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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission File Number: 001-34139

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

Freddie Mac

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

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

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

As of July 20, 2016, there were 650,046,828 shares of the registrant's common stock outstanding.

TABLE OF CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in the "Forward-Looking Statements" sections of this Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2015, or 2015 Annual Report, and our Quarterly Report on Form 10-Q for the first quarter of 2016, the "Risk Factors" sections of our 2015 Annual Report and our Quarterly Report on Form 10-Q for the first quarter of 2016, and the "Business" section of our 2015 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the "Glossary" of this Form 10-Q and our 2015 Annual Report.

You should read the following MD&A in conjunction with our 2015 Annual Report and our condensed consolidated financial statements and accompanying notes for the three and six months ended June 30, 2016 included in "Financial Statements." Throughout this Form 10-Q, we refer to the three months ended June 30, 2016 and the three months ended June 30, 2015 as "2Q 2016" and "2Q 2015," respectively, and we refer to the six months ended June 30, 2016 and the six months ended June 30, 2015 as "YTD 2016" and "YTD 2015," respectively.

INTRODUCTION

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 mortgage-related securities, which are guaranteed by us and sold in the global capital markets. We also invest in mortgage loans and mortgage-related securities. We do not originate loans or lend money directly to consumers.

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, which we do primarily by providing financing for workforce housing. 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.

CONSOLIDATED FINANCIAL RESULTS

Comprehensive income was $1.1 billion in 2Q 2016 compared to $3.9 billion in 2Q 2015. The decline in comprehensive income was primarily driven by two market-related items, including an estimated:

- $1.8 billion decline resulting from interest rates decreasing during 2Q 2016 compared to increasing during 2Q 2015; and
- $0.6 billion decline resulting from less spread tightening during 2Q 2016 compared to 2Q 2015.

Our total equity was $2.1 billion at June 30, 2016. Because our net worth was positive we are not requesting a draw from Treasury under the Purchase Agreement for 2Q 2016. Following payment of our dividend obligation for the second quarter of 2016 of $0.9 billion, our cumulative senior preferred stock dividend payments will total $99.1 billion. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains $72.3 billion. The amount of available funding remaining under the Purchase Agreement is $140.5 billion, and would be reduced by any future draws.

VARIABILITY OF EARNINGS

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

- Interest-Rate Volatility — We hold assets and liabilities that expose us to interest-rate risk. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. However, the way we account for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our GAAP earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at June 30, 2016, we generally recognize fair value losses in earnings when interest rates decline. This volatility generally is not indicative of the underlying economics of our business. For information about the sensitivity of our financial results to interest-rate volatility, see "Risk Management - Interest-Rate Risk and Other Market Risks."

- Spread Volatility — The volatility of spreads (i.e., credit spreads, liquidity spreads, risk premiums, etc.), or OAS, is the risk associated with changes in the excess of interest rates over benchmark rates. We hold assets and liabilities that expose us to spread volatility, which may contribute to significant earnings volatility. For financial assets measured at fair value, we generally recognize fair value losses when spreads widen. Conversely, for financial liabilities measured at fair value, we generally recognize fair value gains when spreads widen.

The variability of earnings and the declining capital reserve required under the terms of the Purchase Agreement (ultimately reaching zero in 2018) increase the risk of our having a negative net worth and thus being required to draw from Treasury. We currently face a risk of a draw for a variety of reasons, including if we were to experience a large decrease in interest rates coupled with a large widening of spreads. In an effort to reduce the probability of a draw due to changes in interest rates, we entered into certain structured transactions that have resulted in additional financial assets being recognized and measured at fair value. In addition, we continue to explore other strategies and activities that may reduce the probability of a draw.

CONSERVATORSHIP AND GOVERNMENT SUPPORT FOR OUR BUSINESS

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

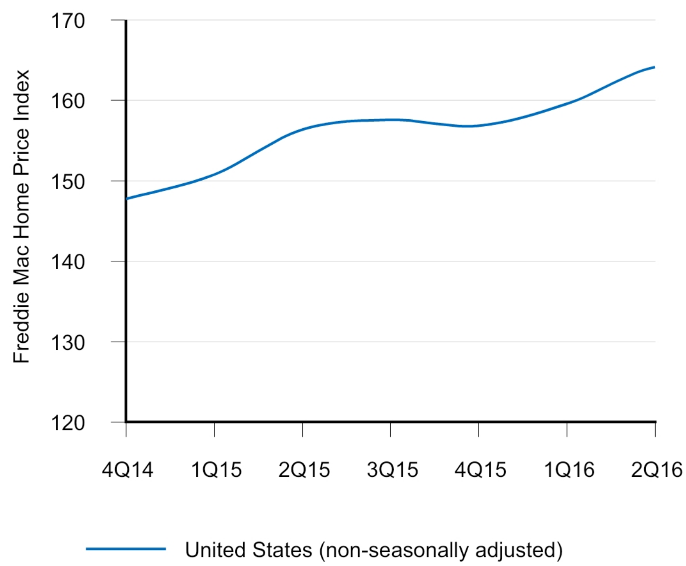
Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury constrain our business activities. The Purchase Agreement also requires our future profits to effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury. Consequently, our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to have adequate liquidity to conduct our normal business activities.

KEY ECONOMIC INDICATORS

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

SINGLE-FAMILY HOME PRICES

NATIONAL HOME PRICES



(December 2000 = 100)

COMMENTARY

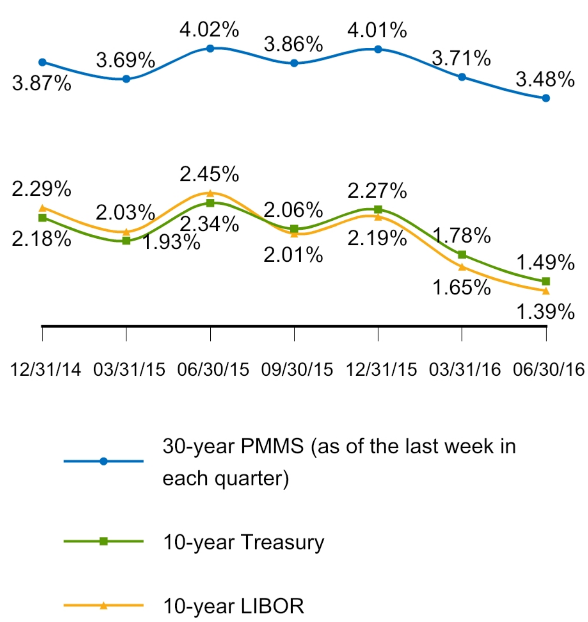
- Home prices continued to appreciate during 2Q 2016 and YTD 2016, increasing 3.7% and 5.6%, respectively, compared to an increase of 3.7% and 5.5%, respectively, during 2Q 2015 and YTD 2015, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.
- National home prices at June 30, 2016 were approximately 1% below their peak level of 167 reached in June 2006, based on our index.

INTEREST RATES

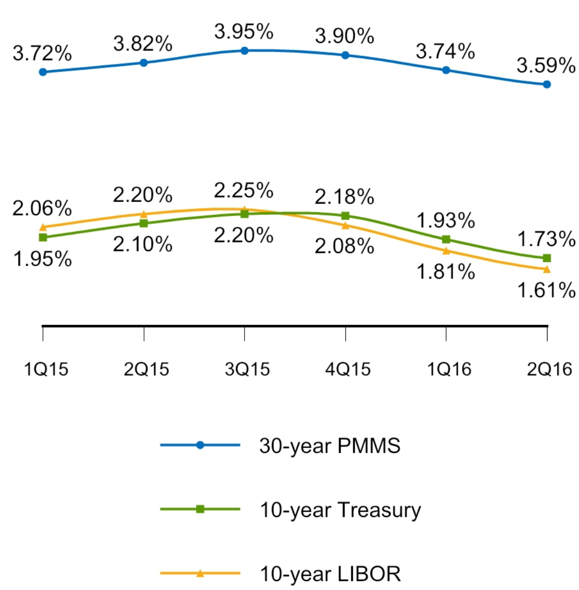
KEY MARKET INTEREST RATES

Quarterly average rates are computed as the simple average of weekly rates during each respective quarter.

Quarterly Ending Rates



Quarterly Average Rates

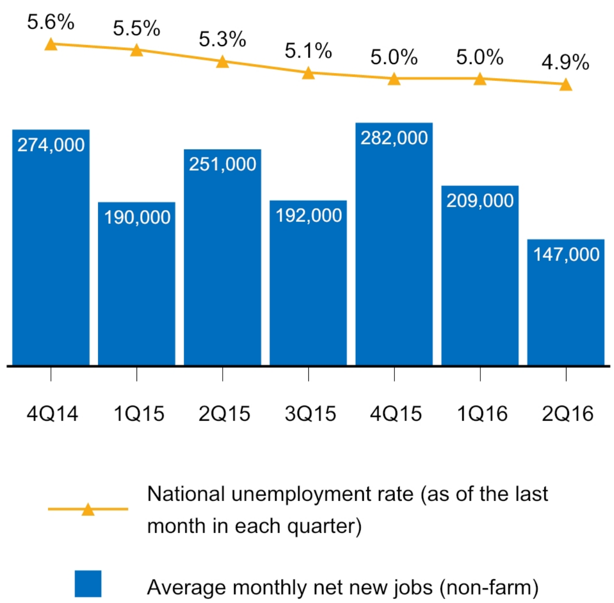


COMMENTARY

- Both ending and average mortgage interest rates, as indicated by the 30-year PMMS rate, decreased during 2Q 2016 and YTD 2016.
- The average 30-year PMMS rate was 3.59% and 3.66% during 2Q 2016 and YTD 2016, respectively, compared to 3.82% and 3.77% during 2Q 2015 and YTD 2015, respectively.
- Longer-term interest rates, as indicated by the 10-year LIBOR and the 10-year Treasury rate, declined during 2Q 2016 and YTD 2016. The decline in longer-term interest rates during the quarter was due, in part, to the United Kingdom's decision to leave the European Union and expectations of lower worldwide economic growth.

UNEMPLOYMENT RATE

UNEMPLOYMENT RATE AND JOB CREATION



Source: U.S. Bureau of Labor Statistics

COMMENTARY

- An average of approximately 147,000 and 172,000 monthly net new jobs were added to the economy during 2Q 2016 and YTD 2016, respectively. The steady flow of jobs helped the unemployment rate improve slightly.

CONSOLIDATED RESULTS OF OPERATIONS

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

COMPARISON

The table below compares our consolidated results of operations for 2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015.

	2Q 2016	2Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Net interest income	$ 3,443	$ 3,969	$ (526)	(13)%	$ 6,848	$ 7,616	$ (768)	(10)%
Benefit (provision) for credit losses	775	857	(82)	(10)%	1,242	1,356	(114)	(8)%
Net interest income after benefit (provision) for credit losses	4,218	4,826	(608)	(13)%	8,090	8,972	(882)	(10)%
Non-interest income (loss):								
Losses on extinguishment of debt	(119)	(80)	(39)	49 %	(174)	(159)	(15)	9 %
Derivative gains (losses)	(2,058)	3,135	(5,193)	(166)%	(6,619)	732	(7,351)	(1,004)%
Net impairment of available-for-sale securities recognized in earnings	(72)	(98)	26	(27)%	(129)	(191)	62	(32)%
Other gains on investment securities recognized in earnings	450	152	298	196 %	753	569	184	32 %
Other income (loss)	(25)	(568)	543	(96)%	922	(557)	1,479	(266)%
Total non-interest income (loss)	(1,824)	2,541	(4,365)	(172)%	(5,247)	394	(5,641)	(1,432)%
Non-interest expense:								
Administrative expense	(475)	(501)	26	(5)%	(923)	(952)	29	(3)%
REO operations expense	(29)	(52)	23	(44)%	(113)	(127)	14	(11)%
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(280)	(235)	(45)	19 %	(552)	(457)	(95)	21 %
Other expense	(151)	(501)	350	(70)%	(304)	(964)	660	(68)%
Total non-interest expense	(935)	(1,289)	354	(27)%	(1,892)	(2,500)	608	(24)%
Income before income tax expense	**1,459**	**6,078**	**(4,619)**	(76)%	**951**	**6,866**	**(5,915)**	(86)%
Income tax expense	(466)	(1,909)	1,443	(76)%	(312)	(2,173)	1,861	(86)%
Net income	**993**	**4,169**	**(3,176)**	(76)%	**639**	**4,693**	**(4,054)**	(86)%
Total other comprehensive income (loss), net of taxes and reclassification adjustments	140	(256)	396	(155)%	294	(34)	328	(965)%
Comprehensive income	**$ 1,133**	**$ 3,913**	**$ (2,780)**	(71)%	**$ 933**	**$ 4,659**	**$ (3,726)**	(80)%

Key Drivers:

See "Net Interest Income," "Benefit (Provision) for Credit Losses," "Derivative Gains (Losses)," and "Other Comprehensive Income (Loss)" for a discussion of those line items. Key drivers for other line items for 2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 include:

- **Other gains on investment securities recognized in earnings**
  - ***2Q 2016 vs. 2Q 2015*** - increased primarily due to the recognition of unrealized gains on our trading securities as a result of a decline in longer-term interest rates during 2Q 2016 compared to the recognition of unrealized losses on our trading securities as a result of an increase in longer-term interest rates during 2Q 2015.

  - ***YTD 2016 vs. YTD 2015*** - increased primarily due to the recognition of unrealized gains on our trading securities as a result of a decline in longer-term interest rates during YTD 2016 compared to the recognition of unrealized losses on our trading securities as a result of an increase in longer-term interest rates during YTD 2015. This increase was partially offset by the recognition of unrealized losses due to spread widening on our trading securities during YTD 2016 compared to the recognition of unrealized gains on our trading securities due to spread tightening during YTD 2015 and fewer sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position. This decline in sales was attributable to increased market volatility and weaker investor demand for this product type.
- **Other income (loss)**
  - ***2Q 2016 vs. 2Q 2015 -*** other loss declined reflecting:
    * Gains in 2Q 2016 compared to losses during 2Q 2015 on multifamily mortgage loans for which we elected the fair value option driven by a decline in interest rates during 2Q 2016 compared to an increase in interest rates during 2Q 2015;
    * Gains recognized on certain multifamily held-for-sale loan purchase commitments for which we elected the fair value option in 2016; partially offset by
    * Losses on STACR debt notes carried at fair value driven by tightening spreads between STACR yields and LIBOR during 2Q 2016 compared to gains as a result of widening spreads during 2Q 2015.
  - ***YTD 2016 vs. YTD 2015 -*** other income increased reflecting:
    * Reduced lower-of-cost-or-fair-value adjustments as we reclassified fewer seriously delinquent single-family loans from held-for-investment to held-for-sale during YTD 2016; and
    * Larger gains in YTD 2016 compared to YTD 2015 on multifamily mortgage loans for which we elected the fair value option driven by a decline in interest rates in YTD 2016 compared to an increase in interest rates during YTD 2015.
- **Other expense**
  - ***2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015*** - decreased primarily due to fewer reclassifications of seriously delinquent single-family loans from held-for-investment to held-for-sale. See "Loan Reclassifications" below for the effect of these loan reclassifications on pre-tax net income.

The three items discussed below affected multiple line items on our consolidated results of operations.

LOAN RECLASSIFICATIONS

During 2Q 2016 and 2Q 2015, we reclassified $3.1 billion and $4.5 billion, respectively, in UPB of seriously delinquent single-family mortgage loans from held-for-investment to held-for-sale. During YTD 2016 and YTD 2015, we reclassified $3.5 billion and $8.1 billion, respectively, in UPB of such mortgage loans. The initial reclassifications of these loans affected several line items on our consolidated results of operations, as shown in the table below.

Lower-of-cost-or-fair-value adjustments were relatively unchanged in 2Q 2016 compared to 2Q 2015. In 2Q 2016, the lower-of-cost-or-fair value adjustment was a greater percentage relative to the UPB of the mortgage loans that were reclassified compared to the mortgage loans reclassified in 2Q 2015 because the mortgage loans reclassified in 2Q 2015 were more deeply seriously delinquent. As a result, the mortgage loans reclassified in 2Q 2015 had already been charged down closer to collateral value at the time of reclassification.

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Benefit for credit losses	$ 509	$ 800	$ 573	$ 1,492
Other income (loss) - lower-of-cost-or-fair-value adjustment	(667)	(632)	(734)	(1,213)
Other (expense) income - property taxes and insurance associated with these loans	(109)	(447)	(140)	(796)
Effect on income before income tax (expense) benefit	$ (267)	$ (279)	$ (301)	$ (517)

INTEREST-RATE RISK MANAGEMENT ACTIVITIES

We fund our business activities primarily through the issuance of unsecured other debt. The type of debt we issue is based on a variety of factors including market conditions and our liquidity requirements.

