation of the Single Security Initiative, we now have the ability to commingle TBA-eligible Fannie Mae collateral in certain of our resecuritization products. When we resecuritize Fannie Mae securities in our commingled resecuritization products, our guarantee covers timely payments of principal and interest on such securities. If Fannie Mae were to fail to make a payment on a Fannie Mae security that we resecuritized, we would be responsible for making the payment to the securities holders. Our pricing does not currently reflect any incremental credit, liquidity, or operational risk associated with our guarantee of resecuritized Fannie Mae securities. We will be dependent on FHFA, Fannie Mae, and Treasury (pursuant to Fannie Mae's and our respective Purchase Agreements with Treasury) to avoid a liquidity event or default. We are not planning to modify our liquidity strategies to address the possibility of non-timely payment by Fannie Mae.

For additional information on the Single Security Initiative and the associated risks, see **MD&A - Our Business Segments - Single-Family Guarantee** and **Risk Factors**.

Financial Intermediaries, Clearinghouses, and Other Counterparties

Derivative Counterparties

We use cleared derivatives, exchange-traded derivatives, OTC derivatives, and forward sales and purchase commitments to mitigate risk, and are exposed to the non-performance of each of the related financial intermediaries and clearinghouses. The Capital Markets segment manages this risk for the company. Our financial intermediaries and clearinghouse credit exposure relates principally to interest-rate derivative contracts. We maintain internal standards for approving new derivative counterparties, clearinghouses, and clearing members.

- **Cleared derivatives** - Cleared derivatives expose us to counterparty credit risk of central clearinghouses and our clearing members. Our exposure to the clearinghouses we use to clear interest-rate derivatives has increased and may become more concentrated over time. The use of cleared derivatives mitigates our counterparty credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open contracts are settled daily via payments made through the clearinghouse. We are required to post initial and variation margin to the clearinghouses. The amount of initial margin we must post for cleared and exchange-traded derivatives may be based, in part, on S&P or Moody's credit rating of our long-term senior unsecured debt securities. Our obligation to post margin may increase as a result of the lowering or withdrawal of our credit rating by S&P or Moody's or by changes in the potential future exposure generated by the derivative transactions.
- **Exchange-traded derivatives** - Exchange-traded derivatives expose us to counterparty credit risk of the central clearinghouses and our clearing members. We are required to post initial and variation margin with our clearing members in connection with exchange-traded derivatives. The use of exchange-traded derivatives mitigates our counterparty credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded derivatives are settled daily via payments made through the financial clearinghouse.
- **OTC derivatives** - OTC derivatives expose us to counterparty credit risk of individual counterparties, because these transactions are executed and settled directly between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its contractual obligations. When a counterparty in OTC derivatives that is subject to a master netting agreement has a net obligation to us with a market value above an agreed upon threshold, if any, the counterparty is obligated to deliver collateral in the form of cash, securities, or a combination of both to satisfy its obligation to us under the master netting agreement. Our OTC derivatives also require us to post collateral to counterparties in accordance with agreed upon thresholds, if any, when we are in a derivative liability position. The collateral posting thresholds we assign to our OTC counterparties, as well as the ones they assign to us, are generally based on S&P or Moody's credit rating. The lowering or withdrawal of our or our counterparty's credit rating by S&P or Moody's may increase our or our counterparty's obligation to post collateral, depending on the amount of the counterparty's exposure to Freddie Mac with respect to the derivative transactions. Only OTC derivatives transactions executed prior to March 1, 2017 are subject to collateral posting thresholds. Based upon regulations that took effect March 1, 2017, OTC derivative transactions executed or materially amended after that date require posting of variation margin without the application of any thresholds. Our OTC derivative transactions will become subject to new initial margin requirements on September 1, 2020.

Evaluating Counterparty Creditworthiness and Monitoring Performance

Over time, our exposure to derivative counterparties varies depending on changes in fair values, which are affected by changes in interest rates and other factors. Due to risk limits with certain counterparties, we may be forced to execute transactions with lower returns with other counterparties when managing our interest-rate risk. We manage our exposure through master netting and collateral agreements and stress-testing to evaluate potential exposure under possible adverse market scenarios. Collateral is typically transferred within one business day based on the values of the related derivatives. We regularly review the market values of the securities pledged to us as non-cash collateral, primarily agency and U.S. Treasury securities, to manage our exposure to loss. We conduct additional reviews of our exposure when market conditions dictate or certain events affecting an individual counterparty occur. When non-cash collateral is posted to us, we require collateral in excess of our exposure to satisfy the net obligation to us in accordance with the counterparty agreement.

In the event a counterparty defaults, our economic loss may be higher than the uncollateralized exposure of our derivatives if we are not able to replace the defaulted derivatives in a timely and cost-effective fashion (e.g., due to a significant interest rate movement during the period or other factors). We could also incur economic losses if non-cash collateral posted to us by the defaulting counterparty cannot be liquidated at prices that are sufficient to recover the amount of such exposure.

The table below compares the gross fair value of our derivative asset positions after counterparty netting with our net exposure to these positions after considering cash and non-cash collateral held.

Table 52 - Derivative Counterparty Credit Exposure

	As of December 31, 2019		
(Dollars in millions)	Number of Counterparties	Fair Value - Gain positions	Fair Value - Gain positions, net of collateral
OTC interest-rate swap and swaption counterparties (by rating)			
AA- or above	2	$17	$9
A+, A, or A-	12	2,563	11
BBB+, BBB, or BBB-	—	—	—
Total OTC	**14**	**2,580**	**20**
Cleared and exchange-traded derivatives	2	139	262
Total	**16**	**$2,719**	**$282**

Approximately 99% of our exposure at fair value for OTC interest-rate swap and option-based derivatives, excluding amounts related to our posting of cash collateral in excess of our derivative liability determined at the counterparty level, was collateralized at December 31, 2019. The remaining exposure was primarily due to market movements between the measurement of a derivative at fair value and our receipt of the related collateral, as well as exposure amounts below the then applicable counterparty collateral posting threshold, if any. The concentration of our derivative exposure among our primary OTC derivative counterparties remains high and could further increase.

Other Counterparties

We have exposure to other types of counterparties to transactions that we enter into in the ordinary course of business, including the following:

- **Other investments** - We are exposed to the non-performance of institutions relating to other investments (including non-mortgage-related securities and cash and cash equivalents) transactions, including those entered into on behalf of our securitization trusts. Our policies require that the institution be evaluated using our internal rating model prior to our entering into such transactions. We monitor the financial strength of these institutions and may use collateral maintenance requirements to manage our exposure to individual counterparties.

  The major financial institutions with which we transact regarding our other investments (including non-mortgage-related securities and cash and cash equivalents) include other GSEs, Treasury, the Federal Reserve Bank of New York, GSD/FICC, highly-rated supranational institutions, depository and non-depository institutions, brokers and dealers, and government money market funds. For more information on our other investments portfolio, see **Liquidity and Capital Resources**.

  We utilize the GSD/FICC as a clearinghouse to transact many of our trades involving securities purchased under agreements to resell, securities sold under agreements to repurchase, and other non-mortgage related securities. As a clearing member of GSD/FICC, we are required to post initial and variation margin payments and are exposed to the counterparty credit risk of GSD/FICC (including its clearing members). In the event a clearing member fails and causes losses to the GSD/FICC clearing system, we could be subject to the loss of the margin that we have posted to the GSD/FICC. Moreover, our exposure could exceed that amount, as members are generally required to cover losses caused by defaulting members on a pro rata basis. It is difficult to estimate our maximum exposure under these transactions, as this would require an assessment of transactions that we and other members of the GSD/FICC may execute in the future. We believe that it is unlikely we will have to make any material payments under these arrangements and the risk of loss is expected to be remote because of the GSD/FICC's financial safeguards and our ability to terminate our membership in the clearinghouse (which would limit our loss).

- **Forward settlement counterparties -** We are exposed to the non-performance (settlement risk) of counterparties relating to the forward settlement of loans and securities (including agency debt, agency RMBS, and cash loan purchase program loans). Our policies require that the counterparty be evaluated using our internal counterparty rating model prior to our entering into such transactions. We monitor the financial strength of these counterparties and may use collateral maintenance requirements to manage our exposure to individual counterparties.

  We also execute forward purchase and sale commitments of mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes and utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation (MBSD/FICC) as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the counterparty credit risk of the organization. In the event a clearing member fails and causes losses to the MBSD/FICC clearing system, we could be subject to the loss of the margin that we have posted to the MBSD/FICC. Moreover, our exposure could exceed the amount of margin we have posted to the MBSD/FICC, as clearing members are generally required to cover losses caused by defaulting members on a pro rata basis. It is difficult to estimate our maximum exposure, as this would require an assessment of transactions that we and other members of the MBSD/FICC may execute in the future. We believe that it is unlikely we will have to make any material payments under these arrangements and the risk of loss is expected to be remote because of the MBSD/FICC's financial safeguards and our ability to terminate our membership in the clearinghouse (which would limit our loss). As of December 31, 2019, the gross fair value of such forward purchase and sale commitments that were in derivative asset positions was $50 million.

- **Secured lending activities -** As part of our other investments portfolio, we enter into secured lending arrangements to provide financing for certain Freddie Mac securities and other assets related to our guarantee businesses in an attempt to improve the market for these assets. These transactions differ from those we use for liquidity purposes, as the borrowers may not be major financial institutions, potentially exposing us to the institutional credit risk of these institutions. We also provide advances to lenders for mortgage loans that they will subsequently either sell through our cash purchase program or securitize into securities that they will deliver to us. In addition, we may invest in other secured lending activities. For additional information, see **Note 14**.

Other Market Participants

We have exposure to other market participant counterparties for transactions that we enter into in the ordinary course of business, including the following:

- **Document custodians** - We use third-party document custodians to provide loan document certification and custody services for the loans that we purchase and securitize. In many cases, our sellers and servicers or their affiliates also serve as document custodians for us. Our ownership rights to the loans that we own or that back our securitization products could be challenged if a seller or servicer intentionally or negligently pledges, sells, or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us. When a seller or servicer, or one of its affiliates, acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely affected is increased, particularly in the event the seller or servicer were to become insolvent. To manage these risks, we establish qualifying standards for our document custodians and maintain legal and contractual arrangements that identify our ownership interest in the loans. We also monitor the financial strength of our document custodians on an ongoing basis in accordance with our counterparty credit risk management framework, and we require transfer of documents to a different third-party document custodian if we have concerns about the solvency or competency of the document custodian.
- **The MERS® System** - The MERS System is an electronic registry that is widely used by sellers and servicers, Freddie Mac, and other participants in the mortgage industry to maintain records of beneficial ownership of mortgage loans. A significant portion of the loans we own or guarantee are registered in the MERS System. Our business could be adversely affected if we were prevented from using the MERS System, or if our use of the MERS System adversely affects our ability to enforce our rights with respect to our loans registered in the MERS System.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, or systems or from external events. Operational risk is inherent in all our activities. Operational risk events include accounting, financial reporting, or operational errors, technology failures, business interruptions, non-compliance with legal or regulatory requirements, fraudulent acts, inappropriate acts by employees, information security incidents, or third parties who do not perform in accordance with their contracts. These operational risk events could result in financial loss, legal actions, regulatory fines, and reputational harm.

Operational Risk Management and Risk Profile

Our operational risk management methodology includes risk identification, measurement, monitoring, controlling, and reporting. When operational risk events are identified, our policies require that the events be documented and analyzed to determine whether changes are required in our systems, people, and/or processes to mitigate the risk of future events.

In order to evaluate and monitor the risks associated with business processes, each business line periodically completes an assessment using the RCSA methodology. The methodology is designed to identify and assess the business line's exposure to operational risk and determine if action is required to manage the risk to an acceptable level.

In addition to the RCSA process, we employ several tools to identify, measure, and monitor operational risks, including loss event data, key risk indicators, root cause analysis, and testing. Our operational risk methodology requires that the primary responsibility for managing both the day-to-day risk and longer-term or emerging risks lies with the business lines, with independent oversight performed by the second line of defense.

We continue to face heightened operational risk and expect the risk to remain elevated for the near term. This elevated risk profile is due to the layering impact of several factors including: legacy systems requiring upgrade for operational resiliency; reliance on manual processes and models; volume and complexity of business initiatives, including the UMBS and new initiatives we are pursuing as required by the Conservatorship Scorecards; external events such as cybersecurity threats and third-party failures; and issues requiring remediation. Other factors contributing to our heightened operational risk are discussed in **Risk Factors - Operational Risks**. We also continue to manage other operational risks, such as compliance risk.

While our operational risk profile remains elevated, we are continuing to strengthen our operational control environment by building out our operational risk resources within the first line of defense and ERM.

Business Resiliency Risk

We continue to enhance our business resiliency capabilities for mission critical systems and processes. Freddie Mac has established business resiliency policies and standards to strengthen enterprise-wide risk reduction activities, program execution, and program maturity. Program enhancements include geographical redundancies, expanded use of a third-party cloud platform for our business applications, as well as continuous technological transformation to achieve recovery of critical business functions and supporting assets in the event of a business disruption.

Internal Processes and New Initiatives

We periodically make improvements to the design of our processes for business lines with increased business volumes and complexity of transactions to achieve effectiveness and efficiency in our operations. New initiatives that pose significant risks to the company are subject to additional evaluation, documentation, reporting, review, and approvals (including by the second line), prior to execution.

Common Securitization Platform

We continue to make various multi-year investments to build and support the infrastructure for a better housing finance system, including the development of the CSP by CSS (jointly owned by Freddie Mac and Fannie Mae) and the UMBS. Regarding the CSP, while we exercise influence over CSS through our representation on the CSS Board of Managers, we do not control its day-to-day operations. CSS' day-to-day operations are managed by CSS management, which is overseen by the CSS Board of Managers.

In January 2020, FHFA directed Freddie Mac and Fannie Mae to amend the CSS LLC agreement to change the structure of the CSS Board. These changes reduce Freddie Mac’s and Fannie Mae’s ability to control CSS Board decisions, even after conservatorship, including decisions about strategy, business operations, and funding. During conservatorship, FHFA will designate a CSS Board Chair that must affirmatively vote for all decisions of the CSS Board in order for the decisions to become effective, and FHFA also may appoint up to three additional independent members to the CSS Board, who along with the Board Chair and the Chief Executive Officer of CSS may continue to serve on the CSS Board after conservatorship. FHFA appointed a new CSS Board member to serve as Chair in January 2020. If FHFA appoints three additional CSS Board members, the four members appointed by Freddie Mac and Fannie Mae will constitute a minority of the CSS Board. During conservatorship, the CSS Board members we and Fannie Mae appoint could be outvoted by non-GSE designated Board members on any matter, and if either we or Fannie Mae exits conservatorship, the GSE-appointed members could be outvoted on a number of significant actions, including approval of the annual budget and strategic plan for CSS, so long as it does not involve material decisions, such as a material change in CSS's functionality or capital contributions beyond those necessary to support CSS's ordinary business operations. For additional information on the changes in the structure of CSS and CSS-related risks, see **Introduction - About Freddie Mac** - ***Common Securitization Platform and UMBS*** and **Risk Factors - Conservatorship and Related Matters -** ***FHFA, as our Conservator, controls our business activities. We may be required to take actions that reduce our profitability, are difficult to implement, or expose us to additional risk***.

Following the implementation of CSP Release 2 in June 2019, Freddie Mac, Fannie Mae, FHFA, and CSS continue to work together to monitor the operational effectiveness of the platform.

For additional information, see **Risk Factors - Operational Risks** - ***A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation, and cause losses*.**

Cybersecurity Risk

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

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

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

Third-Party Risk

We continue to enhance our third-party risk management program in order to effectively manage risks that could manifest with the use of third parties to support business processes. Third parties overseen within the program include suppliers, seller/servicers, and other counterparties. The third-party risk management program provides oversight and governance throughout the third party life cycle including risk assessment, due diligence, contract negotiations, on-going monitoring, and termination of third parties.

Model Risk

Model risk is the potential for adverse consequences from model errors or decisions based on incorrect or misused model outputs. Our business activities significantly rely on the use of models. We use a variety of models to inform management decisions related to our businesses. These include models that forecast significant factors such as interest rates, mortgage rates, and house prices, as well as models that project future cash flows related to borrower prepayment and default behavior.

Model development, changes to existing models, and model risks are managed in each business line according to our three-lines-of-defense framework. New model development and changes to existing models undergo a review process. Each business periodically reviews model performance, embedded assumptions, and limitations and modeling techniques, and updates its models as it deems appropriate. ERM independently validates the work done by the business lines (e.g., conducting independent assessments of ongoing monitoring results, model risk ratings, performance monitoring, and reporting against thresholds and alerts).

Given the importance and complexity of models in our business, model development may take significant time to complete. Delays in our model development process could affect our ability to make sound business and risk management decisions, and increase our exposure to risk. We have procedures designed to mitigate this risk.

In 2019, we concluded work on the following items:

- New Model Risk Standard with enhanced governance protocols;
- Formalized model key risk indicators with an associated model risk appetite; and
- Design completion of a peer review process serving as a secondary control within the model risk function.

We face significant risks associated with our use of models, as discussed in **Risk Factors - Operational Risks** - ***We face risks and uncertainties associated with the models that we use to inform business and risk management decisions and for financial accounting and reporting purposes***.

Compliance Risk

We have established and continue to enhance our legal and compliance risk management program in order to effectively manage the risk of non-compliance with legal and regulatory requirements. This program leverages the three lines of defense enterprise risk framework for managing operational risks. It entails, among other things, identifying applicable legal and regulatory requirements as well as any changes to these requirements, educating employees on new and existing legal and regulatory requirements applicable to their areas of responsibility, and evaluating business processes and controls in light of applicable legal obligations and related compliance risks.

Effectiveness of Our Disclosure Controls and Procedures

Management, including the company's CEO and CFO, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2019. As of December 31, 2019, we had one material weakness related to conservatorship, which remained unremediated, causing us to conclude that our disclosure controls and procedures were not effective at a reasonable level of assurance. For additional information, see **Controls and Procedures**.

Market Risk

Overview

Our business segments have embedded exposure to market risk, which is the economic risk associated with adverse changes in interest rates, volatility, and spreads. Interest-rate risk is consolidated and primarily managed by the Capital Markets segment, while spread risk is owned and managed by each individual business segment. Market risk can adversely affect future cash flows, or economic value, as well as earnings and net worth.

The majority of our interest-rate risk comes from our investments in mortgage-related assets (securities and loans), the debt we issue to fund our assets, and upfront fees (including buy-downs) related to our single-family credit guarantee activity. Typically, an existing loan or bond investment is worth less to an investor when interest rates (yields) rise and worth more when they decline. In addition, for a majority of our single-family mortgage-related assets, the borrower has the option to make unscheduled principal payments at any time before maturity without incurring a prepayment penalty. Thus, our mortgage-related asset portfolio is also exposed to uncertainty as to when borrowers will exercise their option and pay the outstanding principal balance of their loans. We face similar (and in most cases directionally opposite) exposure related to unsecured debt. Unsecured debt is typically worth less to an investor when interest rates (yields) rise and worth more when they decline. In addition, we issue debt with embedded options, such as an option to call, which provides us flexibility concerning the timing of our debt maturities.

Another source of interest-rate risk comes from upfront fees (including buy-downs) related to our single-family credit guarantee activity. These fees are cash we receive at loan acquisition as compensation for our guarantee, which also typically includes a contractual monthly fee paid as a percentage of the UPB of the underlying loan. Determining the amount of the upfront fees we charge requires us to estimate loan prepayment activity, which varies based on estimates of future interest rates. From an interest-rate risk standpoint, receiving upfront fees increases risk as the actual prepayment rate of the loans we purchase may be different than our original estimates and may vary based on changes in interest rates. As interest rates decrease, loans typically prepay more quickly, resulting in accelerated recognition of upfront fees in earnings and a higher annualized rate of income. The opposite occurs as interest rates increase, resulting in slower recognition of upfront fees in earnings and a lower annualized rate of income. We incorporate upfront fees in our interest-rate risk metrics by assuming upfront fees are equivalent to the sale of an interest-only security, allowing for modeling and aggregation of the interest-rate exposure of upfront fees with the rest of our interest-rate exposures.

We actively manage our economic exposure to interest rate fluctuations. Our primary goal in managing interest-rate risk is to reduce the amount of change in the value of our future cash flows due to future changes in interest rates. We use models to analyze possible future interest-rate scenarios, along with the cash flows of our assets and liabilities over those scenarios.

Management of Market Risk

We employ risk management practices that seek to maintain certain interest-rate characteristics of our assets and liabilities within our risk limits through a number of different strategies, including:

- Asset selection and structuring, such as acquiring or structuring mortgage-related securities with certain expected prepayment and other characteristics;
- Issuance of both callable and non-callable unsecured debt; and
- Use of interest-rate derivatives, including swaps, swaptions, and futures.

Our use of derivatives is an important part of our strategy to manage interest-rate risk. When deciding to use derivatives to mitigate our exposures, we consider a number of factors, including cost, exposure to counterparty credit risks, and our overall risk management strategy. See **Risk Management - Counterparty Credit Risk** and **Risk Factors** for more discussion of our market risk exposures, including those related to derivatives, institutional counterparties, and other market risks.

Although we have limited ability to manage spread risk, we employ the following strategies:

- Limiting the size of our assets that are exposed to spread risk;
- Using short-TBA positions to hedge certain assets, primarily loans acquired through our cash loan purchase program that are awaiting securitization and portions of our agency mortgage-related securities portfolio; and
- Entering into certain spread-related derivatives to offset our spread exposures.

Interest-Rate Risk

Interest-rate risk is the economic risk related to adverse changes in the level or volatility of interest rates. A change in the level of interest rates (represented by a parallel shift of the yield curve, all else constant) exposes our assets and liabilities to risk, potentially affecting expected future cash flows and their present values. This is reflected in our PVS-L and duration gap disclosures. Similarly, changes in the shape or slope of the yield curve (often reflecting changes in the market's expectation of future interest rates) expose our assets and liabilities to risk, potentially affecting expected future cash flows and their present values. This is reflected in our PVS-YC disclosure. Volatility risk is the risk that changes in the market's expectation of the magnitude of future variations in interest rates will adversely affect our economic value. We are exposed to volatility risk in both our mortgage-related assets and liabilities, especially in instruments with embedded options.

In 1Q 2019, we changed the name of the Portfolio Market Value Sensitivity (PMVS) metrics to Portfolio Value Sensitivity (PVS). We removed "market" from these metrics as we economically hedge the present value of cash flows, which may not necessarily be the fair value of an instrument. In the case of upfront fees, we assume upfront fees are equivalent to the sale of an interest-only security, allowing for modeling and aggregation of the interest-rate exposure of upfront fees with the rest of our interest-rate exposures.

Measurement of Interest-Rate Risk

We calculate our exposure to changes in interest rates for our interest rate sensitive assets and liabilities using effective duration and effective convexity, based on our models.

- Effective duration measures the percentage change in the price of financial instruments from a 100 basis point change in interest rates. Financial instruments with positive duration increase in value as interest rates decline. Conversely, financial instruments with negative duration increase in value as interest rates rise.
- Effective convexity measures the change in effective duration for a 100 basis point change in interest rates. Effective duration is not constant over the entire yield curve and effective convexity measures how effective duration changes over large changes in interest rates.

Together, effective duration and effective convexity provide a measure of an instrument's overall price sensitivity to changes in interest rates. We utilize the concepts of effective duration and effective convexity in calculating our primary interest-rate risk measures: duration gap and PVS.

- **Duration gap -** The net effective duration of our overall portfolio of interest-rate sensitive assets and liabilities is expressed in months as our duration gap. Duration gap measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities and is expressed in months relative to the value of assets. For example, assets with a six-month duration and liabilities with a five-month duration would result in a positive duration gap of one month.

The table below shows various duration gap measurements and the effects that changes in interest rates would generally have on portfolio value.

Negative Duration Gap	Zero Duration Gap	Positive Duration Gap
Asset Duration < Liability Duration	**Asset Duration = Liability Duration**	**Asset Duration > Liability Duration**
Net portfolio will increase in value when interest rates rise and decrease in value when interest rates fall.	Net portfolio economic value will be unchanged. The change in the value of assets from an instantaneous move in interest rates, either up or down, would be expected to be accompanied by an equal and offsetting change in the value of liabilities.	Net portfolio will increase in value when interest rates fall and decrease in value when interest rates rise.

We actively measure and manage our duration gap exposure on a daily basis. In addition to duration gap management, we also measure and manage the price sensitivity of our portfolio to a number of different specific interest rate changes along the yield curve. The price sensitivity of an instrument to specific changes in interest rates is known as the instrument's key rate duration risk. By managing our duration exposure both in aggregate through duration gap and to specific changes in interest rates through key rate duration, we expect to limit our exposure to interest rate changes for a wide range of interest rate yield curve scenarios.

- **PVS -** PVS is our estimate of the change in the value of our financial assets and liabilities from an instantaneous shock to interest rates, assuming spreads are held constant and no rebalancing actions are undertaken. PVS is measured in two ways, one measuring the estimated sensitivity of our portfolio's value to a 50 basis point parallel movement in interest rates (PVS-L) and the other to a nonparallel movement (PVS-YC), resulting from a 25 basis point change in slope of the LIBOR yield curve. The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PVS measures reflect reasonably possible near-term changes that we believe provide a meaningful measure of our interest-rate risk sensitivity.

  To calculate PVS, the interest rate shock is applied to the duration (and convexity for PVS-L) of all interest-rate sensitive financial instruments. The resulting change in value for the aggregate portfolio is computed for both the up rate and down rate shock, and whichever produces the more adverse outcome is the PVS. In cases where both the up rate and down rate shocks result in a positive effect, the PVS is zero. PVS results are shown on a pre-tax basis.

Interest-Rate Risk Results

The following tables provide our duration gap, estimated point-in-time and minimum and maximum PVS-L and PVS-YC results, and an average of the daily values and standard deviation. The tables below also provide PVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. The interest-rate sensitivity of a mortgage portfolio varies across a wide range of interest rates.

We began to include upfront fees (including buy-downs) in our interest-rate metrics in 2Q 2019 as described above. Including upfront fees and related derivative activities significantly increased the Derivatives PVS-L and PVS-YC results for December 31, 2019 in the table below, with an offsetting impact in the Guarantees PVS-L and PVS-YC results. As of December 31, 2019, the inclusion of upfront fees interest rate risk added a PVS-L (50 basis points), PVS-L (100 basis points) and PVS-YC (25 basis points) equivalent of $1.4 billion, $2.7 billion and $0.4 billion, respectively.

Table 53 - PVS-YC and PVS-L Results Assuming Shifts of the LIBOR Yield Curve

	December 31, 2019			December 31, 2018		
	PVS-YC	PVS-L		PVS-YC	PVS-L	
(In millions)	25 bps	50 bps	100 bps	25 bps	50 bps	100 bps
Assuming shifts of the LIBOR yield curve, (gains) losses on:[1]						
Assets:						
Investments	($307)	$4,840	$10,011	($536)	$5,792	$11,761
Guarantees[2]	(224)	351	706	89	(425)	(773)
Total Assets	**(531)**	**5,191**	**10,717**	**(447)**	**5,367**	**10,988**
Liabilities	20	(1,563)	(3,413)	(109)	(1,889)	(3,948)
Derivatives	513	(3,646)	(7,409)	560	(3,446)	(6,917)
Total	**$2**	**($18)**	**($105)**	**$4**	**$32**	**$123**
PVS	**$2**	**$—**	**$—**	**$4**	**$32**	**$123**

(1) The categorization of the PVS impact between assets, liabilities, and derivatives on this table is based upon the economic characteristics of those assets and liabilities, not their accounting classification. For example, purchase and sale commitments of mortgage-related securities and debt securities of consolidated trusts held by the mortgage-related investments portfolio are both categorized as assets on this table.

(2) Represents the interest-rate risk from our single-family guarantee portfolio, which includes buy-ups, float, and, beginning in 2Q 2019, upfront fees (including buy-downs).

Table 54 - Duration Gap and PVS Results

	Year Ended December 31,					
	2019			2018		
(Duration gap in months, **dollars in millions**)	Duration Gap	PVS-YC 25 bps	PVS-L 50 bps	Duration Gap	PVS-YC 25 bps	PVS-L 50 bps
Average	0.8	$34	$96	—	$11	$15
Minimum	(0.8)	—	—	(0.4)	—	—
Maximum	8.6	345	950	0.3	31	77
Standard deviation	1.6	72	189	0.1	6	16

The disclosure in our Monthly Volume Summary reports, which are available on our website **www.freddiemac.com/investors/financials/monthly-volume-summaries.html**, reflects the average of the daily PVS-L, PVS-YC, and duration gap estimates for a given reporting period (a month, a quarter, or a year).

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

Table 55 - PVS-L Results Before Derivatives and After Derivatives

	PVS-L (50 bps)		
(In millions)	Before Derivatives	After Derivatives	Effect of Derivatives
December 31, 2019	$3,628	$—	($3,628)
December 31, 2018	3,478	32	(3,446)

In April 2019, we updated our interest-rate risk measures and began incorporating upfront fees (including buy-downs) related to single-family credit guarantee activity into our asset and liability interest-rate risk management strategy and definition. As a result, the PVS-L before derivatives is significantly higher as of December 31, 2019 than it would have been if we had not updated our interest-rate risk management strategy and definition to include upfront fees.

The inclusion of upfront fees increased the volume of derivatives we used to hedge interest-rate risk, and this higher volume of derivatives, coupled with the volatility of market interest rates during the period, created variability in our PVS-L during 2019. The table below shows the average, minimum, and maximum PVS-L before derivatives and after derivatives during 2019.

Table 56 - PVS-L Average, Minimum, and Maximum

	Year Ended December 31, 2019	
	PVS-L (50bps)	
(In millions)	Before Derivatives	After Derivatives
Average	$3,739	$96
Minimum	3,155	—
Maximum	4,384	950

Limitations of Interest-Rate Risk Measures

While we believe that PVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements. Mis-estimation of economic market risk could result in over or under hedging of interest-rate risk, significant economic losses, and an adverse impact on earnings. The limitations of our economic market risk measures include the following:

- Our PVS and duration gap estimates are determined using models that involve our judgment of interest-rate and prepayment assumptions.
- There could be times when we hedge differently than our model estimates during the period, such as when we are making changes or market updates to these models.
- PVS and duration gap do not capture the potential effect of certain other market risks, such as changes in volatility and market spread risk. The effect of these other market risks can be significant.
- Our sensitivity analyses for PVS and duration gap contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio.
- Although the mortgage-related investments portfolio is the main contributor of interest-rate risk to the company, other core businesses also contribute to our interest-rate risk and may be managed differently. We have certain assets that have a relatively short holding period. As a result, we may manage the risk of these assets based on their disposition, while our risk measures use long-term cash flows. Hedging these businesses at times requires additional assumptions concerning risk metrics to accommodate changes in pricing that may not be related to the future cash flow of the assets. This could create a perceived risk exposure as the hedged risk may differ from the modeled risk.
- The choice of the benchmark rate used to model and hedge our positions is a significant assumption. The effectiveness of our hedges ultimately depends on how closely the different instruments (assets, liabilities, and derivatives) react to the underlying chosen benchmark. In the simplest example, all instruments would have interest-rate risk based on the same underlying benchmark, in our case, the swap rate. In practice, however, different instruments react differently versus the benchmark rate, which creates a market spread between the benchmark rate and the instrument. As the market spreads of these instruments move differently, our ability to predict the behavior of each instrument relative to the others is reduced, potentially affecting the effectiveness of our hedges.
- Our reported measurements do not include the sensitivity to interest-rate changes of net worth and the following assets and liabilities:
  - **Credit guarantee activities** - We currently do not hedge the interest-rate exposure of our credit guarantees except for the interest-rate exposure related to upfront fees (including buy-downs), buy-ups, float, and STACR debt notes. Float, which arises from timing differences between the borrower's principal payments on the loan and the reduction of the

security balance, can lead to significant interest expense if the interest rate paid to a security investor is higher than the reinvestment rate earned by the securitization trusts on payments received from borrowers and paid to us as trust management income.

- **Other assets and other liabilities** - We do not include other miscellaneous assets and liabilities, primarily deferred tax assets, accounts payable and receivable, and non-cash basis adjustments.

Spread Risk

Spread risk is the risk that yields in different asset classes may not move together and may adversely affect our economic value. This risk arises principally because interest rates on our mortgage-related investments may not move in tandem with interest rates on our financial liabilities and derivatives, potentially affecting the effectiveness of our hedges. We are exposed to the following types of market spread risk:

- Market spread risk arising from mortgage-related investments, including loans and securities, and certain non-mortgage investments;
- Market spread risk arising from our use of SOFR- or Treasury-based instruments in our risk management activities;
- Market spread risk arising from the difference in time between when we commit to purchase a mortgage loan through our pipeline path and when we either securitize the loan or hedge it by using forward TBA securities or derivatives. During this time, market spreads can widen, causing losses due to changes in fair value.

GAAP Earnings Variability

The GAAP accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates and spreads change. We manage this variability of GAAP earnings, which may not reflect the economics of our business, using fair value hedge accounting.

Interest-Rate Volatility

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, our GAAP financial results are subject to significant earnings variability from period to period based on changes in market conditions. Based upon the composition of our financial assets and liabilities, including derivatives, at December 31, 2019, we generally recognize fair value losses in GAAP earnings when interest rates decline.

In an effort to reduce our GAAP earnings variability and better align our GAAP results with the economics of our business, we elect hedge accounting for certain single-family mortgage loans and certain debt instruments. Beginning in September 2019, we implemented a new fair value hedge accounting strategy using single-family mortgage loans that applies certain hedge accounting elections allowable under amended hedge accounting guidance we adopted during 4Q 2017. See **Note 9** for additional information on hedge accounting.

GAAP Adverse Scenario

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

- At December 31, 2019, the GAAP adverse scenario (for both before and after fair value hedge accounting) was a parallel shift in which rates decrease by 100 basis points.
- At December 31, 2018, the GAAP adverse scenario before fair value hedge accounting was a non-parallel shift in which long-term rates decrease by 100 basis points, while the adverse scenario after fair value hedge accounting was a non-parallel shift in which short and medium-term rates decrease by 100 basis points.

The results of this evaluation are shown in the table below.

Table 57 - GAAP Adverse Scenario Before and After Hedge Accounting

	GAAP Adverse Scenario (Before-Tax)		
(Dollars in billions)	Before Hedge Accounting	After Hedge Accounting	% Change
December 31, 2019	($4.3)	($0.1)	98%
December 31, 2018	(2.7)	(0.2)	93

The additional volume of derivatives from updating our interest-rate risk measures to include upfront fees (including buy-downs) related to single-family credit guarantee activity, and the volatility in market interest rates during 2019 created variability in our GAAP adverse scenarios. While the December 31, 2019 GAAP adverse scenario shows a 98% reduction after hedge accounting, this result includes the effect of the new hedge accounting strategy implemented in September 2019, which was not in effect for the entire year. As a result, the average GAAP adverse scenario after hedge accounting was higher during 2019 than it was as of December 31, 2019. With the implementation of the new hedge accounting strategy in September 2019, we expect the GAAP adverse scenario after hedge accounting in future periods to be similar to the result as of December 31, 2019.

The table below shows the average, minimum, and maximum GAAP adverse scenario before hedge accounting and after hedge accounting during 2019.

Table 58 - GAAP Adverse Scenario Average, Minimum, and Maximum

	Year Ended December 31, 2019	
	GAAP Adverse Scenario (Before-Tax)	
(In billions)	Before Hedge Accounting	After Hedge Accounting
Average	($3.6)	($0.4)
Minimum	(2.1)	—
Maximum	(5.2)	(1.8)

Hedge accounting is designed to reduce the impact to GAAP earnings in the adverse scenario described above. However, the after hedge accounting impact may not always result in an improvement over the before hedge accounting impact. For example, there are certain interest-rate scenarios in which the after hedge accounting impact would result in a lower gain or a larger loss than the before hedge accounting impact.

For further discussion of financial results related to interest-rate risk, see **Our Business Segments - Capital Markets**.

Net Interest Rate Effect on Comprehensive Income (Loss)

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

Table 59 - Estimated Net Interest Rate Effect on Comprehensive Income (Loss)

	Year Ended December 31,	
(In billions)	2019	2018
Interest rate effect on derivative fair values	($7.3)	$2.5
Estimate of offsetting interest rate effect related to financial instruments measured at fair value[1]	3.6	(1.9)
Gains (losses) on mortgage loans and debt in fair value hedge relationships	3.6	(1.6)
Amortization of deferred hedge accounting gains and losses	(0.3)	0.3
Income tax (expense) benefit	0.1	0.1
Estimated net interest rate effect on comprehensive income (loss)	**($0.3)**	**($0.6)**

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

The effect from the change in interest rates on derivative fair values is mostly offset by the effect from the change in interest rates related to financial instruments measured at fair value and gains and losses on mortgage loans and debt in fair value hedging relationships. However, the estimated net interest rate effect on comprehensive income (loss) in 2019 was higher than it otherwise would have been as a result of the additional volume of derivatives and volatility in market interest rates during 2019. The remaining net interest-rate effect on comprehensive income is largely attributable to the following:

- The reversal of previously recognized derivative gains and losses;
- The implied net cost on instruments such as swaptions, futures, and forward purchase and sale commitments from our hedging and interest-rate risk management activities, which are recognized in GAAP earnings over time as a component of derivative gains and losses as the instruments approach maturity; and
- The amortization of previously deferred hedge accounting gains and losses, which we recognize in interest income over the contractual life of the hedged item.

Spread Volatility

We have limited ability to manage our spread risk exposure and therefore the volatility of market spreads may contribute to significant GAAP earnings variability. For financial assets measured at fair value, we generally recognize fair value losses when market spreads widen. Conversely, for financial liabilities measured at fair value, we generally recognize fair value gains when market spreads widen. Certain accounting elections we make, such as election of the fair value option, may affect the amount of spread volatility recognized in our results of operations.

The table below shows the estimated effect of spreads on our comprehensive income (loss), after tax, by segment.

Table 60 - Estimated Spread Effect on Comprehensive Income (Loss)

	Year Ended December 31,	
(In billions)	2019	2018
Capital Markets	$0.2	$0.4
Multifamily[1]	(0.3)	(0.4)
Single-family Guarantee	—	0.1
Spread effect on comprehensive income (loss)	**($0.1)**	**$0.1**

(1) Represents the net spread-related fair value impacts due to changes in spreads on loans and commitments where we have elected the fair value option, mortgage-related securities, and spread-related derivatives.

For further discussion of significant financial results related to spread risk, see **Our Business Segments - Multifamily** and **Our Business Segments - Capital Markets**.

Transition from LIBOR

In 2017, the Chief Executive of the United Kingdom's Financial Conduct Authority (FCA) announced that the FCA will no longer persuade or compel member panel banks to make LIBOR submissions after 2021. He has also indicated that market participants should expect LIBOR to be subsequently discontinued, or at least to no longer be deemed representative of market interest rates, and should proceed expeditiously with preparations for transitioning to an alternative reference interest rate. U.S. regulators have made similar statements. As a result, it is likely that LIBOR will be discontinued as a benchmark interest rate after 2021.

Freddie Mac has exposure to LIBOR, including in financial instruments that mature after 2021. Our exposure arises from floating rate securities we issue, loans and securities we acquire (including loans we subsequently resecuritize), and derivatives we enter into that reference LIBOR.

Senior management is actively evaluating and managing risks related to the LIBOR transition. To help prepare for an orderly transition from LIBOR, we established a LIBOR Working Group in 2018 that consists of members from the different business areas as well as the Legal and ERM divisions. We also have formed LIBOR transition committees across our businesses, functions, and products. Senior management and the LIBOR Working Group provide periodic updates to the Board and are working with FHFA on our transition implementation.

The Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee (ARRC) to recommend a set of alternative reference interest rates for possible use as market-accepted benchmarks. Based on the ARRC's recommendation, the Federal Reserve Bank of New York began publishing SOFR in April 2018. Since then, certain derivative products and debt securities tied to SOFR have been introduced, and various industry groups have continued working to develop plans and documentation to facilitate a transition to SOFR as the new market-accepted benchmark. We have been a member of the ARRC since 2017 and have participated in many of its working groups.

We support the ARRC’s recommendation to replace LIBOR with SOFR. We have issued SOFR-based unsecured debt, and we have executed SOFR-based interest-rate swaps and futures transactions. In December 2019, we conducted an offering of multifamily K certificates that included a class of floating rate certificates indexed to SOFR. The transition from LIBOR will affect our new purchases of single-family hybrid ARMs. For example, in July 2019, we announced that we will work with our customers, investors, and servicers to transition existing LIBOR-based ARM products to SOFR-based ARM products by the end of 2021. In November 2019, we announced that, in coordination with FHFA and Fannie Mae, we intend to offer our lenders the opportunity to deliver a suite of SOFR-based ARM products that will be based on eligibility, underwriting, pricing, and delivery requirements which we intend to announce in an update to our Seller/Servicer Guide in 2020.

On February 5, 2020, we announced that we will no longer purchase single-family ARMs and multifamily floating-rate loans tied to LIBOR with an application date on or after October 1, 2020. In addition, we will no longer purchase single-family ARMs and multifamily floating-rate loans tied to LIBOR after December 31, 2020, regardless of the application date or mortgage date. We will begin purchasing multifamily floating-rate loans tied to SOFR by November 1, 2020. We also announced our plans to purchase single-family ARMs tied to SOFR in the second half of 2020. Finally, we announced our intention to develop plans to cease purchasing single-family ARMs tied to constant maturity Treasury indices, which we anticipate will be implemented in 2021 upon guidance from FHFA. Our purchases of single-family ARMs and multifamily floating-rate loans may decrease after these changes are implemented as affected market participants may need more time to develop the systems and processes necessary to originate and sell ARMs and floating-rate loans tied to SOFR or any other new indices that may be developed.

For a discussion of the risks related to the LIBOR transition, see **Risk Factors - Market Risk** - ***The discontinuance of LIBOR after 2021, or before the end of 2021 if LIBOR is deemed unreliable, could negatively affect the fair value of our financial assets and liabilities, results of operations, and net worth**. **A transition to an alternative reference interest rate could present operational problems, subject us to increased litigation risk, and result in market disruption. We may be unable to take a consistent approach across our financial products.***

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our business activities require that we maintain adequate liquidity to meet our financial obligations as they come due and meet the needs of customers in a timely and cost-efficient manner. We also must maintain adequate capital resources to avoid being placed into receivership by FHFA.

Sources and Uses of Funds

Our primary source of funding for the assets on our balance sheet is the issuance of debt. In addition to the funding provided by issuing debt, our other sources of funds include:

- Principal payments on and sales of securities and loans that we own;
- Repurchase transactions;
- Interest income on securities and loans that we own;
- Guarantee fees (inclusive of initial upfront fees);
- Net worth, which represents funding available to us prior to our dividend requirement on our senior preferred stock; and
- Draws from Treasury under the Purchase Agreement, which are only made if we have a quarterly deficit in our net worth.

We use these sources to fund the assets on our balance sheet. Our primary uses of funds include:

- Principal payments upon the maturity, redemption, or repurchase of our other debt;
- Payments of interest on our other debt and other expenses;
- Purchases of mortgage loans, including purchases of seriously delinquent or modified loans underlying our securities, mortgage-related securities, and other investments;
- Payments related to derivative contracts and posting or pledging of collateral to third parties in connection with secured financing and daily trade activities; and
- Dividend requirements on our senior preferred stock.

In addition to the uses and sources of cash described above, we are involved in various legal proceedings, including those discussed in **Legal Proceedings**, which may result in a need to use cash to settle claims or pay certain costs or receipt of cash from settlements.

Our securities and other obligations are not guaranteed by the U.S. government and do not constitute a debt or obligation of the U.S. government or any agency or instrumentality thereof, other than Freddie Mac. We continue to manage our debt issuances to remain in compliance with the aggregate indebtedness limits set forth in the Purchase Agreement. For a description of our debt products, see **Our Business Segments - Capital Markets**.

Liquidity Management Framework

The support provided by Treasury pursuant to the Purchase Agreement enables us to have adequate liquidity to conduct our normal business activities. However, the costs and availability of our debt funding could vary for a number of reasons, including the uncertainty about the future of the GSEs and any future downgrades in our credit ratings or the credit ratings of the U.S. government.

We make extensive use of the Federal Reserve's payment system in our business activities. The Federal Reserve requires that we fully fund our accounts at the Federal Reserve Bank of New York to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. Although we seek to maintain sufficient intraday liquidity to fund our activities through the Federal Reserve's payment system, we have limited access to cash once the debt markets are closed for the day. Insufficient cash may cause our account to be overdrawn, potentially resulting in penalties and reputational harm.

Maintaining sufficient liquidity is of primary importance to, and a cost of, our business. Under our liquidity management practices and policies, we:

- Manage intraday cash needs and provide for the contingency of an unexpected cash demand;
- Maintain cash and non-mortgage investments to enable us to meet ongoing cash obligations for a limited period of time, assuming no access to unsecured debt markets;
- Maintain unencumbered securities with a value greater than or equal to the largest projected daily cash shortfall for an extended period of time, assuming no access to unsecured debt markets; and

- Manage the maturity of our unsecured debt based on our asset profile.

To facilitate cash management, we forecast cash outflows and inflows using assumptions and models. These forecasts help us to manage our liabilities with respect to the timing of our cash flows. Differences between actual and forecasted cash flows have resulted in higher costs from issuing a higher amount of debt than needed or unexpectedly needing to issue debt, and may do so in the future. Differences between actual and forecasted cash flows also could result in our account at the Federal Reserve Bank of New York being overdrawn. We maintain daily cash reserves to manage this risk.

Liquidity Profile

Primary Sources of Liquidity

The following table lists the sources of our liquidity, the balances as of December 31, 2019 and a brief description of their importance to Freddie Mac. Our ability to maintain sufficient liquidity, including by pledging mortgage-related and other securities as collateral to other institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market interest rates, market confidence, operational risks, and other factors.

Table 61 - Sources of Liquidity

Source	Balance[(1)] (In billions)	Description
Liquidity		
• Other Investments Portfolio - Liquidity and Contingency Operating Portfolio	$68.0	• The Liquidity and Contingency Operating Portfolio, included within our other investments portfolio, is primarily used for short-term liquidity management.
• Liquid Portion of the Mortgage-Related Investments Portfolio	$124.4	• The liquid portion of our mortgage-related investments portfolio can be pledged or sold for liquidity purposes. The amount of cash we may be able to successfully raise may be substantially less than the balance.

(1) Represents carrying value for the Liquidity and Contingency Operating Portfolio, included within our other investments portfolio, and UPB for the liquid portion of the mortgage-related investments portfolio.

Other Investments Portfolio

The table below summarizes the balances in our other investments portfolio, which includes the Liquidity and Contingency Operating Portfolio. The investments in our other investments portfolio are important to our cash flow, collateral management, asset and liability management, and ability to provide liquidity and stability to the mortgage market. The other investments portfolio is primarily used for short-term liquidity management, cash and other investments held by consolidated trusts, and other investments, which include investments in debt securities used to pledge as collateral, LIHTC partnerships, and secured lending activities.

Table 62 - Other Investments Portfolio

	As of December 31, 2019				As of December 31, 2018			
(In billions)	Liquidity and Contingency Operating Portfolio	Custodial Account	Other	Total Other Investments Portfolio[(1)]	Liquidity and Contingency Operating Portfolio	Custodial Account	Other	Total Other Investments Portfolio[(1)]
Cash and cash equivalents	$4.2	$0.9	$0.1	$5.2	$6.7	$0.6	$—	$7.3
Securities purchased under agreements to resell	40.6	23.1	2.4	66.1	20.2	12.1	2.5	34.8
Non-mortgage related securities	23.2	—	3.9	27.1	16.8	—	2.4	19.2
Secured lending and other	—	—	5.2	5.2	—	—	1.8	1.8
Total	**$68.0**	**$24.0**	**$11.6**	**$103.6**	**$43.7**	**$12.7**	**$6.7**	**$63.1**

(1) Represents carrying value.

Our non-mortgage-related investments in the Liquidity and Contingency Operating Portfolio consist of U.S. Treasury securities and other investments that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintain non-interest-bearing deposits at the Federal Reserve Bank of New York and interest-bearing deposits at commercial banks. Our interest-bearing deposits at commercial banks totaled $3.7 billion and $1.5 billion as of December 31, 2019 and December 31, 2018, respectively.

The Liquidity and Contingency Operating Portfolio also included collateral posted to us in the form of cash primarily by derivatives counterparties of $2.6 billion and $3.0 billion as of December 31, 2019 and December 31, 2018, respectively. We have invested this collateral in securities purchased under agreements to resell and non-mortgage-related securities as part of our Liquidity and Contingency Operating Portfolio, although the collateral may be subject to return to our counterparties based on the terms of our master netting and collateral agreements.

Mortgage Loans and Mortgage-Related Securities

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and liquid. Our primary source of liquidity among these mortgage assets is our holdings of single-class and multiclass agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities.

In addition, we hold unsecuritized single-family loans and multifamily held-for-sale loans that could be securitized and would then be available for sale or for use as collateral for repurchase agreements. Due to the large size of our portfolio of liquid assets, the amount of mortgage-related assets that we may successfully sell or borrow against in the event of a liquidity crisis or significant market disruption may be substantially less than the amount of mortgage-related assets we hold. There would likely be insufficient market demand for large amounts of these assets over a prolonged period of time, which would limit our ability to sell or borrow against these assets.

We hold other mortgage assets, but given their characteristics, they may not be available for immediate sale or for use as collateral for repurchase agreements. These assets consist of certain structured agency securities collateralized by non-agency mortgage-related securities, non-agency CMBS, non-agency RMBS, and unsecuritized seriously delinquent and modified single-family loans.

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.

Primary Sources of Funding

Debt securities that we issue are classified either as debt securities of consolidated trusts held by third parties or other debt. The following table lists the sources and balances of our funding as of December 31, 2019 and a brief description of their importance to Freddie Mac.

Table 63 - Funding Sources

Source	Balance[(1)] (In billions)	Description
Funding		
• Other Debt	$281.2	• Other debt is used to fund our business activities, including single-family guarantee activities not funded by debt securities of consolidated trusts.
• Debt Securities of Consolidated Trusts	$1,898.4	• Debt securities of consolidated trusts are used primarily to fund our single-family guarantee activities. This type of debt is principally repaid by the cash flows of the associated mortgage loans. As a result, our repayment obligation is limited to amounts paid pursuant to our guarantee of principal and interest and to purchase modified or seriously delinquent loans from the trusts.

(1) Represents carrying value of debt balances.

Other Debt Activities

We issue other debt to fund our operations. Competition for funding can vary with economic, financial market, and regulatory environments.

During 2019, we had sufficient access to the debt markets due largely to support from the U.S. government. We rely significantly on our ability to issue debt on an on-going basis to refinance our effective short-term debt. Our effective short-term debt percentage, which represents the percentage of our total other debt that is expected to mature within one year, was 55.2% and 42.7% as of December 31, 2019 and December 31, 2018, respectively.

Beginning January 1, 2019, our debt cap under the Purchase Agreement is $300.0 billion. As of December 31, 2019, our aggregate indebtedness, calculated as the par value of other debt, was $283.2 billion. We disclose the amount of our indebtedness on this basis monthly under the caption "Other Debt Activities - Total Debt Outstanding" in our Monthly Volume Summary reports, which are available on our website at **www.freddiemac.com/investors/financials/monthly-volume-summaries.html**.

To fund our business activities, we depend on the continuing willingness of investors to purchase our debt securities. Changes or perceived changes in the government's support of us could have a severe negative effect on our access to the debt markets and on our debt funding costs.

In addition, any change in applicable legislative or regulatory exemptions, including those described in **Regulation and Supervision**, could adversely affect our access to some debt investors, thereby potentially increasing our debt funding costs. For more information on our short- and long-term liquidity needs, see **Contractual Obligations**.

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

Table 64 - Other Debt Activity

	Year Ended December 31, 2019			
(Dollars in millions)	Short-term	Average Rate[1]	Long-term	Average Rate[1]
Discount notes and Reference Bills				
Beginning balance	$28,787	2.36%	$—	—%
Issuances	369,992	2.05	—	—
Repurchases	—	—	—	—
Maturities	(337,949)	2.20	—	—
Ending Balance	**60,830**	**1.67**	**—**	**—**
Securities sold under agreements to repurchase				
Beginning balance	6,019	2.40	—	—
Additions	325,512	2.04	—	—
Repayments	(321,689)	2.07	—	—
Ending Balance	**9,842**	**1.46**	**—**	**—**
Callable debt				
Beginning balance	2,000	2.53	105,206	2.09
Issuances	13,590	2.48	107,544	2.38
Repurchases	—	—	—	—
Calls	(14,590)	2.52	(95,172)	2.65
Maturities	—	—	(23,426)	1.35
Ending Balance	**1,000**	**2.36**	**94,152**	**2.03**
Non-callable debt				
Beginning balance	14,440	2.04	80,789	2.56
Issuances	48,984	2.34	15,774	2.43
Repurchases	(345)	1.87	(869)	1.87
Maturities	(23,671)	2.19	(33,465)	1.68
Ending Balance	**39,408**	**2.31**	**62,229**	**2.86**
STACR Debt and SCR Debt Notes[2]				
Beginning balance	—	—	17,729	6.02
Issuances	—	—	723	2.09
Repurchases	—	—	—	—
Maturities	—	—	(2,956)	4.49
Ending Balance	**—**	**—**	**15,496**	**5.55**
Total other debt	**$111,080**	**1.89%**	**$171,877**	**2.65%**

Referenced footnotes are included after the next table.

	Year Ended December 31, 2018			
(Dollars in millions)	Short-term	Average Rate(1)	Long-term	Average Rate(1)
Discount notes and Reference Bills				
Beginning balance	$45,717	1.19%	$—	—%
Issuances	356,129	1.40	—	—
Repurchases	—	—	—	—
Maturities	(373,059)	1.29	—	—
Ending Balance	**28,787**	**2.36**	**—**	**—**
Securities sold under agreements to repurchase				
Beginning balance	9,681	1.06	—	—
Additions	162,524	1.82	—	—
Repayments	(166,186)	1.75	—	—
Ending Balance	**6,019**	**2.40**	**—**	**—**
Callable debt				
Beginning balance	—	—	113,822	1.58
Issuances	2,000	2.28	26,191	3.13
Repurchases	—	—	(1,396)	2.64
Calls	—	—	(3,580)	2.23
Maturities	—	—	(29,831)	1.06
Ending Balance	**2,000**	**2.53**	**105,206**	**2.09**
Non-callable debt				
Beginning balance	17,792	1.03	111,169	2.11
Issuances	14,965	2.02	11,514	2.21
Repurchases	—	—	(1,340)	2.11
Maturities	(18,317)	1.06	(40,554)	1.35
Ending Balance	**14,440**	**2.04**	**80,789**	**2.56**
STACR Debt and SCR Debt(2)				
Beginning balance	—	—	17,925	5.04
Issuances	—	—	1,885	3.67
Repurchases	—	—	—	—
Maturities	—	—	(2,081)	4.14
Ending Balance	**—**	**—**	**17,729**	**6.02**
Total other debt	**$51,246**	**2.28%**	**$203,724**	**2.62%**

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

(2) STACR debt notes and SCR debt notes are subject to prepayment risk as their payments are based upon the performance of a reference pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty and are therefore included as a separate category in the table.

Our outstanding other debt balance increased during 2019, driven by an increase in the issuance of short-term SOFR debt primarily due to a higher mortgage loan pipeline forecast, coupled with near-term cash needs for upcoming debt maturities and anticipated calls. Our STACR debt balances should continue to decline as run off will primarily be replaced with STACR Trust note transactions.

During 2019, we replaced a portion of called or matured medium-term and long-term debt with callable debt. Our callable debt provides us with the option to repay the outstanding principal balance of the debt prior to its contractual maturity date. As of December 31, 2019, $72 billion of the outstanding $95 billion of callable debt may be called within one year, not including callable debt due to contractually mature within one year.

Other Short-Term Debt

The tables below contain details on the characteristics of our other short-term debt.

Table 65 - Other Short-Term Debt

	As of December 31, 2019				
	Ending Balance		Yearly Average		
(Dollars in millions)	Carrying Value	Weighted Average Effective Rate(1)	Carrying Value	Weighted Average Effective Rate(1)	Maximum Carrying Value Outstanding at Any Month End
Discount notes and Reference Bills	$60,629	1.67%	$44,675	2.16%	$60,629
Medium-term notes	40,405	2.31	29,781	2.36	43,096
Securities sold under agreements to repurchase	9,843	1.46	9,928	2.16	14,114
Total	**$110,877**	**1.89%**			

	As of December 31, 2018				
	Ending Balance		Yearly Average		
(Dollars in millions)	Carrying Value	Weighted Average Effective Rate(1)	Carrying Value	Weighted Average Effective Rate(1)	Maximum Carrying Value Outstanding at Any Month End
Discount notes and Reference Bills	$28,621	2.36%	$35,126	1.79%	$46,892
Medium-term notes	16,440	2.10	15,403	1.37	18,200
Securities sold under agreements to repurchase	6,019	2.40	9,411	1.79	11,719
Total	**$51,080**	**2.28%**			

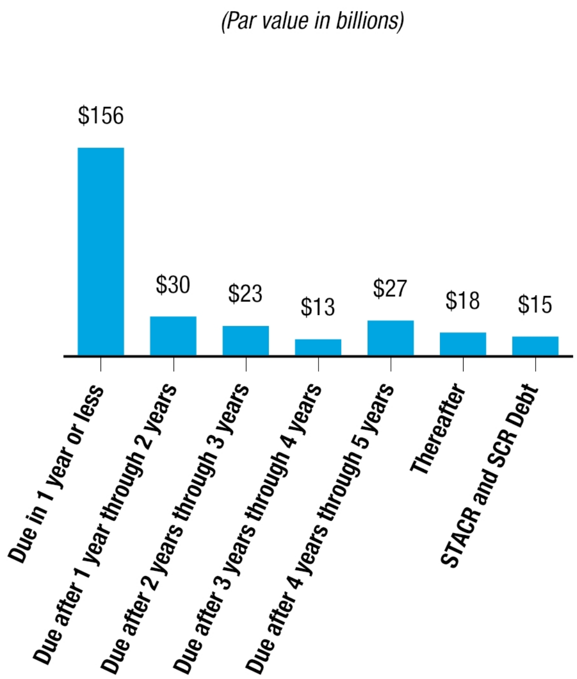
	As of December 31, 2017				
	Ending Balance		Yearly Average		
(Dollars in millions)	Carrying Value	Weighted Average Effective Rate(1)	Carrying Value	Weighted Average Effective Rate(1)	Maximum Carrying Value Outstanding at Any Month End
Discount notes and Reference Bills	$45,596	1.19%	$50,867	0.85%	$60,967
Medium-term notes	17,792	1.03	12,172	0.78	17,967
Securities sold under agreements to repurchase	9,681	1.06	8,092	0.65	11,491
Total	**$73,069**	**1.14%**			

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

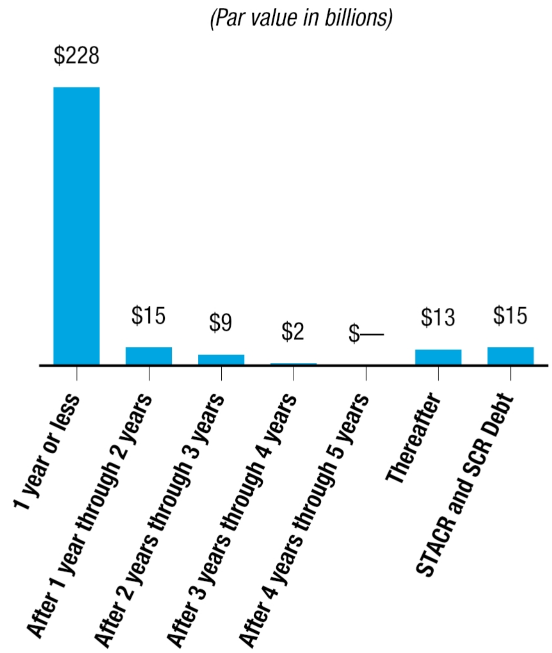
Maturity and Redemption Dates

The following graphs present our other debt by contractual maturity date and earliest redemption date. The earliest redemption date refers to the earliest call date for callable debt and the contractual maturity date for all other debt.

Contractual Maturity Date as of December 31, 2019[(1)]



Earliest Redemption Date as of December 31, 2019[(1)]



(1) STACR Debt Notes and SCR Debt Notes are subject to prepayment risk as their payments are based upon the performance of a reference pool of mortgage assets that may be prepaid by the related mortgage borrower at any time generally without penalty and are therefore included as a separate category in the graphs.

Debt Securities of Consolidated Trusts

The largest component of debt on our consolidated balance sheets is debt securities of consolidated trusts, which relates to securitization transactions that we consolidated for accounting purposes. We issue this type of debt by securitizing mortgage loans primarily to fund the majority of our single-family guarantee activities. When we consolidate securitization trusts, we recognize the following on our consolidated balance sheets:

- The assets held by the securitization trusts, the majority of which are mortgage loans. We recognized $1,940.5 billion and $1,842.9 billion of mortgage loans, which represented 88.1% and 89.3% of our total assets, as of December 31, 2019 and December 31, 2018, respectively.
- The debt securities issued by the securitization trusts, the majority of which are pass-through securities, where the cash flows of the mortgage loans held by the securitization trust are passed through to the holders of the securities. We recognized $1,898.4 billion and $1,792.7 billion of debt securities of consolidated trusts, which represented 87.1% and 87.7% of our total debt, as of December 31, 2019 and December 31, 2018, respectively.

Debt securities of our consolidated trusts represent our liability to third parties that hold beneficial interests in our consolidated securitization trusts. Debt securities of consolidated trusts are principally repaid from the cash flows of the mortgage loans held by the securitization trusts that issued the debt securities. In circumstances when the cash flows of the mortgage loans are not sufficient to repay the debt, we make up the shortfall because we have guaranteed the payment of principal and interest on the debt. In certain circumstances, we have the right and/or obligation to purchase the loan from the trust prior to its contractual maturity. At December 31, 2019, our estimated exposure (including the amounts that are due to Freddie Mac for debt securities of consolidated trusts that we purchased) to these debt securities is recognized as the allowance for loan losses on mortgage loans held by consolidated trusts. See **Note 4** for details on our allowance for loan losses.

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

Table 66 - Activity for Debt Securities of Consolidated Trusts Held by Third Parties

	Year Ended December 31,	
(In millions)	2019	2018
Beginning balance	$1,748,738	$1,672,605
Issuances:		
New issuances to third parties	323,860	185,877
Additional issuances of securities	178,971	190,207
Total issuances	**502,831**	**376,084**
Extinguishments:		
Purchases of debt securities from third parties	(30,306)	(41,453)
Debt securities received in settlement of secured lending	(46,670)	(25,220)
Repayments of debt securities	(319,791)	(233,278)
Total extinguishments	**(396,767)**	**(299,951)**
Ending balance	**1,854,802**	**1,748,738**
Unamortized premiums and discounts	43,553	43,939
Debt securities of consolidated trusts held by third parties	**$1,898,355**	**$1,792,677**

The table below provides information on the UPB of debt securities issued by our consolidated trusts.

Table 67 - Debt Securities of Consolidated Trusts Held by Third Parties

	As of December 31,	
(In millions)	2019	2018
Single-family		
Level 1 Securitization Products:		
30-year or more amortizing fixed-rate	$1,563,211	$1,434,879
20-year amortizing fixed-rate	80,340	79,079
15-year amortizing fixed-rate	241,835	253,245
Adjustable-rate	38,271	45,051
Interest-only	4,828	6,697
FHA/VA and other governmental	1,718	1,939
Total single-family Level 1 Securitization Products	**1,930,203**	**1,820,890**
Other single-family	2,397	2,961
Total single-family	**1,932,600**	**1,823,851**
Total multifamily	8,642	7,220
Total Freddie Mac mortgage-related securities	**1,941,242**	**1,831,071**
Freddie Mac mortgage-related securities repurchased or retained at issuance	(86,440)	(82,333)
Debt securities of consolidated trusts held by third parties	**$1,854,802**	**$1,748,738**

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, may be affected by our credit ratings. The table below indicates our credit ratings as of January 31, 2020.

Table 68 - Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody's	Fitch
Senior long-term debt	AA+	Aaa	AAA
Short-term debt	A-1+	P-1	F1+
Subordinated debt	AA	Aa2	AA-
Preferred stock[1]	D	Ca	C
Outlook	Stable	Stable	Stable

(1) Does not include senior preferred stock issued to Treasury.

Our credit ratings and outlooks are primarily based on the support we receive from Treasury and, therefore, are affected by changes in the credit ratings and outlooks of the U.S. government.

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

Cash Flows

- **2019 vs. 2018** - Cash and cash equivalents (including restricted cash and cash equivalents) decreased by $2.1 billion from $7.3 billion as of December 31, 2018 to $5.2 billion as of December 31, 2019, as we invested the proceeds from issuances of other debt in securities purchased under agreements to resell due to higher near-term cash needs for upcoming debt maturities and anticipated calls of other debt and a higher expected loan purchase forecast.
- **2018 vs. 2017** - Cash and cash equivalents (including restricted cash and cash equivalents) decreased by $2.5 billion from $9.8 billion as of December 31, 2017 to $7.3 billion as of December 31, 2018, primarily driven by fewer proceeds from debt issuances as we continued to reduce our indebtedness along with the decline in our mortgage-related investments portfolio. The decrease in cash and cash equivalents (including restricted cash and cash equivalents) was partially offset by a decrease in securities purchased under agreements to resell due to lower near-term cash needs for fewer upcoming maturities and anticipated calls of other debt.

Capital Resources

Primary Sources of Capital

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

At December 31, 2019, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount of $9.1 billion as of December 31, 2019 and the applicable Capital Reserve Amount of $20.0 billion, we will not have a dividend requirement to Treasury for the quarter ending December 31, 2019. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference on the senior preferred stock. See **Introduction - About Freddie Mac - *Conservatorship and Government Support for Our Business*** for more information.

If for any reason we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement. Our cumulative senior preferred stock dividend payments totaled $119.7 billion as of December 31, 2019.

The aggregate liquidation preference of the senior preferred stock owned by Treasury was $79.3 billion and the amount of available funding remaining under the Purchase Agreement was $140.2 billion as of December 31, 2019. To the extent we draw additional funds in the future, the aggregate liquidation preference will increase and the amount of available funding will decrease by the amount of those draws. See **Conservatorship and Related Matters** and **Regulation and Supervision** for more information.

The CECL accounting standard relating to the measurement of credit losses on financial instruments became effective as of January 1, 2020. CECL replaces the incurred loss impairment methodology with a methodology that reflects lifetime expected credit losses. We expect to recognize a decrease to retained earnings of $0.2 billion from our adoption of CECL on January 1, 2020. See **Note 1** for additional information about our adoption of CECL.

The table below presents activity related to our net worth.

Table 69 - Net Worth Activity

	Year Ended December 31,		
(In millions)	2019	2018	2017
Beginning balance	$4,477	($312)	$5,075
Comprehensive income (loss)	7,787	8,622	5,558
Capital draws from Treasury	—	312	—
Senior preferred stock dividends declared	(3,142)	(4,145)	(10,945)
Total equity / net worth	**$9,122**	**$4,477**	**($312)**
Aggregate draws under Purchase Agreement	$71,648	$71,648	$71,336
Aggregate cash dividends paid to Treasury	119,680	116,538	112,393

Conservatorship Capital Framework

In May 2017, FHFA, as Conservator, issued guidance to us to evaluate and manage our financial risk and to make economic business decisions, while in conservatorship, utilizing a newly-developed risk-based CCF, a capital system with detailed formulae provided by FHFA. The CCF also provides the foundation for the risk-based component of the proposed Enterprise Capital Rule published by FHFA in the Federal Register in July 2018.

We use the CCF to evaluate business decisions and ensure the company makes such decisions prudently when pricing transactions and managing its businesses. This framework focuses on return on conservatorship capital versus an estimated cost of equity capital needed to support the risk assumed to generate those returns.

The CCF has been and may be further revised by FHFA from time to time, including in connection with FHFA's consideration and adoption of a final Enterprise Capital Rule, which could possibly result in material changes in our conservatorship capital, and, thus, our returns on conservatorship capital. In November 2019, FHFA announced that it plans to re-propose the Enterprise Capital Rule in 2020.

The existing regulatory capital requirements have been suspended by FHFA during conservatorship. Consequently, we refer to the capital needed under the CCF for analysis of transactions and businesses as "conservatorship capital."

Under the Purchase Agreement and the September 2019 Letter Agreement, we are not able to retain equity, as calculated under GAAP, in excess of the $20.0 billion Capital Reserve Amount. As a result, we do not have capital sufficient to support our aggregate risk-taking activities.

Return on Conservatorship Capital

The table below provides the ROCC, calculated as (1) annualized comprehensive income for the period divided by (2) average conservatorship capital during the period. Each quarter, we consider whether certain "significant items" occurred that should be excluded from comprehensive income and our calculation of ROCC. If we have identified significant items in any of the periods presented, we also include comprehensive income excluding significant items as well as an adjusted ROCC based on comprehensive income excluding significant items, both non-GAAP measures. We believe that these non-GAAP financial measures are useful to investors as they better reflect our on-going financial results.

The ROCC shown in the table below is not based on our total equity and does not reflect actual returns on total equity. We do not believe that returns on total equity are meaningful because of the net worth limit imposed since 2012 under the Purchase Agreement.

Table 70 - Returns on Conservatorship Capital[1]

	Year Ended December 31,	
(Dollars in billions)	2019	2018
GAAP comprehensive income	$7.8	$8.6
Significant items:		
Non-agency mortgage-related securities judgment[2]	—	(0.3)
Tax effect related to judgment[2]	—	0.1
Total significant items[3]	—	(0.2)
Comprehensive income, excluding significant items[3]	$7.8	$8.4
Conservatorship capital (average during the period)[4]	$51.8	$56.6
ROCC, based on GAAP comprehensive income[4]	15.0%	15.2%
Adjusted ROCC, based on comprehensive income excluding significant items[3][4]	15.0%	14.8%

(1) Average conservatorship capital and ROCC for 2019 are preliminary and subject to change until official submission to FHFA.

(2) 2018 GAAP comprehensive income included a benefit of $334 million (pre-tax) from a final judgment against Nomura Holding America, Inc. in litigation involving certain of our non-agency mortgage-related securities. The tax effect related to this judgment was ($70) million.

(3) No significant items were identified for 2019. Numbers for 2019 are included for comparison purposes only.

(4) Average conservatorship capital for each period is based on the CCF in effect during the period. The CCF in effect as of December 31, 2019, was largely unchanged from the CCF as of December 31, 2018.

ROCC and Adjusted ROCC for 2019 were relatively flat compared to the returns for 2018, primarily driven by the decrease in comprehensive income, partially offset by the lower level of conservatorship capital needed, resulting from an increase in CRT activity in both the Single-family Guarantee and Multifamily segments, home price appreciation, the efficient disposition of legacy assets, and a decrease in our deferred tax assets.

We find the returns calculated above, as well as the returns calculated on specific transactions and individual business lines, to be a reasonable measure of return-versus-risk to support our decision-making while we remain in conservatorship. These returns may not be indicative of the returns that would be generated if we were to exit conservatorship, especially as the terms and timing of any such exit are not currently known and will depend upon future actions by the U.S. government. Our belief, should we leave conservatorship, is that returns at that time would most likely be below the levels calculated above, assuming the same portfolio of risk assets, as we expect that we would hold capital post-conservatorship above the minimum required regulatory capital. It is also likely that we would be required to pay fees for federal government support, thereby reducing our total comprehensive income.

CONSERVATORSHIP AND RELATED MATTERS

Supervision of Our Company During Conservatorship

FHFA has broad powers when acting as our Conservator. Upon its appointment, the Conservator immediately succeeded to all rights, titles, powers, and privileges of Freddie Mac and of any stockholder, officer, or director of Freddie Mac with respect to Freddie Mac and its assets. The Conservator also succeeded to the title to all books, records, and assets of Freddie Mac held by any other legal custodian or third party.

Under the GSE Act, the Conservator may take any actions it determines are necessary to put us in a safe and solvent condition and appropriate to carry on our business and preserve and conserve our assets and property. The Conservator's powers include the ability to transfer or sell any of our assets or liabilities, subject to certain limitations and post-transfer notice provisions, without any approval, assignment of rights or consent of any party. However, the GSE Act provides that loans and mortgage-related assets that have been transferred to a Freddie Mac securitization trust must be held by the Conservator for the beneficial owners of the trust and cannot be used to satisfy our general creditors.

We conduct our business subject to the direction of FHFA as our Conservator. The Conservator has provided authority to the Board of Directors to oversee management's conduct of our business operations so we can operate in the ordinary course. The directors serve on behalf of, exercise authority as provided by, and owe their fiduciary duties of care and loyalty to the Conservator. The Conservator retains the authority to withdraw or revise the authority it has provided at any time. The Conservator also retains certain significant authorities for itself, and has not provided them to the Board. The Conservator continues to provide strategic direction for the company and directs the efforts of the Board and management to implement its strategy. Many management decisions are subject to review and/or approval by FHFA and management frequently receives direction from FHFA on various matters involving day-to-day operations.

Our current business objectives reflect direction we have received from the Conservator including the Conservatorship Scorecards. At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives. Given our public mission and the important role our Conservator has placed on Freddie Mac in addressing housing and mortgage market conditions, we sometimes take actions that could have a negative impact on our business, operating results or financial condition, and could thus contribute to a need for additional draws under the Purchase Agreement. Certain of these actions are intended to help homeowners and the mortgage market.

Purchase Agreement, Warrant, and Senior Preferred Stock

In connection with our entry into conservatorship, we entered into the Purchase Agreement with Treasury. Under the Purchase Agreement, we issued to Treasury both senior preferred stock and a warrant to purchase common stock. The Purchase Agreement, the warrant, and the senior preferred stock do not contain any provisions causing them to terminate or cease to exist upon the termination of conservatorship. The conservatorship, the Purchase Agreement, the warrant, and the senior preferred stock materially limit the rights of our common and preferred stockholders (other than Treasury).

Pursuant to the Purchase Agreement, which we entered into through FHFA, in its capacity as Conservator, on September 7, 2008, we issued to Treasury one million shares of Variable Liquidation Preference Senior Preferred Stock with an initial liquidation preference of $1 billion and a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares outstanding. The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of Treasury's commitment to provide funding to us under the Purchase Agreement. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all.

The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP consolidated balance sheet for the applicable fiscal quarter, provided that the aggregate amount funded under the Purchase Agreement may not exceed Treasury's commitment. The amount of any draw will be added to the aggregate liquidation preference of the senior preferred stock and will reduce the amount of available funding remaining. Deficits in our net worth have made it necessary for us to make substantial draws on Treasury's funding commitment under the Purchase Agreement. The 2017 Letter Agreement increased the aggregate liquidation preference of the senior preferred stock by $3.0 billion on December 31, 2017. In addition, pursuant to the September 2019 Letter Agreement, the liquidation preference of the senior preferred stock will be increased, at the end of each fiscal quarter, beginning September 30, 2019, by an amount equal to the increase in the Net Worth Amount, if any, during the immediately prior fiscal quarter, until the liquidation preference has increased by $17.0 billion. As of December 31, 2019, the aggregate liquidation preference of the senior preferred stock was $79.3 billion, and the amount of available funding remaining under the Purchase Agreement was $140.2 billion.

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as, and if declared by our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers, and privileges of the Board. Under the August 2012 amendment to the Purchase Agreement, our cash dividend requirement each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. Under the 2017 Letter Agreement, the dividend for the dividend period from October 1, 2017 through and including December 31, 2017 was reduced to $2.25 billion, and the applicable Capital Reserve Amount from January 1, 2018 through June 30, 2019 was $3.0 billion. Pursuant to the September 2019 Letter Agreement, from July 1, 2019 and thereafter, the applicable Capital Reserve Amount is $20.0 billion. As a result of the net worth sweep dividend, our future profits in excess of the applicable Capital Reserve Amount will be distributed to Treasury, and the holders of our common stock and non-senior preferred stock will not receive benefits that could otherwise flow from such future profits. If for any reason we were not to pay the amount of our dividend requirement on the senior preferred stock in full, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement.

The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the Purchase Agreement.

The Purchase Agreement and warrant contain covenants that significantly restrict our business and capital activities. For example, the Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- Pay dividends on our equity securities, other than the senior preferred stock or warrant, or repurchase our equity securities;
- Issue any additional equity securities, except in limited instances;
- Sell, transfer, lease, or otherwise dispose of any assets, other than dispositions for fair market value in the ordinary course of business, consistent with past practices, and in other limited circumstances; and
- Issue any subordinated debt.

Limits on Our Mortgage-Related Investments Portfolio and Indebtedness

Our ability to acquire and sell mortgage assets is significantly constrained by limitations under the Purchase Agreement and other limitations imposed by FHFA:

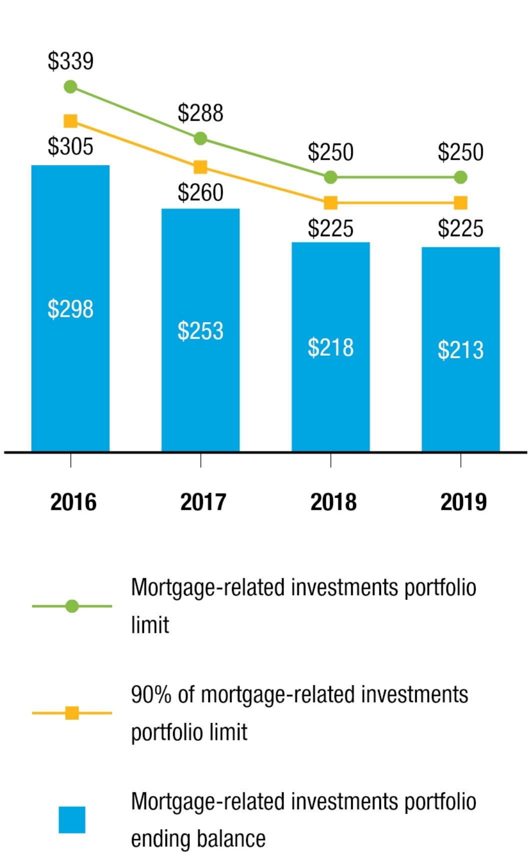
- Since 2014, we have been managing the mortgage-related investments portfolio so that it does not exceed 90% of the cap, which reached $250 billion as of December 31, 2018. In February 2019, FHFA directed us to maintain the mortgage-related investments portfolio at or below $225 billion at all times.
- Under the Purchase Agreement, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. Our debt cap under the Purchase Agreement was $346.1 billion in 2018 and declined to $300.0 billion on January 1, 2019. As of December 31, 2019, our aggregate indebtedness for purposes of the debt cap was $283.2 billion.
- FHFA has indicated that any portfolio sales should be commercially reasonable transactions that consider impacts to the market, borrowers, and neighborhood stability.

Our decisions with respect to managing the mortgage-related investments portfolio affect all three business segments. In order to achieve all of our portfolio goals, it is possible that we may forgo economic opportunities in one business segment in order to pursue opportunities in another business segment.

Our results against the limits imposed on our mortgage-related investments portfolio and aggregate indebtedness for the year ended December 31, 2019 are shown below.

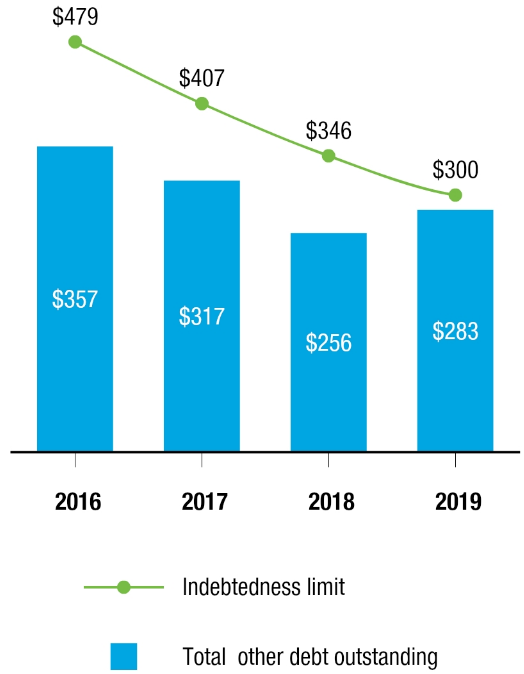
Mortgage Assets as of December 31,

(In billions)



Indebtedness as of December 31,

(In billions)



Managing Our Mortgage-Related Investments Portfolio Over Time

Our mortgage-related investments portfolio includes assets held by all three business segments and consists of:

- Agency securities, which include both single-family and multifamily Freddie Mac mortgage-related securities and non-Freddie Mac agency mortgage-related securities;
- Non-agency mortgage-related securities, which include single-family non-agency mortgage-related securities, CMBS, housing revenue bonds, and other multifamily securities; and
- Single-family and multifamily unsecuritized loans.

We evaluate the liquidity of the assets in our mortgage-related investments portfolio based on three categories (in order of liquidity):

- **Liquid** - single-class and multi-class agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities;
- **Securitization Pipeline** - primarily includes performing multifamily and single-family loans purchased for cash and primarily held for a short period until securitized, with the resulting Freddie Mac issued securities being sold or retained; and
- **Less Liquid** - assets that are less liquid than both agency securities and loans in the securitization pipeline (e.g., reperforming loans, single-family seriously delinquent loans, and non-agency mortgage-related securities).

Freddie Mac mortgage-related securities include mortgage-related securities issued or guaranteed by Freddie Mac. In prior periods, certain of these securities that were issued by third-party trusts but guaranteed by Freddie Mac were classified as non-agency mortgage-related securities. Prior periods have been revised to conform to the current period presentation.

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. In February 2019, FHFA directed us to maintain this portfolio at or below $225 billion at all times. In November 2019, FHFA directed us, by January 31, 2020, to include 10% of the notional value of certain interest-only securities owned by Freddie Mac in the calculation of this portfolio, while continuing to maintain the portfolio below the limit imposed by FHFA.

Table 71 - Mortgage-Related Investments Portfolio Details

	As of December 31, 2019				As of December 31, 2018			
(Dollars in millions)	Liquid	Securitization Pipeline	Less Liquid	Total	Liquid	Securitization Pipeline	Less Liquid	Total
Capital Markets segment - Mortgage investments portfolio								
Single-family unsecuritized loans								
Performing loans	$—	$19,144	$—	$19,144	$—	$8,955	$—	$8,955
Reperforming loans	—	—	26,134	26,134	—	—	39,402	39,402
Total single-family unsecuritized loans	**—**	**19,144**	**26,134**	**45,278**	**—**	**8,955**	**39,402**	**48,357**
Agency securities	119,156	—	2,518	121,674	113,848	—	3,108	116,956
Non-agency mortgage-related securities	—	—	1,458	1,458	—	—	2,122	2,122
Total Capital Markets segment - Mortgage investments portfolio	**119,156**	**19,144**	**30,110**	**168,410**	**113,848**	**8,955**	**44,632**	**167,435**
Single-family Guarantee segment - Single-family unsecuritized seriously delinquent loans	—	—	8,589	8,589	—	—	8,473	8,473
Multifamily segment								
Unsecuritized mortgage loans	—	18,531	11,254	29,785	—	23,203	11,584	34,787
Mortgage-related securities	5,209	—	680	5,889	6,570	—	815	7,385
Total Multifamily segment	**5,209**	**18,531**	**11,934**	**35,674**	**6,570**	**23,203**	**12,399**	**42,172**
Total mortgage-related investments portfolio	**$124,365**	**$37,675**	**$50,633**	**$212,673**	**$120,418**	**$32,158**	**$65,504**	**$218,080**
Percentage of total mortgage-related investments portfolio	58%	18%	24%	100%	55%	15%	30%	100%

We are particularly focused on reducing, in an economically sensible manner, the balance of the less liquid assets that we hold in our mortgage-related investments portfolio. Our efforts to reduce our holdings of these assets help satisfy several objectives, including to improve the overall liquidity of our mortgage-related investments portfolio and comply with the mortgage-related investments portfolio limits. The decline in our holdings of less liquid assets, which included repayments and active dispositions, accounted for the majority of the decline in our mortgage-related investments portfolio during 2019. Our active dispositions of less liquid assets included the following:

- Sales of $13.6 billion of less liquid assets, including $0.5 billion in UPB of single-family non-agency mortgage-related securities, $0.2 billion in UPB of seriously delinquent unsecuritized single-family loans, and $12.9 billion in UPB of single-family reperforming loans, which use our senior subordinate securitization structures;
- Securitizations of $3.9 billion in UPB of less liquid multifamily loans; and
- Transfers of $1.9 billion in UPB of less liquid multifamily loans to the securitization pipeline.

FHFA's Strategic Plan and Scorecards for Freddie Mac and Fannie Mae Conservatorships

In October 2019, FHFA issued its 2019 Strategic Plan. The 2019 Strategic Plan described FHFA's new direction to reform the housing finance system and Freddie Mac and Fannie Mae.

The 2019 Strategic Plan established three reformulated strategic goals for the conservatorships of Freddie Mac and Fannie Mae:

- Focus on their core mission responsibilities to foster competitive liquid, efficient, and resilient (CLEAR) national housing finance markets that support sustainable homeownership and affordable rental housing;

- Operate in a safe and sound manner appropriate for entities in conservatorship; and
- Prepare for their eventual exits from the conservatorship.

FHFA has also published annual Conservatorship Scorecards for Freddie Mac and Fannie Mae, which establish annual objectives as well as performance targets and measures since 2014. FHFA issued the 2019 Conservatorship Scorecard in December 2018. FHFA issued the 2020 Conservatorship Scorecard in October 2019, which aligns with the reformulated strategic goals of the 2019 Strategic Plan. We continue to align our resources and internal business plans to meet the goals and objectives provided by FHFA.

For information about how the Conservatorship Scorecard affects executive compensation, see **Executive Compensation - Compensation Discussion and Analysis**. For information about the 2019 Conservatorship Scorecard, see our Current Report on Form 8-K filed on December 20, 2018. For information about the 2020 Conservatorship Scorecard, see our Current Report on Form 8-K filed on October 29, 2019.

For more information on the conservatorship and related matters, see **Regulation and Supervision**, **Risk Factors - Conservatorship and Related Matters**, **Note 2**, **Note 11**, and **Directors, Corporate Governance, and Executive Officers -** ***Board and Committee Information - Authority of the Board and Board Committees***.

REGULATION AND SUPERVISION

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

Federal Housing Finance Agency

FHFA is an independent agency of the federal government responsible for oversight of the operations of Freddie Mac, Fannie Mae, and the FHLBs.

Under the GSE Act, FHFA has safety and soundness authority that is comparable to, and in some respects broader than, that of the federal banking agencies. FHFA is responsible for implementing the various provisions of the GSE Act that were added by the Reform Act.

Receivership

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act.

Certain aspects of conservatorship and receivership operations of Freddie Mac, Fannie Mae, and the FHLBs are addressed in an FHFA rule. Among other provisions, the rule indicates that FHFA generally will not permit payment of securities litigation claims during conservatorship and that claims by current or former shareholders arising as a result of their status as shareholders would receive the lowest priority of claim in receivership. In addition, the rule indicates that administrative expenses of the conservatorship will also be deemed to be administrative expenses of receivership and that capital distributions may not be made during conservatorship, except as specified in the rule.

Capital Standards

FHFA suspended capital classification of us during conservatorship in light of the Purchase Agreement. The existing statutory and FHFA regulatory capital requirements are not binding during the conservatorship. These capital standards are described in **Note 17**. Under the GSE Act, FHFA has the authority to increase our minimum capital levels temporarily or to establish additional capital and reserve requirements for particular purposes.

Pursuant to an FHFA rule, FHFA-regulated entities are required to conduct annual stress tests to determine whether such companies have sufficient capital to absorb losses as a result of adverse economic conditions. Under the rule, Freddie Mac is required to conduct annual stress tests using scenarios specified by FHFA that reflect certain economic and financial conditions and publicly disclose the results of the stress test under the "severely adverse" scenario. In August 2019, we disclosed the results of our most recent "severely adverse" scenario stress test which projected an improvement in the amount of available funding remaining under the Purchase Agreement compared to the test results disclosed in August 2018.

New Products

The GSE Act requires Freddie Mac and Fannie Mae to obtain the approval of FHFA before initially offering any product (as defined in the statute), subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice of any new activity that we consider not to be a product. While FHFA published an interim final rule on prior approval of new products, it stated that permitting us to engage in new products is inconsistent with the goals of conservatorship and instructed us not to submit such requests under the interim final rule.

Affordable Housing Goals

We are subject to annual affordable housing goals. We view the purchase of loans that are eligible to count toward our affordable housing goals to be a principal part of our mission and business, and we are committed to facilitating the financing of affordable housing for very low-, low-, and moderate-income families. In light of the affordable housing goals, we may make adjustments to our strategies for purchasing loans, which could potentially increase our credit losses. These strategies could include entering into purchase and securitization transactions with lower expected economic returns than our typical transactions. In February 2010, FHFA stated that it does not intend for us to undertake uneconomic or high-risk activities in support of the housing goals nor does it intend for the state of conservatorship to be a justification for withdrawing our support from these market segments.

Current FHFA housing goals applicable to our purchases consist of four goals and one subgoal for single-family owner-occupied housing, one multifamily affordable housing goal, and two multifamily affordable housing subgoals. Single-family goals are expressed as a percentage of the total number of eligible loans underlying our total single-family loan purchases, while the multifamily goals are expressed in terms of minimum numbers of units financed.

Three of the single-family housing goals and the subgoal target purchase mortgage loans for low-income families, very low-income families, and/or families that reside in low-income areas. The single-family housing goals also include one goal that targets refinancing loans for low-income families. The multifamily affordable housing goal targets multifamily rental housing affordable to low-income families. The multifamily affordable housing subgoals target multifamily rental housing affordable to very low-income families and small (5- to 50-unit) multifamily properties affordable to low-income families.

We may achieve a single-family or multifamily housing goal by meeting or exceeding the FHFA benchmark for that goal (Goal). We also may achieve a single-family goal by meeting or exceeding the actual share of the market that meets the criteria for that goal (Market Level).

If the Director of FHFA finds that we failed (or there is a substantial probability that we will fail) to meet a housing goal and that achievement of the housing goal was or is feasible, the Director may require the submission of a housing plan that describes the actions we will take to achieve the unmet goal. FHFA has the authority to take actions against us if we fail to submit a required housing plan, submit an unacceptable plan, fail to comply with a plan approved by FHFA, or fail to submit certain mortgage purchase data, information or reports as required by law. See **Risk Factors - Legal And Regulatory Risks - *We may make certain changes to our business in an attempt to meet our housing goals and duty to serve requirements, which may adversely affect our profitability.***

2018 Affordable Housing Goal Results and Housing Plan

In December 2019, FHFA informed us that, for 2018, we achieved all five of our single-family affordable housing goals and all three of our multifamily goals. Our performance compared to our goals, as determined by FHFA for 2018 and 2017, is set forth below.

Table 72 - 2018 and 2017 Affordable Housing Goals Results

	2018			2017		
Affordable Housing Goals	**Goals**	**Market Level**	**Results**	**Goals**	**Market Level**	**Results**
Single-family purchase money goals						
Low-income	24%	25.5%	25.8%	24%	24.3%	23.2%
Very low-income	6%	6.5%	6.3%	6%	5.9%	5.7%
Low-income areas	18%	22.6%	22.6%	18%	21.5%	20.9%
Low-income areas subgoal	14%	18.0%	17.3%	14%	17.1%	16.4%
Single-family refinance low-income goal	21%	30.7%	27.3%	21%	25.4%	24.8%
Multifamily low-income goal (In units)	315,000	N/A	474,062	300,000	N/A	408,096
Multifamily very low-income subgoal (In units)	60,000	N/A	105,612	60,000	N/A	92,274
Multifamily small property low-income subgoal (In units)	10,000	N/A	39,353	10,000	N/A	39,473

Due to our failure to meet two of the five single-family housing goals for 2014 and 2015, we operated under an FHFA-required housing plan through 2018. FHFA has not required us to extend our housing plan beyond 2018. Although FHFA has determined that we met our affordable housing goals in 2018, FHFA will continue to closely monitor and evaluate our 2019 housing goals performance.

2019-2020 Affordable Housing Goals

Our affordable housing goals for 2019 and 2020 are set forth below.

Table 73 - 2019-2020 Affordable Housing Goals

	2019	2020
Single-family purchase money goals (Benchmark levels):		
Low-income	24%	24%
Very low-income	6%	6%
Low-income areas	19%	TBD
Low-income areas subgoal	14%	14%
Single-family refinance low-income goal (Benchmark level)	21%	21%
Multifamily low-income goal (In units)	315,000	315,000
Multifamily very low-income subgoal (In units)	60,000	60,000
Multifamily small property low-income subgoal (In units)	10,000	10,000

We expect to report our performance with respect to the 2019 affordable housing goals in March 2020. At this time, based on preliminary information, we believe we met all five of our single-family goals and our three multifamily goals for 2019. We expect that FHFA will make a final determination on our 2019 performance following the release of market data in 2020.

Duty to Serve Underserved Markets Plan

The GSE Act establishes a duty for Freddie Mac and Fannie Mae to serve three underserved markets (manufactured housing, affordable housing preservation, and rural areas) by providing leadership in developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low-, and moderate-income families in those markets.

In December 2017, FHFA released Freddie Mac's underserved markets plan for 2018-2020. The plan became effective January 1, 2018. On December 20, 2019, FHFA published Freddie Mac's modified underserved markets plan for 2018-2020. FHFA evaluated Freddie Mac's performance under the plan for 2018 and determined it was satisfactory.

Affordable Housing Fund Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of total new business purchases, and pay such amount to certain housing funds. FHFA suspended this requirement when we were placed into conservatorship. However, in December 2014, FHFA terminated the suspension and instructed us to begin setting aside and paying amounts into those funds, subject to any subsequent guidance or instruction from FHFA.

During 2019, we completed $529.1 billion of new business purchases subject to this requirement and accrued $222.2 million of related expense, of which $144.4 million is related to the Housing Trust Fund administered by HUD and $77.8 million is related to the Capital Magnet Fund administered by Treasury. We are prohibited from passing through the costs of these allocations to the originators of the loans that we purchase.

Portfolio Activities

The GSE Act provides FHFA with the power to regulate the size and content of our mortgage-related investments portfolio. The GSE Act requires FHFA to establish, by regulation, criteria governing portfolio holdings to ensure the holdings are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA adopted the portfolio holdings criteria established in the Purchase Agreement, as it may be amended from time to time, for so long as we remain subject to the Purchase Agreement. See **Conservatorship and Related Matters - *Limits on Our Mortgage-Related Investments Portfolio and Indebtedness*** for more information.

Subordinated Debt

FHFA directed us to continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable.

Under the Purchase Agreement, we may not issue subordinated debt without Treasury's consent. During 2019 and 2018, we did not call, repurchase, or issue any Freddie SUBS® securities. The last outstanding issue of Freddie SUBS securities matured in December 2018.

Department of Housing and Urban Development

HUD has regulatory authority over Freddie Mac with respect to fair lending. Our loan purchase activities are subject to federal anti-discrimination laws. In addition, the GSE Act prohibits discriminatory practices in our loan purchase activities, requires us to submit data to HUD to assist in its fair lending investigations of primary market lenders with which we do business, and requires us to undertake remedial actions against such lenders found to have engaged in discriminatory lending practices. HUD periodically reviews and comments on our underwriting and appraisal guidelines for consistency with the Fair Housing Act and the anti-discrimination provisions of the GSE Act.

Department of the Treasury

Treasury has significant rights and powers as a result of the Purchase Agreement. In addition, under our Charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures, and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. Our Charter also authorizes Treasury to purchase Freddie Mac debt obligations not exceeding $2.25 billion in aggregate principal amount at any time. In October 2019, Treasury released its 2019 Strategic Plan, which includes a goal of reforming the housing finance system and ending the conservatorships of Freddie Mac and Fannie Mae.

Consumer Financial Protection Bureau

The CFPB regulates consumer financial products and services. The CFPB adopted a number of final rules relating to loan origination, finance, and servicing practices that generally went into effect in January 2014. The rules include an ability-to-repay rule, which requires loan originators to make a reasonable and good faith determination that a borrower has a reasonable ability to repay the loan according to its terms. This rule provides certain protection from liability for originators making loans that satisfy the definition of a qualified mortgage. The ability-to-repay rule applies to most loans acquired by Freddie Mac, and for loans covered by the rule, FHFA has directed us to limit our single-family acquisitions to loans that generally would constitute qualified mortgages under applicable CFPB regulations. The directive generally restricts us from acquiring loans that are not fully amortizing, have a term greater than 30 years, or have points and fees in excess of 3% of the total loan amount. Under CFPB rules, one category of qualified mortgages consists of loans that are eligible for purchase or guarantee by either Freddie Mac or Fannie Mae. This category of qualified mortgages is scheduled to expire in January 2021, although the CFPB has indicated that it may permit an extension of this category of qualified mortgages. The CFPB also has indicated that it intends to amend the ability-to-repay rule, including by making revisions to the definition of qualified mortgage.

Securities and Exchange Commission

We are subject to the reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. Although our common stock is required to be registered under the Exchange Act, we continue to be exempt from certain federal securities law requirements, including the following:

- Securities we issue or guarantee are "exempted securities" and may be sold without registration under the Securities Act of 1933;
- We are excluded from the definitions of "government securities broker" and "government securities dealer" under the Exchange Act;
- The Trust Indenture Act of 1939 does not apply to securities issued by us; and
- We are exempt from the Investment Company Act of 1940 and the Investment Advisers Act of 1940, as we are an "agency, authority, or instrumentality" of the U.S. for purposes of such Acts.

Legislative and Regulatory Developments

Legislation Related to Freddie Mac and Its Future Status

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

Several bills have been introduced in past sessions of Congress concerning the future status of Freddie Mac, Fannie Mae, and the mortgage finance system, including bills that provided for the wind down of Freddie Mac and Fannie Mae, modification of the terms of the Purchase Agreement, or an increase in CRT transactions. None of these bills have been enacted. It is likely that similar or new bills will be introduced and considered in the future. We cannot predict whether any of such bills will be enacted.

Treasury Housing Reform Plan

On September 5, 2019, Treasury released its plan to reform the housing finance system pursuant to the goals specified in the presidential memorandum issued on March 27, 2019. The Treasury Housing Reform Plan (the Plan) includes 49 recommended legislative and administrative reforms that would advance the reform goals outlined in the presidential memorandum: ending the conservatorships of the GSEs, facilitating competition in the housing finance system, establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States, and providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market.

Among other things, Treasury states that its preference and recommendation is for Congress to enact comprehensive housing finance reform legislation. Specifically, the Plan indicates that legislative reforms should replace the existing Purchase Agreements with an explicit, paid-for guarantee backed by the full faith and credit of the federal government that is limited to the timely payment of principal and interest on qualifying MBS. The explicit government guarantee should be available to re-chartered GSEs and to any other FHFA-approved guarantors of MBS collateralized by eligible conventional mortgage loans or eligible multifamily mortgage loans. Further, the government's guarantee would stand behind significant first-loss private capital and would be triggered only in exigent circumstances.

To ensure stability in the housing finance system pending comprehensive housing finance reform legislation, the Plan indicates that it will be necessary to maintain limited and tailored government support for the GSEs by leaving the Purchase Agreement commitments in place after the GSE conservatorships. The Plan notes that the government should be compensated for its continued support through a periodic commitment fee.

The Plan also indicates that FHFA should begin the process of ending the GSE conservatorships. It recommends that the Purchase Agreements be amended to enhance Treasury's ability to mitigate the risk of a draw on the commitments after the conservatorships have ended. It also indicates that other Purchase Agreement amendments should ensure that each GSE continues to be subject to appropriate mission and safety and soundness regulation after conservatorship and that future GSE activities are limited to those that have a close nexus to the underlying rationale for government support.