We currently favor a mix of shorter- and medium-term debt and derivatives to fund our business and manage interest-rate risk. This funding mix is a less expensive method than relying more extensively on long-term debt.

The table below presents the effect of derivatives used in our interest-rate risk management activities on our comprehensive income, after considering the accrual of periodic cash settlements (which is the economic equivalent of interest expense), and the extent to which the effect of interest rate changes on our derivatives was offset by their effect on other financial instruments. The estimated net interest rate effect on comprehensive income is essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value.

(in billions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Components of derivative gains (losses)				
Derivative gains (losses)	$ (2.0)	$ 3.1	$ (6.6)	$ 0.7
Less: Accrual of periodic cash settlements	(0.4)	(0.5)	(0.9)	(1.1)
Derivative fair value changes	$ (1.6)	$ 3.6	$ (5.7)	$ 1.8
Estimated Net Interest Rate Effect				
Interest rate effect on derivative fair values	$ (1.7)	$ 3.6	$ (5.7)	$ 1.9
Estimate of offsetting interest rate effect related to financial instruments measured at fair value	1.0	(1.4)	2.9	(0.5)
Income tax benefit (expense)	0.3	(0.8)	1.0	(0.5)
Estimated Net Interest Rate Effect on Comprehensive income	$ (0.4)	$ 1.4	$ (1.8)	$ 0.9

As this table demonstrates, the estimated net effect of derivatives used in our interest-rate risk management activities on our comprehensive income is volatile, and can be significant. For information about the sensitivity of our financial results to interest-rate volatility, see "Risk Management - Interest-Rate Risk and Other Market Risks."

CHANGES IN SPREADS

Comprehensive income was affected by changes in spreads in amounts estimated to be $0.1 billion and $0.7 billion (after-tax) during 2Q 2016 and 2Q 2015, respectively, and $(0.5) billion and $0.7 billion (after-tax) during YTD 2016 and YTD 2015, respectively. During 2Q 2016, less spread tightening on both our agency and non-agency mortgage-related investments measured at fair value resulted in a smaller increase in comprehensive income compared to 2Q 2015. During YTD 2016, the negative effect on comprehensive income was primarily due to spreads widening on both our agency and non-agency mortgage-related investments measured at fair value. The positive effect during YTD 2015 was primarily due to spreads tightening on these investments.

NET INTEREST INCOME

NET INTEREST YIELD ANALYSIS

The tables below present an analysis of interest-earning assets and interest-bearing liabilities.

	2Q 2016			2Q 2015		
(dollars in millions)	Average Balance	Interest Income (Expense)(1)	Average Rate	Average Balance	Interest Income (Expense)(1)	Average Rate
Interest-earning assets:						
Cash and cash equivalents	$ 14,948	$ 9	0.23%	$ 10,172	$ 2	0.06%
Securities purchased under agreements to resell	52,643	47	0.36	50,358	13	0.10
Mortgage-related securities:						
Mortgage-related securities	193,637	1,851	3.82	233,416	2,270	3.89
Extinguishment of PCs held by Freddie Mac	(96,002)	(890)	(3.71)	(109,805)	(1,017)	(3.71)
Total mortgage-related securities, net	97,635	961	3.94	123,611	1,253	4.06
Non-mortgage-related securities	12,726	17	0.53	11,739	3	0.09
Loans held by consolidated trusts(1)	1,638,057	13,872	3.39	1,574,817	13,730	3.49
Loans held by Freddie Mac(1)	138,469	1,366	3.95	163,468	1,654	4.05
Total interest-earning assets	$1,954,478	$ 16,272	3.34	$1,934,165	$ 16,655	3.44
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,662,187	$ (12,139)	(2.92)	$1,596,840	$ (12,022)	(3.01)
Extinguishment of PCs held by Freddie Mac	(96,002)	890	3.71	(109,805)	1,017	3.71
Total debt securities of consolidated trusts held by third parties	1,566,185	(11,249)	(2.87)	1,487,035	(11,005)	(2.96)
Other debt:						
Short-term debt	76,057	(82)	(0.42)	103,045	(36)	(0.14)
Long-term debt	303,088	(1,450)	(1.91)	326,659	(1,587)	(1.94)
Total other debt	379,145	(1,532)	(1.61)	429,704	(1,623)	(1.51)
Total interest-bearing liabilities	1,945,330	(12,781)	(2.63)	1,916,739	(12,628)	(2.63)
Expense related to derivatives	—	(48)	(0.01)	—	(58)	(0.01)
Impact of net non-interest-bearing funding	9,148	—	0.01	17,426	—	0.02
Total funding of interest-earning assets	$1,954,478	$ (12,829)	(2.63)	$1,934,165	$ (12,686)	(2.62)
Net interest income/yield		$ 3,443	0.71		$ 3,969	0.82

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were $634 million and $549 million for loans held by consolidated trusts and were $50 million and $144 million for loans held by Freddie Mac during 2Q 2016 and 2Q 2015, respectively.

	YTD 2016			YTD 2015		
(dollars in millions)	Average Balance	Interest Income (Expense)(1)	Average Rate	Average Balance	Interest Income (Expense)(1)	Average Rate
Interest-earning assets:						
Cash and cash equivalents	$ 13,337	$ 16	0.24%	$ 12,762	$ 5	0.06%
Securities purchased under agreements to resell	55,282	97	0.35	48,894	21	0.09
Mortgage-related securities:						
Mortgage-related securities	197,620	3,767	3.81	239,039	4,636	3.88
Extinguishment of PCs held by Freddie Mac	(100,549)	(1,850)	(3.68)	(110,896)	(2,051)	(3.70)
Total mortgage-related securities, net	97,071	1,917	3.95	128,143	2,585	4.03
Non-mortgage-related securities	13,494	30	0.44	10,579	6	0.10
Loans held by consolidated trusts(1)	1,634,351	28,133	3.44	1,569,045	27,609	3.52
Loans held by Freddie Mac(1)	142,000	2,923	4.12	164,318	3,229	3.93
Total interest-earning assets	$1,955,535	$ 33,116	3.39	$1,933,741	$ 33,455	3.46
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,657,645	$ (24,890)	(3.00)	$1,590,235	$ (24,543)	(3.09)
Extinguishment of PCs held by Freddie Mac	(100,549)	1,850	3.68	(110,896)	2,051	3.70
Total debt securities of consolidated trusts held by third parties	1,557,096	(23,040)	(2.96)	1,479,339	(22,492)	(3.04)
Other debt:						
Short-term debt	88,464	(175)	(0.39)	112,386	(74)	(0.13)
Long-term debt	301,655	(2,954)	(1.95)	325,657	(3,150)	(1.93)
Total other debt	390,119	(3,129)	(1.60)	438,043	(3,224)	(1.47)
Total interest-bearing liabilities	1,947,215	(26,169)	(2.69)	1,917,382	(25,716)	(2.68)
Expense related to derivatives	—	(99)	(0.01)	—	(123)	(0.01)
Impact of net non-interest-bearing funding	8,320	—	0.01	16,359	—	0.02
Total funding of interest-earning assets	$1,955,535	$ (26,268)	(2.69)	$1,933,741	$ (25,839)	(2.67)
Net interest income/yield		$ 6,848	0.70		$ 7,616	0.79

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were $1.1 billion for loans held by consolidated trusts during both YTD 2016 and YTD 2015, and were $131 million and $210 million for loans held by Freddie Mac during YTD 2016 and YTD 2015, respectively.

COMPONENTS OF NET INTEREST INCOME

The table below presents the components of net interest income.

	2Q 2016	2Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Contractual net interest income:								
Guarantee fee income	$ 680	$ 628	$ 52	8 %	$ 1,390	$ 1,236	$ 154	12 %
Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	279	230	49	21 %	546	447	99	22 %
Other contractual net interest income	1,744	2,170	(426)	(20)%	3,584	4,392	(808)	(18)%
Total contractual net interest income	2,703	3,028	(325)	(11)%	5,520	6,075	(555)	(9)%
Net amortization - loans and debt securities of consolidated trusts	774	849	(75)	(9)%	1,307	1,382	(75)	(5)%
Net amortization - other assets and debt	14	150	(136)	(91)%	120	282	(162)	(57)%
Expense related to derivatives	(48)	(58)	10	(17)%	(99)	(123)	24	(20)%
Net interest income	**$ 3,443**	**$ 3,969**	**$ (526)**	**(13)%**	**$ 6,848**	**$ 7,616**	**$ (768)**	**(10)%**

Key Drivers:

- **Other contractual net interest income**
    - **2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015** - 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.
- **Net amortization of other assets and debt**
    - **2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015** - decreased primarily due to less accretion of previously recognized other-than-temporary impairments, coupled with greater premium amortization expense associated with our mortgage-related securities portfolio as a result of agency securities being acquired at premiums. The decrease in accretion is due to a decline in the population of impaired securities as a result of our active disposition of these securities and the recognition of less other-than-temporary impairments due to stabilized collateral performance.

BENEFIT (PROVISION) FOR CREDIT LOSSES

The benefit (provision) for credit losses predominantly relates to single-family loans and includes components for both collectively and individually impaired loans.

The table below presents the components of our benefit (provision) for credit losses.

	2Q 2016	2Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in billions)			$	%			$	%
Provision for newly impaired loans	$ (0.2)	$ (0.4)	$ 0.2	(50)%	$ (0.4)	$ (0.6)	$ 0.2	(33)%
Amortization of interest rate concessions	0.2	0.3	(0.1)	(33)%	0.5	0.6	(0.1)	(17)%
Reclassifications of held-for-investment loans to held-for-sale loans	0.5	0.8	(0.3)	(38)%	0.6	1.5	(0.9)	(60)%
Other, including changes in estimated default probability and loss severity	0.3	0.2	0.1	50 %	0.5	(0.1)	0.6	(600)%
Benefit (provision) for credit losses	$ 0.8	$ 0.9	$ (0.1)	(11)%	$ 1.2	$ 1.4	$ (0.2)	(14)%

Key Drivers:

- **2Q 2016 vs. 2Q 2015** - Benefit (provision) for credit losses remained relatively unchanged. Fewer seriously delinquent loans were reclassified from held-for-investment to held-for-sale in 2Q 2016 compared to 2Q 2015. During 2Q 2016, $3.1 billion in UPB of seriously delinquent single-family loans were reclassified to held-for-sale, compared to $4.5 billion during 2Q 2015. See "Loan Reclassifications" for the effect of these loan reclassifications on benefit (provision) for credit losses and pre-tax net income.
- **YTD 2016 vs. YTD 2015** - Benefit (provision) for credit losses remained relatively unchanged. During YTD 2016, $3.5 billion in UPB of seriously delinquent single-family loans were reclassified to held-for-sale, compared to $8.1 billion during YTD 2015. There were also improvements in estimated loss severity and probability of default during YTD 2016.

DERIVATIVE GAINS (LOSSES)

While our sensitivity to interest rates on an economic basis remains low based on our models, our exposure to earnings volatility resulting from our use of derivatives has increased in recent years as we have changed our derivative portfolio to align with the changing duration of our hedged assets and liabilities. 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 PMVS and duration gap results. For more information about our interest-rate risk management activities and the sensitivity of reported earnings to those activities, see "Risk Management - Interest-Rate Risk and Other Market Risks."

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

	2Q 2016	2Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Fair value change in interest-rate swaps	$ (2,364)	$ 4,840	$ (7,204)	(149)%	$ (8,054)	$ 2,179	$ (10,233)	(470)%
Fair value change in option-based derivatives	1,141	(1,465)	2,606	(178)%	3,076	(449)	3,525	(785)%
Accrual of periodic cash settlements	(420)	(532)	112	(21)%	(910)	(1,103)	193	(17)%
Fair value change in other derivatives	(415)	292	(707)	(242)%	(731)	105	(836)	(796)%
Derivative gains (losses)	**$ (2,058)**	**$ 3,135**	**$ (5,193)**	**(166)%**	**$ (6,619)**	**$ 732**	**$ (7,351)**	**(1,004)%**

Key Drivers:

- **2Q 2016 vs. 2Q 2015** - We recognized derivative fair value losses during 2Q 2016 primarily due to a decline in interest rates, while recognizing derivative fair value gains during 2Q 2015 primarily due to an increase in interest rates. For example, during 2Q 2016 the 10-year par swap rate declined 26 basis points, while during 2Q 2015 the 10-year par swap rate increased 42 basis points.
- **YTD 2016 vs. YTD 2015** - We recognized derivative fair value losses during YTD 2016 primarily due to a decline in interest rates, while recognizing derivative fair value gains during YTD 2015 primarily due to an increase in interest rates. For example, during YTD 2016 the 10-year par swap rate declined 80 basis points, while during YTD 2015 the 10-year par swap rate increased 16 basis points.
- See "Our Business Segments - Investments - Market Conditions" for more information about par swap rates.

OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the attribution of the other comprehensive income (loss) reported in our condensed consolidated statements of comprehensive income.

	2Q 2016	2Q 2015	Change		YTD 2016	YTD 2015	Change	
(in millions)			$	%			$	%
Other comprehensive income, excluding accretion and reclassifications	$ 391	$ 74	$ 317	428 %	$ 612	$ 537	$ 75	14 %
Accretion due to significant increases in expected cash flows on previously-impaired available-for-sale securities	(79)	(120)	41	(34)%	(169)	(246)	77	(31)%
Reclassifications from AOCI	(172)	(210)	38	(18)%	(149)	(325)	176	(54)%
Total other comprehensive income (loss)	**$ 140**	**$ (256)**	**$ 396**	**(155)%**	**$ 294**	**$ (34)**	**$ 328**	**(965)%**

Key Drivers:

- **2Q 2016 vs. 2Q 2015** - Other comprehensive income increased primarily due to a decline in longer-term interest rates during 2Q 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during 2Q 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by less spread tightening for our agency and non-agency available-for-sale mortgage-related securities. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.
- **YTD 2016 vs. YTD 2015** - Other comprehensive income increased primarily due to a decline in longer-term interest rates during YTD 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during YTD 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by spread widening for our non-agency available-for-sale mortgage-related securities during YTD 2016 compared to spread tightening during YTD 2015. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

	June 30, 2016	December 31, 2015	Change	
(dollars in millions)			$	%
Assets:				
Cash and cash equivalents	$ 8,140	$ 5,595	$ 2,545	45 %
Restricted cash and cash equivalents	17,399	14,533	2,866	20 %
Securities purchased under agreements to resell	48,989	63,644	(14,655)	(23)%
Subtotal	74,528	83,772	(9,244)	(11)%
Investments in securities	112,269	114,215	(1,946)	(2)%
Mortgage loans, net	1,761,585	1,754,193	7,392	— %
Accrued interest receivable	6,060	6,074	(14)	— %
Derivative assets, net	1,479	395	1,084	274 %
Real estate owned, net	1,381	1,725	(344)	(20)%
Deferred tax assets, net	18,671	18,205	466	3 %
Other assets	10,464	7,313	3,151	43 %
Total assets	$ 1,986,437	$ 1,985,892	$ 545	— %
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	$ 6,057	$ 6,183	$ (126)	(2)%
Debt, net	1,972,103	1,970,269	1,834	— %
Derivative liabilities, net	1,243	1,254	(11)	(1)%
Other liabilities	4,901	5,246	(345)	(7)%
Total liabilities	1,984,304	1,982,952	1,352	— %
Total equity	2,133	2,940	(807)	(27)%
Total liabilities and equity	$ 1,986,437	$ 1,985,892	$ 545	— %

Key Drivers:

As of June 30, 2016 compared to December 31, 2015:

- **Cash and cash equivalents**, **restricted cash and cash equivalents**, and **securities purchased under agreements to resell** affect one another, so the changes in the balances should be viewed together. The combined balance declined due to higher near-term cash needs as of December 31, 2015.
- **Investments in securities** declined primarily due to repayments, partially offset by increased retention of investment securities from certain structured transactions.
- **Derivative assets, net** increased primarily due to an increase in non-cash collateral posted by our derivative counterparties. While we generally offset the obligation to return cash collateral against the fair value of our derivative assets, we do not offset non-cash collateral received against the fair value of our derivative assets.
- **Real estate owned, net** continued to decline as we continued to sell our existing inventory.
- **Other assets** increased as receivables from servicers increased driven by borrower prepayment activity.

- **Total equity** decreased primarily as a result of dividends paid related to the decline in the Capital Reserve Amount from $1.8 billion to $1.2 billion under the terms of the senior preferred stock.

OUR BUSINESS SEGMENTS

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.