Treasury has indicated that it will continue to support FHFA's administrative actions to enhance regulation of the GSEs, promote private sector competition, and satisfy preconditions for ending the GSEs' conservatorships. We cannot predict whether Congress will enact legislation or FHFA will take administrative action that is consistent with these recommendations.

CONTRACTUAL OBLIGATIONS

Our contractual obligations affect our short- and long-term liquidity and capital resource needs. The table below provides aggregated information about the listed categories of our contractual obligations as of December 31, 2019. The table includes information about undiscounted future cash payments due under these contractual obligations, aggregated by type of contractual obligation, including the contractual maturity profile of our debt securities (other than debt securities of consolidated trusts held by third parties, STACR transactions, and SCR notes). The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases.

The amounts of future interest payments on debt securities outstanding at December 31, 2019 are based on the contractual terms of our debt securities at that date. These amounts were determined using certain assumptions, including that variable-rate debt continues to accrue interest at the contractual rates in effect at December 31, 2019 until maturity and callable debt continues to accrue interest until its contractual maturity. Accordingly, the amounts presented in the table do not represent a forecast of our future cash interest payments or interest expense.

Our contractual obligations include purchase obligations that are enforceable and legally binding, and exclude contracts that we may cancel without penalty. We include our purchase obligations through the termination date specified in the respective agreement, even if the contract is renewable.

The table excludes certain obligations that could significantly affect our short- and long-term liquidity and capital resource needs. These items, which are listed below, have generally been excluded because the amount and timing of the related future cash payments are uncertain:

- Future payments of principal and interest related to debt securities of consolidated trusts held by third parties because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain. These payments generally include payments of principal and interest we make to the holders of our guaranteed mortgage-related securities in the event a loan underlying a security becomes delinquent. We remove loans from pools underlying our securities in certain circumstances, including when loans are 120 days or more delinquent, and retire the associated debt securities of consolidated trusts;
- Future payments of principal and interest related to STACR transactions and SCR notes, as well as payment of premiums related to ACIS transactions and payments to support the interest due on STACR Trust notes, because the amount and timing of such payments are contingent upon the occurrence of future events on the reference pool of mortgage loans and are therefore uncertain;
- Future cash payments associated with the liquidation preference of the senior preferred stock, the quarterly commitment fee (which has been suspended), and dividends on the senior preferred stock;
- Future cash settlements on derivative agreements not yet accrued, because the amount and timing of such payments are dependent upon items such as changes in interest rates;
- Future dividends on outstanding preferred stock (other than the senior preferred stock), because dividends on these securities are non-cumulative and because we are currently prohibited from paying dividends on these securities; and
- The guarantee payments and commitments to advance funds pertaining to off-balance sheet arrangements.

Table 74 - Contractual Obligations

(In millions)	Total	2020	2021	2022	2023	2024	Thereafter
Other long-term debt(1)	$156,381	$45,133	$30,069	$23,185	$13,413	$26,966	$17,615
Other short-term debt(1)	111,080	111,080	—	—	—	—	—
Interest payable(2)	20,933	10,066	2,345	1,828	1,461	1,159	4,074
Other contractual liabilities reflected on our consolidated balance sheets(3)	3,243	2,550	386	94	8	9	196
Purchase obligations:							
Purchase commitments(4)	47,381	44,559	1,128	1,315	379	—	—
Other purchase obligations(5)	380	170	96	56	29	20	9
Lease obligations	93	17	13	10	8	8	37
Total specified contractual obligations	**$339,491**	**$213,575**	**$34,037**	**$26,488**	**$15,298**	**$28,162**	**$21,931**

(1) Represents par value. Callable debt is included in this table at its contractual maturity. For additional information about our debt, see **Note 8**.

(2) Includes estimated future interest payments on our short-term and long-term debt securities as well as the accrual of periodic cash settlements of derivatives, netted by counterparty. Also includes accrued interest payable recorded on our consolidated balance sheet.

(3) Includes (i) obligations related to our qualified and non-qualified defined contribution plans, retiree medical plan, and other benefit plans; (ii) future cash payments due under our contractual obligations to make delayed equity contributions to LIHTC partnerships; and (iii) payables to the consolidated trusts established for the administration of cash remittances received related to the underlying assets of Freddie Mac mortgage-related securities.

(4) Purchase commitments represent our obligations to purchase loans and mortgage-related securities from third parties, most of which are accounted for as derivatives in accordance with the accounting guidance for derivatives and hedging. Future cash payments for certain purchase commitments are based on the contractual maturity date.

(5) Primarily includes unconditional purchase obligations that are legally binding and that are subject to a cancellation penalty.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or that may be recorded in amounts that differ from the full contract or notional amount of the transaction and that may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets. See **Note 3** and **Note 5** for more information on our off-balance sheet securitization and guarantee activities.

Securitization Activities and Other Guarantees

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed loans and mortgage-related securities, though most of our securitization activities are on-balance sheet. Our off-balance sheet arrangements related to these securitization activities primarily consist of K Certificates and SB Certificates. We also have off-balance sheet arrangements related to certain other securitization products and other mortgage-related guarantees.

Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and guarantees is primarily represented by the UPB of the underlying loans and securities, which was $296.5 billion and $254.9 billion at December 31, 2019 and December 31, 2018, respectively. The amount as of December 31, 2019 excludes Fannie Mae securities backing Freddie Mac resecuritization products discussed below.

With the implementation of the Single Security Initiative, we now have the ability to commingle TBA-eligible Fannie Mae collateral in certain of our resecuritization products. When we resecuritize Fannie Mae securities in our commingled resecuritization products, our guarantee covers timely payments of principal and interest on such securities. Accordingly, commingling Fannie Mae collateral in our resecuritization transactions increases our off-balance sheet exposure as we do not have control over the Fannie Mae collateral.

As of December 31, 2019, the total amount of our off-balance sheet exposure related to Fannie Mae securities backing Freddie Mac resecuritization products was approximately $27.4 billion. We expect this exposure to increase over time.

As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as "liquidity guarantees," which were $5.5 billion and $6.7 billion at December 31, 2019 and December 31, 2018, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. At both December 31, 2019 and December 31, 2018, there were no liquidity guarantee advances outstanding.

Our exposure to losses on the transactions described above would be partially mitigated by the recovery we would receive through exercising our rights to the collateral backing the underlying loans and the available credit enhancements. In addition, we provide for incurred losses each period on these guarantees within our provision for credit losses.

Other Agreements

We own interests in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets. Our consolidated balance sheets reflect only our investment in the VIEs, rather than the full amount of the VIEs' assets and liabilities.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. For more information, see **Risk Management - Counterparty Credit Risk** ***- Financial Intermediaries, Clearinghouses, and Other Counterparties - Derivative Counterparties*** and **Note 9**. We also enter into purchase commitments primarily related to future guarantor swap transactions for single-family loans, and, to a lesser extent, index lock commitments and commitments to purchase or guarantee multifamily loans. These non-derivative commitments totaled $450.1 billion and $382.1 billion in notional value at December 31, 2019 and December 31, 2018, respectively.

In connection with the execution of the Purchase Agreement, we, through FHFA, in its capacity as Conservator, issued a warrant to Treasury to purchase 79.9% of our common stock outstanding on a fully diluted basis on the date of exercise. See **Note 11** for further information.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make a number of judgments, estimates, and assumptions that affect the reported amounts within our consolidated financial statements. Certain of our accounting policies, as well as estimates we make, are critical, as they are both important to the presentation of our financial condition and results of operations and require management to make difficult, complex, or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates, and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements.

Our critical accounting policies and estimates relate to the single-family allowance for loan losses and fair value measurements. For additional information about our critical accounting policies and estimates and other significant accounting policies, as well as recently issued accounting guidance, see **Note 1**.

Single-Family Allowance for Loan Losses

The single-family allowance for loan losses represents an estimate of probable incurred credit losses. The single-family allowance for loan losses pertains to all single-family loans classified as held-for-investment on our consolidated balance sheets.

Determining the appropriateness of the single-family allowance for loan losses is a complex process that is subject to numerous estimates and assumptions requiring significant management judgment about matters that involve a high degree of subjectivity. This process involves the use of models that require us to make judgments about matters that are difficult to predict, the most significant of which are the probability of default, prepayment, and loss severity. We regularly evaluate the underlying estimates and models we use when determining the single-family allowance for loan losses and update our assumptions to reflect our historical experience and current view of economic factors. See **Risk Factors - Operational Risks - *We face risks and uncertainties associated with the models that we use to inform business and risk management decisions and for financial accounting and reporting purposes***.

We believe the level of our single-family allowance for loan losses is appropriate based on internal reviews of the factors and methodologies used. No single statistic or measurement determines the appropriateness of the allowance for loan losses. Changes in one or more of the estimates or assumptions used to calculate the single-family allowance for loan losses could have a material impact on the allowance for loan losses and provision for credit losses.

Most single-family loans are aggregated into pools based on similar risk characteristics and measured collectively using a statistically based model that evaluates a variety of factors affecting collectability, including but not limited to current LTV ratios, trends in home prices, loan product type, delinquency/default status and history, and geographic location. Inputs used by the model are regularly updated for changes in the underlying data, assumptions, and market conditions. We review the output of this model by considering qualitative factors such as macroeconomic and other factors to see whether the model outputs are consistent with our expectations. Management adjustments may be necessary to take into consideration external factors and current economic events that have occurred but that are not yet reflected in the factors used to derive the model outputs. Significant judgment is exercised in making these adjustments.

Some examples of the qualitative factors considered include:

- Regional housing trends;
- Applicable home price indices;
- Unemployment and employment dislocation trends;
- The effects of changes in government policies and programs;
- Industry trends;
- Consumer credit statistics;
- Third-party credit enhancements; and
- Natural disasters (such as hurricanes and wildfires).

The inability to realize the benefits of our loss mitigation activities, a lower realized rate of seller/servicer repurchases, declines in home prices, deterioration in the financial condition of our mortgage insurers, or increases in delinquency rates would cause our losses to be significantly higher than those currently estimated.

Individually impaired single-family loans include loans that have undergone a TDR and are measured for impairment as the excess of our recorded investment in the loan over the present value of the expected future cash flows. Our expectation of future cash flows incorporates many of the judgments indicated above.

Fair Value Measurements

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis. Assets and liabilities within our consolidated financial statements measured at fair value include:

- Mortgage-related and non-mortgage related securities;
- Certain loans held-for-sale;
- Derivative instruments; and
- Certain debt securities of consolidated trusts held by third parties and certain other debt.

The accounting guidance for fair value measurements establishes a framework for measuring fair value, and also establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the assumptions a market participant would use at the measurement date. Fair value measurements under this hierarchy are distinguished among quoted market prices, observable inputs, and unobservable inputs. The measurement of fair value requires management to make judgments and assumptions. The process for determining fair value using unobservable inputs is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. These judgments and assumptions may have a significant effect on our measurements of fair value, and the use of different judgments and assumptions, as well as changes in market conditions, could have a material effect on our consolidated statements of comprehensive income and consolidated balance sheets. See **Note 15** for additional information regarding fair value hierarchy and measurements, valuation risk, and controls over fair value measurement.

Risk Factors

The following section discusses material risks and uncertainties that could adversely affect our business, financial condition, results of operations, cash flows, reputation, strategies, and/or prospects.

CONSERVATORSHIP AND RELATED MATTERS

Freddie Mac's future is uncertain.

It is possible and perhaps likely that future legislative or regulatory action will materially affect our role in the mortgage industry, business model, structure, and results of operations. Some or all of our functions could be transferred to other institutions, and we could cease to exist as a stockholder-owned company, or at all. If any of these events occur, our shares could further diminish in value, or cease to have any value. Our stockholders may not receive any compensation for such loss in value.

Several bills have been introduced in past sessions of Congress concerning the future status of Freddie Mac, Fannie Mae, and the mortgage finance system, including bills which provided for the wind down of Freddie Mac and Fannie Mae, modification of the terms of the Purchase Agreement, or an increase in CRT transactions. While none of these bills has been enacted, it is likely that similar or new bills will be introduced and considered in the future. In addition, in September 2019, Treasury released a plan to reform the housing finance system, which includes recommended legislative and administrative reforms that would advance the reform goals outlined in the presidential memorandum issued in March 2019, including ending the conservatorships of Freddie Mac and Fannie Mae, facilitating competition in the housing finance system, establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to financial stability, and providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. It is possible that the Administration could take steps, even in the absence of legislative action, to implement certain aspects of such a plan.

The conservatorship is indefinite in duration. The timing, likelihood, and circumstances under which we might emerge from conservatorship are uncertain. Under the Purchase Agreement, Treasury would be required to consent to the termination of the conservatorship, except in connection with receivership, and there can be no assurance it would do so. Even if the conservatorship is terminated, we would remain subject to the Purchase Agreement and the terms of the senior preferred stock. It is possible that the conservatorship could end with our being placed into receivership.

Because Treasury holds a warrant to acquire nearly 80% of our common stock for nominal consideration, we could effectively remain under the control of the U.S. government even if the conservatorship ends and the voting rights of common stockholders are restored. If Treasury exercises the warrant, the ownership interest of our existing common stockholders will be substantially diluted.

In the past several years, numerous lawsuits have been filed against the U.S. government, Freddie Mac, and Fannie Mae challenging certain government actions related to the conservatorship and the Purchase Agreement. These lawsuits may add to the uncertainty surrounding our future.

For more information, see **MD&A - Regulation and Supervision -** ***Legislative and Regulatory Developments***, **Legal Proceedings** and **Note 16**.

FHFA and the Administration have announced that ending the conservatorships of Freddie Mac and Fannie Mae is one of their goals for housing finance reform. It remains uncertain whether or when, and the terms under which, we may exit from conservatorship.

We continue to take steps to help prepare Freddie Mac for a potential exit from conservatorship. We continue to increase our capital level as a result of the increase in the applicable Capital Reserve Amount under the Purchase Agreement to $20.0 billion. However, the increases in our capital level since September 30, 2019 pursuant to the September 2019 Letter Agreement have been or will be added to the aggregate liquidation preference of the senior preferred stock. In addition, in order to raise a sufficient level of capital, the applicable Capital Reserve Amount will need to be further increased or the terms of the senior preferred stock will need to be otherwise amended to allow us to retain and/or raise capital through equity offerings. It is uncertain whether or when we will be able to retain or raise sufficient capital for FHFA to end our conservatorship, and this may not happen for several years or at all. It is also uncertain whether our level of capital will be the only factor FHFA considers in deciding whether or when to end our conservatorship.

If we were to exit from conservatorship, our post-conservatorship capital, legal, and governance structure and the terms of our exit are unclear. In order to build sufficient capital, we may need to raise private capital through the issuance of new equity securities. The terms of any new securities offered, such as any new classes of preferred stock, could be onerous and could adversely affect long-term profitability. It may not be possible for us to raise private capital on acceptable terms, if at all, and may be particularly challenging so long as the senior preferred stock and warrant held by Treasury remain outstanding. In addition, actions taken by Treasury with respect to the senior preferred stock or exercise of the warrant could adversely affect our ability to raise capital. Treasury's imposition of a commitment fee for its ongoing support of our business could adversely affect our profitability and ability to raise private capital.

Further, actions taken by FHFA, the Administration, or Congress, pursuant to the Treasury Housing Reform Plan or otherwise, could change or limit our business activities, operations, or competitive landscape, which could adversely affect our business or financial results and render us a less attractive investment opportunity.

We cannot retain capital from the earnings generated by our business operations in excess of the applicable Capital Reserve Amount under the Purchase Agreement, which could result in our having to request additional draws from Treasury in future periods.

As a result of the net worth sweep dividend requirement, we cannot retain capital from the earnings generated by our business operations in excess of the applicable Capital Reserve Amount, which is currently $20.0 billion. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the applicable Capital Reserve Amount would thereafter be zero, and we would not be able to retain any capital from the earnings generated by our business. While in conservatorship, dividends we pay to Treasury are declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers, and privileges of the Board. Our inability to build and retain capital in excess of the applicable Capital Reserve Amount could cause us to require draws in future periods. A variety of factors could influence whether we could require a draw, including the following:

- Deterioration of economic conditions, including increased levels of unemployment and declines in home prices or family incomes;
- Adverse changes in interest rates, yield curves, implied volatility, or market spreads, which could affect our financial assets and liabilities, including derivatives, and increase realized and unrealized losses recorded in earnings or AOCI;
- The success of any transactions or other steps we may take intended to help reduce earnings variability and address some of the measurement differences between our GAAP financial results and the underlying economics of our business, including the adoption of hedge accounting;
- Limitations on the size of our mortgage-related investments portfolio, reductions of higher yielding assets, or other limitations on our investment activities that reduce our earnings capacity;
- Restrictions on our single-family guarantee activities that could reduce our income from these activities;
- Restrictions on the volume of multifamily business we may conduct or other limits on multifamily business activities that could reduce our income from these activities;
- Adverse changes in our liquidity, funding, or hedging costs or limitations on our access to public debt markets;
- A failure of one or more of our major counterparties to meet their obligations to us;
- The effects of our loss mitigation efforts and foreclosure and REO activities;
- Changes in accounting policies, practices, or guidance (e.g., our adoption of CECL);
- The occurrence of a major natural or other disaster in areas in which our offices or significant portions of our total mortgage portfolio are located; or
- Changes in business practices resulting from legislative and regulatory developments or direction from our Conservator.

Additional draws, which will increase the already substantial liquidation preference of our senior preferred stock and decrease the amount of Treasury's remaining commitment under the Purchase Agreement, may add to the uncertainty regarding our long-term financial sustainability.

FHFA, as our Conservator, controls our business activities. We may be required to take actions that reduce our profitability, are difficult to implement, or expose us to additional risk.

We are under the control of FHFA, as our Conservator, and are not managed to maximize stockholder returns. FHFA determines our strategic direction. We face a variety of different, and sometimes competing, business objectives and FHFA-mandated activities, such as the initiatives we are pursuing under the Conservatorship Scorecards. Some of the activities FHFA has required us to undertake have been costly and difficult to implement, such as our support of the CSP.

FHFA has required us to make changes to our business that have adversely affected our financial results and could require us to make additional changes at any time. For example, FHFA may require us to undertake activities that:

- Reduce our profitability;
- Expose us to additional credit, market, funding, operational, and other risks; or
- Provide additional support for the mortgage market that serves our public mission, but adversely affects our financial results.

FHFA also has required us to take other actions that may adversely affect our business or financial results, such as directing us to amend the CSS LLC agreement in January 2020. These amendments, which expanded the size of the CSS Board and removed the requirement that any CSS Board decision must be approved by at least one of the CSS Board members appointed by Freddie Mac, reduce our ability to control CSS Board decisions, even after conservatorship, including decisions about strategy, business operations, and funding. Under the revised CSS LLC agreement, the CSS Board will continue to include two Freddie Mac representatives and two Fannie Mae representatives, and it will also include two new members: the Chief Executive Officer of CSS and an independent, non-Executive Chair. During conservatorship, the CSS Board Chair will be designated by FHFA, and all CSS Board decisions will require the affirmative vote of the Board Chair. During conservatorship, FHFA also may appoint up to three additional independent members to the CSS Board, who along with the Board Chair and the Chief Executive Officer of CSS may continue to serve on the CSS Board after conservatorship. If FHFA appoints three additional CSS Board members, the CSS Board members we and Fannie Mae appoint could be outvoted by non-GSE designated Board members on any matter during conservatorship and on a number of significant matters, including approval of the annual budget and strategic plan for CSS (so long as they do not involve a material business change or involve capital contributions beyond those necessary to support CSS's ordinary business operations), if either we or Fannie Mae exits from conservatorship. It is possible that FHFA may require us to make additional changes to the CSS LLC agreement, or may otherwise impose restrictions or provisions relating to CSS or the UMBS, that may adversely affect us.

From time to time, FHFA has prevented us from engaging in business activities or transactions that we believe would be profitable, and it may do so again in the future. For example, FHFA could further limit the size of our mortgage-related investments portfolio or the amount of new multifamily business we may obtain, or it could establish limits on our single-family business.

Due to the reduced earnings capacity of our mortgage-related investments portfolio, we are placing greater emphasis on our guarantee activities to generate revenue. However, our ability to do so may be limited for several reasons. We may be required to adopt business practices that help serve our public mission and other non-financial objectives, but that may negatively affect our future financial results. Congress or FHFA may require us to set aside or otherwise pay monies to fund third-party initiatives, such as the existing requirement under the GSE Act that we allocate amounts for certain housing funds. The combination of the restrictions on our business activities and our potential inability to generate sufficient revenue through our guarantee activities to offset the effects of those restrictions may have an adverse effect on our results of operations and financial condition.

The Purchase Agreement and the terms of the senior preferred stock significantly limit our business activities.

The Purchase Agreement and the terms of the senior preferred stock place significant restrictions on our ability to manage our business, including limiting:

- The amount of indebtedness we may incur;
- The size of our mortgage-related investments portfolio; and
- Our ability to pay dividends, transfer certain assets, raise capital, and pay down the liquidation preference of the senior preferred stock.

The limitation on the size of our mortgage-related investments portfolio, as required by the Purchase Agreement and FHFA, and other limitations on our investment activity, including significant constraints on our ability to purchase or sell mortgage assets, will reduce the earnings capacity of our mortgage-related investments portfolio. The cap on our mortgage-related investments portfolio may, at times, force us to sell mortgage assets at unattractive prices. There can be no assurance that our current strategies will not have an adverse impact on our business or financial results. For more information, see **MD&A - Conservatorship and Related Matters** - ***Limits on Our Mortgage-Related Investments Portfolio and Indebtedness***.

The Purchase Agreement prohibits us from taking a variety of actions without Treasury's consent. Treasury has the right to withhold its consent for any reason. The warrant held by Treasury, the restrictions on our business under the Purchase Agreement, and the senior status and net worth sweep dividend provisions of the senior preferred stock could adversely affect our ability to attract capital from the private sector in the future, should we be in a position to do so.

If FHFA placed us into receivership, our assets would be liquidated. The liquidation proceeds might not be sufficient to pay claims outstanding against Freddie Mac, repay the liquidation preference of our preferred stock, or make any distribution to our common stockholders.

We can be put into receivership at the discretion of the Director of FHFA at any time for a number of reasons set forth in the GSE Act. Several bills considered by Congress in the past several years provided for Freddie Mac to be placed into receivership. In addition, FHFA could be required to place us into receivership if Treasury were unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth. Treasury might not be able to provide the requested funding if, for example, the U.S. government were not fully operational because Congress had failed to approve funding or the government had reached its borrowing limit. For more information, see **MD&A - Regulation and Supervision** - ***Federal Housing Finance Agency - Receivership***.

Being placed into receivership would terminate the conservatorship. The purpose of receivership is to liquidate our assets and resolve claims against us. The appointment of FHFA as our receiver would terminate all rights and claims that our stockholders and creditors might have against our assets or under our Charter as a result of their status as stockholders or creditors, other than possible payment upon our liquidation.

The GSE Act provides that, if we were placed into receivership, the receiver would hold the mortgages underlying our mortgage-related securities (and the payments thereon) for the benefit of the holders of those securities. However, payments on the mortgages underlying our mortgage-related securities might not be sufficient to make full payments of principal and interest on the securities. In that event, if we were unable to fulfill our guarantee, the holders of our mortgage-related securities would experience delays in receiving payments on the securities because the relevant systems are not designed to make partial payments.

If our assets were liquidated, the liquidation proceeds might not be sufficient to pay the secured and unsecured claims against us (including claims on our guarantees), repay the liquidation preference on any series of our preferred stock, or make any distribution to our common stockholders. Proceeds would first be applied to the secured and unsecured claims against the company, the administrative expenses of the receiver, and the liquidation preference of the senior preferred stock. Any remaining proceeds would then be available to repay the liquidation preference of other series of preferred stock. Only after the liquidation preference of all series of preferred stock is repaid would any proceeds be available for distribution to the holders of our common stock.

Our business and results of operations may be materially adversely affected if we are unable to attract and retain well-qualified, talented employees across the company. The conservatorship, the uncertainty of our future, and limitations on our compensation structure may put us at a disadvantage compared to other companies in attracting and retaining employees.

Our business is highly dependent on the talents and efforts of our employees. We face competition, particularly from the financial services and technology industries, for qualified talent. If we are unable to attract and retain talent, we increase our risk of operational failures.

Restrictions on employee compensation have been and may be imposed on us, while we remain in conservatorship, by Congress, FHFA, or Treasury. For example, FHFA as Conservator has the authority to approve the terms and amount of our executive compensation and may require us to make changes to our executive compensation program. In August 2019, FHFA directed us to limit base salaries for all of our employees to $600,000, and in September 2019, FHFA directed us to obtain conservator approval for any compensation arrangements for newly hired employees where the proposed target total direct compensation is $600,000 or above, or any increase in target total direct compensation for existing employees where the proposed target total direct compensation is $600,000 or above. These limitations on our employee compensation structure, as well as the ongoing conservatorship and uncertainty about our future, could have an adverse effect on our ability to attract and retain talent.

High-level departures, or a combination of such departures at approximately the same time, could materially adversely affect our business, results of operations, and financial condition. For example, turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and successfully implement our and FHFA's current strategic initiatives and could adversely affect our financial performance.

CREDIT RISK

We are subject to mortgage credit risk. Credit losses and costs related to this risk could adversely affect our financial results.

Mortgage credit risk is the risk that a borrower will fail to make timely payments on a loan we own or guarantee. This exposes us to the risk of credit losses and credit-related expenses, which could adversely affect our financial results. We are primarily exposed to mortgage credit risk with respect to the single-family and multifamily loans and securities reflected as assets on our consolidated balance sheets. We are also exposed to mortgage credit risk with respect to guaranteed securities and guarantee arrangements that are not reflected as assets on our consolidated balance sheets, including K Certificates, SB Certificates, and certain senior subordinate securitization structures.

We continue to have loans in our single-family credit guarantee portfolio with certain characteristics, such as Alt-A loans, interest-only loans, option ARM loans, loans with original LTV ratios greater than 90%, and loans to borrowers with credit scores less than 620 at the time of origination, that expose us to greater credit risk than other types of loans. See **MD&A - Risk Management - Single-Family Mortgage Credit Risk - *Monitoring Loan Performance and Characteristics*.** We also expect to continue acquiring loans with higher LTV ratios through our Home Possible initiatives, as well as loans with higher DTI ratios, generally up to 50%, which will increase our exposure to credit risk. Our efforts to increase eligible borrowers' access to single-family mortgage credit, including our affordable housing program and our plan for fulfilling our duty to serve underserved markets, expose us to increased mortgage credit risk.

We face significant risks related to our delegated underwriting process for single-family loans, including risks related to data accuracy and mortgage fraud. Changes to the process could increase our risks.

We delegate to our sellers the underwriting for the single-family loans we purchase or securitize. Our contracts with sellers describe mortgage eligibility and underwriting standards, and the sellers represent and warrant to us that the loans they deliver to us meet these standards. We do not independently verify most of the information provided to us before we purchase or securitize a loan. This exposes us to the risk that one or more of the parties involved in a transaction (such as the borrower, property seller, broker, appraiser, title agent, loan officer, or lender) misrepresented facts about the borrower, underlying property, or loan, or otherwise engaged in fraud.

We review a sample of loans after we purchase them to determine if they comply with our contractual standards. However, our review may not detect any misrepresentations by the parties involved in the transaction, deter loan fraud, or reduce our exposure to these risks.

We can exercise certain contractual remedies, including requiring repurchase of the loan, for loans that do not meet our standards. However, at the direction of FHFA, we have significantly revised our representation and warranty framework (including changes to remedies for certain defects) to relieve sellers of certain repurchase obligations in specific cases with respect to single-family loans. As a result, we may face greater exposure to credit and other losses under this revised framework, because our ability to seek recovery or repurchase from sellers is more limited and we must identify breaches of representations and warranties early in the life of the loan.

Our suite of tools, collectively referred to as Loan Advisor, offers limited representation and warranty relief for certain loan components that satisfy automated data analytics related to appraisal quality, collateral valuation, borrower assets, and borrower income. In general, limited representation and warranty relief is offered when information provided by the lender is validated against independent data sources. However, there is a risk that the enhanced tools and processes provided by Loan Advisor will not enable us to identify all breaches in a timely manner. For more information, see **MD&A - Risk Management - Single-Family Mortgage Credit Risk - *Maintaining Prudent Underwriting Standards and Quality Control Practices and Managing Seller/Servicer Performance*.**

Declines in national or regional home prices or other adverse changes in the housing market could negatively affect our business and financial results.

Our financial results and business volumes can be negatively affected by declines in home prices and other adverse changes in the housing market. This could:

- Reduce our return or result in losses on our single-family guarantee business, as default rates could be higher than we expected when we issued the guarantees;
- Negatively affect loan pricing, which could cause us to change our disposition strategies for our single-family seasoned loans; or
- Increase our losses on foreclosure alternatives, third-party sales, and dispositions of REO properties.

For more information regarding these risks, see **MD&A - Risk Management - Credit Risk.**

The proportion of our refinance loan purchases to total loan purchases could decrease if mortgage interest rates increase. This could increase our exposure to mortgage credit risk, as refinance loans (particularly those that do not involve "cash-out") generally present less credit risk than purchase loans. Some of our seller/servicer counterparties are highly dependent on refinance loan volumes. A decrease in such volumes could adversely affect these counterparties, which could increase our exposure to counterparty credit risk.

We are exposed to counterparty credit risk with respect to our business counterparties. Our financial results may be adversely affected if one or more of our counterparties fail to meet their contractual obligations to us.

We depend on our institutional counterparties to provide services that are critical to our business. We face the risk that one or more of our counterparties may fail to meet their contractual obligations to us. Our major counterparties include seller/servicers, credit enhancement providers, and counterparties to derivatives, short-term lending, and other funding transactions (e.g., cash and other investments transactions).

Many of our major counterparties provide several types of services to us. The concentration of our exposure to our counterparties remains high. Efforts we take to reduce exposure to financially weak counterparties could concentrate our exposure to other counterparties, increase our costs, and reduce our revenue. It is possible that our counterparties could experience challenging market conditions that could adversely affect their liquidity and financial condition and cause some of them to fail. Many of our counterparties are subject to increasingly complex regulatory requirements and oversight, which place additional stress on their resources and may affect their ability or willingness to do business with us.

Credit risk related to single-family seller/servicers

We are exposed to credit risk from the seller/servicers of our single-family loans, as described below.

- ***A decline in servicing performance* -** A decline in a servicer's performance, such as delayed foreclosures or missed opportunities for loan modifications, could significantly affect our ability to mitigate credit losses and could affect the overall credit performance of our single-family credit guarantee portfolio. A large volume of seriously delinquent loans, the complexity of the servicing function, and heightened liquidity requirements are significant factors contributing to the risk of a decline in performance by servicers. We could be adversely affected if our servicers lack appropriate controls, experience a failure in their controls, or experience a disruption in their ability to service loans, including as a result of legal or regulatory actions or ratings downgrades. We also are exposed to fraud by third parties in the loan servicing function, particularly with respect to short sales and other dispositions of non-performing assets.

  We could attempt to mitigate our exposure to a poorly performing servicer by terminating its right to service our loans; however, in a highly adverse economic environment, there could be a scarce capacity in the marketplace and we may not be able to find successor servicers who have the capacity to service the affected loans and who are also willing to assume the representations and warranties of the terminated servicer. In addition, terminating a large servicer may not be feasible because of the operational and capacity challenges related to transferring large servicing portfolios. There is also a possibility that the performance of some loans may degrade during the transition to new servicers. During a period of heightened delinquencies, we may incur costs and potential increases in servicing fees if we replace a servicer with a high concentration of loans in default which are more costly to service. We may also be exposed to concentrations of credit risk among certain servicers.
- ***A failure by seller/servicers to fulfill their obligations to repurchase loans or indemnify us as a result of breaches of representations and warranties* -** While we may have the contractual right to require a seller or servicer to repurchase loans from us, it may be difficult, expensive, and time-consuming to enforce such repurchase obligations. We could enter into settlements to resolve repurchase obligations; however, the amounts we receive under any such settlements may be less than the losses we ultimately incur on the underlying loans.

  Under our representation and warranty framework, revised as directed by FHFA, we are required in some cases to utilize an alternative remedy, such as indemnification, in lieu of repurchase. The amount we recover under an alternative remedy may be less than the amount we could have recovered in a repurchase.
- ***Increased exposure to non-depository and smaller financial institutions* -** A large and increasing volume of our single-family loans is acquired from and serviced by non-depository and smaller financial institutions. Some of these institutions may not have the same financial strength or operational capacity, or be subject to the same level of regulatory oversight, as large depository institutions. As a result, we face increased risk that these counterparties could fail to perform their obligations to us. In particular, non-depository servicers rapidly grew their servicing portfolios in the last several years. This appears to have resulted in operational strains that have subjected some of these servicers to regulatory scrutiny. This rapid growth could expose us to increased risks if any operational strain adversely affects these servicers' servicing performance or their financial strength. These institutions also service portfolios for other investors and guarantors and operational issues related to those portfolios could affect the performance of our portfolio. In addition, these servicers may not always have ready access to appropriate sources of liquidity to finance their operations, particularly during periods when the mortgage market is experiencing a downturn. If these servicers reduce their servicing portfolios, overall servicing capacity may be constrained.

Our seller/servicers also have a significant role in servicing loans in our multifamily mortgage portfolio. We are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause a decline in their servicing performance.

We are also exposed to settlement risk on the non-performance of sellers and servicers as a result of our forward settlement loan purchase programs in our single-family and multifamily businesses.

For more information, see **MD&A - Risk Management - Counterparty Credit Risk -** ***Sellers and Servicers*****.**

Credit risk related to counterparties to derivatives, funding, short-term lending, securities, and other transactions

We have significant exposure to institutions in the financial services industry relating to derivatives, funding, short-term lending, securities, and other transactions (e.g., cash and other investments transactions). These transactions are critical to our business, including our ability to:

- Manage interest-rate risk and other risks related to our investments in mortgage-related assets;
- Fund our business operations; and
- Service our customers.

We face the risk of operational failure of the clearing members, exchanges, clearinghouses, or other financial intermediaries we use to facilitate derivatives, short-term lending, securities, and other transactions. If a clearing member or clearinghouse were to fail, we could lose the collateral or margin posted with the clearing member or clearinghouse.

We are a clearing member of the clearinghouses through which we execute mortgage-related and Treasury securities transactions. As a result, we could be subject to losses because we are required to participate in the coverage of losses incurred by other clearing members if they fail to meet their obligations to the clearinghouse.

If our counterparties to short-term lending transactions fail, we are exposed to losses to the extent the transaction is unsecured or the collateral posted to us is insufficient.

Certain of our derivatives counterparties and a major derivatives clearinghouse are based in the United Kingdom. If these entities are adversely affected by Brexit, this could affect their ability to do business with us, potentially resulting in further concentration of our exposure to other derivative counterparties, as well as reduced liquidity and increased costs in the derivatives market.

For more information, see **MD&A - Risk Management - Counterparty Credit Risk -** ***Financial Intermediaries, Clearinghouses, and Other Counterparties - Other Counterparties*****.**

Credit risk related to credit enhancement providers

It is unlikely that we will receive full payment of our claims from a few of the mortgage insurers of single-family loans that we purchased prior to 2009, as these insurers are insolvent or are paying only a portion of our claims under our mortgage insurance policies. For more information, see **Note 14**.

If a mortgage insurer fails to meet its obligations to reimburse us for claims, our credit losses could increase. In addition, if a regulator determines that a mortgage insurer lacks sufficient capital to pay all claims when due, the regulator could take action that might affect the timing and amount of claim payments made to us. We face similar risks with respect to our counterparties on ACIS transactions.

We cannot differentiate pricing based on the strength of a mortgage insurer or revoke a mortgage insurer's status as an eligible insurer without FHFA approval. In addition, we generally do not select the mortgage insurance provider on a specific loan because the selection is usually made by the lender at the time the loan is originated. As a result, we could acquire a concentration of risk to certain insurance providers. We continue to acquire new loans with mortgage insurance from mortgage insurers that have credit ratings below investment grade.

For more information, see **MD&A - Risk Management - Counterparty Credit Risk -** ***Credit Enhancement Providers*****.**

Our loss mitigation activities may be unsuccessful or costly and may adversely affect our financial results.

Our loss mitigation activities may not be successful. The costs we incur related to loan modifications and other loss mitigation activities have been, and could continue to be, significant. For example, we generally bear the full cost of the monthly payment reductions related to modifications of loans we own or guarantee, as well as all applicable servicer incentive fees for our mortgage modifications.

We could be required to make changes to our loss mitigation activities that could make these activities more costly to us. FHFA, as Conservator, may continue to issue directives and Advisory Bulletins to assist borrowers and align servicing practices for the GSEs. These directives could make these activities more costly to us, especially with regard to loan modification initiatives. FHFA may continue to issue these directives for a variety of reasons, including consumer relief and alignment of the prepayment behavior of our and Fannie Mae's respective UMBS.

We have loans on trial period plans as required under certain loan modification programs. Some of these loans will fail to complete the trial period or fail to qualify for our other borrower assistance programs. For these loans, the trial period will have effectively delayed the foreclosure process and could increase our costs.

Many of our HAMP loans, which initially were set at a below-market interest rate, have provisions for the interest rates to increase gradually until they reach the market rate that was in effect at the time of the modification. The resulting increase in the borrowers' payments may increase the risk that these borrowers will default.

The type of loss mitigation activities we pursue could affect prepayments on our UMBS, 55-day MBS, PCs, and REMICs, which could affect the value of these securities or the earnings from mortgage-related assets in our Capital Markets segment mortgage investments portfolio. In addition, loss mitigation activities may adversely affect our ability to securitize, resecuritize, and sell the loans subject to those activities.

We devote significant resources to our borrower assistance initiatives. The size and scope of these efforts may compete with other business opportunities or corporate initiatives.

For more information on our loss mitigation activities, see **MD&A - Our Business Segments - Single-Family Guarantee - - *Business Results - Loss Mitigation Activities*** and **MD&A - Risk Management - Single-Family Mortgage Credit Risk - *Engaging in Loss Mitigation Activities*.**

We have been, and will continue to be, adversely affected by delays and deficiencies in the single-family foreclosure process.

The average length of time for foreclosure of a Freddie Mac loan has significantly increased since 2008, particularly in states that require a judicial foreclosure process, and may further increase. Delays in the foreclosure process could:

- Cause our expenses to increase. For example, properties awaiting foreclosure could deteriorate until we acquire them, resulting in increased expenses to repair and maintain the properties and
- Adversely affect trends in home prices regionally or nationally, which could adversely affect our financial results.

We are exposed to increased credit losses and credit related expenses in the event of a major natural disaster, other catastrophic event, or significant climate change effects.

The occurrence of a major natural or environmental disaster or similar catastrophic event, as well as significant climate change effects such as rising sea levels or wildfires, in an area where we own or guarantee mortgage loans or REO properties, especially in densely populated geographic areas, could increase our credit losses and credit related expenses. A natural disaster or catastrophic event or other significant climate change effect that either damages or destroys residential or multifamily real estate underlying mortgage loans or REO properties we own or guarantee, or negatively affects the ability of borrowers to continue to make payments on mortgage loans we own or guarantee, could increase our serious delinquency rates and average loan loss severity in the affected areas. Such events could have a material adverse effect on our business and financial results. We may not have adequate insurance coverage for some of these natural, catastrophic, or climate change-related events.

Our CRT transactions may not be available to us in adverse economic conditions. These transactions also lower our profitability.

We are increasingly using CRT transactions to mitigate some of our potential credit losses. Our ability to transfer credit risk (and the cost to us of doing so) could change rapidly depending on market conditions. In particular, it is possible that there will not be sufficient investor demand for CRT transactions at acceptable prices during a housing downturn. Some of our CRT transactions are new, and it is uncertain if there will be adequate demand for them over the long term. Some of these transactions use structures that have not yet been tested in adverse market conditions. It is possible that, under such conditions, they will provide less protection than we expect, and they may not prevent us from incurring substantial losses. Most of these transactions have termination dates that are earlier than the maturities of the related loans, and losses on the loans occurring beyond the terms of the transactions are not covered. The costs associated with these transactions are significant and may increase. For many of these transactions, there could be a significant difference in time between when we recognize a credit loss in earnings and when we recognize the related recovery in earnings, and this lag could adversely affect our financial results in the earlier period. For more information regarding these transactions, see **Note 4**.

MARKET RISK

Changes in interest rates could negatively affect the fair value of financial assets and liabilities, our results of operations, and our net worth.

Our financial results can be significantly affected by changes in interest rates.

Interest rates can fluctuate for many reasons, including changes in the fiscal and monetary policies of the federal government and its agencies as well as geopolitical events or changes in general economic conditions.

Changes in interest rates could adversely affect the cash flows and prepayment rates on assets that we own and related debt and derivatives. In addition, changes in interest rates could adversely affect the prepayment rate or default rate on the loans that we guarantee. For example:

- When interest rates decrease, borrowers are more likely to prepay their loans by refinancing them at a lower rate. An increased likelihood of prepayment on the loans underlying our mortgage-related securities may adversely affect the value of these securities.
- When interest rates increase:
  - Borrowers with higher risk adjustable-rate loans may have fewer opportunities to refinance into fixed-rate loans and
  - A borrower's payments on loans with adjustable payment terms, including any additional debt obligations (such as home equity lines of credit and second liens) with such terms, may increase, which in turn increases the risk that the borrower may default on a loan we own or guarantee.

Additionally, we issue callable debt instruments to manage the duration and prepayment risk of expected cash flows of the mortgage assets we own. We may exercise the option to repay the outstanding principal balance when interest rates decrease. However, we may replace the called debt at a higher spread rate due to the market conditions at that time. In the event we decide not to call our debt, we may incur higher hedging costs.

We incur costs to manage these risks, which may not be successful. Our interest-rate risk management activities are designed to reduce our economic exposure to changes in interest rates to a low level as measured by our models. However, the accounting treatment for certain of our assets and liabilities, including derivatives, creates variability in our earnings when interest rates fluctuate, as some assets and liabilities are measured at amortized cost and some are measured at fair value, while all derivatives are measured at fair value. This variability generally is not indicative of the underlying economics of our business.

We use hedge accounting for certain single-family mortgage loans and long-term debt, which is intended to reduce the interest-rate volatility in our GAAP earnings. Our single-family mortgage hedge accounting program is complex and unique in the industry. We may fail to properly implement this program and related changes to systems and processes. Even if implemented properly, our hedge accounting programs may not be effective in reducing earnings volatility, and our hedges may fail in any given future period, which could expose us to significant earnings variability in that period. In addition, changes in fair value of the hedged item related to discontinued fair value hedges that we have recognized on our consolidated balance sheet are amortized into earnings over the contractual life of the associated asset or liability and may adversely affect our earnings in future periods.

Changes in market spreads could negatively affect the fair value of financial assets and liabilities, our results of operations, and net worth.

Changes in market conditions, including changes in interest rates, liquidity, prepayment, and/or default expectations and the level of uncertainty in the market for a particular asset class, may cause fluctuations in market spreads (also referred to as OAS). Our financial results and net worth can be significantly affected by changes in market spreads, especially results driven by financial instruments that are measured at fair value. These instruments include trading securities, available-for-sale securities, derivatives, loans held-for-sale, and loans and debt with the fair value option elected.

A widening of the market spreads on a given asset is typically associated with a decline in the fair value of that asset, which may adversely affect our near-term financial results and net worth. While wider market spreads may create favorable investment opportunities, our ability to take advantage of any such opportunities is limited due to various restrictions on our mortgage-related investments portfolio activities. See **MD&A - Conservatorship and Related Matters - *Limits on Our Mortgage-Related Investments Portfolio and Indebtedness.***

A narrowing or tightening of the market spreads on a given asset is typically associated with an increase in the fair value of that asset. Narrowing market spreads may reduce the number of attractive investment opportunities and could increase the cost of our activities to support the liquidity and price performance of our UMBS and other securities. Consequently, a tightening of the market spreads on our assets may adversely affect our future financial results and net worth.

Changes in market spreads also affect the fair value of our debt with the fair value option elected. A narrowing or tightening of the market spreads on a given liability is typically associated with an increase in the fair value of that liability, which is recognized as a loss by us.

The discontinuance of LIBOR after 2021, or before the end of 2021 if LIBOR is deemed unreliable, could negatively affect the fair value of our financial assets and liabilities, results of operations, and net worth. A transition to an alternative reference interest rate could present operational problems, subject us to increased litigation risk, and result in market disruption. We may be unable to take a consistent approach across our financial products.

We are not able to predict whether LIBOR will actually cease to exist after 2021, whether SOFR will become the market-accepted benchmark in its place, or what impact such a transition may have on our business, results of operations, and financial condition. The transition from LIBOR could affect the financial performance of instruments we hold, require changes to hedging strategies, and adversely affect our financial performance. We have various financial products, including mortgage loans, mortgage-related securities, other debt securities, and derivatives, that are tied to LIBOR, and we continue to enter into transactions involving many of these products that will mature after 2021. While the documentation for certain of these products provides us with discretion to select an alternative reference rate if LIBOR is discontinued, there is a possibility of disputes arising with investors and counterparties concerning our exercise of this discretion. In certain cases, the documentation may not provide us with discretion to select an alternative reference rate if LIBOR is discontinued or our discretion may be limited, creating uncertainty and the risk of legal disputes. These potential challenges in implementing alternative reference rates could result in investors and counterparties acquiring fewer products and entering into fewer transactions, which could adversely affect our business. The large volume of products and transactions that may require changes to documentation or remediation could present substantial operational and legal challenges and result in significant costs. We may be unable to have a consistent approach to a LIBOR transition, including within a particular class of products, which could disrupt the market for that product. It is possible that actions we take in connection with the discontinuance of LIBOR, including the adoption of an alternative reference rate for certain products, could subject us to basis risk, monetary losses, and possible litigation.

The use of SOFR as the alternative reference rate for LIBOR-based products currently presents certain market concerns. Among the concerns, a term structure for SOFR has not yet been developed and there is not yet a generally accepted methodology for adjusting SOFR so that it will be substantially comparable to LIBOR. SOFR represents an overnight, risk-free rate, whereas LIBOR has various tenors and reflects a credit risk component. There is no guarantee that a market-accepted term structure for SOFR will exist prior to any discontinuance of LIBOR. In addition, recent volatility in the SOFR index has raised concerns among certain market participants about the transition to SOFR as an alternative reference rate. It is uncertain what other rates might be appropriate to use and how soon widespread market adoption of SOFR will occur. Although the majority of the single-family ARMs and multifamily floating-rate loans that we currently purchase is tied to LIBOR, we also currently purchase single-family ARMs tied to constant maturity Treasury indices published by the Federal Reserve Board. On February 5, 2020, we announced that we will cease purchasing single-family ARMs and multifamily floating-rate loans tied to LIBOR in 4Q 2020, and we announced our intention to develop a plan to cease purchasing single-family ARMs tied to constant maturity Treasury indices, which we anticipate will be implemented in 2021 upon guidance from FHFA. It is uncertain how long it will take affected market participants to develop the systems and processes necessary to originate and sell ARMs and floating-rate loans tied to SOFR or any other new indices that may be developed, which may cause a reduction in our purchase of single-family ARMs and multifamily floating-rate loans after these changes are implemented. Inconsistent approaches to a transition from LIBOR to an alternative rate among different market participants and for different financial products may cause market disruption and operational problems, which could adversely affect us, including by exposing us to increased basis risk and resulting in increased costs in connection with our hedging and other business activities.

As described above, we have identified material exposures to LIBOR but cannot reasonably estimate the expected impact of such exposure. For additional information regarding the actions we have taken to prepare for an orderly transition from LIBOR, see **MD&A - Risk Management - Market Risk -** ***Transition from LIBOR***.

OPERATIONAL RISKS

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation, and cause losses.

We face significant levels of operational risk due to a variety of factors, including the size and complexity of our business operations, the amount of change to our core systems required to keep pace with regulatory and other requirements and business initiatives, and the ever-changing cybersecurity landscape. Shortcomings or failures in our internal processes, people, or systems, or those of third parties with which we interact, could lead to impairment of our liquidity, disruption of our business (e.g., issuing mortgage and/or debt securities), incorrect payments to investors in our securities, errors in our financial statements, liability to customers or investors, further legislative or regulatory intervention, reputational damage, and financial and economic loss.

Our business is highly dependent on our ability to process a large number of transactions on a daily basis and manage and analyze significant amounts of information, much of which is provided by third parties. This information may be incorrect, or we may fail to properly manage or analyze it.

The transactions we process are complex and are subject to various legal, accounting, and regulatory standards, which can change rapidly in response to external events, such as the implementation of government-mandated programs and changes in market conditions. Our financial, accounting, data processing, or other operating systems and facilities may contain design flaws or may fail to operate properly, adversely affecting our ability to process these transactions, including our ability to compile and process legally required information. We have certain systems that require manual support and intervention, which may lead to heightened risk of system failures. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives or improve existing business activities.

Our technological connections with our customers, counterparties, service providers, and other financial institutions continue to increase, which increases our risk exposure with respect to an operational failure of their infrastructure systems. We have developed, and expect to continue to develop, software tools for use by our customers in the customers' loan production and other processes. These tools may fail to operate properly, which could disrupt our or our customers' business and adversely affect our relationships with our customers.

We are in the process of migrating a number of our core information technology and other systems and customer-facing applications to a third-party cloud infrastructure platform. If we do not execute the transition to these new environments in a well-managed, secure, and effective manner, we may experience unplanned service disruption or unforeseen costs which may harm our business and operating results. In addition, our cloud infrastructure providers, or other service providers, could experience system breakdowns or failures, outages, downtime, cyber-attacks, adverse changes to financial condition, bankruptcy, or other adverse conditions, which could have a material adverse effect on our business and reputation. Thus, our plans to increase the amount of our infrastructure that we outsource to the cloud or to other third parties may increase our risk exposure.

We face increased operational risk due to the magnitude and complexity of the new initiatives we are undertaking, including our efforts to help build a better housing finance system. Some of these initiatives require significant changes to our operational systems. In some cases, the changes must be implemented within a short period of time. Our legacy systems may create increased operational risk for these new initiatives. Internal corporate reorganizations, such as the VERP, may also increase our operational risk, particularly during the period of implementation.

We also face significant risks related to CSS and the operation and continued development of the CSP. We rely on CSS and the CSP (which is owned and operated by CSS) for the operation of our single-family securitization activities. Our business activities would be adversely affected and the market for Freddie Mac securities would be disrupted if the CSP were to fail or otherwise become unavailable to us or if CSS were unable to perform its obligations to us, including as a result of an operational failure by Fannie Mae. In the event of a CSS operational failure, we may be unable to issue certain new single-family mortgage-related securities, and investors in mortgage-related securities hosted on the CSS platform may experience payment delays. Any measures we could take to mitigate these risks might not be sufficient to prevent our business from being harmed. We update our internal systems and processes on a regular basis, including to improve existing processes and respond to market and regulatory developments. We could be adversely affected if CSS and/or the CSP are unable to make any necessary corresponding changes to their systems and processes in a timely manner.

Our employees could act improperly for their own or third-party gain and cause unexpected losses or reputational damage. While we have processes and systems in place designed to prevent and detect fraud, these processes may not be successful.

Most of our key business activities are conducted in our offices in Virginia and represent a concentrated risk of people, technology, and facilities. As a result, an infrastructure disruption in or around our offices or affecting the power grid, such as from a terrorist event, active shooter, or natural disaster, could significantly adversely affect our ability to conduct normal business operations. Any measures we take to mitigate this risk may not be sufficient to respond to the full range of events that may occur or allow us to resume normal business operations in a timely manner.

Potential cybersecurity threats are changing rapidly and growing in sophistication. We may not be able to protect our systems or the confidentiality of our information from cyberattack and other unauthorized access, disclosure, and disruption.

Our operations rely on the secure, accurate, and timely receipt, processing, storage, and transmission of confidential and other information in our computer systems and networks and with customers, counterparties, service providers, and financial institutions.

Information risks for companies like ours have significantly increased in recent years, in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, and other external parties, including foreign state-sponsored actors. There have been several highly publicized cases involving financial services companies, consumer-based companies, and other organizations reporting the unauthorized disclosure of client, customer, or other confidential information, as well as cyberattacks involving the dissemination, theft, or destruction of corporate information, intellectual property, cash, or other valuable assets. There have also been several highly publicized cases where hackers have requested "ransom" payments in exchange for not disclosing customer information or for not making the targets' computer systems unavailable. In addition, there have been cases where hackers have misled company personnel into making unauthorized transfers of funds to the hackers' accounts.

Like many companies and government entities, from time to time we have been, and likely will continue to be, the target of attempted cyberattacks, including malware, denial-of-service, and phishing, as part of an effort to disrupt operations, potentially test cybersecurity capabilities, or obtain confidential, proprietary, or other information. We could also be adversely affected by cyberattacks that target the infrastructure of the internet, as such attacks could cause widespread unavailability of websites and degrade website performance. Our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of these threats, our role in the financial services industry, the outsourcing of some of our business operations, and the current global economic and political environment.

Because we are interconnected with and dependent on third-party vendors, exchanges, clearinghouses, fiscal and paying agents, and other financial institutions, we could be adversely affected if any of them is subject to a successful cyberattack or other information security event. Third parties with which we do business may also be sources of cybersecurity or other technology risks. We routinely transmit and receive personal, confidential, and proprietary information by electronic means. This information could be subject to interception, misuse, or mishandling. Our exposure to these risks could increase as a result of our migration of core systems and applications to a third-party cloud environment.

Although we devote significant resources to protecting our critical assets and provide employee awareness training about phishing, malware, and other cyber risks, these measures may not provide effective security. Our computer systems, software, end point devices, and networks may be vulnerable to cyberattack, unauthorized access, supply chain disruptions, computer viruses or other malicious code, or other attempts to harm them or misuse or steal information. We routinely identify cyber threats as well as vulnerabilities in our systems and work to address them, but these efforts may be insufficient. Breaches of our security measures may result from employee error or misconduct. Outside parties may attempt to induce employees, customers, counterparties, service providers, financial institutions, or other users of our systems to disclose sensitive information in order to gain access to our systems and the information they contain. We may not be able to anticipate, detect, or recognize threats to our systems and assets, or implement effective preventative measures against security breaches, especially because the techniques used change frequently or are not recognized until launched.

A cyberattack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyberattack would take time, during which we would not necessarily know the extent of the harm or how best to remediate it. Although to date we have not experienced any cyberattacks resulting in significant impacts to the company, our cybersecurity risk management program may not prevent cyberattacks from having significant impacts in the future. We have obtained insurance coverage relating to cybersecurity risks, but this insurance may not be sufficient to provide adequate loss coverage.

The occurrence of one or more cyberattacks could result in thefts of important assets (such as cash or source code) or the unauthorized disclosure, misuse, or corruption of confidential and other information (including information about our borrowers, our customers, or our counterparties) or could otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. This could result in significant losses or reputational damage, adversely affect our relationships with our customers and counterparties, negatively affect our competitive position, or otherwise harm our business. We could also face regulatory and other legal action, including for any failure to provide timely disclosure concerning, or appropriately to limit trading in our securities following, an attack. We might be required to expend significant additional resources to modify our internal controls and other protective measures or to investigate and remediate vulnerabilities or other exposures, and we might be subject to litigation and financial losses that are not fully insured. In addition, customers, counterparties, financial intermediaries, and governmental organizations may not be adequately protecting the information that we share with them. As a result, a cyberattack on their systems and networks, or a breach of their security measures, may result in harm to our business and business relationships.

We rely on third parties for certain important functions. Any failures by those vendors and service providers (or other third parties that work for the vendors/service providers) could disrupt our business operations or expose us to loss of confidential information or intellectual property.

Our use of third-party service providers exposes us to the risk of failures in their risk and control environments. We outsource certain key functions to external parties, including some that are critical to financial reporting (including our use of hedge accounting), valuations, our mortgage-related investment activity, loan underwriting, loan servicing, and UMBS issuance and administration (i.e., CSS). We may enter into other key outsourcing relationships in the future and continue to expand our existing reliance on public cloud services. If one or more of these key external parties were not able to perform their functions for a period of time, perform them at an acceptable service level or handle increased volumes, or if one of them experiences a disruption in its own business or technology from any cause, our business operations could be constrained, disrupted, or otherwise negatively affected. Our use of third-party service providers also exposes us to the risk of losing intellectual property or confidential information and to other harm, including to our reputation. Our ability to monitor the activities or performance of third-party service providers may be constrained, which may make it difficult for us to assess and manage the risks associated with these relationships.

We face risks and uncertainties associated with the models that we use to inform business and risk management decisions and for financial accounting and reporting purposes.

We use models to project significant factors in our businesses, including, but not limited to, interest rates and house prices under a variety of scenarios. We also use models to project borrower prepayment and default behavior and loss severity over long periods of time. Models are inherently imperfect predictors of actual results. There is inherent uncertainty associated with model projections of economic variables and the downstream projections of prepayment and default behavior dependent on these variables.

Uncertainty and risks related to models may arise from a number of sources, including the following:

- We could fail to design, implement, operate, adjust, or use our models as intended. We may fail to code a model correctly, we could use incorrect or insufficient data inputs or fail to fully understand the data inputs, or model implementation software could malfunction. The complexity and interconnectivity of our models create additional risk regarding the accuracy of model output. We may not be able to deploy or update models in a timely manner.
- When market conditions change in unforeseen ways, our model projections may not accurately reflect these conditions, or we may not fully understand the model outputs. For example, models may not fully reflect the effect of certain government policy changes or new industry trends. In such cases, it is often necessary to make assumptions and judgments to accommodate the effect of scenarios that are not sufficiently well represented in the historical data. While we may adjust our models in response to new events, considerable residual uncertainty remains.
- We also use selected third-party models. While the use of such models may reduce our risk where no internal model is available, it exposes us to additional risk, as third parties typically do not provide us with proprietary information regarding their models. We have little control over the processes by which these models are adjusted or changed. As a result, we may be unable to fully evaluate the risks associated with the use of such models.

We risk making poor business decisions in situations where we rely on models to provide key information. Our use of models could affect decisions concerning the purchase, sale, securitization, and credit risk transfer of loans; the purchase and sale of securities; funding; the setting of guarantee fee prices; and the management of interest-rate, market, and credit risk. Our use of models also affects our quality-control sampling strategies for loans in our single-family credit guarantee portfolio and potential settlements with our counterparties. Our use of hedge accounting increases our reliance on models for financial reporting. See **MD&A - Risk Management - Market Risk** and **Critical Accounting Policies and Estimates** for more information on our use of models.

LIQUIDITY RISKS

Our activities may be adversely affected by limited availability of financing and increased funding costs.

The amount, type, and cost of our unsecured funding directly affects our interest expense and results of operations. A number of factors could make such financing more difficult to obtain, more expensive, or unavailable on any terms, including:

- Market and other factors;
- Changes in U.S. government support for us; and
- Reduced demand for our debt securities.

Market and Other Factors

Our ability to obtain funding in the public unsecured debt markets or by selling or pledging mortgage-related and other securities as collateral to other institutions could change rapidly or cease. The cost of available funding could increase significantly due to changes in market interest rates, market confidence, operational risks, regulatory requirements, and other factors.

Prolonged wide market spreads on long-term debt could cause us to reduce our long-term debt issuances and increase our reliance on short-term and callable debt issuances. Such increased reliance on short-term and callable debt could increase the risk that we may be unable to refinance our debt when it becomes due and result in a greater use of derivatives. Greater derivatives use could increase the variability of our comprehensive income or increase our credit exposure to our counterparties. Additionally, we may incur higher hedging costs in the event we decide not to call our debt.

We may incur higher funding costs due to our liquidity management practices and procedures. Our practices and procedures may not provide us with sufficient liquidity to meet our ongoing cash obligations under all circumstances. In particular, we believe that our liquidity contingency plans may be inadequate or difficult to execute during a liquidity crisis or period of significant market turmoil. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be significantly impaired or eliminated, as our alternative sources of liquidity (e.g., cash and other investments) may not be sufficient to meet our liquidity needs. We have limited ability to use the less liquid assets in our mortgage-related investments portfolio as a significant source of liquidity (e.g., through sales or as collateral in secured borrowing transactions).

We make extensive use of the Federal Reserve's payment system in our business activities. The Federal Reserve requires that we fully fund accounts at the Federal Reserve Bank of New York to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. Although we seek to maintain sufficient intraday liquidity to fund our activities through the Federal Reserve's payment system, we have limited access to cash once the debt markets are closed for the day. Insufficient cash may cause our account to be overdrawn, potentially resulting in penalties and reputational harm. Unlike certain of our competitors, we do not have access to the Federal Reserve's discount window.

Changes in U.S. Government Support

Treasury supports us through the Purchase Agreement and Treasury's ability to purchase up to $2.25 billion of our obligations under its permanent statutory authority. Changes or perceived changes in the U.S. government's support for us could have a severe negative effect on our access to the unsecured debt markets and our debt funding costs. Our access to the unsecured debt markets and the costs of our debt funding could be adversely affected by several factors relating to U.S. government support, including:

- Uncertainty about the future of the GSEs;
- Any concerns by debt investors that we face increasing risk of being placed in receivership; and
- Future draws that significantly reduce the amount of available funding remaining under the Purchase Agreement.

At such time as our Net Worth Amount exceeds the applicable Capital Reserve Amount of $20.0 billion, the amount of the net worth sweep dividends we pay to Treasury could vary substantially from quarter to quarter for a number of reasons, including as a result of non-cash changes in net worth. It is possible that, due to non-cash increases in net worth, such as increases in the fair value of our securities or a reduction in our loan loss reserves, the amount of our dividend for a quarter could exceed the amount of available cash, which could have an adverse effect on our financial results.

For more information, see **MD&A - Liquidity and Capital Resources - *Capital Resources.***

Reduced Demand for Debt Securities

If investor demand for our debt securities were to decrease, our liquidity, business, and results of operations could be materially adversely affected. The willingness of investors to purchase and hold our debt securities can be influenced by many factors, including changes in the world economy, changes in exchange rates, and regulatory and political factors, as well as the availability of and investor preferences for other investments. We compete for debt funding with Fannie Mae, the FHLBs, and other institutions. Our funding costs and liquidity contingency plans may also be affected by changes in the amount of, and demand for, debt issued by Treasury.

If investors were to reduce their purchases of our debt securities or divest their holdings, our funding costs could increase and our business activities could be curtailed. The market for our debt securities may become less liquid as a result of our having reached the Purchase Agreement limits on the size of our mortgage-related investments portfolio and the amount of our unsecured debt. This could lead to a decrease in demand for our debt securities and an increase in our funding costs.

See **MD&A - Our Business Segments - Capital Markets** for a description of our debt issuance programs.

Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business.

Our credit ratings are important to our liquidity. We currently receive ratings for our unsecured debt from three nationally recognized statistical rating organizations (S&P, Moody's, and Fitch). These ratings are primarily based on the support we receive from Treasury, and therefore are affected by changes in the credit ratings of the U.S. government. Any downgrade in the credit ratings of the U.S. government would be expected to be followed or accompanied by a downgrade in our credit ratings.

In addition to a downgrade in the credit ratings of or outlook on the U.S. government, several other events could adversely affect our debt credit ratings, including actions by governmental entities, changes in government support for us, future GAAP losses, and additional draws under the Purchase Agreement. Any such downgrades could lead to major disruptions in the mortgage and financial markets and to our business due to lower liquidity, higher borrowing costs, lower asset values, and higher credit losses, and could cause us to experience net losses and net worth deficits.

For more information, see **MD&A - Liquidity and Capital Resources -** ***Liquidity Profile - Primary Sources of Funding - Credit Ratings*****.**

LEGAL AND REGULATORY RISKS

Legislative or regulatory actions could adversely affect our business activities and financial results.

We operate in a highly regulated industry and are subject to heightened supervision from FHFA, as our Conservator. Our compliance systems and programs may not be adequate to ensure that we are in compliance with all legal and other requirements. We could incur fines or other negative consequences for inadvertent violations.

Our business may be directly adversely affected by future legislative, regulatory, or judicial actions at the federal, state, and local levels. Such actions could affect us in a number of ways, including by imposing significant additional legal, compliance, and other costs on us, limiting our business activities, and diverting management attention or other resources.

In particular, changes to our capital requirements could adversely affect our business and risk management strategies, including our risk appetite, our risk-adjusted returns such as ROCC, and the impact of our CRT transactions on our capital needs. Changes to our capital requirements could also negatively affect our ability to build capital to a level which FHFA would deem sufficient to end our conservatorship, such as by extending the time it will take for us to retain or raise such level of capital. Our existing regulatory capital requirements have been suspended by FHFA during conservatorship, but we have adopted FHFA's risk-based CCF guidelines to evaluate and manage our financial risk and to make economic business decisions while in conservatorship. The CCF has been and may be further revised by FHFA from time to time, including in connection with FHFA's consideration and adoption of a final Enterprise Capital Rule, which could result in material changes in the capital needed under the CCF during conservatorship as well as the capital requirements which will be applicable to us after conservatorship. In November 2019, FHFA announced that it plans to re-propose the Enterprise Capital Rule in 2020. We do not know what changes to the Enterprise Capital Rule FHFA may propose or eventually adopt.

We could also be negatively affected by legislative, regulatory, or judicial action that:

- Changes the foreclosure process;
- Limits or otherwise adversely affects the rights of a holder of a first lien on a mortgage (such as by granting priority rights in foreclosure proceedings for homeowner associations or providing a lien priority in connection with loans to finance energy efficiency or similar improvements);
- Expands the responsibilities of and costs to servicers for maintaining vacant properties prior to foreclosure; or
- Prevents us from using the MERS System or disrupts foreclosures of loans registered in the MERS System.

We are subject to complex and evolving laws and regulations governing privacy and the protection of personal information of individuals as well as the protection of material, non-public information. Our business could be adversely affected if we fail to protect the confidentiality of such information or if it is mishandled or misused.

Regulatory changes related to the Dodd-Frank Act, including expiration or modification of the temporary exemption for GSE-eligible mortgages included in the CFPB's Qualified Mortgage Rule, could cause or require us to make changes to our business practices, such as practices related to mortgage underwriting and servicing.

Legislation or regulatory actions could indirectly adversely affect us to the extent they affect the activities of banks, savings institutions, insurance companies, derivative counterparties, clearinghouses, securities dealers, and other regulated entities that constitute a significant portion of our customers or counterparties, or to the extent that they modify industry practices. Legislative or regulatory actions that remove incentives for these entities to purchase our securities or enter into derivatives or other transactions with us could have a material adverse effect on our business and financial results. Changes in business practices resulting from new laws and regulations could have a negative effect on the volume of loan originations or could modify or remove incentives for financial institutions to sell loans to us, either of which could adversely affect the number of loans available for us to purchase or guarantee.

In addition, the regulatory framework based on the Basel III standards developed by the Basel Committee on Banking Supervision could decrease demand for our debt and mortgage-related securities and/or affect competition in the market for loan originations and servicing, with possible adverse consequences for our business and financial results. Enhanced capital and liquidity requirements for banking organizations may also reduce the level of participation of such organizations in (and thus the liquidity of) trading markets for various types of financial instruments, including asset-backed securities. In turn, this could decrease the liquidity of the markets for our debt and mortgage-related securities, which could increase our funding and other costs and adversely affect our business.

We may make certain changes to our business in an attempt to meet our housing goals and duty to serve requirements, which may adversely affect our profitability.

We may make adjustments to our loan sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including modifying some of our underwriting standards and expanding the use of targeted initiatives to reach underserved populations. For example, we may purchase loans that offer lower expected returns on our investment and potentially increase our exposure to credit losses. We may also make changes to our business in response to our duty to serve underserved markets that could adversely affect our profitability.

If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could potentially adversely affect our profitability. Due to our failure to meet two single-family housing goals for 2014 and 2015, we operated under an FHFA-approved housing plan that addressed achievement of the missed goals through 2018. FHFA has determined that we met our affordable housing goals in 2018. However, FHFA will continue to closely monitor and evaluate our 2019 housing goal performance and could require us to take additional steps or operate under a housing plan again in the future.

We are involved in legal proceedings that could result in the payment of substantial damages or otherwise harm our business.

We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in governmental investigations and regulatory proceedings and IRS examinations. In addition, certain of our former officers are involved in legal proceedings for which they may be entitled to reimbursement by us for related costs and expenses. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, proceedings, investigations, or examinations. Any related issue, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. Furthermore, the costs (including settlement costs) related to these legal proceedings and governmental investigations and examinations may differ from our expectations and exceed our reserves or require adjustments to such reserves. These various matters could divert management's attention and other resources from the needs of the business. In addition, numerous lawsuits have been filed against the U.S. government relating to conservatorship and the Purchase Agreement that could adversely affect us. See **Legal Proceedings** and **Note 16** for information about these various pending legal proceedings.

OTHER RISKS

The loss of business from a key customer or a decrease in the availability of mortgage insurance could result in a decline in our market share and revenues.

Our business depends on our ability to acquire a steady flow of loans. We purchase a significant percentage of our single-family loans from several large loan originators. Similarly, we acquire a significant portion of our multifamily loans from several large lenders. For more information, see **Note 14**.

We enter into loan purchase commitments with many of our single-family customers that are typically less than one year in duration. Lenders may fail to deliver loans to us in accordance with their commitments. The loss of business from any of our major lenders could adversely affect our market share and revenues.

Our Charter requires that single-family loans with LTV ratios above 80% at the time of purchase be covered by mortgage insurance or other credit enhancements. If the availability of mortgage insurance for loans with LTV ratios above 80% is reduced, we may be restricted in our ability to purchase or securitize such loans. This could reduce our overall volume of new business.

Competition from banking and non-banking institutions (including Fannie Mae and FHA/VA with Ginnie Mae securitization) may harm our business. FHFA's actions, as Conservator of both companies, could affect competition between us and Fannie Mae.

Competition in the secondary mortgage market may make it more difficult for us to purchase mortgage loans. Increased competition from Fannie Mae, FHA/VA (with Ginnie Mae securitization), and new entrants may alter our product mix, lower our volumes, and reduce our revenues on new business.

We also compete with other financial institutions that retain or securitize loans, such as commercial and investment banks, dealers, savings institutions, and insurance companies. There is a risk that financial institutions may retain loans with better credit characteristics rather than sell them to us, or otherwise seek to structure financial transactions that result in our loan purchases having a higher proportion of loans with lower credit scores and higher LTV ratios. While we charge upfront fees for higher levels of credit risk, sellers' retention of loans with better credit characteristics could result in us having lower overall purchase volumes and a more adverse credit risk profile, reducing our revenues and returns.

FHFA is also Conservator of Fannie Mae, our primary competitor. FHFA's actions, as Conservator of both companies, could affect competition between us and Fannie Mae. It is possible that FHFA could require us and Fannie Mae to take a uniform approach that, because of differences in our respective businesses, could place Freddie Mac at a competitive disadvantage to Fannie Mae. FHFA also may prevent us from taking actions that could give us a competitive advantage.

We have faced increased competition in the multifamily market in recent years from life insurers, banks, CMBS conduits, and other market participants as multifamily market fundamentals have improved. FHFA may take actions that could encourage further competition or limit our ability to meet such competition.

A significant decline in the price performance of or demand for our UMBS could have an adverse effect on the volume and/or profitability of our new single-family guarantee business.

Historically, the price performance of our Gold PCs (the predecessor to the UMBS) relative to comparable Fannie Mae-issued securities was one of Freddie Mac's more significant risks and competitive issues. On June 3, 2019, in connection with the implementation of the Single Security Initiative, we ceased issuing Gold PCs and commenced issuing UMBS and non-TBA-eligible 55-day MBS. While the Single Security Initiative and the UMBS (which may be issued by Freddie Mac or Fannie Mae) are intended to reduce the pricing disparity between our securities and Fannie Mae's securities, we cannot ensure they will do so. For example, in certain cases, pricing disparities can exist due to differences in pool composition.

Our UMBS are an integral part of our loan purchase program. Our competitiveness in purchasing single-family loans from our sellers and the volume and profitability of our new single-family guarantee business are directly affected by the price performance of UMBS issued by us relative to comparable Fannie Mae-issued UMBS. If our UMBS were to trade at a discount relative to comparable Fannie Mae securities, such a difference in relative pricing could create an economic incentive for sellers to conduct a disproportionate share of their single-family business with Fannie Mae.

It is possible that a liquid market for our UMBS may not be sustained over the short- or long-term, which could adversely affect their price performance and our single-family market share. A significant reduction in our market share, and thus in the volume of loans that we securitize, or a reduction in the trading volume of our UMBS could reduce the liquidity of our UMBS. While we may decide to employ various strategies to support the liquidity and price performance of our UMBS, any such strategies may fail or adversely affect our business and financial results. We may cease any such activities at any time, or FHFA could require us to do so, which could adversely affect the liquidity and price performance of our UMBS. We may incur costs to support our presence in the agency securities market and to support the liquidity and price performance of our securities.

Liquidity-related price differences could occur between UMBS issued by us and comparable Fannie Mae-issued UMBS due to factors that are largely outside of our control. For example, the level of the Federal Reserve's purchases and sales of agency mortgage-related securities, including the balance sheet normalization program to reduce the Federal Reserve's holdings of mortgage-related securities, could affect the demand for and values of our UMBS. Therefore, any strategies we employ to reduce any liquidity-related price differences may not reduce or eliminate any such price differences over the long term.

We may experience price differences with Fannie Mae on individual new production pools of TBA-eligible mortgages, particularly with respect to specified pools and our multilender securities. From time to time, we may need to adjust our pricing for a particular new production pool category to maintain competitiveness with Fannie Mae with respect to the acquisition of such pools. Depending on the amount of pricing adjustments in any period, it is possible they could adversely affect the profitability of our single-family guarantee business for that period. For more information, see **MD&A - Our Business Segments - Capital Markets Segment -** ***Business Overview - Products and Activities***.

Implementation of the Single Security Initiative presents increased operational and counterparty risk. If the UMBS does not continue to receive widespread market acceptance, the liquidity and price performance of our single-family mortgage-related securities and our market share and profitability could be adversely affected.

As part of the new combined UMBS market, we have been required by FHFA to align certain of our single-family mortgage purchase offerings, servicing, and securitization programs, policies and practices with Fannie Mae to achieve market acceptance of the UMBS and other aspects of the Single Security Initiative, but we cannot provide any assurance that these efforts will reduce the pricing disparities discussed above over the long-term. These alignment activities may adversely affect our business and our ability to compete with Fannie Mae. We may be required to further align our business processes with those of Fannie Mae. Uncertainty concerning the extent of the alignment between Freddie Mac's and Fannie Mae's mortgage purchase, servicing, and securitization programs, policies, and practices may affect the degree to which the UMBS and other aspects of the Single Security Initiative receive widespread market acceptance.

If investors do not continue to accept the fungibility of Freddie Mac and Fannie Mae UMBS and instead prefer Fannie Mae UMBS over Freddie Mac UMBS, it could have a significant adverse impact on our business, liquidity, financial condition, net worth, and results of operations, and could adversely affect the liquidity or market value of our single-family mortgage-related securities.

We are offering an optional exchange program for security holders to exchange certain existing 45-day payment delay fixed-rate Gold PCs and Giant PCs for new 55-day payment delay Freddie Mac securities. As part of this program, we make a one-time payment to exchanging security holders for the value of the 10 additional days of payment delay, based on float compensation rates we calculate. We do not expect the return from this additional float to fully offset our payments to the security holders.

The Single Security Initiative has caused us to have counterparty credit exposure to Fannie Mae due to investors' ability to commingle certain Freddie Mac and Fannie Mae securities in resecuritizations. When we resecuritize Fannie Mae securities, our guarantee of timely principal and interest extends to the underlying Fannie Mae securities. In the event Fannie Mae were to fail to make a payment on a Fannie Mae security that we resecuritized, Freddie Mac would be responsible for making the payment. We do not control or limit the amount of resecuritized Fannie Mae securities that we could be required to guarantee. We are dependent on FHFA, Fannie Mae, and Treasury (pursuant to Fannie Mae's and our respective Purchase Agreements with Treasury) to avoid a liquidity event or default. We have not modified our liquidity strategies to address the possibility of non-timely payment by Fannie Mae.

We and Fannie Mae both rely on the Federal Reserve Banks to make payments on our respective mortgage-backed securities. As noted above, in the event Fannie Mae were to fail to make a payment on a Fannie Mae security that we resecuritized, Freddie Mac would be responsible for providing the Federal Reserve Banks with the funds to make the payment. If we failed to provide the Federal Reserve Banks with all funds to make such payment on such resecuritized Fannie Mae securities, the Federal Reserve Banks would not make any payment on any of our outstanding Freddie Mac-issued UMBS, Supers, REMICs, or other securities to be paid on that payment date, regardless of whether such Freddie Mac-issued securities were backed by Fannie Mae-issued securities.

The profitability of our multifamily business could be adversely affected by a significant decrease in demand for our K Certificates and SB Certificates.

Our current multifamily business model is highly dependent on our ability to finance purchased multifamily loans through securitization into K Certificates and SB Certificates. A significant decrease in demand for K Certificates and SB Certificates could have an adverse impact on the profitability of the multifamily business to the extent that our holding period for the loans increases and we are exposed to credit, spread, and other market risks for a longer period of time or receive reduced proceeds from securitization. We employ various strategies to support the liquidity of our K Certificates and SB Certificates, but those strategies may fail or adversely affect our business. We may cease such activities at any time, or FHFA could require us to do so, which could adversely affect the liquidity and price performance of our K Certificates and SB Certificates.

There may not be an active, liquid trading market for our equity securities.

Our common stock and the publicly traded classes of our preferred stock trade exclusively on the OTCQB Marketplace. Trading volumes on the OTCQB Marketplace can fluctuate significantly, which could make it difficult for investors to execute transactions in our securities and could cause declines or volatility in the prices of our equity securities.

Legal Proceedings

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See **Note 16** for more information regarding our involvement as a party to various legal proceedings. We discuss below certain litigation against the U.S. government concerning conservatorship and the Purchase Agreement.

Over the last several years, numerous lawsuits have been filed against the U.S. government and, in some cases, the Secretary of the Treasury and the Director of FHFA. These lawsuits challenge certain government actions related to the conservatorship (including actions taken in connection with the imposition of conservatorship) and the Purchase Agreement. Several of the lawsuits seek to invalidate the net worth sweep dividend provisions of the senior preferred stock, which were implemented pursuant to the August 2012 amendment to the Purchase Agreement. Some of these cases also have challenged the constitutionality of the structure of FHFA. A number of cases have been dismissed. Cases are currently pending in the U.S. Court of Federal Claims, the U.S. District Court for the Western District of Michigan, and the U.S. District Court for the Eastern District of Pennsylvania. One such case, filed in the U.S. District Court for the Southern District of Texas, was appealed to the U.S. Court of Appeals for the Fifth Circuit. On September 6, 2019, the Fifth Circuit, en banc, held that the plaintiffs plausibly alleged that FHFA exceeded its conservator powers by transferring Freddie Mac's future value (i.e., profits via the net worth sweep) to a single shareholder, Treasury, and remanded that cause of action to the District Court. The Fifth Circuit also held that the "for cause" removal provision for the director of FHFA was unconstitutional, and that the provision should be struck from the statute. On September 25, 2019, the plaintiffs filed a petition for writ of certiorari to the U.S. Supreme Court seeking review of the Fifth Circuit's decision. On October 25, 2019, the defendants also filed a petition for writ of certiorari seeking review of the Fifth Circuit's decision. In addition, plaintiffs are appealing a July 2018 order by the U.S. District Court for the District of Minnesota to dismiss the case in that Court.

Freddie Mac is not a party to any of these lawsuits. However, a number of other lawsuits have been filed against Freddie Mac concerning the August 2012 amendment to the Purchase Agreement. See **Note 16** for information on the lawsuits filed against Freddie Mac. Pershing Square Capital Management, L.P. (Pershing) is a plaintiff in one of the lawsuits filed against Freddie Mac. Pershing has filed reports with the SEC, most recently in March 2014, indicating that it beneficially owned more than 5% of our common stock. We do not know Pershing's current beneficial ownership of our common stock. For more information, see **Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**.

It is not possible for us to predict the outcome of these lawsuits (including the outcome of any appeal), or the actions the U.S. government (including Treasury and FHFA) might take in response to any ruling or finding in any of these lawsuits or any future lawsuits. However, it is possible that we could be adversely affected by these events, including, for example, by changes to the Purchase Agreement, or any resulting actual or perceived changes in the level of U.S. government support for our business.

Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

MARKET INFORMATION

Common Stock

Our common stock is traded in the over-the-counter market and quoted on the OTCQB, operated by OTC Markets Group Inc., under the ticker symbol "FMCC." Over-the-counter market quotations for our common stock reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

Holders

As of January 31, 2020, we had 1,610 common stockholders of record.

Recent Sales of Unregistered Securities

The securities we issue are "exempted securities" under the Securities Act of 1933. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

Following our entry into conservatorship, we suspended the operation of, and ceased making grants under, equity compensation plans. Previously, we had provided equity compensation under these plans to employees and members of our Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. At December 31, 2019, no stock options were outstanding. See **Note 11** for more information.

ISSUER PURCHASES OF EQUITY SECURITIES

We did not repurchase any of our common or preferred stock during 2019. Additionally, we do not currently have any outstanding authorizations to repurchase common or preferred stock. Under the Purchase Agreement, we cannot repurchase our common or preferred stock without Treasury's prior consent, and we may only purchase or redeem the senior preferred stock in certain limited circumstances set forth in the certificate of designation of the senior preferred stock.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.

P.O. Box 505000

Louisville, KY 40233-5000

Telephone: 877-373-6374

https://www-us.computershare.com/investor

Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Freddie Mac

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Freddie Mac, a stockholder-owned government sponsored enterprise, and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income (loss), of equity and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO because a material weakness in internal control over financial reporting existed as of that date related to disclosure controls and procedures that do not provide adequate mechanisms for information known to the Federal Housing Finance Agency (FHFA) that may have financial statement disclosure ramifications to be communicated to management of Freddie Mac.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Emphasis of Matter - Conservatorship

As discussed in Note 2, in September 2008, the Company was placed into conservatorship by FHFA. The U.S. Department of the Treasury (Treasury) has committed financial support to the Company, and FHFA, as Conservator, provided for the Board of Directors to perform certain functions and to oversee management and the Board delegated to management authority to conduct business operations during conservatorship. The Company is dependent upon the continued support of Treasury and FHFA.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Single-Family Allowance for Loan Losses

As described in Note 4 to the consolidated financial statements, as of December 31, 2019, the single-family allowance for loan losses was $4.2 billion. As disclosed by management, the single-family allowance for loan losses represents an estimate of probable incurred credit losses, which pertains to all single-family loans classified as held-for-investment, and determining the appropriateness of the single-family allowance for loan losses is a complex process that is subject to numerous estimates and assumptions requiring significant management judgment about matters that involve a high degree of subjectivity. This process involves the use of statistically based models that utilize recent historical experience, considers current business practices, and requires management to make judgments about matters that are difficult to predict, the most significant of which are probability of default, prepayment, and loss severity.

The principal considerations for our determination that performing procedures relating to the single-family allowance for loan losses is a critical audit matter are that the matter involved application of significant judgment and estimation on the part of management when determining the probability of default, prepayment, and loss severity assumptions. This led to a high degree of auditor judgment, subjectivity, and effort in performing our audit procedures and evaluating audit evidence. The audit effort involved the use of professionals with specialized skill and knowledge to assist with the evaluation of audit evidence related to the assumptions.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to the determination of the allowance for loan losses, including controls over the models, data, and significant assumptions. These procedures also included, among others, (i) testing management’s process for determining the allowance for loan loss estimate, (ii) testing the completeness, accuracy, and relevance of data used by management, including underlying loan portfolio data, historical loan data, macroeconomic data, and industry data, (iii) evaluating the reasonableness of significant assumptions, including probability of default, prepayment, and loss severity through comparison to historical loan data, macroeconomic data, and industry data, as applicable, and (iv) involving professionals with specialized skill and knowledge to assist in evaluating the appropriateness of the models used in the allowance for loan losses and evaluating the reasonableness of significant assumptions including probability of default, prepayment, and loss severity.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 13, 2020

We have served as the Company's auditor since 2002.

FREDDIE MAC

Consolidated Statements of Comprehensive Income (Loss)

(In millions, except share-related amounts)	Year Ended December 31, 2019	2018	2017
Interest income			
Mortgage loans	$68,583	$66,037	$63,735
Investments in securities	2,737	3,035	3,415
Other	1,575	982	657
Total interest income	**72,895**	**70,054**	**67,807**
Interest expense	(61,047)	(58,033)	(53,643)
Net interest income	**11,848**	**12,021**	**14,164**
Non-interest income (loss)			
Guarantee fee income	1,089	866	749
Investment gains (losses), net	818	1,921	1,160
Other income (loss)	323	762	4,984
Non-interest income (loss)	**2,230**	**3,549**	**6,893**
Net revenues	**14,078**	**15,570**	**21,057**
Benefit (provision) for credit losses	746	736	84
Non-interest expense			
Salaries and employee benefits	(1,434)	(1,227)	(1,098)
Professional services	(445)	(486)	(452)
Other administrative expense	(685)	(580)	(556)
Total administrative expense	(2,564)	(2,293)	(2,106)
Credit enhancement expense	(708)	(417)	(280)
REO operations expense	(229)	(169)	(189)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(1,617)	(1,484)	(1,340)
Other expense	(657)	(469)	(392)
Non-interest expense	**(5,775)**	**(4,832)**	**(4,307)**
Income (loss) before income tax (expense) benefit	**9,049**	**11,474**	**16,834**
Income tax (expense) benefit	(1,835)	(2,239)	(11,209)
Net income (loss)	**7,214**	**9,235**	**5,625**
Other comprehensive income (loss), net of taxes and reclassification adjustments			
Changes in unrealized gains (losses) related to available-for-sale securities	535	(722)	(253)
Changes in unrealized gains (losses) related to cash flow hedge relationships	71	114	124
Changes in defined benefit plans	(33)	(5)	62
Total other comprehensive income (loss), net of taxes and reclassification adjustments	**573**	**(613)**	**(67)**
Comprehensive income (loss)	**$7,787**	**$8,622**	**$5,558**
Net income (loss)	$7,214	$9,235	$5,625
Undistributed net worth sweep, senior preferred stock dividends, or future increase in senior preferred stock liquidation preference	(7,787)	(5,623)	(8,869)
Net income (loss) attributable to common stockholders	**($573)**	**$3,612**	**($3,244)**
Net income (loss) per common share — basic and diluted	($0.18)	$1.12	($1.00)
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,234	3,234

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

FREDDIE MAC

Consolidated Balance Sheets

(In millions, except share-related amounts)	As of December 31, 2019	2018
Assets		
Cash and cash equivalents (Notes 1, 3, 14) (includes $991 and $596 of restricted cash and cash equivalents)	$5,189	$7,273
Securities purchased under agreements to resell (Notes 3, 10)	66,114	34,771
Investments in securities, at fair value (Note 7)	75,711	69,111
Mortgage loans held-for-sale (Notes 3, 4) (includes $15,035 and $23,106 at fair value)	35,288	41,622
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of $4,234 and $6,139)	1,984,912	1,885,356
Accrued interest receivable (Note 3)	6,848	6,728
Derivative assets, net (Notes 9, 10)	844	335
Deferred tax assets, net (Note 12)	5,918	6,888
Other assets (Notes 3, 18) (includes $4,627 and $3,929 at fair value)	22,799	10,976
Total assets	**$2,203,623**	**$2,063,060**
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	$6,559	$6,652
Debt, net (Notes 3, 8) (includes $3,938 and $5,112 at fair value)	2,179,528	2,044,950
Derivative liabilities, net (Notes 9, 10)	372	583
Other liabilities (Notes 3, 18)	8,042	6,398
Total liabilities	**2,194,501**	**2,058,583**
Commitments and contingencies (Notes 5, 9, 16)		
Equity (Note 11)		
Senior preferred stock (redemption value of $79,322 and $75,648)	72,648	72,648
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,059,033 shares and 650,058,775 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(74,188)	(78,260)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $222 and $221, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	618	83
Cash flow hedge relationships	(244)	(315)
Defined benefit plans	64	97
Total AOCI, net of taxes	438	(135)
Treasury stock, at cost, 75,804,853 shares and 75,805,111 shares	(3,885)	(3,885)
Total equity *(See Note 11 for information on our dividend requirement to Treasury)*	**9,122**	**4,477**
Total liabilities and equity	**$2,203,623**	**$2,063,060**

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

(In millions)	As of December 31, 2019	2018
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		
Mortgage loans held-for-investment	$1,940,523	$1,842,850
All other assets	40,598	20,237
Total assets of consolidated VIEs	**$1,981,121**	**$1,863,087**
Liabilities: (Note 3)		
Debt, net	$1,898,355	$1,792,677
All other liabilities	5,537	5,335
Total liabilities of consolidated VIEs	**$1,903,892**	**$1,798,012**

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

FREDDIE MAC

Consolidated Statements of Equity

(In millions)	Shares Outstanding: Senior Preferred Stock	Shares Outstanding: Preferred Stock	Shares Outstanding: Common Stock	Senior Preferred Stock	Preferred Stock, at Redemption Value	Common Stock, at Par Value	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	AOCI, Net of Tax	Treasury Stock, at Cost	Total Equity
Balance at December 31, 2016	1	464	650	$72,336	$14,109	$—	$—	($77,941)	$456	($3,885)	$5,075
Comprehensive income (loss):											
Net income (loss)	—	—	—	—	—	—	—	5,625	—	—	5,625
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	—	—	(67)	—	(67)
Comprehensive income (loss)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5,625**	**(67)**	**—**	**5,558**
Senior preferred stock dividends paid	—	—	—	—	—	—	—	(10,945)	—	—	(10,945)
Ending balance at December 31, 2017	**1**	**464**	**650**	**$72,336**	**$14,109**	**$—**	**$—**	**($83,261)**	**$389**	**($3,885)**	**($312)**
Balance at December 31, 2017	1	464	650	$72,336	$14,109	$—	$—	($83,261)	$389	($3,885)	($312)
Comprehensive income (loss):											
Net income (loss)	—	—	—	—	—	—	—	9,235	—	—	9,235
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	—	—	(613)	—	(613)
Comprehensive income (loss)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9,235**	**(613)**	**—**	**8,622**
Cumulative effect of change in accounting principle(1)	—	—	—	—	—	—	—	(89)	89	—	—
Increase in liquidation preference	—	—	—	312	—	—	—	—	—	—	312
Senior preferred stock dividends paid	—	—	—	—	—	—	—	(4,145)	—	—	(4,145)
Ending balance at December 31, 2018	**1**	**464**	**650**	**$72,648**	**$14,109**	**$—**	**$—**	**($78,260)**	**($135)**	**($3,885)**	**$4,477**
Balance at December 31, 2018	1	464	650	$72,648	$14,109	$—	$—	($78,260)	($135)	($3,885)	$4,477
Comprehensive income (loss):											
Net income (loss)	—	—	—	—	—	—	—	7,214	—	—	7,214
Other comprehensive income (loss), net of taxes	—	—	—	—	—	—	—	—	573	—	573
Comprehensive income (loss)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**7,214**	**573**	**—**	**7,787**
Senior preferred stock dividends paid	—	—	—	—	—	—	—	(3,142)	—	—	(3,142)
Ending balance at December 31, 2019	**1**	**464**	**650**	**$72,648**	**$14,109**	**$—**	**$—**	**($74,188)**	**$438**	**($3,885)**	**$9,122**

(1) Includes the effect of adopting the accounting guidance on reclassification of stranded tax effects of the Tax Cuts and Jobs Act. See **Note 11** for additional information.

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

FREDDIE MAC

Consolidated Statements of Cash Flows

(In millions)	Year Ended December 31, 2019	2018	2017
Cash flows from operating activities			
Net income (loss)	$7,214	$9,235	$5,625
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of cost basis adjustments	(466)	(2,117)	(2,615)
(Benefit) provision for credit losses	(746)	(736)	(84)
Investment (gains) losses, net	(1,100)	(2,084)	(2,764)
Hedge accounting earnings mismatch	(288)	658	(357)
Deferred income tax expense (benefit)	817	1,391	7,773
Purchases of mortgage loans acquired as held-for-sale	(65,516)	(70,482)	(64,827)
Proceeds from sales of mortgage loans acquired as held-for-sale	71,557	66,889	61,744
Repayments of mortgage loans acquired as held-for-sale	517	494	306
Payments to servicers for pre-foreclosure expense and servicer incentive fees	(282)	(282)	(377)
Change in accrued interest receivable	(120)	(373)	(220)
Change in Interest payable	177	440	273
Change in income taxes receivable	712	(1,269)	1,912
Other, net	(279)	(1,090)	(2,165)
Net cash provided by (used in) operating activities	**12,197**	**674**	**4,224**
Cash flows from investing activities			
Purchases of trading securities	(102,169)	(131,977)	(160,333)
Proceeds from sales of trading securities	84,296	126,012	150,448
Proceeds from maturities and repayments of trading securities	14,528	11,375	8,570
Purchases of available-for-sale securities	(8,967)	(19,701)	(10,549)
Proceeds from sales of available-for-sale securities	12,978	21,952	23,034
Proceeds from maturities and repayments of available-for-sale securities	4,258	6,002	11,758
Purchases of held-for-investment mortgage loans	(228,628)	(151,836)	(126,162)
Proceeds from sales of mortgage loans held-for-investment	15,218	10,661	8,883
Repayments of mortgage loans held-for-investment	348,387	248,115	277,819
Advances under secured lending arrangements	(54,176)	(27,463)	(35,452)
Repayments of secured lending arrangements	1,275	1,592	—
Net proceeds from dispositions of real estate owned and other recoveries	1,150	1,336	1,861
Net (increase) decrease in securities purchased under agreements to resell	(31,343)	21,132	(4,355)
Derivative premiums and terminations, swap collateral, and exchange settlement payments, net	(8,163)	3,020	(538)
Other, net	(492)	(572)	(428)
Net cash provided by (used in) investing activities	**48,152**	**119,648**	**144,556**
Cash flows from financing activities			
Proceeds from issuance of debt securities of consolidated trusts held by third parties	264,373	217,574	191,638
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(351,099)	(275,402)	(303,142)
Proceeds from issuance of other debt	880,249	574,472	613,280
Repayments of other debt	(852,684)	(635,669)	(652,017)
Increase in liquidation preference of senior preferred stock	—	312	—
Payment of cash dividends on senior preferred stock	(3,142)	(4,145)	(10,945)
Other, net	(130)	(2)	(3)
Net cash provided by (used in) financing activities	**(62,433)**	**(122,860)**	**(161,189)**
Net (decrease) increase in cash and cash equivalents (includes restricted cash and cash equivalents)	(2,084)	(2,538)	(12,409)
Cash and cash equivalents (includes restricted cash and cash equivalents) at the beginning of year	7,273	9,811	22,220
Cash and cash equivalents (includes restricted cash and cash equivalents) at end of period	**$5,189**	**$7,273**	**$9,811**
Supplemental cash flow information			
Cash paid for:			
Debt interest	$70,918	$65,721	$63,574
Income taxes	306	2,125	1,872
Non-cash investing and financing activities (Notes 4, 7, and 8)			

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

Notes to Consolidated Financial Statements

NOTE 1

Summary of Significant Accounting Policies

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We are regulated by FHFA, the SEC, HUD, and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see **Note 2**. Throughout our consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the **Glossary**.

Basis of Presentation

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

We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with the authority provided by FHFA to our Board of Directors to oversee management's conduct of our business operations.

We have reclassified certain amounts in our prior periods' consolidated financial statements to conform to the current presentation as follows:

- Credit enhancement expense, which represents expenses incurred from freestanding credit enhancements, has been presented as a separate line item within non-interest expense, as the volume of freestanding credit enhancements has increased and become a more significant driver of our results of operations. In prior periods, freestanding credit enhancement expenses were recorded in other expenses;
- Mortgage loans gains (losses), investment securities gains (losses), debt gains (losses), and derivative gains (losses) have been aggregated and presented as a single amount, investment gains (losses), net, to more clearly show the net effect of these activities on our results of operations, as certain gains and losses on our assets and debt are generally offset by certain gains and losses on the derivatives we use to hedge them. In prior periods, these amounts were shown separately as individual line items, and we continue to present the detail of each individual line item in **Note 18**; and
- Certain other immaterial amounts have been reclassified between other income and guarantee fee income and other income and investment gains (losses), net to better align these amounts with the business drivers of the activity.

These reclassifications did not have a material impact on our financial condition or results of operations.

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

Use of Estimates

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

Consolidation and Equity Method Accounting

For each entity with which we are involved, we determine whether the entity should be consolidated in our financial statements. We generally consolidate entities in which we have a controlling financial interest. The method for determining whether a controlling financial interest exists varies depending on whether the entity is a VIE. For entities that are not VIEs, we hold a controlling financial interest in entities where we hold a majority of the voting rights or a majority of a limited partnership's kick-out rights through voting interests. We do not currently consolidate any entities which are not VIEs. We use the equity method to account for our interests in entities in which we do not have a controlling financial interest, but over which we have significant influence.

Cash and Cash Equivalents

Highly liquid investment securities that have an original maturity of three months or less are accounted for as cash equivalents. Original maturity means the original maturity to us when we acquire the investment, not the original maturity of the instrument itself. Cash collateral accepted from counterparties that we do not have the right to use for general corporate purposes is classified as restricted cash and cash equivalents on our consolidated balance sheets. Restricted cash and cash equivalents include cash remittances received from servicers of the underlying assets of our consolidated trusts which are deposited into a separate custodial account. We invest the cash held in the custodial account in short-term investments and are entitled to the interest income earned on these short-term investments, which is recorded as interest income, other on our consolidated statements of comprehensive income.

Comprehensive Income

Comprehensive income includes all changes in equity during a period, except those resulting from investments by stockholders. We define comprehensive income as consisting of net income (loss) plus after-tax changes in:

- Unrealized gains and losses on available-for-sale securities;
- Unrealized gains and losses related to cash flow hedge relationships; and
- Defined benefit plans.

Other Significant Accounting Policies

The table below identifies our other significant accounting policies and the related note in which information about them can be found.

Note	Accounting Policy
Note 3	Variable Interest Entities
Note 4	Mortgage Loans and Allowance for Loan Losses
Note 5	Financial Guarantees
Note 6	Credit Enhancements
Note 7	Investments in Securities
Note 8	Debt
Note 9	Derivatives
Note 10	Collateralized Agreements and Offsetting Arrangements
Note 10	Repurchase and Resale Agreements
Note 11	Stockholders' Equity
Note 11	Earnings Per Share
Note 12	Income Taxes
Note 13	Segment Reporting
Note 15	Fair Value Measurements

Recently Issued Accounting Guidance

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Consolidated Financial Statements
ASU 2016-02, Leases (Topic 842)	The amendment in this Update addresses the accounting for lease arrangements.	January 1, 2019	The adoption of the amendment did not have a material effect on our consolidated financial statements or on our disclosures.
ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purpose	The amendments in this Update permit the OIS rate based on SOFR, as an eligible U.S. benchmark interest rate for purposes of applying hedge accounting under Topic 815.	January 1, 2019	The adoption of the amendments did not have a material effect on our consolidated financial statements or on our disclosures.
ASU 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors	The amendments in this Update address certain ASU 2016-02 implementation issues including the recognition of taxes collected from lessees, lessor costs paid directly by a lessee, and recognition of variable payments for contracts with lease and non-lease components.	January 1, 2019	The adoption of the amendments did not have a material effect on our consolidated financial statements or on our disclosures.