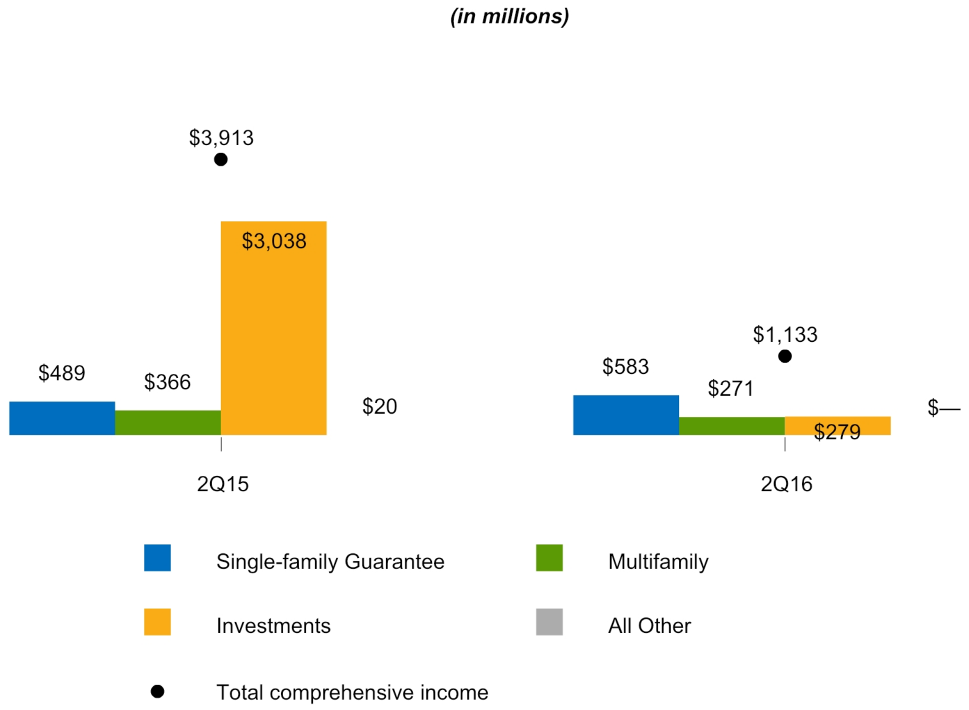
- **Single-family Guarantee** - reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk.
- **Multifamily** - reflects results from our purchase, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily mortgage credit risk.
- **Investments** - reflects results from managing the company's mortgage-related investments portfolio (excluding Multifamily investments, single-family seriously delinquent loans, and the credit risk of single-family performing loans), treasury function, and interest-rate risk.
- **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.

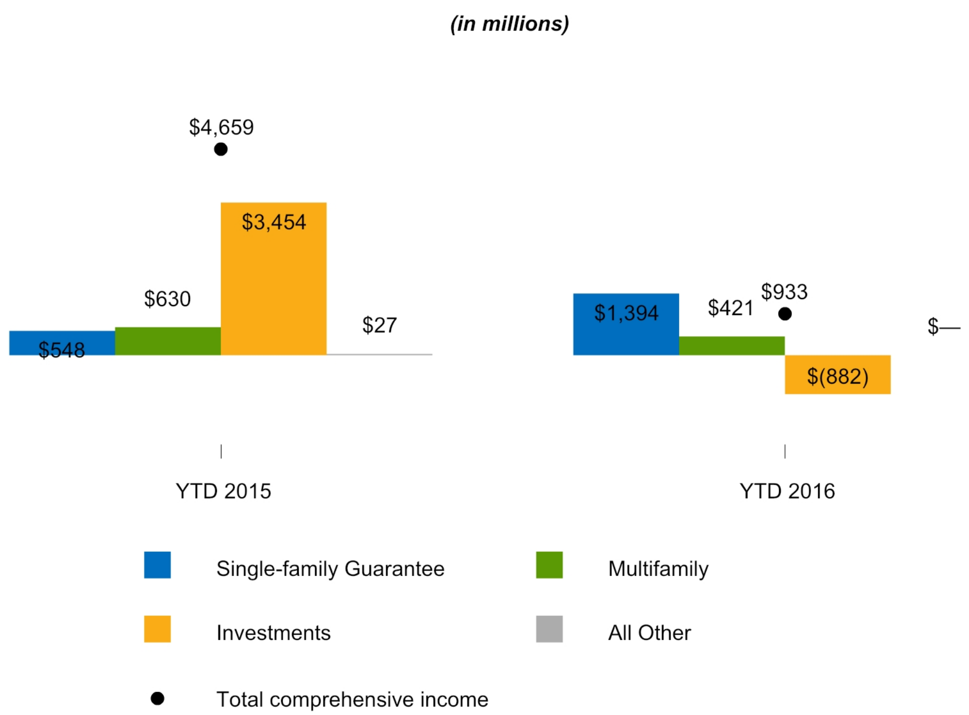
SEGMENT EARNINGS

During the first quarter of 2016, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee and Investments segments. Prior period results have been revised to conform to the current period presentation. For more information on these changes and on our segment reclassifications, see Note 11 in this Form 10-Q and Note 12 in our 2015 Annual Report.

SEGMENT COMPREHENSIVE INCOME

The tables below show our comprehensive income by segment, including the All Other category.



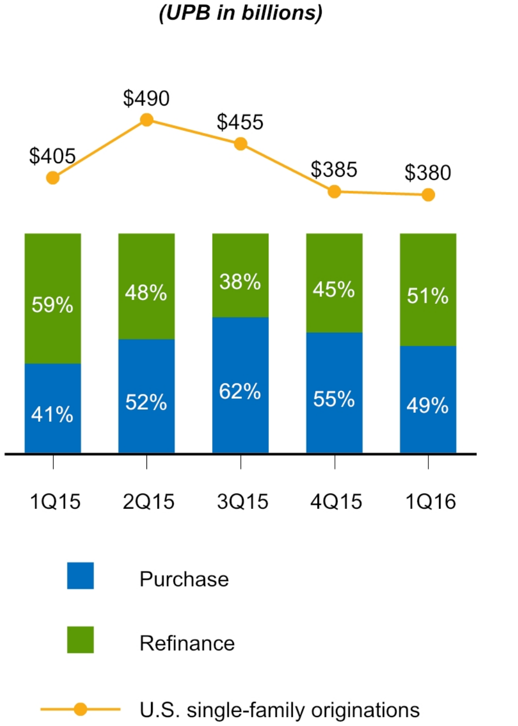


SINGLE-FAMILY GUARANTEE

MARKET CONDITIONS

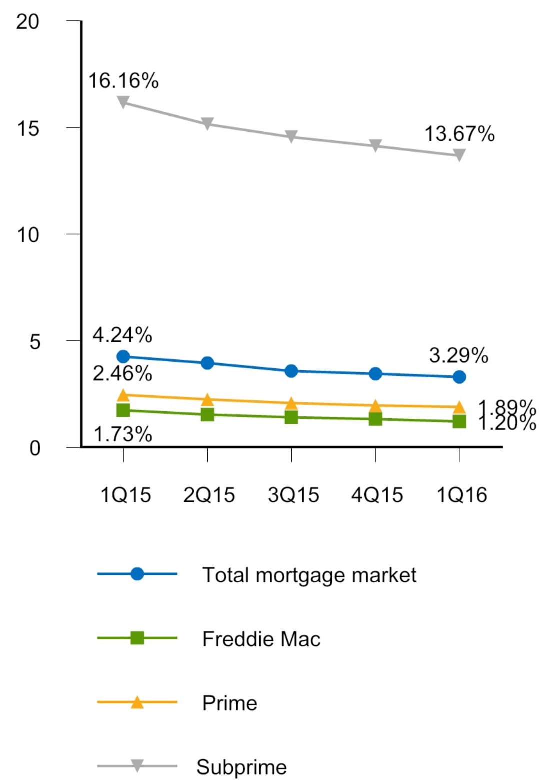
The following graphs and related discussion present certain market indicators that can significantly affect the business and financial results of our Single-family Guarantee segment.

U.S. Single-Family Originations



Source: Inside Mortgage Finance dated June 8, 2016 (latest available IMF purchase/refinance information).

Single-Family Serious Delinquency Rates



Source: National Delinquency Survey from the Mortgage Bankers Association. The rates are as of May 12, 2016 (latest available NDS information).

Commentary

- Single-family loan origination volumes:
  - **2Q 2016 vs. 2Q 2015 -** increased to $510 billion in 2Q 2016 compared to $490 billion in 2Q 2015, driven by an increase in refinancing activity due to the decline in interest rates. Mortgage origination data from Inside Mortgage Finance as of July 28, 2016.
  - **YTD 2016 vs. YTD 2015 -** was relatively unchanged at $890 billion in YTD 2016 compared to $895 billion in YTD 2015.
- Single-family serious delinquency (SDQ) rates in the U.S. continued to decline due to macroeconomic factors, such as a stable labor market and continued home price appreciation.

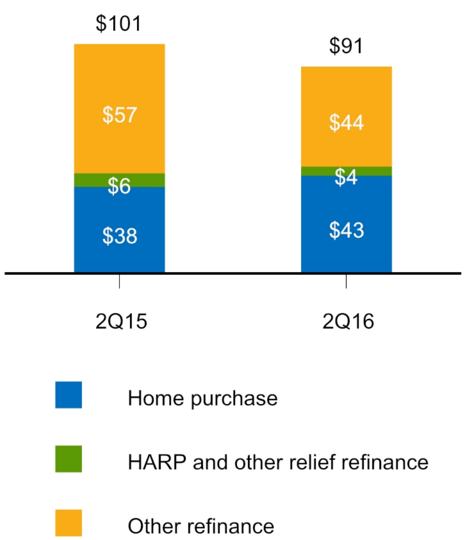
BUSINESS RESULTS

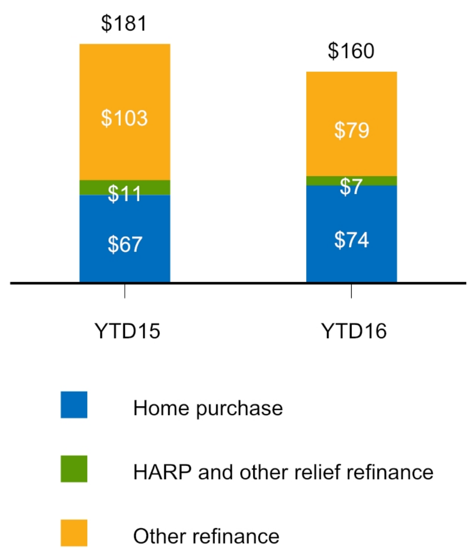
The following tables, graphs and related discussion present the business results of our Single-family Guarantee segment.

New Business Activity

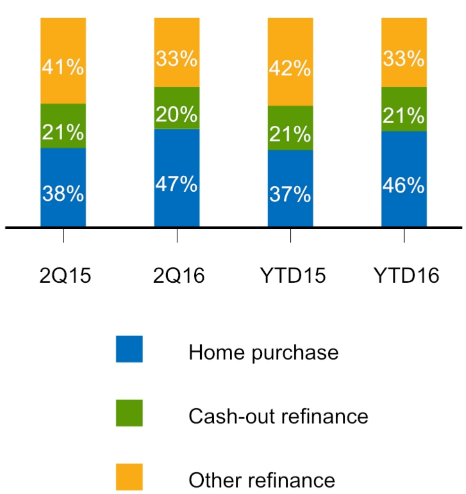
Single-Family Loan Purchases and Guarantees

(UPB in billions)





Percentage of Single-Family Loan Purchases and Guarantees by Loan Purpose



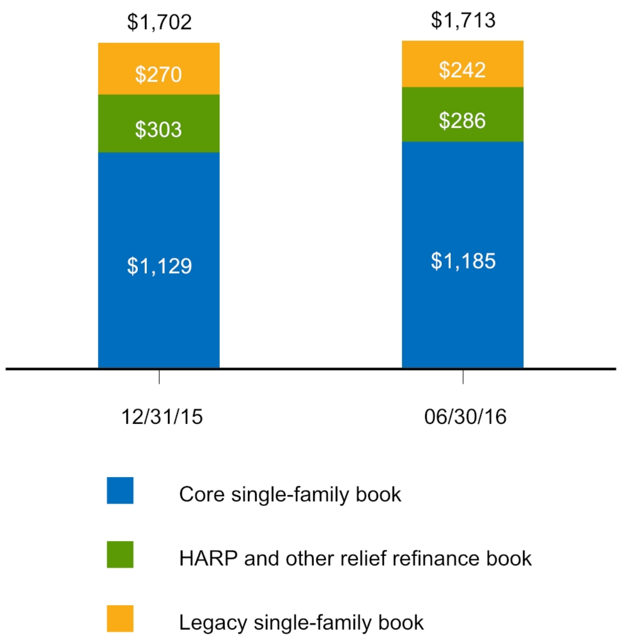
Commentary

- Our loan purchase and guarantee activity:
  - **2Q 2016 vs. 2Q 2015 -** declined due to lower refinance loan purchase volume as mortgage interest rates were slightly higher in early 2016 as compared to early 2015.
  - **YTD 2016 vs. YTD 2015 -** declined due to lower refinance loan purchase volume as mortgage interest rates declined at a slower pace in the latter part of 2015 and early 2016 than in the latter part of 2014 and early 2015.

Single-Family Credit Guarantee Portfolio

Single-Family Credit Guarantee Portfolio

(UPB in billions)



Commentary

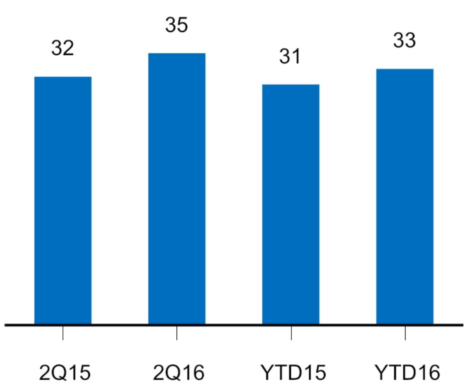
- The Core single-family book grew to 69% of the single-family credit guarantee portfolio at June 30, 2016 compared to 66% at December 31, 2015. The Core single-family book consists of loans that were originated since 2008, excluding HARP and other relief refinance loans.
- The HARP and other relief refinance book represented 17% of the single-family credit guarantee portfolio at June 30, 2016 compared to 18% at December 31, 2015.
- The Legacy single-family book declined to 14% of the single-family credit guarantee portfolio at June 30, 2016 compared to 16% at December 31, 2015.
- We had 10.7 million loans in our single-family credit guarantee portfolio at both June 30, 2016 and December 31, 2015.

Guarantee Fees

The average portfolio Segment Earnings guarantee fee rate recognizes upfront delivery fee income for the entire portfolio over the contractual life of the related loans (usually 30 years) adjusted for actual prepayments, whereas the average guarantee fee rate charged on new acquisitions recognizes these amounts over the estimated life of the related loans using our expectations of prepayments and other liquidations.

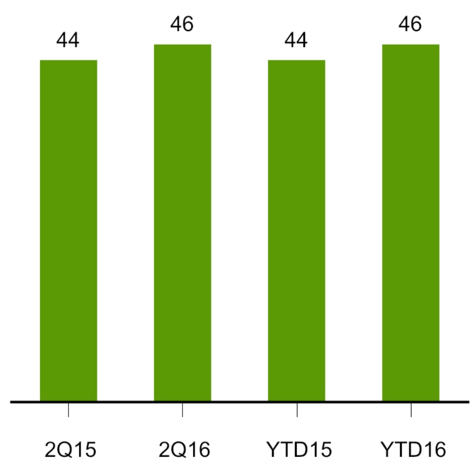
Average Portfolio Segment Earnings Guarantee Fee Rate[1]

(In bps)



Average Guarantee Fee Rate Charged on New Acquisitions[1]

(In bps)



(1) Excludes the legislated 10 basis point increase in guarantee fees.