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

Standard	Description	Date of Planned Adoption	Effect on Consolidated Financial Statements
ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	January 1, 2020	We have developed our models to estimate lifetime expected credit losses on our financial instruments measured at amortized cost primarily using a discounted cash flow methodology. We used these models to execute our process for estimating the allowance for credit losses under the new standard in parallel with our existing process for estimating the allowance for credit losses based on incurred losses and have developed an appropriate governance process for our estimate of expected credit losses under the new standard. The amendments will be applied through a cumulative effect adjustment to retained earnings as of January 1, 2020. Based on the composition of our portfolio as of January 1, 2020 and the economic conditions and forecasts at that time, we expect the transition impact to result in a decrease in retained earnings of $0.2 billion. The increase in the allowance for credit losses from incorporating lifetime losses is generally offset by recoveries and a positive impact from including forecasts of economic conditions.

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

Standard	Description	Date of Planned Adoption	Effect on Consolidated Financial Statements
ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurements, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. Certain disclosure requirements were either removed, modified, or added.	January 1, 2020	On October 1, 2018, we early adopted the amendments to remove or modify certain disclosures, which did not have a material effect on our consolidated financial statements. We are delaying adoption of the amendments to add certain disclosures until their effective date. We do not expect that the adoption of the additional disclosures will have a material effect on our consolidated financial statements.
ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).	January 1, 2020	We do not expect that the adoption of these amendments will have a material effect on our consolidated financial statements.
ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities	The amendments in this Update require that indirect interests held through related parties under common control be considered on a proportional basis when determining whether fees paid to decision makers or service providers are variable interests. These amendments align with the determination of whether a reporting entity within a related party group is the primary beneficiary of a VIE.	January 1, 2020	We do not expect that the adoption of these amendments will have a material effect on our consolidated financial statements.
ASU 2019-01, Leases (Topic 842): Narrow-Scope Improvements for Lessors	The amendments in this Update provide guidance for the: (1) lessor's fair value determination of the lease's underlying asset; (2) lessor's statement of cash flows presentation of cash received from sales-type and direct financing leases; and (3) removal of interim transition disclosure requirements related to changes in accounting principles.	January 1, 2020	We do not expect that the adoption of these amendments will have a material effect on our consolidated financial statements.
ASU 2019-04, Codification Improvements to Financial Instruments - Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Financial Instruments (Topic 825	The amendments in this Update clarify certain aspects of Topic 326 guidance issued in ASU 2016-13 including the scope of the credit losses standard and issues related to accrued interest receivable balances, recoveries, variable interest rates and prepayments. The other amendments in this update clarify certain aspects of Topic 815 and Topic 825.	January 1, 2020	The impact of adopting the Topic 326 amendments is included with the impact of adoption of ASU 2016-13. We do not expect that the adoption of these amendments will have a material effect on our consolidated financial statements.
ASU 2019-05, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument	The amendments in this Update provide entities with transition relief upon the adoption of ASU 2016-13 by providing an option to elect the fair value option on certain financial instruments measured at amortized cost.	January 1, 2020	We do not expect to elect the fair value option for any financial instruments upon adoption of ASU 2016-13.
ASU 2019-11, Codification Improvements to Financial Instruments - Credit Losses (Topic 326)	The amendments in this Update clarify certain aspects of Topic 326 guidance issued in ASU 2016-13 including guidance providing transition relief for TDRs.	January 1, 2020	The impact of adopting these amendments is included with the impact of adoption of ASU 2016-13.
ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes	The amendments in this Update simplify the accounting for income taxes by removing certain exceptions for investments, intraperiod allocations, and interim calculations, and add guidance to reduce the complexity of applying Topic 740.	January 1, 2021	We do not expect that the adoption of these amendments will have a material effect on our consolidated financial statements.

NOTE 2

Conservatorship and Related Matters

Business Objectives

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

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

Our current business objectives reflect direction we have received from the Conservator (including the Conservatorship Scorecards). At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability. Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. Some of these initiatives affect our near- and long-term financial results. Given our public mission and the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions, we may be required to take actions that could have a negative impact on our business, operating results, or financial condition, and thus contribute to a need for additional draws under the Purchase Agreement.

In October 2019, FHFA issued a new Strategic Plan for the Conservatorships of Freddie Mac and Fannie Mae (the Enterprises) and a new annual Conservatorship Scorecard for Freddie Mac, Fannie Mae, and CSS. The 2019 Strategic Plan provides a framework for how FHFA will guide the Enterprises to fulfill their statutory missions, focus on safety and soundness, and prepare for a responsible end to the Conservatorships.

The three objectives of the 2019 Strategic Plan are to ensure that the Enterprises:

- Focus on their core mission responsibilities to foster competitive liquid, efficient, and resilient (CLEAR) national housing finance markets that support sustainable homeownership and affordable rental housing;
- Operate in a safe and sound manner appropriate for entities in conservatorship; and
- Prepare for their eventual exits from the conservatorships.

FHFA has issued annual Conservatorship Scorecards since 2014. The annual Conservatorship Scorecards establish objectives and performance targets and measures for Freddie Mac and Fannie Mae related to the objectives set forth in the Strategic Plan. The 2020 Conservatorship Scorecard aligns tactical priorities and execution at the Enterprises to the 2019 Strategic Plan and serves as a tool in holding the Enterprises accountable for its effective implementation. For more information on the 2020 Conservatorship Scorecard and how it affects executive compensation, see **Executive Compensation - Compensation Discussion and Analysis.**

The first objective of the 2019 Strategic Plan includes the continuing duty of the Enterprises to fulfill the statutory housing goal and duty-to-serve requirements, the continued effectiveness of the UMBS, the implementation of the Credit Score Rule, finalized in August 2019, developing a more competitive mortgage market through leveling the playing field and greater transparency. The first objective includes a number of other on-going initiatives, including operating the multifamily business under the new caps announced in September 2019, continuing preparations for the transition from LIBOR to an alternative reference rate such as SOFR, supporting the needs of lenders and borrowers dealing with challenges of limited English proficiency, implementing a new, modernized Uniform Residential Loan Application, and supporting state and local governments in reducing barriers to building and financing housing.

The second objective focuses on the heightened need for safety and soundness, taking into account both the reality of the inadequate capital cushions currently in place and the importance of building a robust capital foundation to successfully exit conservatorship, and directs the Enterprises to conduct comprehensive assessments of all major business activities in order to evaluate and reduce risk and complexity. CRT will continue to be a component of the Enterprises' approach to risk management. Given the growth and total size of the CRT program, the Enterprises will complete a comprehensive review of the program, including costs and benefits, to better inform future direction. The second objective also directs the Enterprises to strengthen their implementation of the CCF to support risk management initiatives and business decisions, addresses mortgage servicing by seeking to promote stability and ensure readiness for more challenging market conditions, and focuses on enhancing the resiliency of operations and systems and modernizing legacy systems.

The third objective instructs the Enterprises to support FHFA in the development and implementation of responsible, milestone-based plans to transition out of conservatorship, including capital restoration strategies and roadmaps. The third objective emphasizes the need for the Enterprises to carefully scrutinize and optimize their balance sheet exposures to focus on serving their core guaranty business with maximum capital efficiency. The third objective also focuses on enhancing the Enterprises' ability to assess the returns on the capital necessary to support their assets and risks, the development of a post-conservatorship strategy and governance structure for CSS/CSP, remediation of deficiencies identified through FHFA's supervisory oversight and by the Enterprises' own examinations and audits, and the critical role of fair-lending risk assessment, monitoring, and oversight at the Enterprises.

We continue to align our resources and internal business plans to meet the objectives provided to us by FHFA.

As a result of the net worth sweep dividend provisions of the senior preferred stock, we cannot retain capital from the earnings generated by our business operations in excess of the applicable Capital Reserve Amount under the Purchase Agreement (which is $20.0 billion but will be reduced to zero if for any reason we do not pay the full dividend requirement in a future period) or return capital to stockholders other than Treasury, the holder of our senior preferred stock. Our future is uncertain, and the conservatorship has no specified termination date. We do not know what changes may occur to our business model during or following conservatorship, including whether we will continue to exist. Our Conservator has not made us aware of any plans to make any significant change to our business model or capital structure in the near term. Our future structure and role will be determined by the Administration, Congress, and FHFA, and it is possible, and perhaps likely, that there will be significant changes beyond the near term. We have no ability to predict the outcome of these deliberations.

Purchase Agreement and Warrant

Overview

On September 7, 2008, we, through FHFA, in its capacity as Conservator, entered into the Purchase Agreement with Treasury. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, August 17, 2012, December 21, 2017, and September 27, 2019. The amount of available funding remaining under the Purchase Agreement was $140.2 billion as of December 31, 2019. This amount will be reduced by any future draws.

The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our consolidated balance sheets). In addition, the Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us if the Conservator determines, at any time, that it will be mandated by law to appoint a receiver for us unless we receive these funds from Treasury. In exchange for Treasury's funding commitment, we issued to Treasury, as an aggregate initial commitment fee, one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock, and a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We received no cash proceeds or other consideration from Treasury for issuing the senior preferred stock or the warrant.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers, and privileges of the Board. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013.

Under the August 2012 amendment to the Purchase Agreement, for each quarter from January 1, 2013 and thereafter, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The term Net Worth Amount is defined as the total assets of Freddie Mac (excluding Treasury's commitment and any unfunded amounts thereof), less our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in accordance with GAAP. 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. Pursuant to the September 2019 Letter Agreement, the applicable Capital Reserve Amount is $20.0 billion. As a result, we will not be required to pay a dividend on the senior preferred stock to Treasury until our Net Worth Amount exceeds $20.0 billion. If for any reason we were not to pay a future net worth sweep dividend in full for any period, the applicable Capital Reserve Amount would thereafter be zero.

In addition, pursuant to the September 2019 Letter Agreement, the liquidation preference of the senior preferred stock will be increased, at the end of each fiscal quarter, beginning on September 30, 2019, by an amount equal to the increase in the Net Worth Amount, if any, during the immediately prior fiscal quarter, until the liquidation preference has increased by $17.0 billion. As a result, the liquidation preference of the senior preferred stock increased from $77.5 billion on September 30, 2019 to $79.3 billion on December 31, 2019 based on the $1.8 billion increase in our Net Worth Amount during 3Q 2019, and will increase to $81.8 billion on March 31, 2020 based on the $2.4 billion increase in our Net Worth Amount during 4Q 2019. The amounts payable for dividends on the senior preferred stock could be substantial and will have an adverse impact on our financial position and net worth. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock.

Under the September 2019 Letter Agreement, Freddie Mac and Treasury also agreed to negotiate and execute an amendment to the Purchase Agreement that further enhances taxpayer protections by adopting covenants broadly consistent with recommendations for administrative reform contained in the Treasury's September 2019 Housing Reform Plan.

In addition to the issuance of the senior preferred stock and warrant, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. Under the Purchase Agreement, the fee is to be determined in an amount mutually agreed to by us and Treasury with reference to the market value of Treasury's funding commitment as then in effect. However, pursuant to the August 2012 amendment to the Purchase Agreement, for each quarter commencing January 1, 2013, and for as long as the net worth sweep dividend provisions remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue, or be payable.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited, and we will not be able to do so for the foreseeable future, if at all. On December 31, 2019, the aggregate liquidation preference of the senior preferred stock was $79.3 billion. In addition to increases based on quarterly increases in our Net Worth Amount, as discussed above, the liquidation preference will increase if we receive additional draws under the Purchase Agreement or if any dividends or quarterly commitment fees payable under the Purchase Agreement are not paid in cash.

The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur and the size of our mortgage-related investments portfolio.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends. However, Treasury's consent is required for a termination of conservatorship other than in connection with receivership. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028.

Purchase Agreement Covenants

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- Declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);
- Redeem, purchase, retire, or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);
- Sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant, and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);
- Terminate the conservatorship (other than in connection with a receivership);
- Sell, transfer, lease, or otherwise dispose of any assets, other than dispositions for fair market value:
  - To a limited life regulated entity (in the context of a receivership);
  - Of assets and properties in the ordinary course of business, consistent with past practice;
  - Of assets and properties having fair market value individually or in aggregate less than $250 million in one transaction or a series of related transactions;
  - In connection with our liquidation by a receiver;
  - Of cash or cash equivalents for cash or cash equivalents; or
  - To the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio;
- Issue any subordinated debt;
- Enter into a corporate reorganization, recapitalization, merger, acquisition, or similar event; or
- Engage in transactions with affiliates unless the transaction is:
  - Pursuant to the Purchase Agreement, the senior preferred stock, or the warrant;
  - Upon arm's length terms; or

- A transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The Purchase Agreement also required us to reduce the UPB of our mortgage assets to a limit of $250 billion at December 31, 2018. Under the Purchase Agreement, we also may not, without the prior written consent of Treasury, incur indebtedness that would result in the par value of our aggregate indebtedness exceeding $300 billion. The mortgage asset and indebtedness limitations are determined without giving effect to the changes to the accounting guidance for transfers of financial assets and consolidation of VIEs, under which we consolidated certain VIEs in our financial statements as of January 1, 2010.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

The Purchase Agreement also provides that, on an annual basis, we are required to deliver a risk management plan to Treasury setting out our strategy for reducing our enterprise-wide risk profile and the actions we will take to reduce the financial and operational risk associated with each of our reportable business segments.

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants:

- Our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder;
- Without the prior written consent of Treasury, we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights to any person other than Freddie Mac or its wholly-owned subsidiaries;
- We may not take any action that will result in an increase in the par value of our common stock;
- Unless waived or consented to in writing by Treasury, we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury's rights against impairment or dilution; and
- We must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company, or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

Termination Provisions

The Purchase Agreement provides that the Treasury's funding commitment will terminate under any of the following circumstances:

- The completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time;
- The payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and
- The funding by Treasury of the maximum amount of the commitment under the Purchase Agreement.

In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays, or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator's powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

Waivers and Amendments

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or mortgage guarantee obligations.

Third-Party Enforcement Rights

In the event of our default on payments with respect to our debt securities or mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of:

- The amount necessary to cure the payment defaults on our debt securities and mortgage guarantee obligations and
- The lesser of:

- The deficiency amount and
- The maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment.

Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

Impact of Conservatorship and Related Developments on the Mortgage-Related Investments Portfolio

In February 2019, FHFA directed us to maintain the mortgage-related investments portfolio at or below $225 billion at all times. The UPB of this portfolio was $212.7 billion at December 31, 2019. Our ability to acquire and sell mortgage assets continues to be significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA.

Government Support for Our Business

We receive substantial support from Treasury and are dependent upon its continued support in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to:

- Keeping us solvent;
- Allowing us to focus on our primary business objectives under conservatorship; and
- Avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

At September 30, 2019, our assets exceeded our liabilities under GAAP; therefore, FHFA did not request a draw on our behalf and, as a result, we did not receive any funding from Treasury under the Purchase Agreement during the three months ended December 31, 2019. Since conservatorship began through December 31, 2019, we have paid cash dividends of $119.7 billion to Treasury at the direction of the Conservator.

At December 31, 2019, our assets exceeded our liabilities under GAAP. As a result, FHFA will not submit a draw request from Treasury on our behalf. Based on our Net Worth Amount at December 31, 2019 and the Capital Reserve Amount of $20.0 billion, we will not have a dividend requirement to Treasury in March 2020.

Additionally, in recent years, the Federal Reserve purchased significant amounts of mortgage-related securities issued by us, Fannie Mae and Ginnie Mae.

See **Note 8** and **Note 11** for more information on the conservatorship and the Purchase Agreement.

Related Parties as a Result of Conservatorship

As a result of our issuance to Treasury of the warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis, we are deemed a related party to the U.S. government. During the years ended December 31, 2019, 2018, and 2017, no transactions outside of normal business activities have occurred between us and the U.S. government (or any of its related parties), except for the following:

- The transactions with Treasury discussed above in ***Purchase Agreement and Warrant*** and ***Government Support for Our Business***;
- The transactions entered into whereby we and Fannie Mae, in conjunction with Treasury, provided assistance to state and local HFAs. Treasury will reimburse Freddie Mac for initial guarantee losses on these transactions;
- The transactions discussed in **Note 4**, **Note 8**, and **Note 11**; and
- The allocation or transfer of 4.2 basis points of each dollar of new business purchases to certain housing funds as required under the GSE Act.

In addition, we are deemed a related party with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. All transactions between us and Fannie Mae have occurred in the normal course of business in conservatorship.

In October 2013, FHFA announced the formation of CSS. CSS is a limited liability company equally-owned by Freddie Mac and Fannie Mae, and CSS is also deemed a related party. In connection with the formation of CSS, we entered into a limited liability company (LLC) agreement with Fannie Mae. Additionally, we and Fannie Mae each appointed two executives to the CSS Board of Managers and signed governance and operating agreements for CSS, including an updated customer services agreement with Fannie Mae and CSS in May 2019. In June 2019, we entered into an agreement with Fannie Mae regarding the commingling of certain of our mortgage securities under the Single Security Initiative and related indemnification obligations.

During the year ended December 31, 2019, we contributed $105 million of capital to CSS, and we have contributed $569 million since the fourth quarter of 2014.

In January 2020, FHFA directed Freddie Mac and Fannie Mae to amend the LLC agreement for CSS to change the structure of the Board of Managers (CSS Board). The revised LLC agreement also removed the requirement that any CSS Board decision must be approved by at least one of the CSS Board members appointed by Freddie Mac and one appointed by Fannie Mae. These amendments reduce Freddie Mac's and Fannie Mae's ability to control CSS Board decisions, even after conservatorship, including decisions about strategy, business operations, and funding.

Under the revised CSS LLC agreement, the CSS Board will continue to include two Freddie Mac and two Fannie Mae representatives, and it will also include two new members: the Chief Executive Officer of CSS and an independent, non-Executive Chair. During conservatorship, the CSS Board Chair shall be designated by FHFA, and all CSS Board decisions will require the affirmative vote of the Board Chair. During conservatorship, FHFA also may appoint up to three additional independent members to the CSS Board, who along with the Board Chair and the Chief Executive Officer of CSS may continue to serve on the CSS Board after conservatorship. FHFA appointed a new CSS Board member to serve as Chair in January 2020. If FHFA appoints three additional CSS Board members, the CSS Board members we and Fannie Mae appoint could be outvoted by non-GSE designated Board members on any matter during conservatorship and on a number of significant matters, including approval of the annual budget and strategic plan for CSS, if either we or Fannie Mae exits from conservatorship. Certain material post-conservatorship decisions, however, would require approval of at least one Board member designated by us and one designated by Fannie Mae, including those decisions involving a material change in CSS's functionality, such as the addition of a new business line or reduction in CSS's support of the UMBS, capital contributions beyond those necessary to support CSS's ordinary business operations, appointment or removal of the CSS Chief Executive Officer, and admission of new members.

NOTE 3

Securitization Activities and Consolidation

Our primary business activities in our Single-family Guarantee and Multifamily segments involve the securitization of loans or other mortgage-related assets using trusts that are VIEs. These trusts issue beneficial interests in the loans or other mortgage-related assets that they own. We guarantee the principal and interest payments on some or all of the issued beneficial interests in substantially all of our securitization transactions. See **Note 5** for additional information on our guarantee activities. We also use trusts that are VIEs in certain single-family credit risk transfer products.

We consolidate VIEs when we have a controlling financial interest in the VIE and are therefore considered the primary beneficiary of the VIE. We are the primary beneficiary of a VIE when we have both the power to direct the activities of the VIE that most significantly impact its economic performance and exposure to losses or benefits of the VIE that could potentially be significant to the VIE. We evaluate whether we are the primary beneficiary of VIEs in which we have interests on an ongoing basis, and our primary beneficiary determination may change over time as our interest in the VIE changes.

Securitization Activities

Single-family Guarantee

Level 1 Securitization Products

Level 1 Securitization Products consist of UMBS, 55-day MBS, and PCs, which are all pass-through debt securities that represent undivided beneficial interests in a pool of loans held by a securitization trust. All Level 1 Securitization Products are backed only by mortgage loans we have acquired. We serve as both administrator and guarantor for these trusts. As administrator, we have the right to establish servicing terms and direct loss mitigation activities for the loans held by these trusts. As guarantor, we guarantee the payment of principal and interest on these securities in exchange for a guarantee fee, and we have the right to purchase delinquent loans from the trust to help improve the economic performance of the trust. We absorb all credit losses of these trusts through our guarantee of the principal and interest payments.

The economic performance of these trusts is most significantly affected by the performance of the underlying loans. Our rights as administrator and guarantor provide us with the power to direct the activities that most significantly affect the performance of the underlying loans. We also have the obligation to absorb losses of these trusts that could potentially be significant through our guarantee of principal and interest payments. Accordingly, we concluded that we are the primary beneficiary of, and therefore, consolidate these trusts.

Loans held by these trusts are recognized on our consolidated balance sheets as mortgage loans held-for-investment. The corresponding securities held by third parties are recognized on our consolidated balance sheets as debt, net. We extinguish the outstanding debt securities of the related consolidated trust and recognize gains or losses on debt extinguishment for the difference between the consideration paid and the debt carrying value when we purchase these securities as investments in our mortgage-related investments portfolio. Sales of these securities that were previously held as investments in our mortgage-related investments portfolio are accounted for as debt issuances.

Upon implementation of the Single Security Initiative in June 2019, we began offering an optional exchange program for security holders to exchange certain existing 45-day payment delay PCs for corresponding UMBS and other applicable 55-day payment delay Freddie Mac securities. We make a one-time payment to exchanging security holders for the value of the 10 additional days of payment delay based on float compensation rates we calculate. When existing PCs are exchanged for UMBS or 55-day MBS under our exchange program, we account for the exchange as a debt modification, as the terms of the securities are not substantially different and the exchange does not result in a change in the creditor. The float compensation we pay in conjunction with the exchange is deferred as a basis adjustment to the debt and amortized into interest expense over the remaining life of the debt. See **Note 4** and **Note 8** for additional information on loans and debt securities of consolidated trusts.

At December 31, 2019 and December 31, 2018, we were the primary beneficiary of, and therefore consolidated, Level 1 securitization trusts with assets totaling $1.9 trillion and $1.8 trillion, respectively. During 2019 and 2018, we issued approximately $440.2 billion and $309.9 billion, respectively, of guaranteed Level 1 Securitization Products. Our exposure for guarantees to consolidated securitization trusts is generally equal to the UPB of the loans recorded on our consolidated balance sheets.

Resecuritization Products

We create resecuritization products primarily by using Level 1 Securitization Products or our previously issued resecuritization products (or similar TBA-eligible products issued and guaranteed by Fannie Mae) as the underlying collateral. In a typical resecuritization transaction, previously issued Level 1 Securitization Products or resecuritization products are transferred to a resecuritization trust that issues beneficial interests in the underlying collateral. We establish parameters that define eligibility standards for assets that may be used as collateral for each of our resecuritization programs. Resecuritization products can then be created based on the parameters that we have established. Similar to our Level 1 Securitization Products, we guarantee the full payment of principal and interest to the investors in our resecuritization products. However, because we (or Fannie Mae) have already guaranteed the underlying assets, we do not assume any incremental credit risk by issuing these securities.

Upon implementation of Release 2 of the CSP and the Singe Security Initiative, we have the ability to commingle TBA-eligible Fannie Mae collateral in certain of our resecuritization products. When we resecuritize Fannie Mae securities in our commingled resecuritization products, our guarantee covers timely payment of principal and interest on such products from underlying Fannie Mae securities. If Fannie Mae were to fail to make a payment on a Fannie Mae security that we resecuritized, we would be responsible for making the payment. We do not charge an incremental guarantee fee to commingle Fannie Mae collateral in resecuritization transactions.

The main types of resecuritization products we create are single-class resecuritization products (Supers, Giant MBS, and Giant PCs) and multiclass resecuritization products (REMICs and Strips).

- **Single-class resecuritization products** - These securities are direct pass-throughs of the cash flows of the underlying collateral, which may be previously issued Level 1 Securitization Products or single-class resecuritization products (or similar TBA-eligible products issued and guaranteed by Fannie Mae). We do not consolidate these securities as their resecuritization does not result in any new or incremental risk to the holders of the securities issued by the resecuritization trust and because we are not exposed to any incremental rights to receive benefits or obligations to absorb losses that could be significant to the resecuritization trust.

  We account for purchases of single-class resecuritization products that we issue that are substantially the same as the underlying collateral as debt extinguishment of a pro-rata portion of the underlying Level 1 Securitization Product. We account for purchases of single-class resecuritization products that we issue that are not considered substantially the same as the underlying collateral as investments in debt securities. Single-class resecuritization products that we issue that are backed entirely by Freddie Mac collateral are considered substantially the same as the underlying collateral, while commingled single-class resecuritization products that we issue are not considered substantially the same as the underlying collateral.

- **Multiclass resecuritization products -** These securities are multiclass resecuritizations of the cash flows of the underlying collateral, which may be previously issued Level 1 Securitization Products, single-class resecuritization products, or multiclass resecuritization products (or similar TBA-eligible products issued and guaranteed by Fannie Mae). The activity that most significantly impacts the economic performance of our multiclass resecuritization trusts is typically the initial design and structuring of the trust. Substantially all multiclass resecuritization trusts are created as part of customer-driven transactions in which an investor or dealer participates in the decisions made during the design and establishment of the trust. As a result, we do not have the unilateral ability to direct the activities of our multiclass resecuritization trusts that most significantly impact the economic performance of those trusts. In addition, unless we retain a portion of the issued multiclass resecuritization products, we do not have the right to receive benefits or the obligation to absorb losses that could potentially be significant to the trusts because we have already provided a guarantee on the underlying assets. As a result, we have concluded that we are not the primary beneficiary of our multiclass resecuritization trusts and, therefore, do not consolidate those trusts.

  Because we (or Fannie Mae) have already guaranteed the underlying assets, we do not receive any incremental guarantee fees in exchange for our guarantee, and, accordingly, we do not recognize any additional guarantee assets, guarantee obligations or reserves for guarantee losses related to multiclass resecuritization trusts. Instead, we receive a one-time transaction fee which represents compensation for both the structuring and creation of the securities and for our ongoing administrative responsibilities to service the securities. We recognize the portion of the transaction fee related to creation of the securities immediately in earnings. We defer the portion of the fee related to ongoing administrative responsibilities and amortize it over the life of the associated trust.

  When we purchase a multiclass resecuritization product as an investment in our mortgage-related investments portfolio, we generally record the security as an investment in debt securities rather than extinguishment of debt since we are generally investing in the debt securities of a non-consolidated entity. We do not consolidate multiclass resecuritization trusts in which we hold variable interests, as we are not deemed to be the primary beneficiary of the trusts, unless we have the unilateral ability to collapse the trust. Similarly, sales of multiclass resecuritization products previously held as investments in our mortgage-related investments portfolio are accounted for as sales of investments in debt securities. See **Note 7** for additional information on accounting for investments in debt securities.

Senior Subordinate Securitization Structures

We are the primary beneficiary of and, therefore, consolidate our single-family senior subordinate securitization structures backed by recently originated loans because we have both the ability to direct the loss mitigation activities of the underlying loans and the obligation to absorb credit losses through our guarantee of the issued senior securities. As a result, we consolidated the trusts used in these senior subordinate securitization structures with underlying assets totaling $19.9 billion and $26.1 billion, at December 31, 2019 and December 31, 2018, respectively.

We do not consolidate our single-family senior subordinate securitization structures backed by seasoned loans because we do not have the ability to direct the loss mitigation activities of the underlying loans, which is the most significant activity affecting the economic performance of the VIE. For those securitizations that we do not consolidate where we sell loans to the VIE, we derecognize the transferred loans and account for our guarantee to the non-consolidated VIE. We account for our investments in the beneficial interests issued by the non-consolidated VIE as investments in debt securities. During 2019 and 2018, we issued approximately $11.2 billion and $8.4 billion, respectively, of guaranteed securities in these senior subordinate securitization structures for which a guarantee asset and guarantee obligation were generally recognized.

Other Securitization Products

We are the primary beneficiary of and, therefore, consolidate the trusts used to issue our single-family other securitization products when we have the ability to direct the activities that most significantly affect the economic performance of the trusts and we have the obligation to absorb credit losses through our guarantee of some or all of the issued securities. As a result, we consolidated trusts used to issue these products with underlying assets totaling $2.8 billion and $3.4 billion at December 31, 2019 and December 31, 2018, respectively. We do not consolidate the trusts used to issue our single-family other securitization products that do not meet these conditions. We have not entered into single-family other securitization products in several years.

Multifamily

K Certificates

In a K Certificate transaction, we sell multifamily loans to a non-Freddie Mac securitization trust that issues senior, mezzanine, and subordinate securities, and simultaneously purchase and place the senior securities into a Freddie Mac securitization trust that issues guaranteed K Certificates. In these transactions, we guarantee the senior securities issued by the Freddie Mac securitization trust and do not issue or guarantee the mezzanine or subordinate securities issued by the non-Freddie Mac securitization trust. We receive a guarantee fee in exchange for our guarantee. We serve as guarantor of our K Certificate trusts and, from time to time, as master servicer. However, in contrast to single-family transactions, the rights to direct loss mitigation activities of the underlying loans and to purchase delinquent loans from the securitization trust are generally held by the investor in the most subordinate remaining securities issued by the non-Freddie Mac trust, and therefore we do not have any power to direct those activities unless we are the investor in the most subordinate remaining securities.

The economic performance of our K Certificate trusts is most significantly affected by the performance of the underlying loans. Because our rights in a K Certificate transaction do not provide us with the power to direct the activities that most significantly affect the performance of the underlying loans and we do not hold the most subordinate remaining securities, we are not the primary beneficiary of our K Certificate trusts and, therefore, do not consolidate those trusts.

When we sell loans to a K Certificate trust, we derecognize the transferred loans and account for our guarantee to the non-consolidated K Certificate trust. We account for our investments in the beneficial interests issued by non-consolidated K Certificate trusts as investments in debt securities.

During 2019 and 2018, we issued approximately $53.6 billion and $52.2 billion, respectively, of K Certificates for which a guarantee asset and guarantee obligation were generally recognized.

SB Certificates

In SB Certificate transactions, we securitize multifamily small balance loans using a non-Freddie Mac SB Certificate trust that issues senior classes of securities that we guarantee, as well as subordinated classes of securities that we do not guarantee. Similar to our K Certificate transactions, we are not the primary beneficiary of and, therefore, do not consolidate our SB Certificate trusts, as we do not have the ability to direct loss mitigation activities of the underlying loans, which is the most significant activity affecting the economic performance of the VIE.

In a typical SB Certificate transaction, we sell loans to a SB Certificate trust, derecognize the transferred loans and account for our guarantee to the non-consolidated SB Certificate trust. We account for our investments in the beneficial interests issued by non-consolidated SB Certificate trusts as investments in debt securities.

During 2019 and 2018, we issued approximately $6.2 billion and $6.3 billion, respectively, of SB Certificates for which a guarantee asset and guarantee obligation were recognized.

Other Securitization Products

We are the primary beneficiary of and, therefore, consolidate the trusts used to issue certain of our other securitization products because we have the ability to direct the activities that most significantly affect the economic performance of the trusts and we have the obligation to absorb credit losses through our guarantee of some or all of the issued securities. As a result, we consolidated trusts used in these other securitization products with underlying assets totaling $8.7 billion and $7.2 billion at December 31, 2019 and December 31, 2018, respectively.

We do not consolidate the trusts used to issue our other securitization products when we do not meet the above conditions. For those products, we account for our guarantee to the non-consolidated VIE. During 2019 and 2018, we issued approximately $3.1 billion and $3.4 billion, respectively, of these securities for which a guarantee asset and guarantee obligation were generally recognized.

CRT Activities

STACR Trust Notes

In a STACR Trust note transaction, a trust issues credit-linked notes whose repayments are based on the credit performance of a reference pool of mortgage loans. The trust makes periodic payments of principal and interest on the notes to investors. We make payments to the trust to support payment of the interest due on the notes, and we receive payments from the trust that otherwise would have been made to the noteholders to the extent there are credit events on the mortgages in the reference pool. The note balances are reduced by the amount of the payments to us. STACR Trust was designed to create and pass along to its interest holders the variability related to the credit risk of the mortgages in the reference pool. Because our credit risk transfer arrangement is a creator rather than an absorber of that variability, we do not have a variable interest in the risk that the STACR Trust was designed to create and pass along to its interest holders and do not consolidate the trusts used in the STACR Trust note transactions.

Consolidated VIEs

We consolidated the VIEs for which we are the primary beneficiary as discussed above. Our exposure on debt securities of consolidated trusts represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts.

When we consolidate a VIE, we recognize the assets and liabilities of the VIE on our consolidated balance sheets and account for those assets and liabilities based on the applicable GAAP for each specific type of asset or liability. Assets and liabilities that we transfer to a VIE at, after or shortly before the date we become the primary beneficiary of the VIE are initially measured at the same amounts that they would have been measured if they had not been transferred, and no gain or loss is recognized on these transfers. For all other VIEs that we consolidate, we recognize the assets and liabilities of the VIE at fair value, and we recognize a gain or loss for the difference between:

- The sum of the fair value of the consideration paid, the fair value of any noncontrolling interests, and the reported amount of any previously held interests and
- The net fair value of the assets and liabilities recognized. Guarantees to consolidated VIEs are eliminated in consolidation and are therefore not separately recognized on our consolidated balance sheets.

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

Table 3.1 - Consolidated VIEs

(In millions)	As of December 31, 2019	As of December 31, 2018
Consolidated Balance Sheet Line Item		
Assets:		
Cash and cash equivalents (includes $869 and $566 of restricted cash and cash equivalent)	$870	$567
Securities purchased under agreements to resell	23,137	12,125
Investments in securities, at fair value	597	—
Mortgage loans held-for-investment	1,940,523	1,842,850
Accrued interest receivable	6,170	5,914
Other assets	9,824	1,631
Total assets of consolidated VIEs	**$1,981,121**	**$1,863,087**
Liabilities:		
Accrued interest payable	$5,536	$5,335
Debt, net	1,898,355	1,792,677
Other liabilities	1	—
Total liabilities of consolidated VIEs	**$1,903,892**	**$1,798,012**

Non-Consolidated VIEs

Our involvement with VIEs for which we are not the primary beneficiary takes one or both of two forms - purchasing an investment in these entities or providing a guarantee to these entities. As part of the Single Security Initiative, we have the ability to commingle TBA-eligible Fannie Mae collateral in certain of our resecuritization products that we do not consolidate. We extend our guarantee of these products to cover principal and interest that are payable from the underlying Fannie Mae collateral. See **Note 5** for additional information on our guarantee of Fannie Mae securities.

The following table presents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to non-consolidated VIEs with which we were involved in the design and creation and have a significant continuing involvement, as well as our maximum exposure to loss and total assets of the VIEs. Our maximum exposure to loss includes the guaranteed UPB of assets held by the non-consolidated VIEs, the UPB of unguaranteed securities that we acquired from these securitization transactions, and the UPB of guarantor advances made to the holders of the guaranteed securities. Our maximum exposure to loss and total assets of non-consolidated VIEs excludes our investments in and obligations to non-consolidated Freddie Mac resecuritization trusts primarily because we already consolidate the underlying Freddie Mac collateral of these trusts on our consolidated balance sheets and for commingled resecuritization trusts, we view the likelihood of being required to perform on our guarantee of the underlying Fannie Mae collateral as remote. Our maximum exposure to loss also excludes our interest rate exposure on certain securitization activity and other mortgage-related guarantees measured at fair value where our interest rate exposure may be unlimited. We generally reduce our exposure to these guarantees with unlimited interest rate exposure through separate contracts with third parties.

We do not believe the maximum exposure to loss disclosed in the table below is representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancements. See **Note 6** for additional information on credit enhancements.

Table 3.2 - Non-Consolidated VIEs

(In millions)	As of December 31, 2019	As of December 31, 2018
Assets and Liabilities Recorded on our Consolidated Balance Sheets(1)		
Assets:		
Investments in securities, at fair value	$37,918	$44,020
Accrued interest receivable	212	235
Derivative assets, net	14	1
Other assets	3,951	3,119
Liabilities:		
Derivative liabilities, net	108	88
Other liabilities	3,761	3,049
Maximum Exposure to Loss	281,007	241,055
Total Assets of Non-Consolidated VIEs	**335,562**	**284,724**

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

We also obtain interests in various other VIEs created by third parties through the normal course of business, such as through our investments in certain non-Freddie Mac mortgage-related securities, purchases of multifamily loans, guarantees of multifamily housing revenue bonds, as a derivative counterparty or through other activities. To the extent that we were not involved in the design or creation of these VIEs, they are excluded from the table above. Our interests in these VIEs are generally passive in nature and are not expected to result in us obtaining a controlling financial interest in these VIEs in the future. As a result, we do not consolidate these VIEs and we account for our interests in these VIEs in the same manner that we account for our interests in other third-party transactions. See **Note 7** for additional information regarding our investments in non-Freddie Mac mortgage-related securities. See **Note 4** for more information regarding multifamily loans.

NOTE 4

Mortgage Loans and Allowance for Credit Losses

The table below provides details of the loans on our consolidated balance sheets as of December 31, 2019 and December 31, 2018.

Table 4.1 - Mortgage Loans

	December 31, 2019			December 31, 2018		
(In millions)	Held by Freddie Mac	Held by consolidated trusts	Total	Held by Freddie Mac	Held by consolidated trusts	Total
Held-for-sale:						
Single-family	$18,543	$—	$18,543	$20,946	$—	$20,946
Multifamily	18,954	—	18,954	23,959	—	23,959
Total UPB	**37,497**	**—**	**37,497**	**44,905**	**—**	**44,905**
Cost basis and fair value adjustments, net	(2,209)	—	(2,209)	(3,283)	—	(3,283)
Total held-for-sale loans, net	**35,288**	**—**	**35,288**	**41,622**	**—**	**41,622**
Held-for-investment:						
Single-family	35,324	1,902,958	1,938,282	35,885	1,814,008	1,849,893
Multifamily	10,831	6,642	17,473	10,828	4,220	15,048
Total UPB	**46,155**	**1,909,600**	**1,955,755**	**46,713**	**1,818,228**	**1,864,941**
Cost basis adjustments	(183)	33,574	33,391	(1,198)	27,752	26,554
Allowance for loan losses	(1,583)	(2,651)	(4,234)	(3,009)	(3,130)	(6,139)
Total held-for-investment loans, net	**44,389**	**1,940,523**	**1,984,912**	**42,506**	**1,842,850**	**1,885,356**
Total loans, net	**$79,677**	**$1,940,523**	**$2,020,200**	**$84,128**	**$1,842,850**	**$1,926,978**

We apply fair value hedge accounting to certain single-family mortgage loans. The fair value hedge accounting related loan basis adjustments are included in the table above.

We own both single-family loans, which are secured by one to four unit residential properties, and multifamily loans, which are secured by properties with five or more residential rental units. Our single-family loans are predominantly first lien, fixed-rate loans secured by the borrower's primary residence.

Upon acquisition, we classify a loan as either held-for-investment or held-for-sale. Loans that we have the ability and intent to hold for the foreseeable future are classified as held-for-investment. Loans that we intend to securitize using an entity we will consolidate are classified as held-for-investment both prior to and subsequent to their securitization. Otherwise, they will be classified as held-for-sale. Held-for-investment loans are reported on our consolidated balance sheets at their outstanding UPB, net of deferred fees and other cost basis adjustments (including unamortized premiums and discounts, upfront fees, commitment-related derivative basis adjustments, and other pricing adjustments).

Loans not classified as held-for-investment are classified as held-for-sale. Held-for-sale loans are reported at lower-of-cost-or-fair-value on our consolidated balance sheets, unless the fair value option is elected. Any excess of a held-for-sale loan's cost over its fair value is recognized as a valuation allowance in investment gains (losses), net on our consolidated statements of comprehensive income, with changes in this valuation allowance also being recorded in investment gains (losses), net. Premiums, discounts, and other cost basis adjustments (including lower-of-cost-or-fair-value adjustments) on single-family loans classified as held-for-sale are deferred and not amortized. We elected the fair value option for certain multifamily loans that we intend to securitize and sell to investors. Therefore, these multifamily loans are measured at fair value on a recurring basis, with subsequent gains or losses related to changes in fair value reported in investment gains (losses), net on our consolidated statements of comprehensive income.

Cash flows related to loans originally classified as held-for-investment are classified as either investing activities (e.g., principal repayments) or operating activities (e.g., interest payments received from borrowers included within net income (loss)). Cash flows related to loans originally classified as held-for-sale are classified as operating activities.

The table below provides details of the UPB of loans we purchased, reclassified from held-for-investment to held-for-sale, and sold.

Table 4.2 - Loans Purchased, Reclassified from Held-for-Investment to Held-for-Sale, and Sold

(In billions)	2019	2018	2017
Single-family:			
Purchases			
Held-for-investment loans	$451.2	$307.7	$343.0
Reclassified from held-for-investment to held-for-sale (1)	13.6	21.7	26.2
Sale of held-for-sale loans(2)	13.1	10.2	8.7
Multifamily:			
Purchases			
Held-for-investment loans	9.5	5.0	5.3
Held-for-sale loans	65.3	70.3	64.6
Reclassified from held-for-investment to held-for-sale (1)	1.9	1.8	1.6
Sale of held-for-sale loans(3)	71.3	68.1	61.9

(1) We reclassify loans from held-for-investment to held-for-sale when we no longer have the intent or ability to hold for the foreseeable future. For additional information regarding the fair value of our loans classified as held-for-sale, see **Note 15.**

(2) Our sales of single-family loans reflect the sale of seasoned single-family loans. The sale of seasoned single-family mortgage loans is part of our strategy to mitigate and reduce our holdings of less liquid assets.

(3) Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates and SB Certificates. See **Note 3** for more information on our K Certificates and SB Certificates.

Interest Income

We recognize interest income on an accrual basis except when we believe the collection of principal and interest in full is not reasonably assured, which generally occurs when a loan is three monthly payments or more past due, unless the loan is well secured and in the process of collection based upon an individual loan assessment. A loan is considered past due if a full payment of principal and interest is not received within one month of its due date.

Cost basis adjustments on held-for-investment loans are amortized into interest income over the contractual lives of the loans using the effective interest method.

A non-accrual loan may be returned to accrual status when the collectability of principal and interest in full is reasonably assured. For single-family loans, we determine that collectability is reasonably assured generally when the loan has become current. For multifamily loans, the collectability of principal and interest is considered reasonably assured based on an analysis of the factors specific to the loan being assessed. Upon a loan's return to accrual status, all previously reversed interest income is recognized and amortization of any basis adjustments into interest income is resumed.

Credit Quality

Single-Family

The current LTV ratio is one key factor we consider when estimating our allowance for credit losses for single-family loans. As current LTV ratios increase, the borrower's equity in the home decreases, which may negatively affect the borrower's ability to refinance (outside of the Enhanced Relief Refinance program) or to sell the property for an amount at or above the balance of the outstanding loan.

A second-lien loan also reduces the borrower's equity in the home, and has a similar negative effect on the borrower's ability to refinance or sell the property for an amount at or above the combined balances of the first and second loans. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. For further information about concentrations of risk associated with our single-family and multifamily loans, see **Note 14**.

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

Table 4.3 - Recorded Investment of Single-Family Held-for-Investment Loans by Current LTV Ratios

	As of December 31, 2019				As of December 31, 2018			
	Current LTV Ratio			Total	Current LTV Ratio			Total
(In millions)	≤ 80	> 80 to 100	> 100(1)		≤ 80	> 80 to 100	> 100(1)	
20- and 30-year or more, amortizing fixed-rate	$1,405,562	$267,752	$3,954	$1,677,268	$1,336,310	$214,703	$6,654	$1,557,667
15-year amortizing fixed-rate	236,837	6,797	89	243,723	251,152	4,522	157	255,831
Adjustable-rate	35,478	1,425	6	36,909	42,117	1,883	7	44,007
Alt-A, interest-only, and option ARM	12,668	901	188	13,757	16,498	1,903	559	18,960
Total single-family loans	**$1,690,545**	**$276,875**	**$4,237**	**$1,971,657**	**$1,646,077**	**$223,011**	**$7,377**	**$1,876,465**

(1) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with current LTV ratios in excess of 100% was 4.51% and 7.24% as of December 31, 2019 and December 31, 2018, respectively.

For reporting purposes:

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

Multifamily

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

Table 4.4 - Recorded Investment of Multifamily Held-for-Investment Loans by Credit Quality Indicator

(In millions)	As of December 31, 2019	As of December 31, 2018
Credit risk profile by internally assigned grade:(1)		
Pass	$17,227	$14,648
Special mention	141	201
Substandard	121	181
Doubtful	—	—
Total	**$17,489**	**$15,030**

(1) A loan categorized as: "Pass" is current and adequately protected by the current financial strength and debt service capacity of the borrower; "Special mention" has administrative issues that may affect future repayment prospects but does not have current credit weaknesses; "Substandard" has a weakness that jeopardizes the timely full repayment; and "Doubtful" has a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions.

Mortgage Loan Performance

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

Table 4.5 - Recorded Investment of Held-for-Investment Loans by Payment Status

	As of December 31, 2019					
(In millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure(1)	Total	Non-accrual
Single-family:						
20- and 30-year or more, amortizing fixed-rate	$1,653,113	$15,481	$3,326	$5,348	$1,677,268	$5,822
15-year amortizing fixed-rate	242,177	1,131	175	240	243,723	252
Adjustable-rate	36,537	238	45	89	36,909	104
Alt-A, interest-only, and option ARM	12,690	489	161	417	13,757	205
Total single-family	**1,944,517**	**17,339**	**3,707**	**6,094**	**1,971,657**	**6,383**
Total multifamily	**17,489**	**—**	**—**	**—**	**17,489**	**13**
Total single-family and multifamily	**$1,962,006**	**$17,339**	**$3,707**	**$6,094**	**$1,989,146**	**$6,396**

	As of December 31, 2018					
(In millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure(1)	Total	Non-accrual
Single-family:						
20- and 30-year or more, amortizing fixed-rate	$1,532,499	$14,683	$3,602	$6,883	$1,557,667	$6,881
15-year amortizing fixed-rate	254,376	1,021	171	263	255,831	263
Adjustable-rate	43,549	287	58	113	44,007	113
Alt-A, interest-only, and option ARM	16,975	793	327	865	18,960	864
Total single-family	**1,847,399**	**16,784**	**4,158**	**8,124**	**1,876,465**	**8,121**
Total multifamily	**15,030**	**—**	**—**	**—**	**15,030**	**17**
Total single-family and multifamily	**$1,862,429**	**$16,784**	**$4,158**	**$8,124**	**$1,891,495**	**$8,138**

(1) Includes $1.8 billion and $2.9 billion of loans that were in the process of foreclosure as of December 31, 2019 and December 31, 2018, respectively.

We have the option to purchase specified loans, including certain delinquent loans, from consolidated trusts at a purchase price equal to the current UPB of the loan, less any outstanding advances of principal that have been previously distributed. However, in order to maintain alignment with Fannie Mae under the Single Security Initiative, FHFA requires us to purchase loans out of consolidated trusts if they are delinquent for 120 days, and we have the option to purchase sooner under certain circumstances (e.g. imminent default and seller breaches of representations and warranties). Our practice generally has been to purchase loans from consolidated trusts when the loans have been delinquent for 120 days or more.

When we purchase loans from consolidated trusts, we record an extinguishment of the corresponding portion of the debt securities of the consolidated trusts and we reclassify the loans from mortgage loans held-for-investment by consolidated trusts to mortgage loans held-for-investment by Freddie Mac. We purchased $5.6 billion and $7.8 billion in UPB of loans from consolidated trusts (or purchased delinquent loans associated with other mortgage-related guarantees) during the years ended December 31, 2019 and December 31, 2018, respectively.

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

Table 4.6 - Delinquency Rates

(Dollars in millions)	December 31, 2019	December 31, 2018
Single-family:		
Non-credit-enhanced portfolio:		
Serious delinquency rate	0.70%	0.83%
Total number of seriously delinquent loans	42,485	51,197
Credit-enhanced portfolio:[(1)]		
Primary mortgage insurance:		
Serious delinquency rate	0.79%	0.86%
Total number of seriously delinquent loans	15,261	15,287
Other credit protection:[(2)]		
Serious delinquency rate	0.40%	0.31%
Total number of seriously delinquent loans	18,143	12,920
Total single-family		
Serious delinquency rate	**0.63%**	**0.69%**
Total number of seriously delinquent loans	**70,162**	**75,649**
Multifamily [(3)]		
Non-credit-enhanced portfolio:		
Delinquency rate	—%	—%
UPB of delinquent loans	$2	$2
Credit-enhanced portfolio:		
Delinquency rate	0.09%	0.01%
UPB of delinquent loans	$244	$28
Total multifamily		
Delinquency rate	**0.08%**	**0.01%**
UPB of delinquent loans	**$246**	**$30**

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

(2) Consists of single-family loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See **Note 6** for additional information on our credit enhancements.

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

We continue to implement a number of initiatives to refinance and modify single-family loans. As part of these initiatives, we pay various incentives to servicers and borrowers. HAMP ended in December 2016 and HARP ended in December 2018. The relief refinance program has been replaced with the Enhanced Relief Refinance program, which became available in January 2019 for loans originated on or after October 1, 2017. This program provides liquidity for borrowers who are current on their mortgages but are unable to refinance because their LTV ratios exceed our standard refinance limits.

Allowance for Credit Losses

The allowance for credit losses represents estimates of probable incurred credit losses which we recognize by recording a charge to the provision for credit losses on our consolidated statements of comprehensive income. The allowance for credit losses includes:

- Our allowance for loan losses, which pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets and
- Our reserve for guarantee losses, which pertains to our guarantees to unconsolidated securitization trusts and other mortgage-related guarantees.

A significant number of unsecuritized single-family loans on our consolidated balance sheets include seriously delinquent and TDR loans that we previously purchased from consolidated trusts. These seriously delinquent and TDR loans historically have a higher associated allowance for loan losses than loans that remain in consolidated trusts.

The table below summarizes changes in our allowance for credit losses.

Table 4.7 - Details of Allowance for Credit Losses

	Year Ended December 31,											
	2019				2018				2017			
	Allowance for Loan Losses				Allowance for Loan Losses				Allowance for Loan Losses			
(In millions)	Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Total	Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Total	Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Total
Single-family:												
Beginning balance	$3,003	$3,127	$46	$6,176	$5,251	$3,680	$48	$8,979	$10,443	$2,968	$52	$13,463
Provision (benefit) for credit losses	(684)	(70)	5	(749)	(861)	145	4	(712)	(1,447)	1,350	—	(97)
Charge-offs	(1,676)	(56)	(5)	(1,737)	(2,823)	(56)	(6)	(2,885)	(4,939)	(108)	(4)	(5,051)
Recoveries	439	13	—	452	467	8	—	475	419	6	—	425
Transfers, net (1)	372	(372)	—	—	676	(676)	—	—	540	(540)	—	—
Other (2)	122	4	—	126	293	26	—	319	235	4	—	239
Ending balance	**$1,576**	**$2,646**	**$46**	**$4,268**	**$3,003**	**$3,127**	**$46**	**$6,176**	**$5,251**	**$3,680**	**$48**	**$8,979**
Multifamily:												
Beginning balance	$6	$3	$6	$15	$28	$7	$9	$44	$18	$2	$15	$35
Provision (benefit) for credit losses	2	1	—	3	(23)	—	(1)	(24)	15	4	(6)	13
Charge-offs	—	—	—	—	(6)	—	(2)	(8)	(4)	—	—	(4)
Recoveries	—	—	—	—	3	—	—	3	—	—	—	—
Transfers, net (1)	(1)	1	—	—	4	(4)	—	—	(1)	1	—	—
Other (2)	—	—	—	—	—	—	—	—	—	—	—	—
Ending balance	**$7**	**$5**	**$6**	**$18**	**$6**	**$3**	**$6**	**$15**	**$28**	**$7**	**$9**	**$44**
Total:												
Beginning balance	$3,009	$3,130	$52	$6,191	$5,279	$3,687	$57	$9,023	$10,461	$2,970	$67	$13,498
Provision (benefit) for credit losses	(682)	(69)	5	(746)	(884)	145	3	(736)	(1,432)	1,354	(6)	(84)
Charge-offs	(1,676)	(56)	(5)	(1,737)	(2,829)	(56)	(8)	(2,893)	(4,943)	(108)	(4)	(5,055)
Recoveries	439	13	—	452	470	8	—	478	419	6	—	425
Transfers, net (1)	371	(371)	—	—	680	(680)	—	—	539	(539)	—	—
Other (2)	122	4	—	126	293	26	—	319	235	4	—	239
Ending balance	**$1,583**	**$2,651**	**$52**	**$4,286**	**$3,009**	**$3,130**	**$52**	**$6,191**	**$5,279**	**$3,687**	**$57**	**$9,023**

(1) Relates to removal of delinquent loans from consolidated trusts and resecuritization after such removal.

(2) Primarily includes capitalization of past due interest on modified loans.

A significant number of unsecuritized single-family loans on our consolidated balance sheets are individually evaluated for impairment while substantially all single-family loans held by our consolidated trusts are collectively evaluated for impairment. The ending balance of the allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 3.4%, 6.6%, and 7.8%of the recorded investment in such loans at December 31, 2019, December 31, 2018, and December 31, 2017, respectively, and a substantial portion of the allowance associated with these loans represented interest rate concessions provided to borrowers as part of loan modifications. The ending balance of the allowance for loan losses associated with loans held by our consolidated trusts represented approximately 0.1%, 0.2%, and 0.2% of the recorded investment in such loans as of December 31, 2019, December 31, 2018, and December 31, 2017, respectively.

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

Table 4.8 - Net Investment in Loans

	December 31, 2019			December 31, 2018		
(In millions)	Single-family	Multifamily	Total	Single-family	Multifamily	Total
Recorded investment:						
Collectively evaluated	$1,936,208	$17,408	$1,953,616	$1,830,044	$14,945	$1,844,989
Individually evaluated	35,449	81	35,530	46,421	85	46,506
Total recorded investment	**1,971,657**	**17,489**	**1,989,146**	**1,876,465**	**15,030**	**1,891,495**
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,350)	(12)	(1,362)	(1,761)	(9)	(1,770)
Individually evaluated	(2,872)	—	(2,872)	(4,369)	—	(4,369)
Total ending balance of the allowance	**(4,222)**	**(12)**	**(4,234)**	**(6,130)**	**(9)**	**(6,139)**
Net investment in loans	**$1,967,435**	**$17,477**	**$1,984,912**	**$1,870,335**	**$15,021**	**$1,885,356**

Allowance for Loan Losses Determined on a Collective Basis

Single-Family Loans

We estimate allowance for loan losses on homogeneous pools of single-family loans using a model that evaluates a variety of factors affecting collectability. We review the outputs of this model by considering qualitative factors such as macroeconomic and other factors to see whether the model outputs are consistent with our expectations. Management adjustments may be necessary to take into consideration external factors and current economic events that have occurred but that are not yet reflected in the factors used to derive the model outputs. Significant judgment is exercised in making these adjustments. The homogeneous pools of single-family loans are determined based on common underlying characteristics, including current LTV ratios, trends in home prices, loan product type, and geographic region.

We rely upon third-parties to service our loans. At loan delivery, the seller provides us with loan data, which includes characteristics and underwriting information. Each subsequent month, the servicers provide us with monthly loan level servicing data, including delinquency and loss information.

Our single-family allowance for loan losses default models produce estimates based on 12 months of loan level performance data, which includes a history of delinquency, foreclosures, foreclosure alternatives, and modifications. Our allowance for loan losses estimate includes projections of:

- Loss mitigation activities when a loss is incurred, including loan modifications for troubled borrowers and the incidence of redefault we have experienced on similar loans that have completed a loan modification and
- Defaults we believe are likely to occur as a result of loss events that have occurred through the respective balance sheet date.

These projections are based on our recent historical experience and current business practices and require significant management judgment. We validate and update our models and factors to capture changes in actual loss experience, as well as the effects of changes in underwriting practices and in our loss mitigation strategies. In determining our allowance for loan losses, we also consider macroeconomic and other factors that affect the quality of the loans underlying our portfolio, including regional housing trends, applicable home price indices, unemployment and employment dislocation trends, the effects of changes in government policies and programs, consumer credit statistics, and the extent of third-party insurance.

Our single-family allowance for loan losses severity is based on actual REO dispositions, short sales, and third-party sales that incorporate the most recent:

- Twelve months of sales experience realized on our distressed property dispositions and
- Twelve months of pre-foreclosure expenses on our distressed properties, including REO, short sales, and third-party sales.

Our single-family allowance for loan losses severity estimate also captures expectations about recoveries from the collateral and attached credit enhancements, such as primary mortgage insurance. We use historical trends in home prices in our single-family allowance for loan losses process, primarily through the use of current LTV ratios in our default models and through the use of recent home price sales experience in our severity estimate. However, we do not use a forecast of trends in home prices in our single-family allowance for loan losses process.

For loans where foreclosure is probable, we measure impairment based upon an estimate of the fair value of the underlying collateral less estimated disposition costs. Our estimate also considers the effect of historical home price changes on borrower behavior.

We apply proceeds from attached credit enhancements (e.g., primary mortgage insurance) entered into contemporaneously with, and in contemplation of, a guarantee or loan purchase transaction as a recovery of our recorded investment in a charged-off loan, up to the amount of loss recognized as a charge-off. Proceeds received in excess of our recorded investment in loans are recorded as a decrease to REO operations expense on our consolidated statements of comprehensive income. We record benefits related to freestanding credit enhancements based on actual losses (e.g., ACIS insurance policies) when realization of our claims is deemed probable and a loss has been recognized on the covered loans. We record benefits for our debt with embedded credit enhancements for which we have not elected the fair value option (e.g., certain STACR debt notes and certain senior subordinate securitization structures) when the realized loss event occurs. We generally record repurchase recoveries on a cash basis due to the uncertainty of the timing and amount of collections of such recoveries. See **Note 6** for additional information on credit enhancements.

Multifamily Loans

Multifamily loans evaluated collectively for impairment are aggregated into book year vintage portfolios. Potential impairment related to these portfolios is measured by benchmarking published historical commercial loan performance data to those vintages based upon available economic data related to multifamily real estate, including apartment vacancy and rental rates.

Allowance for Loan Losses Determined on an Individual Basis

We consider a loan to be impaired when, based on current information, it is probable that we will not receive all amounts due (including both principal and interest) in accordance with the contractual terms of the original loan agreement.

Single-family loans individually evaluated for impairment include TDRs, as well as loans acquired under our financial guarantees with deteriorated credit quality prior to 2010. Multifamily loans individually evaluated for impairment include TDRs, loans three monthly payments or more past due, and loans that are impaired based on management judgment.

Impaired Loans

The tables below present the UPB, recorded investment, the related allowance for loan losses, average recorded investment, and interest income recognized for individually impaired loans.

Table 4.9 - Individually Impaired Loans

	Balance at December 31, 2019			Balance at December 31, 2018		
(In millions)	UPB	Recorded Investment	Associated Allowance	UPB	Recorded Investment	Associated Allowance
Single-family:						
With no allowance recorded: [(1)]						
20- and 30-year or more, amortizing fixed-rate	$2,431	$1,927	N/A	$3,335	$2,666	N/A
15-year amortizing fixed-rate	21	20	N/A	23	22	N/A
Adjustable-rate	169	169	N/A	227	226	N/A
Alt-A, interest-only, and option ARM	847	727	N/A	1,286	1,083	N/A
Total with no allowance recorded	**3,468**	**2,843**	**N/A**	**4,871**	**3,997**	**N/A**
With an allowance recorded: [(2)]						
20- and 30-year or more, amortizing fixed-rate	28,824	28,667	(2,416)	37,579	36,959	(3,660)
15-year amortizing fixed-rate	616	625	(13)	703	713	(19)
Adjustable-rate	131	130	(7)	164	162	(8)
Alt-A, interest-only, and option ARM	3,315	3,184	(436)	4,867	4,590	(682)
Total with an allowance recorded	**32,886**	**32,606**	**(2,872)**	**43,313**	**42,424**	**(4,369)**
Combined single-family:						
20- and 30-year or more, amortizing fixed-rate	31,255	30,594	(2,416)	40,914	39,625	(3,660)
15-year amortizing fixed-rate	637	645	(13)	726	735	(19)
Adjustable-rate	300	299	(7)	391	388	(8)
Alt-A, interest-only, and option ARM	4,162	3,911	(436)	6,153	5,673	(682)
Total single-family	**36,354**	**35,449**	**(2,872)**	**48,184**	**46,421**	**(4,369)**
Multifamily :						
With no allowance recorded [(1)]	86	81	N/A	89	82	N/A
With an allowance recorded	—	—	—	3	3	—
Total multifamily	**86**	**81**	**—**	**92**	**85**	**—**
Total single-family and multifamily	**$36,440**	**$35,530**	**($2,872)**	**$48,276**	**$46,506**	**($4,369)**

Referenced footnotes are included after the next table.

	Year Ended December 31,								
	2019			2018			2017		
(In millions)	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis(3)	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis(3)	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis(3)
Single-family:									
With no allowance recorded: (1)									
20- and 30-year or more, amortizing fixed-rate	$2,450	$262	$7	$3,236	$346	$16	$3,556	$399	$16
15-year amortizing fixed-rate	20	1	—	21	3	—	25	1	—
Adjustable rate	200	11	—	248	12	1	292	11	—
Alt-A, interest-only, and option ARM	891	66	1	1,264	88	4	1,471	110	5
Total with no allowance recorded	**3,561**	**340**	**8**	**4,769**	**449**	**21**	**5,344**	**521**	**21**
With an allowance recorded: (2)									
20- and 30-year or more, amortizing fixed-rate	32,960	1,805	156	44,055	2,156	274	44,057	2,513	248
15-year amortizing fixed-rate	653	22	4	798	28	9	599	32	6
Adjustable rate	135	6	2	197	6	3	261	9	3
Alt-A, interest-only, and option ARM	3,917	226	20	5,953	273	30	7,366	378	33
Total with an allowance recorded	**37,665**	**2,059**	**182**	**51,003**	**2,463**	**316**	**52,283**	**2,932**	**290**
Combined single-family:									
20- and 30-year or more, amortizing fixed-rate	35,410	2,067	163	47,291	2,502	290	47,613	2,912	264
15-year amortizing fixed-rate	673	23	4	819	31	9	624	33	6
Adjustable rate	335	17	2	445	18	4	553	20	3
Alt-A, interest-only, and option ARM	4,808	292	21	7,217	361	34	8,837	488	38
Total single-family	**41,226**	**2,399**	**190**	**55,772**	**2,912**	**337**	**57,627**	**3,453**	**311**
Multifamily:									
With no allowance recorded (1)	83	5	1	131	6	2	286	9	3
With an allowance recorded	—	—	—	3	—	—	45	1	1
Total multifamily	**83**	**5**	**1**	**134**	**6**	**2**	**331**	**10**	**4**
Total single-family and multifamily	**$41,309**	**$2,404**	**$191**	**$55,906**	**$2,918**	**$339**	**$57,958**	**$3,463**	**$315**

(1) Individually impaired loans with no allowance primarily represent those loans for which the collateral value is sufficiently in excess of the loan balance to result in recovery of the entire recorded investment if the property were foreclosed upon or otherwise subject to disposition.

(2) Consists primarily of loans classified as TDRs.

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

Troubled Debt Restructurings

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a TDR. A concession is deemed granted when, as a result of the restructuring, we do not expect to collect all amounts due, including interest accrued, at the original contractual interest rate. As appropriate, we also consider other qualitative factors in determining whether a concession is deemed granted, including whether the borrower's modified interest rate is consistent with that of a non-troubled borrower. We do not consider restructurings that result in an insignificant delay in payment to be a concession. We generally consider a delay in monthly amortizing payments of three months or less to be insignificant. A concession typically includes one or more of the following being granted to the borrower:

- A trial period where the expected permanent modification will change our expectation of collecting all amounts due at the original contract rate;
- A delay in payment that is more than insignificant;
- A reduction in the contractual interest rate;
- Interest forbearance for a period of time that is more than insignificant or forgiveness of accrued but uncollected interest amounts;
- Principal forbearance that is more than insignificant; and
- Discharge of the borrower's obligation in Chapter 7 bankruptcy.

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs during the years ended December 31, 2019, December 31, 2018, and December 31, 2017, based on the original product category of the loan before the loan was classified as a TDR. Loans classified as a TDR in one period may be subject to further action (such as a modification or remodification) in a subsequent period. In such cases, the subsequent action would not be reflected in the table below since the loan would already have been classified as a TDR.

Table 4.10 - TDR Activity

	Year Ended December 31,					
	2019		2018		2017	
(Dollars in millions)	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
Single-family: [(1)]						
20- and 30-year or more, amortizing fixed-rate	25,924	$4,331	43,742	$7,084	33,745	$4,818
15-year amortizing fixed-rate	3,018	296	5,944	584	4,569	356
Adjustable-rate	529	86	902	140	892	128
Alt-A, interest-only, and option ARM	1,523	219	2,602	432	2,784	495
Total single-family	**30,994**	**4,932**	**53,190**	**8,240**	**41,990**	**5,797**
Multifamily	**—**	**$—**	**1**	**$15**	**1**	**$—**

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during the years ended December 31, 2019, December 31, 2018, and December 31, 2017 was $4.9 billion, $8.3 billion, and $5.8 billion, respectively.

The table below presents the volume of our TDR modifications that experienced payment defaults (i.e., loans that became two months delinquent or completed a loss event) during the applicable periods and had completed a modification during the year preceding the payment default. The table presents loans based on their original product category before modification and includes loans that were reclassified from held-for-investment to held-for-sale after TDR modifications.

Table 4.11 - Payment Defaults of Completed TDR Modifications

	Year Ended December 31,					
	2019		2018		2017	
(Dollars in millions)	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
Single-family:						
20- and 30-year or more, amortizing fixed-rate	13,428	$1,702	13,548	$1,847	13,973	$2,231
15-year amortizing fixed-rate	451	36	565	44	720	57
Adjustable-rate	132	15	176	25	225	33
Alt-A, interest-only, and option ARM	871	129	1,178	199	1,254	253
Total single-family	**14,882**	**1,882**	**15,467**	**2,115**	**16,172**	**2,574**
Multifamily	**—**	**$—**	**—**	**$—**	**—**	**$—**

In addition to modifications, loans may be classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or trial period modifications). During the years ended December 31, 2019, December 31, 2018, and December 31, 2017, 5,158, 8,488, and 7,090, respectively, of such loans (with a post-TDR recorded investment of $0.6 billion, $1.0 billion, and $0.9 billion, respectively) experienced a payment default within a year after the loss mitigation activity occurred.

Single-Family Loans

Impairment of a single-family loan having undergone a TDR is generally measured as the excess of our recorded investment in the loan over the present value of the expected future cash flows, discounted at the loan's effective interest rate for fixed-rate loans, or at the loan's effective interest rate prior to the restructuring for ARM loans. Our expectation of future cash flows incorporates, among other items, an estimated probability of default which is based on a number of market factors as well as the characteristics of the loan, such as past due status. Subsequent to the restructuring date, interest income is recognized at the modified interest rate, subject to our non-accrual policy as discussed in Interest Income above, with all other changes in the present value of expected future cash flows being recognized as a component of the provision for credit losses on our consolidated statements of comprehensive income. If we determine that foreclosure on the underlying collateral is probable, we measure impairment based upon the fair value of the collateral, as reduced by estimated disposition costs and adjusted for estimated proceeds from primary mortgage insurance and similar sources.

Of the single-family loan modifications that were classified as TDRs during 2019, 2018, and 2017 respectively:

- 9%, 12%, and 37% involved interest rate reductions and, in certain cases, term extensions;
- 23%, 24%, and 14% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions;
- The average term extension was 180, 132, and 176 months; and
- The average interest rate reduction was 0.1%, 0.2%, and 0.6%.

Substantially all of our completed single-family loan modifications classified as a TDR during 2019 resulted in a modified loan with a fixed interest rate. However, many of these fixed-rate loans include provisions for the reduced interest rates to remain fixed for the first five years of the modification and then increase at a rate of up to one percent per year until the interest rate has been adjusted to the market rate that was in effect at the time of the modification.

Multifamily Loans

Multifamily impaired loans include TDRs, loans three monthly payments or more past due, and loans that are deemed impaired based on management judgment. Factors considered by management in determining whether a loan is impaired include the underlying property's operating performance as represented by its current DSCR, available credit enhancements, current LTV ratio, management of the underlying property, and the property's geographic location.

Multifamily loans are generally measured individually for impairment based on the fair value of the underlying collateral, as reduced by estimated disposition costs, as the repayment of these loans is generally provided from the cash flows of the underlying collateral and any associated credit enhancement. Except for cases of fraud and certain other types of borrower defaults, most multifamily loans are non-recourse to the borrower. As a result, the cash flows of the underlying property (including any associated credit enhancements) serve as the source of funds for repayment of the loan. Interest income recognition on multifamily impaired loans is subject to our non-accrual policy as discussed in ***Interest Income*** above.

The assessment as to whether a multifamily loan restructuring is considered a TDR contemplates the unique facts and circumstances of each loan. This assessment considers qualitative factors such as whether the borrower's modified interest rate is consistent with that of a non-troubled borrower having a similar credit profile at the time of modification. In certain cases, for maturing loans we may provide short-term loan extensions of up to one year with no changes to the effective borrowing rate. In other cases, we may make more significant modifications of terms for borrowers experiencing financial difficulty, such as reducing the interest rate, extending the maturity for longer than one year, providing principal forbearance, or some combination of these terms.

Loan Reclassifications

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

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

Non-Cash Investing and Financing Activities

During the years ended December 31, 2019, December 31, 2018, and December 31, 2017, we acquired $238.4 billion, $164.0 billion, and $229.2 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. We received approximately $47.4 billion, $25.6 billion, and $35.9 billion of loans from sellers in guarantor swap transactions during the years ended December 31, 2019, December 31, 2018, and December 31, 2017, respectively, and $2.6 billion and $0.2 billion of loans from sellers in cash execution transactions during the years ended December 31, 2019 and December 31, 2018, respectively, to satisfy advances to lenders that were recorded in other assets on our consolidated balance sheets.

In addition, we acquired REO properties through foreclosure sales or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During the years ended December 31, 2019, December 31, 2018, and December 31, 2017, we had transfers of $0.8 billion, $1.0 billion, and $1.1 billion, respectively, from loans to REO.

NOTE 5

Guarantee Activities

We generate revenue through our guarantee activities by agreeing to absorb the credit risk associated with certain financial instruments that are owned or held by third parties. In exchange for providing this guarantee, we receive an ongoing guarantee fee that is commensurate with the risks assumed and that will, over the long-term, provide us with cash flows that are expected to exceed the credit-related and administrative expenses of the underlying financial instruments. The profitability of our guarantee activities may vary and will be dependent on our guarantee fee and the actual credit performance of the underlying financial instruments that we have guaranteed.

Guarantees to consolidated entities are eliminated in consolidation and therefore are not separately recognized on our consolidated balance sheets. The accounting treatment for guarantees provided to non-consolidated entities or other third parties will depend on whether the guarantee contract qualifies as a financial guarantee.

If the guarantee contract qualifies as a financial guarantee and exposes us to incremental credit risk, we will recognize both a guarantee obligation at fair value and the consideration we receive for providing the guarantee, which typically consists of a guarantee asset that represents the fair value of future guarantee fees. As a practical expedient, the measurement of the fair value of the guarantee obligation is set equal to the consideration we receive to provide the guarantee, and no gain or loss is recognized upon issuance of the guarantee. Subsequently, we recognize changes in the fair value of the guarantee asset in current period earnings and amortize the guarantee obligation into earnings as we are released from risk under the guarantee. We also recognize a reserve for guarantee losses when it is probable that a loss has been incurred under the guarantee.

If the guarantee contract provided to non-consolidated entities does not qualify as a financial guarantee, that contract will generally be accounted for as a derivative and measured at fair value on our consolidated financial statements.

Guarantee Activities

Our principal guarantee activities include the following:

Securitization Activity Guarantees

For substantially all of our securitization transactions, we guarantee the principal and interest payments on some or all of the issued beneficial interests. Typically, these guarantees will cover the senior classes of beneficial interests issued by the securitization trust(s). Securitization activity guarantees provided to non-consolidated trusts will generally be accounted for, and qualify as, financial guarantees. Our maximum exposure on these guarantees is generally limited to the UPB of the beneficial interests that we have guaranteed.

Guarantees of Fannie Mae Securities Under the Single Security Initiative

As part of the Single Security Initiative, we have the ability to commingle TBA-eligible Fannie Mae collateral in certain of our resecuritization products. We extend our guarantee of these products to cover principal and interest that are payable from the underlying Fannie Mae collateral. Because both Freddie Mac and Fannie Mae are under the common control of FHFA, and due to Fannie Mae's status as a GSE and the funding commitment available to it through its senior preferred stock purchase agreement with Treasury, we view the likelihood of being required to perform on our guarantee of Fannie Mae collateral as remote and do not charge an incremental guarantee fee to include Fannie Mae securities in our resecuritization products. Thus, we do not record a guarantee obligation with respect to Fannie Mae securities backing Freddie Mac resecuritization products. We guaranteed approximately $27.4 billion of Fannie Mae securities backing Freddie Mac resecuritization products as of December 31, 2019.

Other Mortgage-Related Guarantees

In certain circumstances, we provide a guarantee of mortgage-related assets held by third parties, in exchange for a guarantee fee, without securitizing those assets. These guarantees consist of the following:

- Long-term standby commitments of single-family loans which obligate us to purchase the covered loans when they become seriously delinquent. Periodically, certain of our customers seek to terminate long-term standby commitments and simultaneously enter into guarantor swap transactions to obtain our securities backed by many of the same loans. During 2019 and 2018, we guaranteed $2.3 billion and $0.5 billion, respectively, of loans under new long-term standby commitments and
- Guarantees of multifamily bonds, including guarantees that require us to advance funds to enable others to repurchase any tendered tax-exempt and related taxable bonds that are unable to be sold. The vast majority of these guarantees were guarantees of multifamily housing revenue bonds that were issued by HFAs. No advances under these guarantees were outstanding at both December 31, 2019 and December 31, 2018. During 2019 and 2018, we guaranteed $0.9 billion and $0.6 billion, respectively, of multifamily bonds.

Our other mortgage-related guarantees will generally be accounted for, and qualify as, financial guarantees. Our maximum exposure on these guarantees is limited to the UPB of the mortgage-related assets that we have guaranteed.

Other Guarantees Measured at Fair Value

Other guarantees that do not qualify as financial guarantees are generally accounted for as derivative instruments and measured at fair value. These guarantees primarily include:

- Certain guarantees related to our securitization and guarantee activities that do not qualify as financial guarantees;
- Certain market value guarantees, including written options and written swaptions; and
- Guarantees of third-party derivative instruments.

Other Indemnifications

In connection with certain business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (e.g., those arising from representations and warranties) in contracts entered into in the normal course of business. Our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no significant probable and estimable losses associated with these contracts. In addition, we provided indemnification for litigation defense costs to certain former officers who are subject to ongoing litigation. See **Note 16** for information on ongoing litigation. These indemnification obligations will generally be accounted for and qualify as financial guarantees. The recognized liabilities on our consolidated balance sheets related to indemnifications were not significant at both December 31, 2019 and December 31, 2018.

The table below shows our maximum exposure, recognized liability, and maximum remaining term of our recognized guarantees to non-consolidated VIEs and other third parties. This table does not include our unrecognized guarantees, such as guarantees to consolidated VIEs or to resecuritization trusts that do not expose us to incremental credit risk. The maximum exposure disclosed in the table is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancements. See **Note 6** for additional information on our credit enhancements. Our guarantees of Fannie Mae securities backing Freddie Mac resecuritization products are excluded from the table below.

Table 5.1 - Financial Guarantees

	As of December 31, 2019			As of December 31, 2018		
(**Dollars in millions**, terms in years)	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term
Single-family:						
Securitization activity guarantees	$26,818	$361	40	$17,783	$220	40
Other mortgage-related guarantees	7,492	182	30	6,139	167	30
Total single-family	**$34,310**	**$543**		**$23,922**	**$387**	
Multifamily:						
Securitization activity guarantees	$252,167	$3,333	39	$221,245	$2,746	40
Other mortgage-related guarantees	9,989	416	34	9,779	428	35
Total multifamily	**$262,156**	**$3,749**		**$231,024**	**$3,174**	
Other guarantees measured at fair value	$24,965	$253	30	$16,251	$242	30

(1) The maximum exposure represents the contractual amounts that could be lost if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancements, such as recourse provisions, third-party insurance contracts or from collateral held or pledged. For other guarantees measured at fair value, this amount primarily represents the notional value if it relates to our market value guarantees or guarantees of third-party derivative instruments or the UPB if it relates to a guarantee of a mortgage-related asset. For certain of our other guarantees measured at fair value, our exposure may be unlimited and, as a result, the notional value is included. We generally reduce our exposure to these guarantees with unlimited exposure through separate contracts with third parties.

(2) For securitization activity guarantees and other mortgage-related guarantees, this amount represents the guarantee obligation on our consolidated balance sheets. This amount excludes our reserve for guarantee losses, which totaled $52 million as of both December 31, 2019 and December 31, 2018, respectively, and is included within other liabilities on our consolidated balance sheets. For other guarantees measured at fair value, this amount represents the fair value of the contract.

NOTE 6

Credit Enhancements

We obtain various forms of credit enhancements that reduce our exposure to credit losses. These credit enhancements may be associated with mortgage loans or guarantees recognized on our consolidated balance sheets or embedded in debt instruments recognized on our consolidated balance sheets.

Accounting for Credit Enhancements

Attached Credit Enhancements

Attached credit enhancements are obtained contemporaneously with, and in contemplation of, the origination of a financial instrument, and effectively travel with the financial instrument upon sale. Attached credit enhancements include primary mortgage insurance, which provides us with loan-level protection up to a specified percentage, and, in connection with our securitization activity guarantees, subordination that we obtain through the creation of unguaranteed subordinated securities issued by unconsolidated securitization trusts that absorb first losses prior to us having to perform on our guarantee of the senior securities.

Expected recoveries from attached credit enhancements are considered in determining the allowance for loan losses, resulting in a reduction in the recognized provision for credit losses by the amount of the expected recoveries. With respect to guarantees protected by subordination, we recognize a reserve for guarantee losses only when incurred losses exceed the amount of subordination. See **Note 4** for additional information concerning the determination of our allowance for credit losses or reserve for guarantee losses.

Freestanding Credit Enhancements

Freestanding credit enhancements are contracts that are entered into separately and apart from any other financial instruments or entered into in conjunction with some other transaction and are legally detachable and separately exercisable. Freestanding credit enhancements include insurance/reinsurance transactions, STACR Trust notes, and lender risk-sharing transactions and are accounted for separately from the underlying mortgage loans or guarantees.

Our primary insurance/reinsurance transactions are single-family ACIS transactions. ACIS transactions are insurance policies we purchase, generally underwritten by a group of insurers and reinsurers, that provide credit protection for certain specified credit events that occur on a reference pool of mortgage loans. Under the ACIS contracts, we pay insurers and reinsurers premiums for insurance coverage. Each month, we accrue for our obligation to make such payments for all tranches covered by the ACIS contracts. When specific credit events occur, we generally receive compensation from the insurance policy up to an aggregate limit based on actual losses. We require our counterparties to partially collateralize their exposure to reduce the risk that we will not be reimbursed for our claims under the policies. In addition to ACIS, our single-family insurance/reinsurance credit enhancements include AFRM, which is similar to ACIS but provides credit protection immediately upon acquisition of the loan, and IMAGIN, which provides loan level protection in lieu of traditional primary mortgage insurance. Our multifamily insurance/reinsurance credit enhancements include MCIP transactions, which are similar to ACIS transactions and provide credit protection for certain specified credit events that occur on a reference pool of multifamily mortgage assets.

STACR Trust notes transfer credit risk on a reference pool of mortgage loans to investors through the issuance of notes linked to notional credit risk positions of the reference pool by a third-party trust. The trust issues the notes and makes periodic payments of principal and interest on the notes to investors. Under this structure, we make payments to the trust to support payment of the interest due on the notes, and we receive payments from the trust that otherwise would have been made to the noteholders as a result of defined credit events on the reference pool. Each month, we accrue for our obligation to make such payments to the trust. The note balances are reduced by the amount of the payments to us. This structure has been recently enhanced so that the notes issued qualify as interests in a REMIC.

Lender risk-sharing transactions are agreements that require a lender to repurchase a loan upon default or to reimburse us for realized credit losses. These transactions are entered into as an alternative to requiring primary mortgage insurance or in exchange for a lower guarantee fee. The loss sharing amount may be fully or partially collateralized.

We recognize the payments we make to transfer credit risk under freestanding credit enhancements in credit enhancement expense in our consolidated statements of comprehensive income when they are incurred. Expected recoveries for credit losses covered under freestanding credit enhancements are recognized separately in other assets on our consolidated balance sheets when realization of our claim for recovery is deemed probable, which typically occurs at the same time we recognize a provision for credit losses on the associated loan (or guarantee).

For information about counterparty credit risk associated with mortgage insurers and other credit enhancement providers, see **Note 14**.

Debt with Embedded Credit Enhancements

We also transfer credit risk after our acquisition or guarantee of mortgage assets by either issuing unsecured debt with embedded credit enhancements or recognizing debt of consolidated VIEs that includes subordination.

For certain of our unsecured debt issuances, we create a reference pool of mortgage assets (generally loans) to which we currently have credit risk exposure and an associated securitization-like structure with notional credit risk positions. To the extent a specified credit event occurs on the mortgage assets in the reference pool, the outstanding balance of our debt obligations is written down, thereby reducing our future principal and interest payment obligations. The principal types of unsecured debt with embedded credit enhancements are single-family STACR debt notes and multifamily SCR notes.

Most of our STACR debt notes are recorded as other debt on our consolidated balance sheets and accounted for at amortized cost. When the realized loss events (e.g., third-party foreclosure sale, short sale, or REO disposition) occur on the underlying loans in the reference pool, the STACR debt notes are written down and the benefits are recognized as investment gains (losses), net on our consolidated statements of comprehensive income.

The structure of multifamily SCR notes is similar to STACR debt notes, although the mortgage assets within the reference pool may be loans or multifamily housing revenue bonds to which we have credit exposure. While our SCR notes are recorded as other debt on our consolidated balance sheets, these debt obligations are measured at fair value, as we elected the fair value option for them. Fair value changes are recorded in investment gains (losses), net on our consolidated statement of comprehensive income.

Similar to our non-consolidated VIEs, we obtain credit enhancement on certain of our consolidated securitization products through the creation of unguaranteed subordinated securities. These unguaranteed subordinated securities will absorb first losses on the underlying loans prior to us performing pursuant to our guarantee obligation. The unguaranteed subordinated debt securities held by third parties are recorded as debt of consolidated trusts on our consolidated balance sheets and generally accounted for at amortized cost. When losses are realized on the loans underlying the securities, the subordinated debt is written down and the benefits are recognized as investment gains (losses), net on our consolidated statements of comprehensive income.

Single-Family Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to our single-family credit enhancements.

Table 6.1 - Single-Family Credit Enhancements

		December 31, 2019		December 31, 2018	
(In millions)	Credit Enhancement Accounting Treatment	Total Current and Protected UPB(1)	Maximum Coverage	Total Current and Protected UPB(1)	Maximum Coverage
Primary mortgage insurance	Attached	$421,870	$107,690	$378,594	$96,996
STACR: (2)					
Trust notes	Freestanding	288,323	9,739	161,152	5,026
Debt notes	Debt	536,036	15,373	605,263	17,596
Insurance/reinsurance (3)	Freestanding	863,149	10,157	808,484	9,278
Subordination:					
Non-consolidated VIEs (4)	Attached	25,443	4,545	16,271	2,933
Consolidated VIEs (5)	Debt	19,498	854	25,006	1,036
Lender risk-sharing	Freestanding	24,078	5,657	17,458	5,170
Other	Primarily attached	1,056	1,051	1,305	1,290
Total single-family credit enhancements			**$155,066**		**$139,325**

(1) Underlying loans may be covered by more than one form of credit enhancement.

(2) Total current and protected UPB represents the UPB of the assets included in the reference pool. Maximum coverage amount represents the outstanding balance held by third parties.

(3) As of December 31, 2019 and December 31, 2018, our counterparties posted sufficient collateral on our ACIS transactions to meet the minimum collateral requirements of the ACIS program. Minimum collateral requirements are assessed on each deal based on a combination of factors, including counterparty credit risk of the reinsurer, as well as the structure and risk profile of the transaction. Other insurance/reinsurance transactions have similar collateral requirements.

(4) Total current and protected UPB includes the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities, and the UPB of guarantor advances made to the holders of the guaranteed securities. Maximum coverage represents the outstanding UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

(5) Total current and protected UPB represents the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities. Maximum coverage amount represents the outstanding UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

Multifamily Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to our multifamily credit enhancements.

Table 6.2 - Multifamily Credit Enhancements

		December 31, 2019		December 31, 2018	
(In millions)	Credit Enhancement Accounting Treatment	Total Current and Protected UPB(1)	Maximum Coverage	Total Current and Protected UPB(1)	Maximum Coverage
Subordination:					
Non-consolidated VIEs (2)	Attached	$251,008	$40,262	$220,733	$35,661
Consolidated VIEs (3)	Debt	1,800	200	2,700	280
Insurance/reinsurance(4)	Freestanding	2,769	127	915	43
SCR debt notes (5)	Debt	2,470	123	2,667	133
Other (6)	Primarily freestanding	2,996	848	2,349	815
Total multifamily credit enhancements			**$41,560**		**$36,932**

(1) Underlying loans may be covered by more than one form of credit enhancement.

(2) Total current and protected UPB includes the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities, and the UPB of guarantor advances made to the holders of the guaranteed securities. Maximum coverage represents the outstanding UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

(3) Total current and protected UPB represents the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities. Maximum coverage amount represents the outstanding UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

(4) As of December 31, 2019 and December 31, 2018, the counterparties to our insurance/reinsurance transactions have complied with the minimum collateral requirements. Minimum collateral requirements are assessed on each deal based on a combination of factors, including counterparty credit risk of the reinsurer, as well as the structure and risk profile of the transaction.

(5) Total current and protected UPB represents the UPB of the assets included in the reference pool. Maximum coverage amount represents the outstanding balance of the SCR notes held by third parties.

(6) Maximum coverage represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements.

The Multifamily segment also has other credit enhancements in the form of collateral posting requirements, indemnification, pool insurance, bond insurance, recourse, and other similar arrangements. These credit enhancements, along with the proceeds received from the sale of the underlying mortgage collateral, are designed to recover all or a portion of our losses on our mortgage loans or the amounts paid under our financial guarantee contracts. Our historical losses and related recoveries pursuant to these agreements have not been significant and therefore these other types of credit enhancements are excluded from the table above.

NOTE 7

Investments in Securities

The table below summarizes the fair values of our investments in debt securities by classification.

Table 7.1 - Investments in Securities

(In millions)	As of December 31, 2019	As of December 31, 2018
Trading securities	$49,537	$35,548
Available-for-sale securities	26,174	33,563
Total	**$75,711**	**$69,111**

We currently classify and account for our securities as either available-for-sale or trading. As of December 31, 2019 and December 31, 2018, we did not classify any securities as held-to-maturity, although we may elect to do so in the future. Securities classified as available-for-sale and trading are reported at fair value with changes in fair value included in AOCI, net of income taxes and investment gains (losses), net, respectively. See **Note 15** for more information on how we determine the fair value of securities.

We generally record purchases and sales of securities on the trade date when the related forward commitments are exempt from the accounting guidance for derivatives. Alternatively, we record purchases and sales of securities on the expected settlement date, with a corresponding derivative recorded on the trade date, when the related forward commitments are not exempt from the accounting guidance for derivatives.

We include interest on securities on our consolidated statements of comprehensive income. For most of our securities, interest income is recognized using the effective interest method, which considers the contractual terms of the security. Deferred items, including premiums, discounts, and other basis adjustments, are amortized into interest income over the contractual lives of the securities.

For certain securities, interest income is recognized using the prospective effective interest method. We apply this method to securities that:

- Can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment;
- Are not of high credit quality at acquisition; or
- Have been determined to be other-than-temporarily impaired.

Under this method, we recognize as interest income, over the expected life of the securities, the excess of the cash flows expected to be collected over the securities' carrying value. We update our estimates of expected cash flows periodically and recognize changes in the calculated effective interest rate on a prospective basis.

For securities classified as trading or available-for-sale, we classify the cash flows as investing activities because we hold these securities for investment purposes. In cases where the transfer of a security represents a secured borrowing, we classify the related cash flows as financing activities.

Freddie Mac mortgage-related securities include mortgage-related securities issued or guaranteed by Freddie Mac. In prior periods, certain of these securities that were issued by third-party trusts but guaranteed by Freddie Mac were classified as non-agency mortgage-related securities. Prior periods have been revised to conform to the current period presentation.

Trading Securities

The table below presents the estimated fair values by major security type for our securities classified as trading. Our non-mortgage-related securities primarily consist of investments in U.S. Treasury securities.

Table 7.2 - Trading Securities

(In millions)	As of December 31, 2019	As of December 31, 2018
Mortgage-related securities:		
Agency	$22,481	$16,372
Non-agency	1	1
Total mortgage-related securities	**22,482**	**16,373**
Non-mortgage-related securities	27,055	19,175
Total fair value of trading securities	**$49,537**	**$35,548**

For trading securities held at December 31, 2019, 2018, and 2017, we recorded net unrealized losses of $8 million, $479 million, and $365 million during 2019, 2018 and 2017, respectively.

Available-for-Sale Securities

At both December 31, 2019 and December 31, 2018, all available-for-sale securities were mortgage-related securities.

The tables below present the amortized cost, gross unrealized gains and losses, and fair value by major security type for our securities classified as available-for-sale.

Table 7.3 - Available-for-Sale Securities

	As of December 31, 2019				
			Gross Unrealized Losses		
(In millions)	Amortized Cost	Gross Unrealized Gains	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	Fair Value
Available-for-sale securities:					
Agency	$24,390	$571	$—	($74)	$24,887
Non-agency and other	1,004	283	—	—	1,287
Total available-for-sale securities	**$25,394**	**$854**	**$—**	**($74)**	**$26,174**

	As of December 31, 2018				
			Gross Unrealized Losses		
(In millions)	Amortized Cost	Gross Unrealized Gains	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	Fair Value
Available-for-sale securities:					
Agency	$32,082	$358	$—	($535)	$31,905
Non-agency and other	1,378	282	—	(2)	1,658
Total available-for-sale securities	**$33,460**	**$640**	**$—**	**($537)**	**$33,563**

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

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

The fair value of our available-for-sale securities held at December 31, 2019 scheduled to contractually mature after ten years was $21.4 billion, with an additional $4.4 billion scheduled to contractually mature after five years through ten years.

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

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

Table 7.4 - Available-for-Sale Securities in a Gross Unrealized Loss Position

	As of December 31, 2019			
	Less than 12 Months		12 Months or Greater	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Agency	$5,778	($27)	$2,934	($47)
Non-agency and other	1	—	—	—
Total available-for-sale securities in a gross unrealized loss position	**$5,779**	**($27)**	**$2,934**	**($47)**

	As of December 31, 2018			
	Less than 12 Months		12 Months or Greater	
(In millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Agency	$4,610	($39)	$15,389	($496)
Non-agency and other	43	(1)	6	(1)
Total available-for-sale securities in a gross unrealized loss position	**$4,653**	**($40)**	**$15,395**	**($497)**

At December 31, 2019, the gross unrealized losses relate to 179 separate securities. We purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically evaluating investment positions at the lot level; therefore, some of the lots we hold for an individual security may be in a gross unrealized gain position, while other lots for that security may be in a gross unrealized loss position.

Impairment Recognition on Investments in Securities

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter to determine whether the decline in value is other-than-temporary. An unrealized loss exists when the fair value of an individual lot is less than its amortized cost basis. As discussed further below, certain other-than-temporary impairment losses are recognized in earnings.

Other-than-temporary impairment is considered to have occurred if the fair value of the security lot is less than its amortized cost basis and we either intend to sell the security lot or more likely than not will be required to sell the security lot prior to recovery of its amortized cost basis. Under these circumstances, the security lot's entire decline in fair value is deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as investment gains (losses), net.

If we do not intend to sell the security or we believe it is not more likely than not that we will be required to sell prior to recovery of the security's amortized cost basis, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recorded in AOCI. The credit component represents the amount by which the present value of cash flows expected to be collected from the security is less than its amortized cost basis. The present value of cash flows expected to be collected represents our estimate of future contractual cash flows that we expect to collect, discounted at the security's original effective interest rate or, if applicable, the effective interest rate determined based on significantly improved cash flows subsequent to a prior other-than-temporary impairment.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments, assumptions, and consideration of numerous factors. We perform an evaluation on a security lot basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment.

Agency Securities

The principal and interest on these securities are guaranteed. We generally hold these securities that are in an unrealized loss position to recovery. As a result, unless we intend to sell the security, we consider unrealized losses on these securities to be temporary.

Non-Agency Residential Mortgage-Backed Securities

The unrealized losses on the non-agency RMBS we hold are minimal and mainly attributable to poor underlying collateral performance, limited liquidity, and risk premiums. In evaluating securities for impairment, we use an internal model that considers the credit performance of the underlying collateral, including delinquencies and prepayments, and incorporates assumptions about the economic environment.

Other-than-Temporary Impairments

For our available-for-sale securities in an unrealized loss position at December 31, 2019, we have asserted that we have no intent to sell or believe it is not more than likely than not that we will be required to sell the security before recovery of its amortized cost basis. The ending balance of remaining credit losses on available-for-sale securities where a portion of other-than-temporary impairment was recognized in other comprehensive income was $0.6 billion, $0.8 billion, and $1.1 billion as of December 31, 2019, December 31, 2018, and December 31, 2017, respectively.

Realized Gains and Losses on Sales of Available-for-Sale Securities

Gains and losses on the sale of securities are included in investment securities gains (losses), including those gains (losses) reclassified into earnings from AOCI. We use the specific identification method for determining the cost basis of a security in computing the gain or loss.

The table below summarizes the gross realized gains and gross realized losses from the sale of available-for-sale securities.

Table 7.5 - Gross Realized Gains and Gross Realized Losses from Sales of Available-for-Sale Securities

	Year Ended December 31,		
(In millions)	2019	2018	2017
Gross realized gains	$219	$627	$1,792
Gross realized losses	(49)	(303)	(66)
Net realized gains	**$170**	**$324**	**$1,726**

Non-Cash Investing and Financing Activities

We account for transactions where we obtain beneficial interests as consideration for transfers of securities to non-consolidated trusts as non-cash transactions when these transactions do not involve exchanges of gross cash flows. During the years ended December 31, 2018 and December 31, 2017, we obtained beneficial interests of $0.1 billion, and $3.8 billion, respectively, related to such transactions. We did not have such activity during the year ended December 31, 2019.

In addition, during the year ended December 31, 2019, we recognized $10.9 billion of investments in securities in exchange for the issuance of debt securities of consolidated trusts through partial sales of commingled single-class securities that were previously consolidated.

NOTE 8

Debt Securities and Subordinated Borrowings

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

Table 8.1 - Total Debt, Net

	Balance, Net		Interest Expense		
	As of December 31,		For The Year Ended December 31,		
(In millions)	2019	2018	2019	2018	2017
Debt securities of consolidated trusts held by third parties	$1,898,355	$1,792,677	$53,980	$51,529	$47,656
Other debt:					
Short-term debt	110,877	51,080	1,910	1,193	615
Long-term debt	170,296	201,193	5,157	5,311	5,372
Total other debt	**281,173**	**252,273**	**7,067**	**6,504**	**5,987**
Total debt, net	**$2,179,528**	**$2,044,950**	**$61,047**	**$58,033**	**$53,643**

We apply fair value hedge accounting to certain debt issuances. The fair value hedge accounting related basis adjustments are included in the table above.

Debt securities that we issue are classified as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations.

With the exception of certain debt for which we elected the fair value option or designated in a qualifying fair value hedge relationship, our debt is reported at amortized cost. Deferred items, including premiums, discounts, issuance costs, and hedge accounting-related basis adjustments, are reported as a component of total debt, net. These items are amortized and reported through interest expense using the effective interest method over the contractual life of the related indebtedness. Amortization of premiums, discounts, and issuance costs begins at the time of debt issuance. Amortization of hedge accounting-related basis adjustments begins upon the discontinuation of the related hedge relationship.

We elected the fair value option on debt that contains embedded derivatives, including certain STACR debt notes and SCR debt notes. For additional information on STACR debt notes and SCR debt notes, see **Note 6**. Changes in the fair value of these debt obligations are recorded in investment gains (losses), net, with any upfront costs and fees incurred or received in exchange for the issuance of the debt being recognized in earnings as incurred and not deferred. Related interest expense continues to be reported as interest expense based on the stated terms of the debt securities. For additional information on our election of the fair value option, see **Note 15**.

When we repurchase or call outstanding debt securities, we recognize the difference between the amount paid to redeem the debt security and the carrying value in earnings as a component of investment gains (losses), net. Contemporaneous transfers of cash between us and a creditor in connection with the issuance of a new debt security and satisfaction of an existing debt security are accounted for as either an extinguishment or a modification of an existing debt security. If the debt securities have substantially different terms, the transaction is accounted for as an extinguishment of the existing debt security. The issuance of a new debt security is recorded at fair value, fees paid to the creditor are expensed as incurred, and fees paid to third parties are deferred and amortized into interest expense over the life of the new debt security using the effective interest method. If the terms of the existing debt security and the new debt security are not substantially different, the transaction is accounted for as a modification of the existing debt. Fees paid to the creditor are deferred and amortized into interest expense over the life of the modified debt security using the effective interest method and fees paid to third parties are expensed as incurred.

We also engage in dollar roll transactions whereby we enter into an agreement to sell and subsequently repurchase (or purchase and subsequently resell) agency securities. When these transactions involve securities issued by consolidated entities, they are treated as issuances and extinguishments of debt.

Under the Purchase Agreement, without the prior written consent of Treasury, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. Because of this debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Under the Purchase Agreement, the amount of our "indebtedness" is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs. Therefore, "indebtedness" generally does not include debt securities of consolidated trusts held by third parties. We also cannot become liable for any subordinated indebtedness without the prior consent of Treasury. See **Note 2** for information regarding restrictions on the amount of mortgage-related securities that we may own.

Beginning January 1, 2019, our debt cap under the Purchase Agreement is $300 billion. As of December 31, 2019, our aggregate indebtedness for purposes of the debt cap was $283.2 billion. Our aggregate indebtedness primarily includes the par value of other short- and long-term debt.

Debt Securities of Consolidated Trusts Held By Third Parties

Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts. Debt securities of consolidated trusts held by third parties are subject to prepayment risk as their payments are based upon the performance of the underlying mortgage loans that may be prepaid by the related mortgage borrower at any time without penalty.

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

Table 8.2 - Debt Securities of Consolidated Trusts Held by Third Parties

	As of December 31, 2019				As of December 31, 2018			
(Dollars in millions)	Contractual Maturity	UPB	Carrying Amount(1)	Weighted Average Coupon(2)	Contractual Maturity	UPB	Carrying Amount(1)	Weighted Average Coupon(2)
Single-family:								
30-year or more, fixed-rate	2020 - 2057	$1,516,550	$1,554,095	3.63%	2019 - 2057	$1,389,113	$1,426,060	3.72%
20-year fixed-rate	2020 - 2040	70,901	72,558	3.37%	2019 - 2039	70,547	72,354	3.43%
15-year fixed-rate	2020 - 2035	225,501	229,133	2.87%	2019 - 2034	240,310	244,587	2.89%
Adjustable-rate	2020 - 2050	30,183	30,756	3.25%	2019 - 2049	38,361	39,153	3.12%
Interest-only	2026 - 2041	4,244	4,307	4.55%	2026 - 2048	5,322	5,386	4.41%
FHA/VA	2020 - 2049	633	647	4.68%	2019 - 2046	720	736	4.78%
Total Single-family		**1,848,012**	**1,891,496**			**1,744,373**	**1,788,276**	
Multifamily	2021 - 2049	6,790	6,859	3.29%	2019 - 2047	4,365	4,401	4.02%
Total debt securities of consolidated trusts held by third parties		**$1,854,802**	**$1,898,355**			**$1,748,738**	**$1,792,677**	

(1) Includes $209 million and $755 million at December 31, 2019 and December 31, 2018, respectively, of debt of consolidated trusts that represents the fair value of debt securities with the fair value option elected.