Commentary

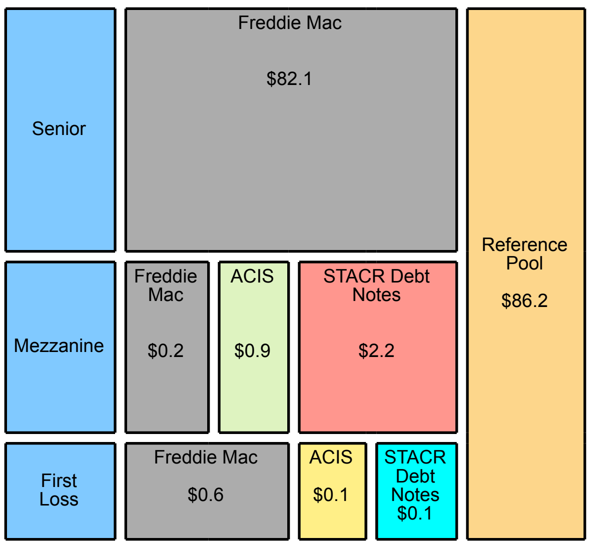
- Average portfolio Segment Earnings guarantee fees:
    - **2Q 2016 vs. 2Q 2015 -** increased primarily due to higher amortization of upfront fees resulting from the increase in the size of the single-family credit guarantee portfolio. Higher average contractual guarantee fees, reflecting the continued growth in the size of the Core single-family book in our single-family credit guarantee portfolio, also contributed. Average contractual guarantee fees are generally higher on mortgage loans in our Core single-family book compared to those in our Legacy single-family book.
    - **YTD 2016 vs. YTD 2015 -** increased primarily due to higher average contractual guarantee fee rates reflecting the continued growth in the size of the Core single-family book during YTD 2016.
- Average guarantee fee rate charged on new acquisitions:
    - **2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 -** increased primarily due to changes in the product mix of our single-family new business purchases as new acquisitions have included a relatively higher proportion of 30-year fixed-rate mortgages which generally have higher guarantee fee rates.

Credit Risk Transfer Activity

Since 2013, STACR debt note and ACIS transactions have been our principal methods of transferring to third parties a portion of the expected credit losses and a significant portion of stress credit losses subsequent to loan acquisition in our Core single-family book. The following charts present transactions that occurred during 2Q 2016 and the cumulative amount of such transactions as of June 30, 2016 by loss position and the party holding each loss position.

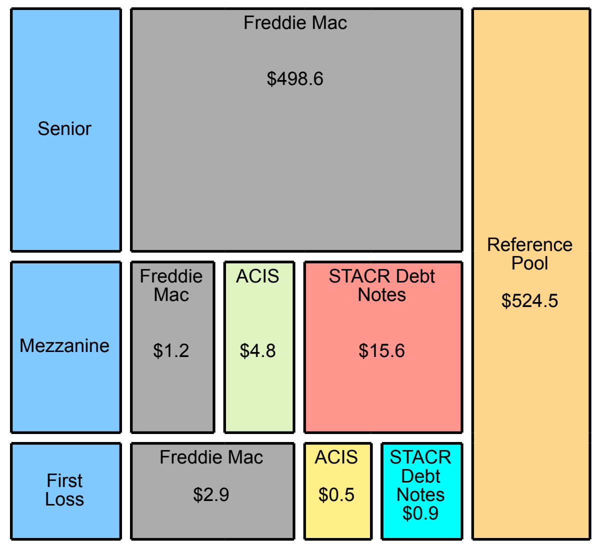
New STACR Debt Note and ACIS Transactions during 2Q 2016(1)

(In billions)



Cumulative STACR Debt Note and ACIS Transactions as of June 30, 2016(1)

(In billions)



(1) The amounts represent the UPB upon issuance of STACR debt notes and execution of ACIS transactions.

- We continued to transfer a portion of expected credit losses to third-party investors, insurers, and selected sellers through credit risk transfer transactions. During YTD 2016, we transferred a portion of the expected credit losses associated with $140.0 billion in UPB of loans in our Core single-family book through STACR debt note, ACIS, and seller indemnification transactions.
- The interest and premiums we pay on our issued STACR debt note and ACIS transactions effectively reduce the guarantee fee income we earn on the PCs within the respective reference pools. Our expected guarantee fee income on the PCs within the STACR and ACIS reference pools has been effectively reduced by approximately 34%, on average, for all transactions executed through June 30, 2016. The amount of the effective reduction to our overall guarantee fee income could change over time as we continue our credit risk transfer activities or if there are changes in the economic or regulatory environment that affect the cost of executing these transactions.
- Due to differences in accounting, there could be a significant lag in time between when we recognize a provision for credit losses and when we recognize the related recovery from our actual loss STACR debt note transactions. A credit expense on a loan in a reference pool related to these transactions is recorded when it is probable that we have incurred a loss, while a recovery is recorded when an actual loss event occurs.
- As of June 30, 2016, there has not been a significant number of loans in our STACR debt note reference pools that have experienced a credit event. As a result, we experienced minimal write-

downs on our STACR debt notes and filed minimal claims for reimbursement of losses under our ACIS transactions.

- In 2Q 2016, we executed our first ACIS transaction using collateral other than 30-year fixed-rate mortgages. In this transaction, we transferred a portion of the mezzanine expected credit losses and a significant portion of stress credit losses associated with $11.2 billion in UPB of 15-year fixed-rate mortgages. Also, unlike all prior ACIS transactions, this transaction did not involve loans in a reference pool created for a STACR debt note transaction.

Credit Enhancements

The table below provides information on the credit enhanced loans in our single-family credit guarantee portfolio by book as of June 30, 2016. The table includes all types of single-family credit enhancements, including primary mortgage insurance. See Note 4 for additional information about our single-family credit enhancements.

	As of June 30, 2016				
(dollars in millions)	Total Current UPB	Total Protected UPB(1)	Coverage Remaining(2)	Collateralized Coverage Remaining(3)	Percentage of Coverage Remaining Provided By Credit Risk Transfer Transactions(4)
Core single-family book	$ 1,184,607	$ 543,161	$ 78,461	$ 16,479	26%
HARP and other relief refinance book	286,477	31,511	8,625	—	—%
Legacy single-family book	241,882	32,159	9,934	—	—%
Total	$ 1,712,966	$ 606,831	$ 97,020	$ 16,479	21%

(1) Represents the UPB for which credit enhancements exist.
(2) Represents the amounts available for us to recover under the credit enhancements.
(3) Collateralized coverage includes cash received by Freddie Mac upon issuance of STACR debt notes and unguaranteed whole loan securities, as well as cash and securities pledged for our benefit. All collateralized coverage relates to credit risk transfer transactions in the Core single-family book.
(4) Credit risk transfer transactions include STACR debt notes, ACIS insurance policies, seller indemnification agreements, and whole loan securities. The substantial majority of single-family loans covered by these transactions were acquired after 2012.

Commentary

- The Core single-family book had credit protection on 46% of total current UPB as of June 30, 2016 compared to 39% as of December 31, 2015. Credit protection increased primarily as a result of our credit risk transfer transactions.

Mortgage Loan Credit Risk

Certain combinations of loan attributes can indicate a higher degree of credit risk, such as loans with both higher LTV ratios and lower credit scores. The following table presents the combination of credit score and current LTV (CLTV) ratio attributes of loans in our single-family credit guarantee portfolio.

	June 30, 2016								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(credit score)	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate	% Modified
Core single-family book:									
< 620	0.2%	1.99%	—%	3.62%	—%	12.50%	0.2%	2.28%	3.0%
620 to 659	1.4	0.91%	0.3	1.15%	—	6.92%	1.7	0.96%	1.3%
≥ 660	58.3	0.14%	8.9	0.23%	—	1.82%	67.2	0.15%	0.2%
Not available	—	1.37%	—	2.72%	0.1	7.10%	0.1	2.64%	3.6%
Total	59.9%	0.17%	9.2%	0.27%	0.1%	3.17%	69.2%	0.18%	0.2%
Relief refinance book:									
< 620	0.6%	1.55%	0.2%	2.80%	0.1%	4.21%	0.9%	2.12%	3.9%
620 to 659	0.8	0.99%	0.3	2.09%	0.2	3.10%	1.3	1.48%	2.2%
≥ 660	10.5	0.3%	2.9	0.99%	1.1	1.80%	14.5	0.51%	0.7%
Not available	—	1.08%	—	0.87%	—	—%	—	0.94%	1.1%
Total	11.9%	0.40%	3.4%	1.22%	1.4%	2.12%	16.7%	0.67%	1.0%
Legacy single-family book:									
< 620	0.8%	5.94%	0.2%	11.94%	0.2%	18.83%	1.2%	7.91%	32.2%
620 to 659	1.5	4.24%	0.4	9.39%	0.3	15.70%	2.2	5.84%	26.4%
≥ 660	7.8	1.84%	1.8	6.52%	0.9	11.42%	10.5	2.68%	12.5%
Not available	0.1	4.78%	0.1	15.62%	—	18.39%	0.2	5.45%	14.6%
Total	10.2%	2.52%	2.5%	7.72%	1.4%	13.42%	14.1%	3.59%	16.0%

Alt-A and Subprime Loans

While we refer to certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-Q, there is no universally accepted definition of subprime or Alt-A, and the classification of such loans may differ from company to company. For example, some financial institutions may use credit scores to delineate certain residential loans as subprime. 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 may characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be 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 $1.4 billion and $1.5 billion of security collateral underlying our other securitization products at June 30, 2016 and December 31, 2015, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be 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 continued 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-Q and our other financial reports 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. From the time the relief refinance initiative began in 2009 to June 30, 2016, we have purchased approximately $33.7 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including $0.4 billion in 2Q 2016.

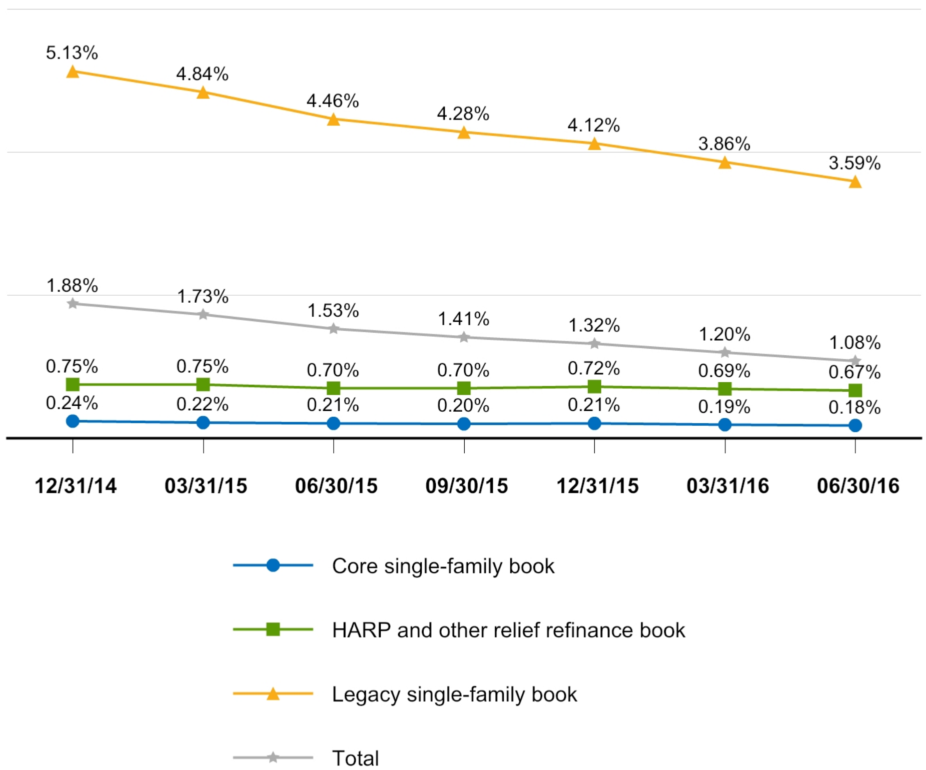
The table below contains information on Alt-A loans in our single-family credit guarantee portfolio.

	June 30, 2016				December 31, 2015			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate
Alt-A	$ 36.6	74%	24.6%	5.53%	$ 40.2	77%	23.1%	6.32%

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during YTD 2016 primarily due to borrowers refinancing into other mortgage products, foreclosure transfers, and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida, and Nevada.

Single-Family Loan Performance

Serious Delinquency Rates



Commentary

- Serious delinquency rates continued to decline across our single-family credit guarantee portfolio during YTD 2016 due to the continued strong performance of loans in the Core single-family book, continued home price appreciation, continued loss mitigation and foreclosure activities for loans in the Legacy single-family book, as well as sales of certain seriously delinquent loans.
- As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we sold seriously delinquent loans totaling $1.8 billion in UPB during YTD 2016. The sale of seriously delinquent loans during YTD 2016 contributed to a decline in the serious delinquency rate of the total single-family credit guarantee portfolio and the Legacy single-family book. Absent these sales, the serious delinquency rate of the total single-family credit guarantee portfolio and the Legacy single-family book would have been 1.18% and 3.88% as of June 30, 2016, respectively.
- Delinquency rates declined to 1.28% and 0.37% for loans one month and two months past due, respectively, as of June 30, 2016 compared to 1.37% and 0.42%, respectively, as of December 31, 2015.

Credit Performance

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

(dollars in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Charge-offs, gross	$ 486	$ 852	$ 1,055	$ 3,803
Recoveries	(152)	(196)	(280)	(370)
Charge-offs, net	334	656	775	3,433
REO operations expense	29	52	113	127
Total credit losses	$ 363	$ 708	$ 888	$ 3,560
Total credit losses (in bps)	8.4	16.7	10.3	42.1
Ratio of total loan loss reserves (excluding reserves for TDR concessions) to net charge-offs for single-family loans	3.4	2.4		
Ratio of total loan loss reserves to net charge-offs for single-family loans	10.1	6.6		

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

	June 30, 2016		June 30, 2015	
(dollars in millions)	Loan Count	Amount	Loan Count	Amount
TDRs, at January 1	512,253	$ 85,960	539,590	$ 94,401
New additions	22,839	3,132	31,154	4,375
Repayments and reclassifications to held-for-sale	(31,989)	(6,327)	(36,003)	(7,626)
Foreclosure transfers and foreclosure alternatives	(5,938)	(852)	(10,878)	(1,747)
TDRs, at June 30,	497,165	81,913	523,863	89,403
Loans impaired upon purchase	8,661	614	11,015	814
Total impaired loans with specific reserve	505,826	82,527	534,878	90,217
Allowance for loan losses		(12,357)		(15,528)
Net investment, at June 30,		$ 70,170		$ 74,689

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

(in millions)	June 30, 2016	December 31, 2015
TDRs on accrual status	$ 80,156	$ 82,026
Non-accrual loans	18,015	22,460
Total TDRs and non-accrual loans	$ 98,171	$ 104,486
Loan loss reserves associated with:		
TDRs on accrual status	$ 10,627	$ 12,105
Non-accrual loans	2,370	2,677
Total	$ 12,997	$ 14,782

(in millions)	YTD 2016	YTD 2015
Foregone interest income on TDRs and non-accrual loans[1]	$ 1,249	$ 1,572

(1) Represents the amount of interest income that we would have recognized for loans outstanding at the end of each period, had the loans performed according to their original contractual terms.

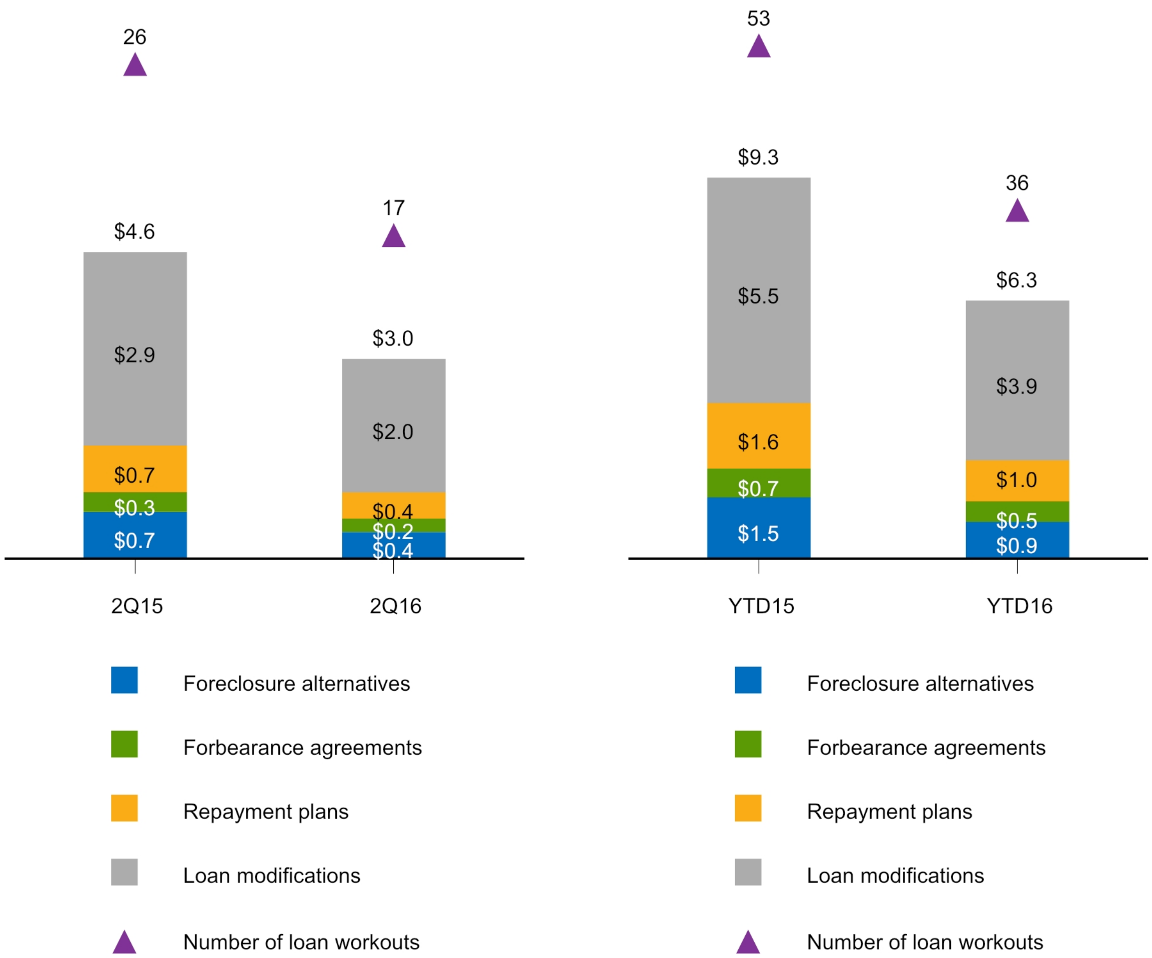
Commentary

- As of June 30, 2016, 66% of the loan loss reserves for single-family mortgage 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 June 30, 2016.
- We expect our loan loss reserves associated with existing single-family TDRs to continue to decline over time as borrowers continue to make monthly payments under the modified terms and interest-rate concessions are amortized into earnings.
- **Charge-offs, net** were lower in the 2016 periods compared to the 2015 periods due to:
  - **2Q 2016 vs. 2Q 2015 -** decreased REO acquisition and foreclosure alternative volumes;
  - **YTD 2016 vs. YTD 2015 -** decreased REO acquisition and foreclosure alternative volumes and our initial adoption of an FHFA advisory bulletin on January 1, 2015 that changed when we deem a loan to be uncollectible, which increased charge-offs by $1.9 billion during YTD 2015.
- See Note 4 for information on our single-family loan loss reserves.

Loss Mitigation Activities

Loan Workout Activity

(UPB in billions, number of loan workouts in thousands)



Commentary

- Our loan workout activity declined consistent with the decline in the number of delinquent loans in the single-family credit guarantee portfolio as the economy continues to improve.
- On April 14, 2016, FHFA announced that Freddie Mac and Fannie Mae will offer principal reduction to certain borrowers with seriously delinquent, underwater loans. The new initiative is a one-time offering for borrowers who meet certain specific eligibility criteria. We believe that this offering will not have a significant effect on our financial results.
- The MHA Program, including HAMP, will expire on December 31, 2016. However, our Standard and Streamlined Modification programs will continue to be available into 2017.

REO Activity

The table below presents a summary of our single-family REO activity.

	2Q 2016		2Q 2015		YTD 2016		YTD 2015	
(dollars in millions)	Number of Properties	Amount	Number of Properties	Amount	Number of Properties	Amount	Number of Properties	Amount
Beginning balance — REO	15,409	$ 1,611	22,738	$ 2,384	17,004	$ 1,774	25,768	$ 2,684
Additions	4,153	392	5,824	562	8,784	832	13,025	1,245
Dispositions	(6,278)	(609)	(9,078)	(912)	(12,504)	(1,212)	(19,309)	(1,895)
Ending balance — REO	13,284	1,394	19,484	2,034	13,284	1,394	19,484	2,034
Beginning balance, valuation allowance		(44)		(90)		(52)		(126)
Change in valuation allowance		27		34		35		70
Ending balance, valuation allowance		(17)		(56)		(17)		(56)
Ending balance — REO, net		$ 1,377		$ 1,978		$ 1,377		$ 1,978

Commentary

- Our REO inventory declined in the 2016 periods as compared to the 2015 periods primarily due to REO dispositions exceeding our acquisitions. REO acquisitions continue to decline due to fewer seriously delinquent loans and a large proportion of property sales to third parties at foreclosure.

FINANCIAL RESULTS

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

	2Q 2016	2Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Net interest income (loss)	$ (151)	$ 26	$ (177)	(681)%	$ (269)	$ (111)	$ (158)	142 %
Guarantee fee income	1,501	1,325	176	13 %	2,786	2,582	204	8 %
Benefit (provision) for credit losses	121	(137)	258	(188)%	410	(517)	927	(179)%
Net interest income and guarantee fee income after benefit (provision) for credit losses	1,471	1,214	257	21 %	2,927	1,954	973	50 %
Other non-interest income (loss)	(117)	(32)	(85)	266 %	70	(215)	285	(133)%
Non-interest expense:								
Administrative expense	(314)	(329)	15	(5)%	(609)	(629)	20	(3)%
REO operations expense	(29)	(52)	23	(44)%	(113)	(127)	14	(11)%
Other non-interest expense	(101)	(87)	(14)	16 %	(201)	(179)	(22)	12 %
Total non-interest expense	(444)	(468)	24	(5)%	(923)	(935)	12	(1)%
Segment Earnings before income tax expense	**910**	**714**	**196**	**27 %**	**2,074**	**804**	**1,270**	**158 %**
Income tax expense	(326)	(225)	(101)	45 %	(680)	(255)	(425)	167 %
Segment Earnings, net of taxes	**584**	**489**	**95**	**19 %**	**1,394**	**549**	**845**	**154 %**
Total other comprehensive income (loss), net of tax	(1)	—	(1)	N/A	—	(1)	1	(100)%
Total comprehensive income	**$ 583**	**$ 489**	**$ 94**	**19 %**	**$ 1,394**	**$ 548**	**$ 846**	**154 %**

Key Drivers:

- **Net interest income (loss)**
  - **2Q 2016 vs. 2Q 2015 -** changed from income to loss primarily due to an increase in non-cash premium amortization expense in 2Q 2016 as compared to 2Q 2015 as the single-family loans in consolidated trusts prepaid before the related PCs.
  - **YTD 2016 vs. YTD 2015 -** increased loss primarily due to higher STACR debt expense driven by a higher outstanding balance of STACR debt notes in YTD 2016 as compared to YTD 2015.
- **Guarantee fee income**
  - **2Q 2016 vs. 2Q 2015 -** increased primarily due to higher amortization of upfront fees resulting from the increase in the size of the single-family credit guarantee portfolio. Higher average contractual guarantee fee rates, reflecting the continued growth in the size of the Core single-family book, also contributed.
  - **YTD 2016 vs. YTD 2015 -** increased primarily due to higher average contractual guarantee fee rates reflecting the continued growth in the size of the Core single-family book.
- **Benefit (provision) for credit losses**
  - **2Q 2016 vs. 2Q 2015 -** changed from a (provision) to a benefit primarily due to a decrease in the volume of newly delinquent single-family loans.

  - **YTD 2016 vs. YTD 2015 -** changed from a (provision) to a benefit due to a combination of improvements in estimated loss severity and probability of default and a decrease in the volume of newly delinquent single-family loans.

- **Other non-interest income (loss)**
  - **2Q 2016 vs. 2Q 2015** - increased losses were primarily due to fair value losses on STACR debt notes as spreads between STACR yields and LIBOR tightened during 2Q 2016 compared to fair value gains in 2Q 2015 when spreads widened.
  - **YTD 2016 vs. YTD 2015** - was a gain in YTD 2016 compared to a loss in YTD 2015 primarily due to fewer seriously delinquent loans reclassified from held-for-investment to held-for-sale.

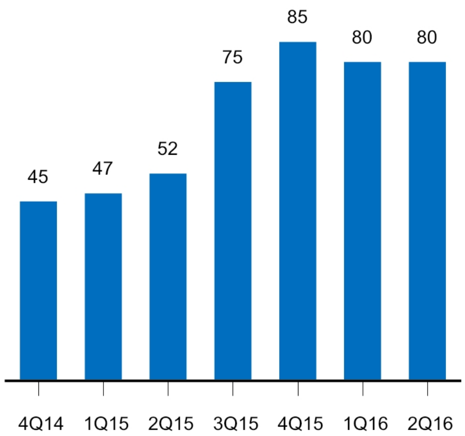
MULTIFAMILY

MARKET CONDITIONS

The following graphs and related discussion present certain market indicators that can significantly affect the business and financial results of our Multifamily segment.

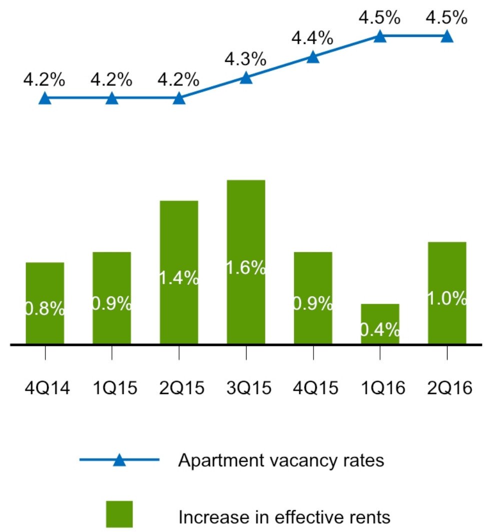
K Certificate Benchmark Spread

(In bps)



Source: Independent dealers

Apartment Vacancy Rates and Change in Effective Rents



Source: REIS, Inc.

Commentary

- The profitability of our K Certificate transactions (as measured by gains and losses on sales of mortgage loans) is affected by the change in K Certificate spreads during the period between our commitment to purchase a loan and execution of the K Certificate transaction.
- The K Certificate benchmark spread ended 2Q 2016 at 80 bps, the same level as 1Q 2016. During April and May 2016, the K Certificate benchmark spread tightened, having a positive effect on K Certificate profitability. However, the K Certificate benchmark spread widened sharply at the end of 2Q 2016 due to increased market volatility as a result of the United Kingdom's decision to leave the European Union.
- During 2Q 2016, the rate of increase in effective rents grew, while vacancy rates were unchanged. We expect that, given the elevated levels of new construction, vacancy rates will increase slowly in the upcoming quarters, putting downward pressure on rent growth.

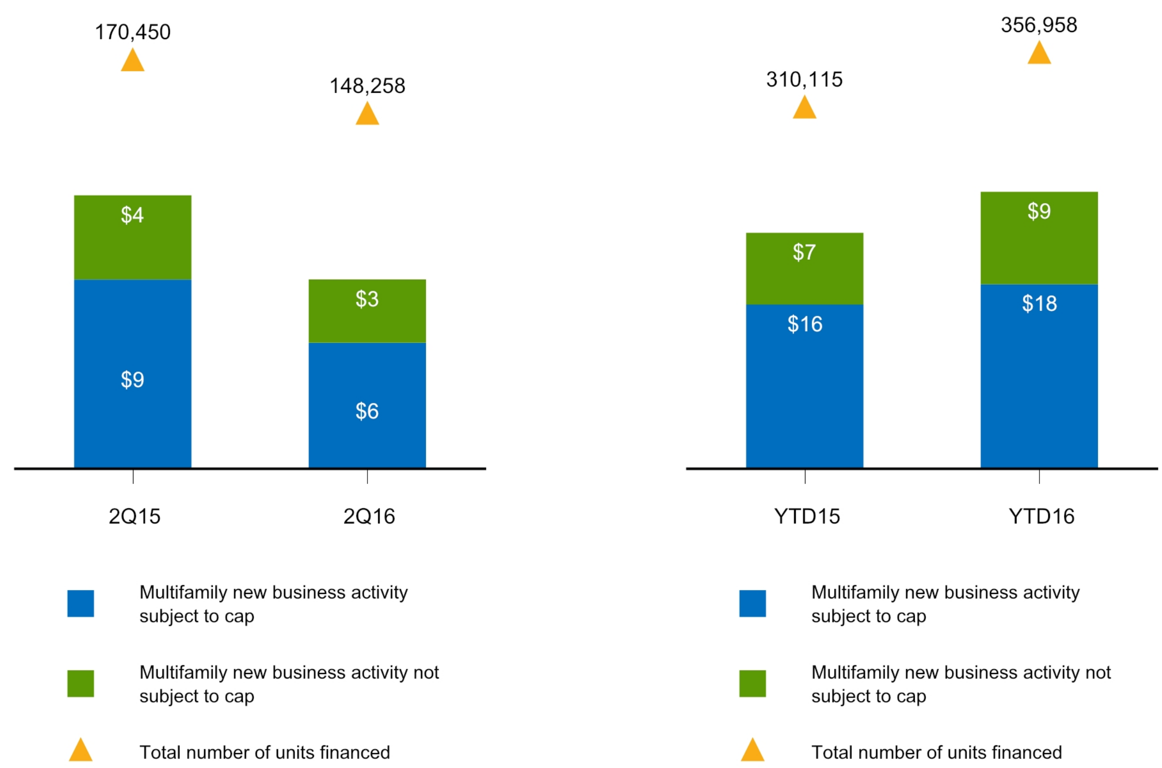
BUSINESS RESULTS

The following graphs and related discussion present the business results of our Multifamily segment.

New Business Activity

Multifamily New Business Activity

(UPB in billions)



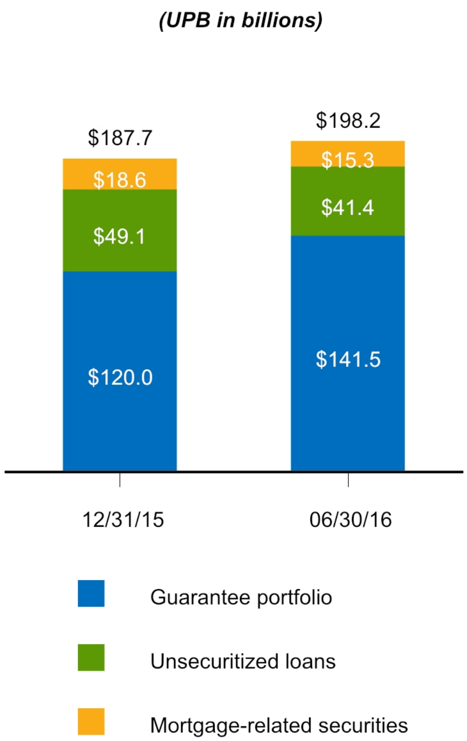
Commentary

- We have a goal under the 2016 Conservatorship Scorecard to maintain the dollar volume of multifamily new business activity at or below a production cap, which was increased during 2Q 2016 from $31 billion to $35 billion. For purposes of determining our performance under the goal, business activity associated with certain targeted loan types is excluded from this production cap. Reclassifications between new business activity subject to the production cap and new business activity not subject to the production cap may occur during 2016.
- Approximately two-thirds of our multifamily new business activity during 2Q 2016 counted towards the 2016 Scorecard production cap, and the remaining one-third was not subject to the production cap.
- Our multifamily new business activity outstanding commitments were $13 billion and $9 billion, as of June 30, 2016 and June 30, 2015, respectively. The June 30, 2016 amount includes loan purchase commitments for which we have elected the fair value option.

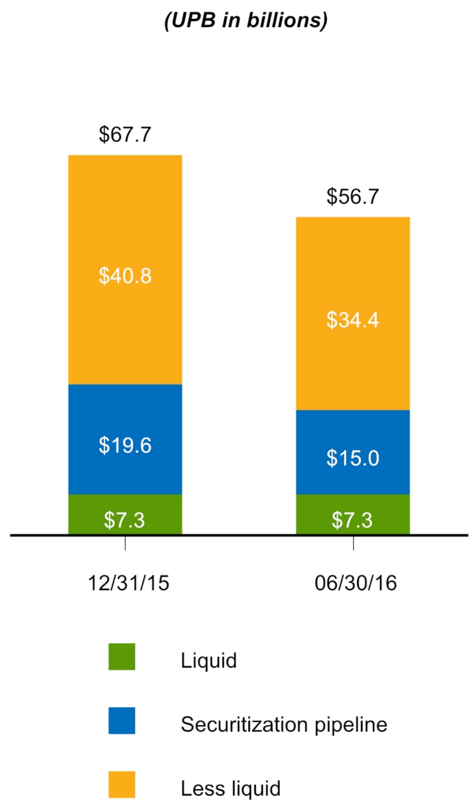
- We expect that, over the remainder of 2016, our dollar volume of multifamily new business activity subject to the cap will moderate and we will meet the goal under the 2016 Conservatorship Scorecard.