(2) The effective rate for debt securities of consolidated trusts held by third parties was 2.79% and 3.07% as of December 31, 2019 and December 31, 2018, respectively.

Other Short-Term Debt

As indicated in the table below, a majority of other short-term debt consisted of discount notes and Reference Bills securities, paying only principal at maturity. Discount notes, Reference Bills securities, and medium-term notes are unsecured general corporate obligations. Securities sold under agreements to repurchase are effectively collateralized borrowings where we sell securities with an agreement to repurchase such securities at a future date. Certain medium-term notes that have original maturities of one year or less are classified as other short-term debt for purposes of this presentation.

The table below summarizes the balances and effective interest rates for other short-term debt.

Table 8.3 - Other Short-Term Debt

	As of December 31, 2019			As of December 31, 2018		
(Dollars in millions)	Par Value	Carrying Amount	Weighted Average Effective Rate	Par Value	Carrying Amount	Weighted Average Effective Rate
Other short-term debt:						
Discount notes and Reference Bills	$60,830	$60,629	1.67%	$28,787	$28,621	2.36%
Medium-term notes	40,407	40,405	2.31	16,440	16,440	2.10
Securities sold under agreements to repurchase	9,843	9,843	1.46	6,019	6,019	2.40
Total other short-term debt	**$111,080**	**$110,877**	**1.89%**	**$51,246**	**$51,080**	**2.28%**

Other Long-Term Debt

The table below summarizes our other long-term debt.

Table 8.4 - Other Long-Term Debt

	As of December 31, 2019				As of December 31, 2018		
(Dollars in millions)	Contractual Maturity	Par Value	Carrying Amount[1]	Weighted Average Effective Rate[2]	Par Value	Carrying Amount[1]	Weighted Average Effective Rate[2]
Other long-term debt:							
Other senior debt:							
Fixed-rate:							
Medium-term notes — callable	2020 - 2037	$83,470	$83,433	2.01%	$78,810	$78,786	2.01%
Medium-term notes — non-callable	2020 - 2028	2,498	2,519	2.14%	4,761	4,811	1.83%
Reference Notes securities — non-callable	2020 - 2032	39,124	39,176	2.71%	65,362	65,385	2.39%
STACR and SCR	2031 - 2042	123	126	12.74%	133	136	12.76%
Variable-rate:							
Medium-term notes — callable	2020 - 2034	10,682	10,668	2.18%	26,396	26,364	2.33%
Medium-term notes — non-callable	2020 - 2026	15,727	15,724	2.45%	5,325	5,325	1.47%
STACR	2023 - 2042	15,373	15,526	5.58%	17,596	17,868	5.99%
Zero-coupon:							
Medium-term notes — non-callable	2020 - 2039	4,880	2,450	5.94%	5,009	2,428	6.29%
Other	2047 - 2049	—	6	0.63%	—	2	0.63%
Hedging-related basis adjustments		N/A	668		N/A	(215)	
Total other senior debt		**171,877**	**170,296**		**203,392**	**200,890**	
Other subordinated debt:							
Zero-coupon		—	—	—%	332	303	10.51%
Total other subordinated debt		**—**	**—**		**332**	**303**	
Total other long-term debt		**$171,877**	**$170,296**	**2.61%**	**$203,724**	**$201,193**	**2.58%**

(1) Represents par value, net of associated discounts or premiums and issuance costs. Includes $3.7 billion and $4.4 billion at December 31, 2019 and December 31, 2018, respectively, of other long term-debt that represents the fair value of debt securities with the fair value option elected.

(2) Based on carrying amount, excluding hedge-related basis adjustments.

A portion of our other long-term debt is callable. Callable debt gives us the option to redeem the debt security at par on one or more specified call dates or at any time on or after a specified call date.

The table below summarizes the contractual maturities of other long-term debt securities at December 31, 2019.

Table 8.5 - Contractual Maturities of Other Long-Term Debt and Debt Securities

(In millions)	Par Value
Annual Maturities	
Other long-term debt (excluding STACR and SCR):	
2020	$45,133
2021	30,069
2022	23,185
2023	13,413
2024	26,966
Thereafter	17,615
Debt securities of consolidated trusts held by third parties, STACR, and SCR[1]	1,870,298
Total	**2,026,679**
Net discounts, premiums, debt issuance costs, hedge-related, and other basis adjustments[2]	41,972
Total debt securities of consolidated trusts held by third parties, STACR, SCR and other long-term debt	**$2,068,651**

(1) Contractual maturities of these debt securities are not presented because they are subject to prepayment risk, as their payments are based upon the performance of a pool of mortgage assets that may be prepaid by the related mortgage borrower at any time without penalty.

(2) Other basis adjustments primarily represent changes in fair value on debt where we have elected the fair value option.

Non-Cash Investing and Financing Activities

During the year ended December 31, 2019, we issued $0.7 billion of other debt in exchange for cash collateral that was previously pledged by sellers. These debt issuances represent non-cash transactions.

NOTE 9

Derivatives

Derivatives are reported at their fair value on our consolidated balance sheets. Changes in fair value and interest accruals on derivatives not in qualifying fair value hedge relationships are recorded as investment gains (losses), net, on our consolidated statements of comprehensive income. Derivatives in a net asset position, including net derivative interest receivable or payable, are reported as derivative assets, net. Similarly, derivatives in a net liability position, including net derivative interest receivable or payable, are reported as derivative liabilities, net. We offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. Non-cash collateral held is not recognized on our consolidated balance sheets as we do not obtain effective control over the collateral, and non-cash collateral posted is not de-recognized from our consolidated balance sheets as we do not relinquish effective control over the collateral. Therefore, non-cash collateral held or posted is not presented as an offset against derivative assets or derivative liabilities on our consolidated balance sheets.

We evaluate whether financial instruments that we purchase or issue contain embedded derivatives. We generally elect to measure newly acquired or issued financial instruments that contain embedded derivatives at fair value, with changes in fair value recorded in earnings.

On October 1, 2017, we adopted accounting guidance that modifies the presentation of hedge accounting results disclosed on our consolidated statements of comprehensive income and in the notes to the consolidated financial statements. For qualifying fair value hedge relationships, the modifications include presenting all changes in the fair value of the derivative hedging instrument in the same consolidated statements of comprehensive income line used to present the earnings effect of the hedged item. For qualifying fair value hedge relationships, the modifications also include separate disclosures of cumulative basis adjustments and their impact to the hedged item's carrying value.

On our consolidated statements of cash flows, cash flows related to the acquisition and termination of derivatives, other than forward commitments, are generally classified in investing activities. Cash flows related to forward commitments are classified within the section of the consolidated statements of cash flows in accordance with the cash flows of the financial instruments to which they relate.

Use of Derivatives

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

We classify derivatives into three categories:

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

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

Types of Derivatives

We principally use the following types of derivatives:

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

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

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

Written Options and Swaptions

Written call and put swaptions are sold to counterparties allowing them the option to enter into receive-fixed and pay-fixed interest rate swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We may, from time to time, write other derivative contracts such as interest-rate futures.

Commitments

We routinely enter into commitments that include commitments to:

- Purchase and sell investments in securities;
- Purchase and sell loans; and
- Purchase and extinguish or issue debt securities of our consolidated trusts.

Most of these commitments are considered derivatives and therefore are subject to the accounting guidance for derivatives and hedging.

Hedge Accounting

Fair Value Hedges

We apply fair value hedge accounting to certain single-family mortgage loans where we hedge the changes in fair value of these loans attributable to the designated benchmark interest rate (i.e., LIBOR), using LIBOR-based interest-rate swaps. The hedge period is one day, and we re-balance our hedge relationships on a daily basis. We also apply fair value hedge accounting to certain issuances of debt where we hedge the changes in fair value of the debt attributable to the designated benchmark interest rate (i.e., LIBOR), using LIBOR-based interest-rate swaps. Beginning in September 2019, we implemented a new fair value hedge accounting strategy for single-family mortgage loans that applies certain hedge accounting elections, including the last-of-layer method, allowable under amended hedge accounting guidance we adopted during 4Q 2017. Under the last-of-layer method, we hedge the changes in fair value of a portion of a closed pool of single-family mortgage loans that is not expected to be affected by prepayments, defaults, and other events affecting the timing and amount of cash flows. As part of this new strategy, we have also elected to measure the change in fair value of the hedged item on the basis of the benchmark rate component of the contractual coupon cash flows determined at the hedge inception and by assuming the hedged item has a term that reflects only the designated cash flows being hedged.

We apply hedge accounting to qualifying hedge relationships. A qualifying hedge relationship exists when changes in the fair value of a derivative hedging instrument are expected to be highly effective in offsetting changes in the fair value of the hedged item attributable to the risk being hedged during the term of the hedge relationship. No amounts have been excluded from the assessment of hedge effectiveness. To assess hedge effectiveness, we use a statistical regression analysis.

At inception of the hedge relationship, we prepare formal contemporaneous documentation of our risk management objective and strategies for undertaking the hedge.

Beginning on October 1, 2017, due to the adoption of amended hedge accounting guidance, if a hedge relationship qualifies for fair value hedge accounting, all changes in fair value of the derivative hedging instrument, including interest accruals, are recognized in the same consolidated statements of comprehensive income line item used to present the earnings effect of the hedged item. Therefore, changes in the fair value of the hedged item, mortgage loans and debt, attributable to the risk being hedged are recognized in interest income - mortgage loans and interest expense, respectively, along with the changes in the fair value of the respective derivative hedging instruments. Prior to October 1, 2017, if the hedge relationship qualified for hedge accounting, changes in fair value of the derivative hedging instrument and changes in the fair value of the hedged item attributable to the risk being hedged were recognized in other income (loss) and interest accruals on the derivative hedging instrument were included in derivative gains (losses).

Changes in the fair value of the hedged item attributable to the risk being hedged are recognized as a cumulative basis adjustment against the mortgage loans and debt. The cumulative basis adjustments are amortized to the same consolidated statements of comprehensive income line item used to present the changes in fair value of the hedged item using the effective interest method considering the contractual terms of the hedged item, with amortization beginning no later than the period in which hedge accounting was discontinued.

Cash Flow Hedges

There are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. If it becomes probable the originally forecasted transaction will not occur, the associated deferred gain or loss in AOCI would be reclassified to earnings immediately. Amounts reclassified from AOCI are recorded in interest expense. In the years ended December 31, 2019 and December 31, 2018, we reclassified from AOCI into earnings, losses of $90 million and $133 million, respectively, related to closed cash flow hedges. See **Note 11** for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

Derivative Assets and Liabilities at Fair Value

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

Table 9.1 - Derivative Assets and Liabilities at Fair Value

	As of December 31, 2019			As of December 31, 2018		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
(In millions)		Assets	Liabilities		Assets	Liabilities
Not designated as hedges						
Interest-rate swaps:						
Receive-fixed	$230,926	$1,990	($6)	$145,386	$1,380	($181)
Pay-fixed	251,392	10	(4,162)	170,899	476	(2,287)
Basis (floating to floating)	5,924	—	—	5,404	1	—
Total interest-rate swaps	**488,242**	**2,000**	**(4,168)**	**321,689**	**1,857**	**(2,468)**
Option-based:						
Call swaptions						
Purchased	75,325	2,717	—	43,625	2,007	—
Written	3,375	—	(42)	4,400	—	(133)
Put swaptions						
Purchased(1)	67,155	835	—	88,075	1,565	—
Written	7,275	—	(88)	1,750	—	(4)
Other option-based derivatives(2)	10,334	646	—	10,481	628	—
Total option-based	**163,464**	**4,198**	**(130)**	**148,331**	**4,200**	**(137)**
Futures	210,305	—	—	161,185	—	—
Commitments	93,960	61	(126)	36,044	90	(179)
CRT-related derivatives	12,362	15	(116)	7,514	—	(74)
Other	5,984	1	(28)	6,728	1	(64)
Total derivatives not designated as hedges	**974,317**	**6,275**	**(4,568)**	**681,491**	**6,148**	**(2,922)**
Designated as fair value hedges						
Interest-rate swaps:						
Receive-fixed	104,459	104	(75)	117,038	23	(935)
Pay-fixed	87,907	—	(639)	77,513	247	(571)
Total derivatives designated as fair value hedges	**192,366**	**104**	**(714)**	**194,551**	**270**	**(1,506)**
Derivative interest receivable (payable)(3)		887	(724)		889	(1,096)
Netting adjustments(4)		(6,422)	5,634		(6,972)	4,941
Total derivative portfolio, net	**$1,166,683**	**$844**	**($372)**	**$876,042**	**$335**	**($583)**

(1) Includes swaptions on credit indices with a notional or contractual amount of $11.4 billion and $45.9 billion at December 31, 2019 and December 31, 2018, respectively, and a fair value of $3.0 million and $113.0 million at December 31, 2019 and December 31, 2018, respectively.

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

(3) Includes other derivative receivables and payables.

(4) Represents counterparty netting and cash collateral netting.

See **Note 10** for information related to our derivative counterparties and collateral held and posted.

Gains and Losses on Derivatives

The table below presents the gains and losses on derivatives, including the accrual of periodic cash settlements, while not designated in qualifying hedge relationships and reported on our consolidated statements of comprehensive income as investment gains (losses), net. In addition, for the first three quarters of 2017, the table includes the accrual of periodic cash settlements on derivatives in qualifying hedge relationships.

Table 9.2 - Gains and Losses on Derivatives

	Year Ended December 31,		
(In millions)	**2019**	**2018**	**2017**
Not designated as hedges			
Interest-rate swaps:			
Receive-fixed	$4,444	($2,457)	($1,343)
Pay-fixed	(7,543)	3,880	1,972
Basis (floating to floating)	14	(1)	(3)
Total interest-rate swaps	**(3,085)**	**1,422**	**626**
Option based:			
Call swaptions			
Purchased	1,663	(791)	(404)
Written	(296)	20	24
Put swaptions			
Purchased	(1,258)	272	(673)
Written	61	(2)	50
Other option-based derivatives[1]	18	(129)	(38)
Total option-based	**188**	**(630)**	**(1,041)**
Other:			
Futures	(946)	57	144
Commitments	(452)	606	(91)
CRT-related derivatives	(1)	(38)	(30)
Other	52	(6)	(6)
Total other	**(1,347)**	**619**	**17**
Accrual of periodic cash settlements:			
Receive-fixed interest-rate swaps	90	364	1,511
Pay-fixed interest-rate swaps	(525)	(584)	(3,101)
Other[2]	163	79	—
Total accrual of periodic cash settlements	**(272)**	**(141)**	**(1,590)**
Total	**($4,516)**	**$1,270**	**($1,988)**

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

(2) Includes interest on variation margin on cleared interest-rate swaps.

Fair Value Hedges

The tables below present the effects of fair value hedge accounting by consolidated statements of comprehensive income line, including the gains and losses on derivatives and hedged items designated in qualifying hedge relationships and other components due to the application of hedge accounting.

Table 9.3 - Gains and Losses on Fair Value Hedges

	Year Ended December 31, 2019		
(In millions)	Interest Income - Mortgage Loans	Interest Expense	Other Income (Loss)
Total amounts of income and expense line items presented on our consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	$68,583	($61,047)	$323
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships:			
Hedged items	4,569	—	—
Derivatives designated as hedging instruments	(4,309)	—	—
Interest accruals on hedging instruments	(48)	—	—
Discontinued hedge related basis adjustment amortization	(446)	—	—
Interest contracts on debt:			
Gain or (loss) on fair value hedging relationships:			
Hedged Items	—	(1,038)	—
Derivatives designated as hedging instruments	—	1,231	—
Interest accruals on hedging instruments	—	(184)	—
Discontinued hedge related basis adjustment amortization	—	63	—

	Year Ended December 31, 2018		
(In millions)	Interest Income - Mortgage Loans	Interest Expense	Other Income (Loss)
Total amounts of income and expense line items presented on our consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	$66,037	($58,033)	$762
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships:			
Hedged items	(1,776)	—	—
Derivatives designated as hedging instruments	1,091	—	—
Interest accruals on hedging instruments	(439)	—	—
Discontinued hedge related basis adjustment amortization	133	—	—
Interest contracts on debt:			
Gain or (loss) on fair value hedging relationships:			
Hedged Items	—	145	—
Derivatives designated as hedging instruments	—	155	—
Interest accruals on hedging instruments	—	(313)	—
Discontinued hedge related basis adjustment amortization	—	(3)	—

(In millions)	Year Ended December 31, 2017		
	Interest Income - Mortgage Loans	Interest Expense	Other Income (Loss)
Total amounts of income and expense line items presented on our consolidated statements of comprehensive income in which the effects of fair value hedges are recorded:	$63,735	($53,643)	$4,984
Interest contracts on mortgage loans held-for-investment:			
Gain or (loss) on fair value hedging relationships: (1)			
Hedged items	(107)	—	351
Derivatives designated as hedging instruments(2)	313	—	(215)
Interest accruals on hedging instruments	(83)	—	—
Discontinued hedge related basis adjustment amortization	(16)	—	—
Interest contracts on debt:			
Gain or (loss) on fair value hedging relationships:			
Hedged Items	—	93	—
Derivatives designated as hedging instruments	—	(53)	—
Interest accruals on hedging instruments	—	8	—
Discontinued hedge related basis adjustment amortization	—	—	—

(1) For the first three quarters of 2017, the gains or losses on derivatives and hedged items were recorded in other income (loss). Beginning in 4Q 2017, gains or losses are recorded in interest income - mortgage loans on our consolidated statements of comprehensive income due to adoption of amended hedge accounting guidance.

(2) The gain or (loss) on fair value hedging relationships in 2017 excludes ($277) million of interest accruals which were recorded in derivatives gains (losses) on our consolidated statements of comprehensive income.

Cumulative Basis Adjustments due to Fair Value Hedging

The tables below present the carrying amounts of the hedged items that have been in a qualifying fair value hedge by their respective balance sheet line item, as well as the hedged item's cumulative basis adjustments. The hedged item carrying amounts include both designated and discontinued hedges.

Table 9.4 - Cumulative Basis Adjustments due to Fair Value Hedging

(In millions)	December 31, 2019					
	Carrying Amount Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in the Carrying Amount			Closed Portfolio Under the Last-of-Layer Method	
		Total	Under the Last-of-Layer Method	Discontinued - Hedge Related	Total Amount by Amortized Cost Basis	Designated Amount by UPB
Mortgage loans held-for-investment	$470,889	$2,886	($943)	$3,829	$273,346	$22,747
Debt	(122,746)	(668)	—	(93)	—	—

(In millions)	December 31, 2018					
	Carrying Amount Assets / (Liabilities)	Cumulative Amount of Fair Value Hedging Basis Adjustment Included in the Carrying Amount			Closed Portfolio Under the Last-of-Layer Method	
		Total	Under the Last-of-Layer Method	Discontinued - Hedge Related	Total Amount by Amortized Cost Basis	Designated Amount by UPB
Mortgage loans held-for-investment	$193,547	($1,237)	$—	($1,237)	$—	$—
Debt	(127,215)	216	—	(8)	—	—

NOTE 10

Collateralized Agreements and Offsetting Arrangements

Derivative Portfolio

Our use of cleared derivatives, exchange-traded derivatives, and OTC derivatives exposes us to counterparty credit risk. We are required to post margin in connection with our derivatives transactions. This requirement exposes us to counterparty credit risk in the event that our counterparties fail to meet their obligations. However, the use of cleared and exchange-traded derivatives decreases our credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties. OTC derivatives expose us to the credit risk of individual counterparties because transactions are executed and settled between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its obligations.

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

Over-the-Counter Derivatives

We use master netting and collateral agreements to reduce our credit risk exposure to our OTC derivative counterparties for interest-rate swap and option-based derivatives. Master netting agreements provide for the netting of amounts receivable and payable from an individual counterparty, as well as posting of collateral in the form of cash, Treasury securities or agency mortgage-related or debt securities, or a combination of both by either the counterparty or us, depending on which party is in a liability position. Although it is our practice not to repledge assets held as collateral, these agreements may allow us or our counterparties to repledge all or a portion of the collateral.

We have master netting agreements in place with all of our OTC derivative counterparties. On a daily basis, the market value of each counterparty's derivatives outstanding is calculated to determine the amount of our net credit exposure, which is equal to the market value of derivatives in a net gain position by counterparty after giving consideration to collateral posted. In the event a counterparty defaults on its obligations under the derivatives agreement and the default is not remedied in the manner prescribed in the agreement, we have the right under the agreement to sell the collateral. As a result, our use of master netting and collateral agreements reduces our exposure to our counterparties in the event of default.

In the event that all of our counterparties for OTC interest-rate swaps and option-based derivatives were to have defaulted simultaneously on December 31, 2019, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately $20 million. A significant majority of our net uncollateralized exposure to OTC derivative counterparties is concentrated withtwo counterparties, all of which were investment grade as of December 31, 2019. We regularly review the market value of securities pledged as collateral and derivative counterparty collateral posting thresholds, where applicable, in an effort to manage our exposure to losses.

Regulations adopted by certain financial institution regulators (including FHFA) that became effective March 1, 2017 require posting of variation margin without the application of any thresholds for OTC derivative transactions executed after that date. However, for OTC derivative transactions executed before March 1, 2017 the amount of collateral we pledge to counterparties related to our derivative instruments is determined after giving consideration to our credit rating. The aggregate fair value of our OTC derivative instruments containing credit-risk related contingent features, netted by counterparty, that were in a liability position on December 31, 2019 was $1.7 billion for which we posted cash and non-cash collateral of $1.7 billion in the normal course of business. A reduction in our credit ratings may trigger additional collateral requirements related to these OTC derivative instruments. If a reduction in our credit ratings had triggered additional collateral requirements related to these OTC derivative instruments on December 31, 2019, the maximum additional collateral we would have been required to post to our counterparties would be $0.1 billion. Our OTC derivative transactions will become subject to new initial margin requirements on September 1, 2020.

Cleared and Exchange-Traded Derivatives

The majority of our interest-rate swaps are subject to the central clearing requirement. Changes in the value of open exchange-traded contracts and cleared derivatives are settled daily via payments made through the clearinghouse. We net our exposure to cleared derivatives by clearinghouse and clearing member. A reduction in our credit ratings could cause the clearinghouses or clearing members we use for our cleared and exchange-traded derivatives to demand additional collateral.

Other Derivatives

We also execute forward purchase and sale commitments of loans and mortgage-related securities, including dollar roll transactions, that are treated as derivatives for accounting purposes. The total exposure on our forward purchase and sale commitments was $61 million and $90 million at December 31, 2019 and December 31, 2018, respectively.

Many of our transactions involving forward purchase and sale commitments of mortgage-related securities utilize the MBSD/FICC as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the counterparty credit risk of the organization (including its clearing members). In the event a clearing member fails and causes losses to the MBSD/FICC clearing system, we could be subject to the loss of the margin that we have posted to the MBSD/FICC. Moreover, our exposure could exceed that amount, as members are generally required to cover losses caused by defaulting members on a pro rata basis. It is difficult to estimate our maximum exposure under these transactions, as this would require an assessment of transactions that we and other members of the MBSD/FICC may execute in the future.

Securities Purchased Under Agreements to Resell

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

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

Beginning in 2017, we began to utilize the GSD/FICC as a clearinghouse to transact many of our trades involving securities purchased under agreements to resell, securities sold under agreements to repurchase, and other non-mortgage related securities. As a clearing member of GSD/FICC, we are required to post initial and variation margin payments and are exposed to the counterparty credit risk of GSD/FICC (including its clearing members). Although our membership provides us with the right to offset certain of our open receivable and payable positions by collateral type, we have elected not to offset these positions within our consolidated balance sheets. In the event a clearing member fails and causes losses to the GSD/FICC clearing system, we could be subject to the loss of the margin that we have posted to the GSD/FICC. Moreover, our exposure could exceed that amount, as members are generally required to cover losses caused by defaulting members on a pro rata basis. It is difficult to estimate our maximum exposure under these transactions, as this would require an assessment of transactions that we and other members of the GSD/FICC may execute in the future.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are effectively collateralized borrowings where we sell securities with an agreement to repurchase such securities at a future date. We are required to pledge the sold securities to the counterparties to these transactions as collateral for our obligation to repurchase these securities at a later date. Similar to the securities purchased under agreements to resell transactions, these transactions involve the legal transfer of securities. However, they are accounted for as secured financings because the transferor does not relinquish effective control over the securities transferred. These agreements may allow our counterparties to repledge all or a portion of the collateral. Beginning in 2017, certain of our trades involving securities sold under agreements to repurchase utilized GSD/FICC as a clearinghouse.

Offsetting of Financial Assets and Liabilities

When we receive cash collateral, we recognize the amount received along with a corresponding obligation to return the collateral. When we post cash collateral, we derecognize the amount posted along with a corresponding asset for our right to receive the return of the collateral. We generally do not recognize or derecognize collateral received or pledged in the form of securities as the transferor in such arrangements does not relinquish effective control over the securities transferred. See **Note 9** for additional information on our consolidated balance sheets presentation of collateral related to derivatives transactions. At December 31, 2019 and December 31, 2018, all amounts of cash collateral related to derivatives with master netting and collateral agreements were offset against derivative assets, net or derivative liabilities, net, as applicable.

The tables below present offsetting and collateral information related to derivatives, securities purchased under agreements to resell, and securities sold under agreements to repurchase. Securities sold under agreements to repurchase are included in debt, net on our consolidated balance sheets.

Table 10.1 - Offsetting and Collateral Information of Financial Assets and Liabilities

	As of December 31, 2019					
		Amount Offset in the Consolidated Balance Sheets				
(In millions)	Gross Amount Recognized	Counterparty Netting	Cash Collateral Netting(1)	Net Amount Presented on the Consolidated Balance Sheets	Gross Amount Not Offset on the Consolidated Balance Sheets(2)	Net Amount
Assets:						
Derivatives:						
OTC derivatives	$7,045	($4,465)	($2,075)	$505	($485)	$20
Cleared and exchange-traded derivatives	144	(5)	123	262	—	262
Other	77	—	—	77	—	77
Total derivatives	**7,266**	**(4,470)**	**(1,952)**	**844**	**(485)**	**359**
Securities purchased under agreements to resell(3)	66,114	—	—	66,114	(66,114)	—
Total	**$73,380**	**($4,470)**	**($1,952)**	**$66,958**	**($66,599)**	**$359**
Liabilities:						
Derivatives:						
OTC derivatives	($5,731)	$4,465	$1,164	($102)	$—	($102)
Cleared and exchange-traded derivatives	(5)	5	—	—	—	—
Other	(270)	—	—	(270)	—	(270)
Total derivatives	**(6,006)**	**4,470**	**1,164**	**(372)**	**—**	**(372)**
Securities sold under agreements to repurchase(3)	(9,843)	—	—	(9,843)	9,843	—
Total	**($15,849)**	**$4,470**	**$1,164**	**($10,215)**	**$9,843**	**($372)**

	As of December 31, 2018					
		Amount Offset in the Consolidated Balance Sheets				
(In millions)	Gross Amount Recognized	Counterparty Netting	Cash Collateral Netting(1)	Net Amount Presented on the Consolidated Balance Sheets	Gross Amount Not Offset on the Consolidated Balance Sheets(2)	Net Amount
Assets:						
Derivatives:						
OTC derivatives	$7,213	($4,544)	($2,448)	$221	($173)	$48
Cleared and exchange-traded derivatives	3	—	20	23	—	23
Other	91	—	—	91	—	91
Total derivatives	**7,307**	**(4,544)**	**(2,428)**	**335**	**(173)**	**162**
Securities purchased under agreements to resell(3)	34,771	—	—	34,771	(34,771)	—
Total	**$42,078**	**($4,544)**	**($2,428)**	**$35,106**	**($34,944)**	**$162**
Liabilities:						
Derivatives:						
OTC derivatives	($4,963)	$4,544	$296	($123)	$—	($123)
Cleared and exchange-traded derivatives	(244)	—	101	(143)	—	(143)
Other	(317)	—	—	(317)	—	(317)
Total derivatives	**(5,524)**	**4,544**	**397**	**(583)**	**—**	**(583)**
Securities sold under agreements to repurchase(3)	(6,019)	—	—	(6,019)	6,019	—
Total	**($11,543)**	**$4,544**	**$397**	**($6,602)**	**$6,019**	**($583)**

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

(2) Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability, netted by counterparty, presented on the consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us as initial margin with an aggregate fair value of $3.5 billion and $2.5 billion as of December 31, 2019 and December 31, 2018, respectively.

(3) Does not include the impacts of netting by central clearing organizations.

We primarily execute securities purchased under agreements to resell transactions with central clearing organizations where we have the right to repledge the collateral that has been pledged to us, either with the central clearing organization or with other counterparties. At December 31, 2019 and December 31, 2018, we had $52.4 billion and $20.1 billion, respectively, of securities pledged to us in these transactions. In addition, at December 31, 2019 and December 31, 2018, we had $2.4 billion and $2.5 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell not executed with central clearing organizations that we had the right to repledge.

Collateral Pledged

Collateral Pledged to Freddie Mac

We have cash pledged to us as collateral primarily related to OTC derivative transactions. We had $2.6 billion and $3.0 billion pledged to us as collateral that was invested as part of our Liquidity and Contingency Operating Portfolio as of December 31, 2019 and December 31, 2018, respectively.

Collateral Pledged by Freddie Mac

The tables below summarize the fair value of the securities pledged as collateral by us for derivatives and collateralized borrowing transactions, including securities that the secured party may repledge.

Table 10.2 - Collateral in the Form of Securities Pledged

	As of December 31, 2019			
(In millions)	Derivatives	Securities sold under agreements to repurchase	Other[3]	Total
Debt securities of consolidated trusts[2]	$562	$—	$280	$842
Trading securities	2,894	9,346	49	12,289
Total securities pledged	**$3,456**	**$9,346**	**$329**	**$13,131**

	As of December 31, 2018			
(In millions)	Derivatives	Securities sold under agreements to repurchase	Other[3]	Total
Cash equivalents[1]	$—	$2,595	$—	$2,595
Debt securities of consolidated trusts[2]	362	—	179	541
Available-for-sale securities	—	—	1	1
Trading securities	2,160	3,432	73	5,665
Total securities pledged	**$2,522**	**$6,027**	**$253**	**$8,802**

(1) Represents U.S. Treasury securities accounted for as cash equivalents.

(2) Represents Freddie Mac mortgage-related securities held by us in our Capital Markets segment mortgage investments portfolio which are recorded as a reduction to debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

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

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

Table 10.3 - Underlying Collateral Pledged

	As of December 31, 2019				
(In millions)	Overnight and continuous	30 days or less	After 30 days through 90 days	Greater than 90 days	Total
U.S. Treasury securities	$—	$9,081	$265	$—	$9,346

NOTE 11

Stockholders' Equity and Earnings Per Share

Accumulated Other Comprehensive Income

The tables below present changes in AOCI after the effects of our federal statutory tax rates of 21% for both 2019 and 2018, related to available-for-sale securities, closed cash flow hedges, and our defined benefit plans.

Table 11.1 - Changes in AOCI by Component, Net of Taxes

	Year Ended December 31, 2019			
(In millions)	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	$83	($315)	$97	($135)
Other comprehensive income before reclassifications	668	—	(17)	651
Amounts reclassified from accumulated other comprehensive income	(133)	71	(16)	(78)
Changes in AOCI by component	**535**	**71**	**(33)**	**573**
Ending balance	**$618**	**($244)**	**$64**	**$438**

	Year Ended December 31, 2018			
(In millions)	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	$662	($356)	$83	$389
Other comprehensive income before reclassifications	(476)	—	11	(465)
Amounts reclassified from accumulated other comprehensive income	(246)	114	(16)	(148)
Changes in AOCI by component	**(722)**	**114**	**(5)**	**(613)**
Cumulative effect of change in accounting principle [1]	**143**	**(73)**	**19**	89
Ending balance	**$83**	**($315)**	**$97**	**($135)**

	Year Ended December 31, 2017			
(In millions)	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	$915	($480)	$21	$456
Other comprehensive income before reclassifications	857	—	63	920
Amounts reclassified from accumulated other comprehensive income	(1,110)	124	(1)	(987)
Changes in AOCI by component	**(253)**	**124**	**62**	**(67)**
Ending balance	**$662**	**($356)**	**$83**	**$389**

(1) Includes the effect of adopting the accounting guidance on reclassification of stranded tax effects of the Tax Cuts and Jobs Act in 1Q 2018.

In 1Q 2018, we adopted the accounting guidance related to the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. The reclassification includes stranded tax effects related to unrealized gains and losses on available-for-sale securities, deferred net losses on closed cash flow hedges, and our defined benefit plans.

Reclassifications from AOCI to Net Income

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

Table 11.2 - Reclassifications from AOCI to Net Income

	Year Ended December 31,		
(In millions)	2019	2018	2017
AOCI related to available-for-sale securities			
Affected line items on the consolidated statements of comprehensive income:			
Investment securities gains (losses)	$168	$312	$1,708
Income tax (expense) or benefit	(35)	(66)	(598)
Net of tax	**133**	**246**	**1,110**
AOCI related to cash flow hedge relationships			
Affected line items on the consolidated statements of comprehensive income:			
Interest expense	(90)	(133)	(164)
Income tax (expense) or benefit	19	19	40
Net of tax	**(71)**	**(114)**	**(124)**
AOCI related to defined benefit plans			
Affected line items on the consolidated statements of comprehensive income:			
Salaries and employee benefits	20	20	2
Income tax (expense) or benefit	(4)	(4)	(1)
Net of tax	**16**	**16**	**1**
Total reclassifications in the period net of tax	**$78**	**$148**	**$987**

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

The total AOCI related to derivatives designated as cash flow hedges was a loss of $0.2 billion and $0.3 billion at December 31, 2019 and December 31, 2018, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges.

The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately $43 million, net of taxes, of the $0.2 billion of cash flow hedge losses in AOCI at December 31, 2019 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 14 years.

Senior Preferred Stock

Pursuant to the Purchase Agreement described in **Note 2**, we issued one million shares of senior preferred stock to Treasury on September 8, 2008, in partial consideration of Treasury's commitment to provide funds to us.

Shares of the senior preferred stock have a par value of $1, and have a stated value and initial liquidation preference of $1 billion, or $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury will be added to the liquidation preference of the senior preferred stock. The liquidation preference also increased by $3.0 billion on December 31, 2017 pursuant to the December 2017 Letter Agreement. Pursuant to the September 2019 Letter Agreement, the liquidation preference of the senior preferred stock will be increased, at the end of each fiscal quarter, beginning on September 30, 2019, by an amount equal to the increase in the Net Worth Amount, if any, during the immediately prior fiscal quarter, until the liquidation preference has increased by $17.0 billion. During 3Q 2019, our Net Worth Amount increased by $1.8 billion. As a result, the liquidation preference of the senior preferred stock increased to $79.3 billion on December 31, 2019 and will increase to $81.8 billion on March 31, 2020 based on the $2.4 billion increase in our Net Worth Amount during 4Q 2019. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances. As discussed in **Note 2**, the quarterly commitment fee has been suspended.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers, and privileges of the Board. The dividend is presented in the period in which it is determinable for the senior preferred stock, as a reduction to net income (loss) available to common stockholders and net income (loss) per common share. The dividend is declared and paid in the following period and recorded as a reduction to equity in the period declared. Total dividends paid in cash during 2019, 2018, and 2017 at the direction of the Conservator were $3.1 billion, $4.1 billion, and $10.9 billion, respectively. See **Note 2** for a discussion of our net worth sweep dividend.

The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless:

- Full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash and
- All amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described below) have been paid in cash.

Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of accrued and unpaid dividends previously added to the liquidation preference and not previously paid down and quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury's funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

The table below provides a summary of our senior preferred stock outstanding at December 31, 2019.

Table 11.3 - Senior Preferred Stock

(**In millions**, except initial liquidation preference price per share)	Shares Authorized	Shares Outstanding	Total Par Value	Initial Liquidation Preference Price per Share	Total Liquidation Preference
Non-draw Adjustment Dates:					
September 8, 2008	1.00	1.00	$1.00	$1,000	$1,000
December 31, 2017	—	—	—	N/A	3,000
September 30, 2019	—	—	—	N/A	1,826
December 31, 2019	—	—	—	N/A	1,848
Total non-draw adjustments	**1.00**	**1.00**	**1.00**		**7,674**
Draw Dates:					
November 24, 2008	—	—	—	N/A	13,800
March 31, 2009	—	—	—	N/A	30,800
June 30, 2009	—	—	—	N/A	6,100
June 30, 2010	—	—	—	N/A	10,600
September 30, 2010	—	—	—	N/A	1,800
December 30, 2010	—	—	—	N/A	100
March 31, 2011	—	—	—	N/A	500
September 30, 2011	—	—	—	N/A	1,479
December 30, 2011	—	—	—	N/A	5,992
March 30, 2012	—	—	—	N/A	146
June 29, 2012	—	—	—	N/A	19
March 30, 2018	—	—	—	N/A	312
Total draw adjustments	**—**	**—**	**—**		**71,648**
Total senior preferred stock	**1.00**	**1.00**	**$1.00**		**$79,322**

No cash was received from Treasury under the Purchase Agreement in 2019, because we had positive net worth at December 31, 2018, March 31, 2019, June 30, 2019, and September 30, 2019 and, consequently, FHFA did not request a draw on our behalf in 2019. At December 31, 2019, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. The aggregate liquidation preference of the senior preferred stock owned by Treasury was $79.3 billion as of December 31, 2019 and $75.6 billion as of December 31, 2018.

Our quarterly senior preferred stock dividend requirement is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds the applicable Capital Reserve Amount of $20.0 billion. If, for any reason, we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the applicable Capital Reserve Amount would thereafter be zero. See **Note 2** for additional information.

Common Stock Warrant

Pursuant to the Purchase Agreement described in **Note 2**, on September 7, 2008, we issued a warrant to purchase common stock to Treasury, in partial consideration of Treasury's commitment to provide funds to us.

The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of a notice of exercise, payment of the exercise price of $0.00001 per share and the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person.

We account for the warrant in permanent equity. At issuance on September 7, 2008, we recognized the warrant at fair value, and we do not recognize subsequent changes in fair value while the warrant remains classified in equity. We recorded an aggregate fair value of $2.3 billion for the warrant as a component of additional paid-in-capital. We derived the fair value of the warrant using a modified Black-Scholes model. If the warrant is exercised, the stated value of the common stock issued will be reclassified to common stock on our consolidated balance sheets. The warrant was determined to be in-substance non-voting common stock, because the warrant's exercise price of $0.00001 per share is considered non-substantive (compared to the market price of our common stock). As a result, the shares associated with the warrant are included in the computation of basic and diluted earnings (loss) per share. The weighted average shares of common stock outstanding for the years ended

December 31, 2019, 2018, and 2017 included shares of common stock that would be issuable upon full exercise of the warrant issued to Treasury.

Preferred Stock

We have the option to redeem our preferred stock on specified dates, at their redemption price plus dividends accrued through the redemption date. However, without the consent of Treasury, we are restricted from making payments to purchase or redeem preferred stock as well as paying any preferred dividends, other than dividends on the senior preferred stock. All 24 classes of preferred stock are perpetual and non-cumulative, and carry no significant voting rights or rights to purchase additional Freddie Mac stock or securities. Costs incurred in connection with the issuance of preferred stock are charged to additional paid-in capital.

The table below provides a summary of our preferred stock outstanding at their redemption values at December 31, 2019.

Table 11.4 - Preferred Stock

(In millions, except redemption price per share)	Issue Date	Shares Authorized	Shares Outstanding	Total Par Value	Redemption Price per Share	Total Outstanding Balance	Redeemable On or After	OTCQB Symbol
Preferred stock:								
1996 Variable-rate(1)	April 26, 1996	5.00	5.00	$5.00	$50.00	$250	June 30, 2001	FMCCI
5.81%	October 27, 1997	3.00	3.00	3.00	50.00	150	October 27, 1998	(2)
5%	March 23, 1998	8.00	8.00	8.00	50.00	400	March 31, 2003	FMCKK
1998 Variable-rate(3)	September 23 and 29, 1998	4.40	4.40	4.40	50.00	220	September 30, 2003	FMCCG
5.10%	September 23, 1998	8.00	8.00	8.00	50.00	400	September 30, 2003	FMCCH
5.30%	October 28, 1998	4.00	4.00	4.00	50.00	200	October 30, 2000	(2)
5.10%	March 19, 1999	3.00	3.00	3.00	50.00	150	March 31, 2004	(2)
5.79%	July 21, 1999	5.00	5.00	5.00	50.00	250	June 30, 2009	FMCCK
1999 Variable-rate(4)	November 5, 1999	5.75	5.75	5.75	50.00	287	December 31, 2004	FMCCL
2001 Variable-rate(5)	January 26, 2001	6.50	6.50	6.50	50.00	325	March 31, 2003	FMCCM
2001 Variable-rate(6)	March 23, 2001	4.60	4.60	4.60	50.00	230	March 31, 2003	FMCCN
5.81%	March 23, 2001	3.45	3.45	3.45	50.00	173	March 31, 2011	FMCCO
6%	May 30, 2001	3.45	3.45	3.45	50.00	173	June 30, 2006	FMCCP
2001 Variable-rate(7)	May 30, 2001	4.02	4.02	4.02	50.00	201	June 30, 2003	FMCCJ
5.70%	October 30, 2001	6.00	6.00	6.00	50.00	300	December 31, 2006	FMCKP
5.81%	January 29, 2002	6.00	6.00	6.00	50.00	300	March 31, 2007	(2)
2006 Variable-rate(8)	July 17, 2006	15.00	15.00	15.00	50.00	750	June 30, 2011	FMCCS
6.42%	July 17, 2006	5.00	5.00	5.00	50.00	250	June 30, 2011	FMCCT
5.90%	October 16, 2006	20.00	20.00	20.00	25.00	500	September 30, 2011	FMCKO
5.57%	January 16, 2007	44.00	44.00	44.00	25.00	1,100	December 31, 2011	FMCKM
5.66%	April 16, 2007	20.00	20.00	20.00	25.00	500	March 31, 2012	FMCKN
6.02%	July 24, 2007	20.00	20.00	20.00	25.00	500	June 30, 2012	FMCKL
6.55%	September 28, 2007	20.00	20.00	20.00	25.00	500	September 30, 2017	FMCKI
2007 Fixed-to-floating rate(9)	December 4, 2007	240.00	240.00	240.00	25.00	6,000	December 31, 2012	FMCKJ
Total, preferred stock		**464.17**	**464.17**	**$464.17**		**$14,109**		

(1) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 9.00%.

(2) Issued through private placement.

(3) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 7.50%.

(4) Dividend rate resets on January 1 every five years after January 1, 2005 based on a five-year Constant Maturity Treasury rate, and is capped at 11.00%. Optional redemption on December 31, 2004 and on December 31 every five years thereafter.

(5) Dividend rate resets on April 1 every two years after April 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.10%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every two years thereafter.

(6) Dividend rate resets on April 1 every year based on 12-month LIBOR minus 0.20%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every year thereafter.

(7) Dividend rate resets on July 1 every two years after July 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.20%, and is capped at 11.00%. Optional redemption on June 30, 2003 and on June 30 every two years thereafter.

(8) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 0.50% but not less than 4.00%.

(9) Dividend rate is set at an annual fixed rate of 8.375% from December 4, 2007 through December 31, 2012. For the period beginning on or after January 1, 2013, dividend rate resets quarterly and is equal to the higher of: (a) the sum of three-month LIBOR plus 4.16% per annum or (b) 7.875% per annum. Optional redemption on December 31, 2012 and on December 31 every five years thereafter.

Stock-Based Compensation

Following the implementation of the conservatorship in September 2008, we suspended the operation of and/or ceased making grants under our stock-based compensation plans. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2019 and 2018, except for issuances of treasury stock as reported on our consolidated statements of equity relating to stock-based compensation granted prior to conservatorship. Common stock delivered under these stock-based compensation plans consists of treasury stock or shares acquired in market transactions on behalf of the participants. During 2019, the deferral period lapsed on 351 RSUs. At December 31, 2019, 702 RSUs remained outstanding. In addition, there were 41,160 shares of restricted stock outstanding at both December 31, 2019 and December 31, 2018. At December 31, 2019, no stock options were outstanding.

Earnings Per Share

We have participating securities related to RSUs with dividend equivalent rights that receive dividends as declared on an equal basis with common shares but are not obligated to participate in undistributed net losses. These participating securities consist of vested RSUs that earn dividend equivalents at the same rate when and as declared on common stock.

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

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

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

During periods in which a net loss attributable to common stockholders has been incurred, potential common equivalent shares outstanding are not included in the calculation because it would have an antidilutive effect.

For purposes of the earnings-per-share calculation, antidilutive potential common shares excluded from the computation of dilutive potential common shares were 0 at December 31, 2019, December 31, 2018, and December 31, 2017.

Dividends and Dividend Restrictions

No common dividends were declared in 2019 or 2018. During the three months ended March 31, 2019 and June 30, 2019, we paid dividends of $1.5 billion and $1.7 billion, respectively, in cash on the senior preferred stock at the direction of our Conservator. As a result of the increase in the applicable Capital Reserve Amount pursuant to the September 2019 Letter Agreement, we did not declare or pay a dividend on the senior preferred stock during the three months ended September 30, 2019 and December 31, 2019. We also did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during 2019.

Our payment of dividends is subject to the following restrictions:

- **Restrictions Relating to the Conservatorship** - The Conservator has prohibited us from paying any dividends on our common stock or on any series of our preferred stock (other than the senior preferred stock). FHFA has instructed our Board of Directors that it should consult with and obtain the approval of FHFA before taking actions involving dividends. In addition, FHFA has adopted a regulation prohibiting us from making capital distributions during conservatorship, except as authorized by the Director of FHFA.

- **Restrictions Under the Purchase Agreement** - The Purchase Agreement prohibits us and any of our subsidiaries from declaring or paying any dividends on Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant) without the prior written consent of Treasury.
- **Restrictions Under the GSE Act** - Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. However, our capital requirements have been suspended during conservatorship.
- **Restrictions Under our Charter** - Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.
- **Restrictions Relating to Preferred Stock** - Payment of dividends on our common stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of senior preferred stock, representing an aggregate of 464,170,000 shares and 1,000,000 shares outstanding, respectively, as of December 31, 2019. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is subject to the prior payment of dividends on the senior preferred stock.

Delisting of Common Stock and Preferred Stock from NYSE

On July 8, 2010, we delisted our common and 20 previously listed classes of preferred stock from the NYSE pursuant to a directive by our Conservator.

Our common stock and the classes of preferred stock that were previously listed on the NYSE are traded exclusively in the OTCQB Marketplace. Shares of our common stock now trade under the ticker symbol FMCC. We expect that our common stock and the previously listed classes of preferred stock will continue to trade in the OTCQB Marketplace so long as market makers demonstrate an interest in trading the common and preferred stock.

NOTE 12

Income Taxes

Income Tax Expense

Total income tax expense includes:

- Current income tax expense, which represents the amount of federal tax currently payable to or receivable from the Internal Revenue Service, including interest and penalties and amounts accrued for unrecognized tax benefits, if any, and
- Deferred income tax expense, which represents the net change in the deferred tax asset or liability balance during the year, including any change in the valuation allowance.

Income tax expense excludes the tax effects related to adjustments recorded to other comprehensive income, such as unrealized gains and losses on available-for-sale securities.

The table below presents the components of our federal income tax expense for the past three years. We are exempt from state and local income taxes.

Table 12.1 - Federal Income Tax Expense

	Year Ended December 31,		
(In millions)	2019	2018	2017
Current income tax expense	($1,018)	($848)	($3,436)
Deferred income tax expense	(817)	(1,391)	(7,773)
Total income tax expense	**($1,835)**	**($2,239)**	**($11,209)**

Income tax expense decreased from 2018 to 2019 primarily due to a decrease in pre-tax book income, and decreased from 2017 to 2018, primarily due to higher income tax expense in 2017 driven by the revaluation of the net deferred tax asset. The revaluation was required due to the enactment of the Tax Cuts and Jobs Act in 2017, which reduced the corporate income tax rate from 35% to 21% for tax years after 2017. Accounting rules required that we measure our net deferred tax asset using the reduced rate in the period in which the legislation was enacted. Therefore, income tax expense in 2017 reflected a $5.4 billion charge associated with the reduction in the net deferred tax asset.

The table below presents the reconciliation between our federal statutory income tax rate and our effective tax rate for the past three years.

Table 12.2 - Reconciliation of Federal Statutory Income Tax Rate to Effective Tax Rate

	Year Ended December 31,					
	2019		2018		2017	
(Dollars in millions)	Amount	Percent	Amount	Percent	Amount	Percent
Statutory corporate tax rate	($1,900)	21.0%	($2,410)	21.0%	($5,892)	35.0%
Tax-exempt interest	18	(0.2)	19	(0.2)	39	(0.2)
Tax credits	48	(0.5)	56	(0.5)	135	(0.8)
Valuation allowance	9	(0.1)	(13)	0.1	(54)	0.3
Revaluation of deferred tax asset to enacted rate	—	—	184	(1.6)	(5,405)	32.1
Other	(10)	0.1	(75)	0.7	(32)	0.2
Effective tax rate	**($1,835)**	**20.3%**	**($2,239)**	**19.5%**	**($11,209)**	**66.6%**

Deferred Tax Assets, Net

We use the asset and liability method of accounting for income taxes for financial reporting purposes. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates as well as tax net operating loss and tax credit carryforwards, if any. To the extent tax laws change, deferred tax assets and liabilities are adjusted in the period that the tax change is enacted. The realization of our net deferred tax assets is dependent upon the generation of sufficient taxable income.

The table below presents the balance of significant deferred tax assets and liabilities at December 31, 2019 and December 31, 2018. The valuation allowance relates to capital loss carryforwards included in Other Items, net that we expect to expire unused.

Table 12.3 - Deferred Tax Assets and Liabilities

	Year Ended December 31,	
(In millions)	2019	2018
Deferred tax assets:		
Deferred fees	$3,529	$4,424
Basis differences related to derivative instruments	1,398	1,767
Credit related items and allowance for loan losses	79	177
Basis differences related to assets held for investment	921	569
Other items, net	56	20
Total deferred tax assets	**5,983**	**6,957**
Deferred tax liabilities:		
Unrealized gains related to available-for-sale securities	(28)	(23)
Total deferred tax liabilities	**(28)**	**(23)**
Valuation allowance	(37)	(46)
Deferred tax assets, net	**$5,918**	**$6,888**

Valuation Allowance

A valuation allowance is recorded to reduce the net deferred tax asset when it is more likely than not that all or part of our tax benefits will not be realized. On a quarterly basis, we determine whether a valuation allowance is necessary. In doing so, we consider all evidence available, both positive and negative, in determining whether, based on the weight of the evidence, it is more likely than not that the net deferred tax asset will be realized.

We are not permitted to consider in our analysis the impacts proposed legislation may have on our business because the timing and certainty of those actions are unknown and beyond our control.

Based on all positive and negative evidence available at December 31, 2019, we determined that it is more likely than not that our net deferred tax assets, except for the deferred tax asset related to our capital loss carryforwards, will be realized. A valuation allowance of $37 million has been recorded against our capital loss carryforward deferred tax asset.

Unrecognized Tax Benefits and IRS Examinations

We recognize a tax position taken or expected to be taken (and any associated interest and penalties) if it is more likely than not that it will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We measure the tax position at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We evaluated all income tax positions and determined that there were no uncertain tax positions that required reserves as of December 31, 2019.

We are under IRS examination for tax years 2013 through 2016 related to the carryback of 2016 capital losses to the prior three years.

NOTE 13

Segment Reporting

We have three reportable segments, which are based on the type of business activities each performs - Single-family Guarantee, Multifamily, and Capital Markets. The chart below provides a summary of our three reportable segments and the All Other category.

Segment/ Category	Description	Financial Performance Measurement Basis
Single-family Guarantee	The Single-family Guarantee segment reflects results from our purchase of single-family loans, our guarantee of principal and interest payments on securitized mortgage loans in exchange for guarantee fees, and the management of single-family mortgage credit risk. The Single-family Guarantee segment manages single-family mortgage credit risk through risk transfer transactions, performing loss mitigation activities, and managing foreclosure and REO activities.	• Contribution to GAAP net income (loss)
Multifamily	The Multifamily segment reflects results from our purchase, sale, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily mortgage credit risk and market risk. Our primary business model is to purchase multifamily loans for aggregation and then securitization through issuance of multifamily K Certificates and SB Certificates. We also issue and guarantee other securitization products, issue other credit risk transfer products, and provide other guarantee activities.	• Contribution to GAAP comprehensive income (loss)
Capital Markets	The Capital Markets segment reflects results from managing the company's mortgage-related investments portfolio (excluding Multifamily segment investments, single-family seriously delinquent loans, and the credit risk of single-family performing and reperforming loans), single-family securitization activities, and treasury function, which includes interest-rate risk management for the company.	• Contribution to GAAP comprehensive income (loss)
All Other	The All Other category consists of material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments.	N/A

Segment Earnings

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

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

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

During 4Q 2019, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee and Capital Markets segments. The purpose of these changes is to more closely align Segment Earnings results relative to the business operations and to better reflect how management evaluates the Single-family Guarantee and Capital Markets segments. Prior period results have been revised to conform to the current period presentation. Changes were made to:

- No longer reclassify the impacts related to single-family mortgage loans held-for-sale in Segment Earnings. This change resulted in reclassifications between line items for our Single-family Guarantee and Capital Markets segments but did not result in a change between the segments.
- Reclassify the earnings mismatch related to fair value hedge accounting to investment gains (losses), net for our Capital Markets segment. This change resulted in a reclassification between line items for the Capital Markets segment but did not result in a change between segments.

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). However, the accounting principles we apply to present certain financial statement line items in Segment Earnings for our reportable segments differ significantly from those applied in preparing the comparable line items on our consolidated financial statements prepared in accordance with GAAP in order to reflect the business activities each segment performs. The significant reclassifications are discussed below.

Credit Activity-Related Reclassifications

Certain credit activity-related income and costs are included in Segment Earnings guarantee fee income or benefit (provision) for credit losses.

- Net guarantee fees, including upfront fee amortization and implied guarantee fee income related to single-family unsecuritized loans held in the mortgage-related investments portfolio, are reclassified in Segment Earnings from net interest income to guarantee fee income.
- Short-term returns on cash received related to certain upfront fees on single-family loans are reclassified in Segment Earnings from net interest income to guarantee fee income.
- The revenue and expense related to the 10 basis point increase which was legislated in the Temporary Payroll Tax Cut Continuation Act of 2011 are netted within guarantee fee income.
- A portion of the amount reversed for accrued but uncollected interest upon placing loans on non-accrual status and related recoveries (if any) is reclassified in Segment Earnings from net interest income to benefit (provision) for credit losses.
- We began hedging cash flows related to upfront fees (including buy-downs) in 2019. Amortization of the hedge gains (losses) is reclassified in Segment Earnings from net interest income to guarantee fee income.
- Property tax and insurance expenses associated with held-for-sale loans accrued after the reclassification of loans from held-for-investment to held-for-sale is reclassified in Segment Earnings from other expense to benefit (provision) for credit losses.

Investment Activity-Related Reclassifications

We move certain items into or out of net interest income so that, on a Segment Earnings basis, net interest income reflects how we measure the effective yield earned on securities held in our mortgage investments portfolio and our other investments portfolio.

We use derivatives extensively in our investment activity. The reclassifications described below allow us to reflect, in Segment Earnings net interest income, the costs associated with this use of derivatives.

- The accrual of periodic cash settlements of derivatives recorded within investment gains (losses) is reclassified in Segment Earnings from investment gains (losses) into net interest income to fully reflect the periodic cost associated with the protection provided by these contracts. Beginning in 4Q 2017, the accrual of periodic cash settlements of derivatives in qualifying hedge relationships is recorded directly to net interest income due to the adoption of amended hedge accounting guidance. As a result, only the accrual of periodic cash settlements of derivatives while not in qualifying hedge relationships is reclassified for Segment Earnings.
- For Segment Earnings, changes in the fair value of the hedging instrument and changes in the fair value of the hedged item attributable to the risk being hedged are reclassified to investment gains (losses), net from net interest income beginning in 4Q 2017 and from other income for periods prior to 4Q 2017.

Amortization related to certain items is not relevant to how we measure the effective yield earned on the securities held in our investments portfolio. Therefore, as described below, we reclassify the following items in Segment Earnings from net interest income to non-interest income:

- Amortization related to derivative commitment basis adjustments associated with mortgage-related and non-mortgage-related securities.
- Amortization related to accretion of other-than-temporary impairments on available-for-sale securities.
- Amortization of discounts on loans purchased with deteriorated credit quality that are on accrual status.
- Amortization related to premiums and discounts, including non-cash premiums and discounts, on single-family loans in trusts and on the associated consolidated securities.
- Amortization related to premiums and discounts associated with securities issued by our consolidated trusts that we previously held and subsequently transferred to third parties.

Certain debt-related costs are not relevant to how we measure the effective yield earned on the securities held in our investments portfolio. Therefore, as described below, we reclassify the following items in Segment Earnings:

- Costs associated with STACR debt note expenses are reclassified from net interest income to credit enhancement expense.

- Internally allocated costs associated with the securitization of multifamily held-for-investment loans into a consolidated securitization structure are reclassified from net interest income to other income.

Segment Allocations

The results of each reportable segment include directly attributable revenues and expenses. Administrative expenses that are not directly attributable to a segment are allocated to our segments using various methodologies, depending on the nature of the expense. Net interest income for each segment includes allocated debt funding and hedging costs related to certain assets of each segment. Funding and interest-rate risk is consolidated and primarily managed by the Capital Markets segment for all other business segments. In connection with this activity, the Capital Markets segment transfers costs or income to the other segments. The actual costs or income may vary relative to these intra-company transfers. In addition, the financial statement variability associated with the use of derivatives to hedge certain assets outside the Capital Markets segment is not fully allocated to other segments. These allocations do not include the effects of dividends paid on our senior preferred stock.

The table below presents Segment Earnings by segment.

Table 13.1 - Segment Earnings

	Year Ended December 31,		
(In millions)	2019	2018	2017
Segment Earnings (loss), net of taxes:			
Single-family Guarantee	$4,365	$3,908	$2,759
Multifamily	1,827	1,319	2,014
Capital Markets	1,022	4,008	6,257
All Other	—	—	(5,405)
Total Segment Earnings, net of taxes	**7,214**	**9,235**	**5,625**
Net income (loss)	**$7,214**	**$9,235**	**$5,625**
Comprehensive income (loss) of segments:			
Single-family Guarantee	$4,343	$3,905	$2,799
Multifamily	1,928	1,236	1,937
Capital Markets	1,516	3,481	6,227
All Other	—	—	(5,405)
Comprehensive income (loss) of segments	**7,787**	**8,622**	**5,558**
Comprehensive income (loss)	**$7,787**	**$8,622**	**$5,558**

The table below presents detailed reconciliations between our GAAP financial statements and Segment Earnings for our reportable segments and All Other.

Table 13.2 - Segment Earnings and Reconciliations to GAAP Consolidated Statements of Comprehensive Income

	Year Ended December 31, 2019						
(In millions)	Single-family Guarantee	Multifamily	Capital Markets	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income	$—	$1,069	$2,486	$—	$3,555	$8,293	$11,848
Guarantee fee income	7,773	1,101	—	—	8,874	(7,785)	1,089
Investment gains (losses), net	964	576	(36)	—	1,504	(686)	818
Other income (loss)	391	108	(700)	—	(201)	524	323
Benefit (provision) for credit losses	418	(3)	—	—	415	331	746
Administrative expense	(1,647)	(503)	(414)	—	(2,564)	—	(2,564)
Credit enhancement expense	(1,393)	(15)	—	—	(1,408)	700	(708)
REO operations expense	(245)	—	—	—	(245)	16	(229)
Other expense	(786)	(41)	(54)	—	(881)	(1,393)	(2,274)
Income tax (expense) benefit	(1,110)	(465)	(260)	—	(1,835)	—	(1,835)
Net income (loss)	**4,365**	**1,827**	**1,022**	**—**	**7,214**	**—**	**7,214**
Changes in unrealized gains (losses) related to available-for-sale securities	—	105	430	—	535	—	535
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	71	—	71	—	71
Changes in defined benefit plans	(22)	(4)	(7)	—	(33)	—	(33)
Total other comprehensive income (loss), net of taxes	**(22)**	**101**	**494**	**—**	**573**	**—**	**573**
Comprehensive income (loss)	**$4,343**	**$1,928**	**$1,516**	**$—**	**$7,787**	**$—**	**$7,787**

(In millions)	Year Ended December 31, 2018						
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income	$—	$1,096	$3,217	$—	$4,313	$7,708	$12,021
Guarantee fee income	6,581	861	—	—	7,442	(6,576)	866
Investment gains (losses), net	307	16	1,803	—	2,126	(205)	1,921
Other income (loss)	841	129	340	—	1,310	(548)	762
Benefit (provision) for credit losses	448	24	—	—	472	264	736
Administrative expense	(1,491)	(437)	(365)	—	(2,293)	—	(2,293)
Credit enhancement expense	(1,077)	(16)	—	—	(1,093)	676	(417)
REO operations expense	(189)	1	—	—	(188)	19	(169)
Other expense	(568)	(36)	(11)	—	(615)	(1,338)	(1,953)
Income tax (expense) benefit	(944)	(319)	(976)	—	(2,239)	—	(2,239)
Net income (loss)	**3,908**	**1,319**	**4,008**	**—**	**9,235**	**—**	**9,235**
Changes in unrealized gains (losses) related to available-for-sale securities	—	(82)	(640)	—	(722)	—	(722)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	114	—	114	—	114
Changes in defined benefit plans	(3)	(1)	(1)	—	(5)	—	(5)
Total other comprehensive income (loss), net of taxes	**(3)**	**(83)**	**(527)**	**—**	**(613)**	**—**	**(613)**
Comprehensive income (loss)	**$3,905**	**$1,236**	**$3,481**	**$—**	**$8,622**	**$—**	**$8,622**

(In millions)	Year Ended December 31, 2017						
	Single-family Guarantee	Multifamily	Capital Markets	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income	$—	$1,206	$3,279	$—	$4,485	$9,679	$14,164
Guarantee fee income	6,363	750	—	—	7,113	(6,364)	749
Investment gains (losses), net	116	1,516	1,772	—	3,404	(2,244)	1,160
Other income (loss)	896	75	4,913	—	5,884	(900)	4,984
Benefit (provision) for credit losses	(177)	(13)	—	—	(190)	274	84
Administrative expense	(1,381)	(395)	(330)	—	(2,106)	—	(2,106)
Credit enhancement expense	(891)	(17)	—	—	(908)	628	(280)
REO operations expense	(203)	—	—	—	(203)	14	(189)
Other expense	(516)	(48)	(81)	—	(645)	(1,087)	(1,732)
Income tax (expense) benefit	(1,448)	(1,060)	(3,296)	(5,405)	(11,209)	—	(11,209)
Net income (loss)	**2,759**	**2,014**	**6,257**	**(5,405)**	**5,625**	**—**	**5,625**
Changes in unrealized gains (losses) related to available-for-sale securities	—	(86)	(167)	—	(253)	—	(253)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	124	—	124	—	124
Changes in defined benefit plans	40	9	13	—	62	—	62
Total other comprehensive income (loss), net of taxes	**40**	**(77)**	**(30)**	**—**	**(67)**	**—**	**(67)**
Comprehensive income (loss)	**$2,799**	**$1,937**	**$6,227**	**($5,405)**	**$5,558**	**$—**	**$5,558**

NOTE 14

Concentration of Credit and Other Risks

Concentrations of credit risk may arise when we do business with a number of customers or counterparties that engage in similar activities or have similar economic characteristics that make them vulnerable in similar ways to changes in industry conditions, which could affect their ability to meet their contractual obligations. Concentrations of credit risk may also arise when there are a limited number of counterparties in a certain industry. Based on our assessment of business conditions that could affect our financial results, we have determined that concentrations of credit risk exist among certain borrowers (including geographic concentrations and loans with certain higher risk characteristics), loan sellers and servicers, credit enhancement providers, and other investment counterparties. In the sections below, we discuss our concentration of credit risk for each of the groups to which we are exposed. For a discussion of our derivative counterparties, as well as related master netting and collateral agreements, see **Note 10**.

Single-Family Credit Guarantee Portfolio

Regional economic conditions may affect a borrower's ability to repay his or her loan and/or the property value underlying the loan. Geographic concentrations increase the exposure of our portfolio to changes in credit risk. Single-family borrowers are primarily affected by home prices, unemployment rates, and interest rates.

The table below summarizes the concentration by loan portfolio and geographic area of the approximately $2.0 trillion and $1.9 trillion UPB of our single-family credit guarantee portfolio at December 31, 2019 and December 31, 2018, respectively. See **Note 4** and **Note 7** for more information about credit risk associated with loans and mortgage-related securities that we hold or guarantee.

Table 14.1 - Concentration of Credit Risk of Our Single-Family Credit Guarantee Portfolio

	December 31, 2019		December 31, 2018		Percent of Credit Losses	
	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate	2019	2018
Core single-family loan portfolio	85%	0.26%	82%	0.22%	18%	10%
Legacy and relief refinance single-family loan portfolio	15	1.84	18	1.93	82	90
Total	**100%**	**0.63**	**100%**	**0.69**	**100%**	**100%**
Region[(1)]						
West	30%	0.36	30%	0.38	12%	17%
Northeast	24	0.87	24	0.96	36	39
North Central	16	0.61	16	0.63	20	19
Southeast	16	0.73	16	0.90	24	18
Southwest	14	0.54	14	0.57	8	7
Total	**100%**	**0.63**	**100%**	**0.69**	**100%**	**100%**
State[(2)]						
Florida	6%	0.77	6%	1.01	14%	10%
Illinois	4	0.85	5	0.86	10	9
New Jersey	3	1.08	3	1.24	9	9
California	17	0.34	18	0.35	8	11
New York	5	1.21	5	1.37	7	11
All other	65	0.59	63	0.64	52	50
Total	**100%**	**0.63%**	**100%**	**0.69%**	**100%**	**100%**

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

(2) States presented based on those with the highest percentage of credit losses during the year ended December 31, 2019.

The REO balance, net at December 31, 2019 and December 31, 2018 associated with single-family properties was $0.6 billion and $0.8 billion, respectively, and the balance associated with multifamily properties was $0 million at both periods. Our single-family REO inventory consisted of 4,989 properties and 7,100 properties at December 31, 2019 and December 31, 2018, respectively. Although the average length of the foreclosure process has been trending downward in recent years for some jurisdictions, it remained elevated in others, particularly states with a judicial foreclosure process, which extends the time it takes for loans to be foreclosed upon and the underlying property to transition to REO.

Credit Performance of Certain Higher-Risk Single-Family Loan Categories

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

- Purchased pursuant to a previously issued other mortgage-related guarantee;
- Part of our relief refinance initiative; or
- In another refinance loan initiative and the pre-existing loan (including Alt-A loans) was originated under less than full documentation standards.

In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as Alt-A in the table below because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred.

Although we do not categorize single-family loans we purchase or guarantee as prime or subprime, we recognize that there are a number of loan types with certain characteristics that indicate a higher degree of credit risk.

For example, a borrower's credit score is a useful measure for assessing the credit quality of the borrower. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores.

Presented below is a summary of the serious delinquency rates of certain higher-risk categories (based on characteristics of the loan at origination) of loans in our single-family credit guarantee portfolio. The table includes a presentation of each higher-risk category in isolation. A single loan may fall within more than one category (for example, an interest-only loan may also have an original LTV ratio greater than 90%). Loans with a combination of these attributes may have an even higher risk of delinquency than those with an individual attribute.

Table 14.2 - Certain Higher Risk Categories in Our Single-Family Credit Guarantee Portfolio

	Percentage of Portfolio(1)		Serious Delinquency Rate(1)	
(Percentage of portfolio based on UPB)	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Interest-only	1%	1%	2.72%	3.43%
Alt-A	1	1	3.75	4.13
Original LTV ratio greater than 90%(2)	18	18	0.96	1.04
Lower credit scores at origination (less than 620)	2	2	4.52	4.59

(1) Excludes loans underlying certain other securitization products for which data was not available.

(2) Includes HARP loans, which we purchased as part of our participation in the MHA Program.

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 do not consider option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. See **Note 7** for further information on these categories and other concentrations in our investments in securities.

Multifamily Mortgage Portfolio

Numerous factors affect a multifamily borrower's ability to repay the loan and the value of the property underlying the loan. The most significant factors affecting credit risk are rental rates and capitalization rates for the mortgaged property. Rental rates vary among geographic regions of the United States. The average UPB for multifamily loans is significantly larger than for single-family loans and, therefore, individual defaults for multifamily borrowers can result in more significant losses.

The table below summarizes the concentration of multifamily loans in our multifamily mortgage portfolio classified by legal structure, based on UPB.

Table 14.3 - Concentration of Credit Risk of Our Multifamily Mortgage Portfolio

	As of December 31, 2019		As of December 31, 2018	
(Dollars in billions)	UPB	Delinquency Rate(1)	UPB	Delinquency Rate(1)
Unsecuritized loans	$29.8	0.01%	$34.8	0.01%
Securitization-related products	260.3	0.09	226.9	0.01
Other mortgage-related guarantees	10.0	0.09	9.8	—
Total	**$300.1**	**0.08%**	**$271.5**	**0.01%**

(1) Based on loans two monthly payments or more delinquent or in foreclosure.

In the multifamily mortgage portfolio, the primary concentration of credit risk is based on the legal structure of the investments we hold. Our exposure to credit risk in our securitization-related products is minimal, as the expected credit risk is generally absorbed by the subordinate tranches, which are typically sold to third-party investors. As a result, our multifamily mortgage credit risk is primarily related to loans that have not been securitized.

Sellers and Servicers

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

Table 14.4 - Seller Concentration

Single-family Sellers(1)	2019	2018
JPMorgan Chase Bank, N.A.	14%	7%
Wells Fargo Bank, N.A.	8	12
Other top 10 sellers	34	31
Top 10 single-family sellers	**56%**	**50%**

Multifamily Sellers(1)	2019	2018
CBRE Capital Markets, Inc.	15%	18%
Berkadia Commercial Mortgage LLC	15	13
Other top 10 sellers	47	48
Top 10 multifamily sellers	**77%**	**79%**

(1) Sellers presented based on those with the highest percentage of purchase volume during 2019.

In recent years, there has been a shift in our single-family purchase volume from depository institutions to non-depository and smaller depository financial institutions. Some of these non-depository sellers have grown rapidly in recent years, and we purchase a significant share of our loans from them. Our top five non-depository sellers provided approximately 26% and 22% of our single-family purchase volume during 2019 and 2018, respectively.

We are exposed to counterparty credit risk arising from the potential insolvency or non-performance by our sellers and servicers of their obligations to repurchase loans or (at our option) indemnify us in the event of breaches of the representations and warranties they made when they sold the loans to us or failure to comply with our servicing requirements. Our contracts require that a seller/servicer repurchase a loan after we issue a repurchase request, unless the seller/servicer avails itself of an appeals process provided for in our contracts, in which case the deadline for repurchase is extended until we decide on the appeal. As of December 31, 2019 and December 31, 2018, the UPB of loans subject to our repurchase requests issued to our single-family sellers and servicers was approximately $0.3 billion and $0.4 billion, respectively (these figures include repurchase requests for which appeals were pending). During 2019 and 2018, we recovered amounts that covered losses with respect to $0.4 billion and $0.3 billion, respectively, in UPB of loans subject to our repurchase requests.

At the direction of FHFA, we and Fannie Mae revised our representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. The objective of the revised framework is to clarify lenders' repurchase exposures and liability on future sales of loans to Freddie Mac and Fannie Mae. This framework does not affect seller/servicers' obligations under their contracts with us with respect to loans sold to us prior to January 1, 2013. This framework also does not affect their obligation to service these loans in accordance with our servicing standards. Under this framework, sellers are relieved of certain repurchase obligations for loans that meet specific payment requirements. This includes, subject to certain exclusions, loans with 36 months (12 months for relief refinance loans) of consecutive, on-time payments after we purchase them.

In May 2014, we announced changes to our representation and warranty framework for loans acquired on and after July 1, 2014. These changes relieve sellers of additional representations and warranties for these loans and provide relief for loans we have fully reviewed in our quality control process and determined to be acceptable. As of December 31, 2019, approximately 80% in UPB of loans in our single-family credit guarantee portfolio were purchased since January 1, 2013 and are subject to our revised representation and warranty framework.

At the direction of FHFA, we implemented a new remedies framework for the categorization of loan origination defects for loans with settlement dates on or after January 1, 2016. Among other items, the framework provides that "significant defects" will result in a repurchase request or a repurchase alternative, such as recourse or indemnification. We may require the seller to pay us additional fees or provide us with additional data on the loan.

The ultimate amounts of recovery payments we receive from seller/servicers related to their repurchase obligations may be significantly less than the amount of our estimates of potential exposure to losses. Our estimate of probable incurred losses for exposure to seller/servicers for their repurchase obligations is considered in our allowance for loan losses. See **Note 4** for further information.

We are also exposed to the risk that servicers might fail to service loans in accordance with the contractual requirements, resulting in increased credit losses. For example, our servicers have an active role in our loss mitigation efforts, and we therefore have exposure to them to the extent a decline in their performance results in a failure to realize the anticipated benefits of the loss mitigation plans. Since we do not have our own servicing operation, if our servicers lack appropriate controls, experience a failure in their controls, or experience an operating disruption in their ability to service loans, our business and financial results could be adversely affected.

Significant portions of our single-family and multifamily loans are serviced by several large servicers. The tables below summarize the concentration of single-family and multifamily servicers who serviced 10% or more of our single-family credit guarantee portfolio and multifamily mortgage portfolio.

Table 14.5 - Servicer Concentration

Single-family Servicers(1)	December 31, 2019(2)	December 31, 2018(2)
Wells Fargo Bank, N.A.	15%	17%
JPMorgan Chase Bank, N.A.	10	8
Other top 10 servicers	32	31
Top 10 single-family servicers	**57%**	**56%**

Multifamily Servicers(1)	December 31, 2019	December 31, 2018
CBRE Capital Markets, Inc.	17%	17%
Berkadia Commercial Mortgage LLC	13	13
Walker & Dunlop, LLC	9	10
Other top 10 servicers	37	37
Top 10 multifamily servicers	**76%**	**77%**

(1) Servicers presented based on those with the highest percentage of servicing volume as of December 31, 2019.

(2) Percentage of servicing volume is based on the total single-family credit guarantee portfolio, which includes loans where we do not exercise servicing control. However, loans where we do not exercise servicing control are not included for purposes of determining the concentration of servicers who serviced more than 10% of our single-family credit guarantee portfolio because we do not know which entity serves as the primary servicer for such loans.

In recent years, there has been a shift in our single-family servicing from depository institutions to non-depository servicers. Some of these non-depository servicers have grown rapidly in recent years and now service a large share of our loans. As of December 31, 2019 and December 31, 2018, approximately 18% and 16% of our single-family credit guarantee portfolio, respectively, excluding loans where we do not exercise control over the associated servicing, was serviced by our five largest non-depository servicers, on a combined basis. We routinely monitor the performance of our largest non-depository servicers.

In our multifamily business, we are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide, including their monitoring of each property's financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements or other credit enhancements, where applicable. This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk. We monitor the status of all our multifamily seller/servicers in accordance with our counterparty credit risk management framework.

Credit Enhancement Providers

We have counterparty credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. We also have similar exposure to insurers and reinsurers through our ACIS and other insurance transactions where we purchase insurance policies as part of our CRT activities.

We evaluate the recovery and collectability from mortgage insurers as part of the estimate of our allowance for credit losses. See **Note 4** for additional information. As of December 31, 2019, mortgage insurers provided coverage with maximum loss limits of $107.7 billion, for $421.9 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected loan is covered under other types of insurance.

The table below summarizes the concentration of mortgage insurer counterparties who provided 10% or more of our overall mortgage insurance coverage. On October 23, 2016, Genworth Financial, Inc. announced that it had entered into an agreement to be acquired by China Oceanwide Holdings Group Co., Ltd. Because Genworth Mortgage Insurance Corporation, a subsidiary of Genworth Financial, Inc., is an approved mortgage insurer, Freddie Mac evaluated the planned acquisition and approved China Oceanwide Holdings Group's control of Genworth Mortgage Insurance Corporation. In January 2020, Freddie Mac reapproved the acquisition. Regulatory and other approvals of the acquisition are still pending.

Table 14.6 - Mortgage Insurer Concentration

		Mortgage Insurance Coverage[2]	
Mortgage Insurer	**Credit Rating[1]**	**December 31, 2019**	**December 31, 2018**
Arch Mortgage Insurance Company	A-	22%	24%
Radian Guaranty Inc.	BBB+	20	20
Mortgage Guaranty Insurance Corporation	BBB+	17	19
Genworth Mortgage Insurance Corporation	BB+	15	14
Essent Guaranty, Inc.	BBB+	15	14
Total		**89%**	**91%**

(1) Ratings are for the corporate entity to which we have the greatest exposure. Latest rating available as of December 31, 2019. Represents the lower of S&P and Moody's credit ratings stated in terms of the S&P equivalent.

(2) Coverage amounts may include coverage provided by affiliates and subsidiaries of the counterparty.

We received proceeds of $0.2 billion as of both 2019 and 2018 from our mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers of $0.1 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of both December 31, 2019 and December 31, 2018. The balance of these receivables, net of associated reserves, was approximately $0.1 billion at both December 31, 2019 and December 31, 2018.

PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both under the control of their state regulators and are in run-off. A substantial portion of their claims is recorded by us as deferred payment obligations. These insurers no longer issue new insurance but continue to pay a portion of their respective claims in cash. In 2014, PMI began paying valid claims 67% in cash, 33% in deferred payment obligations, and made a one-time cash payment to us for claims that were previously settled for 55% in cash. In 2015, PMI began paying valid claims 70% in cash, 30% in deferred payment obligations, and made a one-time cash payment to us for claims that were previously settled for 67% in cash. In 2013, Triad began paying valid claims 75% in cash, 25% in deferred payment obligations, and made a one-time cash payment to us for claims that were previously settled for 60% in cash. If, as we currently expect, these insurers do not pay the full amount of their deferred payment obligations in cash, we would lose a portion of the coverage from these insurers. As of both December 31, 2019 and December 31, 2018, we had cumulative unpaid deferred payment obligations of $0.5 billion from these insurers. We have reserved substantially all of these unpaid amounts as collectability is uncertain. It is not clear how the regulators of these companies will administer their respective deferred payment plans in the future, nor when or if those obligations will be paid.

RMIC is under regulatory supervision and is no longer issuing new insurance. In 2014, RMIC resumed paying valid claims at 100% of the claim amount. Previously, RMIC had been paying all valid claims 60% in cash and 40% in deferred payment obligations.

As part of our insurance/reinsurance CRT transactions, we regularly obtain insurance coverage from global insurers and reinsurers. These transactions incorporate several features designed to increase the likelihood that we will recover on the claims we file with the insurers and reinsurers, including the following:

- In each transaction, we require the individual insurers and reinsurers to post collateral to cover portions of their exposure, which helps to promote certainty and timeliness of claim payment and

- While private mortgage insurance companies are required to be monoline (i.e., to participate solely in the mortgage insurance business, although the holding company may be a diversified insurer), our insurers and reinsurers generally participate in multiple types of insurance businesses, which helps diversify their risk exposure.

Other Investment Counterparties

We are exposed to the non-performance of counterparties relating to other investments (including non-mortgage-related securities and cash equivalents) transactions, including those entered into on behalf of our securitization trusts. Our policies require that the counterparty be evaluated using our internal counterparty rating model prior to our entering such transactions. We monitor the financial strength of our counterparties to these transactions and may use collateral maintenance requirements to manage our exposure to individual counterparties. The permitted term and dollar limits for each of these transactions are also based on the counterparty's financial strength.

Our other investments (including non-mortgage-related securities and cash equivalents) counterparties are primarily major financial institutions, including other GSEs, Treasury, the Federal Reserve Bank of New York, GSD/FICC, highly-rated supranational institutions, depository and non-depository institutions, brokers and dealers, and government money market funds. As of December 31, 2019 and December 31, 2018, including amounts related to our consolidated VIEs, the balance of our other investments portfolio was $103.6 billion and $63.1 billion, respectively. The balance consists primarily of cash, securities purchased under agreements to resell invested with counterparties, U.S. Treasury securities, cash deposited with the Federal Reserve Bank of New York, and secured lending activities. As of December 31, 2019, all of our securities purchased under agreements to resell were fully collateralized. As of December 31, 2019 and December 31, 2018, $2.4 billion, and $2.5 billion of our securities purchased under agreements to resell were used to provide financing to investors in Freddie Mac securities to increase liquidity and expand the investor base for those securities. These transactions differ from the securities purchased under agreements to resell that we use for liquidity purposes as the counterparties we face may not be major financial institutions and we are exposed to the counterparty credit risk of these institutions.

NOTE 15

Fair Value Disclosures

The accounting guidance for fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis.

Fair Value Measurements

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

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

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

Valuation Risk and Controls Over Fair Value Measurements

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

We designed our control processes so that our fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, and that our valuation approaches are consistently applied and the assumptions and inputs are reasonable. Our control processes provide a framework for segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

Groups within our Finance Division, independent of our business functions, execute and validate the valuation processes and are responsible for determining the fair values of the majority of our financial assets and liabilities. In determining fair value, we consider the credit risk of our counterparties in estimating the fair values of our assets and our own credit risk in estimating the fair values of our liabilities. The fair values determined by our Finance Division are further verified by an independent group within our ERM Division.

The independent validation procedures performed by the ERM Division are intended to ensure that the prices we receive from third parties are consistent with our observations of market activity, and that fair value measurements developed using internal data reflect the assumptions that a market participant would use in pricing our assets and liabilities. These validation procedures include performing a daily price review and a monthly independent verification of fair value measurements through independent modeling, analytics, and comparisons to other market source data, if available. If we are unable to validate the reasonableness of a given price, we ultimately do not use that price for fair value measurements on our consolidated financial statements. These procedures are risk-based and are executed before we finalize the prices used in preparing our fair value measurements for our financial statements.

In addition to performing the validation procedures noted above, the ERM Division provides independent risk governance over all valuation processes by establishing and maintaining a corporate-wide valuation risk policy. The ERM Division also independently reviews significant judgments, methodologies, and valuation techniques to ensure compliance with established policies.

Our Valuation Risk Committee (Valuation Committee), which includes representation from our business lines, the ERM Division, and the Finance Division, provides senior management's governance over valuation processes, methodologies, controls, and fair value measurements. Identified exceptions are reviewed and resolved through the verification process and reviewed at the Valuation Committee.

Where models are employed to assist in the measurement and verification of fair values, changes made to those models during the period are reviewed and approved according to the corporate model change governance process, with material changes reviewed at the Valuation Committee. Inputs used by models are regularly updated for changes in the underlying data, assumptions, valuation inputs, and market conditions and are subject to the valuation controls noted above.

Use of Third-Party Pricing Data in Fair Value Measurement

Many of our valuation techniques use, either directly or indirectly, data provided by third-party pricing services or dealers. The techniques used by these pricing services and dealers to develop the prices generally are either:

- A comparison to transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued or
- Industry-standard modeling, such as a discounted cash flow model.

The prices provided by the pricing services and dealers reflect their observations and assumptions related to market activity, including risk premiums and liquidity adjustments. The models and related assumptions used by the pricing services and dealers are owned and managed by them and, in many cases, the significant inputs used in the valuation techniques are not reasonably available to us. However, we have an understanding of the processes and assumptions used to develop the prices based on our ongoing due diligence, which includes discussions with our vendors at least annually and often more frequently. We believe that the procedures executed by the pricing services and dealers, combined with our internal verification and analytical procedures, provide assurance that the prices used in our financial statements comply with the accounting guidance for fair value measurements and disclosures and reflect the assumptions that a market participant would use in pricing our assets and liabilities. The price quotes we receive are non-binding both to us and to our counterparties.

In many cases, we receive quotes from third-party pricing services or dealers and use those prices without adjustment. For a large majority of the assets and liabilities we value using pricing services and dealers, we obtain quotes from multiple external sources and use the median of the prices to measure fair value. This technique is referred to below as "median of external sources." The significant inputs used in the fair value measurement of assets and liabilities that are valued using the median of external sources pricing technique are the third-party quotes. Significant increases (decreases) in any of the third-party quotes in isolation may result in a significantly higher (lower) fair value measurement. In limited circumstances, we may be able to receive pricing information from only a single external source. This technique is referred to below as "single external source."

Valuation Techniques

The following table contains a description of the valuation techniques we use for fair value measurement and disclosure; the significant inputs used in those techniques (if applicable); the classification within the fair value hierarchy; and, for those measurements that we report on our consolidated balance sheets and are classified as Level 3 of the hierarchy, a narrative description of the uncertainty of the fair value measurement to changes in significant unobservable inputs. Although the uncertainties of the unobservable inputs are discussed below in isolation, interrelationships exist among the inputs such that a change in one unobservable input can result in a change to one or more of the other inputs. For example, the most common interrelationship that affects the majority of our fair value measurements is between future interest rates, prepayment speeds, and probabilities of default. Generally, a change in the assumption used for future interest rates results in a directionally opposite change in the assumption used for prepayment speeds and a directionally similar change in the assumption used for probabilities of default.

Each technique discussed below may not be used in a given reporting period, depending on the composition of our assets and liabilities measured at fair value and relevant market activity during that period.

Instrument		Valuation Technique	Classification in the Fair Value Hierarchy
Securities			
U.S. Treasury Securities		Quoted prices in active markets	Level 1
Agency mortgage-related securities	Fixed-rate single-class	Median of external sources	Level 2
	Adjustable-rate single-class and majority of multi-class securities	Median of external sources	Predominantly Level 2
	Certain multi-class securities	Single external source	Levels 2 and 3
	Certain multi-class securities with limited market activity	Discounted cash flows or risk metric pricing. Significant inputs used in the discounted cash flow technique include OAS. Significant increases (decreases) in the OAS in isolation would result in a significantly lower (higher) fair value measurement. Significant inputs used in the risk metric pricing technique include key risk metrics, such as key rate durations. Significant increases (decreases) in key rate durations in isolation would result in a significant increase (decrease) in the magnitude of change of fair value measurement in response to key rate movements. Under risk metric pricing, securities are valued by starting with a prior period price and adjusting that price for market changes in the key risk metric input used.	Level 3
Commercial mortgage-related securities		Single external source or, in limited circumstances, a median of external sources	Predominantly Level 3
Other non-agency mortgage-related securities		Median of external sources	Level 3
Derivatives			
Exchange-traded futures		Quoted prices in active markets	Level 1
Interest-rate swaps		Discounted cash flows. Significant inputs include market-based interest rates.	Level 2
Option-based derivatives		Option-pricing models. Significant inputs include interest-rate volatility matrices.	Level 2
Purchase and sale commitments		See Agency mortgage-related securities	Level 2
Debt			
Debt securities of consolidated trusts held by third parties		See Agency mortgage-related securities	Level 2 or 3
Other debt		Median of external sources Single external source Published yield matrices	Predominantly Level 2
Mortgage Loans			
Single-family loans	GSE securitization market	Benchmark security pricing for actively traded mortgage-related securities with similar characteristics, adjusting for the value of our guarantee fee and our credit obligation related to performing our guarantee (see Guarantee obligation). The credit obligation is based on: delivery and guarantee fees we charge under current market pricing for loans that qualify under our current underwriting standards (Level 2) and internal credit models for loans that do not qualify under our current underwriting standards (Level 3).	Level 2 or 3
	Whole loan market	Median of external sources, referencing market activity for deeply delinquent and modified loans, where available	Level 3

	Instrument	Valuation Technique	Classification in the Fair Value Hierarchy
	Impaired held-for-investment	Internal models that estimate the fair value of the underlying collateral for impaired loans. Significant inputs used by our internal models include REO disposition, short sale, and third-party sale values, combined with mortgage loan level characteristics using the repeat housing sales index to estimate the current fair value of the mortgage loan. Significant increases (decreases) in the historical average sales proceeds per mortgage loan in isolation would result in significantly higher (lower) fair value measurements.	Level 3
Multifamily loans	Held-for-sale	Discounted cash flows based on observable K Certificate and SB Certificate market spreads	Level 2
	Held-for-investment	Market prices from a third-party pricing service using discounted cash flows incorporating credit spreads for similar loans based on the loan's LTV and DSCR	Predominantly Level 3
Non-derivative Purchase Commitments			
Multifamily loan purchase commitments		See Multifamily loans	Level 2 or 3
Other Assets			
Guarantee asset	Single-family	Median of external sources with adjustments for specific loan characteristics	Level 3
	Multifamily	Discounted cash flows. Significant inputs include current OAS-to-benchmark interest rates for new guarantees. Significant increases (decreases) in the OAS in isolation would result in a significantly lower (higher) fair value measurement.	Level 3
Mortgage servicing rights		Market prices from a third party or internally developed prices using discounted cash flows. Significant inputs include: • Estimated prepayment rates, • Estimated costs to service both performing and non-accrual loans, and • Estimated servicing income per loan (including ancillary income). Significant increases (decreases) in cost to service per loan and prepayment rate in isolation would result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in servicing income per loan in isolation would result in a significantly higher (lower) fair value measurement.	Level 3
Other Liabilities			
Guarantee obligation	Single-family	Delivery and guarantee fees that we charge under our current market pricing	Level 2
		Internal credit models. Significant inputs include loan characteristics, loan performance, and status information.	Level 3
	Multifamily	Discounted cash flows. Significant inputs are similar to those used in the valuation technique for the Multifamily guarantee asset.	Level 3

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Table 15.1 - Assets and Liabilities Measured at Fair Value on a Recurring Basis

	December 31, 2019				
(In millions)	Level 1	Level 2	Level 3	Netting Adjustment[1]	Total
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Agency	$—	$22,927	$1,960	$—	$24,887
Non-agency and other	—	20	1,267	—	1,287
Total available-for-sale securities, at fair value	**—**	**22,947**	**3,227**	**—**	**26,174**
Trading, at fair value:					
Mortgage-related securities:					
Agency	—	19,772	2,709	—	22,481
Non-agency	—	—	1	—	1
Total mortgage-related securities	**—**	**19,772**	**2,710**	**—**	**22,482**
Non-mortgage-related securities	25,108	1,947	—	—	27,055
Total trading securities, at fair value	**25,108**	**21,719**	**2,710**	**—**	**49,537**
Total investments in securities	**25,108**	**44,666**	**5,937**	**—**	**75,711**
Mortgage loans:					
Held-for-sale, at fair value	—	15,035	—	—	15,035
Derivative assets, net:					
Interest-rate swaps	—	2,104	—	—	2,104
Option-based derivatives	—	4,198	—	—	4,198
Other	—	61	16	—	77
Subtotal, before netting adjustments	**—**	**6,363**	**16**	**—**	**6,379**
Netting adjustments[1]	—	—	—	(5,535)	(5,535)
Total derivative assets, net	**—**	**6,363**	**16**	**(5,535)**	**844**
Other assets:					
Guarantee asset, at fair value	—	—	4,426	—	4,426
Non-derivative held-for-sale purchase commitments, at fair value	—	81	—	—	81
All other, at fair value	—	—	120	—	120
Total other assets	**—**	**81**	**4,546**	**—**	**4,627**
Total assets carried at fair value on a recurring basis	**$25,108**	**$66,145**	**$10,499**	**($5,535)**	**$96,217**
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$—	$6	$203	$—	$209
Other debt, at fair value	—	3,600	129	—	3,729
Derivative liabilities, net:					
Interest-rate swaps	—	4,882	—	—	4,882
Option-based derivatives	—	130	—	—	130
Other	—	233	37	—	270
Subtotal, before netting adjustments	**—**	**5,245**	**37**	**—**	**5,282**
Netting adjustments[1]	—	—	—	(4,910)	(4,910)
Total derivative liabilities, net	**—**	**5,245**	**37**	**(4,910)**	**372**
Other liabilities:					
Non-derivative held-for-sale purchase commitments, at fair value	—	7	—	—	7
All other, at fair value	—	—	1	—	1
Total other liabilities	**—**	**7**	**1**	**—**	**8**
Total liabilities carried at fair value on a recurring basis	**$—**	**$8,858**	**$370**	**($4,910)**	**$4,318**

Referenced footnote is included after the next table.

(In millions)	December 31, 2018 Level 1	Level 2	Level 3	Netting Adjustment[1]	Total
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Agency	$—	$27,770	$4,135	$—	$31,905
Non-agency and other	—	18	1,640	—	1,658
Total available-for-sale securities, at fair value	**—**	**27,788**	**5,775**	**—**	**33,563**
Trading, at fair value:					
Mortgage-related securities:					
Agency	—	13,079	3,293	—	16,372
Non-agency	—	—	1	—	1
Total mortgage-related securities	**—**	**13,079**	**3,294**	**—**	**16,373**
Non-mortgage-related securities	15,885	3,290	—	—	19,175
Total trading securities, at fair value	**15,885**	**16,369**	**3,294**	**—**	**35,548**
Total investments in securities	**15,885**	**44,157**	**9,069**	**—**	**69,111**
Mortgage loans:					
Held-for-sale, at fair value	—	23,106	—	—	23,106
Derivative assets, net:					
Interest-rate swaps	—	2,127	—	—	2,127
Option-based derivatives	—	4,200	—	—	4,200
Other	—	90	1	—	91
Subtotal, before netting adjustments	**—**	**6,417**	**1**	**—**	**6,418**
Netting adjustments[1]	—	—	—	(6,083)	(6,083)
Total derivative assets, net	**—**	**6,417**	**1**	**(6,083)**	**335**
Other assets:					
Guarantee asset, at fair value	—	—	3,633	—	3,633
Non-derivative held-for-sale purchase commitments, at fair value	—	159	—	—	159
All other, at fair value	—	—	137	—	137
Total other assets	**—**	**159**	**3,770**	**—**	**3,929**
Total assets carried at fair value on a recurring basis	**$15,885**	**$73,839**	**$12,840**	**($6,083)**	**$96,481**
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$—	$27	$728	$—	$755
Other debt, at fair value	—	4,223	134	—	4,357
Derivative liabilities, net:					
Interest-rate swaps	—	3,974	—	—	3,974
Option-based derivatives	—	137	—	—	137
Other	—	225	92	—	317
Subtotal, before netting adjustments	**—**	**4,336**	**92**	**—**	**4,428**
Netting adjustments[1]	—	—	—	(3,845)	(3,845)
Total derivative liabilities, net	**—**	**4,336**	**92**	**(3,845)**	**583**
Other liabilities:					
Non-derivative held-for-sale purchase commitments, at fair value	—	17	—	—	17
Total liabilities carried at fair value on a recurring basis	**$—**	**$8,603**	**$954**	**($3,845)**	**$5,712**

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

Level 3 Fair Value Measurements

The tables below present a reconciliation of all assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis using significant unobservable inputs (Level 3), including transfers into and out of Level 3. The tables also present gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized on our consolidated statements of comprehensive income for Level 3 assets and liabilities.

Table 15.2 - Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs

	Year Ended December 31, 2019											
		Realized and unrealized gains (losses)										
(In millions)	Balance, January 1, 2019	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, December 31, 2019	Change in Unrealized Gains(Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2019 [3]
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Agency	$4,135	$23	$108	$131	$—	$—	($1,883)	($367)	$2	($58)	$1,960	$2
Non-agency and other	1,640	82	(1)	81	—	—	(238)	(216)	—	—	1,267	14
Total available-for-sale mortgage-related securities	**5,775**	**105**	**107**	**212**	**—**	**—**	**(2,121)**	**(583)**	**2**	**(58)**	**3,227**	**16**
Trading, at fair value:												
Mortgage-related securities:												
Agency	3,293	(280)	—	(280)	596	—	(616)	(104)	—	(180)	2,709	(248)
Non-agency	1	—	—	—	—	—	—	—	—	—	1	—
Total trading mortgage-related securities	**3,294**	**(280)**	**—**	**(280)**	**596**	**—**	**(616)**	**(104)**	**—**	**(180)**	**2,710**	**(248)**
Other assets:												
Guarantee asset	3,633	33	—	33	—	1,427	—	(667)	—	—	4,426	33
All other, at fair value	137	(38)	—	(38)	85	36	(85)	(15)	—	—	120	(70)
Total other assets	**$3,770**	**($5)**	**$—**	**($5)**	**$85**	**$1,463**	**($85)**	**($682)**	**$—**	**$—**	**$4,546**	**($37)**

		Realized and unrealized (gains) losses										
	Balance, January 1, 2019	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, December 31, 2019	Change in Unrealized Gains(Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2019 [3]
Liabilities												
Debt securities of consolidated trusts held by third parties, at fair value	$728	$5	$—	$5	$—	$—	$—	($530)	$—	$—	$203	$5
Other debt, at fair value	134	—	—	—	—	4	—	(9)	—	—	129	—
Net derivatives[2]	91	(51)	—	(51)	—	—	—	(19)	—	—	21	(68)
Other liabilities:												
All other, at fair value	—	(3)	—	(3)	6	—	(2)	—	—	—	1	(5)

Referenced footnotes are included after the prior period tables.

	Year Ended December 31, 2018											
		Realized and unrealized gains (losses)										
(In millions)	Balance, January 1, 2018	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, December 31, 2018	Change in Unrealized Gains(Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2018 [3]
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Agency	$6,797	($31)	($214)	($245)	$56	$—	($1,546)	($926)	$—	($1)	$4,135	($7)
Non-agency and other	4,291	948	(644)	304	—	—	(2,481)	(474)	—	—	1,640	23
Total available-for-sale mortgage-related securities	**11,088**	**917**	**(858)**	**59**	**56**	**—**	**(4,027)**	**(1,400)**	**—**	**(1)**	**5,775**	**16**
Trading, at fair value:												
Mortgage-related securities:												
Agency	2,916	(517)	—	(517)	1,484	—	(1,058)	(79)	579	(32)	3,293	(449)
Non-agency	1	—	—	—	—	—	—	—	—	—	1	—
Total trading mortgage-related securities	**2,917**	**(517)**	**—**	**(517)**	**1,484**	**—**	**(1,058)**	**(79)**	**579**	**(32)**	**3,294**	**(449)**
Other assets:												
Guarantee asset	3,171	(80)	—	(80)	—	1,118	—	(576)	—	—	3,633	(80)
All other, at fair value	45	28	—	28	102	31	(57)	(12)	—	—	137	25
Total other assets	**$3,216**	**($52)**	**$—**	**($52)**	**$102**	**$1,149**	**($57)**	**($588)**	**$—**	**$—**	**$3,770**	**($55)**
		Realized and unrealized (gains) losses										
	Balance, January 1, 2018	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, December 31, 2018	Change in Unrealized Gains(Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2018 [3]
Liabilities												
Debt securities of consolidated trusts held by third parties, at fair value	$630	($2)	$—	($2)	$—	$100	$—	$—	$—	$—	$728	($2)
Other debt, at fair value	137	—	—	—	—	2	—	(5)	—	—	134	—
Net derivatives[2]	57	37	—	37	—	15	—	(18)	—	—	91	20

(1) Transfers out of Level 3 during 2019 and 2018 consisted primarily of certain mortgage-related securities due to an increased volume and level of activity in the market and availability of price quotes from dealers and third-party pricing services. Certain Agency securities are classified as Level 3 at issuance and generally are classified as Level 2 when they begin trading. Transfers into Level 3 during 2019 and 2018 consisted primarily of certain mortgage-related securities due to a decrease in market activity and the availability of relevant price quotes from dealers and third-party pricing services.

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

(3) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains and losses related to assets and liabilities classified as Level 3 that were still held at December 31, 2019 and December 31, 2018, respectively. This amount includes other-than temporary impairments recorded on available-for-sale securities and amortization of basis adjustment.

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

Table 15.3 - Quantitative Information about Recurring Level 3 Fair Value Measurements

	December 31, 2019				
			Unobservable Inputs		
(Dollars in millions, except for certain unobservable inputs as shown)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Assets					
Available-for-sale, at fair value					
Mortgage-related securities					
Agency	$1,960	Discounted cash flows	OAS	30 - 261 bps	80 bps
Non-agency and other	886	Median of external sources	External pricing sources	$71.9 - $78.2	$75.0
	381	Other			
Trading, at fair value					
Mortgage-related securities					
Agency	1,948	Single external source	External pricing sources	$0.0 - $100.7	$36.6
	761	Discounted cash flows	OAS	(1,201) - 8,095 bps	611 bps
Guarantee asset, at fair value	4,141	Discounted cash flows	OAS	17 - 186 bps	40 bps
	285	Other			
Insignificant Level 3 assets[(1)]	137				
Total level 3 assets	**$10,499**				
Liabilities					
Debt securities of consolidated trusts held by third parties, at fair value	$203	Single External Source	External Pricing Sources	$99.4 - $103.6	$101.4
Insignificant Level 3 liabilities[(1)]	167				

Referenced footnotes are included after the next table.

	December 31, 2018				
			Unobservable Inputs		
(**Dollars in millions**, except for certain unobservable inputs as shown)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Assets					
Available-for-sale, at fair value					
Mortgage-related securities					
Agency	$2,876	Discounted cash flows	OAS	30 - 325 bps	81 bps
	1,259	Single external source	External pricing sources	$96.1 - $104.1	$102.3
Non-agency and other	1,403	Median of external sources	External pricing sources	$64.3 - $71.1	$67.3
	237	Single external source	External pricing sources	$93.1 - $110.7	$100.7
Trading, at fair value					
Mortgage-related securities					
Agency	1,594	Single external source	External pricing sources	$0.0 - $99.2	$56.6
	1,178	Discounted cash flows	OAS	(21,945) - 6,639 bps	90 bps
	521	Other			
Guarantee asset, at fair value	3,391	Discounted cash flows	OAS	17 - 198 bps	49 bps
	242	Other			
Insignificant Level 3 assets[(1)]	139				
Total level 3 assets	**$12,840**				
Liabilities					
Debt securities of consolidated trusts held by third parties, at fair value	$728	Single External Source	External Pricing Sources	$97.4 - $101.1	$99.6
Insignificant Level 3 liabilities[(1)]	226				

(1) Represents the aggregate amount of Level 3 assets or liabilities measured at fair value on a recurring basis that are individually and in the aggregate insignificant.

Assets Measured at Fair Value on a Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These adjustments usually result from the application of lower-of-cost-or-fair-value accounting or measurement of impairment based on the fair value of the underlying collateral. Certain of the fair values in the tables below were not obtained as of the period end, but were obtained during the period.

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

Table 15.4 - Assets Measured at Fair Value on a Non-Recurring Basis

	December 31, 2019				December 31, 2018			
(In millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a non-recurring basis:								
Mortgage loans[(1)]	$—	$22	$4,059	$4,081	$—	$24	$7,519	$7,543

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

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

Table 15.5 - Quantitative Information about Non-Recurring Level 3 Fair Value Measurements

	December 31, 2019				
			Unobservable Inputs		
(Dollars in millions, except for certain unobservable inputs as shown)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	$4,059				
		Internal model	Historical sales proceeds	$3,000 - $765,000	$186,234
		Internal model	Housing sales index	46 - 420 bps	112 bps
		Median of external sources	External pricing sources	$66.5 - $105.4	$95.0

	December 31, 2018				
			Unobservable Inputs		
(Dollars in millions, except for certain unobservable inputs as shown)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	$7,519				
		Internal model	Historical sales proceeds	$3,000 - $750,500	$177,725
		Internal model	Housing sales index	44 - 480 bps	108 bps
		Median of external sources	External pricing sources	$36.2 - $94.6	$82.5

Fair Value of Financial Instruments

The tables below present the carrying value and estimated fair value of our financial instruments. For certain types of financial instruments, such as cash and cash equivalents, securities purchased under agreements to resell, secured lending and other, and certain debt, the carrying value on our GAAP balance sheets approximates fair value, as these assets and liabilities are short-term in nature and have limited fair value volatility.

Table 15.6 - Fair Value of Financial Instruments

	December 31, 2019						
			Fair Value				
(In millions)	GAAP Measurement Category[(1)]	GAAP Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustments[(2)]	Total
Financial Assets							
Cash and cash equivalents	Amortized cost	$5,189	$5,189	$—	$—	$—	$5,189
Securities purchased under agreements to resell	Amortized cost	66,114	—	66,114	—	—	66,114
Investments in securities:							
Available-for-sale, at fair value	FV - OCI	26,174	—	22,947	3,227	—	26,174
Trading, at fair value	FV - NI	49,537	25,108	21,719	2,710	—	49,537
Total investments in securities		**75,711**	**25,108**	**44,666**	**5,937**	**—**	**75,711**
Mortgage loans:							
Loans held by consolidated trusts		1,940,523	—	1,732,434	244,500	—	1,976,934
Loans held by Freddie Mac		79,677	—	38,100	45,588	—	83,688
Total mortgage loans	**Various[(3)]**	**2,020,200**	**—**	**1,770,534**	**290,088**	**—**	**2,060,622**
Derivative assets, net	FV - NI	844	—	6,363	16	(5,535)	844
Guarantee asset	FV - NI	4,426	—	—	4,433	—	4,433
Non-derivative purchase commitments, at fair value	FV - NI	81	—	90	72	—	162
Secured lending and other	Amortized cost	4,186	—	1,874	2,131	—	4,005
Total financial assets		**$2,176,751**	**$30,297**	**$1,889,641**	**$302,677**	**($5,535)**	**$2,217,080**
Financial Liabilities							
Debt, net:							
Debt securities of consolidated trusts held by third parties		$1,898,355	$—	$1,931,473	$1,277	$—	$1,932,750
Other debt		281,173	—	282,431	3,619	—	286,050
Total debt, net	**Various[(4)]**	**2,179,528**	**—**	**2,213,904**	**4,896**	**—**	**2,218,800**
Derivative liabilities, net	FV - NI	372	—	5,245	37	(4,910)	372
Guarantee obligation	Amortized cost	4,292	—	—	4,527	—	4,527
Non-derivative purchase commitments, at fair value	FV - NI	7	—	7	67	—	74
Total financial liabilities		**$2,184,199**	**$—**	**$2,219,156**	**$9,527**	**($4,910)**	**$2,223,773**

(1) FV - NI denotes fair value through net income. FV - OCI denotes fair value through other comprehensive income.

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

(3) As of December 31, 2019, the GAAP carrying amounts measured at amortized cost, lower-of-cost-or-fair-value and FV - NI were $2.0 trillion, $20.3 billion and $15.0 billion, respectively.

(4) As of December 31, 2019, the GAAP carrying amounts measured at amortized cost and FV - NI were $2.2 trillion and $3.9 billion, respectively.

(In millions)	GAAP Measurement Category(1)	GAAP Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustments(2)	Total
	December 31, 2018		Fair Value				
Financial Assets							
Cash and cash equivalents	Amortized cost	$7,273	$7,273	$—	$—	$—	$7,273
Securities purchased under agreements to resell	Amortized cost	34,771	—	34,771	—	—	34,771
Investments in securities:							
Available-for-sale, at fair value	FV - OCI	33,563	—	27,788	5,775	—	33,563
Trading, at fair value	FV - NI	35,548	15,885	16,369	3,294	—	35,548
Total investments in securities		**69,111**	**15,885**	**44,157**	**9,069**	**—**	**69,111**
Mortgage loans:							
Loans held by consolidated trusts		1,842,850	—	1,605,874	209,542	—	1,815,416
Loans held by Freddie Mac		84,128	—	33,946	52,212	—	86,158
Total mortgage loans	**Various(3)**	**1,926,978**	**—**	**1,639,820**	**261,754**	**—**	**1,901,574**
Derivative assets, net	FV - NI	335	—	6,417	1	(6,083)	335
Guarantee asset	FV - NI	3,633	—	—	3,642	—	3,642
Non-derivative purchase commitments, at fair value	FV - NI	159	—	159	2	—	161
Secured lending and other	Amortized cost	1,805	—	195	873	—	1,068
Total financial assets		**$2,044,065**	**$23,158**	**$1,725,519**	**$275,341**	**($6,083)**	**$2,017,935**
Financial Liabilities							
Debt, net:							
Debt securities of consolidated trusts held by third parties		$1,792,677	$—	$1,759,911	$2,698	$—	$1,762,609
Other debt		252,273	—	251,543	3,629	—	255,172
Total debt, net	**Various(4)**	**2,044,950**	**—**	**2,011,454**	**6,327**	**—**	**2,017,781**
Derivative liabilities, net	FV - NI	583	—	4,336	92	(3,845)	583
Guarantee obligation	Amortized cost	3,561	—	—	4,146	—	4,146
Non-derivative purchase commitments, at fair value	FV - NI	17	—	17	11	—	28
Total financial liabilities		**$2,049,111**	**$—**	**$2,015,807**	**$10,576**	**($3,845)**	**$2,022,538**

(1) FV - NI denotes fair value through net income. FV - OCI denotes fair value through other comprehensive income.

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

(3) As of December 31, 2018, the GAAP carrying amounts measured at amortized cost, lower-of-cost-or-fair-value and FV - NI were $1.9 trillion, $18.5 billion and $23.1 billion, respectively.

(4) As of December 31, 2018, the GAAP carrying amounts measured at amortized cost and FV - NI were $2.0 trillion and $5.1 billion, respectively.

Fair Value Option

We elected the fair value option for certain multifamily held-for-sale loans, multifamily held-for-sale loan purchase commitments, and long-term debt.

Multifamily Held-for-Sale Loans and Held-for-Sale Commitments

We elected the fair value option for certain multifamily loan purchase commitments and the related loans that were acquired for securitization. We use derivatives to economically hedge the interest rate-related fair value changes of the multifamily commitments and loans for which we have elected the fair value option. These loans are classified as held-for-sale loans on our consolidated balance sheets to reflect our intent to sell in the future and are measured at fair value on a recurring basis, with subsequent gains or losses related to changes in fair value (net of accrued interest income) reported in investment gains (losses) on our consolidated statements of comprehensive income. We elected to report separately the portion of the changes in fair value of the loans related to accrued interest from the remaining changes in fair value. Related interest income continues to be reported, based on the stated terms of the loans, as interest income on our consolidated statements of comprehensive income.

Debt Securities of Consolidated Trusts Held by Third Parties and Other Debt

We elected the fair value option on debt that contains embedded derivatives, primarily certain STACR debt notes. Fair value changes are recorded in investment gains (losses) on our consolidated statements of comprehensive income. For debt where we have elected the fair value option, upfront costs and fees are recognized in earnings as incurred and not deferred. Related interest expense continues to be reported as interest expense based on the stated terms of the debt securities.

The table below presents the fair value and UPB related to certain loans and long-term debt for which we have elected the fair value option. This table does not include interest-only securities related to debt securities of consolidated trusts and other debt held by third parties with a fair value of $146 million and $26 million and multifamily held-for-sale loan purchase commitments with a fair value of $74 million and $142 million, as of December 31, 2019 and December 31, 2018, respectively.

Table 15.7 - Difference between Fair Value and Unpaid Principal Balance for Certain Financial Instruments with Fair Value Option Elected

	December 31, 2019			December 31, 2018		
(In millions)	Multifamily Held-For-Sale Loans	Other Debt - Long Term	Debt Securities of Consolidated Trusts Held by Third Parties	Multifamily Held-For-Sale Loans	Other Debt - Long Term	Debt Securities of Consolidated Trusts Held by Third Parties
Fair value	$15,035	$3,589	$203	$23,106	$4,357	$728
Unpaid principal balance	14,444	3,329	200	22,693	3,998	730
Difference	$591	$260	$3	$413	$359	($2)

Changes in Fair Value Under the Fair Value Option Election

The table below presents the changes in fair value included in non-interest income (loss) on our consolidated statements of comprehensive income, related to items for which we have elected the fair value option.

Table 15.8 - Changes in Fair Value under the Fair Value Option Election

	December 31, 2019	December 31, 2018	December 31, 2017
(In millions)	Gains (Losses)		
Multifamily held-for-sale loans	$853	($745)	$2
Multifamily held-for-sale loan purchase commitments	1,913	777	1,098
Other debt - long term	136	138	(212)
Debt securities of consolidated trusts held by third parties	(4)	5	22

Changes in fair value attributable to instrument-specific credit risk were not material for the years ended December 31, 2019, 2018 or 2017 for any assets or liabilities for which we elected the fair value option.

NOTE 16

Legal Contingencies

We are involved as a party in a variety of legal and regulatory proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation, and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller's or servicer's eligibility to sell loans to, and/or service loans for, us. In these cases, the former seller or servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of loans. These suits typically involve claims alleging wrongful actions of sellers and servicers. Our contracts with our sellers and servicers generally provide for indemnification of Freddie Mac against liability arising from sellers' and servicers' wrongful actions with respect to loans sold to or serviced for Freddie Mac.

Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. In accordance with the accounting guidance for contingencies, we reserve for litigation claims and assessments asserted or threatened against us when a loss is probable (as defined in such guidance) and the amount of the loss can be reasonably estimated.

Putative Securities Class Action Lawsuit: Ohio Public Employees Retirement System vs. Freddie Mac, Syron, Et Al.

This putative securities class action lawsuit was filed against Freddie Mac and certain former officers on January 18, 2008 in the U.S. District Court for the Northern District of Ohio purportedly on behalf of a class of purchasers of Freddie Mac stock from August 1, 2006 through November 20, 2007. FHFA later intervened as Conservator, and the plaintiff amended its complaint on several occasions. The plaintiff alleged, among other things, that the defendants violated federal securities laws by making false and misleading statements concerning our business, risk management, and the procedures we put into place to protect the company from problems in the mortgage industry. The plaintiff seeks unspecified damages and interest, and reasonable costs and expenses, including attorney and expert fees.

In October 2013, defendants filed motions to dismiss the complaint. In October 2014, the District Court granted defendants' motions and dismissed the case in its entirety against all defendants, with prejudice. In November 2014, plaintiff filed a notice of appeal in the U.S. Court of Appeals for the Sixth Circuit. On July 20, 2016, the Court of Appeals reversed the District Court's dismissal and remanded the case to the District Court for further proceedings. On August 14, 2018, the District Court denied the plaintiff's motion for class certification. On January 23, 2019, the Court of Appeals denied plaintiff's petition for leave to appeal that decision.

At present, it is not possible for us to predict the probable outcome of this lawsuit or any potential effect on our business, financial condition, liquidity, or results of operations. In addition, we are unable to reasonably estimate the possible loss or range of possible loss in the event of an adverse judgment in the foregoing matter due to the following factors, among others: pre-trial litigation is inherently uncertain; while the District Court denied plaintiff's motion for class certification, this denial may be appealed upon the entry of final judgment; and the District Court has not yet ruled upon motions for summary judgment. In particular, absent a final resolution of whether a class will be certified, the identification of a class if one is certified, and the identification of the alleged statement or statements that survive dispositive motions, we cannot reasonably estimate any possible loss or range of possible loss.

LIBOR Lawsuit

On March 14, 2013, Freddie Mac filed a lawsuit in the U.S. District Court for the Eastern District of Virginia against the British Bankers Association and the 16 U.S. Dollar LIBOR panel banks and a number of their affiliates. The case was subsequently transferred to the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants fraudulently and collusively depressed LIBOR, a benchmark interest rate indexed to trillions of dollars of financial products, and asserts claims for antitrust violations, breach of contract, tortious interference with contract, and fraud. Freddie Mac filed an amended complaint in July 2013, and a second amended complaint in October 2014. In August 2015, the District Court dismissed the portion of our claim related to antitrust violations and fraud and we filed a motion for reconsideration. On March 31, 2016, the District Court granted a portion of our motion, finding personal jurisdiction over certain defendants, and denied the portion of our motion with respect to statutes of limitation for our fraud claims. Subsequently, in a related case, the U.S. Court of Appeals for the Second Circuit reversed the District Court's dismissal of certain plaintiffs' antitrust claims and remanded the case to the District Court for consideration of whether, among other things, the plaintiffs are "efficient enforcers" of the antitrust laws.

On December 20, 2016, after briefing and argument on the defendants' renewed motions to dismiss on personal jurisdiction and efficient enforcer grounds, the District Court denied defendants' motions in part and granted them in part. The District Court held that Freddie Mac is an efficient enforcer of the antitrust laws, but dismissed on personal jurisdiction grounds Freddie Mac's antitrust claims against all defendants except HSBC USA, N.A. Then, in an order issued February 2, 2017, the District Court effectively dismissed Freddie Mac's remaining antitrust claim against HSBC USA, N.A. At present, Freddie Mac's breach of contract actions against Bank of America, N.A., Barclays Bank, Citibank, N.A., Credit Suisse, Deutsche Bank, Royal Bank of Scotland, and UBS AG are its only claims remaining in the District Court.

On February 23, 2018, the Second Circuit reversed the District Court's dismissal of certain plaintiffs' state law fraud and unjust enrichment claims on statutes of limitations grounds. While Freddie Mac was not a party to the appeal, this decision could have the effect of reinstating Freddie Mac's fraud claims against the above-named defendants. The Second Circuit also reversed certain aspects of the District Court's personal jurisdiction rulings and remanded with instructions to allow the named appellant to amend its complaint. The District Court subsequently granted in part Freddie Mac's motion for leave to amend its complaint, and Freddie Mac amended its complaint on April 16, 2019.

Litigation Concerning the Purchase Agreement

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

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

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

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

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

American European Insurance Company, Cacciapelle, and Miller vs. Treasury and FHFA. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on July 30, 2014. The complaint alleged that, through the August 2012 amendment to the Purchase Agreement, Treasury and FHFA breached their respective fiduciary duties to Freddie Mac, causing Freddie Mac to suffer damages. The plaintiffs asked that Freddie Mac be awarded compensatory damages and disgorgement, as well as attorneys' fees, costs, and other expenses.

FHFA, joined by Freddie Mac and Fannie Mae, moved to dismiss the *In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations* case and the other related cases in January 2014. Treasury filed a motion to dismiss the same day. In September 2014, the District Court granted the motions and dismissed the plaintiffs' claims. All plaintiffs appealed that decision, and on February 21, 2017, the U.S. Court of Appeals for the District of Columbia Circuit affirmed in part and remanded in part the decision granting the motions to dismiss. The Court of Appeals affirmed dismissal of all claims except certain claims seeking monetary damages for breach of contract and breach of implied duty of good faith and fair dealing. In March 2017, certain institutional and class plaintiffs filed petitions for panel rehearing with respect to certain claims. On July 17, 2017, the Court of Appeals granted the petitions for rehearing and issued a modified decision, which permitted the institutional plaintiffs to pursue the breach of contract and breach of implied duty of good faith and fair dealing claims that had been remanded. The Court of Appeals also removed language related to the standard to be applied to the implied duty claims, leaving that issue for the District Court to determine on remand. On October 16, 2017, certain institutional and class plaintiffs filed petitions for a writ of certiorari in the U.S. Supreme Court challenging whether HERA's prohibition on injunctive relief against FHFA bars judicial review of the net worth sweep dividend provisions of the August 2012 amendment to the Purchase Agreement, as well as whether HERA bars shareholders from pursuing derivative litigation where they allege the conservator faces a conflict of interest. The Supreme Court denied the petitions on February 20, 2018. On November 1, 2017, certain institutional and class plaintiffs and plaintiffs in another case in which Freddie Mac was not originally a defendant, *Fairholme Funds, Inc. v. FHFA, Treasury, and Federal National Mortgage Association*, filed proposed amended complaints in the District Court. Each of the proposed amended complaints names Freddie Mac as a defendant for breach of contract and breach of the covenant of good faith and fair dealing claims as well as for new claims alleging breach of fiduciary duty and breach of Virginia corporate law. On January 10, 2018, FHFA, Freddie Mac, and Fannie Mae moved to dismiss the amended complaints. On September 28, 2018, the District Court dismissed all of the claims except those alleging breach of the implied covenant of good faith and fair dealing. Discovery is ongoing.

Angel vs. The Federal Home Loan Mortgage Corporation et al. This case was filed pro se on May 21, 2018 against Freddie Mac, Fannie Mae, certain current and former directors of Freddie Mac and Fannie Mae, and FHFA as a nominal defendant. The original complaint alleges, among other things, breach of contract, breach of the implied covenant of good faith and fair dealing, and that defendants aided and abetted the government's "avoidance" of plaintiff's dividend rights. On March 6, 2019, the U.S. District Court for the District of Columbia granted the defendants' motion to dismiss the case. On March 18, 2019, Mr. Angel filed a motion seeking to alter or amend the judgment and for leave to file an amended complaint. On May 24, 2019, the District Court denied Mr. Angel's motion, and on June 19, 2019, Mr. Angel filed a notice of appeal to the U.S. Court of Appeals for the District of Columbia Circuit.

Litigation in the U.S. Court of Federal Claims

Reid and Fisher vs. the United States of America and Federal Home Loan Mortgage Corporation. This case was filed as a derivative lawsuit, purportedly on behalf of Freddie Mac as a "nominal" defendant, on February 26, 2014. The complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation. The plaintiffs ask that Freddie Mac be awarded just compensation for the U.S. government's alleged taking of its property, attorneys' fees, costs, and other expenses. On March 8, 2018, the plaintiffs filed an amended complaint under seal, with a redacted copy filed on November 14, 2018. Defendants filed a motion to dismiss on August 1, 2018 and an amended motion to dismiss on October 1, 2018.

Fairholme Funds, Inc., et al. vs. the United States of America, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. This case was originally filed on July 9, 2013 against the United States of America. On March 8, 2018, plaintiffs filed an amended complaint under seal. A redacted public version was filed on May 11, 2018 and adds Freddie Mac and Fannie Mae as nominal defendants. The amended complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking or exaction of private property for public use without just compensation, and that by enacting the net worth sweep, the government breached the fiduciary duty it owed to Freddie Mac and Fannie Mae, and implied-in-fact contracts between the United States on the one hand and Freddie Mac and Fannie Mae on the other. The plaintiffs ask that plaintiffs, Freddie Mac, and Fannie Mae be awarded (1) just compensation for the government's alleged taking or exaction of their property, (2) damages for the government's breach of fiduciary duties, and (3) damages for the government's breach of the alleged implied-in-fact contracts. In addition, plaintiffs seek pre- and post-judgment interest, attorneys' fees, costs, and other expenses. Defendants filed a motion to dismiss on August 1, 2018 and an amended motion to dismiss on October 1, 2018. On December 6, 2019, the Court dismissed the claims plaintiffs labeled as direct claims and denied defendants' motion to dismiss with respect to the claims plaintiffs labeled as derivative. Accordingly, derivative takings, exaction, breach of fiduciary duty, and breach of implied-in-fact contract claims remain.

Perry Capital LLC vs. the United States of America, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation. This case was filed as a derivative lawsuit, purportedly on behalf of Freddie Mac and Fannie Mae as "nominal" defendants, on August 15, 2018. The complaint alleges, among other items, that the net worth sweep dividend provisions of the senior preferred stock constitute an unlawful taking of private property for public use without just compensation or an illegal exaction in violation of the Fifth Amendment, and that by enacting the net worth sweep, the government breached the fiduciary duty it owed to Freddie Mac and Fannie Mae, and implied-in-fact contracts between the United States on the one hand and Freddie Mac and Fannie Mae on the other. The plaintiffs ask that plaintiffs, Freddie Mac, and Fannie Mae be awarded just compensation for the government's alleged taking of their property or damages for the illegal exaction; damages for the government's breach of fiduciary duties; and damages for the government's breach of the alleged implied-in-fact contracts. The proceedings have been stayed pending a ruling on defendants' motion to dismiss in the Fairholme Funds, Inc. litigation.

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

NOTE 17

Regulatory Capital

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

During 2017, we and Fannie Mae worked with FHFA to develop an overall risk measurement framework for evaluating our risk management and business decisions during conservatorship, known as the CCF. We are required to submit quarterly reports to FHFA related to CCF requirements.

Regulatory Capital Standards

The GSE Act established minimum, critical, and risk-based capital standards for us. However, per guidance received from FHFA, we no longer are required to submit risk-based capital reports to FHFA.

Prior to our entry into conservatorship, those standards determined the amounts of core capital that we were to maintain to meet regulatory capital requirements. Core capital consisted of the par value of outstanding common stock (common stock issued less common stock held in treasury), the par or stated value of outstanding non-cumulative, perpetual preferred stock, additional paid-in capital, and retained earnings (accumulated deficit), as determined in accordance with GAAP.

Minimum Capital

The minimum capital standard required us to hold an amount of core capital that was generally equal to the sum of 2.50% of aggregate on-balance sheet assets and approximately 0.45% of the sum of our guaranteed securities held by third parties and other aggregate off-balance sheet obligations.

Pursuant to regulatory guidance from FHFA, our minimum capital requirement was not affected by adoption of amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs effective January 1, 2010. Specifically, upon adoption of these amendments, FHFA directed us, for purposes of minimum capital, to continue reporting guaranteed securities held by third parties using a 0.45% capital requirement. FHFA reserves the authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

Critical Capital

The critical capital standard required us to hold an amount of core capital that was generally equal to the sum of 1.25% of aggregate on-balance sheet assets and approximately 0.25% of the sum of our guaranteed securities held by third parties and other aggregate off-balance sheet obligations.

Performance Against Regulatory Capital Standards

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

Table 17.1 - Net Worth and Minimum Capital

(In millions)	December 31, 2019	December 31, 2018
GAAP net worth (deficit)	$9,122	$4,477
Core capital (deficit)[1][2]	(63,964)	(68,036)
Less: Minimum capital requirement[1]	19,123	17,553
Minimum capital surplus (deficit)[1]	**($83,087)**	**($85,589)**

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

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

The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount at least equal to the difference between such liabilities and assets.

Under the GSE Act, FHFA must place us into receivership if FHFA determines that our assets are and have been less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA has advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the

Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination. If funding has been requested under the Purchase Agreement to address a deficit in our net worth, and Treasury is unable to provide us with such funding within the 60-day period specified by FHFA, FHFA would be required to place us into receivership if our assets remain less than our obligations during that 60-day period.

At December 31, 2019, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. As of December 31, 2019, our aggregate funding received from Treasury under the Purchase Agreement was $71.6 billion. This aggregate funding amount does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received, the additional $3.0 billion increase in the liquidation preference pursuant to the December 2017 Letter Agreement, nor the increases in liquidation preference pursuant to the September 2019 Letter Agreement that are not draw-related.

NOTE 18

Selected Financial Statement Line Items

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

Table 18.1 - Significant Components of Other Income (Loss)

	Year Ended December 31,		
(In millions)	2019	2018	2017
Other income (loss):			
Non-agency mortgage-related securities settlement and judgment	$26	$338	$4,532
All other	297	424	452
Total other income (loss)	**$323**	**$762**	**$4,984**

The table below presents the significant components of investment gains (losses), net on our consolidated statements of comprehensive income (loss).

Table 18.2 - Significant Components of Investment Gains (Losses), Net

	Year Ended December 31,		
(In millions)	2019	2018	2017
Investment gains (losses), net:			
Mortgage loans gains (losses)	$4,744	$746	$2,062
Investment securities gains (losses)	389	(815)	935
Debt gains (losses)	201	720	151
Derivative gains (losses)	(4,516)	1,270	(1,988)
Investment gains (losses), net	**$818**	**$1,921**	**$1,160**

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

Table 18.3 - Significant Components of Other Assets and Other Liabilities

	As of December 31,	
(In millions)	2019	2018
Other assets:		
Real estate owned, net	$555	$769
Accounts and other receivables[1]	10,780	2,447
Guarantee asset	4,426	3,633
Secured lending and other	5,158	1,805
All other	1,880	2,322
Total other assets	**$22,799**	**$10,976**
Other liabilities:		
Guarantee obligation	$4,292	$3,561
All other	3,750	2,837
Total other liabilities	**$8,042**	**$6,398**

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

END OF CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

Quarterly Selected Financial Data (Unaudited)

Table 75 - Quarterly Selected Financial Data

	2019				
(In millions, except share-related amounts)	1Q	2Q	3Q	4Q	Full-Year
Net interest income	$3,153	$2,927	$2,410	$3,358	$11,848
Non-interest income (loss):					
Guarantee fee income	290	280	280	239	1,089
Investment gains (losses), net	(513)	(138)	568	901	818
Other income (loss)	(17)	143	122	75	323
Non-interest income (loss)	(240)	285	970	1,215	2,230
Net revenues	2,913	3,212	3,380	4,573	14,078
Benefit (provision) for credit losses	135	160	179	272	746
Non-interest expense:					
Administrative expense	(578)	(619)	(620)	(747)	(2,564)
Credit enhancement expense	(158)	(139)	(197)	(214)	(708)
REO operations expense	(33)	(81)	(58)	(57)	(229)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(390)	(399)	(408)	(420)	(1,617)
Other expense	(124)	(236)	(140)	(157)	(657)
Non-interest expense	(1,283)	(1,474)	(1,423)	(1,595)	(5,775)
Income tax (expense) benefit	(358)	(392)	(427)	(658)	(1,835)
Net income (loss)	**1,407**	**1,506**	**1,709**	**2,592**	**7,214**
Total other comprehensive income (loss), net of taxes and reclassification adjustments	258	320	139	(144)	573
Comprehensive income (loss)	**$1,665**	**$1,826**	**$1,848**	**$2,448**	**$7,787**
Net income (loss) attributable to common stockholders	($258)	($320)	($139)	$144	($573)
Net income (loss) per common share – basic and diluted[(1)]	($0.08)	($0.10)	($0.04)	$0.04	($0.18)

	2018				
(In millions, except share-related amounts)	1Q	2Q	3Q	4Q	Full-Year
Net interest income	$3,018	$3,003	$3,257	$2,743	$12,021
Non-interest income (loss):					
Guarantee fee income	244	199	210	213	866
Investment gains (losses), net	1,476	562	510	(627)	1,921
Other income (loss)	99	460	84	119	762
Non-interest income (loss)	1,819	1,221	804	(295)	3,549
Net revenues	4,837	4,224	4,061	2,448	15,570
Benefit (provision) for credit losses	(63)	60	380	359	736
Non-interest expense:					
Administrative expense	(520)	(558)	(569)	(646)	(2,293)
Credit enhancement expense	(60)	(86)	(89)	(182)	(417)
REO operations expense	(34)	(15)	(38)	(82)	(169)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(359)	(366)	(375)	(384)	(1,484)
Other expense	(127)	(114)	(108)	(120)	(469)
Non-interest expense	(1,100)	(1,139)	(1,179)	(1,414)	(4,832)
Income tax (expense) benefit	(748)	(642)	(556)	(293)	(2,239)
Net income (loss)	**2,926**	**2,503**	**2,706**	**1,100**	**9,235**
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(776)	(68)	(147)	378	(613)
Comprehensive income (loss)	**$2,150**	**$2,435**	**$2,559**	**$1,478**	**$8,622**
Net income (loss) attributable to common stockholders	$2,926	$918	$147	($379)	$3,612
Net income (loss) per common share – basic and diluted[(1)]	$0.90	$0.28	$0.05	($0.12)	$1.12

(1) Net income (loss) per common share is computed independently for each of the quarters presented. Due to the use of weighted average common shares outstanding when calculating earnings (loss) per share, the sum of the four quarters may not equal the full-year amount. Net income (loss) per common share amounts may not recalculate using the amounts shown in this table due to rounding.

Controls and Procedures

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by the Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. It is a process that involves human diligence and compliance and is, therefore, subject to lapses in judgment and breakdowns resulting from human error. It also can be circumvented by collusion or improper management override. Because of its limitations, there is a risk that internal control over financial reporting may not prevent or detect, on a timely basis, errors that could cause a material misstatement of the financial statements.

We assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making our assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control — Integrated Framework (2013 Framework). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis by a company's internal controls. Based on our assessment, we identified a material weakness related to our inability to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our consolidated financial statements.

We have been under conservatorship of FHFA since September 6, 2008. FHFA is an independent agency that currently functions as both our Conservator and our regulator with respect to our safety, soundness, and mission. Because we are in conservatorship, some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our Conservator, FHFA has the power to take actions without our knowledge that could be material to investors and could significantly affect our financial performance. Although we and FHFA have attempted to design and implement disclosure policies and procedures to account for the conservatorship and accomplish the same objectives as disclosure controls and procedures for a typical reporting company, there are inherent structural limitations on our ability to design, implement, test, or operate effective disclosure controls and procedures under the circumstances of conservatorship. As our Conservator and regulator, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to us, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate, and test the controls and procedures for which FHFA is responsible. For example, FHFA may formulate certain intentions with respect to the conduct of our business that, if known to management, would require consideration for disclosure or reflection in our financial statements, but that FHFA, for regulatory reasons, may be constrained from communicating to management. As a result of these considerations, we have concluded that this control deficiency constitutes a material weakness in our internal control over financial reporting.

Because of this material weakness, we have concluded that our internal control over financial reporting was not effective as of December 31, 2019 based on the COSO criteria (2013 Framework). PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the effectiveness of our internal control over financial reporting as of December 31, 2019 and also determined that our internal control over financial reporting was not effective. PricewaterhouseCoopers LLP's report appears in **Financial Statements and Supplementary Data — Report of Independent Registered Public Accounting Firm**.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to management of the company, including the company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in implementing possible controls and procedures.

Management, including the company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2019. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2019, at a reasonable level of assurance, because we have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is communicated from FHFA to Freddie Mac's management in a manner that allows for timely decisions regarding our required disclosure under the federal securities laws. As discussed above, we consider this situation to be a material weakness in our internal control over financial reporting. Based on discussions with FHFA and the structural nature of this continuing weakness, we believe it is likely that we will not remediate this material weakness while we are under conservatorship.

MITIGATING ACTIONS RELATED TO THE MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As described above under **Management's Report on Internal Control Over Financial Reporting**, we have one material weakness in internal control over financial reporting as of December 31, 2019 that we have not remediated.

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

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

In view of our mitigating actions related to this material weakness, we believe that our consolidated financial statements for the year ended December 31, 2019 have been prepared in conformity with GAAP.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING DURING THE QUARTER ENDED DECEMBER 31, 2019

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2019 and concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Other Information

DIRECTOR ELECTION

On February 10, 2020, Mark B. Grier was elected to the Board, effective February 18, 2020. Mr. Grier brings decades of financial services and capital markets experience and expertise to the Board and will serve on the Nominating and Governance and Risk Committees.

Mr. Grier, 67, served as the Vice Chairman of Prudential Financial, Inc. until his retirement in 2019. He joined Prudential in 1995 as Chief Financial Officer and held several positions before being named to the Office of the Chairman in 2002 and as Vice Chairman in 2007. Mr. Grier previously held various positions at Chase Manhattan Corporation and its predecessors from 1978 to 1995, including Executive Vice President, Global Risk Management and Executive Vice President, Co-Head of Global Markets. Mr. Grier is Chair of Achieve and the Global Impact Investing Network and is a Trustee of Eisenhower Fellow and the Tragedy Assistance Program for Survivors. He also served as a member of the board of Prudential Financial, Inc. from 2008 to 2019.

Mr. Grier will receive compensation as a non-executive director of Freddie Mac as described in **Directors, Corporate Governance, and Executive Officers - Corporate Governance - *Director Compensation.***

Freddie Mac will enter into an indemnification agreement with Mr. Grier, effective as of February 18, 2020. A copy of the form of indemnification agreement is filed as Exhibit 10.37. For a description of this indemnification agreement, see **Directors, Corporate Governance, and Executive Officers - Corporate Governance - *Indemnification***.

Directors, Corporate Governance, and Executive Officers

DIRECTORS

Election of Directors

As Conservator, FHFA determines the size of the Board and the scope of its authority. At the start of the conservatorship, FHFA determined that the Board is to have a Non-Executive Chair and is to consist of a minimum of 9 and not more than 13 directors, with the CEO being the only corporate officer serving as a member of the Board. The Board currently has nine members.

In addition, because FHFA as Conservator has succeeded to the rights of all stockholders of the company, the Conservator elects the directors. Accordingly, we will not solicit proxies, distribute a proxy statement to stockholders, or hold an annual meeting of stockholders to elect directors in 2020. Instead, the Conservator has elected directors by written consent in lieu of an annual meeting. Annually, the Board identifies director nominees for the Conservator to consider for election by written consent. When there is a vacancy on the Board, the Board may exercise the authority provided to it by the Conservator to fill such vacancy, subject to review by the Conservator.

On February 10, 2020, the Conservator executed a written consent, effective as of February 10, 2020, re-electing the nine directors submitted by the company for election as a member of our Board. In addition, on February 10, 2020, the Conservator elected Mark Grier as a member of our Board effective February 18, 2020. See **Other Information** for additional information. The individuals re-elected as directors by the Conservator are listed below:

- **Mark H. Bloom**
- **David M. Brickman**
- **Kathleen L. Casey**
- **Lance F. Drummond**
- **Aleem Gillani**
- **Christopher E. Herbert**
- **Grace A. Huebscher**
- **Sara Mathew**
- **Saiyid T. Naqvi**

The company did not submit for re-election, and FHFA did not re-elect, Steven W. Kohlhagen to the Board as the term of his service on the Board had reached the limit set forth in our Corporate Governance Guidelines, or the Guidelines. The company also did not submit for election, and FHFA did not elect, Eugene B. Shanks, Jr., who left the Board on December 31, 2019 when his term on the Board expired.

See ***Director Biographical Information*** for information about each of our current directors. The terms of the directors re-elected by FHFA will end on the date of the next annual meeting of our stockholders or the effective date of the Conservator's next election of directors by written consent, whichever occurs first.

Director Criteria, Diversity, Qualifications, Experience, and Tenure

Our Board seeks candidates for directorship who have achieved a high level of stature, success, and respect in their principal occupations.

Each of our current directors was selected as a candidate because of his or her character, judgment, experience, and expertise. Consistent with our Charter and FHFA's rule regarding the Responsibilities of Boards of Directors, Corporate Practices and Corporate Governance Matters, or the Corporate Governance Rule, the factors considered include the knowledge directors would have, as a group, in the areas of business, finance, accounting, risk management, technology (including cybersecurity), public policy, mortgage lending, real estate, low-income housing, homebuilding, regulation of financial institutions, and any other areas that may be relevant to our safe and sound operation. We also considered whether a candidate's other commitments, including the number of other board memberships held by the candidate, would permit the candidate to devote sufficient time to the candidate's duties and responsibilities as a director. Our Charter provides that our Board have at least one person from each of the homebuilding, mortgage lending, and real estate industries and at least one person from an organization representing community or consumer interests or one person who has demonstrated a career commitment to the provision of housing for low-income households.

FHFA's rule regarding minority and women inclusion generally requires us to consider diversity and the inclusion of women, minorities, and individuals with disabilities in all activities, including considering diversity in the process of nominating directors. In addition, the Board has adopted a policy with regard to the consideration of diversity in identifying director nominees and candidates. As articulated in the Guidelines, the Board seeks to have a diversity of talent, perspectives, expertise, experience, and cultures among its members, including minorities, women, and individuals with disabilities, and considers such diversity in the candidate identification and nomination processes. The Guidelines explain that when identifying director nominees, the

Nominating and Governance Committee considers, among other factors, our needs, the talents and skills then available on the Board, and, with respect to incumbent directors, their continued involvement in business and professional activities relevant to us, the skills and experience that should be represented on the Board, the availability of other individuals with desirable skills to join the Board, and the desire to maintain a diverse Board.

Director Biographical Information

The following summarizes each director's Board service, experience, qualifications, attributes, and/or skills that led to his or her selection as a director, and provides other biographical information, as of February 11, 2020. For Mr. Grier's biographical information, see **Other Information.**

Mark H. Bloom

Age	Director Since	Freddie Mac Committees	Public Company Directorships
55	November 2019	• Compensation and Human Capital • Risk	None

Mr. Bloom is an experienced executive who has held a variety of leadership positions at the intersection of finance, technology, and risk management. He brings to the Board technological expertise to drive efficiency and enhance the customer experience.

Experience and Qualifications

- Global Chief Technology Officer and a member of the Management Board of Aegon N.V. (2016-present)
- Various positions at Citigroup, Inc., including Managing Director, Head of Global Consumer Technology Delivery Services (2007-2016)
- Various positions at JPMorgan Chase & Company, including Senior Vice President, Chase Home Financial Technology (2001-2007)
- Senior Vice President, eBusiness Solutions at CACI International, Inc. (1999-2001)

David M. Brickman

Age	Director Since	Freddie Mac Committees	Public Company Directorships
54	July 2019	• Executive	None

Mr. Brickman is an experienced financial institution executive who has held leadership positions at Freddie Mac for over a decade. His deep understanding of the capital markets and Freddie Mac's business provides valuable insights for the Board.

Experience and Qualifications

- Various positions at Freddie Mac, including Chief Executive Officer (2019-present), President (2018-2019), Head of Multifamily (2011-2018), Vice President - Multifamily Capital Markets (2004-2011), and other positions during which he led the multifamily securitization, pricing, costing, portfolio management, and research teams; was responsible for the development and implementation of our multifamily securitization program, new quantitative pricing models, and financial risk analysis frameworks for all multifamily programs; and designed and led the development of several of our multifamily loan and securitization offerings, including the Capital Markets Execution and the K-Deal Securitization Program (1999-2004)

Kathleen L. Casey

Age	Director Since	Freddie Mac Committees	Public Company Directorships
53	October 2019	• Nominating and Governance	• HSBC Holdings plc

Ms. Casey is an experienced leader with extensive financial regulatory policy experience. She brings high-level regulatory and financial oversight experience as well as a deep understanding of financial markets and governance to the Board.

Experience and Qualifications

- Senior Advisor with Patomak Global Partners, a financial services consulting firm (2012-present)
- Member of the Board and Group Audit, Nomination & Corporate Governance, and Group Risk Committees of HSBC Holdings plc (2014-present)
- Commissioner of the SEC (2006-2011)

- Various roles with the U.S. Senate, including Staff Director and Counsel of the Senate Banking, Housing, and Urban Affairs Committee and Staff Director of the Senate Banking Committee's Subcommittee on Financial Institutions and Regulatory Relief (1993-2006)
- Member of the Financial Accounting Foundation Board of Trustees (2018-present); Chair (2020-present)
- Member of the International Valuation Standards Council Board of Trustees (2016-present)
- Member of the Library of Congress Trust Fund Board (2011-present)
- Member of the Alternative Investment Management Association Council (2012-2016)

Lance F. Drummond

Age	Director Since	Freddie Mac Committees	Public Company Directorships
65	July 2015	• Audit • Compensation and Human Capital, Chair • Executive	• CurAegis Technologies, Inc. • United Community Banks, Inc.

Mr. Drummond is a senior business leader with extensive experience, specializing in business transforming strategy development and execution, operations, technology, and process re-engineering.

Experience and Qualifications

- Executive in Residence, Christopher Newport University (2015-2017)
- Executive Vice President of Operations and Technology of TD Canada Trust (2011-2014)
- Executive Vice President of Human Resources and Shared Services of Fiserv Inc. (2009-2011)
- Senior Vice President and Supply Chain Executive, Service and Fulfillment Executive for Global Technology and Operations, and eCommerce and ATM Executive of Bank of America (2002-2008)
- Various positions with Eastman Kodak Company, including Chief Operating Officer and Corporate Vice President of Kodak Professional Division (1976-2002)
- Member of the Board and Executive, Nominating and Governance, Risk, and Talent & Compensation Committees of United Community Banks, Inc. (2018-present)
- Member of the Board of the Financial Industry Regulatory Authority (2018-present)
- Member of the Board and Audit Committee of CurAegis Technologies, Inc. (2018-present)

Aleem Gillani

Age	Director Since	Freddie Mac Committees	Public Company Directorships
57	January 2019	• Audit, Chair • Compensation and Human Capital • Executive	None

Mr. Gillani is an executive with extensive experience at sophisticated financial institutions. He brings a blend of industry, financial, and risk management experience to the Board.

Experience and Qualifications

- Chief Financial Officer and Corporate Executive Vice President of SunTrust Banks, Inc. (2011-2018)
- Executive Vice President and Corporate Treasurer of SunTrust Banks, Inc. (2010-2011)
- Senior Vice President and Chief Market Risk Officer of SunTrust Banks, Inc. (2007-2010)
- Senior Vice President and Chief Market Risk Officer of PNC Financial Services Group, Inc. (2004-2007)
- Chief Market Risk Officer of BankBoston and FleetBoston Corp. (1996-2004)
- Member of the Board of SunTrust Robinson Humphrey (2011-2018)
- Founding Chair of the Market Risk Council for the Risk Management Association (1998)

Christopher E. Herbert

Age	Director Since	Freddie Mac Committees	Public Company Directorships
59	March 2018	• Compensation and Human Capital • Risk	None

Mr. Herbert is an experienced leader in the governmental and educational sectors, with in-depth knowledge of housing policy, including low-income housing, and urban development, including the financial and demographic dimensions of home ownership.

Experience and Qualifications

- Managing Director for Harvard University's Joint Center for Housing Studies and Lecturer in Urban Planning and Design at the Harvard Graduate School of Design (2015-present)
- Research Director for Harvard University's Joint Center for Housing Studies (2010-2014)
- Senior Associate at Abt Associates, Inc. (1997-2010)
- Member of the Board of the Homeownership Preservation Foundation (2011-2019)
- Member of the Research Advisory Council for the Center for Responsible Lending (2006-2019)
- Member of the Board of GreenPath Financial Wellness (2017-2019)
- Member of the Federal Reserve Bank of Boston's Community Development Research Advisory Council (2014-2016)

Grace A. Huebscher

Age	Director Since	Freddie Mac Committees	Public Company Directorships
60	December 2017	• Audit • Executive • Nominating and Governance, Chair	None

Ms. Huebscher is an executive with extensive experience in capital markets and real estate. She brings to the Board deep multifamily industry knowledge, entrepreneurship, and savvy.

Experience and Qualifications

- Advisor to Capital One Commercial Bank (2017)
- President of Capital One Multifamily Finance, LLC (2013-2017)
- Co-Founder and Chief Executive Officer of Beech Street Capital, LLC (2009-2013)
- Various positions with Fannie Mae, including Vice President, Capital Markets (1997-2009)
- Member of the Board of The Kenyon Review (1998-present)
- Member of the Commercial Board of Governors of the Mortgage Bankers Association (2014-2017)

Sara Mathew

Age	Director Since	Freddie Mac Committees	Public Company Directorships
64	December 2013	• Executive, Chair	• Reckitt Benckiser Group plc • State Street Corporation

Ms. Mathew is an executive with global financial and general management experience. Ms. Mathew's extensive business, financial, and management experience, and her public company board and audit committee experience, enable her to contribute to the Board's oversight of our internal control over financial reporting and compliance matters.

Experience and Qualifications

- Various positions with Dun & Bradstreet Corporation (2001-2013), including Chairman and Chief Executive Officer (2010-2013); President and Chief Operating Officer (2007-2010); and Senior Vice President and CFO (2001-2006)
- Various finance and management positions with The Procter & Gamble Company, including Vice President of Finance for Australia, Asia, and India (1983-2001)
- Member of the Board and Audit Committee of Reckitt Benckiser Group plc (2019-present)

- Member of the Board and Nominating and Corporate Governance and Risk Committees of State Street Corporation (2018-present)
- Member of the Board and Audit and Finance and Corporate Development Committees of Campbell Soup Company (2005-2019)
- Member of the Board, Chair of the Audit, Compliance and Risk Committee, member of the Nomination and Governance Committee, and former member of the Remuneration Committee of Shire plc (2015-2019)
- Member of the Board and Finance and Nominating and Corporate Governance Committees of Avon Products, Inc. (2014-2016)
- Member of the Board of Dun & Bradstreet Corporation (2008-2013)
- Member of the International Advisory Council of Zurich Financial Services Group (2012-2017)

Saiyid T. Naqvi

Age	Director Since	Freddie Mac Committees	Public Company Directorships
70	August 2013	• Executive • Nominating and Governance • Risk, Chair	None

Mr. Naqvi is a seasoned financial executive with proven leadership experience and detailed knowledge of mortgage and consumer financial operations, as well as a deep background in risk and operational management.

Experience and Qualifications

- President and Chief Executive Officer of PNC Mortgage, a division of PNC Bank, National Association, which is a subsidiary of PNC Financial Services Group (2009-2013)
- President of Harley-Davidson Financial Services, Inc. (2007-2009)
- Chief Executive Officer of DeepGreen Financial, Inc. (2005-2006)
- President and Chief Financial Officer of Setara Corporation (2002-2005)
- President and Chief Executive Officer of PNC Mortgage Corporation of America (1995-2001)
- Member of the Board of Genworth Financial (2005-2009)
- Member of the Board of Hanover Mortgage Capital Holdings, Inc. (1998-2006)
- Member of the Housing Council of the Financial Services Roundtable (2009-2013)

CORPORATE GOVERNANCE

Our Corporate Governance Practices

The company is committed to best practices in corporate governance. The Board regularly reviews our governance practices, assesses the regulatory and legislative environment, and adopts governance practices that are in the best interests of the company.

Our Board has adopted the company's Corporate Governance Guidelines. The Guidelines are available on our website at **www.freddiemac.com/governance/pdf/gov_guidelines.pdf**. The Guidelines are reviewed annually by our Board and were last updated in June 2019. The Guidelines establish corporate governance practices, and include: qualifications for directors, a limitation on the number of boards on which a director may serve, term limits, director orientation and continuing education, and a requirement that the Board and each of its committees perform an annual self-evaluation.

We regularly review our practices to ensure effective collaboration of management and the Board. We have instituted the following specific corporate governance practices:

- Our Board has an independent Non-Executive Chair, whose responsibilities include presiding over meetings of the Board and executive sessions of the non-employee or independent directors.
- Of the Board's nine directors, eight are independent, including the Non-Executive Chair.
- Our directors are elected annually.
- Each of the Audit, CHC, Nominating and Governance, and Risk Committees consists entirely of independent directors.
- Each committee operates pursuant to a written charter that has been approved by the Board (these charters are available at **http://www.freddiemac.com/governance/board-committees.html**).
- Independent directors meet regularly without management.
- The Board and each of the Audit, CHC, Nominating and Governance, and Risk Committees conduct an annual self-evaluation.
- New directors receive a full orientation regarding the company and issues specific to the committees to which they have been appointed.
- All directors are provided with access to, and are encouraged to utilize, third party continuing education.
- Management provides the Board and committees with in-depth technical briefings on substantive issues affecting the company.
- The Board reviews management talent and succession planning at least annually.

Director Independence and Relevant Considerations

Our non-employee Board members have evaluated the independence, as defined in Sections 4 and 5 of the Guidelines and in Section 303A.02 of the NYSE Listed Company Manual, of each of our non-employee Board members and determined that all current members of our Board (other than Mr. Brickman, our CEO) are, and that former members of our Board, Ms. Carolyn H. Byrd and Messrs. Steven W. Kohlhagen, Christopher S. Lynch, Eugene B. Shanks, Jr., and Anthony A. Williams were, independent directors. Mr. Brickman is not considered, and Mr. Donald H. Layton, our former CEO, was not considered, to be an independent director due to their service as our CEO.

Our non-employee Board members concluded that all current members of our Audit, CHC, Nominating and Governance and Risk Committees are independent within the meaning of Sections 4 and 5 of the Guidelines and Section 303A.02 of the NYSE Listed Company Manual. Our Board also determined that: (i) all current members of our Audit Committee are independent within the meaning of Exchange Act Rule 10A-3 and Section 303A.06 of the NYSE Listed Company Manual; and (ii) all current members of our CHC Committee are independent within the meaning of Exchange Act Rule 10C-1 and Section 303A.02(a)(ii) of the NYSE Listed Company Manual.

In determining the independence of each Board member, our non-employee Board members reviewed the following categories or types of relationships, in addition to those specifically addressed by the standards contained in Section 5 of the Guidelines, to determine whether those relationships, either individually or in aggregate, would constitute a material relationship between the director and us that would impair a director's judgment as a member of the Board or create the perception or appearance of such an impairment:

- **Employment Affiliations with Business Partners** - Messrs. Bloom and Herbert and former director Mr. Williams are employed by organizations that engage or have engaged in business with us resulting in payments between us and such organizations. Under the Guidelines, no specific independence determination is required with respect to these payments because they do not exceed the greater of $1 million or 2% of the firm's consolidated gross revenues for each of the last three fiscal years. After considering the nature and extent of the specific relationships between these organizations and us, our non-employee Board members concluded that the business relationships do not constitute material relationships between either Mr. Bloom or Mr. Herbert and us and, with respect to Mr. Williams, did not constitute a material relationship between him and us, that would, or did, impair their respective independence as our directors.

- **Employment Affiliations with Competitors** - During 2019, an immediate family member of Ms. Huebscher was employed by a company that is a competitor of Freddie Mac. After considering the nature and extent of the specific relationship between the competitor and the immediate family member and between the competitor and Freddie Mac, our non-employee Board members concluded that the business relationship does not constitute a material relationship that would impair Ms. Huebscher's independence as our director.
- **Board Memberships with Business Partners** - Ms. Casey and Messrs. Drummond and Herbert and former directors Ms. Byrd and Messrs. Lynch and Williams serve or have served as directors of other organizations that engage or have engaged in business with us resulting in payments between us and such organizations during the past three fiscal years. After considering the nature and extent of the specific relationship between each of those organizations and us, and the fact that these current or past Board members are or were directors of these other organizations rather than employees, our non-employee Board members concluded that those business relationships do not, and with respect to former directors did not, constitute material relationships that would, or did, impair their independence as our directors.
- **Financial Relationships with Business Partners** - Messrs. Bloom and Gillani, and former director Mr. Kohlhagen each own stock in companies with which we conduct significant business, and such ownership represents a material portion of their respective net worth. To eliminate any potential conflict of interest that might arise as a result of their respective stock ownership, we have established mechanisms pursuant to which they will be recused from discussing and acting upon any matters considered by the Board or any of the committees of which they are or were a member and that directly relate to the company in which they have such stock ownership. In situations where matters are frequently presented to the Board regarding these companies, we have established formal recusal arrangements. The Audit Committee Chair, in consultation with the Non-Executive Chair, addresses any questions regarding whether recusal from a particular discussion or action is appropriate.

  In evaluating the independence of Messrs. Bloom, Gillani, and Kohlhagen in light of their stock ownership of our business partners, our non-employee Board members considered the nature and extent of our business relationships with such business partners and any potential impact that their respective stock ownership may have on their independent judgment as our directors, taking into account the relevant recusal mechanisms. Our non-employee Board members concluded that these mechanisms addressed any actual or potential conflicts of interest with respect to the stock ownership. Accordingly, our non-employee Board members concluded that the stock ownership of our business partners of Mr. Bloom and Mr. Gillani do not, and of Mr. Kohlhagen did not, constitute material relationships that would, or did, impair their independence as our directors.

Board and Committee Information

Authority of the Board and Board Committees

The directors serve on behalf of, and exercise authority as directed by, the Conservator and owe their fiduciary duties of care and loyalty to the Conservator. Although the Conservator has provided authority for the Board and its committees to function in accordance with the duties and authorities set forth in applicable statutes, regulations, guidance, orders and directives, and our Bylaws and committee charters, the Conservator has reserved certain powers of approval to itself. The Conservator provided instructions to the Board in 2008, 2012, and 2017 to consult with and obtain the Conservator's decision before taking certain actions.

The Conservator's instructions as currently revised require that we obtain the Conservator's decision before taking action on any matters that require the consent of or consultation with Treasury under the Purchase Agreement. See**Note 2: Conservatorship and Related Matters** for a list of matters that require the approval of Treasury under the Purchase Agreement.

The Conservator's revised instructions also require us to obtain the Conservator's decision before taking action in the areas identified in the table below. For some matters, the Conservator's revised instructions specify that our Board must review and approve the matter before we request the Conservator's decision, and for other matters the Board is expected to determine the appropriate level of its engagement.

Matters Requiring Prior Board Review and Approval	Other Matters
• Redemptions or repurchases of our subordinated debt, except as may be necessary to comply with the Purchase Agreement; • Creation of any subsidiary or affiliate, or entering into a substantial transaction with a subsidiary or affiliate, except for routine, ongoing transactions with CSS or the creation of, or a transaction with, a subsidiary or affiliate undertaken in the ordinary course of business; • Changes to, or removal of, Board risk limits that would result in an increase in the amount of risk that may be taken by us; • Retention and termination of external auditors to perform an integrated audit of our financial statements and internal controls over financial reporting and termination of law firms serving as consultants to the Board; • Proposed amendments to our bylaws or Board committee charters; • Setting or increasing the compensation or benefits payable to members of the Board; and • Establishing the annual operating budget.	• Material changes in accounting policy; • Proposed changes in our business operations, activities, and transactions that, in the reasonable business judgment of our management, are more likely than not to result in a significant increase in credit, market, reputational, operational, or other key risks; • Matters, including our initiation or substantive response to litigation, that impact or question the Conservator's powers, our status in conservatorship, the legal effect of the conservatorship, interpretations of the Purchase Agreement or terms and conditions of the Financial Agency Agreement with Treasury or our performance under the Financial Agency Agreement; • Agreements with respect to any securities litigation claim and agreements under which we settle, resolve, or compromise demands, claims, litigation, lawsuits, prosecutions, regulatory proceedings, or tax matters when the amount in dispute is more than $50 million, including each separate agreement with the same counterparty involving the same dispute or common facts when the aggregate amount in dispute totals more than $50 million (excluding loan workouts); • Mergers, acquisitions and changes in control of a Key Counterparty where we have a direct contractual right to cease doing business with such Key Counterparty or object to the merger or acquisition; • Changes to requirements, policies, frameworks, standards, or products that are aligned with Fannie Mae's, pursuant to FHFA's direction; • Credit risk transfers that are new transaction types, recurring transactions with any material change in terms, and transactions that involve collateral types not previously included in a risk transfer transaction; • Mortgage servicing rights sales and transfers involving: ○ 100,000 or more loans to a non-bank transferee; or ○ 25,000 or more loans to any transferee servicer when the transfer would increase the number of the transferee's Freddie Mac- and Fannie Mae-owned seriously delinquent loans by at least 25 percent and the servicing transfer has a minimum of 500 seriously delinquent loans; and • Changes in employee compensation that could significantly impact our employees, including retention awards, special incentive plans, and merit increase pool funding.

In addition, FHFA requires us to provide it with timely notice of: (i) activities that represent a significant change in current business practices, operations, policies, or strategies not otherwise addressed in the Conservator decision items referenced above; (ii) exceptions and waivers to aligned requirements, policies, frameworks, standards, or products if not otherwise submitted to FHFA for Conservator approval as required above; and (iii) accounting error corrections to previously issued financial statements that are not de minimis. FHFA will then determine whether any such items require Conservator approval. For more information on the conservatorship, see **MD&A - Conservatorship and Related Matters**.

Board Committees

The Board has five standing committees: Audit, CHC, Executive, Nominating and Governance, and Risk. All standing committees, other than the Executive Committee, meet regularly and are chaired by, and consist entirely of, independent directors. The Committees perform essential functions on behalf of the Board. The Committee Chairs review and approve agendas for all meetings of their respective Committees. Charters for the standing committees describe each committee's responsibilities and have been adopted by the Board and approved by the Conservator. These charters are available on our website at **http://www.freddiemac.com/governance/board-committees.html**. The membership of each committee as of February 10, 2020 is set forth below, together with a description of the primary responsibilities of each committee.

Committee	Meetings in 2019	Chair	Members
Audit Committee	9 Committee meetings	Aleem Gillani	• Lance F. Drummond • Grace A. Huebscher
Compensation and Human Capital Committee	8 Committee meetings	Lance F. Drummond	• Mark H. Bloom • Aleem Gillani • Christopher E. Herbert
Executive Committee	None	Sara Mathew	• David M. Brickman • Lance F. Drummond • Aleem Gillani • Grace A. Huebscher • Saiyid T. Naqvi
Nominating and Governance Committee	5 Committee meetings	Grace A. Huebscher	• Kathleen L. Casey • Saiyid T. Naqvi
Risk Committee	7 Committee meetings	Saiyid T. Naqvi	• Mark H. Bloom • Christopher E. Herbert

Effective February 18, 2020, Mr. Grier will serve as a member of the Nominating and Governance and Risk Committees.

Audit Committee

The Audit Committee provides oversight of the company's accounting and financial reporting and disclosure processes, the adequacy of the systems of disclosure and internal control established by management, and the audit of the company's financial statements. Among other things, the Audit Committee: (i) appoints the independent auditor and evaluates its independence and performance; (ii) reviews the audit plans for and results of the independent audit and internal audits; and (iii) reviews reports related to processes established by management to provide compliance with legal and regulatory requirements. The Audit Committee's activities during 2019 with respect to the oversight of the independent auditor are described in more detail in **Principal Accounting Fees and Services — *Approval of Independent Auditor Services and Fees***. The Audit Committee also periodically reviews the company's guidelines and policies governing the processes for assessing and managing the company's risks and generally reviews the company's major financial risk exposures and the steps taken to monitor and control such exposures. The Audit Committee also approves all decisions regarding the appointment, removal, and compensation of the General Auditor, who reports independently to the Audit Committee, as well as the annual incentive funding level for our Internal Audit division.

Our Audit Committee satisfies the definition of "audit committee" in Exchange Act Section 3(a)(58)(A) and the requirements of Exchange Act Rule 10A-3. Although our stock is no longer listed on the NYSE, certain of the corporate governance requirements of the NYSE Listed Company Manual, including those relating to audit committees, continue to apply to us because they are incorporated by reference in the Corporate Governance Rule. Our Audit Committee satisfies the "audit committee" requirements in Sections 303A.06 and 303A.07 of the NYSE Listed Company Manual. The Board has determined that all members of our Audit Committee are independent and that Mr. Gillani, a member of the Audit Committee since January 2019 and its current chair, meets the definition of an "audit committee financial expert" under SEC regulations.

Compensation and Human Capital Committee

The CHC Committee oversees the company's compensation and benefits policies and programs, including: (i) an annual review of talent development programs and initiatives, including succession planning, (ii) oversight of our diversity and inclusion programs and policies, and related management strategies, and (iii) the design and execution of initiatives to strengthen our culture. The company's processes for consideration and determination of executive compensation, and the role of the CHC Committee in those processes, are further described in **Executive Compensation — CD&A**. The CHC Committee Report is included in **Executive Compensation — CD&A —** ***Compensation and Human Capital Committee Report***.

For a discussion of the CHC Committee's conclusion that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on us, see **Executive Compensation — Compensation and Risk**.

The CHC Committee consists entirely of independent directors. None of the members of the CHC Committee during 2019 were officers or employees of Freddie Mac or had any relationship with us that would be required to be disclosed by us under Item 407(e)(4) of Regulation S-K.

Executive Committee

The Executive Committee consists of the Non-Executive Chair, the chair of each other standing committee, and our CEO, Mr. Brickman. Other than Mr. Brickman, each member is independent. The Executive Committee is authorized to exercise the corporate powers of the Board between meetings of the Board, except for those powers reserved to the Board by our Charter and Bylaws or otherwise.

Nominating and Governance Committee

The Nominating and Governance Committee, which consists entirely of independent directors, oversees the company's corporate governance, including reviewing the company's Bylaws and the Guidelines. It also assists the Board and its committees in conducting annual self-evaluations and identifying qualified individuals to become members of the Board; reviews Board member independence and qualifications and recommends membership of the Board committees; and reviews potential conflicts of interest for members of senior management as well as certain related person transactions.

Risk Committee

The Risk Committee, which consists entirely of independent directors, oversees on an enterprise-wide basis the company's risk management framework, including credit risk, market risk, liquidity risk, operational risk, and enterprise-wide strategic risk. The Risk Committee reviews and approves the company's enterprise risk policy and Board-level risk appetite metrics, limits, and thresholds and reviews significant: (i) enterprise risk exposures; (ii) risk management strategies; (iii) results of risk management reviews and assessments; and (iv) emerging risks, among other responsibilities. The Risk Committee also approves all decisions regarding the appointment or removal of the CRO, and the CRO reports independently to the Risk Committee, in addition to the CEO.

Additional Board Oversight

The Board and Risk Committee provide oversight of the company's information and cybersecurity operations by receiving periodic reports from the Chief Information Officer and other senior officers. These updates include information regarding management's ongoing efforts to manage cybersecurity risk, and the steps management has taken to address and mitigate the evolving cybersecurity threat environment. In addition, the Risk Committee receives updates regarding any assessments by external parties about the company's cybersecurity program. Senior management discusses cybersecurity developments with the Chair of the Risk Committee and other Board members between Board and committee meetings, as necessary. The company has procedures to escalate information regarding certain cybersecurity incidents to the appropriate members of the Board in a timely fashion. The Board and its committees also have authority, as they deem appropriate to fulfill Board or committee responsibilities, to engage outside consultants or advisors, including technology and cybersecurity experts, and evaluate the company's information security program. See **MD&A — Risk Management — Overview** for more information on the Board's role in risk oversight.

Board Leadership Structure

The positions of CEO and Non-Executive Chair of the Board are held by different individuals. This leadership structure was established by the Conservator. FHFA's Corporate Governance Rule requires that the position of chairperson of the Board be filled by an independent director as defined under the rules of the NYSE.

Communications with Directors

Interested parties wishing to communicate any concerns or questions about Freddie Mac to the Board or its directors may do so by U.S. mail, addressed to the Corporate Secretary, Freddie Mac, 8200 Jones Branch Drive, McLean, VA 22102-3110. Communications may be directed to the Non-Executive Chair, to any other director or directors, or to groups of directors, such as the independent or non-employee directors.

Codes of Conduct

We have separate codes of conduct for our employees and Board members. The employee code also serves as the code of ethics for senior executives and financial officers. All employees, including senior executives and financial officers, are required to sign an annual acknowledgment that they have read the employee code and agree to abide by it and will report suspected deviations from the employee code. When joining our Board, our directors acknowledge that they have reviewed and understand the director code and agree to be bound by its provisions, and each director executes a related confirmation annually.

Copies of our employee and director codes of conduct are available, and any amendments or waivers that would be required to be disclosed are posted, on our website at **www.freddiemac.com**.

Director Compensation

Non-employee Board members receive compensation in the form of cash retainers, paid on a quarterly basis. Non-employee directors are also reimbursed for reasonable out-of-pocket costs for attending meetings of the Board or a Board committee of which they are a member and for other reasonable expenses associated with carrying out their responsibilities as directors.

Our directors are compensated entirely in cash because the Purchase Agreement prohibits us from issuing any shares of our equity securities without the prior written consent of Treasury. See **Executive Compensation — CD&A — *Overview of Executive Management Compensation Program***. Unlike compensation for our executives, there is no provision in the director compensation program for pay that varies depending on business results. Although such incentive compensation is deemed appropriate to give management strong incentives to devise and execute business plans and achieve positive financial results, it is viewed as inconsistent with the oversight role of directors.

2019 Non-Employee Director Compensation Levels

Board compensation levels during conservatorship are shown in the table below.

Table 76 - Board Compensation Levels

Board Service	Cash Compensation
Annual Retainer for Non-Executive Chair	$290,000
Annual Retainer for Non-Employee Directors (other than the Non-Executive Chair)	160,000
Committee Service	**Cash Compensation**
Annual Retainer for Audit Committee Chair	$25,000
Annual Retainer for Risk Committee Chair	15,000
Annual Retainer for Committee Chairs (other than Audit or Risk)	10,000
Annual Retainer for Audit Committee Members	10,000

2019 Director Compensation

The following table summarizes the 2019 compensation earned by all persons who served as non-employee directors during 2019.

Table 77 - Director Compensation

Non-Employee Director	Fees Earned or Paid in Cash(1)	Total
Sara Mathew(2)	$277,292	$277,292
Mark H. Bloom(3)	16,087	16,087
Carolyn H. Byrd(4)	20,000	20,000
Kathleen L. Casey(3)	40,000	40,000
Lance F. Drummond	170,000	170,000
Aleem Gillani(2)(3)	181,458	181,458
Thomas M. Goldstein(4)	45,000	45,000
Christopher E. Herbert	160,000	160,000
Grace A. Huebscher(2)	173,583	173,583
Steven W. Kohlhagen	170,000	170,000
Christopher S. Lynch(4)	36,250	36,250
Saiyid T. Naqvi	175,000	175,000
Eugene B. Shanks, Jr.(4)	174,538	174,538
Anthony A. Williams(4)	20,000	20,000

(1) We do not have pension or retirement plans for our non-employee directors, and all compensation is paid in cash with no additional compensation paid. Therefore, the "Change in Pension Value and Non-qualified Deferred Compensation Earnings" and "All Other Compensation" columns have been omitted.

(2) In addition to the annual Board service and appropriate Committee Chair retainers, the amount reflects partial annual compensation for service as a member of the Audit Committee or as a Committee Chair during 2019. In February 2019, Ms. Mathew became the Non-Executive Chair, Mr. Gillani became the Chair of the Audit Committee, and Ms. Huebscher became a member of the Audit Committee. In July 2019, Ms. Huebscher became the Chair of the Nominating and Governance Committee.

(3) Mr. Gillani joined the Board in January 2019; Ms. Casey joined the Board in October 2019; and Mr. Bloom joined the Board in November 2019.

(4) Mr. Goldstein left the Board in January 2019; Messrs. Lynch and Williams and Ms. Byrd left the Board in February 2019; and Mr. Shanks left the Board in December 2019.

Indemnification

We have made arrangements to indemnify our directors against certain liabilities which are similar to the terms on which our executive officers are indemnified. For a description of such terms, see **Executive Compensation — CD&A — *Written Agreements Relating to NEO Employment — Indemnification Agreements***.

EXECUTIVE OFFICERS

As of February 11, 2020, our executive officers are as follows:

David M. Brickman

Age	Year of Affiliation	Position
54	1999	Chief Executive Officer

Mr. Brickman has served as our CEO and a member of our Board since July 2019. See Director Biographical Information for a brief biographical description for Mr. Brickman.

Ricardo A. Anzaldua

Age	Year of Affiliation	Position
66	2018	Executive Vice President - General Counsel & Corporate Secretary

Mr. Anzaldua has served as our EVP - General Counsel & Corporate Secretary since January 2019. He joined us in May 2018 as EVP - Senior Legal Advisor. Previously, he was Executive Vice President and General Counsel of MetLife, Inc., from 2012 until 2017. From 2007 to 2012, he held senior positions in the legal department of the Hartford Financial Services Group. He began his legal career at the law firm of Cleary, Gottlieb, Steen & Hamilton LLP, where he became a partner in 1999.

Donna M. Corley

Age	Year of Affiliation	Position
46	1995	Senior Vice President & Interim Head of Single-Family Business

Ms. Corley has served as our SVP & Interim Head of Single-Family Business since November 2019. In this role, she is responsible for managing our relationships with our Seller/Servicers, the performance of our guarantee book of business, and all sourcing, servicing, risk management, and business operations. Previously, she served as SVP & Chief Risk Officer of Single-Family Business, where she led the team responsible for analyzing and managing the risks that affect Freddie Mac's Single-Family business of financing more than 1.5 million homes annually. She joined Freddie Mac in 1995 as a research analyst and since then has held various portfolio manager positions within the Investment and Capital Markets division and has also led Freddie Mac's credit pricing, risk transfer, and securitization teams.

Anil D. Hinduja

Age	Year of Affiliation	Position
56	2015	Executive Vice President - Chief Risk Officer

Mr. Hinduja has served as our EVP - Chief Risk Officer since July 2015. In this role, he provides overall direction and leadership for the Risk function and is responsible for leading an integrated risk management framework for all aspects of risk across the company. He joined Freddie Mac from Barclays PLC, where he served in increasingly broader risk management roles beginning in 2009, including Chief Risk Officer for Barclays Africa Group Limited, Group Credit Director for Retail Credit Risk, and Chief Risk Officer for Barclays' retail bank in the U.K. Prior to joining Barclays, Mr. Hinduja spent 19 years at Citigroup in diverse roles with increasing responsibility across finance, operations, sales and distribution, business, and risk management in global consumer businesses. In risk, he was Director for Global Consumer Credit Risk and then Chief Risk Officer for the Consumer Lending Group, where he was responsible for managing risk in the mortgage, auto, and student loan businesses. His tenure at Citigroup culminated in his term as President and CEO of Citi Home Equity.

Michael T. Hutchins

Age	Year of Affiliation	Position
64	2013	Executive Vice President - Investments and Capital Markets

Mr. Hutchins has served as our EVP - Investments and Capital Markets since January 2015 and prior to that served as SVP - Investments and Capital Markets from July 2013. Previously, Mr. Hutchins was Co-Founder and Chief Executive Officer of PrinceRidge, a financial services firm. Prior to PrinceRidge, he was with UBS from 1996 to 2007, holding a variety of positions, including the Global Head of the Fixed Income Rates & Currencies Group. Prior to UBS, Mr. Hutchins worked at Salomon

Brothers from 1986 to 1996, where he held a number of management positions, including Co-Head of Fixed Income Capital Markets.

Deborah L. Jenkins

Age	Year of Affiliation	Position
52	2008	Executive Vice President - Multifamily

Ms. Jenkins has served as our EVP - Multifamily since November 2018. In this role, she leads a team of more than 900 people tasked with providing liquidity and stability to multifamily mortgage markets while supporting affordable rental housing throughout the country. She previously served as SVP - Multifamily Underwriting and Credit — the principal manager of underwriting and credit approvals for all Multifamily debt investments, credit policy governance, and asset level securitization activities. Ms. Jenkins spearheaded enhancements in the Multifamily division's underwriting process specifically to stand up its securitization program, including its K- and SB-Deals. She was a Senior Vice President with Wells Fargo National Bank in Michigan before joining Freddie Mac in March 2008.

Donald F. Kish

Age	Year of Affiliation	Position
51	2002	Senior Vice President - Corporate Controller, Principal Accounting Officer & Interim Chief Financial Officer

Mr. Kish has served as our SVP - Corporate Controller, Principal Accounting Officer & Interim Chief Financial Officer since December 2019. He has served as our Corporate Controller and Principal Accounting Officer since May 2018. Previously, he served as Vice President, Single-Family Controller, from 2014 to 2018 and as Vice President with responsibility for various accounting and control matters, in support of both the Single-Family Business division and the Investments and Capital Markets division, from 2004 to 2014.

Frank Nazzaro

Age	Year of Affiliation	Position
58	2018	Executive Vice President - Chief Information Officer

Mr. Nazzaro has served as our EVP - Chief Information Officer since October 2019 after serving as Acting Chief Information Officer from May 2019 to October 2019. He leads the Information Technology (IT) division and provides corporate-wide leadership for the company's technology strategy. Mr. Nazzaro is an accomplished senior technology executive with over 20 years' experience in the financial services industry. With an in-depth knowledge in infrastructure and applications, he brings a wealth of experience in transformational IT activities and strong leadership capabilities essential to IT's strategic initiatives, including Cloud migration, Modern Delivery, and Employee Technology Experience. He joined Freddie Mac in 2018 as Senior Vice President and Chief Technology Officer leading Enterprise Technology Solutions. From 2016 to 2018, he served as Group Vice President and CTO for Travelport LLC, where he led cloud architecture, infrastructure, and operations globally. Before that, from 2012 to 2016, he worked as CTO at CIT Group where he was responsible for Transformation, Architecture, Technology Strategy, and IT Infrastructure. He has held several senior technology and management roles at RBC Capital Markets, Bridgewater, and UBS.

Jerry Weiss

Age	Year of Affiliation	Position
61	2003	Executive Vice President - Chief Administrative Officer

Mr. Weiss has served as our EVP - Chief Administrative Officer since August 2010. In this role, he manages the services and operations of Freddie Mac's External Relations, including Government and Industry Relations and Public Policy; Public Relations and Corporate Marketing; Internal Communications; Making Home Affordable - Compliance; Conservatorship and Regulatory Affairs; and Economic and Housing Research organizations. In addition, since November 2014 he has served as a member of the Board of Managers of CSS. He also served as our CCO from August 2010 until June 2011. Prior to August 2010, Mr. Weiss served as our SVP and CCO and in various other senior management capacities since joining us in October 2003. Prior to joining us, Mr. Weiss worked from 1990 at Merrill Lynch Investment Managers, including as First Vice President and Global Head of Compliance. From 1982 to 1990, Mr. Weiss was with a national law practice in Washington, D.C., where he specialized in securities regulation and corporate finance matters.

Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

This section contains information regarding our compensation programs (all of which have been approved by FHFA) and the compensation of the following individuals who we determined to be our Named Executive Officers, or NEOs, for the year ended December 31, 2019.

Named Executive Officers	
David M. Brickman	Chief Executive Officer
Ricardo A. Anzaldua	Executive Vice President - General Counsel & Corporate Secretary
Anil D. Hinduja	Executive Vice President - Chief Risk Officer
Michael T. Hutchins	Executive Vice President - Investments and Capital Markets
Donald F. Kish	Senior Vice President - Corporate Controller, Principal Accounting Officer & Interim Chief Financial Officer
Donald H. Layton	Former Chief Executive Officer
David B. Lowman	Former Executive Vice President - Single-Family Business
James G. Mackey	Executive Vice President - Senior Advisor; former Chief Financial Officer

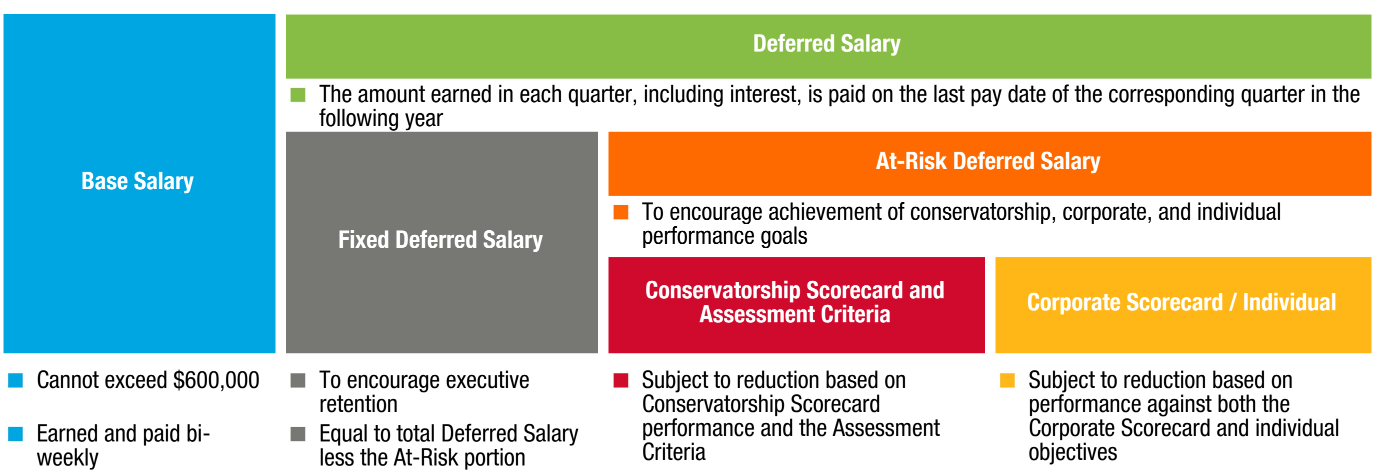
For information on our primary business objectives and the progress we made during 2019 toward accomplishing those objectives, see **Introduction — About Freddie Mac**.

Overview of Executive Management Compensation Program

Compensation in 2019 for each NEO, other than Mr. Layton, whose compensation is discussed below, was governed by the Executive Management Compensation Program, or EMCP. Compensation in 2019 for Mr. Brickman was governed by the EMCP prior to his appointment as CEO in July 2019. The EMCP balances our need to retain and attract executive talent with promoting the conservatorship objectives included in FHFA's Conservatorship Scorecard, as well as goals separately established by management related to the commercial aspects of our business, which are included in our Corporate Scorecard. All compensation under the EMCP is delivered in cash because the Purchase Agreement does not permit us to provide equity-based compensation to our employees unless approved by Treasury.

Elements of Target TDC

Compensation under the EMCP in 2019 consisted of the following elements:



The objectives against which 2019 corporate performance was measured, together with the assessment of actual performance against those objectives and the Assessment Criteria used by FHFA, are described in ***Determination of 2019 At-Risk Deferred Salary — At-Risk Deferred Salary Based on Conservatorship Scorecard Performance*** and

Determination of 2019 At-Risk Deferred Salary — At-Risk Deferred Salary Based on Corporate Scorecard Goals and Individual Performance. These performance measures were chosen because they reflected our 2019 priorities during conservatorship.

See ***Other Executive Compensation Considerations — Effect of Termination of Employment*** for information on the effect of a termination of employment, including the timing and payment of any unpaid portion of Deferred Salary and related interest.

Executive Compensation Best Practices

What We Do	What We Don't Do
Clawback provisions with a significant portion of compensation subject to recapture and/or forfeiture	No agreements that guarantee a specific amount of compensation for a specified term of employment
Use of an independent compensation consultant by the Compensation and Human Capital Committee	No golden parachute payments or other similar change in control provisions
Annual compensation risk review	No tax "gross-ups"
Single executive perquisite, reimbursement of tax, estate, and/or personal financial planning expenses (up to $4,500 annually, with an additional $2,500 in the first year of eligibility)	No hedging or pledging of company securities permitted
Evaluation of company performance against multiple measures, including non-financial measures	

CEO Compensation

Prior to his appointment as CEO in July 2019, Mr. Brickman participated in the EMCP and his compensation was subject to corporate and individual performance. Since his appointment as CEO, Mr. Brickman's compensation has consisted solely of an annual Base Salary of $600,000, a level set by FHFA pursuant to the Equity in Government Compensation Act of 2015.

Mr. Layton's compensation in 2019 consisted solely of an annual Base Salary of $600,000. In 2019, he did not participate in the EMCP and therefore did not receive any compensation subject to either corporate or individual performance.

Messrs. Brickman and Layton were eligible to participate in all employee benefit plans offered to Freddie Mac's other senior executives under the terms of those plans.

Determination of 2019 Target TDC for Eligible NEOs

Role of Compensation Consultant

As part of the annual process to determine the Target TDC for each of the eligible NEOs, the CHC Committee receives guidance from Meridian Compensation Partners, LLC, or Meridian, its independent compensation consultant. In addition to the annual process to determine Target TDC, Meridian provides guidance to the CHC Committee throughout the year on other executive compensation matters.

Meridian has not provided the CHC Committee with any non-executive compensation services, nor has the firm provided any consulting or other services to our management. During 2019, the CHC Committee reviewed Meridian's independence based on the factors outlined in Exchange Act Rule 10C-1(b)(4) and determined that Meridian continues to be independent.

2019 Comparator Group Companies

The CHC Committee annually evaluates each eligible NEO's Target TDC in relation to the compensation of executives in comparable positions at companies that are either in a similar line of business or are otherwise comparable for purposes of recruiting and retaining individuals with the necessary skills and capabilities. We refer to this group of companies as the Comparator Group.

When there is either no reasonable match or insufficient data from the Comparator Group for a position, or if Meridian believes that additional data sources would strengthen the analysis of competitive market compensation levels, the CHC Committee may use alternative survey sources.

At FHFA's recommendation, Freddie Mac and Fannie Mae have aligned their Comparator Groups so that consistent compensation data is used by both companies for the same or similar senior officer positions.

The Comparator Group used in determining compensation for 2019 consisted of the following companies:

Allstate	Discover Financial Services	Prudential
Ally Financial	Fannie Mae	Regions Financial
AIG	Fifth Third Bancorp	State Street
American Express	The Hartford	SunTrust**
Bank of America*	JPMorgan Chase*	Synchrony Financial
Bank of New York Mellon	KeyCorp	U.S. Bancorp
BB&T**	Mastercard	Visa
Capital One	MetLife	Voya Financial
Citigroup*	Northern Trust	Wells Fargo*
Citizens Financial Group	PNC	

* Only mortgage or real estate division-level compensation data from these diversified banking firms may be utilized where available and appropriate for the position being benchmarked.

** Effective December 6, 2019, BB&T and SunTrust merged to form Truist Financial Corporation.

The CHC Committee has determined that these same companies will comprise the 2020 Comparator Group.

Establishing Target TDC

The CHC Committee developed its 2019 Target TDC recommendations for the eligible NEOs, other than Messrs. Hutchins and Brickman (in his role as President), by reviewing data from the Comparator Group. For Mr. Hutchins, the CHC Committee reviewed data from a broader financial services survey reflecting companies with significant assets under management. For Mr. Brickman in his role as President, the CHC Committee reviewed data from a broader set of financial services companies with non-CEO presidents. The CHC Committee's 2019 Target TDC recommendation for each of the eligible NEOs was reviewed and approved by FHFA.

2019 Target TDC

The following table sets forth the components of 2019 Target TDC for each of our eligible NEOs.

Table 78 - 2019 Target TDC

		2019 Target TDC			
Named Executive Officer(1)		**Base Salary**	**Fixed Deferred Salary**	**At-Risk Deferred Salary**	**Target TDC**
David M. Brickman(2)	as CEO Jul - Dec	$300,000	$—	$—	$300,000
	as President Jan - Jun	300,000	837,500	487,500	1,625,000
	Total	600,000	837,500	487,500	1,925,000
Ricardo A. Anzaldua		500,000	1,250,000	750,000	2,500,000
Anil D. Hinduja		600,000	1,220,000	780,000	2,600,000
Michael T. Hutchins		600,000	1,675,000	975,000	3,250,000
Donald F. Kish(3)		414,712	235,865	278,076	928,653
David B. Lowman		505,385	1,401,902	816,032	2,723,319
James G. Mackey		600,000	1,675,000	975,000	3,250,000

(1) Mr. Layton did not participate in the EMCP in 2019 and therefore is not included in this table. For a discussion of Mr. Layton's compensation, see ***CEO Compensation***.

(2) Prior to being appointed as CEO in July 2019, Mr. Brickman served as President and participated in the EMCP. Amounts in this table reflect his prorated Target TDC for the period during which he served as President. For a discussion of Mr. Brickman's compensation earned during his service as CEO, see ***CEO Compensation***.

(3) Amounts in the table reflect the prorated impact of Mr. Kish's increase in 2019 Target TDC from $875,000 to $975,000 effective June 24, 2019, consisting of a base salary increase from $400,000 to $425,000 and a Deferred Salary increase from $475,000 to $550,000.

Determination of 2019 At-Risk Deferred Salary

The CHC Committee and FHFA considered our achievements in pursuing our primary business objectives, as well as other factors, in determining the funding level for At-Risk Deferred Salary in 2019. FHFA determined the funding level for the portion of At-Risk Deferred Salary based on Conservatorship Scorecard performance and Assessment Criteria, and the CHC Committee determined, with FHFA's review and approval, the amounts payable to each eligible NEO for the portion of At-Risk Deferred Salary based on Corporate Scorecard goals and individual performance.

At-Risk Deferred Salary Based on Conservatorship Scorecard Performance

Half of each eligible NEO's 2019 At-Risk Deferred Salary, or 15% of Target TDC, was subject to reduction based on FHFA's assessment of (i) the company's performance against the objectives in the 2019 Conservatorship Scorecard and (ii) the Assessment Criteria described below. FHFA independently assessed our performance against 2019 Conservatorship Scorecard and the Assessment Criteria and determined that an 85% funding level was justified for the portion of the eligible NEOs' At-Risk Deferred Salary. In assessing our performance against the 2019 Conservatorship Scorecard, the factors considered by FHFA included our completion of all of the Conservatorship Scorecard objectives and our performance against the Assessment Criteria.

In making its assessment, FHFA used the following criteria (Assessment Criteria):

- The extent to which the company conducts initiatives in a safe and sound manner consistent with FHFA's expectations for all activities;
- The extent to which the outcomes of the company's activities support a competitive and resilient secondary mortgage market to support homeowners and renters;
- The extent to which the company meets FHFA’s expectations under the CCF, including FHFA’s expectations on meeting appropriate ROCC targets;
- The extent to which the company conducts initiatives with consideration for diversity and inclusion consistent with FHFA's expectations for all activities;
- Cooperation and collaboration with FHFA, Fannie Mae, CSS, the industry, and other stakeholders; and
- The quality, thoroughness, creativity, effectiveness, and timeliness of the company's work products.

The table below presents the Conservatorship Scorecard objectives and FHFA's assessment of our achievement against those objectives.

Performance Goals	FHFA's Summary of Performance
Maintain, in a safe and sound manner, credit availability and foreclosure prevention activities for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets. (40%)	
Continue efforts to support access to single-family mortgage credit for creditworthy borrowers, including underserved segments of the market: • Continue to identify opportunities to support access to credit in a safe and sound manner that take into consideration changing borrower needs and enabling technology to document income, assets, and employment. • Continue to support access to credit for borrowers with limited English proficiency and make progress on multi-year language access plans. • Continue efforts supporting appraisal process modernization, including revised appraisal forms and data requirements.	All goals were achieved.
Continue to responsibly support the Neighborhood Stabilization Initiative.	Goal was achieved.
Continue efforts related to mortgage servicing that promote mortgage market stability by furthering opportunities to improve the borrower experience, expand liquidity, and increase efficiency.	Goal was achieved.

<table>
<tr><th>Performance Goals</th><th>FHFA's Summary of Performance</th></tr>
<tr><td>Prepare for transition from LIBOR. Assess impact and perform industry outreach to inform policy and implementation plans.</td><td>Goal was achieved through our efforts to prepare the marketplace to transition from LIBOR to a new index based on SOFR by remaining engaged in the SOFR derivatives market by taking on SOFR-based futures and swaps when appropriate; with our K Certificates, which include a class of floating rate bonds indexed to SOFR; and our active participation in the ARCC, which is a group of private-market participants convened by the Federal Reserve Board and the Federal Reserve Bank of New York to help ensure a successful transition from LIBOR to its recommended alternative, SOFR.</td></tr>
<tr><td>Explore opportunities to further affordability through multifamily energy and water efficiency programs:
• Conduct research and outreach on loans that finance energy and water efficiency improvements.</td><td>Goal was achieved.</td></tr>
<tr><td>Manage the dollar volume of new multifamily business to remain at or below $35 billion:
• Loans in affordable and underserved market segments, as defined by FHFA, are to be excluded from the $35 billion cap.</td><td>Goal was achieved.</td></tr>
<tr><td colspan="2">Reduce taxpayer risk through increasing the role of private capital in the mortgage market. (30%)</td></tr>
<tr><td>Single-Family Credit Risk Transfers:
• Transfer a meaningful portion of credit risk on at least 90 percent of the UPB of newly acquired single-family mortgages in loan categories targeted for credit risk transfer, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations.
• For 2019, targeted single-family loan categories include: non-HARP, fixed-rate mortgages with terms greater than 20 years and LTV ratios above 60 percent.
• Report to FHFA the actual amount of underlying mortgage credit risk transferred.</td><td>All goals were achieved through the company's thoughtful approaches to transferring credit risk on single-family mortgages.</td></tr>
<tr><td>Multifamily Credit Risk Transfers:
• Transfer a meaningful portion of the credit risk on newly acquired mortgages, subject to FHFA target adjustments as may be necessary to reflect market conditions and economic considerations.
• Report to FHFA the actual amount of underlying mortgage credit risk transferred.</td><td>All goals were achieved through the company's thoughtful approaches to transferring credit risk on multifamily mortgages.</td></tr>
<tr><td>Retained Portfolio:
• Execute FHFA-approved retained portfolio plans that maintain, even under adverse conditions, the annual Purchase Agreement requirements and the $250 billion Purchase Agreement cap. Any sales should be commercially reasonable transactions that consider impacts to the market, borrowers, and neighborhood stability.</td><td>Goal was achieved.</td></tr>
<tr><td>Servicer Eligibility Requirements 2.0:
• Evaluate the current liquidity requirements for non-depository Seller/Servicer company counterparties to determine whether changes are appropriate.</td><td>Goal was achieved.</td></tr>
<tr><td colspan="2">Build a new single-family infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future (30%)</td></tr>
</table>

Performance Goals	FHFA's Summary of Performance
Common Securitization Platform and Single Security Initiative: • Continue working with FHFA, Fannie Mae, and CSS to implement the Single Security Initiative on the CSP for both Enterprises. • Incorporate the following design principles in developing the CSP: ○ Focus on the functions necessary for current Enterprise single-family securitization activities. ○ Include the development of operational and system capabilities necessary for CSP to facilitate the issuance and administration of a common, single security for the Enterprises. ○ Allow for the integration of additional market participants in the future. • Continue to work with Fannie Mae and CSS to obtain and use input from industry stakeholders. • Work proactively with the industry to help market participants prepare for the implementation of the Single Security Initiative.	All goals were achieved with the successful launch of UMBS.
Continue to Provide Active Support for Mortgage Data Standardization Initiatives: • Continue implementation of the redesigned Uniform Residential Loan Application (URLA), the Uniform Loan Application Dataset (ULAD), and the company's Automated Underwriting System (AUS) specifications. • Assess and, as appropriate, continue implementation of strategies to redesign the Uniform Appraisal Dataset and forms.	All goals were achieved with the publication of the mock-ups of URLA forms, updated AUS specifications, and revised URLA-ULAD implementation timeline.

At-Risk Deferred Salary Based on Corporate Scorecard Goals and Individual Performance

The other half of each eligible NEO's At-Risk Deferred Salary, also equal to 15% of Target TDC, was subject to reduction based on the company's performance against the Corporate Scorecard goals and the NEO's individual performance. The five Corporate Scorecard goals drive how we manage and improve the commercial aspects of our business and are intended to complement the FHFA Strategic Plan and Conservatorship Scorecard. Certain of the individual performance objectives for the eligible NEOs were either Conservatorship Scorecard objectives or Corporate Scorecard goals, or directly supported their achievement.

No weightings were assigned to the Corporate Scorecard goals. As a result, it was necessary for the CHC Committee to use its judgment in determining the overall level of performance. In making its determination, the CHC Committee primarily considered the fact that the vast majority of the Corporate Scorecard goals were achieved or exceeded. The CHC Committee determined that, based on the company's performance against the Corporate Scorecard, no reduction should be applied due to company performance for this portion of At-Risk Deferred Salary.

The Board has adopted Corporate Scorecard goals for 2020 that align with our Strategic Plan.

The table below presents the Corporate Scorecard goals and the CHC Committee's assessment of our achievement against those goals.

Corporate Scorecard Goal	Assessment of Performance
Customer Compete for business by being a customer-centric organization	The company achieved all elements of this goal. Both the Single-Family and Multifamily businesses continued to make significant progress in customer satisfaction.
People and Culture Hire and retain talented people in a winning culture	The company achieved or exceeded all but one element of this goal. The company received solid scores on the employee engagement survey indicating the ongoing commitment to drive a culture of engagement. The company also continues to focus on diversity and inclusion efforts related to hiring practices and usage and engagement of minority-, women- and disabled-owned businesses in our transactions and met or exceeded these elements. The company narrowly missed achieving the element related to corporate payments to diverse suppliers.
Operating Performance Operate as well as the best-run financial institutions	The company achieved or exceeded all but one element of this goal. We exceeded this goal in both Multifamily volume and Single-Family portfolio growth. Financial results continued to be strong, and we met or exceeded comprehensive income goals at the corporate, Single-Family business, and Multifamily business levels. The company failed to achieve the element related to Investments and Capital Markets comprehensive income. We exceeded plan in the execution of our major programs and infrastructure transformation, highlighting our continued efforts to become more efficient. We also exceeded our plan related to the adoption and conversion to Single Security.
Risk and Capital Management Manage risk and capital as well as the largest financial institutions	The company achieved or exceeded all elements of this goal. The company's efforts to mitigate its risk through the transfer of credit risk on Single-Family and Multifamily new business were above plan. Efforts to achieve major remediation program milestones were achieved or exceeded and the timely remediation of issues target was met indicating our continued focus on risk reduction efforts.
Community Mission Responsibly increase access to housing finance	Based on preliminary information, the company believes it met all five of its single-family affordable housing goals and all three of its multifamily affordable housing goals for 2019. We also exceeded or expect to exceed our goals for other single-family and multifamily mission-related offerings.

The CHC Committee also assessed the individual performance of each eligible NEO. In making its assessments, the CHC Committee took into consideration input from Mr. Brickman (except with respect to his performance for the period during which he was eligible to participate in the EMCP) as well as the company's Corporate Scorecard performance. In each case, the CHC Committee's determination was consistent with Mr. Brickman's recommendation. FHFA reviewed and approved the compensation associated with these determinations.

Each NEO's individual performance is discussed below.

David M. Brickman, *Chief Executive Officer & Former President*

Performance Highlights[(1)]

- Effectively assumed leadership of all three of the business lines in February 2019 — Single-Family, Multifamily, Investments & Capital Markets — and the Information Technology division. This was in addition to his existing oversight of the Enterprise Operations and Internal Audit divisions.
- Demonstrated exceptional leadership, including gaining a deeper understanding of all aspects of the company, driving progress, and advancing the company's leadership role in the housing industry.
- Made significant contributions to many strategic priorities, including the implementation of UMBS, Reimagine Servicing, infrastructure transformation, and company-wide Modern Delivery implementation.
- Achieved strong business results across all categories - from operating performance to customer relationship indices, to credit risk capital reduction and remediation efforts.

At-Risk Deferred Salary (Corporate Scorecard/Individual) Funding Decision

The CHC Committee determined that Mr. Brickman should receive 100% of his At-Risk Deferred Salary that was subject to reduction based on the company's performance against the Corporate Scorecard and his individual performance.

(1) Performance highlights reflect the CHC Committee's evaluation of Mr. Brickman's service as President, prior to being appointed CEO in July 2019.

Ricardo A. Anzaldua, *Executive Vice President, General Counsel & Corporate Secretary*

Performance Highlights

- Advised the Board, senior management, and FHFA on a wide variety of legal and governance issues associated with potential conservatorship exit.
- Effectively supported a variety of business initiatives and transformations, including the implementation of the UMBS initiative, requirements for the CSP, implementation of initiatives to align with direction provided by FHFA, Multifamily's digital transformation, and Freddie Mac's Modern Delivery methodology.
- Helped lead company-wide efforts to navigate a variety of complex regulatory and legal initiatives.
- Provided effective legal support for Board and FHFA leadership transitions to ensure a high level of client satisfaction.
- Strong leadership in the ongoing development of Legal division staff with an increased focus on continuous learning and professional development.

At-Risk Deferred Salary (Corporate Scorecard/Individual) Funding Decision

The CHC Committee determined that Mr. Anzaldua should receive 100% of his At-Risk Deferred Salary that was subject to reduction based on the company's performance against the Corporate Scorecard and his individual performance.

Anil D. Hinduja, *Executive Vice President - Chief Risk Officer*

Performance Highlights

- Advanced the company's risk framework through corporate policies and standards and commenced development of the compliance obligation library to set the foundation for an integrated risk and control approach.
- Enhanced risk appetite methodology for both Financial and Operational Risks and worked actively with the Conservator on the Enterprise Capital Rule.
- Provided leadership to address remediation of supervisory issues and developed a program for third-party risk management.
- Strengthened capabilities within the independent risk function through learning initiatives, ongoing job rotation and recruitment of seasoned executives.
- Continued focus on firm-wide risk management.

At-Risk Deferred Salary (Corporate Scorecard/Individual) Funding Decision

The CHC Committee determined that Mr. Hinduja should receive 100% of his At-Risk Deferred Salary that was subject to reduction based on the company's performance against the Corporate Scorecard and his individual performance.