Multifamily Portfolio

Multifamily Mortgage Portfolio by Asset Class



Multifamily Mortgage Investments Portfolio



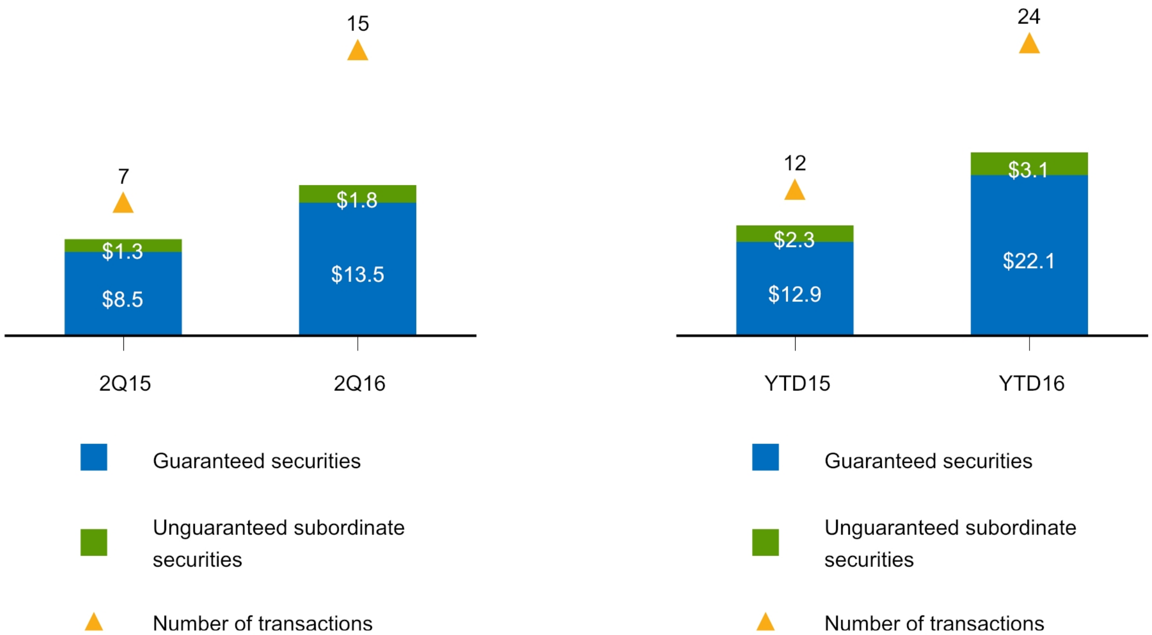
Commentary

- Our multifamily mortgage portfolio grew during 2Q 2016 due to an increase in the guarantee portfolio, which was primarily attributable to our securitization of loans in K Certificate transactions.
- Our securitization pipeline of held-for-sale loans was $15.0 billion at June 30, 2016, a reduction from the elevated levels in recent prior quarters. This balance decreased during 2Q 2016 as our securitization of loans into K Certificates and other securitization products outpaced our 2Q 2016 held-for-sale loan purchase volume.
- The decline in less liquid assets during YTD 2016 was primarily due to continued runoff of our held-for-investment mortgage loan and CMBS portfolios. In addition, less liquid assets declined as a result of securitization of certain of our held-for-investment mortgage loans.
- Our multifamily delinquency rate at June 30, 2016 was 0.02%.

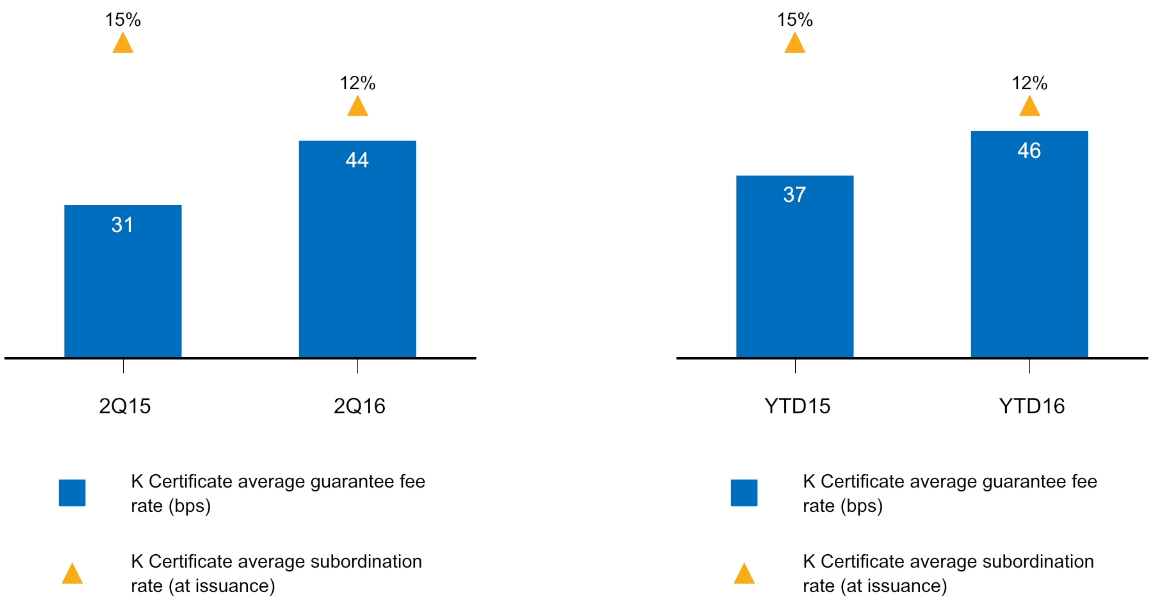
Credit Risk Transfer Activity

New K Certificate Issuances

(UPB in billions)



Average Guarantee Fee Rate Charged on New K Certificates



Commentary

- Our K Certificate issuance volume increased during 2Q 2016 and YTD 2016 as we continued to reduce our securitization pipeline, which was elevated in recent prior quarters as a result of the record origination volume in the multifamily market during 2015.
- In addition to the credit risk we transferred on K Certificates, we transferred a large majority of expected and stress credit losses associated with $1.0 billion of additional loans during 2Q 2016 through other securitization products, such as small balance loan securitizations.
- The average guarantee fee rate on newly issued K Certificates increased during 2Q 2016 and YTD 2016 compared to 2Q 2015 and YTD 2015 primarily due to lower levels of subordination.

FINANCIAL RESULTS

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

(dollars in millions)	2Q 2016	2Q 2015	Change $	Change %	YTD 2016	YTD 2015	Change $	Change %
Net interest income	$ 216	$ 281	$ (65)	(23)%	$ 468	$ 523	$ (55)	(11)%
Guarantee fee income	124	79	45	57 %	232	152	80	53 %
Benefit (provision) for credit losses	6	17	(11)	(65)%	11	20	(9)	(45)%
Net interest income and guarantee fee income after benefit (provision) for credit losses	346	377	(31)	(8)%	711	695	16	2 %
Gains (losses) on loans and other non-interest income	445	(304)	749	(246)%	1,182	86	1,096	1,274 %
Derivative gains (losses)	(296)	708	(1,004)	(142)%	(1,083)	509	(1,592)	(313)%
Administrative expense	(86)	(90)	4	(4)%	(166)	(160)	(6)	4 %
Other non-interest expense	(9)	(12)	3	(25)%	(33)	(23)	(10)	43 %
Segment Earnings before income tax expense	**400**	**679**	**(279)**	**(41)%**	**611**	**1,107**	**(496)**	**(45)%**
Income tax expense	(136)	(206)	70	(34)%	(200)	(350)	150	(43)%
Segment Earnings, net of taxes	**264**	**473**	**(209)**	**(44)%**	**411**	**757**	**(346)**	**(46)%**
Total other comprehensive income (loss), net of tax	7	(107)	114	(107)%	10	(127)	137	(108)%
Total comprehensive income	**$ 271**	**$ 366**	**$ (95)**	**(26)%**	**$ 421**	**$ 630**	**$ (209)**	**(33)%**

Key Drivers:

- **Net interest income**
  - ***2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015*** - decreased primarily due to a decline in net prepayment fees.
- **Guarantee fee income**
  - ***2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015*** - increased primarily due to higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates.
- **Gains on loans and other non-interest income**
  - ***2Q 2016 vs. 2Q 2015*** - increased due to both interest rate-related and spread-related fair value gains. Interest rate-related fair value gains (which are largely offset in **derivative gains (losses)**) increased due to declines in longer-term interest rates during 2Q 2016 compared to increases during 2Q 2015. Spread-related fair value gains increased due to K Certificate spread volatility during 2Q 2016 compared to spread widening during 2Q 2015.
  - ***YTD 2016 vs. YTD 2015*** - increased primarily due to increased interest rate-related fair value gains (which are largely offset in **derivative gains (losses)**) due to declines in longer-term interest rates during YTD 2016 compared to increases during YTD 2015.
- **Derivative gains (losses)**
  - ***2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015*** - worsened due to declines in longer-term interest rates during the 2016 periods compared to increases in longer-term interest rates during the 2015 periods. These results are largely offset by fair value changes of the loans and investment securities being economically hedged, and as a result, there is minimal net impact on

total comprehensive income for the Multifamily segment from fair value changes related to interest rate-related derivatives. The fair value changes of the economically hedged assets are included in **gains (losses) on loans and other non-interest income** and **total other comprehensive income (loss)**.

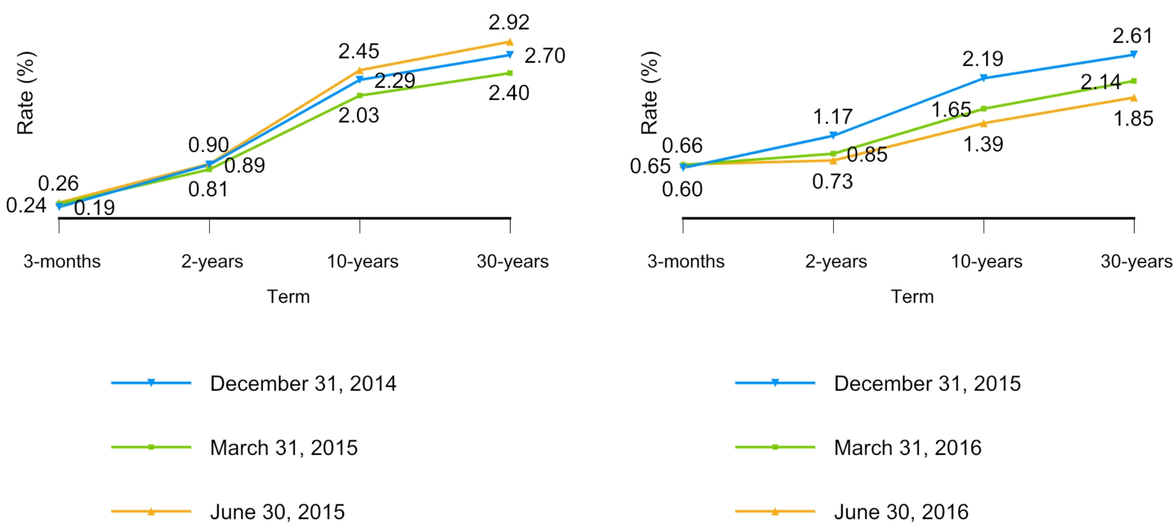
- **Total other comprehensive income**
  - ***2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015*** - increased due to increased interest rate-related fair value gains (which are largely offset in **derivatives gains (losses)**), partially offset by increased spread-related fair value losses as a result of spread widening on certain of our available-for-sale CMBS securities during the 2016 periods compared to during the 2015 periods when these securities' spreads remained relatively unchanged.

INVESTMENTS

MARKET CONDITIONS

The following graphs present the par swap rate curves as of the end of each comparative period. As our derivatives and floating-rate debt are generally LIBOR-based, changes in par swap rates can significantly affect the business and financial results of our Investments segment.

Par Swap Rate Curves



Sources: BlackRock

Commentary

- Interest rates (e.g., 2-year and 10-year rates) declined during 2Q 2016 and YTD 2016, resulting in lower fair values for our pay-fixed interest rate swaps and higher fair values for our receive-fixed interest rate swaps, certain of our option contracts, and the vast majority of our investments in securities. Conversely, interest rates increased during 2Q 2015 and YTD 2015, resulting in higher fair values for our pay-fixed interest rate swaps and lower fair values for our receive-fixed interest rate swaps, certain of our option contracts, and the vast majority of our investments in securities.

BUSINESS RESULTS

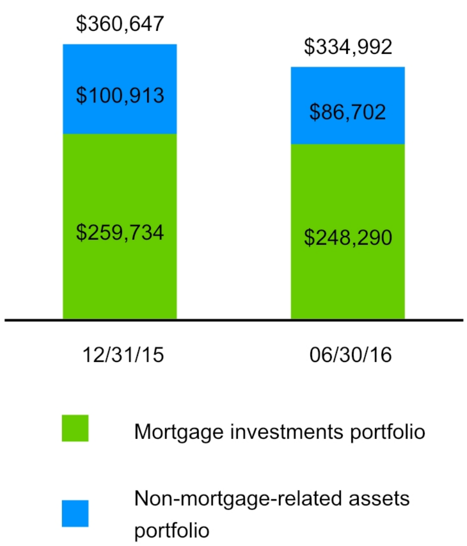
The following tables, graphs and related discussion present the business results of our Investments segment.

Investing Activity

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

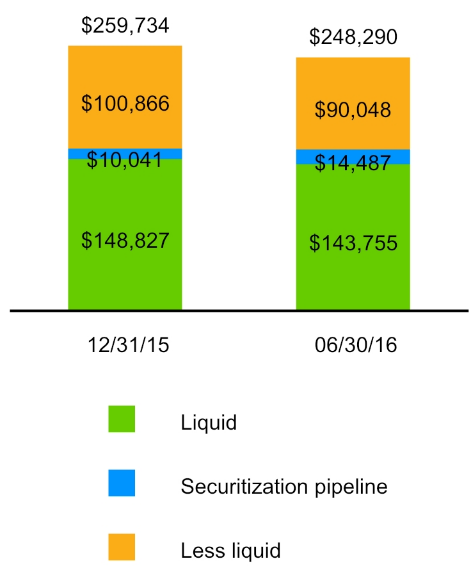
Investments Portfolio

(UPB in millions)



Mortgage Investments Portfolio

(UPB in millions)



Commentary

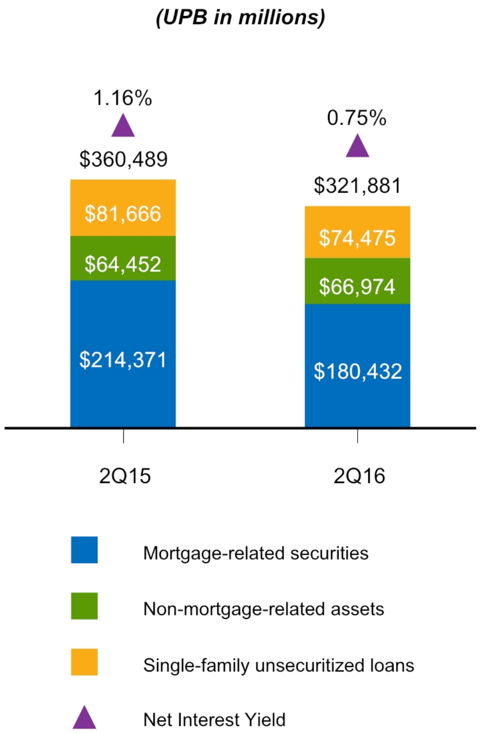
- We continue to reduce the size of our mortgage investments portfolio in order to comply with the mortgage-related investments portfolio year-end limits. The balance of our mortgage investments portfolio declined 4.4% from December 31, 2015 to June 30, 2016.
- The balance of our non-mortgage-related assets portfolio declined 14.1% from December 31, 2015 to June 30, 2016, primarily due to higher near-term cash needs as of December 31, 2015. This portfolio includes certain securities that we may otherwise not invest in, other than to pledge as collateral to our counterparties when our derivatives are in a liability position.
- The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 38.8% at December 31, 2015 to 36.3% at June 30, 2016, primarily due to repayments, sales and securitizations of our less liquid assets. We actively reduced the size of our less liquid assets during YTD 2016 by selling $4.4 billion of non-agency mortgage-related securities and enhancing the

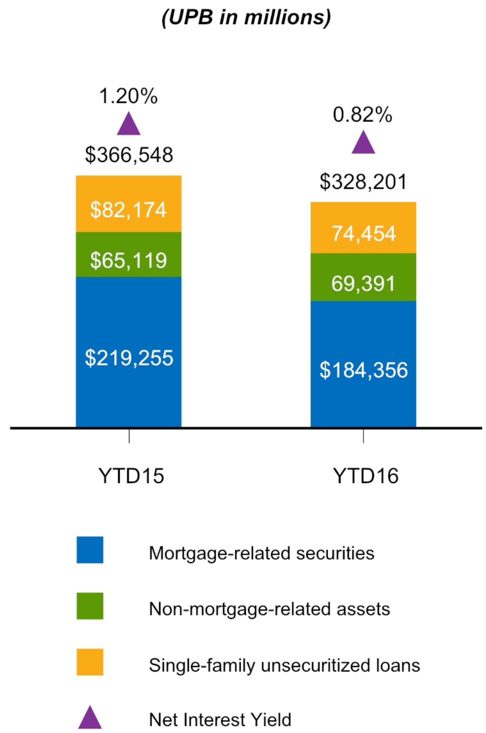
liquidity of $3.5 billion of single-family reperforming loans and performing modified loans through securitization. We initially retained all of the resulting Freddie Mac mortgage-related securities created through such securitizations in our mortgage investments portfolio. Certain of these retained securities have been resecuritized, with some of the resulting interests being sold to third parties.