***Michael T. Hutchins,** Executive Vice President - Investments and Capital Markets*

Performance Highlights
■ Provided strong leadership of the company’s market activities, including successfully decreasing less liquid assets in an economically efficient manner.
■ Led efforts to successfully transition to the UMBS, including market readiness and exchange of legacy Freddie Mac mortgage securities for UMBS.
■ Partnered with the Single-Family business to expand cash window activities, and continued to enhance the liquidity of Freddie Mac’s traded Single-Family bonds in the secondary mortgage market.
■ Continued to meet risk management objectives, including conducting market responsive transactions in debt funding and interest-rate hedging, and efficiently meeting the company’s liquidity and funding needs.
■ Continued to improve operational capabilities, including reducing reliance on third-party vendors, strengthening resiliency and data infrastructure, and enhancing model risk management.
At-Risk Deferred Salary (Corporate Scorecard/Individual) Funding Decision
The CHC Committee determined that Mr. Hutchins should receive 100% of his At-Risk Deferred Salary that was subject to reduction based on the company's performance against the Corporate Scorecard and his individual performance.

***Donald F. Kish,** Senior Vice President, Corporate Controller, Principal Accounting Officer & Interim Chief Financial Officer*

Performance Highlights
■ Provided strong leadership to accounting department, including implementing several opportunities for efficiency in structure and process.
■ Supported the implementation of UMBS and CECL from a tax, accounting, and reporting perspective.
■ Continued focus on enhancing overall control framework, including successful resolution of several key outstanding identified issues.
■ Provided renewed direction for the Finance division’s data and reporting strategy initiative.
■ Provided guidance and structure to the company on the control framework to be used in its Modern Delivery development methodology.
■ Partnered with other leaders to ensure operational readiness for new initiatives, including the first STACR REMIC issuance.
At-Risk Deferred Salary (Corporate Scorecard/Individual) Funding Decision
The CHC Committee determined that Mr. Kish should receive 100% of his At-Risk Deferred Salary that was subject to reduction based on the company's performance against the Corporate Scorecard and his individual performance.

***David B. Lowman,** Former Executive Vice President - Single-Family Business*

Performance Highlights
■ Continued strong performance of the Single-Family business, with focus on increasing competitiveness, driving innovation, and managing risks.
■ Achieved higher Single-Family earnings in 2019 versus 2018.
■ Developed and implemented initiatives that create operational efficiencies and enhance the customer experience, including increasing the capabilities of the Loan Advisor Suite.
■ Successfully supported the launch of the UMBS on the CSP in collaboration with Fannie Mae and CSS.
■ Continued to innovate and execute CRT transactions, including issuing the first STACR REMIC transaction that is expected to deepen and broaden participation in the STACR program.
At-Risk Deferred Salary (Corporate Scorecard/Individual) Funding Decision
The CHC Committee determined that Mr. Lowman should receive 100% of his At-Risk Deferred Salary that was subject to reduction based on the company's performance against the Corporate Scorecard and his individual performance.

***James G. Mackey,** Executive Vice President - Senior Advisor; former Chief Financial Officer*

Performance Highlights

- Led the completion of several large financial transformation projects including a new capital markets accounting system, additional hedge accounting capabilities, and preparation for the implementation of the new CECL accounting standard.
- Continued focus on enhanced analytical and reporting capabilities for both internal management reporting and external disclosures.
- Led the transformation of the enterprise supply chain organization and processes to achieve substantial cost savings and improved efficiencies.
- Led efforts to implement several operational improvements, which included processes to support the UMBS and CCF, and the simplification of G&A and project reporting to reduce costs and increase efficiencies.
- Continued the successful development of management and staff in the Finance division to expand skill sets needed for future organizational success.

At-Risk Deferred Salary (Corporate Scorecard/Individual) Funding Decision

The CHC Committee determined that Mr. Mackey should receive 100% of his At-Risk Deferred Salary that was subject to reduction based on the company's performance against the Corporate Scorecard and his individual performance.

2019 Deferred Salary

The following chart reports the actual amounts of 2019 Deferred Salary for each eligible NEO. The target amount of deferred salary for Mr. Brickman reflects prorated targets based on his participation in the EMCP prior to his appointment as CEO in July 2019. The actual amount earned in each calendar quarter is scheduled to be paid on the last pay date of the corresponding calendar quarter in 2020.

Table 79 - 2019 Deferred Salary

	2019 Actual Deferred Salary[2]						
		At-Risk					
Named Executive Officer[1]	Fixed	Conservatorship Scorecard	% of Target	Corporate Scorecard/ Individual	% of Target	Total Actual Deferred Salary	% of Target
Mr. Brickman[2]	$837,500	$207,188	85%	$243,750	100%	$1,288,438	97%
Mr. Anzaldua	1,250,000	318,750	85%	375,000	100%	1,943,750	97%
Mr. Hinduja	1,220,000	331,500	85%	390,000	100%	1,941,500	97%
Mr. Hutchins	1,675,000	414,375	85%	487,500	100%	2,576,875	97%
Mr. Kish	235,865	118,183	85%	139,038	100%	493,086	96%
Mr. Lowman	1,401,902	346,814	85%	408,016	100%	2,156,732	97%
Mr. Mackey	1,675,000	414,375	85%	487,500	100%	2,576,875	97%

(1) Mr. Layton was not eligible for deferred salary in 2019 and therefore is not included in this table.

(2) Amounts represent actual deferred salary earned by Mr. Brickman during his service as President prior to his appointment as CEO in July 2019.

Written Agreements Relating to NEO Employment

We entered into letter agreements with each of our NEOs, other than Mr. Brickman and Mr. Kish, in connection with their hiring. The letter agreements set forth specific initial levels of Base Salary and, where applicable, Target TDC. The compensation of each NEO is subject to change by FHFA and the terms of the EMCP. See ***Determination of 2019 Target TDC*** for 2019 Target TDC including Base Salary amounts for the NEOs. There are no remaining material provisions of any of the letter agreements as they have either been superseded by the EMCP, as described above, or the provisions are no longer effective, such as sign-on bonuses that have been paid and are no longer subject to repayment. A copy of the letter agreement for each of our NEOs is filed as an exhibit, as reflected in the Exhibit Index.

In connection with his separation from the company, we entered into a Separation Agreement and General Release with Mr. Mackey. Pursuant to the terms of this agreement, Mr. Mackey will remain with the company, serving as EVP-Senior Advisor and assisting with the transition to the new CFO. During this period, his compensation will remain at the levels described in ***Determination of 2019 Target TDC***. A copy of the Separation Agreement and General Release is filed as Exhibit 10.31.

We also entered into restrictive covenant and confidentiality agreements with each of our NEOs. The non-competition and non-solicitation provisions included in the restrictive covenant and confidentiality agreements are described in ***Restrictive Covenant and Confidentiality Agreements***.

The NEOs are not currently entitled to severance benefits upon any type of termination event. For additional information on compensation and benefits payable in the event of a termination of employment, see ***Potential Payments Upon Termination of Employment***.

Restrictive Covenant and Confidentiality Agreements

Each of our NEOs is subject to a restrictive covenant and confidentiality agreement with us. Each agreement provides that the NEO will not seek employment with designated competitors that involves performing similar duties for a specified period immediately following termination of employment, regardless of whether the executive's employment is terminated by the executive, by us, or by mutual agreement. The specified period is 24 months for Mr. Layton and 12 months for the other NEOs. During the 12-month period immediately following termination, each NEO agrees not to solicit or recruit any of our managerial employees. The agreements also provide for the confidentiality of information that constitutes trade secrets or proprietary or other confidential information. A copy of the restrictive covenant and confidentiality agreement for each of our NEOs is filed as an exhibit, as reflected in the Exhibit Index.

Recapture and Forfeiture Agreement

Freddie Mac has adopted, with the approval of FHFA, the Recapture and Forfeiture Agreement, or the Recapture Agreement. In order to participate in the EMCP, each of our NEOs has entered into a Recapture Agreement.

The Recapture Agreement provides for the recapture and/or forfeiture of Deferred Salary (including related interest) earned, paid, or to be paid pursuant to the terms of the EMCP if, after providing the required notice, our Board of Directors, in the good faith exercise of its sole discretion, determines that a Forfeiture Event has occurred. The Forfeiture Events and compensation subject to recapture and/or forfeiture are described below.

Materially Inaccurate Information

- **Forfeiture Event -** The NEO has earned or obtained the legally binding right to a payment of Deferred Salary based on materially inaccurate financial statements or any other materially inaccurate performance measure.
- **Compensation Subject to Recapture and/or Forfeiture -** Any Deferred Salary in excess of the amount that the Board determines would likely have been otherwise earned using accurate measures during the two years prior to the Forfeiture Event.

Termination for Felony Conviction or Willful Misconduct

- **Forfeiture Event -** The NEO's employment is terminated in any of the following circumstances:
  - Termination of employment because the NEO is convicted of, or pleads guilty or nolo contendere to, a felony;
  - Subsequent to termination of employment, the NEO is convicted of, or pleads guilty or nolo contendere to, a felony, based on conduct occurring prior to termination, and within one year of such conviction or plea, the Board determines that such conduct is materially harmful to Freddie Mac; or

  - Termination of employment because, or within two years of termination, the Board determines that, the NEO engaged in willful misconduct in the performance of his or her duties that was materially harmful to Freddie Mac.
- **Compensation Subject to Recapture and/or Forfeiture -** Any Deferred Salary earned during the two years prior to the date that the NEO is terminated, any Deferred Salary scheduled to be paid within two years after termination, and any cash payment made or to be made as consideration for any release of claims agreement.

Gross Neglect or Gross Misconduct

- **Forfeiture Event -** The NEO's employment is terminated because, in carrying out his or her duties, the NEO engages in conduct that constitutes gross neglect or gross misconduct that is materially harmful to Freddie Mac, or within two years after the NEO's termination of employment, the Board determines that the NEO, prior to his or her termination, engaged in such conduct.
- **Compensation Subject to Recapture and/or Forfeiture -** Any Deferred Salary paid at the time of termination or subsequent to the date of termination, including any cash payment made as consideration for any release of claims agreement.

Violation of a Post-Termination Non-Competition Covenant

- **Forfeiture Event -** The NEO violates a post-termination non-competition covenant set forth in the restrictive covenant and confidentiality agreement in effect when a payment of Deferred Salary is scheduled to be made.
- **Compensation Subject to Recapture and/or Forfeiture -** 50% of the Deferred Salary paid during the twelve months immediately preceding the violation and 100% of any unpaid Deferred Salary.

Under the Recapture Agreement, the Board has discretion to determine the appropriate dollar amount, if any, to be recaptured from and/or forfeited by the NEO, which is intended to be the gross amount of compensation in excess of what Freddie Mac would have paid the NEO had Freddie Mac taken the Forfeiture Event into consideration at the time such compensation decision was made.

A copy of the form of the Recapture Agreement was filed as Exhibit 10.18 to our Annual Report on Form 10-K filed on February 16, 2017.

The following additional event is applicable only to the CEO and CFO, to the extent they have compensation subject to reimbursement in accordance with Section 304 of the Sarbanes-Oxley Act.

- **Accounting Restatement Resulting from Misconduct -** If, as a result of misconduct, we are required to prepare an accounting restatement due to material non-compliance with financial reporting requirements, the CEO and CFO are required to reimburse us for amounts determined in accordance with Section 304.

Indemnification Agreements

We have entered into indemnification agreements with each of our executive officers (including each of our NEOs) and directors, each an indemnitee. For indemnification agreements entered into with executive officers after August 2011, the form of agreement has been revised to provide that indemnification rights under the agreement would terminate if and when the executive officer remained with Freddie Mac after ceasing to report directly to the CEO with respect to any claims arising from matters occurring after the officer no longer reported directly to the CEO. Similar indemnification rights would continue to be available to such executive officers under the Bylaws going forward. The indemnification agreements provide that we will indemnify the indemnitee to the fullest extent permitted by our Bylaws and Virginia law. This obligation includes, subject to certain terms and conditions, indemnification against all liabilities and expenses (including attorneys' fees) actually and reasonably incurred by the indemnitee in connection with any threatened or pending action, suit, or proceeding, except such liabilities and expenses as are incurred because of the indemnitee's willful misconduct or knowing violation of criminal law. The indemnification agreements provide that if requested by the indemnitee, we will advance expenses, subject to repayment by the indemnitee of any funds advanced if it is ultimately determined that the indemnitee is not entitled to indemnification. The rights to indemnification under the indemnification agreements are not exclusive of any other right the indemnitee may have under any statute, agreement, or otherwise. Our obligations under the indemnification agreements will continue after the indemnitee is no longer a director or officer of the company with respect to any possible claims based on the fact that the indemnitee was a director or officer, and the indemnification agreements will remain in effect in the event the conservatorship is terminated. The indemnification agreements also provide that indemnification for actions instituted by FHFA will be governed by the standards set forth in FHFA's Notice of Proposed Rulemaking, published in the Federal Register on November 14, 2008.

Other Executive Compensation Considerations

Effect of Termination of Employment

The timing and payment of any unpaid portion of Deferred Salary and related interest is based upon the reason for termination, as discussed in ***Potential Payments Upon Termination of Employment***.

Perquisites

We believe that perquisites should be a minimal part of the compensation package for our NEOs. Total annual perquisites for any NEO cannot exceed $25,000 without FHFA approval, and we do not provide a gross-up to cover any taxes due on the perquisite itself. The only perquisite provided to our NEOs during 2019 was reimbursement for assistance with personal financial planning, tax planning, and/or estate planning, up to an annual maximum benefit of $4,500, with an additional $2,500 allowance provided in the first year in which an NEO becomes eligible for the benefit.

SERP and SERP II

Our NEOs are eligible to participate in our SERP. The SERP is designed to provide participants with the full amount of benefits to which they would have been entitled under our Thrift/401(k) Plan if that plan was not subject to certain dollar limits under the Internal Revenue Code. This is referred to as the "SERP Benefit." As of 2012, for participants in the EMCP (or prior executive compensation programs), no SERP Benefit is accrued with respect to annual pay in excess of two times a participant's Base Salary.

The SERP II was available to employees who were participants in the company’s Pension Plan as of the date the Pension Plan was terminated. It was intended to provide participants with the full amount of the benefits to which they would have been entitled under the tax-qualified Transitional Plan (see our Annual Report on Form 10-K filed on February 19, 2015 for additional information) if that plan was not subject to certain dollar limits under the Internal Revenue Code. This was referred to as the "SERP II Benefit." Messrs. Brickman and Kish were the only NEOs who were eligible for the SERP II Benefit.

For additional information regarding these benefits, see **2019 Compensation Information for NEOs** and **Nonqualified Deferred Compensation**.

Stock Ownership, Hedging, and Pledging Policies

Our stock ownership guidelines were suspended when conservatorship began because we ceased paying our executives stock-based compensation. The Purchase Agreement prohibits us from issuing any shares of our equity securities without the prior written consent of Treasury. The suspension of stock ownership requirements is expected to continue through conservatorship and until such time that we resume granting stock-based compensation.

Pursuant to our company policy, all employees, including our NEOs, and our directors are prohibited from:

- Engaging in all transactions (including purchasing and selling equity and non-equity securities) involving our securities (except selling company securities owned prior to the implementation of the policy and then only with pre-clearance);
- Purchasing or selling derivative securities related to our equity securities or dealing in any derivative securities related to our equity securities;
- Transacting in options (other than options granted by us, and then only with pre-clearance) or other hedging instruments related to our securities; and
- Holding our securities in a margin account or pledging our securities as collateral for a loan.

FHFA's Role in Setting Compensation

Although the CHC Committee plays a significant role in considering and recommending executive compensation, FHFA is actively involved in determining such compensation in its role as our Conservator and as our regulator. The CHC Committee's authority and flexibility is, therefore, subject to certain limitations, including:

- The powers of FHFA as our Conservator include the authority to set executive compensation. Under the terms of the Purchase Agreement, FHFA is required to consult with Treasury on any increases in compensation or new compensation arrangements for our executive officers.

- Our directors serve on behalf of the Conservator and exercise their authority as provided by the Conservator. More information about the role of our directors is provided above in **Directors, Corporate Governance, and Executive Officers —** ***Board and Committee Information — Authority of the Board and Board Committees***.
- FHFA requires us to submit to it proposed new compensation arrangements or increased amounts or benefits payable under existing compensation arrangements for executive officers.
- FHFA retains the authority not only to approve both the terms and amount of any compensation prior to payment to any of our executive officers, but also to modify any existing compensation arrangements.

Changes to EMCP in 2020

On August 23, 2019, FHFA, acting as Conservator, directed us to make specified changes to the EMCP for so long as we are in conservatorship. As described in ***Executive Compensation—Elements of Target TDC*** and ***Determination of 2019 Target TDC for Eligible NEOs***, 30% of target TDC for each NEO (other than our CEO) is at-risk deferred salary that is subject to reduction based on corporate and individual performance. This at-risk deferred salary is currently paid in end-of-quarter installments in the year following the performance year. FHFA has directed us to increase the mandatory deferral period for at-risk deferred salary received by certain executives (including our NEOs) from one year to two years. For executives hired before January 1, 2020, this change will be effective for at-risk deferred salary earned beginning January 1, 2022. For executives hired on or after January 1, 2020, the change will be effective immediately. Accordingly, at-risk deferred salary earned by our current NEOs (other than our CEO) beginning January 1, 2022 will be paid in quarterly installments in the second year following the performance year. For example, at-risk deferred salary earned in 2022 will be paid in quarterly installments in 2024. Because our CEO does not receive deferred salary, his compensation will not be affected by this change.

FHFA also has directed us to limit base salaries for all of our employees to $600,000 for so long as we are in conservatorship.

Section 162(m) Limits on the Tax Deductibility of Compensation Expenses

Section 162(m) of the Internal Revenue Code imposes a $1 million limit on the amount that we may annually deduct for compensation to anyone serving as CEO or CFO at any time during the year, certain other NEOs employed by us at any time during the year and any individual who was a CEO, CFO, or NEO after 2016 and who is receiving Freddie Mac compensation (unless pursuant to a binding contract in effect on November 2, 2017 that is eligible for grandfathering). For calendar years after 2017 (pursuant to the Tax Cuts and Jobs Act), this limit applies even if the compensation is "performance-based."

Compensation and Human Capital Committee Report

The Compensation and Human Capital Committee has reviewed and discussed the **Compensation Discussion and Analysis** with management and, based on such review and discussion, has recommended to the Board that the **Compensation Discussion and Analysis** be included in this Form 10-K.

This report is respectfully submitted by the members of the Compensation and Human Capital Committee.

Lance F. Drummond, Chair

Mark H. Bloom

Aleem Gillani

Christopher E. Herbert

COMPENSATION AND RISK

Our management conducted an assessment of our compensation policies and practices that apply to employees at all levels, including those participating in the EMCP. The assessment was conducted by members of our ERM and human resources teams, and included an evaluation of:

- The types of compensation offered (including fixed, variable, and deferred);
- Eligibility for participation in compensation programs;
- Compensation program design and governance;
- The process for establishing performance objectives; and
- Processes and program approvals for our compensation programs.

The assessment was discussed with the CHC Committee in January 2020. Management's conclusion, with which the CHC Committee concurred, is that the company's compensation programs and practices do not encourage unnecessary or excessive risk behaviors in pursuit of Corporate or Conservatorship Scorecard objectives or otherwise, and the programs and practices would not be reasonably likely to have a material adverse effect on Freddie Mac.

CEO PAY RATIO

SEC rules require annual disclosure of the ratio of a company's CEO's total annual compensation to that of its median employee. For 2019, we used the 2018 median employee who we identified as of November 25, 2018 using payroll data as reported on Form W-2, Box 5 and annualized the compensation for individuals that had not worked the full year. In October 2019, after internal review and analysis and pursuant to SEC rules, we determined to use the same median employee for the calculation of the 2019 CEO Pay Ratio as we did for the calculation of the 2018 CEO Pay Ratio because we have not made significant recent changes to our compensation programs and the median employee identified in 2018 remains representative of our employee population. We calculated that employee's total annual compensation for 2019 using the same method required for calculating the CEO's (and other NEOs') total annual compensation for purposes of **Table 81 - Summary Compensation Table**.

The table below sets forth the total annual compensation for our CEO and median employee and the ratio between the two.

Table 80 - CEO Pay Ratio

	CEO Pay Ratio	
Employee	**Total Compensation**	**Ratio**
David M. Brickman (CEO)	$651,000[1]	**4.34 to 1**
Median Employee	150,065	

(1) Represents the annualized compensation for Mr. Brickman because he was serving as CEO on the date we determined our median employee for 2019.

Per the Equity in Government Compensation Act of 2015, our CEO's compensation is limited to a base salary of $600,000 along certain benefits, including contributions made under our tax-qualified Thrift/401(k) Plan and accruals earned pursuant to the SERP Benefit. See ***CEO Compensation*** for further discussion. Given the different methodologies that companies may use to determine their CEO pay ratio, the ratio reported above should not be used as a basis for comparison between companies.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PRACTICES

Freddie Mac's mission is to provide liquidity, stability, and affordability to the U.S. housing market. We are committed to managing the risks and opportunities that arise from Environmental, Social, and Governance (ESG) issues in connection with executing our mission. We have a responsibility to operate in a sustainable way and to be a leader in environmental sustainability, both in the way we conduct our business and the products we offer. We are dedicated to maintaining an inclusive workplace where employees feel valued and engaged. We evaluate and enhance our practices each year with a focus on three key elements: our environmental footprint, our community, and our people. Here are highlights of our programs, initiatives, and accomplishments for 2019.

Environmental

Our engagement with and commitment to our employees, customers, and community drives our sustainability practices and our commitment to create environmentally-friendly solutions.

Robust Recycling Program

- Recycled 48% of our waste, including 100 tons of paper, 4.6 tons of light bulbs, and 8 tons of electronic waste, preserving millions of gallons of water and saving several thousand trees
- Over a quarter of supply purchases were recycled products or contained recycled products

Other Sustainable Initiatives

- Sponsored an employee-led Green Employee Resource Group (ERG)
- Established reusable food and drink container programs, avoiding the use of 24,000 single-use food containers and eliminated disposable cups throughout the campus
- Donated 9.5 tons of leftover prepared food to organizations serving food insecure individuals
- Encouraged alternative transportation programs, resulting in 1.9 million commuter miles saved and eliminating 1.5 million pounds of carbon dioxide through vanpools

Recognition

Our sustainability program has been recognized with multiple awards including:

- Freddie Mac was recognized by Fairfax County in their Best Workplace for Commuters program for our efforts in providing alternate transportation options to employees that allow flexibility in commuting and reduce traffic congestion
- Green ERG received a Diversity Best Practices' Above and Beyond Award for Community Impact
- Facilities General Services Manager received the 2019 Society of Hospitality and Foodservice Management Leadership Award for company programs to promote sustainability and to creatively reduce waste, including initiatives related to recycling of compostable containers used throughout the company's cafeterias, treatment of food waste to turn it into nutrient rich compostable material

Social

Serving the Community

We demonstrate our commitment to serving our community through engagement efforts and innovations to our products, including those meant to support low- and moderate-income housing, underserved markets, and first-time homebuyers and provide distressed borrowers access to mortgage loan funding with better terms.

Business Practices and Innovation

- Expanded programs and outreach capabilities to better serve low- and moderate-income borrowers and underserved markets
- Supported access to affordable housing by: improving effectiveness of pre-purchase and early delinquency counseling for borrowers; expanding our ability to support borrowers who do not have a credit score; implementing the Duty to Serve Underserved Markets plan; and increased support for first-time home buyers
- Actively promoted sustainability financing
- Helped distressed borrowers keep their homes or avoid foreclosure

Community Service and Engagement

More than 13,000 employee hours were volunteered through company programs and initiatives; examples include:

- Our relationship with and participation in events with Habitat for Humanity
- Employee and company support of financial literacy programming for current and aspiring homeowners
- Provided over 1,000 hours of pro bono legal services to disadvantaged populations
- Awarded the 2019 Laurie D. Zelon Pro Bono Award by the Pro Bono Institute for providing exemplary pro bono service

Investing in Our People

We are committed to attracting and retaining top talent by creating an inclusive and rewarding experience for all employees. We believe that diverse perspectives make us a stronger company and are dedicated to programs and initiatives that create opportunities for growth and development, recognize and reward performance, and support employees' physical, emotional, and financial well-being.

Inclusion and Diversity

We are a majority minority company, and women make up nearly half of our workforce. We are committed to attracting and retaining a diverse workforce with a variety of perspectives and to compensating our employees fairly and equitably based on performance, regardless of race or gender. Programs and initiatives include:

- Inclusion and diversity goals and metrics in our Corporate and Conservatorship Scorecards affect compensation determinations
- The company sponsors ERGs celebrating inclusion and diversity through opportunities for leadership, development, community outreach, and cultural enrichment, including groups based on: gender, ethnicity, LGBTQ+, ability, environment and sustainability, military service and veterans, working parents, and early-career professionals
- Each Division has an Inclusion Council
- The company sponsors an internship program for recently graduated individuals with autism

Our inclusion and diversity programs were recognized with the following awards:

- 2019 Best Places to Work for Disability Inclusion with a 100% score on Disability Equality Index from Disability:IN
- 2019 Best Place to Work for LGBTQ Equality with a 100% score on Corporate Equality Index from the Human Rights Campaign
- 2019 Best Companies for Multicultural Women from Working Mother Magazine
- 2019 National Association for Female Executives – Top Company for Executive Women
- 2019 Diversity Leader Award from the Profiles in Diversity Journal

Employee Well-being

We offer compensation, benefits, and employee resources and programs that support our commitment to employees' total well-being and are designed for every life and career stage, such as:

- A variety of health and wellness options including an onsite healthcare and fitness center
- Leave offerings that include maternity, paternity, and adoption leave
- Access to affordable back-up child and elder care
- Financial assistance to help employees with:
  - Down payment and closing costs in connection with purchasing their first home
  - Student loan debt repayment
  - Adoption and surrogacy expenses
- Flexible work arrangements
- Reimbursement for qualified education expenses as well as comprehensive educational opportunities through our in-house learning platform to help employees take ownership of their continuous learning journey

Governance

Our Board is committed to best practices in corporate governance and strives to adopt governance practices that are in the best interest of the U.S. housing market, the Conservator, the company and our employees.

Board Oversight

Our Board and its committees support the Company's ESG initiatives, including through oversight of:

- the Board-approved inclusion and diversity program focusing on:
  - Employees – attracting and retaining/recruiting a pipeline of diverse applicants
  - Suppliers – developing diverse suppliers through Supplier Academy to make their businesses more competitive; requiring that diverse suppliers be included in bidding process
  - Financial Transactions – promoting the use of diverse firms in our capital markets transactions
- Talent development programs covering leadership development, performance enablement, talent acquisition, and employee retention
- Establishing the "Tone-from-the-Top" and executing strategies and initiatives that foster an ethical, risk-aware culture and support compliance with legal and regulatory obligations
- Compensation plans that include ESG metrics

Our Board Governance Practices

- All directors are independent (other than our CEO)
- Our Board has a strong, independent Non-Executive Chair
- Independent directors meet regularly without management
- New directors receive a comprehensive orientation to the full company and on issues specific to the committees to which they have been appointed
- The Board and its committees are regularly provided with in-depth technical briefings on current substantive issues affecting the company
- Our Non-Executive Chair is both female and minority, and we maintain a strong focus on diversity when recruiting new directors
- Of our eight outside directors, three are women and four are minorities

For additional information on our governance practices, see **Corporate Governance – Our Corporate Governance Practices.**

2019 COMPENSATION INFORMATION FOR NEOs

The following sections set forth compensation information for our NEOs: our CEO, interim CFO, the three other most highly compensated executive officers who were serving as executive officers as of December 31, 2019, anyone who served as our CEO or CFO in 2019, and any executive officer who was not serving as an executive officer as of December 31, 2019, who otherwise would have been one of the three most highly compensated executive officers in 2019.

Summary Compensation Table

Table 81 - Compensation Summary

Named Executive Officer	Year	Salary		Bonus	Non-Equity Incentive Plan Compensation[3]	All Other Compensation[4]	Total
		Earned During Year[1]	Deferred[2]				
David M. Brickman[5]	2019	$600,000	$837,500	$—	$456,867	$112,621	$2,006,988
Chief Executive Officer	2018	500,000	1,507,478	—	867,919	163,266	3,038,663
Ricardo A. Anzaldua[5] EVP - General Counsel & Corporate Secretary	2019	500,000	1,250,000	—	702,873	68,745	2,521,618
Anil D. Hinduja[5] EVP - Chief Risk Officer	2019	600,000	1,220,000	—	730,988	117,651	2,668,639
Michael T. Hutchins[6]	2019	600,000	1,675,000	—	913,735	123,634	3,312,369
EVP - Investments & Capital Markets	2018	500,000	1,575,208	—	897,202	98,862	3,071,272
	2017	490,447	1,394,575	—	804,358	89,305	2,778,685
Donald F. Kish[5] SVP - Corporate Controller, Principal Accounting Officer & Interim Chief Financial Officer	2019	414,712	235,865	—	260,603	73,227	984,407
Donald H. Layton	2019	297,692	—	—	—	26,142	323,834
Former Chief Executive Officer	2018	600,000	—	—	—	51,000	651,000
	2017	600,000	—	—	—	51,000	651,000
David B. Lowman	2019	505,385	1,401,902	—	764,756	106,312	2,778,355
Former EVP - Single-family Business	2018	500,000	1,775,000	—	983,580	100,620	3,359,200
	2017	500,000	1,763,818	—	964,588	92,496	3,320,902
James G. Mackey	2019	600,000	1,675,000	—	913,735	123,634	3,312,369
EVP - Senior Advisor, former Chief Financial Officer	2018	500,000	1,775,000	—	983,580	100,620	3,359,200
	2017	500,000	1,763,818	—	964,588	92,496	3,320,902

(1) Amounts shown reflect Base Salary earned during the year.

(2) Amounts shown reflect Fixed Deferred Salary earned during the year. The interest rate for Fixed Deferred Salary earned during 2019, 2018, and 2017 was 1.315%, 0.880%, and 0.425%, respectively, which is equal to 50% of the one-year Treasury Bill rate as of December 31 of the applicable prior year. Fixed Deferred Salary earned during each quarter is paid in cash on the last pay date of the corresponding quarter in the following year, along with accrued interest. The remaining portion of Deferred Salary is reported in "Non-Equity Incentive Plan Compensation" and is referred to as "At-Risk" because it is subject to reduction based on corporate and individual performance. Interest on Fixed Deferred Salary earned during 2019, 2018, and 2017 is included in All Other Compensation.

(3) Amounts shown reflect At-Risk Deferred Salary earned during each year as well as interest on that At-Risk Deferred Salary. The interest rate for At-Risk Deferred Salary earned during 2019, 2018, and 2017 was the same as noted for the interest rate for the Fixed Deferred Salary. At-Risk Deferred Salary earned during each quarter is paid in cash on the last pay date of the corresponding quarter in the following year. See ***Determination of 2019 At-Risk Deferred Salary***.

(4) Amounts for 2019 reflect: (i) contributions made under our tax-qualified Thrift/401(k) Plan for plan year 2019; (ii) accruals earned pursuant to the SERP Benefit for plan year 2019; and (iii) interest on Fixed Deferred Salary earned during 2019. The amounts for 2019 are as follows:

Named Executive Officer	Thrift/401(k) Plan Contributions	SERP Benefit Accruals	Interest on Fixed Deferred Salary
Mr. Brickman	$23,800	$77,808	$11,013
Mr. Anzaldua	12,262	40,046	16,437
Mr. Hinduja	23,800	77,808	16,043
Mr. Hutchins	23,800	77,808	22,026
Mr. Kish	23,800	46,325	3,102
Mr. Layton	23,461	2,681	—
Mr. Lowman	22,108	65,769	18,435
Mr. Mackey	23,800	77,808	22,026

Employer contributions to the Thrift/401(k) Plan are generally available on the same terms to all of our employees. After the first year of employment, we match up to 6% of eligible compensation at 100% of the employee's contributions. Also, after their first year of employment, employees receive an additional employer contribution to our Thrift/401(k) Plan equal to 2.5% of compensation earned in the prior year. Employee contributions, our matching contributions, and the 2.5% employer contribution are invested in accordance with the employee's investment elections and are immediately vested. For additional information regarding the SERP Benefit, see ***Nonqualified Deferred Compensation.***

Perquisites are valued at their aggregate incremental cost to us. During the years reported, the aggregate value of perquisites received by all NEOs was less than $10,000. Therefore, in accordance with SEC rules, amounts shown under "All Other Compensation" do not include perquisites.

(5) Pursuant to SEC reporting requirements, because Messrs. Anzaldua, Hinduja, and Kish were not NEOs in 2017 or 2018, and Mr. Brickman was not an NEO in 2017, prior year information is not required to be disclosed.

(6) Amounts reported for Mr. Hutchins in the Salary-Earned During Year, Salary-Deferred, and Non-Equity Incentive Plan Compensation columns are less than the corresponding annual target amounts for 2017 because he took additional vacation as leave without pay during that year.

Grants of Plan-Based Awards

The following table contains information concerning grants of plan-based awards to each of the NEOs during 2019. The Purchase Agreement prohibits us from issuing equity securities without Treasury's consent. No stock awards were granted during 2019. For a description of the performance and other measures used to determine payouts, see ***Elements of Target Total Direct Compensation***, ***Determination of 2019 Target TDC for NEOs***, ***Determination of 2019 At-Risk Deferred Salary***, and ***2019 Deferred Salary***.

Table 82 - Grants of Plan-Based Awards

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[2]	
Named Executive Officer[1]	At-Risk Deferred Salary Award	Threshold	Target/Maximum
Mr. Brickman[3]	Conservatorship Scorecard	$—	$243,750
	Corporate Scorecard/Individual	—	243,750
	Total	**—**	**487,500**
Mr. Anzaldua	Conservatorship Scorecard	—	375,000
	Corporate Scorecard/Individual	—	375,000
	Total	**—**	**750,000**
Mr. Hinduja	Conservatorship Scorecard	—	390,000
	Corporate Scorecard/Individual	—	390,000
	Total	**—**	**780,000**
Mr. Hutchins	Conservatorship Scorecard	—	487,500
	Corporate Scorecard/Individual	—	487,500
	Total	**—**	**975,000**
Mr. Kish	Conservatorship Scorecard	—	139,038
	Corporate Scorecard/Individual	—	139,038
	Total	**—**	**278,076**
Mr. Lowman	Conservatorship Scorecard	—	408,016
	Corporate Scorecard/Individual	—	408,016
	Total	**—**	**816,032**
Mr. Mackey	Conservatorship Scorecard	—	487,500
	Corporate Scorecard/Individual	—	487,500
	Total	**—**	**975,000**

(1) Mr. Layton was not eligible to receive Deferred Salary in 2019 and therefore is not included in this table.

(2) The amounts reported reflect At-Risk Deferred Salary granted in 2019 which is subject to reduction based on: (i) corporate performance against the Conservatorship Scorecard; and (ii) the company's performance against the Corporate Scorecard goals and an officer's individual performance. The amount of At-Risk Deferred Salary actually earned can range from 0% of target (reported in the Threshold column) to a maximum of 100% of target (reported in the Target/Maximum column). Actual At-Risk Deferred Salary amounts earned during 2019 are reported in the **Non-Equity Incentive Plan Compensation** column of **Table 81 - Summary Compensation Table**.

(3) Represents amounts Mr. Brickman was eligible to earn in 2019 while serving as President prior to being appointed CEO.

Outstanding Equity Awards at Fiscal Year-End

None of the NEOs had unexercised options or unvested RSUs as of December 31, 2019.

Option Exercises and Stock Vested

None of the NEOs exercised options or had RSUs vest during 2019.

Pension Benefits

No Pension Benefits table is presented here as the Pension Plan termination was completed in 2015. For additional information, see ***Other Executive Compensation Considerations***.

Nonqualified Deferred Compensation

Non-qualified deferred compensation for the NEOs consists of the SERP Benefit and, for those NEOs who were eligible for the Transitional Plan (or those NEOs who may have deferred Roth contributions into their Thrift/401(k) Plan account), the SERP II Benefit. The SERP and SERP II are unfunded, non-qualified defined contribution plans designed to provide participants with the full amount of benefits to which they would have been entitled under the Thrift/401(k) Plan and Transitional Plan (for those NEOs eligible) if these plans were not subject to certain dollar limits under the Internal Revenue Code.

The SERP Benefit equals the amount of the employer matching and 2.5% contributions for each NEO that would have been made to the Thrift/401(k) Plan during the year, based upon the participant's eligible compensation, without application of those limits, less the amount of the matching contributions and 2.5% contributions made to the Thrift/401(k) Plan during the year, but does not take into account pay that exceeds two times the NEO's Base Salary. We believe the SERP Benefit is an appropriate benefit because offering such a benefit helps us remain competitive with the companies in our Comparator Group.

To be eligible for the SERP Benefit, the NEO must be eligible for matching contributions and the 2.5% contribution under the Thrift/401(k) Plan for part of the year, as discussed in Footnote 4 to **Table 81 - Summary Compensation Table**. In addition, to be eligible for the portion of the SERP Benefit attributable to employer matching contributions, the NEO must contribute the maximum amount permitted under the terms of the Thrift/401(k) Plan on either a pre- or post-tax basis.

The SERP II Benefit provided an accrual for each year an NEO participated in the Transitional Plan equal to the amount of the employer contribution that would have been made to the Transitional Plan for the year, without application of the Internal Revenue Code limits, less the amount of the contribution actually made to the Transitional Plan, but does not take into account pay that exceeds two times the NEO's Base Salary. The SERP II also provides participants with the flexibility to make Roth contributions to the Thrift/401(k) Plan and still receive employer matching contributions as noted above.

Participants are credited with earnings or losses in their SERP and SERP II Benefit accounts based upon each participant's individual direction of the investment of such notional amounts among the virtual investment funds available under the SERP and SERP II, which are the same as the investment options available under the Thrift/401(k) Plan. SERP and SERP II Benefits are generally distributed in a lump sum 90 days after the end of the calendar year in which a separation from service occurs. A six-month delay in the commencement of distributions on account of a separation from service applies to key employees, in accordance with Internal Revenue Code Section 409A. If the NEO dies, the vested SERP Benefit is paid in the form of a lump sum within 90 days of death, and the SERP II Benefit is paid by March 31st following the year the NEO dies.

The following table shows the contributions, earnings, withdrawals and distributions, and accumulated balances under the SERP and SERP II Benefits for each NEO.

Table 83 - SERP and SERP II Benefits

Named Executive Officer	Executive Contribution in Last FY ($)(1)	Freddie Mac Accruals in Last FY ($)(2)	Aggregate Earnings in Last FY ($)(3)	Aggregate Withdrawals/ Distributions ($)	Balance at Last FYE ($)(4)
Mr. Brickman					
SERP Benefit	$—	$77,808	$160,852	$—	$895,708
SERP II Benefit	—	—	66,630	—	369,019
Mr. Anzaldua					
SERP Benefit	—	40,046	203	—	40,250
Mr. Hinduja					
SERP Benefit	—	77,808	45,994	—	281,224
Mr. Hutchins					
SERP Benefit	—	77,808	20,472	—	388,300
Mr. Kish					
SERP Benefit	—	46,325	53,848	—	328,719
SERP II Benefit	—	—	18,799	—	119,412
Mr. Layton					
SERP Benefit	—	2,681	56,674	—	325,175
Mr. Lowman					
SERP Benefit	—	65,769	55,600	—	432,538
Mr. Mackey					
SERP Benefit	—	77,808	32,494	—	376,834

(1) The SERP and SERP II do not allow for employee contributions.

(2) Amounts reported reflect accruals under the SERP during 2019, including the 2.5% contribution accruals which will be allocated to NEO accounts in 2020. These amounts are also reported in the "All Other Compensation" column in **Table 81 - Summary Compensation Table**.

(3) Amounts reported represent the total interest and other earnings credited to each NEO under the SERP and SERP II Benefits.

(4) Amounts reported reflect the accumulated balances under the SERP and SERP II Benefits for each NEO and include the plan year 2019 accruals noted in footnote 2 above. All NEOs are fully vested in their SERP and, for Messrs. Brickman and Kish, their SERP II, Benefit account balances.

The following 2018 SERP Benefit accrual amounts were reported in the "All Other Compensation" column in the 2018 Summary Compensation Table as compensation for each NEO for whom accruals were made during 2018: Mr. Layton: $27,625, Mr. Mackey: $61,625, Mr. Hutchins: $61,625, Mr. Lowman: $61,625, and Mr. Brickman: $108,750. See our Annual Report on Form 10-K filed on February 14, 2019.

The following 2017 SERP Benefit accrual amounts were reported in the "All Other Compensation" column in the 2017 Summary Compensation Table as compensation for each NEO for whom accruals were made during 2017: Mr. Layton: $28,050, Mr. Mackey: $62,050, Mr. Hutchins: $60,428, and Mr. Lowman: $62,050. See our Annual Report on Form 10-K filed on February 15, 2018.

Potential Payments Upon Termination of Employment

The EMCP addresses the treatment of Base Salary and Deferred Salary upon various termination events. Base Salary ceases upon an NEO's termination of employment, regardless of the termination reason. An NEO generally does not need to be employed by us on the payment date to receive payments of Deferred Salary (including related interest) that are unpaid at the time of termination of employment. The following table describes the effect of various termination events upon unpaid Deferred Salary. The actual payment of any level of termination benefits that is not otherwise provided for in the EMCP is subject to FHFA review and approval.

- **Forfeiture Event —** All earned but unpaid Fixed and At-Risk Deferred Salary (including related interest) is subject to forfeiture upon the occurrence of a Forfeiture Event, as described above under ***Written Agreements Relating to NEO Employment — Recapture and Forfeiture Agreement***.

- **Death —** All earned but unpaid Fixed and At-Risk Deferred Salary (including related interest) is paid in full as soon as administratively possible, but not later than 90 calendar days after the date of death. Any earned but unpaid At-Risk Deferred Salary is not subject to reduction based on corporate and individual performance if the reduction has not been determined as of the date of death.
- **Long-Term Disability —** All earned but unpaid Fixed and At-Risk Deferred Salary (including related interest) is paid in full in accordance with the Approved Payment Schedule. Any earned but unpaid At-Risk Deferred Salary is not subject to reduction based on corporate and individual performance if the reduction has not been determined as of the termination date.
- **Any Other Reason (including, but not limited to, voluntary termination, retirement, and involuntary termination for any reason other than a Forfeiture Event) —** All earned but unpaid Deferred Salary (including related interest) is paid in accordance with the Approved Payment Schedule, and earned but unpaid At-Risk Deferred Salary remains subject to the performance assessment and reduction process. Except in the case of retirement, the amount of earned but unpaid Fixed Deferred Salary will be reduced by 2% for each full or partial month by which the NEO's termination precedes January 31 of the second calendar year following the calendar year in which the Fixed Deferred Salary is earned. No such reduction is applicable if an NEO retires, which is deemed to have occurred upon a voluntary termination of employment after attaining or exceeding 62 years of age, without regard to length of service, or attaining or exceeding 55 years of age with 10 or more years of service.

The table below describes the compensation and benefits that would have been payable to each NEO had the officer terminated his employment under various circumstances as of December 31, 2019. Messrs. Layton and Lowman are excluded from this table because they were not employed by the company as of December 31, 2019.

The table below does not address changes in control, as we are not obligated to provide any additional compensation to our NEOs in connection with a change in control. The table also does not address potential payments upon a termination for cause, which is a termination resulting from the occurrence of an event or conduct described in the Recapture Agreement. All earned but unpaid Deferred Salary is subject to forfeiture upon the occurrence of such a termination. However, the amount of compensation, if any, to be recaptured and/or forfeited is determined by the Board of Directors, which can only occur following the occurrence of a for cause termination. See ***Written Agreements Relating to NEO Employment — Recapture and Forfeiture Agreement***.

The table below also does not include vested balances in the SERP and SERP II. All NEOs are fully vested in their account balances. Amounts shown in the table also do not include certain items available to all employees generally upon a termination event.

The table below also does not include stock options or RSUs, as there were no outstanding stock options or RSUs held by NEOs as of December 31, 2019.

Table 84 - Compensation and Benefits if NEO Terminated Employment as of December 31, 2019

Named Executive Officer	Death	Disability	Retirement(1)	All Other Not For Cause Terminations(2)
David M. Brickman(3)				
Deferred Salary:				
Fixed	$837,500	$837,500		$619,750
At Risk-Conservatorship Scorecard(4)	243,750	243,750		207,188
At Risk-Corporate Scorecard/Individual(5)	243,750	243,750		243,750
Interest on Deferred Salary(6)	15,252	17,424		14,080
Total	**$1,340,252**	**$1,342,424**		**$1,084,768**
Ricardo A. Anzaldua				
Deferred Salary:				
Fixed	$1,250,000	$1,250,000	$1,250,000	
At Risk-Conservatorship Scorecard(4)	375,000	375,000	318,750	
At Risk-Corporate Scorecard/Individual(5)	375,000	375,000	375,000	
Interest on Deferred Salary(6)	16,410	26,300	25,560	
Total	**$2,016,410**	**$2,026,300**	**$1,969,310**	

Anil D. Hinduja				
Deferred Salary:				
Fixed	$1,220,000	$1,220,000		$902,800
At Risk-Conservatorship Scorecard(4)	390,000	390,000		331,500
At Risk-Corporate Scorecard/Individual(5)	390,000	390,000		390,000
Interest on Deferred Salary(6)	16,410	26,300		21,360
Total	**$2,016,410**	**$2,026,300**		**$1,645,660**
Michael T. Hutchins				
Deferred Salary:				
Fixed	$1,675,000	$1,675,000	$1,675,000	
At Risk-Conservatorship Scorecard(4)	487,500	487,500	414,375	
At Risk-Corporate Scorecard/Individual(5)	487,500	487,500	487,500	
Interest on Deferred Salary(6)	21,744	34,848	33,886	
Total	**$2,671,744**	**$2,684,848**	**$2,610,761**	
Donald F. Kish				
Deferred Salary:				
Fixed	$235,865	$235,865		$174,540
At Risk-Conservatorship Scorecard(4)	139,038	139,038		118,183
At Risk-Corporate Scorecard/Individual(5)	139,038	139,038		139,038
Interest on Deferred Salary(6)	4,095	6,758		5,678
Total	**$518,036**	**$520,699**		**$437,439**
James G. Mackey				
Deferred Salary:				
Fixed	$1,675,000	$1,675,000		$1,239,500
At Risk-Conservatorship Scorecard(4)	487,500	487,500		414,375
At Risk-Corporate Scorecard/Individual(5)	487,500	487,500		487,500
Interest on Deferred Salary(6)	21,744	34,848		28,159
Total	**$2,671,744**	**$2,684,848**		**$2,169,534**

(1) Messrs. Anzaldua and Hutchins are the only retirement-eligible NEOs under the EMCP.

(2) All Other Not For Cause Terminations refer to voluntary terminations other than for retirement and involuntary terminations other than for cause. No amount is shown for Messrs. Anzaldua and Hutchins because they are retirement eligible. In accordance with early termination provisions in the EMCP, the amounts disclosed for Deferred Salary: Fixed for all other NEOs have been reduced by 26% to reflect a December 31, 2019 termination event.

(3) Amounts reported for Mr. Brickman include deferred compensation payable to him earned while he served as President prior to becoming CEO. As CEO, he is not eligible for any additional compensation in connection with a termination of employment.

(4) The amounts reported for Deferred Salary: At Risk-Conservatorship Scorecard reflect the funding level determined by FHFA with respect to performance against the 2019 Conservatorship Scorecard. In cases of death or disability, the process for determining funding level is waived if the funding level has not been determined at the date of termination.

(5) The amounts reported for Deferred Salary: At Risk-Corporate Scorecard/Individual in the Retirement and All Other Not For Cause Terminations columns reflect the assessment of 2019 performance approved by the CHC Committee and FHFA. For death or disability, the provisions are the same as for the amounts reported for Deferred Salary: At Risk-Conservatorship Scorecard.

(6) Interest on Deferred Salary is accrued and paid in accordance with the terms of the EMCP. The amount of interest in the Death column assumes that payment occurs on the 90th day following the date of death, which is assumed to be December 31, 2019.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

SECURITY OWNERSHIP

Our only class of voting stock is our common stock. Upon its appointment as Conservator, FHFA immediately succeeded to the voting rights of holders of our common stock. The following table shows the beneficial ownership of our common stock as of February 11, 2020 by our current directors, our NEOs, all of our directors and executive officers as a group, and holders of more than 5% of our common stock. Beneficial ownership is determined in accordance with SEC rules for computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person. As of February 11, 2020, each director and NEO, and all of our directors and executive officers as a group, owned less than 1% of our outstanding common stock. We ceased paying our executives and directors stock-based compensation when we entered conservatorship. In addition, the Purchase Agreement prohibits us from issuing any of our equity securities, including as compensation to our directors and executive officers, without the prior written consent of Treasury, and no equity securities, other than the senior preferred stock issued to Treasury, have been issued since we entered conservatorship. In addition, company policy prohibits directors and executive officers from engaging in transactions involving our equity securities, except selling company securities owned prior to the implementation of the policy. See **Executive Compensation - Other Executive Compensation Considerations - Stock Ownership, Hedging and Pledging Policies** for additional information. Unless otherwise noted, the information presented below is based on information provided to us by the individuals or entities specified in the table.

Stock Ownership By Directors and Executive Officers

Table 85 - Stock Ownership by Directors and Executive Officers

Directors and Named Executive Officers	Position	Common Stock Beneficially Owned Excluding Stock Options[1]	Stock Options Exercisable Within 60 Days of Feb. 11, 2020	Total Common Stock Beneficially Owned
Mark H. Bloom	Director	—	—	—
Kathleen L. Casey	Director			
Lance F. Drummond	Director	—	—	—
Aleem Gillani	Director	—	—	—
Christopher E. Herbert	Director	—	—	—
Grace A. Huebscher	Director	—	—	—
Sara Mathew	Director	—	—	—
Saiyid T. Naqvi	Director	—	—	—
David M. Brickman	Director & Chief Executive Officer	3,395	—	3,395[2]
Ricardo A. Anzaldua	EVP - General Counsel & Corporate Secretary	—	—	—
Anil D. Hinduja	EVP - Chief Enterprise Officer	—	—	—
Michael T. Hutchins	EVP - Investments and Capital Markets	—	—	—
Donald F. Kish	SVP, Corporate Controller, Principal Accounting Officer & Interim Chief Financial Officer	—	—	—
Donald H. Layton	Former Chief Executive Officer	—	—	—
David B. Lowman	Former EVP - Single-family Business	—	—	—
James G. Mackey	EVP - Senior Advisor; former Chief Financial Officer	—	—	—
All directors and executive officers as a group (20 persons)		**9,932**	**—**	**9,932**

(1) Includes shares of stock beneficially owned as of February 11, 2020.

(2) Represents shares of stock beneficially owned prior to the company's entry into conservatorship.

Stock Ownership by Greater-Than 5% Holders

Table 86 - Stock Ownership by Greater Than 5% Holders

5% Holders[(1)]	Common Stock Beneficially Owned	Percent of Class
U.S. Department of the Treasury 1500 Pennsylvania Avenue, NW Washington, D.C. 20220	Variable[(2)]	79.9%

(1) Pershing Square Capital Management, L.P., PS Management GP, LLC, and William A. Ackman ("Pershing") have filed certain reports on Schedule 13D, the latest of which was filed on March 31, 2014. In that report, Pershing reported a beneficial ownership percentage calculation of 9.78%, based solely on the 650,039,533 shares of our common stock outstanding as reported in our Annual Report on Form 10-K filed on February 27, 2014, and excluding the shares issuable to Treasury pursuant to the warrant. The Schedule 13D indicated that Pershing also had additional economic exposure to approximately 8,434,958 notional shares of common stock, bringing the total aggregate economic exposure on the date of that filing to 72,010,523 shares of common stock (approximately 11.08% of the outstanding common stock). In that filing, Pershing indicated that because it believes our common stock is not a voting security, it had determined not to file future reports on Schedule 13D. We do not know Pershing's current beneficial ownership of our common stock.

(2) In September 2008, we issued to Treasury a warrant to purchase, for one one-thousandth of a cent ($0.00001) per share, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised. The warrant may be exercised in whole or in part at any time until September 7, 2028. As of the date of this filing, Treasury has not exercised the warrant. The information above assumes Treasury beneficially owns no other shares of our common stock.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

We have no shares of common stock available for issuance upon the exercise of options, warrants, and rights under our existing equity compensation plans at December 31, 2019. Prior to conservatorship, stockholders approved the Employee Stock Purchase Plan, the 2004 Stock Compensation Plan, and the 1995 Stock Compensation Plan (together, the Employee Plans), and the 1995 Directors' Stock Compensation Plan (the Directors' Plan). The authorizations to issue shares of common stock under the Employee Plans and Directors' Plan have expired pursuant to their respective terms. Therefore, we are not providing an Equity Compensation Table.

Certain Relationships And Related Transactions

POLICY GOVERNING RELATED PERSON TRANSACTIONS

The Board has adopted a written policy governing the approval of related person transactions. This policy sets forth procedures for the review and approval or ratification of transactions involving related persons. Under the policy, "related person" means any person who is, or was at any time since the beginning of our last completed fiscal year, a director, a director nominee, an executive officer, or an immediate family member of any of the foregoing persons.

Under authority delegated by the Board, the Nominating and Governance Committee, or its Chair or other designated member under certain circumstances, each an Authorized Approver, is responsible for applying the Related Person Transactions Policy. Transactions covered by the Related Person Transactions Policy consist of any transaction, arrangement, or relationship or series of similar transactions, arrangements, or relationships, in which:

- The aggregate amount involved exceeded or is expected to exceed $120,000;
- We were or are expected to be a participant; and
- Any related person had or will have a direct or indirect material interest.

The Related Person Transactions Policy includes a list of categories of transactions identified by the Board as having no significant potential for an actual conflict of interest or the appearance of a conflict or improper benefit to a related person, and thus such transactions are not considered potential related person transactions subject to review.

Our Legal division (or our Compliance department in certain limited circumstances) assesses whether any proposed transaction involving a related person is covered by the Related Person Transactions Policy. If so, the transaction is reviewed by the appropriate Authorized Approver.

If possible, approval of a related person transaction is obtained prior to the effectiveness or consummation of the transaction. If advance approval of a related person transaction by the Authorized Approver is not feasible or is otherwise not obtained, then the transaction is considered promptly by the Authorized Approver to determine whether ratification is warranted.

In determining whether to approve or ratify a related person transaction covered by the Related Person Transactions Policy, the Authorized Approver reviews and considers all relevant information, which may include:

- The nature of the related person's interest in the transaction;
- The approximate total dollar value of, and extent of the related person's interest in, the transaction;
- Whether the transaction was or would be undertaken in the ordinary course of our business;
- Whether the transaction is proposed to be, or was, entered into on terms no less favorable to us than terms that could have been reached with an unrelated third party; and
- The purpose, and potential benefits to us, of the transaction.

TRANSACTIONS WITH 5% SHAREHOLDERS

In connection with our entry into conservatorship, we issued a warrant to Treasury to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis. There have been a number of transactions between us and Treasury since the beginning of 2019, as discussed in **MD&A — Consolidated Results of Operations**, **MD&A — Liquidity and Capital Resources**, **MD&A — Conservatorship and Related Matters**, **MD&A — Regulation and Supervision**, **Note 2**, **Note 8**, and **Note 11**.

We are the compliance agent for Treasury for certain foreclosure avoidance activities under HAMP. Among other duties, as the program compliance agent, we conduct examinations and review servicer compliance with the published requirements for the program.

FHFA, as Conservator, approved the Purchase Agreement and our role as compliance agent in the MHA Program and the Memorandum of Understanding with Treasury, FHFA, and Fannie Mae under the HFA Initiative. FHFA also instructed us to implement a $5,000 principal reduction incentive under HAMP in which Treasury will pay the incentive for borrowers with certain of our HAMP modified loans. The remaining transactions described in the sections referenced above did not require review and approval under any of our policies and procedures relating to transactions with related persons.

TRANSACTIONS WITH INSTITUTIONS RELATED TO DIRECTORS

In the ordinary course of business, we were a party during 2019, and expect to continue to be a party during 2020, to certain business transactions with institutions affiliated with members of our Board. Management believes that the terms and conditions of the transactions were no more and no less favorable to us than the terms of similar transactions with unaffiliated institutions to which we are, or expect to be, a party. None of these transactions were required to be disclosed under SEC rules.

TRANSACTIONS WITH INSTITUTIONS RELATED TO EXECUTIVE OFFICERS

There were no transactions with institutions related to executive officers in 2019 that were required to be disclosed under SEC rules.

CONSERVATORSHIP AGREEMENTS

Treasury, FHFA, and the Federal Reserve have taken a number of actions to support us during conservatorship, including entering into the Purchase Agreement, described in this Form 10-K. See **MD&A — Conservatorship and Related Matters** and **Note 2**.

Principal Accounting Fees and Services

DESCRIPTION OF FEES

PricewaterhouseCoopers LLP has served as our independent public accountants since 2002. The following is a description of fees billed to us by PricewaterhouseCoopers LLP during 2019 and 2018.

Auditor Fees[(1)]

Table 87 - Auditor Fees

(In thousands)	2019	2018
Audit Fees[(2)]	$19,861	$21,420
Audit-Related Fees[(3)]	7,220	8,325
Tax Fees[(4)]	128	105
All Other Fees[(5)]	49	278
Total	**$27,258**	**$30,128**

(1) These fees represent amounts billed (including reimbursable expenses within the designated year).

(2) Audit fees include fees in connection with quarterly reviews of our interim financial information and the audit of our annual consolidated financial statements.

(3) Audit-related fees include: (i) fees for the performance of certain agreed-upon procedures regarding aspects of compliance with the Purchase Agreement covenants; (ii) compliance evaluation of the minimum servicing standards as set forth in the Uniform Single Attestation Program for Mortgage Bankers; (iii) fees for pre-implementation assistance for lease accounting and current expected credit losses accounting; (iv) fees related to accounting policy consultations; and (v) fees for the performance of certain agreed-upon procedures related to our risk transfer and structured transactions, pursuant to engagement letters with the company, including where the fees are billed to and paid by unconsolidated trusts created in connection with such transactions.

(4) The tax fees billed relate to non-audit tax consulting services to provide advice and recommendations related to tax planning or reporting matters.

(5) All other fees include: (i) our subscription to a web-based suite of human resources benchmark data; (ii) our subscription to accounting research and disclosure software; and (iii) non-audit advice and recommendations related to the procurement process and technology implementation in the governance process.

APPROVAL OF INDEPENDENT AUDITOR SERVICES AND FEES

Under its charter, the Audit Committee is responsible for the following:

- Appointing our independent public accounting firm (subject to FHFA approval as required);
- Approving all audit and non-audit services permitted under applicable law to be performed by the independent public accounting firm (subject to FHFA approval as required); and
- Approving the scope of the annual audit.

The Sarbanes-Oxley Act of 2002 and related SEC rules require that all services provided to companies subject to the reporting requirements of the Exchange Act by their independent auditors be pre-approved by their audit committee or by authorized members of the committee, with certain exceptions. The Audit Committee's charter requires that the Audit Committee pre-approve any audit services, and any non-audit services permitted under applicable law, to be performed by our independent auditors (or to designate one or more members of the Audit Committee to pre-approve such services and report such pre-approval to the Audit Committee).

Audit services that are within the scope of an auditor's engagement approved by the Audit Committee prior to the performance of those services are deemed pre-approved and do not require separate pre-approval. Audit services not within the scope of an Audit Committee-approved engagement, as well as permissible non-audit services, must be separately pre-approved by the Audit Committee.

When the Audit Committee pre-approves a service, it typically sets a dollar limit for such service. Management endeavors to obtain pre-approval of the Audit Committee, or of the Chair of the Audit Committee (when the Chair of the Audit Committee has been delegated such authority), before it incurs fees exceeding the dollar limit. If the Chair of the Audit Committee approves the increase, the Chair will report such approval at the Audit Committee's next scheduled meeting. The Audit Committee has delegated to the Chair the authority to address requests to pre-approve certain additional audit and non-audit services to be performed by the company's independent auditor with fees totaling up to a maximum of $250,000 per quarter, with reporting of any such approval decisions to the Audit Committee at its next scheduled meeting.

The pre-approval procedure is administered by our senior financial management, which reports throughout the year to the Audit Committee. The Audit Committee pre-approved all audit, audit-related, tax, and other services performed by our independent public accounting firm in 2019 and 2018.

The Audit Committee appoints the independent public accounting firm on an annual basis. In evaluating the performance of the independent public accounting firm, the Audit Committee considers a number of factors, including the following:

- The firm's status as a registered public accounting firm with the Public Company Accounting Oversight Board (United States), or PCAOB, as required by the Sarbanes-Oxley Act of 2002 and the Rules of the PCAOB;
- Its independence and processes for maintaining its independence;
- Its approach to resolving significant accounting and auditing matters;
- Its capability and expertise in handling the complexity of the company's business, including the capability and expertise of the lead audit partner and of the key members of the engagement team;
- Historical and recent performance, including the extent and quality of the independent public accounting firm's communications with the Audit Committee, and the results of a management survey of the independent public accounting firm's overall performance;
- Data related to audit quality and performance, including recent PCAOB inspection reports on the firm; and
- The appropriateness of its fees, both on an absolute basis and as compared with peers.

The Audit Committee has determined that the non-audit services rendered by PricewaterhouseCoopers during its most recent fiscal year are compatible with maintaining PricewaterhouseCoopers' independence.

Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) Consolidated Financial Statements

The consolidated financial statements required to be filed in this Form 10-K are included in **Financial Statements and Supplementary Data**.

(2) Financial Statement Schedules

None.

(3) Exhibits

An **Exhibit Index** has been filed as part of this Form 10-K beginning on page 318.

Glossary

This Glossary includes acronyms and defined terms that are used throughout this report.

- **ACIS** - Agency Credit Insurance Structure - Transactions in which we purchase insurance policies that provide credit protection for certain specified credit events that occur and are typically allocated to the non-issued notional credit risk positions of a STACR transaction. We also enter into other ACIS transactions that provide credit protection for certain specified credit events on loans not included in a reference pool created for a STACR transaction, or provide front-end credit risk transfer as loans come into the portfolio. Under each of these insurance policies, we pay monthly premiums that are determined based on the outstanding balance of the reference pool. When specific credit events occur, we generally receive compensation from the insurance policy up to an aggregate limit based on actual losses.
- **Administration** - Executive branch of the U.S. government.
- **Agency securities** - Generally refers to mortgage-related securities issued or guaranteed by the GSEs or government agencies.
- **Alt-A loan** - Although there is no universally accepted definition of Alt-A, many mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between their prime and subprime categories, if these loans are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. We categorize loans in our single-family credit guarantee portfolio as Alt-A if the lender that delivers them to us classified the loans as Alt-A, or if the loans had reduced documentation requirements as well as a combination of certain credit characteristics and expected performance characteristics at acquisition which, when compared to full documentation loans in our portfolio, indicate that the loan should be classified as Alt-A. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized as an Alt-A loan because the refinance loan is not identified by the servicer as an Alt-A loan. We categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions.
- **AMI** - Area Median Income.
- **AOCI** - Accumulated other comprehensive income (loss), net of taxes.
- **ARM** - Adjustable-rate mortgage - A mortgage loan with an interest rate that adjusts periodically over the life of the loan based on changes in a benchmark index.
- **ASC** - Accounting Standards Codification.
- **ASU** - Accounting Standards Update.
- **Back-end coverage type** - Applies to transactions in which the credit risk transfer occurs after our purchase of the loan.
- **Board** - Board of Directors.
- **Bps** - Basis points - One one-hundredth of 1%. This term is commonly used to quote the yields of debt instruments or movements in interest rates.
- **B tranches** - The most junior tranches in a typical STACR debt note, STACR Trust note structure, or ACIS transaction. B tranches provide credit support to the tranches that have higher seniority. Any losses on mortgage loans in the reference pool due to certain credit events are allocated in reverse sequential order, beginning with the most subordinate B tranche outstanding, until the balances of all of the B tranches reach zero. Freddie Mac may retain all or a portion of the B tranches.
- **CCF** - Conservatorship Capital Framework - An economic capital system with detailed formulae provided by FHFA that is used to evaluate and manage our financial risk and to make economic business decisions while in conservatorship.
- **CCO** - Chief Compliance Officer.
- **CD&A** - Compensation Discussion and Analysis.
- **CECL** - The Current Expected Credit Losses impairment model as defined by FASB ASC Topic 326, Financial Instruments - Credit Losses, pursuant to ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments; ASU 2019-04, Codification Improvements to Financial Instruments - Credit Losses (Topic 326); ASU 2019-05, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument; and ASU 2019-11, Codification Improvements to Financial Instruments - Credit Losses (Topic 326).
- **CEO** - Chief Executive Officer.
- **CFO** - Chief Financial Officer.
- **CFPB** - Consumer Financial Protection Bureau.
- **Charge-offs, gross** - Represent the amount of a loan that has been discharged in order to remove the loan from our consolidated balance sheets when the loan is deemed uncollectible, regardless of when the impact of the credit loss was recorded on our consolidated statements of comprehensive income. Generally the amount of a charge-off is the recorded investment in excess of the fair value of the loan's collateral.
- **Charter** - The Federal Home Loan Mortgage Corporation Act, as amended, 12 U.S.C. § 1451 et seq.

- **CHC Committee** - The Compensation and Human Capital Committee of the Board.
- **CMBS** - Commercial mortgage-backed security - A security backed by loans on commercial property (often including multifamily rental properties) as opposed to one-to-four family residential real estate. Although the loan pools underlying CMBS can include loans financing multifamily properties and commercial properties, such as office buildings and hotels, the classes of CMBS that we hold receive distributions of scheduled cash flows only from multifamily properties.
- **Comprehensive income (loss)** - Consists of net income (loss) plus other comprehensive income (loss).
- **Conforming loan/Conforming loan limit** - A conventional single-family loan with an original principal balance that is equal to or less than the applicable statutory conforming loan limit, which is a dollar amount cap on the original principal balance of single-family loans we are permitted by law to purchase or securitize. The conforming loan limit is determined annually based on changes in FHFA's house price index.
- **Conservator** - The FHFA, acting in its capacity as Conservator of Freddie Mac.
- **Conservatorship Capital** - The capital needed under the CCF for analysis of transactions and business.
- **Conservatorship Scorecard** - FHFA's mechanism for outlining specific conservatorship priorities for Freddie Mac, Fannie Mae (the Enterprises), and their joint venture, Common Securitization Solutions, LLC℠.
- **Convexity** - A measure of how much a financial instrument's duration changes as interest rates change.
- **Core single-family loan portfolio** - Consists of loans in our single-family credit guarantee portfolio that were originated after 2008. We do not include relief refinance loans, including HARP loans, in this loan portfolio as underwriting procedures for relief refinance loans are limited, and, in many cases, do not include all of the changes in underwriting standards we have implemented since 2008.
- **Credit enhancement** - A financial arrangement that is designed to reduce credit risk by partially or fully compensating an investor in a mortgage or security (e.g., Freddie Mac) in the event of specified losses. Examples of credit enhancements include insurance, CRT transactions, overcollateralization, indemnification agreements, and government guarantees.
- **Credit losses** - Consists of charge-offs and REO operations (income) expense, which are both net of recoveries.
- **Credit-related expense** - Consists of our benefit (provision) for credit losses, credit enhancement expense, and REO operations expense.
- **Credit risk transfer (CRT) transactions** - Arrangements where we actively transfer the credit risk exposure on mortgages that we own or guarantee.
- **Credit score** - Credit score data is based on FICO scores, a credit scoring system developed by Fair, Isaac and Co. FICO scores are currently the most commonly used credit scores. FICO scores are ranked on a scale of approximately 300 to 850 points with a higher value indicating a lower likelihood of credit default.
  - **Original credit score** - The credit score of the borrower at the time of loan origination or our purchase.
  - **Current credit score** - The credit score of the borrower as of the first month of the most recent quarter.
- **CRO** - Chief Risk Officer.
- **CSS** - Common Securitization Solutions, LLC.
- **CSP** - Common Securitization Platform.
- **Current LTV Ratio or CLTV**- The current LTV ratios are management estimates, which are updated on a monthly basis. Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographic area since that time. Changes in market value are derived from our internal index, which measures price changes for repeat sales and refinancing activity on the same properties using Freddie Mac and Fannie Mae single-family loan acquisitions. Estimates of the current LTV ratio exclude any secondary financing by third parties.
- **DTI** - Debt-to-income.
- **December 2017 Letter Agreement** - An agreement the Conservator, acting on our behalf, entered into with Treasury on December 21, 2017 to amend the Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms, and Conditions of Variable Liquidation Preference Senior Preferred Stock (Par Value $1.00 Per Share) dated September 27, 2012.
- **Deed in lieu of foreclosure** - An alternative to foreclosure in which the borrower voluntarily conveys title to the property to the lender and the lender accepts such title (sometimes together with an additional payment by the borrower) in full satisfaction of the mortgage indebtedness.
- **Delinquency** - A failure to make timely payments of principal and/or interest on a loan. For single-family loans, we generally report delinquency rate information based on the number of loans that are seriously delinquent. For multifamily loans, we report delinquency rate information based on the UPB of loans that are two monthly payments or more past due or in the process of foreclosure. Loans that have been modified are not counted as delinquent as long as the borrower is not delinquent under the modified terms. Unless stated otherwise, multifamily delinquency rates presented in this Form 10-K refer to gross delinquency rates before consideration of risk transfers.
- **Delivery fee** - An upfront fee charged to sellers above base contractual guarantee fees to compensate us for higher levels

of risk in some loan products.

- **Derivative** - A financial instrument whose value depends upon the characteristics and value of an underlying such as a financial asset or index. Examples of an underlying include a security or commodity price, interest or currency rates, and other financial indices.
- **Dodd-Frank Act** - Dodd-Frank Wall Street Reform and Consumer Protection Act.
- **Dollar roll transactions** - Transactions whereby we enter into an agreement to sell and subsequently repurchase (or purchase and subsequently resell) agency securities.
- **DSCR** - Debt Service Coverage Ratio - An indicator of future credit performance for multifamily loans. The DSCR estimates a multifamily borrower's ability to service its mortgage obligation using the secured property's cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely a multifamily borrower will be able to continue servicing its loan obligation.
- **Duration** - Duration is a measure of a financial instrument's price sensitivity to changes in interest rates.
- **Duration gap** - One of our primary interest-rate risk measures. Duration gap is a measure of the difference between the estimated durations of our interest rate sensitive assets and liabilities. We present the duration gap of our financial instruments in units expressed as months. A duration gap of zero implies that the change in value of our interest rate sensitive assets from an instantaneous change in interest rates would be expected to be accompanied by an equal and offsetting change in the value of our interest rate sensitive liabilities, thus leaving economic value unchanged.
- **EMCP** - Executive Management Compensation Program.
- **Enhanced Relief Refinance** - Provides liquidity for borrowers who are current on their mortgages but unable to refinance because their LTV ratios exceed standard refinance limits. This program became available in January 2019 for loans originated on or after October 1, 2017.
- **ERC** - Enterprise Risk Committee.
- **ERM** - Enterprise Risk Management.
- **ERP** - Enterprise Risk Policy - The ERP sets forth the core components of the enterprise risk framework that defines how we identify, assess, manage, control, and report on risks.
- **EVP** - Executive Vice President.
- **Exchange Act** - Securities Exchange Act of 1934, as amended.
- **Fannie Mae** - Federal National Mortgage Association.
- **FASB** - Financial Accounting Standards Board.
- **Federal Reserve** - Board of Governors of the Federal Reserve System.
- **FHA** - Federal Housing Administration.
- **FHFA** - Federal Housing Finance Agency - An independent agency of the U.S. government with responsibility for regulating Freddie Mac, Fannie Mae, and the FHLBs.
- **FHLB** - Federal Home Loan Bank.
- **55-day MBS** - A single-class pass-through security with a 55-day payment delay for non-TBA-eligible fixed-rate mortgage loans. Freddie Mac began issuing 55-day MBS on and after June 3, 2019.
- **Fixed-rate loan** - Refers to a loan originated at a specific rate of interest that remains constant over the life of the loan. For purposes of presentation in this report, we have categorized a number of modified loans as fixed-rate loans, even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust in the future, such future rates are determined at the time of the modification rather than at a subsequent date.
- **Foreclosure alternative** - A workout option pursued when a home retention action is not successful or not possible. A foreclosure alternative is either a short sale or deed in lieu of foreclosure.
- **Foreclosure or foreclosure sale** - Refers to our completion of a transaction provided for by the foreclosure laws of the applicable state, in which a delinquent borrower's ownership interest in a mortgaged property is terminated and title to the property is transferred to us or to a third party. When we, as loan holder, acquire a property in this manner, we pay for it by extinguishing some or all of the mortgage debt.
- **Freddie Mac mortgage-related securities** - Securities we issue and guarantee that are backed by mortgages.
- **Front-end coverage type** - Applies to transactions in which the credit risk transfer occurs prior to, or simultaneously with, our purchase of the loan.
- **GAAP** - Generally accepted accounting principles in the United States of America.
- **Giant PCs** - Resecuritizations of previously issued PCs or Giant PCs. Giant PCs are single-class securities that involve the straight pass through of all cash flows of the underlying collateral to holders of the beneficial interests.
- **Giant MBS** - Resecuritizations of newly issued 55-day MBS (and/or Giant MBS), and/or 55-day MBS (and/or Giant MBS) that Freddie Mac has issued in exchange for non-TBA-eligible PCs and non-TBA-eligible Giant PCs that have been

delivered to Freddie Mac in response to the exchange offer. Giant MBS are single-class securities that involve the direct pass-through of all cash flows of the underlying collateral to holders of the beneficial interests.

- **Ginnie Mae** - Government National Mortgage Association, which guarantees the timely payment of principal and interest on mortgage-related securities backed by federally insured or guaranteed loans, primarily those insured by FHA or guaranteed by the VA.
- **Green Advantage loan** - A multifamily loan that we offer under our Green Advantage initiative, whereby borrowers finance the installation of green technologies that reduce energy and water consumption.
- **GSD/FICC** - Government Securities Division of Fixed Income Clearing Corporation.
- **GSE Act** - The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Reform Act.
- **GSEs** - Government sponsored enterprises - Refers to certain legal entities created by the U.S. government, including Freddie Mac, Fannie Mae, and the FHLBs.
- **Guarantee fee** - The fee that we receive for guaranteeing the payment of principal and interest to mortgage security investors, which consists primarily of a combination of a monthly guarantee fee paid as a percentage of the UPB of the underlying loans, and initial upfront payments, such as delivery fees.
- **Guidelines** - Corporate Governance Guidelines, as revised.
- **HAMP** - Home Affordable Modification Program - Refers to the effort under the MHA Program whereby the U.S. government, Freddie Mac, and Fannie Mae committed funds to help eligible homeowners avoid foreclosure and keep their homes through loan modifications. HAMP ended in December 2016.
- **HARP** - Home Affordable Refinance Program - Refers to the effort under the MHA Program that sought to help eligible borrowers with existing loans that are guaranteed by us or Fannie Mae to refinance into loans with more affordable monthly payments and/or fixed-rate terms without obtaining new mortgage insurance in excess of the insurance coverage, if any, that was already in place. HARP was targeted at borrowers with current LTV ratios above 80%. The HARP program ended in December 2018 and has been replaced by Freddie Mac's Enhanced Relief Refinance program.
- **HFA** - State or local Housing Finance Agency.
- **HUD** - U.S. Department of Housing and Urban Development - HUD has authority over Freddie Mac with respect to fair lending.
- **Integrated Mortgage Insurance (IMAGIN)** - An insurance-based offering that provides loan-level protection for loans with 80% and higher LTV ratios. IMAGIN is designed to expand and diversify sources of private capital supporting low down payment lending, while enabling better management of taxpayer exposure to our mortgage and counterparty risks. Mortgage insurance provided for each loan is generally underwritten by a group of insurers and reinsurers. IMAGIN is offered to a broad range of Freddie Mac sellers, who can choose IMAGIN or traditional primary mortgage insurance at their discretion.
- **Implied volatility** - A measurement of how the value of a financial instrument changes due to changes in the market's expectation of potential changes in future interest rates. A decrease in implied volatility generally increases the estimated fair value of our mortgage-related assets and decreases the estimated fair value of our callable debt and option-based derivatives, while an increase in implied volatility generally has the opposite effect.
- **Initial margin** - The collateral that we post with a derivatives clearinghouse in order to do business with such clearinghouse. The amount of initial margin varies over time.
- **Interest-only loan** - A loan that allows the borrower to pay only interest (either fixed-rate or adjustable-rate) for a fixed period of time before payments of principal begin. After the interest-only period, the borrower may choose to refinance the loan, pay off the principal balance in total, or pay the scheduled principal and interest payment due on the loan.
- **Investment gains (losses), net** - Consists of gains and losses from mortgage loans, investment securities, debt, and derivatives.
- **IRS** - Internal Revenue Service.
- **K Certificates** - Structured pass-through certificates backed primarily by recently originated multifamily loans purchased by Freddie Mac.
- **Legacy and relief refinance single-family loan portfolio** - Consists of loans in our single-family credit guarantee portfolio that were originated in 2008 and prior, as well as relief refinance loans, including HARP loans that were originated after 2008.
- **Level 1 Securitization Products** - Single-class pass-through securities that represent undivided beneficial interests in trusts that hold pools of loans. These products include UMBS, 55-day MBS, and PCs.
- **LIBOR** - London Interbank Offered Rate.
- **LIHTC partnerships** - Low-income housing tax credit partnerships - These LIHTC partnerships invest directly in limited partnerships that own and operate affordable multifamily rental properties that generate federal income tax credits and deductible operating losses.
- **LLC** - Limited liability company.

- **Liquidation preference** - Generally refers to an amount that holders of preferred securities are entitled to receive out of available assets upon liquidation of a company. The initial liquidation preference of our senior preferred stock was $1.0 billion. The aggregate liquidation preference of our senior preferred stock includes the initial liquidation preference plus amounts funded by Treasury under the Purchase Agreement, as well as $3.0 billion added pursuant to the December 2017 Letter Agreement. Pursuant to the September 2019 Letter Agreement, the liquidation preference will be increased, at the end of each fiscal quarter, beginning on September 30, 2019, by an amount equal to the increase in the Net Worth Amount, if any, during the immediately prior fiscal quarter, until the liquidation preference has increased by $17.0 billion. In addition, dividends not paid in cash are added to the liquidation preference of the senior preferred stock. We may make payments to reduce the liquidation preference of the senior preferred stock only in limited circumstances.
- **Liquidity and Contingency Operating Portfolio** - Subset of our other investments portfolio. Consists of cash and cash equivalents, certain securities purchased under agreements to resell, and certain non-mortgage-related securities.
- **Loan liquidations -** Loans removed from the pools underlying Freddie Mac mortgage-related securities and other mortgage-related guarantees due to prepayment, maturity, repurchase or charge-off, foreclosure alternatives, third-party sales, and loans going into REO. Loans are also terminated through sales of seriously delinquent loans and non-consolidated senior subordinate securitization structure transactions collateralized by reperforming loans. In addition, periodic paydown of loan principal is also included in loan liquidations.
- **Long-term debt** - Other debt due after one year based on the original contractual maturity of the debt instrument. Our long-term debt issuances include medium-term notes, Reference Notes securities, STACR debt notes, and SCR notes.
- **LTV ratio** - Loan-to-value ratio - The ratio of the unpaid principal amount of a loan to the value of the property that serves as collateral for the loan, expressed as a percentage. We report LTV ratios based solely on the amount of the loan purchased or guaranteed by us, generally excluding any second-lien loans (unless we own or guarantee the second lien).
- **Market spread** - The difference between the yields of two debt securities, or the difference between the yield of a debt security and a benchmark yield, such as LIBOR. We measure market spreads primarily using our models.
- **MBS** - Mortgage-backed security.
- **MBSD/FICC** - Mortgage Backed Securities Division of the Fixed Income Clearing Corporation.
- **MD&A** - Management's Discussion and Analysis of Financial Condition and Results of Operations.
- **MHA Program** - Making Home Affordable Program - The MHA Program was designed to help in the housing recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts, and set market standards. The MHA Program included HARP and HAMP.
- **Mortgage assets** - Refers to both loans and the mortgage-related securities we hold in our mortgage-related investments portfolio.
- **Mortgage-related investments portfolio** - Our mortgage investment portfolio, which consists of mortgage-related securities and unsecuritized single-family and multifamily loans. The size of our mortgage-related investments portfolio under the Purchase Agreement is determined without giving effect to the January 1, 2010 change in accounting guidance related to transfers of financial assets and consolidation of VIEs.
- **Multifamily loan** - A loan secured by a property with five or more residential rental units or by a manufactured housing community.
- **Multifamily mortgage portfolio** - Consists of multifamily mortgage loans held by us on our consolidated balance sheets as well as our guarantee of securitization products, primarily K Certificates, SB Certificates, and other mortgage-related guarantees that are held by third parties. It excludes loans underlying our guarantees of HFA bonds.
- **Multifamily new business activity** - Represents loan purchases, issuances of other mortgage-related guarantees, and issuances of other securitization products for which we have not previously purchased the underlying loans.
- **Net worth (deficit)** - The amount by which our total assets exceed (or are less than) our total liabilities as reflected on our consolidated balance sheets prepared in conformity with GAAP.
- **Net worth sweep dividend**, **Net Worth Amount, and Capital Reserve Amount** - For each quarter from January 1, 2013 and thereafter, the dividend payment on the senior preferred stock will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. The term Net Worth Amount is defined as the total assets of Freddie Mac (excluding Treasury's commitment and any unfunded amounts thereof), less our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in conformity with GAAP. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend shall accrue or be payable for that quarter. The applicable Capital Reserve Amount was $600 million for 2017, $3.0 billion for 2018, and increased to $20.0 billion pursuant to the September 2019 Letter Agreement (if we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the applicable Capital Reserve Amount would thereafter be zero).
- **Non-accrual loan** - A loan for which we are not accruing interest income. We place loans on non-accrual status when we believe collectability of principal and interest in full is not reasonably assured, which generally occurs when a loan is three monthly payments past due, unless the loan is well secured and in the process of collection based upon an individual loan assessment.

- **Non-performing loan** - A loan where the borrower is three months or more past due or is in the process of foreclosure.
- **NYSE** - New York Stock Exchange.
- **OAS** - Option-adjusted spread - An estimate of the incremental yield spread between a particular financial instrument (e.g., a security, loan, or derivative contract) and a benchmark yield curve (e.g., LIBOR, agency, or U.S. Treasury securities). This includes consideration of potential variability in the instrument's cash flows resulting from any options embedded in the instrument, such as prepayment options. When the OAS on a given asset widens, the fair value of that asset will typically decline, all other market factors being equal. The opposite is true when the OAS on a given asset tightens.
- **Optigo®** - Freddie Mac's Multifamily lender network and loan offerings.
- **Option ARM loan** - Loans that permit a variety of repayment options, including minimum, interest-only, fully amortizing 30-year, and fully amortizing 15-year payments. The minimum payment alternative for option ARM loans allows the borrower to make monthly payments that may be less than the interest accrued for the period. The unpaid interest is added to the principal balance of the loan, known as negative amortization. For our non-agency mortgage-related securities that are backed by option ARM loans, we categorize securities as option ARM 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 securities as either subprime or Alt-A securities.
- **Original LTV ratio** - A credit measure for loans, calculated as the UPB of the loan divided by the lesser of the appraised value of the property at the time of loan origination or the borrower's purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation. The existence of a second-lien loan reduces the borrower's equity in the home and, therefore, can increase the risk of default and the amount of the gross loss if a default occurs.
- **OTC** - Over-the-counter.
- **OTCQB** - A marketplace, operated by the OTC Markets Group Inc., for OTC-traded U.S. companies that are registered and current in their reporting with the SEC or a U.S. banking or insurance regulator.
- **PCs** - Participation Certificates - Single-class pass-through securities that we issue and guarantee as part of a securitization transaction. Typically we purchase loans from sellers, place a pool of loans into a PC trust, and issue PCs from that trust. The PCs are generally transferred to the seller of the loans as consideration for the loans or are sold to third-party investors or retained by us if we purchased the loans for cash.
  - **Gold PCs** - Single-class pass-through securities with a 45-day payment delay that Freddie Mac issued for fixed-rate mortgage loans prior to June 3, 2019. Freddie Mac no longer issues Gold PCs with the implementation of Release 2 of the CSP and the Single Security Initiative. Existing Gold PCs are eligible for exchange into UMBS (for TBA-eligible securities) or 55-day MBS (for non-TBA-eligible securities).
  - **ARM PCs** - Single-class pass-through securities with a 75-day payment delay for ARM products. The implementation of Release 2 of the CSP and the Single Security Initiative did not affect Freddie Mac's ARM PC offerings.
- **Pension Plan** - The Federal Home Loan Mortgage Corporation Employees' Pension Plan.
- **Performing loan** - A loan where the borrower is less than three months past due and is not in the process of foreclosure.
- **PVS** - Portfolio Value Sensitivity - One of our primary interest-rate risk measures. PVS measures are estimates of the amount of average potential pre-tax loss in the value of our financial assets and liabilities due to parallel (PVS-L) and non-parallel (PVS-YC) changes in LIBOR.
- **Primary mortgage market** - The market where lenders originate loans by lending funds to borrowers. We do not lend money directly to homeowners and do not participate in this market.
- **Purchase Agreement / Senior Preferred Stock Purchase Agreement** - An agreement the Conservator, acting on our behalf, entered into with Treasury on September 7, 2008, relating to Treasury's purchase of senior preferred stock, which was subsequently amended and restated on September 26, 2008 and further amended on May 6, 2009, December 24, 2009, August 17, 2012, December 21, 2017, and September 27, 2019.
- **RCSA** - Risk and Control Self-Assessment.
- **Recorded investment** - The dollar amount of a loan recorded on our consolidated balance sheets, excluding any allowance, such as the allowance for loan losses, but including direct write-downs of the investment. Recorded investment excludes accrued interest income.
- **Recoveries of charge-offs** - Recoveries of charge-offs generally occur after loans go into foreclosure alternatives or foreclosure sales and where a share of default risk is assumed by mortgage insurers or a reimbursement of our losses from a seller or servicer associated with a repurchase request is received by us on such loans.
- **Reform Act** - The Federal Housing Finance Regulatory Reform Act of 2008, which, among other things, amended the GSE Act by establishing a single regulator, FHFA, for Freddie Mac, Fannie Mae, and the FHLBs.
- **REIT** - Real estate investment trust.
- **Relief refinance loan** - A single-family loan delivered to us for purchase or guarantee that meets the criteria of the Freddie Mac Relief Refinance Mortgage SM initiative. Part of this initiative was our implementation of HARP for our loans, and relief refinance options are also available for certain non-HARP loans. Although HARP was targeted at borrowers with current LTV ratios above 80%, our initiative also allows borrowers with LTV ratios of 80% and below to participate.

- **REMIC** - Real Estate Mortgage Investment Conduit - A type of multiclass mortgage-related security that divides the cash flows (principal and interest) of the underlying mortgage-related assets into two or more classes that meet the investment criteria and portfolio needs of different investors. This structure allows commingling of TBA-eligible Freddie Mac and Fannie Mae collateral.
- **REO** - Real estate owned - Real estate which we have acquired through a foreclosure sale or through a deed in lieu of foreclosure.
- **Reperforming loan -** A loan that was previously three months or more past due or in the process of foreclosure, but the borrower subsequently made payments such that the loan returns to less than three months past due, or a performing modified loan, which is a loan that was modified and is less than three months past due and is not in the process of foreclosure.
- **Reputation risk** - The risk of damage to the Freddie Mac brand and reputation from any action, inaction, or association that is perceived to be inappropriate, unethical, or inconsistent with our mission.
- **RMBS** - Residential mortgage-backed security - A security backed by loans on one-to-four family residential real estate.
- **ROCC** - Return on conservatorship capital.
- **RSU** - Restricted stock unit.
- **2019 Strategic Plan** - The 2019 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, published by FHFA on October 28, 2019.
- **S&P** - Standard & Poor's.
- **SB Certificates** - Structured pass-through certificates backed primarily by recently originated small balance multifamily loans purchased by Freddie Mac.
- **SCR note** - Structured Credit Risk debt notes - A debt security where the principal balance is subject to the performance of a reference pool of multifamily loans guaranteed by Freddie Mac.
- **SEC** - U.S. Securities and Exchange Commission.
- **SIFMA** - Securities Industry and Financial Markets Association.
- **Seasoned single-family mortgage loans** - Includes seriously delinquent and reperforming loans.
- **Secondary mortgage market** - A market consisting of institutions engaged in buying and selling loans in the form of whole loans (i.e., loans that have not been securitized) and mortgage-related securities. We participate in the secondary mortgage market by issuing guaranteed mortgage-related securities and by purchasing loans and mortgage-related securities for investment.
- **Segment Earnings** - Segment Earnings are presented for each segment by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP consolidated statements of comprehensive income and allocating certain revenues and expenses, including certain returns on assets, funding and hedging costs, and administrative expenses, to our three reportable segments - Single-family Guarantee, Multifamily, and Capital Markets. Certain activities that are not part of a reportable segment are included in the All Other category.
- **Seller/Servicer Guide (Guide)** - The Guide consists of Freddie Mac's requirements relating to the purchase, sale, and servicing of single-family mortgages. The Guide reflects how and when sellers and servicers interact with Freddie Mac.
- **Senior preferred stock** - The shares of Variable Liquidation Preference Senior Preferred Stock issued to Treasury under the Purchase Agreement.
- **Senior subordinate securitization structures** - Structures in which we issue guaranteed senior securities and unguaranteed subordinated securities backed by reperforming single-family loans or recently originated single-family loans.
- **September 2019 Letter Agreement** - An agreement the Conservator, acting on our behalf, entered into with Treasury on September 27, 2019 to amend the Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms, and Conditions of Variable Liquidation Preference Senior Preferred Stock (Par Value $1.00 Per Share) dated September 27, 2012.
- **Seriously delinquent or SDQ** - Single-family loans that are three monthly payments or more past due or in the process of foreclosure as reported to us by our servicers. Unless stated otherwise, SDQ rates presented in this Form 10-K refer to gross SDQ rates before consideration of credit enhancements.
- **SERP** - The Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan.
- **Short sale** - An alternative to foreclosure consisting of a sale of a mortgaged property in which the homeowner sells the home at market value and the lender accepts proceeds (sometimes together with an additional payment or promissory note from the borrower) that are less than the outstanding loan indebtedness in full satisfaction of the loan.
- **Short-term debt** - Other debt due within one year based on the original contractual maturity of the debt instrument. Our short-term debt issuances primarily include discount notes and Reference Bills securities.
- **Single-family credit guarantee portfolio** - Consists of unsecuritized single-family loans, single-family loans held by consolidated trusts, single-family loans underlying non-consolidated resecuritization products, single-family loans covered by long-term standby commitments, and certain mortgage-related securities not issued by us that we guarantee that are

collateralized by single-family loans. Excludes our resecuritizations of Ginnie Mae Certificates 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.

- **Single-family loan** - A loan secured by a property containing four or fewer residential dwelling units.
- **Single-family new business activity** - Single-family loans we purchased or guaranteed.
- **Single Security Initiative** - An initiative implemented in 2019 that provided for Freddie Mac and Fannie Mae to issue a single (common) mortgage-related security, the UMBS.
- **SOFR** - Secured Overnight Financing Rate.
- **STACR debt note** - Structured Agency Credit Risk debt note - A Freddie Mac issued debt security where the principal balance is linked to the credit performance of a reference pool of single-family loans owned or guaranteed by Freddie Mac.
- **STACR Trust note**- Structured Agency Credit Risk Trust note - A debt security issued by an unconsolidated trust where the principal balance is linked to the credit performance of a reference pool of single-family loans owned or guaranteed by Freddie Mac. We make payments to the trust to support payment of the interest due on the notes, and we receive payments from the trust as a result of defined credit events on the reference pool.
- **Step-rate modified loan** - A term that we generally use to refer to our HAMP loans that have provisions for reduced interest rates that remain fixed for the first five years and then increase over a period of time to a market rate.
- **Strategic risk** - The risk to earnings, capital, profitability, mission, or reputation arising from adverse business decisions, or the improper implementation of those decisions, that may negatively affect the company's strategy.
- **Strips** - Multiclass securities that are formed by resecuritizing previously issued Level 1 Securitization Products or single-class resecuritization products and issuing principal-only and interest-only securities backed by the cash flows from the underlying collateral. This structure allows commingling of TBA-eligible Freddie Mac and Fannie Mae collateral.
- **Subprime** - Participants in the mortgage market may characterize single-family loans, based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. Subprime generally refers to the credit risk classification of a loan. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include, among other factors, a combination of high LTV ratios, low credit scores, or originations using lower underwriting standards, such as limited or no documentation of a borrower's income. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. Certain security collateral underlying our other securitization products has been identified as subprime based on information provided to Freddie Mac when the transactions were entered into. We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions.
- **Supers** - Resecuritizations of UMBS and certain other mortgage securities. Supers are single-class securities that involve the direct pass-through of all cash flows of the underlying collateral to holders of the beneficial interests. This structure allows commingling of TBA-eligible Freddie Mac and Fannie Mae collateral.
- **SVP** - Senior Vice President.
- **Swaption** - An option contract to enter into an interest-rate swap. In exchange for an option premium, a buyer obtains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.
- **Target TDC** - Target total direct compensation.
- **TBA** - To be announced.
- **The Tax Cuts and Jobs Act** - The tax reform bill ("An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. Law No. 115-97") enacted on December 22, 2017, which included a reduction of the statutory corporate income tax rate from 35% to 21%.
- **TDR** - Troubled debt restructuring - A restructuring of a debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider.
- **Thrift/401(k) Plan** - The Federal Home Loan Mortgage Corporation Thrift/401(k) Savings Plan.
- **Top risk** - Enterprise-wide elevated risk or emerging risk that could significantly affect the organization's ability to achieve its strategic objectives, has the potential to create significant financial, operational, or reputational risk, and requires an appropriate risk response by senior management and reporting to the Risk Committee of the Board.
- **Total mortgage portfolio** - Includes loans and mortgage-related securities held on our consolidated balance sheets as well as our non-consolidated issued and guaranteed single-class and multiclass securities, and other mortgage-related guarantees issued to third parties.
- **Total other comprehensive income (loss) (or other comprehensive income (loss))** - Consists of the after-tax changes in the unrealized gains and losses on available-for-sale securities, the effective portion of derivatives accounted for as cash flow hedge relationships, and defined benefit plans.

- **Treasury** - U.S. Department of the Treasury.
- **UMBS** - Uniform mortgage-backed security - A single (common) mortgage-related security with a 55-day payment delay for TBA-eligible fixed-rate mortgage loans. Freddie Mac and Fannie Mae began issuing UMBS on and after June 3, 2019. The UMBS represents undivided beneficial ownership interest in, and the right to receive payments from, pools of one- to four- family residential mortgages that are held in trust for investors.
- **UPB** - Unpaid principal balance - Loan UPB amounts in this report have not been reduced by charge-offs recognized prior to the loan being subject to a foreclosure sale, deed in lieu of foreclosure, or short sale transaction.
- **Upfront fee** - A fee charged to sellers that primarily includes delivery fees that are calculated based on credit risk factors such as the loan product type, loan purpose, LTV ratio, and credit score.
- **USDA** - U.S. Department of Agriculture.
- **VA** - U.S. Department of Veterans Affairs.
- **Variation margin** - Payments we make to or receive from a derivatives clearinghouse or counterparty based on the change in fair value of a derivative instrument. Variation margin is typically transferred within one business day.
- **VERP** - Voluntary Early Retirement Program.
- **VIE** - Variable Interest Entity - A VIE is an entity that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by another party, or where the group of equity holders does not have: (i) the ability to make significant decisions about the entity's activities; (ii) the obligation to absorb the entity's expected losses; or (iii) the right to receive the entity's expected residual returns.
- **Warrant** - Refers to the warrant we issued to Treasury on September 7, 2008 pursuant to the Purchase Agreement. The warrant provides Treasury the ability to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of Freddie Mac common stock outstanding on a fully diluted basis on the date of exercise.
- **Workforce housing** - Multifamily housing that is affordable to the majority of low to middle income households.
- **Workout, or loan workout** - A workout is either a home retention action, which is either a loan modification, repayment plan, or forbearance agreement, or a foreclosure alternative, which is either a short sale or a deed in lieu of foreclosure.
- **XBRL** - eXtensible Business Reporting Language.
- **Yield curve** - A graphical display of the relationship between yields and maturity dates for bonds of the same credit quality. The slope of the yield curve is an important factor in determining the level of net interest yield on a new mortgage asset, both initially and over time. For example, if a mortgage asset is purchased when the yield curve is inverted (i.e., short-term interest rates higher than long-term interest rates), our net interest yield on the asset will tend to be lower initially and then increase over time. Likewise, if a mortgage asset is purchased when the yield curve is steep (i.e., short-term interest rates lower than long-term interest rates), our net interest yield on the asset will tend to be higher initially and then decrease over time.

Exhibit Index

Exhibit	Description*
3.1	Federal Home Loan Mortgage Corporation Act (12 U.S.C. §1451 et seq.), as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed on July 31, 2018)
3.2	Bylaws of the Federal Home Loan Mortgage Corporation, as amended and restated July 7, 2016 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on July 8, 2016)
4.1	Eighth Amended and Restated Certificate of Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Voting Common Stock (no par value per share) dated September 10, 2008 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on September 11, 2008)
4.2	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated April 23, 1996 (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.3	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 27, 1997 (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.4	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 1998 (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.5	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.1% Non-Cumulative Preferred Stock (par value $1.00 per share), dated September 23, 1998 (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.6	Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated September 29, 1998 (incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.7	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.3% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 28, 1998 (incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.8	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.1% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 19, 1999 (incorporated by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.9	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.79% Non-Cumulative Preferred Stock (par value $1.00 per share), dated July 21, 1999 (incorporated by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.10	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated November 5, 1999 (incorporated by reference to Exhibit 4.10 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)

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

Exhibit	Description*
4.11	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated January 26, 2001 (incorporated by reference to Exhibit 4.11 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.12	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 2001 (incorporated by reference to Exhibit 4.12 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.13	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 2001 (incorporated by reference to Exhibit 4.13 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.14	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated May 30, 2001 (incorporated by reference to Exhibit 4.14 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.15	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6% Non-Cumulative Preferred Stock (par value $1.00 per share), dated May 30, 2001 (incorporated by reference to Exhibit 4.15 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.16	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.7% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 30, 2001 (incorporated by reference to Exhibit 4.16 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.17	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated January 29, 2002 (incorporated by reference to Exhibit 4.17 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.18	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 17, 2006 (incorporated by reference to Exhibit 4.18 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.19	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.42% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 17, 2006 (incorporated by reference to Exhibit 4.19 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.20	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.9% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated October 16, 2006 (incorporated by reference to Exhibit 4.20 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.21	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.57% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated January 16, 2007 (incorporated by reference to Exhibit 4.21 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.22	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.66% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated April 16, 2007 (incorporated by reference to Exhibit 4.22 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.23	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.02% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 24, 2007 (incorporated by reference to Exhibit 4.23 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)

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

Exhibit	Description*
4.24	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.55% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated September 28, 2007 (incorporated by reference to Exhibit 4.24 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.25	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated December 4, 2007 (incorporated by reference to Exhibit 4.25 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)
4.26	Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock (par value $1.00 per share), dated September 27, 2012 (incorporated by reference to Exhibit 4.26 to the Registrant's Annual Report on Form 10-K filed on February 28, 2013)
4.27	Second Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock (par value $1.00 per share), dated January 1, 2018 (incorporated by reference to Exhibit 4.27 to the Registrant's Annual Report on Form 10-K filed on February 15, 2018)
4.28	Third Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock (par value $1.00 per share), dated September 30, 2019 (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed on October 30, 2019)
4.29	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934
4.30	Federal Home Loan Mortgage Corporation Global Debt Facility Agreement, dated February 14, 2019 (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed on May 1, 2019)
10.1	Federal Home Loan Mortgage Corporation Executive Deferred Compensation Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.28 the Registrant's Registration Statement on Form 10 filed on July 18, 2008)†
10.2	First Amendment to the Federal Home Loan Mortgage Corporation Executive Deferred Compensation Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2008)†
10.3	Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.33 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)†
10.4	First Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated January 1, 2008) (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K filed on February 24, 2010)†
10.5	Second Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 28, 2011)†
10.6	Third Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 6, 2012)†
10.7	Fourth Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on August 7, 2013)†

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

† This exhibit is a management contract or compensatory plan, contract, or arrangement.

Exhibit	Description*
10.8	Fifth Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated January 1, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 25, 2013)†
10.9	Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan II (effective January 1, 2014) (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed on February 19, 2015)†
10.10	First Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan II (effective January 1, 2014) (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed on August 4, 2015)†
10.11	Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.34 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)†
10.12	First Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.35 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)†
10.13	Second Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.36 to the Registrant's Registration Statement on Form 10 filed on July 18, 2008)†
10.14	Third Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K filed on February 18, 2016)†
10.15	Fourth Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed on February 16, 2017)†
10.16	Executive Management Compensation Program Recapture and Forfeiture Agreement (incorporated by reference to Exhibit 10.18 to the Registrant's Annual Report on Form 10-K filed on February 16, 2017)†
10.17	2015 Executive Management Compensation Program (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on August 4, 2015)†
10.18	2020 Executive Management Compensation Program (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 10-Q filed on October 30, 2019)†
10.19	Restrictive Covenant and Confidentiality Agreement, dated September 6, 2018, between Freddie Mac and David Brickman (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 5, 2018)†
10.20	Restrictive Covenant and Confidentiality Agreement dated May 22, 2018, between Freddie Mac and Donald Kish (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 23, 2018)†
10.21	Memorandum Agreement, dated April 20, 2018, between Freddie Mac and Ricardo A. Anzaldua†
10.22	Restrictive Covenant and Confidentiality Agreement, dated April 23, 2018 between Freddie Mac and Ricardo A. Anzaldua†
10.23	Memorandum Agreement, dated April 6, 2015, between Freddie Mac and Anil Hinduja (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed on February 16, 2017)†
10.24	Restrictive Covenant and Confidentiality Agreement, dated April 7, 2015, between Freddie Mac and Anil Hinduja (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K filed on February 16, 2017)†

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

† This exhibit is a management contract or compensatory plan, contract, or arrangement.

Exhibit	Description*
10.25	Memorandum Agreement, dated June 24, 2013, between Freddie Mac and Michael Hutchins (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K filed on February 18, 2016)†
10.26	Restrictive Covenant and Confidentiality Agreement, dated June 25, 2013, between Freddie Mac and Michael Hutchins (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K filed on February 18, 2016)†
10.27	Memorandum Agreement, dated May 7, 2012, between Freddie Mac and Donald H. Layton (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on May 10, 2012)†
10.28	Restrictive Covenant and Confidentiality Agreement, dated May 7, 2012, between Freddie Mac and Donald H. Layton (incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on May 10, 2012)†
10.29	Memorandum Agreement, dated September 24, 2013, between Freddie Mac and James Mackey (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on September 30, 2013)†
10.30	Restrictive Covenant and Confidentiality Agreement, dated September 25, 2013, between Freddie Mac and James Mackey (incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on September 30, 2013)†
10.31	Confidential Separation Agreement and Release, dated December 31, 2019, between Freddie Mac and James Mackey†
10.32	Memorandum Agreement, dated April 7, 2013, between Freddie Mac and David B. Lowman (incorporated by reference to Exhibit 10.48 to the Registrant's Annual Report on Form 10-K filed on February 27, 2014)†
10.33	Restrictive Covenant and Confidentiality Agreement, dated April 9, 2013, between Freddie Mac and David B. Lowman (incorporated by reference to Exhibit 10.49 to the Registrant's Annual Report on Form 10-K filed on February 27, 2014)†
10.34	Description of non-employee director compensation (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on December 23, 2008)†
10.35	Form of Indemnification Agreement between the Federal Home Loan Mortgage Corporation and executive officers (for agreements with officers entered into prior to August 2011) (incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on December 23, 2008)†
10.36	Form of Indemnification Agreement between the Federal Home Loan Mortgage Corporation and executive officers (for agreements with officers entered into beginning in August 2011) (incorporated by reference to Exhibit 10.54 to the Registrant’s Annual Report on Form 10-K filed on March 9, 2012)†
10.37	Form of Indemnification Agreement between the Federal Home Loan Mortgage Corporation and Outside Directors (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on November 27, 2017)†
10.38	PC Master Trust Agreement, dated May 16, 2019 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed July 31, 2019)
10.39	UMBS and MBS Master Trust Agreement, dated April 30, 2019 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on July 31, 2019)

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† This exhibit is a management contract or compensatory plan, contract, or arrangement.

Exhibit	Description*
10.40	Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2008)
10.41	Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of May 6, 2009, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed on May 12, 2009)
10.42	Second Amendment dated as of December 24, 2009, to the Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 29, 2009)
10.43	Third Amendment dated as of August 17, 2012, to the Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 17, 2012)
10.44	Letter Agreement dated December 21, 2017 between the United States Department of the Treasury and the Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 21, 2017)
10.45	Letter Agreement dated September 27, 2019 between the United States Department of the Treasury and the Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its Conservator (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 1, 2019)
10.46	Warrant to Purchase Common Stock, dated September 7, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on September 11, 2008)
24.1	Powers of Attorney
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Senior Vice President — Interim Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Senior Vice President — Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350
99.1	Third Amended and Restated Limited Liability Company Agreement of Common Securitization Solutions, LLC, dated as of January 9, 2020
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Federal Home Loan Mortgage Corporation

By: /s/ David M. Brickman
David M. Brickman
Chief Executive Officer
Date: February 13, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Sara Mathew* Sara Mathew	Non-Executive Chairman of the Board	February 13, 2020
/s/ David M. Brickman David M. Brickman	Chief Executive Officer and Director (Principal Executive Officer)	February 13, 2020
/s/ Donald F. Kish Donald F. Kish	Senior Vice President — Corporate Controller, Principal Accounting Officer, & Interim Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 13, 2020
/s/ Mark H. Bloom* Mark H. Bloom	Director	February 13, 2020
/s/ Kathleen L. Casey* Kathleen L. Casey	Director	February 13, 2020
/s/ Lance F. Drummond* Lance F. Drummond	Director	February 13, 2020
/s/ Aleem Gillani* Aleem Gillani	Director	February 13, 2020
/s/ Christopher E. Herbert* Christopher E. Herbert	Director	February 13, 2020
/s/ Grace A. Huebscher* Grace A. Huebscher	Director	February 13, 2020
/s/ Saiyid T. Naqvi* Saiyid T. Naqvi	Director	February 13, 2020

*By: /s/ Alicia S. Myara
Alicia S. Myara
Attorney-in-Fact

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Exhibit 4.29

Description of Registrant's Securities Registered Pursuant to Section 12 of The Securities Exchange Act of 1934

As of December 31, 2019, Federal Home Loan Mortgage Corporation (Freddie Mac) had 21 classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: (1) our voting common stock, no par value per share (Common Stock) and (2) twenty series of perpetual, non-cumulative preferred stock, par value of $1.00 per share (Preferred Stock). We also have four classes of perpetual, non-cumulative preferred stock outstanding that were issued through private placement and are not registered under Section 12.

Since September 2008, we have been operating in conservatorship, with the Federal Housing Finance Agency (FHFA) as our Conservator. In connection with our entry into conservatorship, we, through FHFA, in its capacity as Conservator, entered into the Senior Preferred Stock Purchase Agreement with the U.S. Department of the Treasury (Treasury). Under this Purchase Agreement, we issued Treasury one million shares of Variable Liquidation Preference Senior Preferred Stock (Senior Preferred Stock) and a warrant to purchase, for a nominal price, shares of our Common Stock equal to 79.9% of the total number of shares of our Common Stock outstanding on a fully diluted basis at the time the warrant is exercised (Warrant). The conservatorship, Purchase Agreement as amended and restated (Purchase Agreement), Senior Preferred Stock, and Warrant have a significant impact on the rights, preferences, and privileges of the holders of our Common Stock and Preferred Stock.

The following description is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Certificate of Designation for the Common Stock or class of Preferred Stock (as applicable, each a Certificate of Designation), Federal Home Loan Mortgage Corporation Act, as amended (our Charter), and our Amended and Restated Bylaws (Bylaws), each of which are incorporated by reference as an exhibit to this Annual Report on Form 10-K. We encourage you to read the Certificates of Designation, Charter, Bylaws, Purchase Agreement, and applicable provisions of Virginia law for additional information.

I. Description of Common Stock

General

Under Section 304 of our Charter, we are authorized to issue an unlimited number of shares of Common Stock. The Common Stock has the terms set forth in the Certificate of Designation. Computershare Trust Company, N.A., is the transfer agent, dividend disbursing agent, and registrar for the Common Stock.

Authorized Issuance

Our Common Stock was created by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Under Section 731(d) of this Act, shares of our then-outstanding senior participating preferred stock were automatically converted into an equivalent number of shares of Common Stock.

There are currently 4,000,000,000 shares of Common Stock issued or authorized for issuance by our Board of Directors. As of December 31, 2019, there were 725,863,886 shares of Common Stock issued and 650,059,033 shares outstanding. The outstanding shares of our Common Stock are fully paid and non-assessable. Any additional shares of Common Stock that we issue will be fully paid and non-assessable. Our Board of Directors may increase the authorized number of shares of Common Stock at any time, without the consent of the holders of Common Stock.

Under the Purchase Agreement, we cannot repurchase our Common Stock without Treasury's consent.

Dividends

Dividends on shares of our Common Stock are not mandatory. Holders of our Common Stock are entitled to receive dividends when, as, and if declared by our Board of Directors out of assets legally available therefor. The Board of Directors fixes both the amount of dividends, if any, to be paid to holders of our outstanding Common Stock and the dates of payment. We will pay each dividend on shares of Common Stock to the holders of record of outstanding shares as they appear in our books and records on the record date fixed by our Board of Directors. The record date must not be earlier than 45 days or later than ten days before a dividend payment date.

Our payment of dividends is subject to the following restrictions:

- **Restrictions Relating to the Conservatorship** - During conservatorship, any dividends will be declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers, and privileges of the Board of Directors. The Conservator has prohibited us from paying any dividends on our Common Stock. FHFA has instructed our Board of Directors that it should consult with and obtain the approval of FHFA before taking actions involving dividends. In addition, FHFA has adopted a regulation prohibiting us from making capital distributions during conservatorship, except as authorized by the Director of FHFA.

- **Restrictions Under the Purchase Agreement** - The Purchase Agreement prohibits us and any of our subsidiaries from declaring or paying any dividends on the Common Stock without the prior written consent of the Treasury.
- **Restrictions Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended (GSE Act)** - Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. However, our capital requirements have been suspended during conservatorship.
- **Restrictions Under our Charter** - Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.
- **Restrictions Relating to Preferred Stock** - Payment of dividends on our Common Stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of Senior Preferred Stock outstanding, representing an aggregate of 464,170,000 shares and 1,000,000 shares, respectively, as of December 31, 2019. Payment of dividends on all outstanding preferred stock, other than the Senior Preferred Stock, is subject to the prior payment of dividends on the Senior Preferred Stock.

Voting Rights

During conservatorship, the holders of our Common Stock have no voting rights. Upon its appointment as Conservator, FHFA immediately succeeded to the voting rights of holders of our Common Stock, including the right to elect members of our Board of Directors.

If the company was not in conservatorship, holders of our Common Stock would have the right to vote:

- For the election of members of our Board of Directors, to the extent prescribed by applicable federal law;
- With respect to amendment, alteration, supplementation, or repeal of the provisions of the Certificate of Designation (described below);
- With respect to such other matters, if any, as may be prescribed by our Board of Directors, in its sole discretion, or by applicable federal law.

Holders of our Common Stock are not granted any right under our Charter or the Certificate of Designation to vote on specified matters in which stockholders in business corporations under state law are typically entitled to vote, such as amendments to our Charter or changes in our capital structure.

Holders of our Common Stock entitled to vote are entitled to one vote per share on all matters presented to them for their vote. Holders may cast votes in person or by proxy at a meeting of the holders of our Common Stock or, if so determined by our Board of Directors, by written consent of the holders of the requisite number of shares of our Common Stock. In connection with any meeting of the holders of shares of our Common Stock, our Board of Directors will fix a record date, which must not be earlier than 60 days or later than 10 days before the date of such meeting. The holders of record of shares of our Common Stock on the record date are entitled to notice of, and to vote at, any such meeting and any adjournment. We may establish reasonable rules and procedures regarding the solicitation of the vote of holders of our Common Stock at any such meeting or otherwise, the conduct of such vote, quorum requirements and the requisite number or percentage of affirmative votes required for the approval of any matter and as to all related questions. Such rules and procedures shall conform to the requirements of any national securities exchange on which our Common Stock may be listed.

Ownership Reports

The Certificate of Designation includes provisions that require certain persons to report to us their beneficial ownership of our Common Stock. Except as otherwise provided in the Certificate of Designation, any "beneficial owner" (as that term is defined in Rule 13d-3 under the Exchange Act) of the outstanding Common Stock must report such ownership to us and the NYSE (and to any other exchange on which our Common Stock is then listed). The required reports of beneficial ownership and any amendments must be submitted in writing to us and each exchange where the Common Stock is listed on the forms, in the time periods, and in the manner as would be required by Sections 13(d) and 13(g) of the Exchange Act and the rules and regulations thereunder if the Common Stock were registered under Section 12 of the Exchange Act.

To ensure compliance with the beneficial ownership reporting requirements relating to our Common Stock, we may refuse to permit the voting of any shares of Common Stock in excess of 5% beneficially owned by any person who fails to comply with those requirements. Any beneficial owner of our Common Stock that we believe to be in violation of the beneficial ownership reporting requirements must respond to our inquiries for the purpose of determining the existence, nature, or extent of any such violation. If a response satisfactory to us has not been received within five business days after the date on which the inquiry was mailed, the shares of our Common Stock to which the inquiry relates will be considered for all purposes to be beneficially owned in violation of the reporting requirements, and we are authorized to take appropriate remedial actions, including the refusal to permit the voting of those excess shares.

No Preemptive Rights and No Conversion

No holder of our Common Stock has any preemptive right to purchase or subscribe for any of our other shares, rights, options, or other securities. The holders of shares of our Common Stock do not have any right to convert their shares into or exchange their shares for any of our other classes or series of stock or other securities or other obligations of Freddie Mac.

No Redemption

We do not have the right to redeem any shares of our Common Stock, and no holders of our Common Stock have the right to require us to redeem their shares.

No Sinking Fund

Our Common Stock is not subject to any sinking fund, which is a separate capital reserve maintained to pay stockholders with preferred rights for their investment in the event of liquidation or redemption.

Liquidation Rights

Upon our dissolution, liquidation, or winding up, after payment of or provision for our liabilities and the expenses of our dissolution, liquidation, or winding up, and after any payment or distribution has been made on any of our other classes or series of stock ranking prior to our Common Stock upon liquidation, the holders of the outstanding shares of our Common Stock will be entitled to receive out of our assets available for distribution to stockholders, before any payment or distribution is made on any of our other classes or series of stock ranking junior to Common Stock upon liquidation, the amount of $0.21 per share, plus a sum equal to all dividends declared but unpaid on their shares to the date of final distribution. The holders of the outstanding shares of any class or series of our stock ranking prior to, on a parity with, or junior to our Common Stock upon liquidation will also receive out of those assets payment of any corresponding preferential amount to which the holders of that stock may, by the terms thereof, be entitled. No stock with that corresponding right currently exists. The remaining balance of any of our assets available for distribution to stockholders upon a dissolution, liquidation or winding up will be distributed to the holders of our outstanding Common Stock in the aggregate. As of December 31, 2019, the Senior Preferred Stock had an aggregate liquidation preference of $79.3 billion, and the 24 outstanding classes of our preferred stock, other than the Senior Preferred Stock, had an aggregate liquidation preference of $14.1 billion plus any then-current dividends, which would have priority over our Common Stock upon liquidation. We are authorized to issue an unlimited amount of preferred stock.

Neither the sale of all or substantially all of our property or business, nor our merger, consolidation, or combination into or with any other corporation or entity, will be deemed to be a dissolution, liquidation, or winding up for the purpose of these provisions on liquidation rights.

Additional Classes or Series of Stock

We have the right to create and issue additional classes or series of stock ranking prior to, on a parity with, or junior to our Common Stock, as to dividends, liquidation, or otherwise, without the consent of holders of our Common Stock.

Amendments

Without the consent of the holders of our Common Stock, we have the right to amend, alter, supplement, or repeal any terms of our Common Stock in the Certificate of Designation to cure any ambiguity, to correct or supplement any term that may be defective or inconsistent with any other term, or to make any other provisions so long as such action does not materially and adversely affect the interests of the holders of our Common Stock. Otherwise, the Certificate of Designation may be amended, altered, supplemented, or repealed only with the consent of the holders of at least two-thirds of the outstanding shares of our Common Stock. The creation of additional classes and series of stock whether ranking prior to, on a parity with, or junior to our Common Stock, or a split or reverse split of our Common Stock (including an attendant adjustment to its par value), does not require any consent. As a consequence, the rights of holders of our Common Stock could be adversely affected by the creation of additional classes or series of stock. The Conservator currently holds voting rights on any such matters requiring consent of the holders of our Common Stock.

Listing

On July 8, 2010, we delisted our Common Stock from the NYSE pursuant to a directive by our Conservator. Our Common Stock is traded exclusively in the OTCQB Marketplace under the ticker symbol FMCC. We expect that our Common Stock will continue to trade in the OTCQB Marketplace so long as market makers demonstrate an interest in trading the Common Stock.

II. **Description of Preferred Stock**

Summary of Key Terms and Listing

Under Section 306(f) of our Charter, we are authorized to issue an unlimited number of shares of preferred stock, on such terms and conditions as the Board of Directors shall prescribe. Each class of the Preferred Stock has the terms set forth in its Certificate of Designation. Computershare Trust Company, N.A., is the transfer agent, dividend disbursing agent, and registrar for the Preferred Stock.

On July 8, 2010, we delisted our Preferred Stock from the NYSE pursuant to a directive by our Conservator. Our Preferred Stock is traded exclusively in the OTCQB Marketplace. We expect that our Preferred Stock will continue to trade in the OTCQB Marketplace so long as market makers demonstrate an interest in trading the Preferred Stock.

The table below provides a summary of the Preferred Stock outstanding as of December 31, 2019, including dividend rates, issue dates, shares authorized and outstanding, redemption prices per share, total outstanding balances, earliest redemption dates, and ticker symbols.

(**In millions**, except redemption price per share)	Issue Date	Shares Authorized	Shares Outstanding	Redemption Price per Share	Total Outstanding Balance	Redeemable On or After	OTCQB Symbol
1996 Variable-rate(1)	Apr 26, 1996	5.00	5.00	$50.00	$250	Jun 30, 2001	FMCCI
5%	Mar 23, 1998	8.00	8.00	50.00	400	Mar 31, 2003	FMCKK
1998 Variable-rate(2)	Sept 23/29, 1998	4.40	4.40	50.00	220	Sept 30, 2003	FMCCG
5.10%	Sept 23, 1998	8.00	8.00	50.00	400	Sept 30, 2003	FMCCH
5.79%	July 21, 1999	5.00	5.00	50.00	250	Jun 30, 2009	FMCCK
1999 Variable-rate(3)	Nov 5, 1999	5.75	5.75	50.00	287	Dec 31, 2004	FMCCL
2001 Variable-rate(4)	Jan 26, 2001	6.50	6.50	50.00	325	Mar 31, 2003	FMCCM
2001 Variable-rate(5)	Mar 23, 2001	4.60	4.60	50.00	230	Mar 31, 2003	FMCCN
5.81%	Mar 23, 2001	3.45	3.45	50.00	173	Mar 31, 2011	FMCCO
6%	May 30, 2001	3.45	3.45	50.00	173	Jun 30, 2006	FMCCP
2001 Variable-rate(6)	May 30, 2001	4.02	4.02	50.00	201	Jun 30, 2003	FMCCJ
5.70%	Oct 30, 2001	6.00	6.00	50.00	300	Dec 31, 2006	FMCKP
2006 Variable-rate(7)	July 17, 2006	15.00	15.00	50.00	750	Jun 30, 2011	FMCCS
6.42%	July 17, 2006	5.00	5.00	50.00	250	Jun 30, 2011	FMCCT
5.90%	Oct 16, 2006	20.00	20.00	25.00	500	Sept 30, 2011	FMCKO
5.57%	Jan 16, 2007	44.00	44.00	25.00	1,100	Dec 31, 2011	FMCKM
5.66%	Apr 16, 2007	20.00	20.00	25.00	500	Mar 31, 2012	FMCKN
6.02%	July 24, 2007	20.00	20.00	25.00	500	Jun 30, 2012	FMCKL
6.55%	Sept 28, 2007	20.00	20.00	25.00	500	Sept 30, 2017	FMCKI
2007 Fixed-to-floating rate(8)	Dec 4, 2007	240.00	240.00	25.00	6,000	Dec 31, 2012	FMCKJ

(1) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377. The dividend rate is capped at 9.00%.

(2) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377. The dividend rate is capped at 7.50%.

(3) Dividend rate resets on January 1 every five years after January 1, 2005 based on a five-year Constant Maturity Treasury (CMT) rate. The dividend rate is capped at 11.00%. Optional redemption on December 31, 2004 and on December 31 every five years thereafter.

(4) Dividend rate resets on April 1 every two years after April 1, 2003 based on the two-year CMT rate plus 0.10%. The dividend rate is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every two years thereafter.

(5) Dividend rate resets on April 1 every year based on 12-month LIBOR minus 0.20%. The dividend rate is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every year thereafter.

(6) Dividend rate resets on July 1 every two years after July 1, 2003 based on the two-year CMT rate plus 0.20%. The dividend rate is capped at 11.00%. Optional redemption on June 30, 2003 and on June 30 every two years thereafter.

(7) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 0.50% but not less than 4.00%.

(8) Dividend rate is set at an annual fixed rate of 8.375% from December 4, 2007 through December 31, 2012. For the period beginning on or after January 1, 2013, dividend rate resets quarterly and is equal to the higher of: (a) the sum of three-month LIBOR plus 4.16% per annum or (b) 7.875% per annum. Optional redemption on December 31, 2012 and on December 31 every five years thereafter.

The outstanding shares of our Preferred Stock are fully paid and non-assessable. Any additional shares of Preferred Stock that we issue will be fully paid and non-assessable. Our Board of Directors may increase the authorized number of shares of any class of our Preferred Stock at any time, without the consent of the holders of any class of our Preferred Stock.

The Preferred Stock shall rank prior to the Common Stock to the extent provided in the Certificate of Designation; shall rank, as to both dividends and distributions upon liquidation, on a parity with the other classes of Preferred Stock as well as the four classes of perpetual, non-cumulative preferred stock that we issued through private placements; and shall rank junior to the Senior Preferred Stock.

Dividends and Dividend Restrictions

Dividends on shares of our Preferred Stock are not mandatory and are non-cumulative. Holders of our Preferred Stock are entitled to receive dividends when, as, and if declared by our Board of Directors out of assets legally available therefor on the payment dates as prescribed in the applicable Certificate of Designation. The Preferred Stock has the dividend rates as described in the table above. We will pay each dividend on shares of Preferred Stock to the holders of record of outstanding shares as they appear in our books and records on the record date fixed by our Board of Directors. The record date must not be earlier than 45 days or later than 10 days before a dividend payment date.

Our payment of dividends is subject to the following restrictions:

- **Restrictions Relating to the Conservatorship** - During conservatorship, any dividends will be declared by, and paid at the direction of, the Conservator, acting as successor to the rights, titles, powers, and privileges of the Board of Directors. The Conservator has prohibited us from paying any dividends on our Preferred Stock. FHFA has instructed our Board of Directors that it should consult with and obtain the approval of FHFA before taking actions involving dividends. In addition, FHFA has adopted a regulation prohibiting us from making capital distributions during conservatorship, except as authorized by the Director of FHFA.
- **Restrictions Under the Purchase Agreement** - The Purchase Agreement prohibits us and any of our subsidiaries from declaring or paying any dividends on our Preferred Stock without the prior written consent of Treasury.
- **Restrictions Under the GSE Act** - Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. However, our capital requirements have been suspended during conservatorship.
- **Restrictions Under our Charter** - Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.
- **Restrictions Relating to Senior Preferred Stock** - Payment of dividends on our Preferred Stock is subject to the prior payment of dividends on our Senior Preferred Stock.

Optional Redemption

Freddie Mac has the option to redeem the Preferred Stock, in whole or in part, out of funds legally available therefor, at the redemption price prescribed in the applicable Certificate of Designation plus the amount of any dividend that would otherwise be payable for the dividend period that ends on the date of redemption, whether or not declared. The Preferred Stock has the redemption prices and timing limitations as described in the table above. The dividend that would otherwise be payable will be included in the redemption price of the shares and will not be separately payable.

If less than all of the outstanding shares are to be redeemed, Freddie Mac will select shares to be redeemed from the outstanding shares by lot or pro rata or by any other method which Freddie Mac in its sole discretion decides equitable.

During conservatorship and pursuant to the Purchase Agreement, we cannot redeem the Preferred Stock without FHFA and Treasury consent.

No Voting Rights

The shares of Preferred Stock shall not have any voting rights, general or special, other than with respect to amendment, alteration, supplementation, or repeal of the provisions of the applicable Certificate of Designation (described below).

During conservatorship, the holders of Preferred Stock have no voting rights. Upon its appointment as Conservator, FHFA immediately succeeded to the voting rights of holders of our Preferred Stock.

No Preemptive Rights and No Conversion

No holder of our Preferred Stock has any preemptive right to purchase or subscribe for any other shares, rights, options, or other securities. The holders of shares of our Preferred Stock do not have any right to convert their shares into or exchange their shares for any of our other classes or series of stock or other securities or other obligations of Freddie Mac.

Liquidation Rights and Preference

Upon our dissolution, liquidation, or winding up, after payment of or provision for our liabilities and the expenses of our dissolution, liquidation, or winding up, and after any payment or distribution has been made on any of our other classes or series of stock ranking prior to our Preferred Stock upon liquidation, the holders of the outstanding shares of our Preferred Stock will be entitled to receive out of our assets available for distribution to stockholders, before any payment or distribution is made on the Common Stock or any of our other classes or series of stock ranking junior to the Preferred Stock upon liquidation, the amount of the liquidation preference in the applicable Certificate of Designation (which amount equals the redemption price per share summarized in the table above), plus a sum equal to any dividend that would otherwise be payable for the dividend period through and including the date of final distribution. The holders of the outstanding shares of any class or series of our stock ranking on parity with the Preferred Stock upon liquidation shall be entitled to receive out of our assets available for distribution to shareholders, before any such payment or distribution shall be made on the Common Stock or any other class or series of stock of Freddie Mac ranking junior to the Preferred Stock and to such parity stock upon liquidation, any corresponding preferential amount to which the holders of that stock may, by the terms thereof, be entitled. The remaining balance of any of our assets available for distribution to stockholders upon a dissolution, liquidation, or winding up will be distributed to the holders of our outstanding Common Stock in the aggregate. If our assets available for distribution to stockholders shall be insufficient for the payment of the amount which the holders of the outstanding Preferred Stock shall be entitled to receive upon such dissolution, liquidation, or winding up, all of our assets available for distribution to stockholders shall be distributed to the holders of outstanding shares of Preferred Stock pro rata, so that the amounts so distributed shall bear to each other the same ratio that the respective distributive amounts to which they are so entitled bear to each other, and the holders of outstanding shares of Preferred Stock shall not be entitled to any further participation in any distribution of our assets. As of December 31, 2019, the Senior Preferred Stock had an aggregate liquidation preference of $79.3 billion, which would have priority over our Preferred Stock upon liquidation, and the 24 outstanding classes of our preferred stock, other than the Senior Preferred Stock, had an aggregate liquidation preference of $14.1 billion plus any then-current dividends. We are authorized to issue an unlimited amount of preferred stock.

Neither the sale of all or substantially all of our property or business, nor our merger, consolidation, or combination into or with any other corporation or entity, will be deemed to be a dissolution, liquidation, or winding up for the purpose of these provisions on liquidation rights.

Additional Classes or Series of Stock

We have the right to authorize, create, and issue additional classes or series of stock ranking prior to, on a parity with, or junior to our Preferred Stock, as to dividends, liquidation, or otherwise, without the consent of holders of our Preferred Stock.

Amendments

Without the consent of the holders of the Preferred Stock, we have the right to amend, alter, supplement, or repeal the terms of any series of our Preferred Stock to cure any ambiguity, to correct or supplement any provision that may be defective or inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the applicable Certificate of Designation so long as such action does not materially and adversely affect the interests of the holders of the applicable series of Preferred Stock. Otherwise, the terms of any series of our Preferred Stock may be amended, altered, supplemented, or repealed only with the consent of the holders of at least two-thirds of the outstanding shares of the applicable series of our Preferred Stock. The creation and issuance of additional classes and series of stock, or the issuance of additional shares of any existing class or series of our stock, whether ranking prior to, on a parity with, or junior to our Preferred Stock does not require any consent. As a consequence, the rights of holders of our Preferred Stock could be adversely affected by the creation of additional classes or series of stock. The Conservator currently holds voting rights on any such matters requiring consent of the holders of our Preferred Stock.

Exhibit 10.21

Freddie Mac
We make home possible®

Tel: (703) 918-5000
www.FreddieMac.com

Corporate Headquarters
8250 Jones Branch Drive
McLean, VA 22102

April 20, 2018

Ricardo A. Anzaldua
Address Redacted
Address Redacted

Dear Ricardo:

On behalf of Freddie Mac's Board of Directors (the "Board"), this memorandum sets forth Freddie Mac's agreement to employ you as its Executive Vice President and Senior Legal Advisor, effective on a mutually agreed upon start date, reporting to me, Freddie Mac's Chief Executive Officer.

The following outlines the terms of your employment with us, including your compensation and benefits, which have been approved by the Compensation Committee of the Board of Directors and the Federal Housing Finance Agency (the "FHFA").

Congratulations and we look forward to you joining the Freddie Mac team!

I. Compensation

Your compensation is governed by the Executive Management Compensation Program ("EMCP"). To participate in the EMCP, you must agree to the terms of the EMCP Document and the Recapture and Forfeiture Agreement, both of which are enclosed. The EMCP Program Document outlines the terms and conditions of our compensation program for senior officers, while the Recapture and Forfeiture Agreement describes the circumstances under which certain compensation is subject to repayment and/or forfeiture.

Your target total direct compensation ("Target TDC") will be $2,500,000, which will be pro-rated in the first calendar year of employment based on your date of hire.

Your Target TDC will consist of two components - Base Salary and Deferred Salary - that are both paid in cash and which are summarized below.

Base Salary -The annualized amount of your Base Salary will be $500,000.

Deferred Salary - The annualized amount of your Deferred Salary will be $2,000,000 and is comprised of the two components noted below. Deferred Salary earned in each quarter is paid in cash in the last pay period of the corresponding quarter of the following calendar year.

- At-Risk Deferred Salary - This portion of your Deferred Salary is equal to thirty percent (30%) of your Target TDC, or $750,000, up to half of which may be reduced based on the company's performance against objectives established by FHFA and up to half of which may be reduced based on both the company's performance against corporate objectives and your performance against individual objectives.
- Fixed Deferred Salary - This portion of your Deferred Salary is equal to your Target TDC less your Base Salary and At-Risk Deferred Salary, and is equal to $1,250,000**.**

Cash Award - In consideration of your acceptance of this offer and beginning employment with Freddie Mac, you will receive a $100,000 cash award that will be paid within thirty (30) days of your date of hire.

The cash award is not considered "compensation" for purposes of our tax qualified Thrift/401(k) Savings Plan or our non-qualified Supplemental Executive Retirement Plan ("SERP").

During the first year of your employment, the cash award shall remain subject to repayment if your employment terminates due to a "Termination Event" which shall mean:

- You voluntarily resign employment; or

- We terminate your employment due to the occurrence of any of the Forfeiture Events described in the Recapture and Forfeiture Agreement.

In the event the cash award is subject to repayment, you agree to repay to Freddie Mac the gross amount within 30 calendar days following your termination date. You further agree and authorize Freddie Mac to withhold any unpaid repayment amount from any outstanding Deferred Salary. You understand and agree that you will pay any and all of Freddie Mac's reasonable expenses, including attorney's fees and other costs, incurred in its obtaining repayment and collection of any unpaid repayment amount.

II. Benefits

We offer a highly competitive benefits package that you can customize to meet your family's needs. You will also be eligible to participate in certain benefits available only to officers, including a financial counseling reimbursement program and the SERP. You are immediately eligible for the financial counseling reimbursement program and will become eligible for the SERP after completing one year of service. A benefits representative will contact you to provide an overview of our offerings. The medical, dental, and vision benefits you elect will become effective on the first day of the month after your first day of employment. Additionally, you will begin accruing vacation and sick time and will be entitled to paid holidays.

III. Restrictive Covenant and Confidentiality Agreement

The terms of your compensation provided in this letter are also contingent upon your agreement to be bound by the terms of the enclosed Restrictive Covenant and Confidentiality Agreement.

IV. FHFA's Review and Approval Authority

The terms and conditions of your compensation has been approved by FHFA. Notwithstanding such approval and any provision of this letter, you acknowledge and understand that any compensation paid or to be paid during or after your employment remains subject to any withholding, escrow or prohibition consistent with FHFA's authority pursuant to the Federal Home Loan Corporation Act, as amended, or the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended.

V. Outside Activities and Family Member Activities

During your employment with us, you agree to devote substantially all of your time, attention and energies to our business, and to not be engaged in any other business activity unless permitted under our Outside Activities and Family Member Activities policy. This restriction will not prevent you from devoting a reasonable amount of time to charitable or public interest activities or from making passive investments of your assets in such form or manner as you desire, consistent with Freddie Mac's Employee Trading policy, and except as provided herein.

VI. Reservations of Rights:

This letter is not intended, nor shall it be interpreted, to constitute a contract of employment for a specified duration. Your employment is at-will and both you and Freddie Mac retain the discretion to terminate the employment relationship at any time for any lawful reason with or without notice.

This offer of employment is contingent upon Freddie Mac's satisfaction in its sole discretion with your references and the results of your background checks and drug test.

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During the course of your review of this memorandum, Freddie Mac expects that you have had the opportunity to consult and receive assistance from appropriate advisors, including legal, tax, and financial advisors.

This memorandum shall be construed, and the rights and obligations herein determined, exclusively in accordance with the substantive law of the Commonwealth of Virginia, excluding provisions of Virginia law concerning choice-of-law that would result in the law of any state other than Virginia being applied.

Return of Signed Documents:

Please confirm that the terms and conditions in this letter conform to your understanding by returning a signed copy of this letter as well as signed copies of the EMCP, the Recapture and Forfeiture Agreement and the Restrictive Covenant and Confidentiality Agreement.

/s/ Don Layton | 4/25/18
Don Layton | Date
Chief Executive Officer

I agree to the terms of this Agreement.

/s/ Ricardo Anzaldua | 23 April 2018
Ricardo Anzaldua | Date

Freddie Mac
We make home possible®

Tel: (703) 918-5000
www.FreddieMac.com

Corporate Headquarters
8250 Jones Branch Drive
McLean, VA 22102

RESTRICTIVE COVENANT AND CONFIDENTIALITY AGREEMENT

In exchange for the mutual promises and consideration set forth below, this Restrictive Covenant and Confidentiality Agreement ("Agreement") is entered into by and between the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "Company") and Ricardo Anzaldua ("Executive" or "you"), effective on the date the Executive assigns a personal signature to page 5 of this Agreement.

I. Definitions

The following terms shall have the meanings indicated when used in this Agreement.

A. *Competitor*: The following entities, and their respective parents, successors, subsidiaries, and affiliates are competitors: (i) Fannie Mae (ii) all Federal Home Loan Banks (including the Office of Finance); and (iii) such other entities to which Executive and the Company may agree in writing from time-to-time.

B. *Confidential Information*: Information or materials in written, oral, magnetic, digital, computer, photographic, optical, electronic, or other form, whether now existing or developed or created during the period of Executive's employment with Freddie Mac, that constitutes trade secrets and/or proprietary or confidential information. This information includes, but is not limited to: (i) all information marked Proprietary or Confidential; (ii) information concerning the components, capabilities, and attributes of Freddie Mac's business plans, methods, and strategies; (iii) information relating to tactics, plans, or strategies concerning shareholders, investors, pricing, investment, marketing, sales, trading, funding, hedging, modeling, sales and risk management; (iv) financial or tax information and analyses, including but not limited to, information concerning Freddie Mac's capital structure and tax or financial planning; (v) confidential information about Freddie Mac's customers, borrowers, employees, or others; (vi) pricing and quoting information, policies, procedures, and practices; (vii) confidential customer lists; (viii) proprietary algorithms; (ix) confidential contract terms; (x) confidential information concerning Freddie Mac's policies, procedures, and practices or the way in which Freddie Mac does business; (xi) proprietary or confidential data bases, including their structure and content; (xii) proprietary Freddie Mac business software, including its design, specifications and documentation; (xiii) information about Freddie Mac products, programs, and services which has not yet been made public; (xiv) confidential information about Freddie Mac's dealings with third parties, including dealers, customers, vendors, and regulators; and/or (xv) confidential information belonging to third parties to which Executive received access in connection with Executive's employment with Freddie Mac. Confidential Information does not include general skills, experience, or knowledge acquired in connection with Executive's employment with Freddie Mac that otherwise are generally known to the public or within the industry or trade in which Freddie Mac operates.

II. Non-Competition

Executive recognizes that as a result of Executive's employment with Freddie Mac, Executive has access to and knowledge of critically sensitive Confidential Information, the improper disclosure or use of which would result in grave competitive harm to Freddie Mac. Therefore, Executive agrees that neither during Executive's employment with Freddie Mac, nor for the twelve (12) months immediately following termination of Executive's employment for any reason, will Executive consider offers of employment from, seek or accept employment with, or otherwise directly or indirectly provide professional services to any Competitor, if the Executive will be rendering duties, responsibilities or services for the Competitor that are of the type and nature rendered or performed by you during the past two years of your employment with Freddie Mac. Executive acknowledges and agrees that this covenant has unique, substantial and immeasurable value to Freddie Mac, that Executive has sufficient skills to provide a livelihood for Executive while this covenant remains in force, and that this covenant will not interfere with Executive's ability to work consistent with Executive's experience, training and education. This non-competition covenant applies regardless of whether Executive's employment is terminated by Executive, by Freddie Mac, or by a joint decision.

If Executive is a licensed lawyer, this non-competition covenant shall be interpreted in a manner consistent with any rule applicable to a licensed legal professional in the jurisdiction(s) of the Executive's licensure or registration that concerns the Executive's employment as counsel with, or provision of legal services to, a Competitor.

III. Non-Solicitation and Non-Recruitment

During Executive's employment with Freddie Mac and for a period of twelve (12) months after Executive's termination date, Executive will not solicit or recruit, attempt to solicit or recruit or assist another in soliciting or recruiting any Freddie Mac managerial employee (including manager-level, Executive-level, or officer-level employee) with whom Executive worked, or any employee whom Executive directly or indirectly supervised at Freddie Mac, to leave the employee's employment with Freddie

Mac for purposes of employment or for the rendering of professional services. This prohibition against solicitation does not apply if Freddie Mac has notified the employee being solicited or recruited that his/her employment with the Company will be terminated pursuant to a corporate reorganization or reduction-in-force.

If Employee is a licensed lawyer, this non-solicitation covenant shall be interpreted in a manner consistent with any rule applicable to a licensed legal professional in the jurisdiction(s) of Employee's licensure or registration.

IV. Treatment of Confidential Information

A. *Non-Disclosure*. Executive recognizes that Freddie Mac is engaged in an extremely competitive business and that, in the course of performing Executive's job duties, Executive will have access to and gain knowledge about Confidential Information. Executive further recognizes the importance of carefully protecting this Confidential Information in order for Freddie Mac to compete successfully. Therefore, Executive agrees that Executive will neither divulge Confidential Information to any persons, including to other Freddie Mac employees who do not have a Freddie Mac business-related need to know, nor make use of the Confidential Information for the Executive's own benefit or for the benefit of anyone else other than Freddie Mac. Executive further agrees to take all reasonable precautions to prevent the disclosure of Confidential Information to unauthorized persons or entities, and to comply with all Company policies, procedures, and instructions regarding the treatment of such information.

B. *Return of Materials*. Executive agrees that upon termination of Executive's employment with Freddie Mac for any reason whatsoever, Executive will deliver to Executive's immediate supervisor all tangible materials embodying Confidential Information, including, but not limited to, any documentation, records, listings, notes, files, data, sketches, memoranda, models, accounts, reference materials, samples, machine-readable media, computer disks, tapes, and equipment which in any way relate to Confidential Information, whether developed by Executive or not. Executive further agrees not to retain any copies of any materials embodying Confidential Information.

C. *Post-Termination Obligations*. Executive agrees that after the termination of Executive's employment for any reason, Executive will not use in any way whatsoever, nor disclose any Confidential Information learned or obtained in connection with Executive's employment with Freddie Mac without first obtaining the written permission of the Senior Vice President of Human Resources of Freddie Mac. Executive further agrees that, in order to assure the continued confidentiality of the Confidential Information, Freddie Mac may correspond with Executive's future employers to advise them generally of Executive's exposure to and knowledge of Confidential Information, and Executive's obligations and responsibilities regarding the Confidential Information. Executive understands and agrees that any such contact may include a request for assurance and confirmation from such employer(s) that Executive will not disclose Confidential Information to such employer(s), nor will such employer(s) permit any use whatsoever of the Confidential Information. To enable Freddie Mac to monitor compliance with the obligations imposed by this Agreement, Executive further agrees, in the event Executive voluntary resigns employment, to inform in writing Freddie Mac's Senior Vice President of Human Resources of the identity of Executive's subsequent employer(s) and Executive's prospective job title and responsibilities prior to beginning employment**.** Executive agrees that this notice requirement shall remain in effect for twelve (12) months following the Executive's voluntary resignation of Freddie Mac employment.

D. *Ability to Enforce Agreement and Assist Government Investigations*. Nothing in this Agreement prohibits or otherwise restricts you from: (1) making any disclosure of information required by law; (2) assisting any regulatory or law enforcement agency or legislative body to the extent you maintain a legal right to do so notwithstanding this Agreement; (3) filing, testifying, participating in or otherwise assisting in a proceeding relating to the alleged violation of any federal, state, or local law, regulation, or rule, to the extent you maintain a legal right to do so notwithstanding this Agreement; or (4) filing, testifying, participating in or otherwise assisting the Securities and Exchange Commission or any other proper authority in a proceeding relating to allegations of fraud.

V. Consideration Given to Executive

In exchange for agreeing to be bound by the terms, conditions, and restrictions stated in this Agreement, Freddie Mac will provide the Executive with employment as <u>Executive Vice President and Senior Legal Advisor</u>, which itself is adequate consideration for Executive's agreement to be bound by the provisions of this Agreement.

VI. Reservation of Rights

Executive agrees that nothing in this Agreement constitutes a contract or commitment by Freddie Mac to continue Executive's employment in any job position for any period of time, nor does anything in this Agreement limit in any way Freddie Mac's right to terminate Executive's employment at any time for any reason.

VII. Compliance with the Code of Conduct and Corporate Policies & Procedures, Including Personal Securities Investments Policy

As a Freddie Mac employee, Executive will be subject to Freddie Mac's Code of Conduct ("Code") and to Corporate Policy 3-206, Personal Securities Investments Policy ("Policy") that, among other things, limit the investment activities of Freddie Mac employees. Executive agrees to fully comply with the Code and the Policy, copies of which are enclosed for Executive's review.

Executive agrees to consult with Freddie Mac's Chief Compliance Officer as soon as practical prior to beginning employment about any investments that Executive or a "covered household member," as that term isdefined in the Policy, may have that may be prohibited by the Policy. Executive also agrees to disclose prior to beginning employment any other matter or situation that may create a conflict of interest as such term is defined in the Code.

In addition, prior to beginning employment, Executive agrees to disclose to Freddie Mac's Human Resources Division the terms of any employment, confidentiality or stock grant agreements to which Executive may currently be subject that may affect Executive's future employment or recruiting activities so that Freddie Mac may ensure that Executive's employment by Freddie Mac and conduct as a Freddie Mac employee are not inconsistent with any of their terms.

VIII. Absence of Any Conflict of Interest

Executive represents that Executive does not have any confidential information, trade secrets or other proprietary information that Executive obtained as the result of Executive's employment with another employer that Executive will be using in Executive's position at Freddie Mac. Executive also represents that Executive is not subject to any employment, confidentiality or stock grant agreements, or any other restrictions or limitations imposed by a prior employer, which would affect Executive's ability to perform the duties and responsibilities for Freddie Mac in the job position offered, and further represents that Executive has provided Freddie Mac with copies of any non-competition, non-solicitation or similar agreements or limitations that have not expired, so that Freddie Mac can make an independent judgment that Executive's employment with Freddie Mac is not inconsistent with any of its terms.

IX. Enforcement

A. Executive acknowledges that Executive may be subject to discipline, up to and including termination of employment, for Executive's breach or threat of breach of any provision of this Agreement.

B. Executive agrees that irreparable injury will result to Freddie Mac's business interests in the event of breach or threatened breach of this Agreement, the full extent of Freddie Mac's damages will be impossible to ascertain, and monetary damages will not be an adequate remedy for Freddie Mac. Therefore, Executive agrees that in the event of a breach or threat of breach of any provision(s) of this Agreement, Freddie Mac, in addition to any other relief available, shall be entitled to temporary, preliminary, and permanent equitable relief to restrain any such breach or threat of breach by Executive and all persons acting for and/or in concert with Executive, without the necessity of posting bond or security, which Executive expressly waives.

C. Executive agrees that each of Executive's obligations specified in this Agreement is a separate and independent covenant, and that all of Executive's obligations set forth herein shall survive any termination, for any reason, of Executive's Freddie Mac employment. To the extent that any provision of this Agreement is determined by a court of competent jurisdiction to be unenforceable because it is overbroad, that provision shall be limited and enforced to the extent permitted by applicable law. Should any provision of this Agreement be declared or determined by any court of competent jurisdiction to be unenforceable or invalid under applicable law, the validity of the remaining obligations will not be affected thereby and only the unenforceable or invalid obligation will be deemed not to be a part of this Agreement.

D. This Agreement is governed by, and will be construed in accordance with, the laws of the Commonwealth of Virginia, without regard to its or any other jurisdiction's conflict-of-law provisions. Executive agrees that any action related to or arising out of this Agreement shall be brought exclusively in the United States District Court for the Eastern District of Virginia, and Executive hereby irrevocably consents to personal jurisdiction and venue in such court and to service of process by United States Mail or express courier service in any such action.

E. If any dispute(s) arise(s) between Freddie Mac and Executive with respect to any matter which is the subject of this Agreement, the prevailing party in such dispute(s) shall be entitled to recover from the other party all of its costs and expenses, including its reasonable attorneys' fees.

Executive has been advised to discuss all aspects of this Agreement with Executive's private attorney. Executive acknowledges that Executive has carefully read and understands the terms and provisions of this Agreement and that they are reasonable. Executive signs this Agreement voluntarily and accepts all obligations contained in this Agreement in exchange for the consideration to be given to Executive as outlined above, which Executive acknowledges is adequate and satisfactory, and which Executive further acknowledges Freddie Mac is not otherwise obligated to provide to Executive. Neither Freddie Mac nor its agents, representatives, directors, officers or employees have made any representations to Executive concerning the terms or effects of this Agreement, other than those contained in this Agreement.

By: /s/ Ricardo Anzaldua Date: 23 April 2018
Ricardo Anzaldua

Exhibit 10.31

Employee ID: *Redacted* Employee Name: James Mackey

CONFIDENTIAL SEPARATION AGREEMENT AND GENERAL RELEASE

Freddie Mac is offering you valuable consideration in exchange for your agreement to be bound by the terms of this Confidential Separation Agreement and General Release (the "Agreement"). Please be advised that, subject to applicable law, by signing this Agreement, you will be releasing Freddie Mac of all legal claims you have, regardless of whether you currently are aware of them. Therefore, Freddie Mac advises you to consult with an attorney before you sign this document.

A. Announcement, Transition and Resignation

1. *Parties.* This is an Agreement between the Federal Home Loan Mortgage Corporation ("Freddie Mac" or the "Company") and James Mackey, currently Executive Vice President ("EVP") and Chief Financial Officer, hereinafter referred to as "you".
2. *Successors.*
   - (a) You will continue to be employed in your position as EVP and CFO through December 18, 2019. During this time, you agree to provide your full cooperation in support of the transition of your duties as described below.
   - (b) Freddie Mac will appoint one or more other Freddie Mac employees (the "Interim Successor"), effective December 19, 2019, as your interim successor or successors as EVP and CFO. In the event that Freddie Mac appoints any person to be your definitive successor as EVP and CFO with an effective date prior to June 30, 2020, then from such effective date through June 30, 2020 all references in this Agreement to the Interim Successor shall apply to that definitive successor.
3. *Transition Period.* The period from December 19, 2019 through the earlier of (i) June 30, 2020 or (ii) the date of your resignation from the Company is herein referred to as the "Transition Period". During this period:
   - (a) You will continue to be employed by Freddie Mac with the title of Executive Vice President-Senior Advisor at your current compensation including deferred salary and employee benefits (subject to the terms of the applicable plans and agreements), reporting to the Chief Executive Officer (the "CEO"), but you will no longer be EVP/ CFO or have the authority or responsibilities of the same.
   - (b) Your responsibilities will be to assist in any way reasonably requested by the CEO or the Interim Successor with the Interim Successor's assumption of the EVP/CFO role and to be available for consultation with the Interim Successor (or anyone designated by the Interim Successor) in order to assure a smooth transition to the Interim Successor.
   - (c) You will generally be available by telephone to perform the above responsibilities, and will come to the McLean campus as requested. Your McLean office will be changed to a location designated by Freddie Mac, and you will be provided the support of an Administrative Assistant.
   - (d) You will provide your full cooperation and support in the transition of your duties to the Interim Successor, and will transition to the Interim Successor or the Interim Successor's designee(s) i) communications to the employees of the Finance Division, ii) regulatory and other financial matters, and iv) day-to-day management of the Finance Division.
   - (e) If you fail to meet the expectations set forth in this Section, or otherwise breach this Agreement, your June 30, 2020 separation date will be accelerated to an earlier date.
   - (f) You may resign before June 30, 2020. If you resign on or before June 30, 2020, then on your resignation date you will execute and deliver to the Company the Confidential Second Separation Agreement and General Release (the "Second Release") in the form attached hereto as Exhibit A. You understand and agree that the Second Release will provide for no additional payments or consideration beyond any payments or consideration you are to receive pursuant to the terms of this Agreement and that such payments or consideration constitute adequate consideration for your execution of and adherence to the terms of the Second Release.

B. Obligations and Restrictions Imposed Upon You By This Agreement

By signing below, you agree to be bound legally to the following terms:

1. *Full Release.* You, for yourself, your heirs, executors, administrators and assigns, hereby release and forever discharge Freddie Mac and its successors, assigns, divisions, affiliates, parents, subsidiaries, directors, officers, shareholders, partners, heirs, and executors (collectively, the "Released Parties") from any and all actions, causes of action, claims, demands, damages, costs, loss of service, expenses, compensation and any damages of any kind whatsoever (including claims for attorneys' fees and costs) which you have or may have arising up to and including the date of

your execution of this release, whether presently known or unknown, including, but not limited to, those arising from or related to any federal or state statute or local ordinance, tort, contract or common law claim, or any other claims, whether or not asserted, relating to any facts or issues pertaining to any aspect of your employment relationship with Freddie Mac, any compensation plan, program or arrangement, your decision to terminate your employment, the termination of such employment relationship and the negotiation of and entering into this Agreement. This Release does not apply to Freddie Mac's obligations under this Agreement or any claims that Freddie Mac may not lawfully request that you release.

2. *Non-Participation.* You acknowledge that in the absence of this Agreement, you have the right voluntarily to assist others in bringing claims against the Released Parties. By signing below, you agree to waive this right. Therefore, except as otherwise provided in this Agreement, you agree that you will not encourage, counsel or assist any attorneys, their clients, or any other persons (including current or former Freddie Mac employees) in bringing or prosecuting any claims, charges, or complaints against any of the Released Parties, unless pursuant to a valid subpoena or court order to produce documents or testify, or unless you have been requested by an agency of the United States government or state or local government (collectively, "government agency") to assist in a government agency investigation or proceeding.

   To the extent that you are requested by any government agency to participate or assist in a government agency investigation or proceeding, or to the extent that any law may prohibit you from waiving your right to bring or participate in the investigation of a claim, you nevertheless waive any right you otherwise might have to seek or accept any damages or relief in any proceeding. Furthermore, to the extent that you file any claim against Freddie Mac, or any claim is filed on your behalf against Freddie Mac, you agree not to seek or accept any damages or other relief as a result of such claim.

   With respect to any private party, you agree that: (a) you will not voluntarily provide any testimony or information unless required by law or permitted by Freddie Mac; (b) you will permit Freddie Mac to be represented by an attorney of Freddie Mac's choosing at any such testimony or with respect to any such information to be provided; and (c) you will follow the instructions of the attorney designated by Freddie Mac with respect to what testimony or information is privileged by the attorney-client and/or work product privileges of Freddie Mac. For purposes of this paragraph "Freddie Mac" shall mean Freddie Mac or its conservator, FHFA.

3. *Compliance with Subpoenas or Other Requests*. If you receive a court subpoena, deposition notice, request by a government agency, or similar request to disclose information concerning your employment or termination of employment with Freddie Mac, or concerning the terms of this Agreement, you agree that you will provide Freddie Mac with notice of such subpoena, notice, or request not later than forty-eight (48) hours following your receipt by telephone call and email to Freddie Mac's General Counsel. In the event that Freddie Mac determines to provide you with legal representation at Company expense in connection with a subpoena, notice, request or other matter arising out of your employment with Freddie Mac, and you accept Freddie Mac's offer to pay for such representation, you agree that such representation will be provided by counsel chosen by Freddie Mac.

4. *Confidential Information*. During your employment with Freddie Mac, you may have worked with or otherwise gained knowledge about information that Freddie Mac deems trade secrets or otherwise confidential and proprietary information belonging to Freddie Mac or otherwise used in connection with Freddie Mac's business. This information may include, but not be limited to: (a) the components, capabilities or attributes of Freddie Mac's business methods or systems; (b) tax and financial matters, including capital structure and tax and financial planning strategies; (c) shareholder and investor strategies, tactics or plans; (d) pricing or investment strategies; (e) past, current, and/or future business strategies, tactics or plans; (f) marketing or sales strategies, tactics or plans; (g) compensation and employee benefits strategies and practices, and other confidential personnel matters; (h) trading strategies, tactics and plans; (i) Freddie Mac's development of and applications for patents, trademarks, and copyrights, to the extent such information is non-public; and (j) any other information of a proprietary nature. By signing below, you agree that to the extent you have knowledge about such information, and you gained your knowledge through your employment with Freddie Mac, you agree to treat the information as strictly confidential. You agree that you will not use any such information directly or indirectly for any purpose, nor disclose it to anyone outside Freddie Mac.

   You also acknowledge that, in light of your employment with Freddie Mac, you have been in possession of confidential information and documents that may be privileged under the attorney-client and/or work product privileges. You agree to maintain the confidences and privileges of Freddie Mac and acknowledge that any such confidences and privileges belong solely to Freddie Mac and can only be waived by Freddie Mac, not you.

5. *Confidentiality of Agreement*. Subject to the terms of Section F1. below, you and Freddie Mac agree to keep the fact of this Agreement and the Second Release and all their terms completely confidential except as otherwise permitted by the terms of this Agreement or applicable law. You may disclose the terms of this Agreement only to your attorney, accountant, tax advisor, outplacement counselor hired by Freddie Mac, or members of your immediate family, provided that they agree to keep the terms confidential. Freddie Mac may disclose the terms of this Agreement internally only on a need-to-know basis and externally to its conservator, and other third parties where required by law, such as the IRS.

6. *Return of Freddie Mac Property*. You affirm that you will return all property and documents belonging to Freddie Mac that are in your possession or within your control by June 30, 2020 unless an authorized representative of Freddie Mac's Human Resources Division informs you of an earlier date.

7. *Non-Competition*. You agree that:

   (a) You will not commence other employment while you are still an employee of Freddie Mac; and

   (b) for the twelve (12) months following the earlier of i) your resignation date or ii) June 30, 2020, you will not seek or accept employment with, or otherwise directly or indirectly provide professional services to, Fannie Mae or any Federal Home Loan Bank.

8. *Non-Solicitation*. You agree that, during the Transition Period defined in Section A of this Agreement, and the twelve (12) months following the end of the Transition Period, you will not (a) provide any job-related assistance to any Freddie Mac employee who seeks to leave his or her employment with Freddie Mac, or (b) directly or indirectly recruit any Freddie Mac employee or solicit or assist another in recruiting or soliciting any Freddie Mac employee for employment purposes or for the provision of professional services. This prohibition against assisting or soliciting Freddie Mac employees does not apply if Freddie Mac has provided written notice to the employee that it has decided to terminate his or her employment or if Freddie Mac has consented in writing to such solicitation.

9. *Notice of Future Employment*. In order to allow Freddie Mac to monitor your compliance with the post-employment restrictions imposed by this Agreement, you agree to provide written notice to Freddie Mac's General Counsel of the identity of each new employer with whom you accept employment together with your job title and brief description of job duties during the twelve (12) months following the end of the Transition Period.

10. *Assistance to Freddie Mac.* Freddie Mac agrees that it will indemnify you in accordance with the terms of Article 8 of the By-Laws of Freddie Mac. You agree, in response to reasonable requests, to cooperate fully and assist Freddie Mac in any matter in which you have been involved during the course of your employment or in which Freddie Mac needs your cooperation. Such assistance shall include providing information, preparing documents, preparing for and submitting to interviews and depositions, providing testimony and general cooperation to assist the Company. Freddie Mac agrees that such assistance shall be provided at times and in a manner so as not to interfere unreasonably with or jeopardize your subsequent employment. In the event you incur reasonable expenses associated with providing such assistance, Freddie Mac shall reimburse such reasonable expenses in accordance with Company policy generally applicable to employees of the Company. In the event that Freddie Mac determines to provide you with legal representation at Company expense in connection with such assistance, you agree that such representation will be provided by counsel chosen by Freddie Mac.

11. *Non-Disparagement.* You agree not to make or publish any disparaging comment about Freddie Mac or any Released Party.

12. *Offset for Employee Debts*. You agree that Freddie Mac may deduct any debts you owe to the Company from the amounts set forth in Section C, such as non-reimbursable expenses.

C. Benefits to be Provided to You in Exchange for Signing this Agreement

In consideration for your agreeing to be bound by the restrictions and obligations imposed upon you by this Agreement, Freddie Mac will provide you with the following consideration:

1. *Continued Employment.* Freddie Mac will continue to employ you through June 30, 2020, unless you resign at an earlier date.

2. *Compensation and Benefits*. Freddie Mac will comply with all its obligations with respect to your compensation and benefits in accordance with the relevant plans and agreements, including payment on a timely basis of all deferred salary that will be owing to you in accordance with such plans and agreements after your resignation.

3. *Outplacement and Coaching Services.* Freddie Mac will provide you with outplacement and executive coaching services at no expense to you. These services will be available to you beginning January 1, 2020 through December 31, 2020.

D. Interpretation and Enforcement of Agreement

1. *Virginia Law Applies.* This Agreement will be construed, and the rights and obligations of the parties determined, exclusively in accordance with the substantive law of the Commonwealth of Virginia, excluding provisions of Virginia law concerning choice-of-law that would result in the law of any state other than Virginia being applied.

2. *Venue.* Any claims, actions or proceedings arising out of or related to this Agreement will be brought in the United States District Court for the Eastern District of Virginia, Alexandria Division. You and Freddie Mac hereby submit to the personal jurisdiction of said Court and consent to the dismissal of any action related to this Agreement that is brought in any other forum.

3. *Severability.* You agree that if a court of competent jurisdiction declares that Section B.1 of this Agreement is invalid, then Freddie Mac shall be relieved of its obligations under this Agreement, including without limitation its obligation to make any payments thereunder. All other provisions of this Agreement are separate and independent. Therefore, in the event a court of competent jurisdiction declares any other provision of this Agreement to be illegal or invalid, such

declaration will not invalidate or otherwise affect the enforceability of the remaining provisions of this Agreement. In addition, if a court of competent jurisdiction declares that any provision is unenforceable because it is overbroad, including the provisions specifically referenced in this paragraph, then the provision will be limited as required by applicable law, enforced as so limited, and will not affect the enforceability of the remaining provisions of this Agreement.

4. *No Admission of Liability*. You and Freddie Mac agree that this Agreement does not constitute, nor should it be construed to constitute, an admission by you, Freddie Mac, or any Released Party of any violation of federal, state, or local law, regulation, or ordinance, nor as an admission of liability under the common law or for any breach of duty any Released Party owed or owes to you.
5. *Return of Consideration in the Event of Breach*. To the extent permitted by law, you agree that if you commit a material violation of any provision of this Agreement, then you will promptly return to Freddie Mac all of the consideration that you have received under this Agreement, including all cash payments and monetary equivalents of all benefits you received, and that you will not be eligible to receive any further consideration under such Section C.
6. *Additional Damages Available for Breach*. You agree that Freddie Mac will maintain all rights and remedies available to it at law and in equity in the event you breach any provision of this Agreement. These rights and remedies may include, but not be limited to, the right to bring a court action to recover all consideration paid to you pursuant to this Agreement and any additional damages Freddie Mac may suffer as a result of such a breach. You also specifically recognize and agree that Freddie Mac will suffer irreparable injury in the event you breach or threaten to breach Sections B.4, B.7. or B.8. of this Agreement. Therefore, you agree that in addition to any other remedies Freddie Mac may be entitled to receive for such breach, Freddie Mac also will be entitled to temporary, preliminary and/or permanent injunctive relief to restrain any such breach or threat of breach by you, and by any persons acting for and/or in concert with you. If Freddie Mac seeks injunctive relief pursuant to this paragraph, then you expressly waive any requirement that Freddie Mac post bond.
7. *Attorneys' Fees*. You agree that if Freddie Mac prevails in any action arising out of this Agreement, other than any action that you may bring under the federal Age Discrimination in Employment Act, you will pay Freddie Mac the reasonable attorneys' fees and court costs Freddie Mac incurs in connection with such action.
8. *Construction*. You have the right and have had the opportunity to seek the independent legal advice of an attorney of your choosing regarding the meaning and advisability of signing this Agreement. Therefore, the common-law principles of construing ambiguities against the drafter that otherwise may apply have no application to this Agreement.
9. *Older Worker Benefits Protection Act ("OWBPA") - Material Changes*. If you are age 40 or older at the time this Agreement is provided to you, you acknowledge that pursuant to the OWBPA, a material change made to this Agreement restarts the period for you to consider whether to agree to the terms of the Agreement. Nevertheless, you and Freddie Mac agree that any modification made to this Agreement, regardless of whether such modification is material, shall not restart the running of that period.

E. Re-Employment by Freddie Mac

You will not be eligible for reemployment with Freddie Mac.

F. Employee Rights

1. *Ability to Enforce Agreement and Assist Government Investigations*. Nothing in this Agreement (including Sections B.2, B.4, B.5 or B.11 above) prohibits or otherwise restricts you from: (a) instituting any legal action for the sole purpose of enforcing this Agreement; (b) making any disclosure of information required by law; (c) assisting any federal regulatory or law enforcement agency or legislative body to the extent you maintain a legal right to do so notwithstanding this Agreement; (d) filing or testifying in a proceeding relating to the alleged violation of any federal, state, or local law, regulation, or rule, to the extent you maintain a legal right to do so notwithstanding this Agreement; or (e) filing, testifying, participating in or otherwise assisting the Securities and Exchange Commission or any other proper authority in a proceeding relating to allegations of fraud.
2. *Retention of Vested Benefits*. Nothing in this Agreement affects your right to receive any vested employee benefits, including retirement benefits or 401(k) employer contributions, pursuant to the terms and provisions of the benefit plans and programs governing such employee benefits.

G. No Knowledge of Fraudulent or Unlawful Conduct

You affirm that:

1. You have not filed or caused to be filed on your behalf any claim for relief against Freddie Mac or any of the other Released Parties, and, to the best of your knowledge and belief, no outstanding claim has been filed or asserted on your behalf against Freddie Mac or any of the other Released Parties;

2. You have no knowledge of and have not reported any alleged fraudulent or unlawful conduct or activities to any supervisor, manager, officer, department head, Human Resources representative, or any other agent of Freddie Mac; and

3. You have no knowledge of and have not reported any fact or circumstance or actual or alleged error, misstatement, misleading statement, act, omission, neglect or breach of duty that you have reason to believe might result in a current or future claim under Freddie Mac's Directors & Officers Liability Insurance policy, except to the extent that you have followed Freddie Mac's process and procedure for filing complaints anonymously.

H. Decision & Revocation Periods

1. *Consideration Period*. As provided by Older Workers Benefit Protection Act of 1990, you must sign this Agreement by **January 9, 2020**.

2. *Revocation Period*. **You agree that pursuant to the Older Workers Benefit Protection Act of 1990, this Agreement will not become effective until seven (7) calendar days after you execute it and deliver it to Freddie Mac. Therefore, you have seven (7) calendar days after you execute and deliver this Agreement to revoke your acceptance of its terms.** You may revoke your acceptance by providing written notification of your intention to revoke to Freddie Mac's Senior Vice President - Human Resources Division. To be effective, Freddie Mac's Senior Vice President - Human Resources must actually receive the written notification by no later than the close of business on the seventh calendar day after you have executed and delivered the Agreement to Freddie Mac.

*   *   *

By signing below, you acknowledge, warrant, and agree that:

1. You have been advised to discuss all aspects of this Agreement with your private attorney and/or other individuals of your choice who are not associated with Freddie Mac to the extent that you desire (but subject to the confidentiality obligations set forth in this Agreement);

2. You have read this Agreement carefully and fully understand the significance of all of its provisions;

3. You sign this Agreement voluntarily and accept all obligations contained in it in exchange for the consideration you will receive pursuant to this Agreement, which you acknowledge is adequate and satisfactory, and which you further acknowledge Freddie Mac is not otherwise obligated to provide to you;

4. Neither Freddie Mac, nor its agents, representatives, directors, officers or employees have made any representations to you concerning the terms or effects of this Agreement, other than those explicitly contained in this Agreement; and

5. This Agreement shall not become effective until after the seven (7) day revocation period referred to in Paragraph H.2. above has elapsed.

I have executed this Agreement this __31__ day of _December, 2019.

_/s/ James Mackey____________________
James Mackey

Address:

__*Redacted*______________________

__*Redacted*______________________

____

FOR FREDDIE MAC:

Signature & Title: _/s/ Jacqueline M. Welch, CHRO and CDHO_

Date: _01/08/2020__________

Employee ID: *Redacted* **Employee Name: James Mackey**

Exhibit A

CONFIDENTIAL SECOND SEPARATION AGREEMENT AND GENERAL RELEASE

Freddie Mac is offering you valuable consideration in exchange for your agreement to be bound by the terms of this Second Separation Agreement and General Release ("Second Release"). Please be advised that, subject to applicable law, by signing this Second Release, you will be releasing Freddie Mac of all legal claims you have, regardless of whether you currently are aware of them. Therefore, Freddie Mac advises you to consult with an attorney before you sign this document.

A. *Obligations and Restrictions Imposed upon You by this Second Agreement*

By signing below, you agree to be bound legally to the following terms:

1. *Full Release*. You, for yourself, your heirs, executors, administrators and assigns, hereby release and forever discharge Freddie Mac and its successors, assigns, divisions, affiliates, parents, subsidiaries, directors, officers, shareholders, partners, heirs, and executors (collectively, the "Released Parties") from any and all actions, causes of action, claims, demands, damages, costs, loss of service, expenses, compensation and any damages of any kind whatsoever (including claims for attorneys' fees and costs) which you have and may have arising up to and including the date of your execution of this release, whether presently known or unknown, including, but not limited to, those arising from or related to any federal or state statute or local ordinance, tort, contract or common law claim, or any other claims, whether or not asserted, relating to any facts or issues pertaining to any aspect of your employment relationship with Freddie Mac, any compensation plan, program or arrangement, the decision to terminate your employment, the termination of such employment relationship and the negotiation of and entering into this Agreement. This Release does not apply to Freddie Mac's obligations under this Second Release or the Confidential Separation Agreement and General Release or any claims that Freddie Mac may not lawfully request that you release.

B. *Benefits to be Provided to You in Exchange for Signing this Second Agreement*

By signing below and thereby evidencing your acceptance of the restrictions and obligations imposed upon you by this Second Release, you acknowledge that (1) Freddie Mac has agreed to provide to you the payments and other consideration pursuant to the terms of the Confidential Separation Agreement and General Release (the "First Agreement") executed by you previously in 2019, (2) this Second Release provides no additional payments or consideration beyond any payments and consideration you are entitled to receive under the terms of that First Agreement, and (3) such payments and such consideration constitute adequate consideration for your execution of and adherence to the terms of this Second Release.

C. *Incorporation by Reference of Terms and Conditions Set Forth in the First Agreement*

You and Freddie Mac acknowledge and agree that all of the terms and conditions set forth in the First Agreement are incorporated herein by reference as terms and conditions of this Second Release, as modified to the extent necessary to make the provisions of such First Agreement fully applicable to this Second Release.

D. *Decision & Revocation Periods*

1. *Consideration Period*. **By signing below, you acknowledge that pursuant to the Older Workers Benefit Protection Act of 1990, you have had 21 calendar days from the date you first received a copy of this Agreement to decide whether to accept its terms.** In order to receive the benefits described in the First Agreement, you must execute and deliver this Second Agreement to Freddie Mac at the close of business on June 30, 2020 (or, if you shall resign before that date, then on the date of your resignation).

2. *Revocation Period*. **You agree that pursuant to the Older Workers Benefit Protection Act of 1990, this Second Agreement will not become effective until seven (7) calendar days after you sign it. Therefore, you have seven (7) calendar days after you sign this Second Agreement to revoke your acceptance of its terms.** You may revoke your acceptance by providing written notification of your intention to revoke to Freddie Mac's Senior Vice President - Human Resources. To be effective, Freddie Mac's Senior Vice President - Human Resources must actually receive the written notification by no later than the close of business on the seventh calendar day after you have signed the Second Agreement.

* * * * *

By signing below, you acknowledge, warrant, and agree that:

1. **You have been advised to discuss all aspects of this Second Release with your private attorney and/or other individuals of your choice who are not associated with Freddie Mac to the extent that you desire (but subject to the confidentiality obligations set forth in the First Agreement);**

2. **You have read this Second Release carefully and fully understand the significance of all of its provisions;**

3. **You sign this Second Release voluntarily and accept all obligations contained in it in exchange for the consideration you will receive pursuant to the First Agreement, which you acknowledge is adequate and satisfactory, and which you further acknowledge Freddie Mac is not otherwise obligated to provide to you;**

4. **Neither Freddie Mac, nor its agents, representatives, directors, officers or employees have made any representations to you concerning the terms or effects of this Second Release, other than those explicitly contained in this Agreement; and**

5. **This Second Release shall not become effective until after the seven (7) day revocation period referenced in Paragraph D.2 above has elapsed.**

I have executed this Second Release this ______ day of _____________, 2020.

____

James Mackey

FREDDIE MAC:

Signature & Title: _______________________________

Date: _____________________

Exhibit 24.1

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 3, 2019.

/s/ Mark H. Bloom

Mark H. Bloom

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 12, 2019.

/s/ Kathleen L. Casey

Kathleen L. Casey

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 4, 2019.

/s/ Launcelot F. Drummond

Launcelot F. Drummond

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 3, 2019.

/s/ Aleem Gillani

Aleem Gillani

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 4, 2019.

/s/ Christopher E. Herbert

Christopher E. Herbert

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 4, 2019.

/s/ Grace A. Huebscher

Grace A. Huebscher

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 3, 2019.

/s/ S. Sara Mathew

S. Sara Mathew

Power of Attorney

Annual Report on Form 10-K
Freddie Mac

KNOW ALL PERSONS BY THESE PRESENTS, that I, the undersigned, a director of Freddie Mac (formally known as the Federal Home Loan Mortgage Corporation), a federally chartered corporation, hereby constitute and appoint David M. Brickman, James G. Mackey, Ricardo A. Anzaldua, and Alicia S. Myara, and each of them severally, my true and lawful attorney-in-fact with power of substitution and resubstitution to sign in my name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K for the year ended December 31, 2019 and any and all amendments thereto, as fully for all intents and purposes as I might or could do in person, and hereby ratify and confirm all said attorneys-in-fact, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have executed this Power of Attorney as of December 3, 2019.

/s/ Saiyid T. Naqvi

Saiyid T. Naqvi

Exhibit 31.1

CERTIFICATION

PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, David M. Brickman, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2019 of the Federal Home Loan Mortgage Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2020

/s/ David M. Brickman

David M. Brickman

Chief Executive Officer

Exhibit 31.2

CERTIFICATION

PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, Donald F. Kish, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2019 of the Federal Home Loan Mortgage Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 13, 2020

/s/ Donald F. Kish

Donald F. Kish

Senior Vice President — Corporate Controller, Principal

Accounting Officer, & Interim Chief Financial Officer

Exhibit 32.1

CERTIFICATION

PURSUANT TO 18 U.S.C. SECTION 1350,

AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2019 of the Federal Home Loan Mortgage Corporation (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Brickman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 13, 2020

/s/ David M. Brickman

David M. Brickman

Chief Executive Officer

Exhibit 32.2

CERTIFICATION

PURSUANT TO 18 U.S.C. SECTION 1350,

AS ENACTED BY SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2019 of the Federal Home Loan Mortgage Corporation (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Donald F. Kish, Senior Vice President - Corporate Controller, Principal Accounting Officer, and Interim Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 13, 2020

/s/ Donald F. Kish

Donald F. Kish

Senior Vice President — Corporate Controller, Principal

Accounting Officer, & Interim Chief Financial Officer

THIRD AMENDED AND RESTATED

LIMITED LIABILITY COMPANY AGREEMENT

OF

COMMON SECURITIZATION SOLUTIONS, LLC

Dated as of January 9, 2020

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THIRD AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF COMMON SECURITIZATION SOLUTIONS, LLC

This THIRD AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (this "Agreement") is made and entered into as of January 9, 2020, by and among the Federal National Mortgage Association, a government-sponsored enterprise chartered by Congress having its principal place of business at 1100 15th Street, NW, Washington, DC 20005 ("Fannie Mae"), the Federal Home Loan Mortgage Corporation, a government-sponsored enterprise chartered by Congress having its principal place of business at 8200 Jones Branch Drive, McLean, Virginia 22102 ("Freddie Mac"), and Common Securitization Solutions, LLC, a Delaware limited liability company having its principal place of business at 7501 Wisconsin Avenue, Suite 300, Bethesda, Maryland 20814 (the "Company" or "CSS"). (Fannie Mae and Freddie Mac each may be referred to herein individually as an "Enterprise" or a "GSE" and, collectively, as the "Enterprises or the "GSEs.")

WITNESSETH:

WHEREAS, each of the Enterprises is currently engaged in various aspects of the mortgage securitization business, including purchasing certain residential mortgage loans, transferring loans to securitized loan pools, acting as a trustee of securitized pools of loans, and engaging in practices intended to manage and mitigate risks associated with owning and/or guaranteeing mortgage loans, such as working out and foreclosing on defaulted loans, negotiating modifications to existing loans, and owning and managing real-estate-owned assets resulting from realizing on defaulted loans;

WHEREAS, the Federal Housing Finance Agency ("FHFA") has been appointed as the conservator of the Enterprises pursuant to Section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended (the "Safety and Soundness Act");

WHEREAS, in its capacity as conservator, FHFA succeeds to all rights, titles, powers, and privileges of each Enterprise and of its stockholders, officers, or directors with respect to the Enterprise and its assets;

WHEREAS, by directive dated March 12, 2013 (the "Initial Directive"), FHFA, in its capacity as conservator, directed Fannie Mae and Freddie Mac to begin meeting jointly under FHFA's oversight to address issues relating to the establishment of a new securitization platform as described in the February 2012 Strategic Plan for Enterprise Conservatorships (together with any successor strategic plans, the "Strategic Plan");

WHEREAS, by directive dated April 12, 2013 (the "Second Directive"), FHFA, in its capacity as conservator, directed Fannie Mae and Freddie Mac to begin the process and the work necessary to consummate a joint venture agreement between the Enterprises, under FHFA's oversight;

WHEREAS, in furtherance of the Initial Directive, the Second Directive and the Strategic Plan, the Enterprises filed a Certificate of Formation on October 7, 2013 with the Delaware Secretary of State (the "Certificate") to form the Company to design, build, develop, test, operate, support, maintain, update and enhance the Platform and to provide certain services related thereto;

WHEREAS, the Enterprises have previously entered into a Limited Liability Company Agreement with an effective date of October 7, 2013 (the "Original LLC Agreement"), setting forth certain rights, obligations and understandings with respect to the Company;

WHEREAS, by directive dated October 10, 2013 (the "Third Directive" and together with the Initial Directive and Second Directive, the "Directives"), FHFA directed the Enterprises to complete the formation of the Company as a limited liability company by executing the necessary documents containing the terms of their agreements;

WHEREAS, in furtherance of the Directives and the Strategic Plan, the Enterprises amended and restated the Original LLC Agreement pursuant to that certain Amended and Restated Limited Liability Company Agreement with an effective date of November 3, 2014 (as amended, the "A&R LLC Agreement");

WHEREAS, as of the date hereof, FHFA exercises authority over the Company in FHFA's capacity as regulator and supervisor of the Company, and as conservator of the Enterprises; and

WHEREAS, the Enterprises now desire to amend and restate the A&R LLC Agreement in its entirety as set forth herein.

NOW, THEREFORE, in consideration of the mutual promises herein contained and other valuable consideration, the parties, intending to be legally bound, hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Definitions. For purposes of this Agreement, the following capitalized terms have the meanings ascribed to them in this Section 1.1:

"A&R LLC Agreement" has the meaning set forth in the recitals to this Agreement.

"Act" means the Delaware Limited Liability Company Act, codified in Title 6 of the Delaware Code, Section 18-101 et seq., as amended from time to time.

"Additional Members" has the meaning set forth in Section 3.1(a) of this Agreement.

"Administrative Services Agreement" means each of the administrative services agreements executed concurrently with the A&R LLC Agreement by and between the respective Enterprise and the Company pursuant to which the respective Enterprise provides specified services to the Company.

"Adjusted Capital Account Deficit" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments:

(a) Credit to such Capital Account any amounts which such Member is obligated to restore or is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5); and

(b) Debit to such Capital Account the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Advancement of Expenses" has the meaning set forth in Section 6.18(a)(iii) of this Agreement.

"Affiliate" means, when used with respect to a Person, any other Person directly or indirectly Controlling, Controlled by, or under direct or indirect common Control with such Person; provided, however, that for purposes of this definition FHFA shall not be deemed to be an Affiliate of the Enterprises, and neither Enterprise shall be deemed to be an Affiliate of the other Enterprise.

"Agreement" has the meaning set forth in the preamble to this Agreement.

"Ancillary Agreements" means the Contribution Agreement and the Administrative Services Agreements.

"Annual Plan and Budget" has the meaning set forth in Section 8.1(a).

"Annual Report" has the meaning set forth in Section 4.7(c) of this Agreement.

"Assert" means to bring an action of any nature before any legal, judicial, arbitration, administrative, executive, or other type of body or tribunal that has authority to adjudicate that action in whole or in part.

"Assigned Employee" has the meaning set forth in Section 9.1(a) of this Agreement.

"Assigned Employees IP" has the meaning set forth in Section 9.1(f) of this Agreement.

"Bankruptcy Code" means the United States Bankruptcy Code, codified in Title 11 of the United States Code, as amended.

"Board" has the meaning set forth in Section 6.1(a) of this Agreement.

"Board Chair" has the meaning set forth in Section 6.1(a)(ii).

"Business" means the design, development, build, testing, operation, support, maintenance, updating and enhancement of the Platform subject to the provisions of the Charter and the provisions of this Agreement, and such other activities as may be approved from time to time in accordance with the terms and conditions of this Agreement.

"Business Day" means any day that is not a Saturday, Sunday, U.S. federal government holiday, or a day on which national banks with their principal place of business in the District of Columbia are authorized or obligated by law or executive order to be closed.

"Business Plan" has the meaning set forth in Section 8.1(a) of this Agreement.

"Capital Account" means, with respect to any Member, the Capital Account maintained for such Member in accordance with the following provisions:

(a) To each Member's Capital Account there shall be credited the initial Gross Asset Value of such Member's Capital Contributions, such Member's distributive share of Profits and any items in the nature of income or gain which are specially allocated pursuant to Section 4.3 hereof, and the amount of any Company liabilities assumed by such Member or which are secured by any Company Property distributed to such Member.

(b) To each Member's Capital Account there shall be debited the amount of cash and the Gross Asset Value (at the time of distribution) of any Company Property distributed to such Member pursuant to any provision of this Agreement, such Member's distributive share of Losses and any items in the nature of expenses or losses that are specially allocated pursuant to Section 4.3 hereof, and the amount of any liabilities of such Member assumed by the Company or which are secured by any property contributed by such Member to the Company.

(c) In the event any LLC Unit is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred LLC Unit.

(d) In determining the amount of any liability for purposes of this definition, there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code and Regulations.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations.

"Capital Contribution" means, with respect to any Member, the amount of money and the initial Gross Asset Value of any property contributed to the Company with respect to the interest in the Company held by such Member. The principal amount of a promissory note which is not readily traded on an established securities market and which is contributed to the Company by the maker of the note shall not be included in the Capital Account of any Person until the Company makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Regulations Section 1.704-1(b)(2)(iv)(d)(2).

"Certificate" has the meaning set forth in the recitals to this Agreement.

"CEO" has the meaning set forth in Section 6.16(a).

"Charter" means the First Amended and Restated Charter of Common Securitization Solutions, LLC, attached as Exhibit A hereto.

"Claim" has the meaning set forth in Section 14.4 of this Agreement.

"CNTS" has the meaning set forth in Section 12.6(a) of this Agreement.

"Code" means the Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law).

"Company" has the meaning set forth in the preamble to this Agreement.

"Company Indemnified Parties" means the Company and its officers, directors, employees and agents.

"Company Minimum Gain" means "partnership minimum gain" as described in Regulations Sections 1.704-2(b)(2) and (d).

"Company Property" means all real and personal property acquired by the Company and any improvements thereto, and includes both tangible and intangible property.

"Confidential Information" means all data or information of a Member or the Company (such party, the "Disclosing Party") of a confidential or proprietary nature and disclosed to another Member or the Company, as the case may be (such party, the "Recipient Party"), in connection with this Agreement, any Ancillary Agreement or the Customer Services Agreement, either in writing, orally or any other medium, whether or not identified as being confidential at the time of disclosure by such Disclosing Party to the Recipient Party, whether of a technical, technological, financial, commercial, operational, economic nature or otherwise, or regarding such Disclosing Party's executives or employees, business or prospects, and including but not limited to originals and copies of and memoranda, notes, reports, analyses, compilations, studies or other documents or records to the extent they contain, or otherwise reflect or are generated from such information, whether or not prepared by or on behalf of a Party. Confidential Information also includes any information described above which a Disclosing Party obtains from a third party and treats as proprietary or confidential, whether or not owned or developed by such Disclosing Party, and the terms and conditions of this Agreement. "Confidential Information" shall not include information which the Recipient Party can prove that: (i) prior to the disclosure was already in such Recipient Party's possession without a breach of any confidentiality or non-disclosure obligation owing to another Person; (ii) prior to or subsequent to the disclosure was obtained by such Recipient Party from a third party who is not in violation of any obligation of confidentiality or non-disclosure in making such disclosure; (iii) prior to the disclosure was in the public domain; (iv) subsequent to the disclosure was in the public domain other than by or through a breach of this Agreement by such Recipient Party or its directors, officers, employees, agents, representatives, or others receiving such information by virtue of this Agreement; or (v) was independently developed by such Recipient Party without reference to a Disclosing Party's Confidential Information.

"Conservator" means FHFA in its role as conservator of one or both of the Enterprises or as supervisor of any corresponding LLRE, which role shall continue for purposes of this definition until LLRE Termination.

"Conservatorship" means the period of time during which FHFA is the Conservator or Receiver of both of the Enterprises.

"Contribution Agreement" means the agreement executed concurrently with the A&R LLC Agreement between the Enterprises and the Company pursuant to which the Enterprises made contributions and assignments to the Company.

"Control" (and its correlative terms) means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Covered Person" means with respect to a Party: (i) its Affiliates; (ii) customers of such Party or its Affiliates (but only in connection with their otherwise authorized receipt of goods or services from or provision of goods or services to a Party or its Affiliates); (iii) third party contractors retained by such Party or its Affiliates (but only with respect to their performance of services for or on behalf of such Party or its Affiliates in connection with the designing, building, developing, testing, operating, supporting, maintaining, updating, and enhancing of the Platform); and (iv) each of the employees, officers and directors of each of such Party and the foregoing Persons (but only to the extent they are acting in their capacity as employees, officers or directors (as applicable) of such Party or the foregoing Persons).

"Customer Services Agreement" means that certain Customer Services Agreement among Fannie Mae, Freddie Mac and the Company, dated November 21, 2016.

"Damages" has the meaning set forth in Section 14.1(a) of this Agreement.

"Deadlock" has the meaning set forth in Section 6.2(d).

"Deadlock Notice" has the meaning set forth in Section 6.2(d).

"Defense Election" has the meaning set forth in Section 14.4(a) of this Agreement.

"Depreciation" means, for each fiscal year or other period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other period, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year or other period bears to such beginning adjusted tax basis; provided, however, that if the federal income tax depreciation, amortization, or other cost recovery deduction for such year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Board.

"Directives" has the meaning set forth in the recitals to this Agreement.

"Disclosing Party" has the meaning set forth in the definition of "Confidential Information" in this Section 1.1.

"Dispute" has the meaning set forth in Section 15.1 of this Agreement.

"Downstream Systems" means the Software, hardware, systems and processes (including updates to and replacements of any such items) of each of the Enterprises that interface or interoperate directly or through one or more intermediary systems with the Platform and that receive data or services from the Platform.

"Enterprise" and "Enterprises" have the meanings set forth in the preamble to this Agreement.

"Exploit" means, with respect to any Intellectual Property Rights or Materials, to access, display, execute, reproduce, perform, maintain, support, modify, improve, create derivative works, license, sub-license, distribute, enhance and otherwise use such item or intangible.

"Fannie Mae" has the meaning set forth in the preamble to this Agreement.

"Fannie Mae Indemnified Parties" means Fannie Mae and its officers, directors, employees and agents.

"Fannie Mae Managers" has the meaning set forth in Section 6.1(a)(i) of this Agreement.

"FHFA" has the meaning set forth in the recitals to this Agreement.

"Financial Governance Forum" has the meaning set forth in Section 6.11 of this Agreement.

"Freddie Mac" has the meaning set forth in the preamble to this Agreement.

"Freddie Mac Indemnified Parties" means Freddie Mac and its officers, directors, employees and agents.

"Freddie Mac Managers" has the meaning set forth in Section 6.1(a)(i) of this Agreement.

"Governmental Approvals" means all licenses, consents, permits, decrees, orders, authorizations or other approvals from, all filings and registrations with, and all notices and reports to, any Governmental Authority, including pursuant to or in connection with any contract or agreement between any Member and any Governmental Authority.

"Governmental Authority" means any national, federal, state, regional or local administrative, judicial, legislative, executive, regulatory, police or taxing government or governmental or quasi-governmental authority of any nature, including any agency, branch, bureau, department, official or entity or any court or other tribunal.

"Gross Asset Value" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by a Member to the Company shall be the gross fair market value of such asset, as determined pursuant to the Significant Matter approval process provided for in Section 6.4 (except in the case of money in which case the initial Gross Asset Value shall be the amount of such money), provided that the fair market value of assets contributed under the Contribution Agreement shall be as set forth in the Contribution Agreement;

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as determined by the Board, as of the following times:

(i) the acquisition of an additional interest in the Company by any new or existing Member in exchange for more than a de minimis Capital Contribution; (ii) the distribution by the Company to a Member of more than a de minimis amount of Company Property as consideration for an interest in the Company; and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that the adjustments pursuant to sub-clauses (i) and (ii) above shall be made only if the Board reasonably determines that such adjustments are necessary or appropriate to reflect the relative economic interests of the Members in the Company;

(c) The Gross Asset Value of any Company asset distributed to any Member shall be the gross fair market value of such asset on the date of distribution; and

(d) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m); provided, however, that Gross Asset Values shall not be adjusted pursuant to this clause (d) to the extent the Board determines that an adjustment pursuant to clause (b) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this clause (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to clause (a), (b) or (d) of this definition, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

"Indemnified Party" means any Company Indemnified Party, Fannie Mae Indemnified Party or Freddie Mac Indemnified Party, as applicable.

"Indemnifying Party" has the meaning set forth in Section 14.4(a) of this Agreement.

"Indemnitee" has the meaning set forth in Section 6.18(a)(i) of this Agreement.

"Initial Directive" has the meaning set forth in the recitals to this Agreement.

"Intellectual Property Rights" means any and all intellectual property rights existing from time to time under any law, statute, rule or regulation of any jurisdiction, including patent law, copyright law, trade secret law, trademark law (together with all of the goodwill associated therewith) and any and all other proprietary rights, and any and all applications, renewals, extensions and registrations of any of the foregoing, now or hereafter in force and effect worldwide. For purposes of this definition, rights under patent law shall include rights under any and all patent applications and patents (including letters patent and inventor's certificates) anywhere in the world, and including without limitation any and all past, present and future substitutions, extensions, supplementary protection certificates, reissues, renewals, divisions, continuations, continuations in part, continued prosecution applications, requests for continued examination, reexaminations, *inter partes* review proceedings, and post grant review proceedings thereof and other similar filings or stages thereof, and all patents and certificates issuing on the foregoing, provided for under the laws of the United States, or of any other country. For purposes of this definition, rights under copyright law shall include moral rights, where applicable.

"LLC Unit" means a limited liability company unit representing membership interests in the Company.

"LLRE" means a limited-life regulated entity established by FHFA pursuant to the Safety and Soundness Act with respect to an Enterprise.

"LLRE Termination" means the termination of the status as a limited-life regulated entity of any LLRE, as applicable.

"LLRE Transfer" has the meaning set forth in Section 3.1(b) of this Agreement.

"Manager" has the meaning set forth in Section 6.1(a) of this Agreement.

"Material Decision" means, for purposes of Section 6.2(b)(ii) of this Agreement, a decision of the Board that has a material effect on the Company, including:

(a) A material change in the functionality of the Company, such as the addition of a new business line, including multifamily securities or private label securities, or a reduction in the Company's support of the uniform mortgage-backed security;
(b) Capital Contributions beyond those necessary to support the ordinary business operations of the Company;
(c) Appointment or removal of the CEO;
(d) Admission of Additional Members;
(e) Sale or dissolution of the Company or its business.

"Materials" means Software, Technology, reports and drawings, as well as user manuals, charts, graphs and other written documentation, and all other works of authorship.

"Member Minimum Gain" means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Regulations Section 1.704-2(i).

"Member Nonrecourse Debt" means "partner nonrecourse debt" as described in Regulations Section 1.704-2(b)(4).

"Member Nonrecourse Deductions" means "partner nonrecourse deductions" as described in Regulations Section 1.704-2(i). The amount of Member Nonrecourse Deductions with respect to a Member Nonrecourse Debt for a fiscal year equals the excess, if any, of the net increase, if any, in the amount of Member Minimum Gain attributable to such Member Nonrecourse Debt during that fiscal year over the aggregate amount of any distributions during that fiscal year to the Member that bears the economic risk of loss for such Member Nonrecourse Debt to the extent such distributions are from the proceeds of such Member Nonrecourse Debt and are allocable to an increase in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(2).

"Members" has the meaning set forth in Section 3.1(a) of this Agreement.

"Multi-Year Plan" has the meaning set forth in Section 8.1(a) of this Agreement.

"Nonpublic Member Data" means Personally Identifiable Information and nonpublic data about any Member or the loans, pools of loans or other financial assets owned or guaranteed by that Member, which Personally Identifiable Information and other data is contributed or provided by the Member, that Member's servicers or an agent or consultant on behalf of the Member or its servicers.

"Nonrecourse Deductions" has the meaning set forth in Regulations Sections 1.704-2(b)(1) and (c). The amount of Nonrecourse Deductions for a fiscal year equals the excess, if any, of the net increase, if any, in the amount of Company Minimum Gain during that fiscal year over the aggregate amount of any distributions during that fiscal year of proceeds of a Nonrecourse Liability that are allocable to an increase in Company Minimum Gain, determined according to the provisions of Regulations Section 1.704-2(c).

"Nonrecourse Liability" has the meaning set forth in Regulations Section 1.752-1(a)(2).

"Notice of Indemnification" has the meaning set forth in Section 14.4(a) of this Agreement.

"Officer" or "Officers" has the meaning set forth in Section 6.16(b) of this Agreement.

"Original LLC Agreement" has the meaning set forth in the recitals to this Agreement.

"Other Permitted Persons" has the meaning set forth in Section 11.1(d) of this Agreement.

"Party" means each Member and the Company, individually, and "Parties" means the Members and the Company, collectively.

"Patent Rights" means all rights under patent law, as described in the definition of Intellectual Property Rights.

"Percentage Interest" means, with respect to any Member of the Company as of any date, the ratio (expressed as a percentage) of the aggregate number of LLC Units held by such Member on such date to the aggregate number of LLC Units outstanding on such date. The combined Percentage Interests of all Members shall at all times equal one hundred percent (100%).

"Permitted Internal Purposes" means (i) in the case of the Enterprises, the right to use Confidential Information of the other Enterprise and the Company, other than Nonpublic Member Data and subject to the limitation set forth in Section 11.1(f), (A) for purposes of designing, developing, building, testing, operating, supporting, maintaining, updating and enhancing the Platform and their respective Upstream Systems and Downstream Systems, (B) in connection with the performance of this Agreement or any Ancillary Agreement, or (C) to exercise and enforce their respective rights under this Agreement or any Ancillary Agreement, and (ii) in the case of the Company, the right to use Confidential Information of any Enterprise (A) for purposes of designing, developing, building, testing, operating, supporting, maintaining, updating and enhancing the Platform, or (B) to exercise and enforce its rights under this Agreement, subject in the case of each of (i) and (ii) to the requirements of Article XI of this Agreement.

"Permitted Recipient Parties" means directors, officers, employees, third party service providers, attorneys and other professional advisors of a Recipient Party whose duties or services to a Party reasonably require them to have access to Confidential Information and who are in each case bound by confidentiality obligations that are at least as protective of such Confidential Information as the terms of Article XI.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or Governmental Authority or any other entity whatsoever.

"Personally Identifiable Information" means information that can be used to distinguish or trace an individual's identity, such as name, home address, telephone number, social security number, or biometric records, alone, or when combined with other personal or identifying information that is linked or linkable to a specific individual, such as date of birth or mother's maiden name.

"Platform" means the systems, software, processes and infrastructure, referred to in the Charter and to be developed by the Company in furtherance of the Business.

"Pre-Deadlock Notice" has the meaning set forth in Section 6.2(d).

"Proceeding" has the meaning set forth in Section 6.18(a)(i) of this Agreement.

"Profits" and "Losses" means, for each fiscal year or other period, an amount equal to the Company's taxable income or loss for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(a) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be added to such taxable income or loss;

(b) Any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses pursuant to this definition, shall be subtracted from such taxable income or loss;

(c) In the event the Gross Asset Value of any Company asset is adjusted pursuant to clause (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits or Losses;

(d) Gain or loss resulting from any disposition of Company Property with respect to which gain or loss is recognized for federal income purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of such property differs from its Gross Asset Value;

(e) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such fiscal year or other period, computed in accordance with the definition of Depreciation; and

Notwithstanding any other provisions of this definition, any items which are specially allocated pursuant to Section 4.3 hereof shall not be taken into account in computing Profits or Losses.

"Receiver" means FHFA in its role as receiver of one or both of the Enterprises or their assets in the event either of the Enterprises is placed into receivership, which role may continue for purposes of this definition past LLRE Termination.

"Recipient Party" has the meaning set forth in the definition of "Confidential Information" in this Section 1.1.

"Regulations" means the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Regulatory Allocations" has the meaning set forth in Section 4.3(h) of this Agreement.

"Residual Knowledge" means generalized skills, knowledge and experience, including ideas, concepts, know-how and techniques developed or learned as a result of or in connection with a Recipient Party's exposure to Confidential Information and retained in the unaided memories of the individual(s) exposed to the Confidential Information in question.

"Safety and Soundness Act" has the meaning set forth in the recitals of this Agreement.

"Second Directive" has the meaning set forth in the recitals to this Agreement.

"Senior Stock Purchase Agreement" has the meaning set forth in Section 5.3 of this Agreement.

"Significant Matter" has the meaning set forth in Section 6.4 of this Agreement.

"Software" or "software" means any computer programming code consisting of instructions or statements in a form readable by individuals (source code) or machines (object code), and related documentation and supporting materials therefor, in any form or medium, including electronic media. For clarification, Software includes all applications software (*i.e.* software providing business functionality), systems software (*i.e.* software designed to operate the computer hardware and provide a platform for running applications software, including operating systems, utilities, and middleware), and software development tools.

"Source Code" or "source code" means the human readable version of Software, and from which the object code is compiled or otherwise derived, including all comments and procedural code, and all related development documents (*e.g.*, flow charts, schematics, statements of principles of operations, end-user manuals, architecture standards, and any other specifications that are used to create or that comprise the program code of the Software).

"Strategic Plan" has the meaning set forth in the recitals of this Agreement.

"Tax Distribution" has the meaning set forth in Section 5.2(a) of this Agreement.

"Tax Matters Member" has the meaning set forth in Section 4.10 of this Agreement.

"Tax Percentage" has the meaning set forth in Section 5.2(a) of this Agreement.

"Technology" means any and all (i) technology, (ii) technical and engineering materials, (iii) specifications, designs, architectures, and schematics, (iv) Software, documentation, development platforms and development tools, and test environments and testing tools, (v) mask works, layouts, topographies and other design features with respect to integrated circuits, (vi) test scripts, test logs, models, devices, tools, simulators, and design environments, and (vii) prototypes and other tangible embodiments of any of the above, in each case, in any form or media.

"Technology Advisory Subcommittee" has the meaning set forth in 6.12(b) of this Agreement.

"Third Directive" has the meaning set forth in the recitals to this Agreement.

"Transfer" means to directly or indirectly sell, transfer, pledge, assign or other dispose of (or to divest voting control by contract, irrevocable proxy, voting trust or other arrangement) or to become subject to any mortgage, pledge, hypothecation, lien, charge or other encumbrance.

"Transition Period" has the meaning set forth in Section 4.7(a) of this Agreement.

"Upstream Systems" means the Software, hardware, systems and processes (including updates to and replacements of any such items) of each of the Enterprises that interface or interoperate directly or through one or more intermediary systems with the Platform and that provide data or services to the Platform.

1.2 Other Definitional Provisions. All references in this Agreement to a Section, Article, Schedule or Exhibit are to a Section, Article, Schedule or Exhibit, respectively, of or to this Agreement, unless otherwise indicated. The headings of Articles and Sections in this Agreement are provided for convenience only and shall not affect the construction or interpretation of this Agreement. All words used in this Agreement shall be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the words "include," "includes" and "including" shall be construed as if followed by the phrase "without being limited to." Words such as "herein," "hereof," "hereby," "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular Section of this Agreement, unless the context clearly indicates otherwise.