- The overall liquidity of our mortgage investments portfolio continued to improve as our less liquid assets decreased at a faster pace than the overall decline of our mortgage investments portfolio.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balance





Commentary

- **Net Interest Yield**
  - ***2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015 -*** declined 41 basis points and 38 basis points, respectively, primarily due to an increase in the cost to hedge our mortgage prepayment risk as a result of the declining interest rate environment, coupled with a reduction in the balance of our higher yielding mortgage-related assets due to repayments.
- **Average Investments Portfolio Balance**
  - The average investments portfolio balances for the 2016 periods declined compared to the 2015 periods primarily due to the repayment and sale of non-agency mortgage-related securities and the repayment of certain reperforming loans and performing modified loans, partially offset by an increase in our purchase of loans for our securitization pipeline. The overall decline in our average investments portfolio balance is consistent with our efforts to comply with the mortgage-related investments portfolio year-end limits.

Funding Activity

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

(Par value in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Discount notes and Reference Bills:				
Beginning balance	$ 75,659	$ 116,389	$ 104,088	$ 134,670
Issuances	106,290	117,947	211,943	179,557
Maturities	(113,850)	(141,187)	(247,932)	(221,078)
Ending balance	68,099	93,149	68,099	93,149
Callable debt:				
Beginning balance	108,664	119,693	107,675	107,070
Issuances	43,137	40,134	72,067	65,219
Repurchases	—	—	—	—
Calls	(42,282)	(49,636)	(69,973)	(60,541)
Maturities	(125)	—	(375)	(1,557)
Ending balance	109,394	110,191	109,394	110,191
Non-callable debt:				
Beginning balance	193,919	207,112	194,372	206,393
Issuances	12,303	6,269	20,741	20,357
Repurchases	—	(217)	—	(217)
Maturities	(17,096)	(8,656)	(25,987)	(22,025)
Ending balance	189,126	204,508	189,126	204,508
Total other debt (1)	$ 366,619	$ 407,848	$ 366,619	$ 407,848

(1) Activity and balances disclosed in the table above exclude certain other debt issued by other segments (e.g., STACR debt notes).

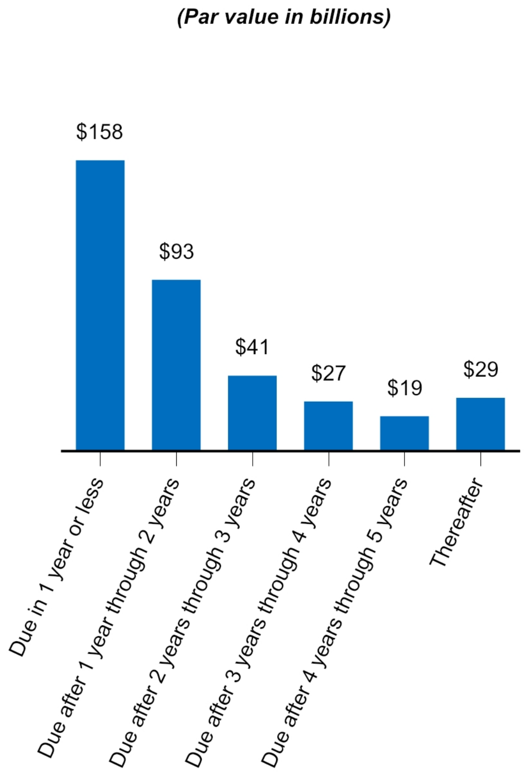
Commentary

- The outstanding balance of our other debt continues to decline as we require less debt to fund our business operations due to the decline in the balance of our mortgage-related investments portfolio.
- To replace the medium-term and long-term debt that was called or matured during the 2016 periods, we issued a combination of callable and non-callable debt. These new issuances resulted in lower funding costs during the 2016 periods due to improvements in our debt spreads.
- We continued to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. This strategy resulted in an increase in both issuances and pay-offs of our short-term other debt during YTD 2016 compared to YTD 2015. However, the outstanding balance of our discount notes declined during YTD 2016 as a result of issuing more medium-term debt.

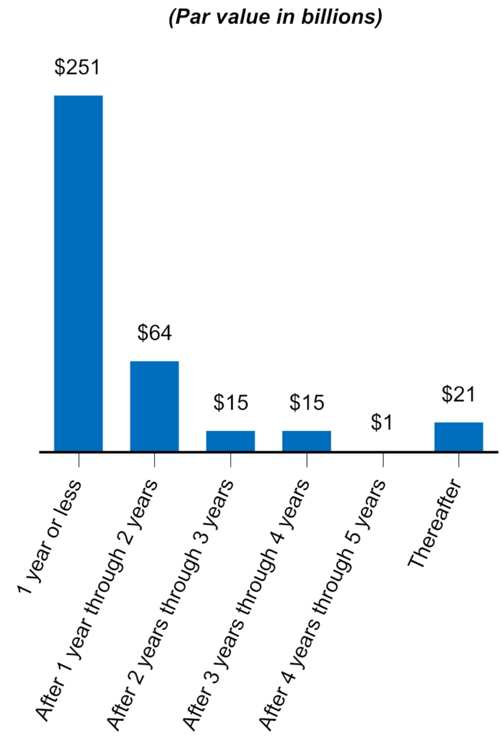
Debt Composition

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

Contractual Maturity Date as of June 30, 2016



Earliest Redemption Date as of June 30, 2016



Commentary

- As our long-term debt spreads remained high relative to our short-term and medium term debt during YTD 2016, we continued to rely on a mix of short-term and medium-term debt issuances to meet our overall funding needs. Our effective short-term debt percentage, which represents the percentage of our total other debt (including the par value of our STACR debt notes that are excluded from the graphs above) that is expected to mature within one year, remained relatively flat at 41.5% as of June 30, 2016 compared to 41.3% as of December 31, 2015.
- Our short-term debt issuances provide us with overall lower funding costs relative to our medium-term and longer-term debt. Since the fourth quarter of 2015, we have seen improvements in our short-term debt spreads, primarily due to higher demand for new short-term debt issuances.
- 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 June 30, 2016, $93 billion of the outstanding $109 billion of callable debt may be called within one year.

FINANCIAL RESULTS

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

	2Q 2016	2Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Net interest income	$ 606	$ 1,047	$ (441)	(42)%	$ 1,354	$ 2,202	$ (848)	(39)%
Non-interest income:								
Net impairment of available-for-sale securities recognized in earnings	49	95	(46)	(48)%	130	213	(83)	(39)%
Derivative gains (losses)	(1,003)	3,157	(4,160)	(132)%	(3,998)	1,729	(5,727)	(331)%
Gains (losses) on trading securities	22	(271)	293	(108)%	191	(226)	417	(185)%
Other non-interest income	551	741	(190)	(26)%	740	1,202	(462)	(38)%
Total non-interest income (loss)	(381)	3,722	(4,103)	(110)%	(2,937)	2,918	(5,855)	(201)%
Non-interest expense:								
Administrative expense	(75)	(82)	7	(9)%	(148)	(163)	15	(9)%
Other non-interest expense	(1)	(2)	1	(50)%	(3)	(2)	(1)	50 %
Total non-interest expense	(76)	(84)	8	(10)%	(151)	(165)	14	(8)%
Segment Earnings before income tax (expense) benefit	**149**	**4,685**	**(4,536)**	**(97)%**	**(1,734)**	**4,955**	**(6,689)**	**(135)%**
Income tax (expense) benefit	(4)	(1,478)	1,474	(100)%	568	(1,568)	2,136	(136)%
Segment Earnings, net of taxes	**145**	**3,207**	**(3,062)**	**(95)%**	**(1,166)**	**3,387**	**(4,553)**	**(134)%**
Total other comprehensive income (loss), net of tax	134	(169)	303	(179)%	284	67	217	324 %
Total comprehensive income (loss)	**$ 279**	**$ 3,038**	**$ (2,759)**	**(91)%**	**$ (882)**	**$ 3,454**	**$ (4,336)**	**(126)%**

Key Drivers:

- **Net interest income**
  - **2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015** - decreased primarily due to the continued reduction in the balance of our mortgage investments portfolio, coupled with the increase in the cost to hedge our mortgage prepayment risk as a result of the declining interest rate environment.
- **Derivative gains (losses)**
  - **2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015** - worsened as we recognized derivative losses during the 2016 periods compared to derivative gains during the 2015 periods, primarily as a result of a decline in longer-term interest rates during the 2016 periods and an increase in longer-term interest rates during the 2015 periods. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.
- **Gains (losses) on trading securities**
  - **2Q 2016 vs. 2Q 2015 and YTD 2016 vs. YTD 2015** - reflects our recognition of net gains during the 2016 periods compared to net losses during the 2015 periods, primarily as a result of a decline in longer-term interest rates during the 2016 periods compared to an increase in longer-term interest rates during the 2015 periods. These changes were partially offset by spread widening during the 2016 periods for our agency mortgage-related securities classified as trading compared to spread tightening during the 2015 periods.

- **Other non-interest income**
  - **2Q 2016 vs. 2Q 2015** - decreased primarily due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position, coupled with an increase in the amount of losses recognized from the extinguishment of certain fixed-rate debt securities of consolidated trusts, as market interest rates declined between the time of issuance and repurchase.
  - **YTD 2016 vs. YTD 2015** - decreased primarily due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position. This decline in sales was attributable to increased market volatility and weaker investor demand for this product type.
- **Other comprehensive income (loss)**
  - **2Q 2016 vs. 2Q 2015** - increased primarily due to a decline in longer-term interest rates during 2Q 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during 2Q 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by less spread tightening for our agency and non-agency available-for-sale mortgage-related securities during 2Q 2016 compared to 2Q 2015. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.
  - **YTD 2016 vs. YTD 2015** - increased primarily due to a decline in longer-term interest rates during YTD 2016, which resulted in unrealized gains on our available-for-sale securities, compared to an increase in longer-term interest rates during YTD 2015, which resulted in unrealized losses on our available-for-sale securities. The increase attributable to interest rate changes was partially offset by spread widening for our non-agency available-for-sale mortgage-related securities during YTD 2016 compared to spread tightening during YTD 2015. Other comprehensive income in both periods reflects the reversals of unrealized losses due to the accretion of other-than-temporary impairments in earnings and the reclassification of unrealized gains and losses related to available-for-sale securities that were sold during the respective periods.

RISK MANAGEMENT

Risk is an inherent part of our business activities. We are exposed to four major types of risk: credit risk, interest-rate and other market risks, liquidity risk, and operational risk.

For more discussion of these and other risks facing our business and our risk management framework, see "MD&A - Risk Management" and "Risk Factors" in our 2015 Annual Report and Form 10-Q for the first quarter of 2016, and "Liquidity and Capital Resources" in this report and in our 2015 Annual Report. See below for updates since our 2015 Annual Report and our Form 10-Q for the first quarter of 2016.

RISKS ASSOCIATED WITH NEGATIVE INTEREST RATES

As we discussed in our Form 10-Q for the first quarter of 2016, we could be adversely affected if the interest rate indices used to adjust our ARM loans and other financial instruments (primarily LIBOR and Constant Maturity Treasury indices of various durations) were to become negative. In particular, if this were to occur, the terms of the ARM loans underlying certain of our ARM securities products may result in our having to pay a greater amount of interest to securities investors than we are entitled to receive on the underlying mortgages.

On June 29, 2016, we implemented a new uniform ARM note, which institutes a mandatory lifetime interest rate floor generally equal to the mortgage margin applicable to the ARM. We are currently encouraging all sellers to use the new ARM note and will require sellers to do so for any ARMs with note dates on or after October 1, 2016. We revised our Single-Family Seller/Servicer Guide and our securities offering documents to reflect this new note. This will not affect our exposure with respect to ARM securities products that are currently outstanding.

For more information, see “Risk Factors - *Negative values for certain interest rate indices could have an adverse effect on our operational and interest-rate risk management processes*” in our Form 10-Q for the first quarter of 2016.

CREDIT RISK

INSTITUTIONAL CREDIT RISK

Sellers and Servicers

In our single-family guarantee business, we do not originate loans or have our own loan servicing operation. Instead, we rely on our seller and servicer counterparties to perform the primary loan origination and loan servicing functions on our behalf.

We have significant exposure to non-depository and smaller depository financial institutions who act as sellers and servicers 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 our largest mortgage seller or servicer counterparties. The financial performance of these companies has been under stress and many of them reported a net loss in the first quarter of 2016. If their weak financial performance persists, it could affect available servicing capacity in the market, which eventually could lead to higher operational risk and higher credit losses for Freddie Mac.

For more information about counterparty risk associated with sellers and servicers, see Note 12 in this Form 10-Q and "Risk Factors - Credit Risks - *We are exposed to institutional 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 obligations to us"* in our 2015 Annual Report.

INTEREST-RATE RISK AND OTHER MARKET RISKS

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

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

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

Our PMVS and duration gap measures do not fully reflect the potential effect of negative index values across all of our floating rate assets and liabilities. See "Risk Factors - *Negative values for certain interest rate indices could have an adverse effect on our operational and interest-rate risk management processes*" in our Form 10-Q for the first quarter of 2016 for additional information. During the second half of 2Q 2016, we incorporated the effect of negative interest rate index values for the majority of our floating rate assets and liabilities. We are in the process of assessing the effect of negative interest rate index values for the remaining population of our floating rate assets. Incorporating the effect of the negative interest rate index values on the remaining population could result in significant percentage changes in the disclosed duration gap and PMVS levels. However, we do not believe any such percentage changes would represent an exposure to interest-rate risk that would be material to the company's financial condition or results of operations.

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

	PMVS-YC	PMVS-L	
(in millions)	25 bps	50 bps	100 bps
Assuming shifts of the LIBOR yield curve:			
June 30, 2016	$ —	$ 24	$ 89
December 31, 2015	$ 12	$ 50	$ 186

	2Q 2016			2Q 2015		
(duration gap in months, dollars in millions)	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps
Average	0.1	$ 4	$ 21	0.4	$ 24	$ 98
Minimum	(0.1)	$ —	$ —	(0.3)	$ 4	$ 23
Maximum	0.5	$ 14	$ 84	1.0	$ 47	$ 197
Standard deviation	0.1	$ 3	$ 20	0.3	$ 9	$ 46

	YTD 2016			YTD 2015		
(duration gap in months, dollars in millions)	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps	Duration Gap	PMVS-YC 25 bps	PMVS-L 50 bps
Average	0.1	$ 6	$ 25	0.2	$ 26	$ 110
Minimum	(0.2)	$ —	$ —	(0.3)	$ 4	$ 23
Maximum	0.7	$ 31	$ 92	1.0	$ 47	$ 250
Standard deviation	0.2	$ 5	$ 23	0.3	$ 10	$ 44

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

	PMVS-L (50 bps)		
(in millions)	Before Derivatives	After Derivatives	Effect of Derivatives
June 30, 2016	$ 2,880	$ 24	$ (2,856)
December 31, 2015	$ 3,373	$ 50	$ (3,323)

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, the accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at June 30, 2016, we generally recognize fair value losses in earnings when interest rates decline. The table below presents the estimated adverse net effect on pre-tax earnings of certain immediate shifts in interest rates. These estimates are essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value that we would expect to experience as a result of the shifts in interest rates. The methodology used to calculate these figures is consistent with the methodology used to calculate our PMVS-YC and PMVS-L metrics above.