ARTICLE II
OFFICES AND PURPOSES

2.1 Principal Office. The principal office of the Company shall be at 7501 Wisconsin Avenue, Suite 300, Bethesda, Maryland 20814. The principal office of the Company may be changed by the Board in accordance with the terms of this Agreement. The Company may have such other offices, either within or without the State of Delaware, as the Board may designate in accordance with the terms of this Agreement.

2.2 Registered Office and Agent. The registered office of the Company, as required by the Act to be maintained in the State of Delaware, shall be located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 and the original registered agent at such address shall be Corporation Service Company. The registered office and registered agent may be changed from time to time by action by the Board and by the filing of the prescribed forms with and the payment of any prescribed fees to the Delaware Secretary of State.

2.3 Purposes. The purposes of the Company shall be the following:

(a) To conduct the Business in accordance with the Charter, and to take such actions as may be incidental thereto; and

(b) To fulfill such other purposes consistent with the Charter as may be determined from time to time by the Board in accordance with the terms and conditions of this Agreement; provided that, in all cases, all required Government Approvals are obtained from the appropriate Government Authority.

2.4 Fiscal Year. The fiscal year of the Company shall be the calendar year.

ARTICLE III
MEMBERS AND FINANCIAL MATTERS

3.1 Identity of Members.

(a) The members of the Company (the "Members") shall consist of the Enterprises and any additional members ("Additional Members") admitted in accordance with the terms of this Agreement.

(b) Notwithstanding anything to the contrary in this Agreement, in the event any Enterprise is placed into receivership and the LLC Units held by such Enterprise are transferred to a corresponding LLRE ("LLRE Transfer"), effective upon the consummation of the LLRE Transfer, without any further action by any party, such LLRE shall be a Member as the successor-in-interest to the Enterprise and shall be bound by all the rights and obligations of the Enterprise under this Agreement, the Enterprise shall cease to be a Member, and the Company shall continue without dissolution.

3.2 LLC Units; Percentage Interests. The LLC Units and Percentage Interests of the Enterprises are set forth on Schedule 3.2 hereto. Schedule 3.2 shall be amended by the Board, as necessary, upon the admission of Additional Members in accordance with the terms of this Agreement, and to reflect changes in the number of LLC Units issued to, or the Percentage Interests of, any Member.

3.3 Limitation of Liability of Members and Managers. Except as otherwise provided in the Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Member or Manager shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Member or Manager.

3.4 Capital Contributions.

(a) Initial Contributions. The Enterprises have made initial capital contributions to the Company pursuant to the Contribution Agreement. The respective initial contributions of the Enterprises to the Company were of equal value.

(b) Subsequent Contributions. The Members shall make subsequent capital contributions of cash from time to time as set forth in the then current Annual Plan and Budget or as otherwise approved pursuant to the Significant Matters Approval process pursuant to Section 6.4.

3.5 Withdrawals of Capital. Except as otherwise provided in this Agreement, no Member shall have the right to withdraw any part of its Capital Contribution without the unanimous consent of the Board.

3.6 Interest. No interest shall be paid on or on account of any Capital Contributions to the Company or on or on account of any undrawn profit of any Member credited to its account.

3.7 Taxation. It is the intention of the Members that the Company be taxed as a partnership for purposes of the Code and any state income tax law, if allowable under state law. Accordingly, the Company shall file such forms as may be required to elect to classify the Company as a partnership for federal and state income tax purposes.

ARTICLE IV
ALLOCATIONS

4.1 Profits. After giving effect to the special allocations set forth in Section 4.3 hereof, Profits for any fiscal year shall be allocated in the following order of priority:

(a) First, to the Members, in proportion to and to the extent of the excess, if any, of (i) the cumulative Losses allocated to each Member pursuant to Section 4.2(a)(ii) hereof for all prior fiscal years, over (ii) the cumulative Profits allocated to each Member pursuant to this Section 4.1(a) for all prior fiscal years; and

(b) The balance, if any, to the Members in accordance with their Percentage Interests.

4.2 Losses. After giving effect to the special allocations set forth in Section 4.3 hereof, Losses for any fiscal year shall be allocated as follows:

(a) Losses for any fiscal year shall be allocated in the following order of priority:

(i) First, to the Members in proportion to and to the extent of the excess, if any, of (1) the cumulative Profits allocated to each such Member pursuant to Section 4.1(b) hereof for all prior fiscal years, over (2) the cumulative Losses allocated to such Member pursuant to this Section 4.2(a) for all prior fiscal years; and

(ii) The balance, if any, to the Members in accordance with their Percentage Interests.

(b) The Losses allocated pursuant to Section 4.2(a) hereof shall not exceed the maximum amount of Losses that can be so allocated without causing any Member to have an Adjusted Capital Account Deficit at the end of any fiscal year. In the event some but not all of the Members would have Adjusted Capital Account Deficits as a consequence of an allocation of Losses pursuant to Section 4.2(a) hereof but for this Section 4.2(b), the limitation set forth in this Section 4.2(b) shall be applied on a Member by Member basis so as to allocate the maximum permissible Losses to each Member under Regulations Section 1.704-1(b)(2)(ii)(d).

4.3 Special Allocations. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. Notwithstanding any other provision of this Article IV, if there is a net decrease in Company Minimum Gain during any fiscal year, then, to the extent required by Regulations Section 1.704-2(f), each Member shall be specially allocated items of Company income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Regulations Section 1.704-2(g)(2). The items to be so allocated shall be determined in accordance with Regulations Sections 1.704-2(f)(6) and 1.704-2(j). This Section 4.3(a) is intended to comply with the minimum gain chargeback requirement in Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. Notwithstanding any other provision of this Article IV except Section 4.3(a), if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any fiscal year, then, to the extent required by Regulations Section 1.704-2(i)(4), each Member who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such year (and, if necessary, subsequent years) in an amount equal to such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4). The items to be so allocated shall be determined in accordance with Regulations Sections 1.704-2(i)(4) and 1.704-2(j). This Section 4.3(b) is intended to comply with the minimum gain chargeback requirement in Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(c) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations or distributions described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for such year) shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Member as quickly as possible, provided that an allocation pursuant to this Section 4.3(c) shall be made if and only to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article IV have been tentatively made as if this Section 4.3(c) were not in this Agreement.

(d) Gross Income Allocation. In the event any Member has a deficit Capital Account at the end of any fiscal year that is in excess of the sum of (i) the amount such Member is obligated to restore, and (ii) the amount such Member is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5), such Member shall be specially allocated items of Company income and gain (consisting of a pro rata portion of each item of Company income, including gross income, and gain for such year) in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 4.3(d) shall be made if and only to the extent that such Member would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Article IV have been tentatively made as if Section 4.3(c) hereof and this Section 4.3(d) were not in the Agreement.

(e) Nonrecourse Deductions. Nonrecourse Deductions for any fiscal year or other period shall be allocated to the Members in accordance with their Percentage Interests.

(f) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any fiscal year or other period shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(1).

(g) Section 754 Adjustment. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Code Section 734(b) or 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Members in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Regulations Section.

(h) Regulatory Allocations. The allocations set forth in Sections 4.3(a)-(g) (the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations under Code Section 704. Notwithstanding any other provisions in this Article IV (other than the Regulatory Allocations), the Regulatory Allocations shall be taken into account in allocating Profits and Losses among Members so that, to the extent possible, the net amount of such allocations of Profits and Losses and other items and the Regulatory Allocations (including Regulatory Allocations that, although not yet made, are expected to be made in the future) to each Member shall be equal to the net amount that would have been allocated to such Member if the Regulatory Allocations had not occurred.

4.4 Other Allocation Rules.

(a) For purposes of determining the Profits, Losses or any other items allocable to any period, Profits, Losses and any such other items shall be determined on a daily, monthly or other basis, as determined by the Board using any permissible method under Code Section 706 and the Regulations thereunder.

(b) Except as otherwise provided in this Agreement, all items of Company income, gain, loss, deduction and any other allocations not otherwise provided for shall be divided among the Members in the same proportions as they share Profits and Losses, as the case may be, for the year.

(c) The Members are aware of the income tax consequences of the allocations made by this Article IV and hereby agree to be bound by the provisions of this Article IV in reporting their shares of Company income and loss for income tax purposes.

(d) Solely for purposes of determining a Member's proportionate share of the "excess nonrecourse liabilities" of the Company within the meaning of Regulations Section 1.752-3(a)(3), the Members' interests in Company profits shall be their Percentage Interests.

4.5 Tax Allocations: Code Section 704(c).

(a) In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss and deduction with respect to any property contributed to the capital of the Company, solely for tax purposes, shall be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the Company for federal income tax purposes and its initial Gross Asset Value (computed in accordance with the definition thereof) and using the traditional method as set forth in Regulation Section 1.704-3(b).

(b) In the event the Gross Asset Value of any Company asset is adjusted pursuant to clause (b) of the definition of Gross Asset Value in Article I hereof, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder.

(c) Any elections or other decisions relating to such allocations shall be made by the Board in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 4.5 are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Profits, Losses, other items or distributions pursuant to any provision of this Agreement.

4.6 Foreign Partner. Each Member represents that it is not a "foreign partner" within the meaning of Section 1446(e) of the Code.

4.7 Accounting and Books of Account.

(a) The accounts, books and records of the Company shall be maintained at the principal office of the Company and shall be open for inspection, copying and audit upon reasonable notice by any of the Members or their duly authorized representatives (at the expense of any such Member) during reasonable business hours. Notwithstanding the foregoing, it is anticipated that during an initial transition period one or both of the Members will provide certain financial and accounting services to the Company (the "Transition Period"). During such period, the books and records of the Company may be located at the offices of one or more of the Members, and, in any event, shall be open to inspection, copying and audit upon reasonable notice by either Member or their duly authorized representatives as described in this Section 4.7(a).

(b) The Company's books shall be closed and balanced at the end of each fiscal year.

(c) The Company shall prepare and deliver to each Manager on the Board (which delivery shall constitute delivery to the Members as well) an annual report within ninety (90) days after the end of each fiscal year (the "Annual Report") and such other periodic reports as requested by the Board. Each Annual Report shall be prepared in accordance with generally accepted accounting principles applied on a consistent basis and, if determined by the Board, each Annual Report may be audited by an independent public accounting firm selected by the Board. The fees and expenses related to any such audit shall be borne by the Company.

4.8 Tax Returns. The Board shall designate an Officer of the Company to have the responsibility for preparing all required federal and state income tax returns, franchise tax reports, sales and use tax returns, property tax reports, transfer taxes and state and local licenses for the Company. The designated Officer shall have the authority to engage an outside accounting firm to prepare federal, state and local filings for a fee. Subject to Section 4.10, such officer shall provide to each Member copies of such income tax returns and related Forms K-1 for their review prior to filing such returns and shall provide final copies of such returns as soon as reasonably practicable, but in no event later than May 31 of the year following the year such income tax return and related Form K-1 cover. During the Transition Period, the Board may designate one of the Members to perform the functions of the designated Officer specified in this Section 4.8. The fees and expenses related to the preparation and filing of federal, state, and local tax returns shall be borne by the Company. Upon the Company's request, each Member shall provide to the Company any information that the Officer believes may be necessary or appropriate to comply with all of the Company's tax compliance obligations.

4.9 Banking. All funds of the Company shall be deposited in its name in one or more separate accounts with such banks, savings and loan associations, or trust companies as shall be designated by the Board. Funds of Members or other Persons shall not be deposited in such Company accounts. The funds in such accounts shall be used solely for the business of the Company. Withdrawals from, or checks drawn upon, such accounts shall require the signatures of the persons designated by the Board.

4.10 Tax Matters Member. The Board shall designate, and may change the designation of, a tax matters partner (within the meaning of, and solely for purposes of, Section 6231(a)(7) of the Code and Section 301.6231(a)(7)-1 of the Regulations) of the Company (the "Tax Matters Member"). The Tax Matters Member shall not take any action on behalf of the Company without authorization by the Board in accordance with this Agreement, including making any tax election or filing any tax return. Any Member that is not the Tax Matters Member shall have the right to review and approve any tax election or tax return filed on behalf of the Company, and no other written or oral communication other than routine matters shall be sent or made to any governmental authority by the Tax Matters Member unless approved in advance by such other Members.

The Tax Matters Member shall provide the other Members with prompt notice of any meeting or conference involving the Tax Matters Member or any representative of the Company with any Governmental Authority involving any tax issue relating to the Company, or any other administrative or judicial proceeding relating to any determination of any tax issue relating to the Company, and such other Members shall have the right to attend and participate in any such meeting, conference, or administrative or judicial proceeding. Upon the Company's request, each Member shall provide to the Company any information that the Tax Matters Member believes may be necessary or appropriate to resolve any tax issue relating to the Company.

ARTICLE V
DISTRIBUTIONS

5.1 Distributions Generally. Subject to any required Governmental Approval, the Company shall make distributions to the Members from time to time in such amount as shall be determined pursuant to the Significant Matter approval process provided for in Section 6.4. All distributions shall be made to the Members in accordance with their Percentage Interests.

5.2 Tax Distributions.

(a) General. Notwithstanding Section 5.1 or Section 6.4, to the extent funds of the Company may be available for distributions, at least five (5) days prior to the due date of quarterly federal estimated tax payments, the Board shall cause the Company to distribute to the Members with respect to each such quarter of the Company an amount of cash (a "Tax Distribution") that, in the good faith judgment of the Board, equals the Tax Percentage of the taxable income of the Company for such quarter, with such Tax Distributions to be made to the Members in the same proportions that Profits of the Company are or would be allocated to the Members during such quarter. The "Tax Percentage" shall be the highest combined marginal federal and state income tax rates applicable to any Member as of the time of a Tax Distribution. The Tax Percentage shall apply to all Members.

(b) Limitations. Any distributions required to be made to a Member under Section 5.2(a) with respect to any quarter shall be reduced by the amount of any distributions the Company shall have made or shall be making to such Member in accordance with Section 5.1 or otherwise during the calendar year in which such quarter falls. The Board shall not cause the Company to make any Tax Distribution under Section 5.2(a) if the making of such Tax Distribution would constitute a violation of the Act or any contract under which the Company or a subsidiary of the Company is bound relating to or entered in connection with indebtedness of the Company. Any Tax Distributions that are not made by reason of the preceding sentence shall be made as soon as reasonably practicable after the conditions set forth in the previous sentence are no longer applicable.

(c) Offset. Tax Distributions made to a Member under Section 5.2(a) shall be credited against amounts such Member would otherwise be entitled to receive pursuant to Section 5.1.

5.3 Dissolution. If the Company is dissolved, upon the winding up of the affairs of the Company, the assets of the Company shall be distributed in accordance with the Act, except to the extent that U.S. federal law or the Senior Preferred Stock Purchase Agreements entered into by the Enterprises and the U.S.

Department of the Treasury dated as of September 26, 2008, applies, in each case, as the same may be amended from time to time (each a "Senior Stock Purchase Agreement"). For the avoidance of doubt, any distributions to Members in connection with a dissolution of the Company shall be made in accordance with the positive Capital Account balances of such Members in a manner consistent with Treasury Regulation Section 1.704-1(b)(2)(ii)(b)(2).

ARTICLE VI
MANAGEMENT

6.1 Composition of the Board.

(a) Composition. The Board of Managers (the "Board") shall consist of at least six managers (each a "Manager"), who shall be designated as provided in this Section 6.1(a) and who shall have the voting rights specified in Section 6.2(c):

(i) At all times Fannie Mae shall designate two managers to serve on the Board (the "Fannie Mae Managers") and Freddie Mac shall designate two managers to serve on the Board (the "Freddie Mac Managers").

(ii) The Chief Executive Officer, designated in accordance with Section 6.16(a), shall be a Manager.

(iii) The Company shall have a Chairman of the Board ("Board Chair"), who shall be a Manager and preside at all meetings of the Board. The Board Chair shall not be a director, officer, or employee of Fannie Mae or Freddie Mac, or an officer or employee of the Company. During the Conservatorship, the Board Chair shall be designated and may be removed by FHFA in its sole discretion. Following the Conservatorship, the Board Chair shall be designated and may be removed by the Board; provided that the Board Chair shall not vote with respect to his or her removal. The Board Chair shall perform such duties as are commonly incident to his or her office and shall also perform such other duties and have such other powers as the Board, and during the Conservatorship, FHFA, shall designate. During the Conservatorship, the Board Chair's compensation shall be determined by FHFA, and unless otherwise directed by FHFA, the Company shall include the expense for such compensation in the Company's Annual Plan and Budget.

(iv) During the Conservatorship, FHFA may appoint up to four additional Managers, who shall not be directors, officers, or employees of Fannie Mae or Freddie Mac, or officers or employees of the Company, one of whom shall be designated as Board Chair as described in Section 6.1(a)(iii) above. Following the Conservatorship, any such Manager may be appointed or removed by the Board, provided that such Manager shall not vote with respect to his or her removal. During the Conservatorship, any such Manager's compensation shall be determined by FHFA, and unless otherwise directed by FHFA, the Company shall include the expense for such compensation in the Company's Annual Plan and Budget.

(b) Removal. Each Manager may be removed only by the person that has authority to designate such Manager, provided that FHFA may remove any Manager in the exercise of FHFA's authority as Conservator.

(c) Upon termination of the Conservatorship, and for as long as FHFA is acting as Receiver of an Enterprise, FHFA shall have the right to appoint one Manager (the "FHFA Manager"), who shall not be a director, officer, or employee of Fannie Mae or Freddie Mac, or an officer or employee of the Company. For clarification, the FHFA Manager will be a new Manager added to the Board and not a replacement for any of the then current Managers. The Manager appointed by FHFA hereunder shall cease to be a Manager at such time as FHFA ceases to act as Receiver of an Enterprise

6.2 Authority of the Board of Managers; Voting.

(a) Authority. Subject to delegation in accordance with Section 6.17 the business and affairs of the Company shall be managed by the Board. Subject to the provisions of Section 6.2(d) and Section 6.4, the Board shall have full and complete discretion to manage and control the business and affairs of the Company, to make all decisions affecting the business and affairs of the Company, and to take all such actions as it deems necessary or appropriate to accomplish the purposes of the Company set forth in the Charter; provided, that the Board shall manage the Company in accordance with the Annual Plan and Budget, and, to the extent that it does not conflict with the Annual Plan and Budget, the current Multi-Year Plan adopted by the Board.

(b) Required Vote.

(i) Subject to paragraph (ii) below, all decisions of the Board shall require the affirmative vote of a majority of the voting power represented at the meeting, during the Conservatorship, and the affirmative vote of the Board Chair, and, upon termination of the Conservatorship and for as long as FHFA is acting as Receiver of an Enterprise, of the FHFA Manager, if any.

(ii) After termination of the Conservatorship, a Material Decision requires the affirmative vote of a majority of the voting power represented at the meeting and of at least one Fannie Mae Manager and at least one Freddie Mac Manager, and for as long as FHFA is acting as Receiver of an Enterprise, of the FHFA Manager, if any.

(c) Voting Rights. The voting power of the Board shall be allocated as follows:

(i) Each of the Fannie Mae Managers shall cast one vote; and

(ii) Each of the Freddie Mac Managers shall cast one vote; and

(iii) Each other Manager shall cast one vote.

(d) Deadlock. If a decision is not reached on any matter before the Board in accordance with Section 6.2(b) (a "Deadlock"), then the Company shall maintain the status quo until such time a decision by the Board is reached agree on such matter in accordance with Section 6.2(b). Any Manager may deliver written notice to the other Managers setting forth in reasonable detail the matter giving rise to the disagreement (the "Pre-Deadlock Notice"), and upon receipt of the Pre-Deadlock Notice the Managers will attempt to reach a decision within 10 Business Days. If the Managers are unable to reach a decision within such time period, then during the Conservatorship, each Manager shall have the right to deliver written notice to FHFA that a Deadlock exists (a "Deadlock Notice"). Subject to the provisions of Section 6.4, upon receipt of a Deadlock Notice, FHFA shall have the right, during the Conservatorship, to resolve the Deadlock in its sole and absolute discretion, and the Company shall implement such resolution to the same extent as if approved by the Board. All resolutions of Deadlock by FHFA shall be set forth in a written document signed by an authorized officer of FHFA or pursuant to such other procedures as may be agreed to by the Board and FHFA.

(e) Manager Interests. The fact that one or more Managers may have an interest in any decision, including the fact that one or more Managers has an employment relationship with or an economic interest in an entity that is the subject of the decision, shall not invalidate such decision, which shall be binding upon the Company provided that the interest of any such Manager in the decision, other than through his or her employment relationship with or economic interest in a Member, is disclosed to each other Manager.

6.3 Duties of Managers.

(a) Each Member recognizes and agrees that each Manager who is appointed by a Member and who is not also an officer of the Company is acting exclusively on behalf of the Member he or she represents, that each such Manager may act in his or her sole and absolute discretion in the manner he or she determines is in the best interests of the Member he or she represents without taking into account the interests of the other Members, that any such acts shall not be deemed "bad faith" for any purposes, and that such Managers shall have no personal liability by reason of serving as a Manager.

(b) Notwithstanding any other provision of this Agreement or any duty otherwise existing at law or in equity, to the fullest extent permitted by law, no Manager shall owe any duties (including fiduciary duties) to the Members.

6.4 Significant Matters. Notwithstanding the foregoing and any other provision contained in this Agreement to the contrary, no action shall be taken with respect to any of the matters enumerated below (each, a "Significant Matter") without the approval of (i) the Board in accordance with Section 6.2 and (ii) during the Conservatorship, and during any period during which FHFA is acting as Receiver of one or both of the Enterprises, FHFA; provided, however, that the approval of the Board in accordance with Section 6.2 alone shall be sufficient to approve Significant Matter in the event that FHFA does not approve or deny the applicable Significant Matter in 10 Business Days from the date written notice is received by FHFA of the Significant Matter to be considered by it. All approvals and denials of Significant Matters by FHFA pursuant to this Section 6.4 shall be set forth in a written document signed by an authorized officer of FHFA or pursuant to such other procedures as may be agreed to by each Enterprise and FHFA:

(a) Any amendments to or actions inconsistent with the Charter;

(b) [Reserved];

(c) Amendment of this Agreement;

(d) The determination of the initial Gross Asset Value of any contributions made by either Member to the Company (excluding for this purpose the initial Gross Asset Value of assets contributed to the Company under the Contribution Agreement, which the Parties agree have the initial Gross Asset Value set forth in the Contribution Agreement);

(e) The declaration or amount of any dividend or distribution (other than Tax Distributions pursuant to Section 5.2(a));

(f) The purchase or other acquisition of a business or entity or the merger or consolidation of the Company with or into another entity;

(g) The sale, lease, exchange, transfer or disposal of all or substantially all of the business or assets of the Company, in any one transaction or a series of related transactions;

(h) A conversion of the Company from a limited liability company into a corporation or other form of entity;

(i) The dissolution of the Company;

(j) The admission of Additional Members, the Transfer of LLC Units by either Enterprise and the issuance of additional LLC Units or membership interests in the Company;

(k) The withdrawal of capital by any Member;

(l) The initiation or settlement of any significant litigation by the Company against a third party where such litigation could impact the interests, relationships or reputation of the Company;

(m) The granting of any exclusive license to, or the assignment of, any Intellectual Property Rights of the Company;

(n) Adoption of the Company's Annual Plan and Budget or the Board approved Multi-Year Plan, any material amendments to the Annual Plan and Budget or approved Multi-Year Plan, aggregate expenditures that exceed the amounts set forth in the Annual Plan and Budget by more than five percent (5%), expenditures that are materially inconsistent with the allocations of expenditures set forth in the Annual Plan and Budget, or incurrence of indebtedness in excess of amounts reflected in the Annual Plan and Budget;

(o) Any matter requiring approval or consultation with the U.S. Department of the Treasury under the Senior Stock Purchase Agreement between an Enterprise and the U.S. Department of the Treasury;

(p) Any action that in the reasonable business judgment of the management of the Company, at the time that the action is to be taken, is likely to cause significant reputational risk to the Company or either Enterprise or result in substantial negative publicity;

(q) The appointment or removal of any Officer of the Company;

(r) Entering into new compensation arrangements with any Officer of the Company or increasing amounts or benefits payable to any Officer of the Company under existing compensation arrangements;

(s) Entry into any contract, agreement or transaction between the Company, on the one hand, and any Enterprise or any Affiliate of any Enterprise, on the other hand, and any material amendment or waiver, or any termination or assignment, thereof, but excluding (i) certain categories of change orders (or portions thereof), statements of work (or portions thereof), amendments and waivers of such contracts, agreements or transactions solely to the extent specifically approved to not be subject to this Section 6.4(s) in accordance with the Significant Matters approval process, and (ii) any contract, agreement or transaction (and any material amendment or waiver thereof) between the Company and a third party to which an Enterprise (or an Affiliate of an Enterprise) is included as a party solely for the purpose of guaranteeing, securing or providing further assurance to the third party of the Company's performance of, or compliance with the terms of, such contract, agreement or transaction; and

(t) Any capital contributions from either of the Enterprises (except as otherwise provided for in the Budget).

For the avoidance of doubt, the Deadlock resolution mechanism set forth in Section 6.2(d) shall apply with respect to the failure of the Board to be able to make a decision upon any Significant Matter in accordance with this Section 6.4; provided, however, that prior to FHFA resolving any Deadlock with respect to a Significant Matter an in-person meeting to discuss the Deadlock shall have occurred among the Chief Executive Officers of each of the Enterprises and the director of FHFA.

6.5 Meetings of the Board of Managers.

(a) Meetings of the Board shall be held at least once every two months at the principal office of the Company or at any other place within or without the State of Delaware which may be designated by the written consent of all Managers. Any Manager may call a meeting of the Board by providing notice of such meeting to each other Manager in the following manner: Notice of the date, time and place of such meeting shall be mailed by regular mail to each other Manager at his or her designated address at least six (6) days before the meeting, or sent by overnight courier to each other Manager at his or her designated address at least two (2) days before the meeting (with delivery scheduled to occur no later than the day before the meeting), or given orally by telephone or other means, or by e-mail, facsimile or telecopy, or by any other means comparable to any of the foregoing, to each other Manager at his or her designated address at least twenty-four (24) hours before the meeting. The notice of the meeting shall state the general purpose of the meeting, but other routine business may be conducted at the meeting without such matter being stated in the notice.

(b) Meeting materials shall be distributed by the Company to each Manager of the Board by: (i) for regular bi-monthly meetings, at least five (5) days in advance of the meeting (unless a shorter advance period is approved in advance by the Board Chair); and (ii) for other meetings, as early as practicable in advance of the meeting. Such materials shall be well organized and provide reasonably detailed (but concise) information concerning items on the agenda for the meeting.

(c) During the Conservatorship, the Board shall provide, or shall cause to be provided, to FHFA, written notice of all meetings of the Board, including regular bi-monthly and other meetings, by no later than the later of (i) two (2) weeks prior to the date of the meeting and (ii) the date on which notice is provided to the Managers in accordance with Section 6.5(a) hereof. During the Conservatorship, FHFA shall have the right to have one or more representatives of FHFA attend any meeting of the Board as an observer. Any such FHFA representative shall have no voting rights.

(d) During the Conservatorship, FHFA shall receive a copy of all materials distributed to the entire Board at the same time as such materials are distributed to the Board.

6.6 Quorum. As used herein, the term "Required Quorum Attendee" shall mean one Fannie Mae Manager, one Freddie Mac Manager, the Board Chair, the CEO and, upon termination of the Conservatorship and for as long as FHFA is acting as Receiver of an Enterprise, the FHFA Manager (if any). The presence in person or by proxy of a majority of the Managers, including each Required Quorum Attendee Member shall constitute a quorum for the transaction of business at a meeting of the Board. No action of the Board shall be valid in the absence of a quorum, except as provided in Section 6.7 hereof. Notwithstanding the foregoing, in the event a Required Quorum Attendee does not attend a meeting of the Board following the delivery of two notices of such meeting in accordance with Section 6.5(a) hereof, the Board Chair may determine, in his or her discretion, to proceed with the meeting following the delivery of the second notice and the meeting shall be deemed to have a quorum irrespective of the absence of such Required Quorum Attendee and any action taken by the Board at such meeting that otherwise complies with the requirements of this Agreement shall be deemed to be a valid action of the Board. After Conservatorship, the Manager who called the meeting may determine to proceed with the meeting on the conditions described in the preceding sentence, in the event that a purpose of the meeting is to consider removal of the Board Chair pursuant to Section 6.1(a)(iii).

6.7 Consent of Absentees and Waiver of Notice. The transactions of any meeting of the Board shall be as valid as though had at a meeting duly held after proper notice and with a quorum if, either before or after the meeting, each Manager not present in person or by proxy signs a written waiver of notice or a consent to the holding of such meeting, or approves the minutes thereof. All such waivers, consents or approvals shall be filed with the books and records of the Company and made a part of the minutes of the meeting. Attendance of a Manager at any meeting of the Board shall constitute a waiver of notice of such meeting, except when a Manager attends for the express purpose of objecting to the transaction of any business because such meeting has not been (or allegedly has not been) duly noticed.

6.8 Written Action Without a Meeting; Telephone Meetings.

(a) Any action required or permitted to be taken at any meeting of the Board may be taken without a meeting, if (a) consent in writing to such action is provided by all Managers, and, in the case of Significant Matters, FHFA (provided, however, that the approval of the Board in accordance with Section 6.2 alone shall be sufficient to approve a Significant Matter in the event that FHFA does not approve or deny the applicable Significant Matter in 10 Business Days from the date written notice is received by FHFA of the Significant Matter to be considered by it), and (b) notice to FHFA in writing of the proposed written action is provided to FHFA simultaneously with the Board. The Company shall use commercially reasonable efforts to provide the Board and FHFA with not less than two (2) Business Days advance written notice of the proposed written action, provided that the failure by the Company to provide such two (2) Business Day advance written notice shall not invalidate any written consent that otherwise complies with the provisions of this Section 6.8(a). Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Action by written consent shall have the same force and effect as a vote of the Managers of the Board.

(b) Managers may participate in any meeting of the Board by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time and participation by such means shall constitute presence in person at a meeting.

6.9 Proxies. Each Manager may appear and vote at any meeting of the Board, and may execute waivers of notice, consents, or approvals, through the agency of one or more persons, provided such agents are authorized to so act on behalf of the Manager by the terms of a written proxy which has been executed by such Manager and delivered to the each Manager. The Board Chair shall cause such written proxies to be filed with the books and records of the Company. If a written proxy authorizes an agent to appear and/or to vote at any meeting of the Board, such written proxy must be delivered to the Board Chair, and all Managers shall be notified of such proxy, at least one day in advance of the meeting.

6.10 Protection of Competitively Sensitive Information. The Board shall adopt and comply with policies and procedures to prevent the disclosure of competitively sensitive information of any Member to other Members. The policies and procedures will be consistent with the provisions of Articles XI and XII herein and, for the avoidance of doubt, shall not limit the scope of or otherwise restrict the licenses granted to the Members under Article XII.

6.11 Financial Governance Forum. A Financial Governance Forum ("Financial Governance Forum") has been established by the Company to advise the Board and the CEO with respect to matters relating to the Annual Plan and Budget, the Multi-Year Plan adopted by the Board, and funding requirements of the Company. The Financial Governance Forum will remain in place until such time as the Board determines that the Company has sufficient internal or other resources and does not require the services of the Financial Governance Forum. The Financial Governance Forum shall have no voting or decision-making authority.

(a) Composition and Meetings. The composition of the Financial Governance Forum shall be determined by the Board; provided, however, that Fannie Mae and Freddie Mac shall at all times have the right to designate the same number of representatives to the Financial Governance Forum. Meetings of the Financial Governance Forum shall be held no less than once per month in person or by telephone. The date, time and place of meetings shall be determined by the Company with notice to representatives to the Financial Governance Forum given at least five (5) days in advance of the meeting. The Company shall circulate an agenda for each meeting (which may be contained in the meeting materials) and meeting materials, at least three (3) business days in advance of the meeting, and a summary of the meeting within ten (10) business days after the meeting. The agenda shall contain matters as each representative to the Financial Governance Forum may request be addressed during the meeting within the scope of the Financial Governance Forum's duties. Meeting materials shall be well organized and provide reasonably detailed (but concise) information concerning items on the agenda for the meeting. Either Enterprise, any Manager, or the Company may call an additional meeting of the Financial Governance Forum by request to the Company. The Committee's Chair shall be the Company's CEO.

(b) Duties and Responsibilities. The Financial Governance Forum shall be responsible for monitoring and providing periodic reports to the Board and the CEO regarding the financial condition and overall operational performance of the Company, including:

(i) Monitoring Company expenditures relative to the approved Budget, including expenditures incurred under the Administrative Services Agreement;

(ii) Reviewing reports submitted by the Enterprises pursuant to the Administrative Services Agreement;

(iii) Reviewing the Company's Annual Plan and Budget, Annual Report and other periodic reports prior to submission to the Board;

(iv) Providing recommendations to the Board and the CEO with respect to the funding needs of the Company;

(v) Reporting to the Board and the CEO other material financial issues and risks relating to the Company; and

(vi) Performing such other duties as the Board may determine.

6.12 [Reserved]

6.13 Corporate Functions and Administrative Services Oversight Committee. Until such time as the Board determines otherwise, the Company shall have a Corporate Functions and Administrative Services Oversight Committee, whose purpose shall be to oversee the corporate functions of the Company (as defined in the bylaws of the Corporate Functions and Administrative Services Oversight Committee), to allocate and coordinate the Enterprises' services under their respective Administrative Services Agreements, and to facilitate information sharing and input related to those services. Additionally, this Committee shall work to establish and coordinate corporate services and internal controls that may need to be developed for the effective operation of the Company. This Committee shall operate in accordance with the bylaws attached hereto as Exhibit B as such bylaws may be amended, modified or replaced by the Board.

6.14 Platform Steering Committee. Until such time as the Board determines otherwise, the Company shall have a Platform Steering Committee. This Committee shall operate in accordance with the charter attached hereto as Exhibit C as such charter may be amended, modified, or replaced by the Board.

6.15 Additional Advisory Committees. For the avoidance of doubt, the Board shall have the authority to create additional advisory boards or committees to provide advice and guidance to the Company, the Board and the Officers of the Company.

6.16 Officers.

(a) CEO. The Company shall have a Chief Executive Officer or senior most executive with such other title as the Board determines ("CEO") appointed by the Board to be responsible for the day-to-day operations of the Company and to serve in such capacity until he or she dies, resigns or is removed from office by the Board, with or without cause, provided that the CEO shall not vote with respect to his or her removal. The CEO shall report to the Board. The authority of the CEO shall be limited to matters expressly authorized herein or by the Board pursuant to a duly adopted resolution. The CEO is hereby expressly authorized to (A) implement matters approved by the Board in accordance with Section 6.2, (B) implement Significant Matters approved pursuant to the Significant Matter approval process contained in Section 6.4 and (C) once the initial Business Plan and Budget are in effect in accordance with Section 8.1, operate the Company in accordance with the Charter, Business Plan and Budget in effect from time to time in accordance with Section 8.1.

(b) Additional Officers. The Board shall have the authority to appoint and remove such additional officers of the Company (each, together with the CEO, an "Officer") as it deems appropriate to carry out the business of the Company.

6.17 Delegation of Authority to Officers. The Board shall have the authority to adopt resolutions providing for delegations of authority to the Officers of the Company.

6.18 Indemnification of Officers and Managers.

(a) Right To Indemnification.

(i) To the fullest extent permitted by law, as the same now exists or may hereafter be amended, each Person (including a Fannie Mae Manager or Freddie Mac Manager, as applicable) who was, is or is threatened to be made a party to or is otherwise involved (including as a witness) in any threatened, pending or completed action, suit, claim or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (hereafter a "Proceeding"), by reason of the fact that he or she is or was a Manager or Officer or an employee of the Company or he or she is or was serving at the request of the Company (with approval of the Board) as a manager, officer, member, partner, trustee, employee or agent of another limited liability company, corporation, partnership, joint venture, trust, employee benefit plan or other enterprise (hereafter an "Indemnitee"), whether the basis of a Proceeding is an alleged action in an official capacity or in any other capacity while serving as such a manager, officer, member, partner, trustee, employee or agent shall be indemnified and held harmless by the Company against all Damages incurred or suffered by such Indemnitee in connection therewith unless the Indemnitee engaged in willful misconduct, fraud, or knowingly violated a criminal law. The Company shall indemnify any such Indemnitee in connection with a Proceeding (or part thereof) initiated by such Indemnitee only if a proceeding (or part thereof) was authorized or ratified by the Board. The right to indemnification conferred in this Section 6.18(a) shall be a contract right.

(ii) Any indemnification under Section 6.18(a) (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that the Indemnitee has met the applicable standard of conduct set forth in Section 6.18(a). Such determination shall be made by the Board.

(iii) The right to indemnification conferred in Section 6.18(a) shall include the right to be paid by the Company for the reasonable and documented expenses incurred in defending any Proceeding in advance of its final disposition (hereinafter an "Advancement of Expenses"). An Advancement of Expenses shall be made upon delivery to the Company of an undertaking, by or on behalf of such Indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such Indemnitee is not entitled to be indemnified.

(b) Nonexclusivity Of Rights. The right to indemnification and the Advancement of Expenses conferred in this Section 6.18 shall not be exclusive of any other right that any Person may have or hereafter acquire under any statute, this Agreement, general or specific action of the Board, contract or otherwise.

(c) Indemnitor of First Resort. The Company hereby acknowledges that the Indemnitees may have certain rights to indemnification, advancement of expenses and/or insurance provided by the Enterprises. The Company hereby agrees (i) that it is the indemnitor of first resort (i.e., its obligations to Indemnitee are primary and any obligation of the Enterprises to provide any Advancement of Expenses or other indemnification are secondary), and (ii) that it irrevocably waives, relinquishes and releases the Enterprises from any and all claims against the Enterprises for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that no Advancement of Expenses or other indemnification on behalf of Indemnitee with respect to any claim for which Indemnitee has sought indemnification from the Company shall affect the foregoing and the Enterprises shall have a right of contribution and/or be subrogated to the extent of such Advancement of Expenses or payment to all of the rights of recovery of Indemnitee against the Company.

(d) Statutory and Regulatory Limitations. The right to indemnification and the Advancement of Expenses conferred in this Section 6.18 is subject to the provisions set forth in 12 U.S.C. 4518(e) and any rules or orders that are promulgated or issued thereunder from time to time.

6.19 Audit. The Board may direct the Company to conduct an audit, which may be conducted by an independent third party, of any service provider retained by the Company, including, without limitation, any Member of the Company in its capacity as a service provider to the Company pursuant to the Administrative Services Agreement or otherwise, with the results of such audit to be provided to the Board.

ARTICLE VII
ACTIONS BY MEMBERS

7.1 No Voting Rights. The Members shall not participate in the management of the Company, and shall have no voting rights under this Agreement or the Act, other than the right to designate their respective representatives, if any, on the Board. The Board shall have the authority to exercise all powers of the Members and Managers under the Act. Notwithstanding the foregoing or any other provision of this Agreement, the rights reserved to FHFA under this Agreement, any Ancillary Agreement or any other agreement entered into by the Company or by the Enterprises in connection with the Company or the Platform shall be exercised by FHFA in its capacity as, and for so long as FHFA is, Conservator of either of the Enterprises. For the avoidance of doubt, nothing in this Section 7.1 is intended to preclude the Enterprises from providing services to the Company pursuant to the Administrative Services Agreement or such other written agreements as may be entered into by the Enterprises and the Company, or pursuant to written delegation by the Board.

ARTICLE VIII
OPERATIONS OF THE COMPANY

8.1 Business Plans; Budget.

(a) The Board shall adopt and approve an annual business plan and budget for the Company (the "Annual Plan and Budget"), which shall be subject to the Significant Matters approval requirements contained in Section 6.4. In addition, the Board shall adopt a business plan and budget for the Company covering three years, which will consist of general milestones and/or additional details, and shall include a financial plan (the "Multi-Year Plan"). At all times, the Annual Plan and Budget, and the Multi-Year Plan approved by the Board, and any proposed modifications thereto, shall be subject to approval, review, amendment and modification by the Board (subject to the Significant Matters approval requirements contained in Section 6.4).

(b) The Board shall manage, and the Officers shall operate, the Company in accordance with the Annual Plan and the Budget, and, to the extent that it does not conflict with the Annual Plan and Budget, the Multi-Year Plan approved by the Board, as these may be modified from time to time in accordance with the terms and conditions of this Agreement.

(c) At least sixty (60) days prior to the beginning of each fiscal year of the Company or at such other time as may be established by the Board, the CEO shall prepare and submit to the Board proposed revisions (including any extensions thereof) to the Annual Plan and Budget and (if applicable) the Multi-Year Plan. The Board shall continue to manage, and the Officers shall continue to operate, the Company consistent with the existing Annual Plan and Budget and, to the extent that it does not conflict with the Annual Plan and Budget, the existing Multi-Year Plan approved by the Board until a revised Annual Plan and Budget and (if applicable) a revised Multi-Year Plan is approved by the Board (subject to the Significant Matters approval requirements contained in Section 6.4).

8.2 Platform. With the continued assistance and support of the Enterprises, the Company shall design, develop, build, test, operate, support, maintain, update and enhance the Platform in accordance with the

Charter, the Annual Plan and Budget, the Multi-Year Plan approved by the Board, and the Customer Services Agreement, and shall use commercially reasonable efforts to commence operation of the Platform as soon as practicable.

8.3 Commitment of Business. The Customer Services Agreement sets forth the terms of each Enterprise's commitment of business to the Company.

8.4 Service Agreements. Each Enterprise shall provide certain services to the Company in accordance with the Administrative Services Agreement between such Enterprise and the Company.

8.5 Insurance. The Company shall obtain insurance from insurance companies of recognized standing in such forms and amounts and against such risks as the Board shall determine, naming as a beneficiary thereunder the Company and each Member in proportion to its respective ownership interests in the Company. Without limiting the generality of the foregoing, the Company shall obtain insurance from one or more insurance companies of recognized standing against indemnification obligations the Company may have to any Manager or Officer, and may maintain insurance, at its expense, to protect itself and any Manager, advisory board member, Officer, employee or agent of the Company or another enterprise against any expense, liability or loss. Further, upon the recommendation of the insurance broker engaged by the Enterprises to review the Company's insurance needs, the Company shall obtain insurance protecting against cyber-security risks that is consistent with insurance coverage maintained by large financial institutions and leading technology service providers handling information and data of similar sensitivity to the types of information and data to be handled by the Company; provided that such coverage is available to the Company at commercially reasonable rates.

8.6 Termination of Conservatorship. In the event FHFA is appointed as Receiver of either Enterprise and the LLC Units held by the Enterprise are transferred to a corresponding LLRE, the Company shall enter into an agreement with FHFA to grant to FHFA, as Receiver for the remaining assets in the Receivership estate, such access to and use of the Platform and the right to obtain from the Company such services, in each case, as are reasonably necessary to permit FHFA to carry out its responsibilities with regard to any assets or obligations remaining in the Receivership pursuant to the Safety and Soundness Act and the regulations of FHFA or any successor agency or entity.

ARTICLE IX
EMPLOYEES

9.1 Assigned Employees.

(a) Specified employees of each Enterprise, as agreed to by the Company (with approval of the Board) and the relevant Enterprise, may be assigned to work on behalf of the Company under the direct or indirect supervision of the respective Enterprise or Company officer or officers, as the case may be, charged with such management responsibilities (each, an "Assigned Employee"). The Financial Governance Forum shall maintain an up-to-date schedule of Assigned Employees which includes (i) the name of each Assigned Employee, (ii) the period in which the Assigned Employee will serve as an Assigned Employee, and (iii) a high level description of the type of work to be performed by the Assigned Employee.

(b) Each Assigned Employee shall be employed by the relevant Enterprise, and shall continue to be eligible to participate in the compensation and benefit plans and programs maintained by that Enterprise for which the employee qualifies under the terms and conditions of such plans and programs.

(c) Each Enterprise shall, on a monthly basis, invoice and bill the Company for those categories of costs and expenses incurred in the preceding calendar month as are agreed between the Enterprise and the Company (subject to Board approval and the Significant Matters approval requirements contained in Section 6.4 to the extent applicable), in connection with the employment of each Assigned Employee employed by the Enterprise. Invoices submitted to the Company by each Enterprise shall reflect expenditures reported in the Enterprise's financial systems of record utilizing project codes specifically assigned to the development of the Platform or other reasonable supporting detail. Invoices shall be submitted to the Company with supporting documentation detailing monthly project hours, work descriptions, and out-of-pocket expenses. The Company's payment of such invoices shall be in accordance with the policies and procedures of the Financial Governance Forum.

(d) Each Assigned Employee shall be dedicated to working 100% of his or her time to perform services for the benefit of the Company and shall be subject to supervision by individuals who may or may not be employees of the Enterprise that employs the Assigned Employee. Performance assessments of each Assigned Employee, including compensation decisions within the framework of the applicable Enterprise's compensation and benefit plans, shall be conducted by the individual who supervises such Assigned Employee or the Board (which individual shall either be another Assigned Employee or an Officer or other employee of the Company), regardless of which Enterprise employs the supervising individual. Assigned Employees remain employed at-will. The Company shall have the right at any time and for any lawful reason to provide notice to the Enterprise that employs an Assigned Employee that the Company desires that the Assigned Employee no longer work on behalf of the Company as an Assigned Employee, in which case, the Assigned Employee's status as an Assigned Employee shall be terminated immediately or at such later time as may be agreed to by the Company and the Enterprise.

(e) Acts or omissions of Assigned Employees, in their capacity as Assigned Employees performing services on behalf of the Company, shall be deemed to be acts or omissions of the Company (rather than acts or omissions of the Enterprise that employs the Assigned Employee) and, for purposes of the indemnification provisions in Article 14, Assigned Employees shall be treated as Company Indemnified Parties (rather than Fannie Mae Indemnified Parties or Freddie Mac Indemnified Parties) with respect to indemnification claims that relate to their service as Assigned Employees.

(f) All Materials and intellectual property created or conceived by Assigned Employees while performing services on behalf of the Company in their capacity as Assigned Employees ("Assigned Employees IP") shall be deemed to be "works made for hire" in which the Company owns all Intellectual Property Rights. To the extent that any Assigned Employees IP is not deemed to be a "work made for hire" and the property of the Company by operation of law, each Enterprise hereby irrevocably assigns, transfers and conveys to the Company all Intellectual Property Rights in and to the Assigned Employees IP created or conceived by each Assigned Employee that the Enterprise assigned to the Company, and each Enterprise agrees to promptly execute such documents and take such actions as the Company may reasonably request to perfect the Company's ownership of such Assigned Employees IP. Each of the Assigned Employees shall be required to execute a confidentiality and invention assignment agreement in favor of the Company with such terms and conditions as shall be approved by the Board.

(g) Certain additional terms and conditions related to the Assigned Employees, including (i) the process for the Enterprises to assign individuals as Assigned Employees, (ii) the personnel policies and practices that will apply to Assigned Employees, (iii) restrictions on the solicitation or transfer to other positions of Assigned Employees, and (iv) indemnification obligations with respect to employment-related claims are attached hereto as Exhibit D and made a part hereof.

9.2 Offers of Employment to Assigned Employees. If approved by the Board, the Company may at any time, in consultation with the Enterprise that employs an Assigned Employee, make an offer of employment with the Company to such Assigned Employee. In any event, following his or her appointment, the CEO shall discuss the status of each Assigned Employee with the Enterprise that employs the Assigned Employee and determine whether the Assigned Employee will be given an offer of employment by the Company, will continue to work as an Assigned Employee devoting all or a portion of his or her time to work on behalf of the Company, or whether the Assigned Employee will otherwise cease to work on matters relating to the Company.

ARTICLE X
COVENANTS OF THE PARTIES

10.1 Non-Competition. The Customer Services Agreement sets forth the terms of each Enterprise's commitment not to compete with the Platform.

10.2 Business Opportunity. The Customer Services Agreement sets forth the terms under which the Enterprises will make available certain business opportunities to the Company.

10.3 Non-Solicitation of Employees. The Enterprises and the Company shall comply with the policies and procedures set forth in Exhibit D (and Section 9.2) relating to the solicitation for employment of Assigned Employees, employees of the Company and employees of the Enterprises who perform services on behalf of the Company pursuant to the Administrative Services Agreements.

ARTICLE XI
CONFIDENTIALITY

11.1 Protection of Confidential Information.

(a) Each Recipient Party covenants and agrees to keep confidential any and all Confidential Information of any Disclosing Party, in accordance with a standard of care that shall be no less than the standard employed to protect its own information of like importance or that of others, but in no event with less than reasonable care consistent with industry practice;

(b) Each Recipient Party covenants and agrees not to print or copy, in whole or in part, any documents or other media containing any Confidential Information without the prior written consent of the Disclosing Party other than (i) copies for its Permitted Recipient Parties, and (ii) for its Permitted Internal Purposes;

(c) Each Recipient Party covenants and agrees not to use any Confidential Information it receives from a Disclosing Party for any purpose other than (i) in connection with or in furtherance of the Business, and (ii) for its Permitted Internal Purposes;

(d) Each Recipient Party covenants and agrees not to disclose, or permit the disclosure of, Confidential Information of a Disclosing Party to any third party except (i) to a Party or the Permitted Recipients of a Party, or (ii) to other persons, on a need to know basis, for the Permitted Internal Purposes, provided that such other persons are bound by confidentiality obligations that are at least as protective of the Confidential Information as the terms of this Article XI ("Other Permitted Persons"). In the case of disclosures pursuant to clause (ii) of this Section 11.1(d), such disclosure shall be subject to the internal controls that the Recipient Party exercises with respect to its own Confidential Information of like importance;

(e) With respect to Confidential Information obtained by the Disclosing Party from a third party, each Recipient Party covenants and agrees to abide by any use and non-disclosure restrictions imposed by the third party on such Confidential Information to which the Disclosing Party is subject, provided that the Disclosing Party has informed the Recipient Party of such restrictions in writing in advance;

(f) To the extent that any Confidential Information disclosed by an Enterprise to the Company (and to which the other Enterprise has access) is never used to a material degree by the Company, the Enterprise that did not disclose such Confidential Information shall not have any use rights thereto;

(g) The Enterprises shall not use for any purpose whatsoever each other's Confidential Information that is Nonpublic Member Data. For the avoidance of doubt, the term "use" in this Section 11.1(g) shall be construed broadly to include any productive use, including the testing or verification purposes of the Enterprises. Notwithstanding the foregoing, but subject to Section 11.1(h) below, the prohibition in this Section 11.1(g) shall not apply to the testing and verification processes conducted by employees of the Enterprises directly involved in the build, design, development, testing, operation, support or maintenance of the Platform under the direct or indirect supervision of the respective Enterprise or Company officer or officers, as the case may be, charged with such management responsibilities;

(h) The Company shall maintain and comply with the written information security program (including the administrative, technical and physical safeguards set forth therein) approved by the Board. Any changes to the Company's information security program will be subject to Board approval. Any use, access or disclosure of Confidential Information by the Company (including Nonpublic Member Data) shall comply with (i) the terms of this Agreement, (ii) the terms set forth in any other agreement between the Parties and (iii) appropriate policies and controls adopted by the Company, consistent with the approved information security program; and

(i) The provisions of this Article XI shall not apply to Intellectual Property Rights solely to the extent such Intellectual Property Rights are subject to the license rights set forth in Article XII; provided, however, that each Recipient Party shall keep confidential all trade secrets and other Intellectual Property Rights of a Disclosing Party that are of a confidential nature (which shall not include issued patents, registered copyrights of non-confidential works of authorship, and trademarks) with the standard of care specified in Section 11.1(a) and shall disclose such information to third parties only on a need to know basis, provided that such third parties are bound by confidentiality obligations that are at least as protective of the Confidential Information as the Recipient Party would require in similar circumstances with respect to its own information of like importance.

11.2 Permitted Recipient Parties and Other Permitted Persons. Each Recipient Party shall advise any Permitted Recipient Party and Other Permitted Persons to which it discloses Confidential Information of the confidential nature of the Confidential Information and shall require such Permitted Recipient Party and Other Permitted Person to protect the confidentiality of such Confidential Information in accordance with the provisions of this Article XI, provided, that, with respect to each Recipient Party's use of such Confidential Information for its Permitted Internal Purposes, it shall only be required to adhere to its own internal controls, policies and procedures for the confidential treatment of information that is similar in nature and of comparable important to the Confidential Information at issue, which controls shall be consistent with industry practice. Each Recipient Party shall be liable for any breach of any obligation hereunder by any of its Permitted Recipient Parties or Other Permitted Persons and agrees to take all reasonable measures (including but not limited to court proceedings for injunctive relief, if reasonable under the circumstances) to restrain its respective Permitted Recipient Parties or Other Permitted Persons from prohibited or unauthorized disclosure or use of such Confidential Information. Nothing in this Agreement shall prohibit the disclosure by any Recipient Party of Confidential Information to FHFA, in its role as Conservator of the Enterprises or as regulator and supervisor of the Company, or to FHFA's Office of Inspector General, in its oversight capacity of FHFA, and FHFA's employees, agents, attorneys or other professional advisors.

11.3 Disclosure. In the event a Recipient Party receives a court order or other governmental or administrative decree requiring disclosure of Confidential Information of a Disclosing Party, or if a Recipient Party is otherwise legally obligated to disclose the Confidential Information of a Disclosing Party (other than as a result of any directive or other instruction from FHFA), such Recipient Party shall, if it is legally permitted to do so, give the Disclosing Party reasonable written notice prior to such disclosure in order to permit such Disclosing Party, at such Disclosing Party's expense, to seek a protective order or otherwise take steps to prevent the disclosure of such Confidential Information. The Recipient Party shall cooperate with the Disclosing Party in seeking a protective order or other measure to limit the required disclosure of the Disclosing Party's Confidential Information, and release only so much of such Confidential Information as is required by any resulting order, decree or legal obligation.

11.4 Breach. Each Party agrees that in the event of a breach or threatened breach by any Party, including its Permitted Recipient Parties and Other Permitted Persons, of the provisions of this

Article XI, the non-breaching Party may not have an adequate remedy in money damages and, accordingly, shall be entitled to seek an injunction against such breach, in addition to any other legal or equitable remedies available to it.

11.5 Residual Knowledge. Each Disclosing Party acknowledges that the Recipient Parties may currently or in the future be developing information internally, or receiving information from other parties, that is similar to the Disclosing Party's Confidential Information. The Parties agree that they also may acquire Residual Knowledge as a result of this Agreement. Any use or disclosure by any Party of Residual Knowledge shall not constitute a breach of this Agreement, provided that such use or disclosure does not violate the patents or copyrights of any other Party hereto. Subject to the foregoing proviso, nothing in this Agreement will prohibit a Recipient Party from using Residual Knowledge to develop or have developed for itself, or otherwise use or disclose, products, concepts, systems or techniques that are similar to or compete with the products, concepts, systems or techniques contemplated by or embodied in such Confidential Information. The Parties shall have no obligation to limit or restrict the work assignments of their Permitted Recipient Parties as a result of their having had access to any other Party's Confidential Information.

11.6 Breach Notification. The Recipient Party shall promptly notify the Disclosing Party in writing of any unauthorized use or disclosure of, or access to, the Disclosing Party's Confidential Information by or arising through the Recipient Party of which it becomes aware, and take all reasonable steps requested by the Disclosing Party to limit, stop or otherwise prevent such loss or unauthorized use, disclosure or access.

ARTICLE XII
INTELLECTUAL PROPERTY

12.1 Licenses to Enterprises of Intellectual Property Rights.

(a) Except as otherwise agreed to in a written contract approved in accordance with Section 6.4(s), the Company hereby grants to each Enterprise a non-exclusive, non-transferable (except as set forth in Section 17.9), fully-paid, royalty free, perpetual (both during and following the respective Enterprise's Membership in the Company), irrevocable and worldwide license to Exploit all Materials and all Intellectual Property Rights (other than trademarks) that are owned or licensed by the Company while the respective Enterprise is a Member of the Company, which may be used by each Enterprise for any purpose, subject to any restrictions that may be set forth in the Customer Services Agreement. The foregoing license excludes any use rights with respect to third party licensed Materials to the extent the third party licenses do not permit such use rights to be granted; provided, however, that upon written request from an Enterprise, the Company shall use commercially reasonable efforts to obtain a separate license in the name of the Enterprise, which license shall be at that Enterprise's expense (as approved in advance by such Enterprise).

(b) The rights to sublicense and distribute such Materials and Intellectual Property Rights pursuant to Section 12.1(a) shall apply to the extent reasonably necessary or appropriate for each Enterprise to Exploit such Materials and Intellectual Property Rights for the operation of its business; provided, however, that such sublicense or distribution shall not be solely for the purpose of receiving royalties or other licensing revenue from the sublicense or such Materials and Intellectual Property Rights themselves (as opposed to in combination with other aspects of the Enterprise's business) and shall contain confidentiality obligations that are at least as protective of the Company's Confidential Information as the terms of Article XI. Without limiting the generality of the foregoing, the Enterprises may permit third parties providing services to the Enterprises to access such Materials and the Technology embodying such Intellectual Property Rights, provided that such third parties are bound by confidentiality obligations that are at least as protective of the Company's Confidential Information as the terms of Article XI.

(c) In the event of the bankruptcy of the Company pursuant to the Bankruptcy Code and an attendant rejection of this Agreement or any license granted hereunder, the Parties intend that the provisions of Section 365 of the Bankruptcy Code shall apply and the Enterprises shall be entitled to retain all license rights granted in this Agreement and possession of all Materials and Intellectual Property Rights licensed under this Agreement, and to exercise all rights to obtain possession of Materials and embodiments of Intellectual Property Rights in accordance with this Agreement and any other agreement supplementary hereto, and the Enterprises shall have no obligation to pay any additional fees or payments in connection with the exercise of the license rights granted under this Agreement and use of any such licensed Materials or Intellectual Property Rights.

12.2 Third Party Intellectual Property Rights. As soon as practicable following the date hereof, the management of the Company shall adopt policies and procedures governing the use by the Company of Software and Materials owned by third parties (including open source software), including in connection with the design and development of the Platform.

12.3 Disclosure and Delivery of Intellectual Property Rights and Materials. This Article XII establishes the Enterprises' right to Exploit the Materials and Intellectual Property rights owned or licensed by the Company. To facilitate the exercise of those rights in a manner that does not create unreasonable burdens for the Company, the Members and the Company will agree on a schedule for delivery of Materials and Intellectual Property by the Company to the Enterprises, which schedule may be updated by written agreement of both Members and the Company from time to time. The remaining provisions of this Article XII will apply until a schedule is agreed upon by the parties and will serve as default requirements in case any schedule agreed upon by the parties expires without a replacement having been agreed upon. Within thirty (30) days after the end of each calendar quarter, the Company will provide to each Enterprise (unless such Enterprise notifies the Company that it elects to defer such delivery) a then current (i.e. as of the end of the applicable calendar quarter) listing of all Materials and Intellectual Property Rights owned or licensed by the Company, including a complete listing of all Software and other Materials incorporated in or reasonably necessary to enable the Enterprises to Exploit the Platform. Following receipt of such listing, an Enterprise may request in writing no more than one time per calendar quarter that the Company provide to the Enterprise, and the Company shall provide to such Enterprise within five business days after receipt of the request, current copies of any Materials or Intellectual Property Rights listed therein (or such portion thereof as was requested by such Enterprise) including current copies of object code and Source Code for Software included in the Materials. At the request of an Enterprise, the Company shall also provide a reasonable amount of basic knowledge transfer as is reasonably necessary to permit the Enterprise to Exploit the Platform using appropriately skilled and knowledgeable resources; provided, however, that such obligation of the Company shall not interfere with the priority of the Company's day to day operations and objectives and shall not otherwise create an unreasonable burden on the Company or its employees. If an Enterprise ceases to be a Member of the Company, the Company shall provide a then current (i.e. as of the date it ceases to be a Member of the Company) listing and copies of the foregoing Materials and Intellectual Property Rights to such Enterprise within thirty (30) days after it ceases to be a Member; thereafter, the Company's obligations under this Section 12.3 shall terminate.

12.4 Prosecution of Intellectual Property Rights. The Company shall have the sole authority to prosecute any patents on inventions developed by or for the Company and assigned to it using patent counsel selected by the Board.

12.5 Protection of Company Intellectual Property Rights. The Company shall use commercially reasonable efforts to protect and enforce its Intellectual Property Rights in and to the Platform, and any underlying Software owned by the Company, including by bringing infringement suits against infringers in its reasonable discretion. Should the Company fail to do so, in the reasonable judgment of an Enterprise, the Enterprise shall have the right to bring such matter before the Board. If, after consideration of the Board, the Company declines to bring an infringement action against an infringer, such decision shall be final, and neither Enterprise shall have any further right to raise such matter before the Board or to otherwise object to such decision.

12.6 Covenant Not to Sue.

(a) Each Party covenants that it shall not Assert any Patent Rights owned or controlled by it against (i) the Company or its Covered Persons with respect to their designing, building, developing, testing, operating, supporting, maintaining, updating, enhancing and using the Platform in accordance with this Agreement and the Customer Services Agreement, or (ii) an Enterprise or its Covered Persons with respect to such Enterprise's Exploitation of the Materials and Intellectual Property Rights pursuant to Section 12.1 in accordance with the terms of this Agreement. Each covenant in this Section 12.6 is referred to as a "CNTS." For clarification, a Patent Right is subject to the CNTS only to the extent that it would be infringed in the absence of a license thereunder as a result of the activities described in subparagraphs (i) and (ii) above. The Parties acknowledge and agree that no CNTS in any way narrows the scope of, restricts the application of, or otherwise limits or adversely affects, the licenses granted to the Parties pursuant to Section 12.1 and the Contribution Agreement.

(b) Each CNTS runs with title to any Patent Rights to the extent they are subject to the CNTS and binds any assignee, exclusive licensee, or other individual or entity that acquires any interest in any Patent Rights that are subject to the CNTS, whether or not that individual or entity has actual or constructive knowledge of the CNTS.

(c) The CNTS granted by each Enterprise in favor of the other Enterprise and its Covered Persons shall be effective for so long as both Enterprises remain Members and both CNTS shall terminate when either Enterprise ceases to be a Member, provided, that each CNTS shall continue in perpetuity with respect to all Patent Rights owned or controlled by each grantor Enterprise on or prior to the date on which an Enterprise ceased to be a Member (and including without limitation future patents and patent applications claiming priority to the foregoing). The CNTS granted by each Enterprise in favor of the Company and its

Covered Persons shall be effective for so long as such Enterprise remains a Member and shall terminate when it ceases to be a Member, provided, that such CNTS shall continue in perpetuity with respect to all Patent Rights owned or controlled by such grantor Enterprise on or prior to the date on which it ceased to be a Member (and including without limitation future patents and patent applications claiming priority to the foregoing). The CNTS granted by the Company in favor of each Enterprise shall be effective for so long as such Enterprise remains a Member and shall terminate when its ceases to be a Member, provided, that such CNTS shall continue in perpetuity with respect to all Patent Rights owned or controlled by the Company on or prior to the date on which such Enterprise ceased to be a Member (and including without limitation future patents and patent applications claiming priority to the foregoing).

(d) To effectuate the purpose of Section 12.6 (b) above, if either of the Enterprises intends (x) to transfer or assign (directly, by operation of law, or in connection with a merger, acquisition, or sale of all or substantially all of an Enterprise's assets) ownership of a Patent Right to any third party, or (y) to grant an exclusive license to, or other proprietary interest in, any Patent Right, which Patent Right, the Enterprise knew or reasonably should have known, is subject to the CNTS at the time of the transfer, assignment, or grant, then prior to any such transfer, assignment, or grant, such Enterprise shall secure in writing from the third party (i) the CNTS with respect to such Patent Right to the same extent as it applies at such time to such Enterprise and (ii) a covenant to secure a similar CNTS from any subsequent owner or exclusive licensee of such Patent Right. If for any reason any transferee, assignee, or grantee does not so agree in writing, then, effective immediately prior to that transfer, assignment, or grant, the Enterprise shall be deemed to have granted to the Company an automatically-vested, nonexclusive, irrevocable, perpetual, fully-paid-up, royalty-free, worldwide, transferable, assignable license under such Patent Right to design, build, develop, test, operate, support, maintain, update, enhance and use the Platform in accordance with this Agreement and the Customer Services Agreement.

ARTICLE XIII
TRANSFER OF LLC UNITS

13.1 Prohibition on Transfers by Enterprises. Neither Fannie Mae nor Freddie Mac may Transfer their respective LLC Units, or any portion thereof, without (i) approval as a Significant Matter pursuant to Section 6.4, and (ii) proper receipt of such other Governmental Approvals as may be necessary.

ARTICLE XIV
INDEMNIFICATION

14.1 Indemnification by Fannie Mae.

(a) Subject to the limitations set forth in this Article XIV and to all applicable regulatory requirements and restrictions, Fannie Mae shall defend, indemnify and hold harmless each of the Freddie Mac Indemnified Parties and the Company Indemnified Parties from and against any costs, damages, losses, expenses (including, without limitation, settlements, judgments and reasonable attorneys' fees and costs relating thereto), claims, obligations or liabilities ("Damages") suffered or incurred by any Freddie Mac

Indemnified Party or Company Indemnified Party, as the case may be, to the extent such Damages result or arise from:

(i) a breach or inaccuracy of any of the representations or warranties made by Fannie Mae in this Agreement; or

(ii) a breach of any of the covenants or agreements made or to be performed by Fannie Mae pursuant to this Agreement.

(b) Notwithstanding the foregoing, Fannie Mae shall not be required to indemnify or hold any Freddie Mac Indemnified Party or Company Indemnified Party harmless from or against any Damages to the extent that such Damages arise out of or relate to the negligence, willful misconduct or breach of any of its representations, warranties, covenants or agreements herein, in any Ancillary Agreement or in any certificate, agreement, document or instrument delivered pursuant hereto or thereto, by any Freddie Mac Indemnified Party or Company Indemnified Party, as applicable.

14.2 Indemnification by Freddie Mac.

(a) Subject to the limitations set forth in this Article XIV and to all applicable regulatory requirements and restrictions, Freddie Mac shall defend, indemnify and hold harmless each of the Fannie Mae Indemnified Parties and the Company Indemnified Parties from and against any Damages suffered or incurred by any Fannie Mae Indemnified Party or Company Indemnified Party, as the case may be, to the extent such Damages result or arise from:

(i) a breach or inaccuracy of any of the representations or warranties made by Freddie Mac in this Agreement; or

(ii) a breach of any of the covenants or agreements made or to be performed by Freddie Mac pursuant to this Agreement.

(b) Notwithstanding the foregoing, Freddie Mac shall not be required to indemnify or hold any Fannie Mae Indemnified Party or Company Indemnified Party harmless from or against any Damages to the extent that such Damages arise out of or relate to the negligence, willful misconduct or breach of any of its representations, warranties, covenants or agreements herein, in any Ancillary Agreement or in any certificate, agreement, document or instrument delivered pursuant hereto or thereto, by any Fannie Mae Indemnified Party or Company Indemnified Party, as applicable.

14.3 Indemnification by the Company.

(a) Subject to the limitations set forth in this Article XIV and to all applicable regulatory requirements and restrictions, the Company shall defend, indemnify and hold harmless each of the Fannie Mae Indemnified Parties and the Freddie Mac Indemnified Parties from and against any Damages suffered or incurred by any Fannie Mae Indemnified Party or Freddie Mac Indemnified Party, as the case may be, to the extent such Damages result or arise from:

(i) a breach by the Company of any Fannie Mae Assigned Contract (as such term is defined in the Contribution Agreement) or Freddie Mac Assigned Contract (as such term is defined in the Contribution Agreement); or

(ii) a breach by the Company of any contract or other agreement pursuant to which either or both Enterprises agrees to serve as a co-party, guarantor or otherwise for purposes of providing assurance or security to the third-party to such contract or agreement of the Company's performance, provided that the indemnity under this Subparagraph (ii) shall be limited to the Damages suffered by the applicable Enterprise in its capacity as a co-party, guarantor or otherwise for purposes of providing assurance or security to such third-party.

(b) Notwithstanding the foregoing, the Company shall not be required to indemnify or hold any Freddie Mac Indemnified Party or Fannie Mae Indemnified Party harmless from or against any Damages to the extent that such Damages arise out of or relate to the negligence, willful misconduct or breach of any of its representations, warranties, covenants or agreements herein, in any Ancillary Agreement or in any certificate, agreement, document or instrument delivered pursuant hereto or thereto, by any Freddie Mac Indemnified Party or Fannie Mae Indemnified Party, as applicable.

14.4 Indemnification Procedures. In any case where an Indemnified Party shall seek indemnification under this Agreement for a third party claim, suit or proceeding (a "Claim"), such indemnification shall be conditioned on such Indemnified Party's compliance with the following procedures:

(a) The Indemnified Party will give prompt written notice to the party from whom such indemnification is sought (the "Indemnifying Party") of each Claim for indemnification under this Agreement, specifying to the extent then known the amount and nature of the Claim (a "Notice of Indemnification"). No failure to so notify the Indemnifying Party shall relieve the Indemnifying Party of its obligations under this Agreement except to the extent that Damages are attributable to such failure. Within fifteen (15) days following receipt of a Notice of Indemnification from the Indemnified Party relating to any Claim, the Indemnifying Party will notify the Indemnified Party in writing if the Indemnifying Party elects to assume control of the defense and settlement of that Claim (a "Defense Election").

(b) If the Indemnifying Party delivers a Defense Election relating to any Claim within the required notice period, the Indemnifying Party will be entitled to have sole control over the defense and settlement of such Claim; provided, however, that

(i) the Indemnified Party will be entitled to participate in the defense of such Claim and to employ counsel at its own expense to assist in the handling of such Claim, provided, however, that, if the Indemnified Party cooperates and provides assistance at the request of the Indemnifying Party in connection with the Indemnifying Party's defense, the Indemnified Party shall be entitled to recover from the Indemnifying Party the reasonable costs of providing such assistance;

(ii) before entering into any settlement of such Claim or ceasing to defend against such Claim, the Indemnifying Party will obtain the prior written approval of the Indemnified Party in respect of any compromise or settlement that would impose any penalty, limitation, disclosure obligation, or injunction or other equitable relief upon the Indemnified Party or that does not include the third party's release of the Indemnified Party from all liability relating to such Claim for which the Indemnified Party is entitled to be indemnified; and

(iii) the Indemnifying Party shall inform the Indemnified Party on a regular basis of the status of such Claim and the Indemnifying Party's defense thereof.

(c) Subject to Section 14.4(b), after the Indemnifying Party has delivered a Defense Election relating to any claim in accordance with Section 14.4(a), the Indemnifying Party will not be liable to the Indemnified Party for any legal expenses incurred by such Indemnified Party in connection with the defense of that Claim. In addition, the Indemnifying Party will not be required to indemnify the Indemnified Party for any amount paid or payable by such Indemnified Party in the settlement of any claim for which the Indemnifying Party has delivered a timely Defense Election if such amount was agreed to without the written consent of the Indemnifying Party.

(d) Provided that the Notice of Indemnification is given (unless the failure to provide such Notice of Indemnification does not actually and materially prejudice the interests of the Indemnifying Party), and the Indemnifying Party (i) has not delivered a Defense Election relating to any Claim within the required notice period, or (ii) has delivered a Defense Election relating to a Claim but has not retained counsel within 30 days following the delivery of the Defense Election, then the Indemnified Party shall have the right to defend, contest or otherwise protect against the same, and make any compromise or settlement thereof and recover any related Damages, including any Damages incurred in securing the Indemnified Party's rights under this Agreement, from the Indemnifying Party.

(e) In the event that the counsel retained by the Indemnifying Party determines that it cannot represent the Indemnifying Party and the Indemnified Party in connection with the defense of any Claim consistent with the applicable rules of professional conduct, the Indemnified Party shall have the right to employ separate counsel and to control its own defense in connection therewith, and the reasonable fees and expenses of such separate counsel shall be paid by the Indemnifying Party.

(f) An Indemnified Party shall, to the extent practicable and reasonably within its control and at the expense of the Indemnifying Party, make commercially reasonable efforts to mitigate any Damages of which it has adequate notice, provided that the Indemnified Party shall not be obligated to act in contravention of applicable law or in contravention of reasonable and customary practices of a prudent person in similar circumstances.

(g) The obligation to indemnify a party's officers, directors, employees and agents in accordance with this Article XIV may be enforced exclusively by such party and nothing herein shall be construed to grant such officers, directors, employees and agents any individual rights, remedies, obligations or liabilities with respect to the parties to this Agreement.

14.5 Limits on Indemnification.

(a) The parties hereto waive as against each other any claim to consequential, special, exemplary or punitive damages except to the extent consequential, special, exemplary or punitive damages are awarded to a third party against an Indemnified Party in circumstances in which such Indemnified Party is entitled to indemnification hereunder.

(b) Each Indemnified Party shall maintain such insurance coverage with respect to its business as is customary for an entity of the size and nature of such Indemnified Party. Each Indemnified Party shall be obligated in connection with any claim for indemnification under this Article XIV to use commercially reasonable efforts to obtain any insurance proceeds and indemnification payments payable to such Indemnified Party by any third party available with regard to the applicable claim. The amount which the Indemnifying Party is or may be required to pay to any Indemnified Party pursuant to this Article XIV shall be reduced (retroactively, if necessary) by any insurance proceeds, indemnification payments or other amounts actually recovered by or on behalf of the indemnified party in reduction of the related damages. If the Indemnified Party receives the payment required by this Agreement from the Indemnifying Party in respect of Damages and subsequently receives insurance proceeds, indemnification payments or other amounts in respect of such Damages, then such Indemnified Party shall promptly repay to the Indemnifying Party a sum equal to the amount of such insurance proceeds, indemnification payments or other amounts actually received.

14.6 Exclusive Remedy.

(a) The remedies provided in this Article XIV shall be the exclusive remedies of the Parties hereto in connection with any claim or action arising out of any breach by, or inaccuracy of, another Party's (i) representations, (ii) warranties or (iii) covenants and agreements. The provisions of this Article XIV shall apply to claims for indemnification asserted as between the Parties as well as to third-party claims.

(b) Nothing in this Section 14.6 is intended to limit or expand the remedies provided under any Ancillary Agreement for claims arising under those Ancillary Agreements.

ARTICLE XV
DISPUTE RESOLUTION

15.1 Disputes. The Members and the Company shall attempt in good faith to resolve any dispute, controversy or claim between or among them arising out of or relating to this Agreement, including without limitation any dispute over the breach, interpretation or validity thereof (a "Dispute"). Any Member or the Company, as applicable, may request through written notice to all of the other Members and the Company that the Dispute be referred to senior executives of the Members and the Company, as applicable, that are parties to the Dispute who have authority to resolve the Dispute. The senior executives shall attempt to resolve the Dispute by agreement within sixty (60) days of such notice. The senior executives shall take such actions as may be necessary in connection with any discussions relating to any Dispute to prevent the disclosure of competitively sensitive information of one Member or the Company, as applicable, to other Members or the Company, as applicable.

15.2 Legal Proceedings. If any Dispute is not resolved by the senior executives of the Members or the Company, as applicable, that are party to the Dispute within the sixty (60) day period prescribed by Section 15.1, any such Member or the Company may institute legal proceedings in a federal court in the State of Maryland, which shall be the exclusive forum for such Dispute to the fullest extent permitted by applicable law.

15.3 Resolution by Conservator. Notwithstanding the foregoing, at any time during which FHFA is Conservator of both (but not just one) Enterprises, FHFA shall have the authority to resolve any Dispute between the Enterprises and between either or both Enterprises and the Company. While FHFA is Conservator of both (but not just one) Enterprises, FHFA may direct that the Enterprises take such actions and engage in such processes as FHFA shall determine to resolve any Dispute, and the Enterprises shall comply with FHFA's direction.

ARTICLE XVI
NOTICES

Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be (i) personally delivered, (ii) transmitted by an internationally recognized overnight courier service, or (iii) transmitted by electronic mail (with a confirmation copy sent by one of the other methods authorized in this Section or by mailing, postage prepaid), addressed as follows (or such other address as the Parties may designate from time to time in writing):

If to Fannie Mae:

Federal National Mortgage Association
1100 15th Street, NW
Washington, DC 20005
Attn: Executive Vice President, General Counsel & Corporate Secretary
E-Mail: terry_theologides@fanniemae.com

Copies to:

Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024
Attn: Deputy Director, Division of Conservatorship
E-Mail: CSS@fhfa.gov

and

Federal National Mortgage Association
1100 15th Street, NW
Washington, DC 20005
Attn: Vice President, Deputy General Counsel & Deputy Corporate Secretary
Email: christine_e_reddy@fanniemae.com

If to Freddie Mac:

Federal Home Loan Mortgage Corporation
8200 Jones Branch Drive
McLean, Virginia 22102
Attn: Ricardo A. Anzaldua
Executive Vice President, General Counsel and Corporate Secretary
E-Mail: ricardo_anzaldua@freddiemac.com

Copies to:

Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024
Attn: Deputy Director, Division of Conservatorship
E-Mail: CSS@fhfa.gov

and

Federal Home Loan Mortgage Corporation
8200 Jones Branch Drive
McLean, Virginia 22102
Attn: Melinda L. Reingold
Vice President & Deputy General Counsel - Mortgage Securities
E-Mail: melinda_reingold@freddiemac.com

If to the Company:

Common Securitization Solutions, LLC
7501 Wisconsin Avenue, Suite 300
Bethesda, Maryland 20814
Attn: Chief Executive Officer
Email: tony.renzi@commonsecuritization.com

Copies to:

Common Securitization Solutions, LLC
7501 Wisconsin Avenue, Suite 300
Bethesda, Maryland 20814
Attn: Senior Vice President, Chief Legal and Compliance Officer
Email: carol.rakatansky@commonsecuritization.com

Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024
Attn: Deputy Director, Division of Conservatorship
E-Mail: CSS@fhfa.gov

All notices and other communications required or permitted to be given hereunder shall be deemed to have been duly given on the first to occur of: (i) the date of receipt if delivered personally, (ii) the first Business Day following the day the same is deposited with an internationally recognized courier service if sent by overnight delivery service, or (iii) the date sent (without notice of non-delivery) if sent by electronic mail transmission.

ARTICLE XVII
MISCELLANEOUS

17.1 FHFA Authority.

(a) FHFA's actions pursuant to this Agreement shall be performed in its capacities as Conservator of the Enterprises and as regulator and supervisor of the Company, and any approval, designation, direction or other rights reserved to FHFA under this Agreement shall be exercised by FHFA in those roles.

(b) Notwithstanding the foregoing, nothing in this Agreement is intended to, nor shall, limit in any manner FHFA's authority with respect to the Enterprises and their respective assets (including their LLC Units) as Conservator or Receiver, nor as regulator and supervisor of the Enterprises and the Company.

(c) Notwithstanding any other provision of this Agreement to the contrary, if FHFA is no longer Conservator of either Enterprise, all rights of FHFA in its capacity as Conservator arising exclusively under this Agreement shall cease, but its rights as regulator and supervisor of the Enterprises and the Company shall persist.

17.2 Scope of the Parties' Authority. Unless otherwise provided in this Agreement, no Party shall, without the prior written consent of the other Party, in any manner use the name of, or commit or act or purport to act for or as a representative of, or assume any obligations or responsibilities on behalf of, such other Party, whether before or after the formation of the Company.

17.3 Force Majeure. Should any circumstance beyond the reasonable control of any Member occur which delays or renders impossible the performance of any of its obligations under this Agreement, such obligation shall be postponed for such time as such performance necessarily has had to be suspended or delayed on account thereof; provided such Member shall notify the other Members and the Company in writing within fourteen (14) days after the occurrence of such force majeure. In such event, representatives of each Member, the Company and FHFA shall promptly meet to determine an equitable solution to the effect of any such event, provided that any Member who fails because of force majeure to perform its obligations hereunder or thereunder will upon the cessation of the force majeure take all reasonable steps within its power to resume with the least possible delay compliance with its obligations. Events of force majeure shall include, without limitation, war, revolution, invasion, insurrection, riots, mob violence, sabotage or other civil disorders, acts of God, strikes or other labor disputes, acts, laws, regulations or rules of any government or governmental agency and any other circumstances beyond the reasonable control of the Member, the obligations of which are affected thereby.

17.4 Severability. If any term or provision of this Agreement shall be held or deemed to be, or shall in fact be, invalid, inoperative, illegal or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases, because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reason, such circumstance shall not have the effect of rendering the provision or provisions in question invalid, inoperative, illegal or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative, illegal or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy, but this Agreement shall be narrowly reformed and construed in any such jurisdiction or case as if such invalid, inoperative, illegal or unenforceable provision had never been contained herein and such provision narrowly reformed so that it would be valid, operative and enforceable to the maximum extent permitted in such jurisdiction or in such case.

17.5 Entire Agreement. The terms and conditions herein contained together with the terms and conditions of the Ancillary Agreements, the Customer Services Agreement and the other documents attached as Schedules and Exhibits hereto constitute the entire agreement between the Parties relating to the subject matter of this Agreement and shall supersede all previous communications between the Parties with respect to the subject matter of this Agreement. No Party has entered into this Agreement in reliance upon a representation, warranty or undertaking of the other Party which is not set out or referred to in this Agreement.

17.6 Further Assurances. The Parties hereto shall at any time, and from time to time execute and deliver such additional instruments and other documents and shall at any time, and from time to time take such further actions as may be reasonably necessary or appropriate to effectuate, carry out and comply with all of the terms of this Agreement and the transactions contemplated hereby

17.7 No Third Party Rights. This Agreement shall not be deemed or construed in any way to result in the creation of any rights or obligations in any Person not a party to this Agreement (including, but not limited to, employees or contractors of any Enterprise or the Company), other than FHFA and the third parties entitled to indemnification pursuant to Article XIV.

17.8 Applicable Law. This Agreement and the rights and liabilities of the parties hereto shall be governed by and construed in accordance with applicable U.S. federal laws and the laws of the State of New York applicable to contracts made and to be performed within such jurisdiction and without regard to any conflicts of laws principle that would result in the application of the laws of any other jurisdiction.

17.9 Assignment of Agreement. This Agreement shall be binding upon and inure to the benefit of each Party hereto and its permitted successors and assigns, including with respect to each Enterprise, the corresponding LLRE as contemplated by Section 3.1(b). Subject to Section 3.1(b), no Party hereto shall assign, transfer, or otherwise dispose of (by operation of law or otherwise) any of its rights or obligations under this Agreement in whole or in part to any Person without the prior written consent of the other Parties; provided, however, that in the event any Enterprise is placed into receivership and the LLC Units held by the Enterprise are transferred to a corresponding LLRE, such LLRE shall become a party to this Agreement as successor-in-interest to the Enterprise.

17.10 Waivers. No waiver, forbearance, or failure by any Party of its right to enforce any provision of this Agreement shall constitute a waiver or estoppel of such Party's right to enforce such provision thereafter or to enforce any other provision of this Agreement. No single or partial exercise of any right or power hereunder shall operate as a waiver of such right or of any other right or power. The waiver by any Party of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other or subsequent breach hereunder. All rights and remedies existing under this Agreement are cumulative with, and not exclusive of, any rights or remedies otherwise available.

17.11 Amendments. No amendment or supplement to this Agreement shall be effective for any purpose unless in writing and signed by an authorized officer of each Party hereto.

17.12 Survival. The provisions of Articles XI, XII, XIV, XV, and XVI of this Agreement shall survive indefinitely.

17.13 Expenses. Each Party shall bear its own costs and expenses incurred in connection with the negotiation, execution and performance of this Agreement and all related agreements referred to herein, except to the extent specifically provided otherwise in this Agreement or in any of those related agreements or as otherwise agreed by the Enterprises.

17.14 Construction. The Enterprises agree that they have been represented by counsel during the negotiation and execution of this Agreement and, therefore, waive the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document will be construed against the party drafting such agreement or document.

17.15 Counterparts. This Agreement may be executed simultaneously in any number of counterparts and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument, binding on all of the Parties. Signatures provided by facsimile or electronic copy shall have the same effect as originals.

[Signatures appear on the following page]

IN WITNESS WHEREOF, the parties to this Agreement have executed this Agreement as of the date first above written.

FEDERAL NATIONAL MORTGAGE ASSOCIATION

By: /s/ David C. Benson
Name: David C. Benson
Title: President

FEDERAL HOME LOAN MORTGAGE CORPORATION

By: /s/ Jerry Weiss
Name: Jerry Weiss
Title: Executive Vice President and Chief Administrative Officer

COMMON SECURITIZATION SOLUTIONS, LLC

By: /s/ Anthony N. Renzi
Name: Anthony N. Renzi
Title: Chief Executive Officer

Schedule 3.2

LLC UNITS AND PERCENTAGE INTERESTS OF THE MEMBERS

Member	LLC Units	Percentage Interest
Federal National Mortgage Association	1000 Units	50%
Federal Home Loan Mortgage Corporation	1000 Units	50%

EXHIBIT A

FIRST AMENDED AND RESTATED
CHARTER OF COMMON SECURITIZATION SOLUTIONS, LLC,
a Delaware limited liability company

as of November 3, 2014

Reference is hereby made to Common Securitization Solutions, LLC, a Delaware limited liability company (the "Company"), formed on the 7th day of October, 2013, by the filing of a Certificate of Formation of the same date in the Office of the Secretary of State of the State of Delaware, by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") (collectively, the "Enterprises").

WHEREAS, the Company shall be jointly and equally owned by the Enterprises, and has been formed by them and shall have the following purposes:

> To develop, operate, update and maintain the systems, software, processes, infrastructure and business activities necessary or appropriate to facilitate the efficient, large-scale issuance of single-family, residential, mortgage-related securities by both Enterprises and, potentially, other users (including a Single Security, as described in the *Request for Input: Single Security* published by FHFA on August 12, 2014 (including different types of Single Security as described in that document), with any modifications of such Single Security as may be agreed upon between the Enterprises), and the related sale and administration of such securities.

<u>EXHIBIT B</u>

<u>BYLAWS</u>

<u>CORPORATE FUNCTIONS AND ADMINISTRATIVE SERVICES OVERSIGHT COMMITTEE COMMON SECURITIZATION SOLUTIONS, LLC</u>

Reference is hereby made to that certain Third Amended and Restated Limited Liability Company Agreement of Common Securitization Solutions, LLC (the "<u>Company</u>") between the Federal Home Loan Mortgage Corporation ("<u>Freddie Mac</u>") and the Federal National Mortgage Association ("<u>Fannie Mae</u>"), and the Company, dated January 9, 2020 (the "<u>LLC Agreement</u>"). Capitalized terms used herein, not defined herein and defined in the LLC Agreement shall have the definitions given to them in the LLC Agreement.

1. <u>Purpose</u>

The Corporate Functions and Administrative Services Oversight Committee's (the "<u>Committee</u>") purpose shall be to (i) oversee the corporate functions of the Company (i.e., operations that are not directly related to the operations of the Common Securitization Platform such as human resources, internal audit, compliance, legal, information security, enterprise risk management, procurement, finance as well as treasury operations, and technology services that support these corporate functions), and (ii) allocate and coordinate the Enterprise's respective services for the Company under the applicable Administrative Services Agreements and facilitate information sharing and input with respect to those services. The Committee may make recommendations concerning corporate functions, including controls that should be established for effective Company operations to the extent applicable, and will serve as an information resource for the Company and the Board of Managers.

2. <u>Composition.</u>

(a) The Committee shall consist of up to fifteen members, with up to five members appointed by each Enterprise and the Company, respectively, provided, however, that each Enterprise and the Company shall be obligated to have appointed no less than two regular members to the Committee at all times. In addition to the membership positions allocated to the Company and each Enterprise, each entity shall be permitted to appoint or include on the Committee a reasonable number of subject area experts to assist its Committee members in discussing, evaluating and reviewing specialized topics or issues. In the event that the Board determines any party has not appointed members of the Committee with sufficient seniority and knowledge, the Board may request that such party appoint additional or different members and the applicable party shall comply. FHFA shall be permitted to designate a representative to participate in meetings of the Committee as an observer.

(b) Each member of the Committee may be removed, with or without cause, by the party that has authority to appoint the member.

(c) The size of the Committee may be modified from time to time at the discretion of the Board. The Committee shall remain in effect until discontinued by the Board.

(d) The Committee Chair shall be the Company's Chief Executive Officer.

3. Meetings of the Committee.

(a) The Committee shall meet no less often than six times per year. The date, time and place of Committee meetings shall be determined by the Committee Chair, which shall be a Company Committee member designated by the Company. At least five (5) days advance notice shall be given of any regularly scheduled meeting of the Committee. The Committee Chair shall publish an agenda for each meeting, which may be contained in the meeting materials, at least three (3) business days in advance of the meeting. The agenda shall contain matters as each Enterprise may request be addressed during the meeting within the scope of the Committee's duties. Meeting materials shall be well organized and provide reasonably detailed (but concise) information concerning items on the agenda for the meeting. The Committee Chair or his/her delegate will circulate a summary of each meeting within ten (10) business days after the meeting.

(b) The Committee Chair may call additional meetings of the Committee by providing notice of the date, time and location of such meeting to each member of the Committee at the address provided by such member to the Committee Chair, as far in advance of the meeting as practicable. FHFA shall be provided notice of all committee meetings simultaneously with the notices sent to the Committee members.

4. Committee Role.

(a) The Committee shall function primarily as an information sharing forum and an advisory body. The Committee's authority shall be limited to providing advice, including advice in the form of recommendations, to the Company, an Enterprise performing services under its Administrative Services Agreement and/or the Board. The Committee need not reach consensus on the issues on which it provides advice, and may choose to provide the Company, an Enterprise and/or the Board with differing views or a range of views. The members of the Committee shall have no voting rights whatsoever (outside the context of the Committee) solely by virtue of their membership on the Committee. Notwithstanding the foregoing, any member of the Committee may request that any agreement negotiated by an Enterprise on behalf of the Company be approved by the Board before execution and the Enterprise shall not enter into any agreement negotiated by an Enterprise on behalf of the Company until notice of the existence of such agreement has been provided to the Committee pursuant to Section 4(b) below.

(b) In addition to the foregoing, the Committee may also carry out certain tasks related to transitioning administrative services to the Company and overseeing the functioning of corporate functions of the Company (e.g., human resources, internal audit, compliance, legal, enterprise risk management, information security, procurement, finance and treasury operations and technology services that support these corporate functions), including developing, managing, and implementing plans for the transition of administrative services to the Company, or the development of corporate functions at the Company; researching recommending third party vendors to take over certain administrative and corporate services; and recommending prioritization and scheduling for the transition of administrative services from the

Enterprises to the Company. Prior to the transition of the administrative services to the Company for management, the Committee will be responsible for reviewing and discussing issues handled by the Enterprises under their respective Administrative Services Agreements or through joint "work streams" - such as Business/Operations, Human Resources, and Legal - and will make recommendations to the Board for decisions. The Committee may continue to oversee issues related to administrative services until such time as the Company has assumed a specified administrative function or contracted out the function to a vendor through an approved contract.

(c) Each Enterprise's Committee members shall promptly supply the Committee with such information as may be reasonably requested by the Committee or the other Enterprise's Committee members regarding the services provided by such Enterprise pursuant to the Administrative Services Agreement, including without limitation a regularly updated list of all contracts or agreements being negotiated on behalf of the Company with third parties by each Enterprise. Such information may also include information with respect to agreements being negotiated on behalf of the Company with third parties, including the substantive positions proposed to be taken on behalf of the Company and copies of draft agreements, and shall be provided sufficiently in advance for the Committee or the other Enterprise to provide advice regarding such positions and drafts.

(d) The Company shall provide to the Committee a regularly updated list of contracts or agreements of the Company currently in effect or being negotiated by the Company, together with such other information regarding current or pending contracts as may be requested by any Committee member.

(e) The Company shall promptly supply to the Committee information regarding all amendments and changes to the Company's confidentiality and information security standards. Such standards are currently contained in the Company's corporate policies on Acceptable Use and Information Classification as well as the Company's Code of Conduct and Contractor Service Requirements.

(f) The Committee shall provide its advice to the Board and the Company through the Committee Chair. The Committee Chair shall make presentations at meetings of the Board and shall provide written reports to the Board, as requested by the Board. Such presentations and reports shall include the view of any one or more members as may wish to contribute. The Committee Chair shall be accompanied at Board meetings by any one or more members of the Committee as wish to attend, and such Committee members may discuss with the Board Committee matters as desired.

5. FHFA.

While FHFA is acting in its role as Conservator of both (but not just one) Enterprises, FHFA shall receive a copy of all materials distributed to the entire Committee, as well as any materials provided by the Committee to the Enterprises, the Board or the Company, in each case, at the same time such materials are distributed to the Committee, Board or Company, as applicable.

EXHIBIT C

CHARTER OF THE PLATFORM STEERING COMMITTEE OF THE BOARD OF MANAGERS OF COMMON SECURITIZATION SOLUTIONS, LLC

Overview:

- The PSC holds primary ownership of CSS and Tri-Party Readiness, reporting a unified view across the topic areas highlighted in 'Key Activities' to the Board and CSS CEO and providing advisory support.
- These areas span the Common Securitization Platform functions, including Technology, Operations, overall CSS/GSE-adoption production readiness, and the CSP service catalog and interface specifications.
- The PSC meeting schedule will be set up so that PSC meetings are held two weeks prior to each Board meeting or monthly. At least five (5) days advance notice shall be given of any regularly scheduled meeting of the Committee. The agenda will be created by the Chair and the appointed Enterprise lead and will include items requested by either Enterprise. The agenda and associated meeting materials will be provided to PSC members at least three (3) business days in advance of the meeting. Meeting materials shall be well organized and provide reasonably detailed (but concise) information concerning items on the agenda for the meeting. The Committee Chair or his/her delegate will circulate a summary of each meeting within ten (10) business days after the meeting.
- If/as needed, the CSS CEO, PSC Chair, leads for each Enterprise, and FHFA will meet in smaller sessions as a sub-committee of the PSC to resolve matters.
- This sub-committee may fulfill the responsibilities and functions of the larger PSC, to the extent desired.
- Additional sub-committees may be formed as needed to address major topics.

Chair:

The Company's Chief Executive Officer or the Company's Chief Operating Officer.

Key Topic Areas:

Joint Solutioning and Escalation:

- Primary forum for resolution of platform production readiness activities (i.e. technology decisions, operations needs, scheduling compliance), including but not limited to those affecting the Enterprises

- Prioritize and drive open CSP scope, process and technology questions through joint analysis
- Escalation point to resolve CSS/GSE decisions, decision and other delays, performance and other issues, and risks

Enterprise Alignment:

- Forum for multi-party alignment of divergent approaches or requests made to CSS
- Review and plan for joint production readiness activities and assessments

Change Management:

- Review and approval of significant proposed changes related to Operations or Technology, including those that impact budget, scope and/or timeline or would have an impact on Enterprise operations
- Review and approve requests to modify interim integrated project milestones, deliverables, or budgets, within delegated authority
- Primary change management forum for items impacting two or more of CSS, Fannie Mae and/or Freddie Mac

Joint Planning and Execution Governance:

- Monitoring of status of joint CSS/GSE activities (e.g. integration testing, conversion, parallel processing)
- Detailed, quarterly review of CSS activities and the progress of various Enterprise projects that link to CSP implementation
- Forum for CSS/ Freddie Mac, CSS/Fannie Mae adoption governance, including Scope, Operational Readiness, Testing and Conversion activities
- Monitoring the achievement of the Service Levels contained in the Customer Services Agreement between the Enterprises and CSS

EXHIBIT D

ASSIGNED EMPLOYEE TERMS AND CONDITIONS

This Exhibit D is to be read in conjunction with Article 9 of the LLC Agreement. Except as otherwise stated herein, all capitalized terms set forth herein shall have the meanings set forth in the LLC Agreement.

1. **Assignment of Assigned Employees.** Individuals shall be assigned to work on behalf of the Company as Assigned Employees either by: (i) application by an individual through an Enterprise's posting process, which may be open to both internal (for both Enterprises) and external candidates; or (ii) an Enterprise identifying and assigning qualified persons to work on the Platform. The Enterprises will jointly determine the process for candidate selection; however, the Enterprise which employs (or will employ) the individual will determine, in its sole discretion, (A) the conditions for employment and (B) whether the individual has the skills needed for the assignment and is available to be assigned to work on behalf of the Company.

2. **Applicable Policies.** Assigned Employees will be subject to the personnel policies and practices of the Enterprise which employs them, including but not limited to the compensation and benefits policies and practices of the employing Enterprise. Assigned Employees shall not be subject to any personnel policies or practices of any other entity, with the exception of Company policies and practices that are specifically related to: (i) the operation of the facility in which they will perform their duties, including security procedures, hours in which the facility is open, and badge systems; (ii) performance management; (iii) training; (iv) on-the-job conduct and behavior; and (v) compliance with respect to safety, legal requirements and codes of conduct. In the event of any conflict or inconsistency between the policies and practices of the Company specifically related to the matters described in the preceding sentence and the policies and practices of an Enterprise specifically related to such matters, the policies and practices of the Company specifically related to such matters will be controlling.

3. **Restricted Period.** All Assigned Employees shall remain at-will employees of their respective Enterprise during the course of the assignment. However, subject to the Enterprises' rights to terminate the employment relationship with or without cause or notice, the Enterprises agree that each Assigned Employee will not be transferred from working on behalf of the Company as an Assigned Employee to another Enterprise position or assignment for a period of one year following the start of the individual's assignment as an Assigned Employee ("Restricted Period").

    i. During the Restricted Period, an Assigned Employee may be transferred from the assignment with the Company to another Enterprise position or assignment only by agreement of both the Company and the Enterprise employing the Assigned Employee.

ii. If an Assigned Employee becomes employed by the Company during the Restricted Period, the Enterprises agree that they will not solicit the Company employee during the Restricted Period, except by agreement of both the Company and the Enterprise seeking to employ the Company employee.

iii. Following the Restricted Period, there shall be no restriction on the Assigned Employee moving to another position or assignment within his or her employing Enterprise.

For clarification, the Restricted Period shall not be shortened or extended by the Assigned Employee's hire by the Company; the Restricted Period shall be one year from the start of the assignment regardless of whether the Assigned Employee becomes employed by the Company during the course of the Restricted Period.

4. **Indemnification - Assigned Employees.** The Company shall defend, indemnify, and hold harmless each of the Fannie Mae Indemnified Parties and Freddie Mac Indemnified Parties from and against any Damages suffered or incurred by any Fannie Mae Indemnified Party or Freddie Mac Indemnified Party, as the case may be, to the extent such Damages result or arise from any employment-related Claim (whether such Claim is based on contract, statute or common law) asserted by any Assigned Employee related to the Assigned Employee's work or assignment to work on the Platform or any other work on behalf of the Company, including but not limited to any claim of discrimination and harassment, failure to comply with laws pertaining to wages and hours (including the payment of overtime wages), alleged violations of right to privacy, alleged violation of health or safety laws, the failure to provide legally required leaves of absence or other alleged violations of law. The indemnification procedures set forth in Section 14.4 of the LLC Agreement shall apply to any indemnification under this Section 4.

5. **Indemnification - Company Employees.** The Company shall defend, indemnify, and hold harmless each of the Fannie Mae Indemnified Parties and Freddie Mac Indemnified Parties from and against any Damages suffered or incurred by any Fannie Mae Indemnified Party or Freddie Mac Indemnified Party, as the case may be, to the extent such Damages result or arise from any employment-related Claim (whether such Claim is based on contract, statute, or common law) asserted by any Company employee or as a result of any acts or omissions by a Company employee which gives rise to an employment-related Claim, including but not limited to any claim of discrimination and harassment, failure to comply with laws pertaining to wages and hours (including the payment of overtime wages), alleged violations of right to privacy, alleged violation of health or safety laws, the failure to provide legally required leaves of absence or other alleged violations of law. The indemnification procedures set forth in Section 14.4 of the LLC Agreement shall apply to any indemnification under this Section 5.