	GAAP FV-YC	GAAP FV-L	
(in millions)	25 bps	50 bps	100 bps
June 30, 2016	$ 411	$ 1,189	$ 2,594
December 31, 2015	$ 635	$ 1,630	$ 3,573

Our adverse exposures under these interest-rate scenarios as of June 30, 2016 declined compared to December 31, 2015 primarily due to our entering into certain structured transactions which resulted in additional financial assets being recognized and measured at fair value. In addition, we increased our use of receive-fixed swaps as the duration of our financial assets declined, including those measured at amortized cost, due to declining interest rates.

LIQUIDITY AND CAPITAL RESOURCES

OTHER DEBT ACTIVITIES

Debt securities that we issue are classified either as debt securities of consolidated trusts held by third parties or other debt. We issue other debt, as either short-term or long-term debt, to fund our operations. Competition for funding can vary with economic, financial market, and regulatory environments.

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

(dollars in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Beginning balance	$ 391,322	$ 450,737	$ 418,021	$ 454,029
Issued during the period				
Short-term:				
Amount	$ 106,290	$ 117,947	$ 211,943	$ 179,557
Weighted-average effective interest rate	0.28%	0.07%	0.30%	0.08%
Long-term:				
Amount	$ 57,830	$ 48,790	$ 96,670	$ 89,703
Weighted-average effective interest rate	1.41%	1.49%	1.41%	1.36%
Total issued:				
Amount	$ 164,120	$ 166,737	$ 308,613	$ 269,260
Weighted-average effective interest rate	0.68%	0.49%	0.65%	0.51%
Paid off during the period:				
Short-term:				
Amount	$ (115,548)	$ (141,187)	$ (249,630)	$ (221,078)
Weighted-average effective interest rate	0.29%	0.07%	0.26%	0.08%
Long-term:				
Amount	$ (58,346)	$ (58,826)	$ (95,456)	$ (84,750)
Weighted-average effective interest rate	1.79%	1.09%	1.82%	1.40%
Total paid off:				
Amount	$ (173,894)	$ (200,013)	$ (345,086)	$ (305,828)
Weighted-average effective interest rate	0.79%	0.37%	0.69%	0.44%
Ending balance	$ 381,548	$ 417,461	$ 381,548	$ 417,461

We continue to rely on short-term and medium-term other debt to meet our overall funding needs. While issuances and pay-offs of our short-term other debt declined during 2Q 2016 as a result of lower funding needs, our short-term other debt issuances and pay-offs during YTD 2016 increased as compared to YTD 2015 as we did not begin utilizing overnight discount notes to manage our intra-day liquidity until the end of the first quarter of 2015. Our long-term other debt issuances increased during the 2016 periods compared to the 2015 periods, as we replaced called and matured debt with new callable and non-callable debt. Overall, our outstanding other debt balance continues to decline as we reduce our indebtedness along with the decline in our mortgage-related investments portfolio.

DEBT SECURITIES OF CONSOLIDATED TRUSTS

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

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Beginning balance	$ 1,524,224	$ 1,448,311	$ 1,513,089	$ 1,440,325
New issuances	86,953	101,220	157,909	180,067
Newly-issued debt securities retained at issuance	(20,525)	(23,977)	(39,874)	(44,591)
Net new issuances to third parties	66,428	77,243	118,035	135,476
Additional issuances of securities	50,881	39,431	79,145	62,880
Total issuances	117,309	116,674	197,180	198,356
Extinguishments, net	(92,860)	(91,024)	(161,596)	(164,720)
Ending balance	$ 1,548,673	$ 1,473,961	$ 1,548,673	$ 1,473,961

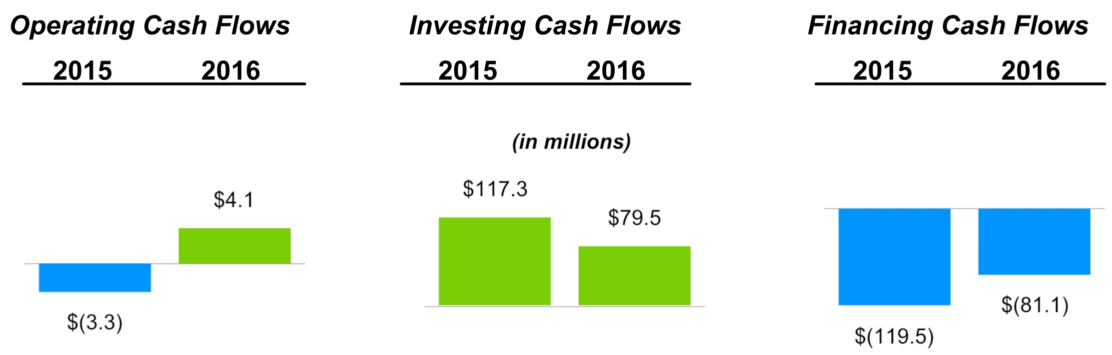
Debt securities of our consolidated trusts represent our liability to third parties that hold beneficial interests in our consolidated securitization trusts. Our exposure on debt securities of consolidated trusts is limited to the guarantee we provide on the payment of principal and interest on these securities, as the primary source of repayment of these debt securities comes from the cash flows of the mortgage loans that back the securities. At June 30, 2016, 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 credit losses on mortgage loans held by consolidated trusts. See Note 4 for details on our allowance for loan losses.

LIQUIDITY AND CONTINGENCY OPERATING PORTFOLIO

At June 30, 2016 and December 31, 2015, we held $45.8 billion and $70.0 billion, respectively, in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities in our Liquidity and Contingency Operating Portfolio, which is a subset of our Cash and Other Investments Portfolio and excludes the amounts in the latter portfolio related to consolidated VIEs, collateral held by us from OTC derivative counterparties, and investments in unsecured agency debt. These investments are important to our cash flow, collateral management, and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. At June 30, 2016, our non-mortgage-related securities consisted primarily of U.S. Treasury securities that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintained non-interest-bearing deposits at the Federal Reserve Bank of New York, which are included in cash and cash equivalents on our consolidated balance sheets.

CASH FLOWS

We evaluate our cash flow performance by comparing the net cash flows from operating and investing activities to the net cash flows required to finance those activities. The following graphs present the results of these activities for YTD 2015 and YTD 2016.



Commentary

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

- Increase in net sales of mortgage loans acquired as held-for-sale, primarily due to an increase in the volume of our multifamily securitizations. This increase was partially offset by a decrease in our net interest income.

Cash provided by investing activities decreased $37.8 billion primarily due to the following:

- Increase in net purchases of investment securities, primarily due to more investment securities being retained from our agency resecuritizations;
- Decrease in net proceeds received from loans acquired as held-for-investment, primarily due to lower single-family liquidation rates; and
- Increase in cash collateral posted to our derivative counterparties due to derivative losses resulting from declines in longer-term interest rates.

Cash used in financing activities decreased $38.4 billion primarily due to the following:

- Increase in net proceeds received from the issuance of debt securities of consolidated trusts held by third parties due to an increase in the volume of our single-family PC issuances for cash. This change was partially offset by reduced repayments of debt securities of consolidated trusts held by third parties due to lower single-family liquidation rates.

CAPITAL RESOURCES

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

At June 30, 2016, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount at June 30, 2016 and the 2016 Capital Reserve Amount of $1.2 billion, our dividend obligation to Treasury in September 2016 will be $0.9 billion. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock. As a result of the net worth sweep dividend on the senior preferred stock, our future profits will effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury.

In June 2016, FASB issued a new Accounting Standards Update (ASU 2016-13) related to the measurement of credit losses on financial instruments that will be effective as of January 1, 2020, with early adoption permitted as of January 1, 2019. This Update replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses. While we are still evaluating the effect that the adoption of this Update will have on our financial results, it will increase (perhaps substantially) our provision for credit losses in the period of adoption. As our capital reserve will decline to zero in 2018, our adoption of this Update will increase the risk that we will need to request a draw from Treasury.

The table below presents activity related to our net worth during the last five quarters and YTD 2016.

(in millions)	2Q 2016	1Q 2016	4Q 2015	3Q 2015	2Q 2015	YTD 2016
Beginning balance	$ 1,000	$ 2,940	$ 1,299	$ 5,713	$ 2,546	$ 2,940
Comprehensive (loss) income	1,133	(200)	1,641	(501)	3,913	933
Capital draw from Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	—	(1,740)	—	(3,913)	(746)	(1,740)
Total equity / net worth	$ 2,133	$ 1,000	$ 2,940	$ 1,299	$ 5,713	$ 2,133
Aggregate draws under Purchase Agreement	$ 71,336	$ 71,336	$ 71,336	$ 71,336	$ 71,336	$ 71,336
Aggregate cash dividends paid to Treasury	$ 98,205	$ 98,205	$ 96,465	$ 96,465	$ 92,552	$ 98,205

CONSERVATORSHIP AND RELATED MATTERS

REDUCING OUR MORTGAGE-RELATED INVESTMENTS PORTFOLIO OVER TIME

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

	June 30, 2016				December 31, 2015			
(dollars in millions)	Liquid	Securitization Pipeline	Less Liquid	Total	Liquid	Securitization Pipeline	Less Liquid	Total
Investments segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	$ —	$ 14,487	$ —	$ 14,487	$ —	$ 10,041	$ —	$ 10,041
Reperforming loans and performing modified loans	—	—	63,209	63,209	—	—	67,036	67,036
Total single-family unsecuritized loans	—	14,487	63,209	77,696	—	10,041	67,036	77,077
Freddie Mac mortgage-related securities	132,555	—	5,561	138,116	135,869	—	6,076	141,945
Non-agency mortgage-related securities	—	—	21,278	21,278	—	—	27,754	27,754
Non-Freddie Mac agency mortgage-related securities	11,200	—	—	11,200	12,958	—	—	12,958
Total Investment segment - Mortgage investments portfolio	143,755	14,487	90,048	248,290	148,827	10,041	100,866	259,734
Single-family Guarantee segment - Single-family unsecuritized seriously delinquent loans	—	—	15,671	15,671	—	—	19,501	19,501
Multifamily segment - unsecuritized loans and mortgage-related securities	7,324	14,984	34,404	56,712	7,304	19,563	40,809	67,676
Total mortgage-related investments portfolio	$151,079	$ 29,471	$140,123	$320,673	$156,131	$ 29,604	$161,176	$346,911
Percentage of total mortgage-related investments portfolio	47%	9%	44%	100%	45%	9%	46%	100%
Mortgage-related investments portfolio cap at December 31, 2016 and December 31, 2015				$339,304				$399,181
90% of mortgage-related investments portfolio cap at December 31, 2016 and December 31, 2015[1]				$305,374				$359,263

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

The decline in our mortgage-related investments portfolio during YTD 2016 was primarily due to repayments, partially offset by net purchases of single-family loans for our securitization pipeline.

While we continued to purchase new single-family seriously delinquent loans, we reduced the size of our less liquid assets through the following:

- Sales of $6.4 billion of less liquid assets, including $4.4 billion in UPB of non-agency mortgage-related securities and $1.8 billion in UPB of seriously delinquent unsecuritized single-family loans;
- Securitizations of $1.0 billion in UPB of less liquid multifamily loans; and
- Securitizations of $3.5 billion in UPB of single-family reperforming loans and performing modified loans, thereby enhancing their liquidity. We initially retained all of the resulting Freddie Mac mortgage-

related securities created through such securitizations in our mortgage-related investments portfolio. Certain of these retained securities were subsequently resecuritized, with some of the resulting interests being sold to third parties.

REGULATION AND SUPERVISION

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

AFFORDABLE HOUSING ALLOCATIONS

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of total new business purchases, and allocate or transfer such amount to certain housing funds. During 2Q 2016 and YTD 2016, we completed $99.4 billion and $185.1 billion, respectively, of new business purchases subject to these allocations and accrued $41 million and $77 million, respectively, of related expense. We expect to pay this amount (and any additional amounts accrued based on our new business purchases during the remainder of 2016) in February 2017. We are prohibited from passing through the costs of the affordable housing allocations to the originators of the loans that we purchase.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

FLOOD INSURANCE LEGISLATION

On April 28, 2016, the House of Representatives passed the Flood Insurance Market Parity and Modernization Act. This bill could limit our ability to mitigate risks posed by private flood insurers and could shift the risk of flood loss to Freddie Mac.

CAP FOR NEW MULTIFAMILY BUSINESS

On May 4, 2016, FHFA announced an increase in the 2016 multifamily lending caps for Freddie Mac and Fannie Mae under the 2016 Conservatorship Scorecard from $31 billion to $35 billion, effective immediately.

FHFA UPDATE ON IMPLEMENTATION OF THE SINGLE SECURITY AND THE COMMON SECURITIZATION PLATFORM

On July 7, 2016, FHFA released an update on the implementation of the single security and the common securitization platform. The update details the progress made to date and describes the expected milestones that Freddie Mac, Fannie Mae and Common Securitization Solutions, LLC expect to meet to achieve the stated goals for these projects. The update states that Release 1 of the common securitization platform is expected to occur in the fourth quarter of 2016. Under Release 1, Freddie Mac will use the common securitization platform's data acceptance, issuance support, and bond administration modules to perform activities related to its current single-class, fixed-rate securities (e.g., PCs) and certain activities related to the underlying mortgage loans (such as tracking unpaid principal balances). FHFA also stated that, later in 2016, it expects to announce the intended launch date for the single security in order to provide stakeholders at least 12 months' advance notice.

FHFA DIRECTIVE ON GUARANTEE FEES

From time to time, FHFA issues directives or guidance to us affecting the levels of guarantee fees that we may charge for various types of loans. FHFA's latest directive, issued on July 29, 2016, addresses the safety and soundness risk that could arise if our guarantee fees were not sufficient to compensate us adequately for the credit risks we are taking. It allows us to continue to charge guarantee fees generally in line with the levels we have been charging in recent periods, but for many types of loans it prohibits reductions significantly below those levels.

OFF-BALANCE SHEET ARRANGEMENTS

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

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed loans and mortgage-related securities, though most of our securitization activities are on-balance sheet. Our off-balance sheet arrangements related to these securitization activities primarily consist of K Certificates. We also have off-balance sheet arrangements related to certain other securitization products and other mortgage-related guarantees. Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and guarantees is primarily represented by the UPB of the underlying loans and securities, which was $148.9 billion and $127.3 billion at June 30, 2016 and December 31, 2015, respectively.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain “forward-looking statements.” Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily, and Investments segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, and our results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. Forward-looking statements are often accompanied by, and identified with, terms such as “objective,” “expect,” “possible,” “trend,” “forecast,” “anticipate,” “believe,” “intend,” “could,” “future,” “may,” “will,” and similar phrases. These statements 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” sections of our Form 10-Q for the first quarter of 2016 and our 2015 Annual Report, and:

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

- Our ability to limit or manage our exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;
- Changes or errors in the methodologies, models, assumptions, and estimates we use to prepare our financial statements, make business decisions, and manage risks;
- Changes in investor demand for our debt or mortgage-related securities (e.g., single-family PCs and multifamily K Certificates);
- Changes in the practices of loan originators, investors and other participants in the secondary mortgage market; and
- Other factors and assumptions described in this Form 10-Q, our Form 10-Q for the first quarter of 2016 and our 2015 Annual Report, including in the “MD&A” section.

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

FINANCIAL STATEMENTS

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions, except share-related amounts)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Interest income				
Mortgage loans	$ 15,238	$ 15,384	$ 31,056	$ 30,838
Investments in securities	978	1,256	1,947	2,591
Other	56	15	113	26
Total interest income	16,272	16,655	33,116	33,455
Interest expense	(12,781)	(12,628)	(26,169)	(25,716)
Expense related to derivatives	(48)	(58)	(99)	(123)
Net interest income	3,443	3,969	6,848	7,616
Benefit (provision) for credit losses	775	857	1,242	1,356
Net interest income after benefit (provision) for credit losses	4,218	4,826	8,090	8,972
Non-interest income (loss)				
Losses on extinguishment of debt	(119)	(80)	(174)	(159)
Derivative gains (losses)	(2,058)	3,135	(6,619)	732
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	(10)	(77)	(62)	(166)
Portion of other-than-temporary impairment recognized in AOCI	(62)	(21)	(67)	(25)
Net impairment of available-for-sale securities recognized in earnings	(72)	(98)	(129)	(191)
Other gains on investment securities recognized in earnings	450	152	753	569
Other income (loss)	(25)	(568)	922	(557)
Non-interest income (loss)	(1,824)	2,541	(5,247)	394
Non-interest expense				
Salaries and employee benefits	(240)	(279)	(479)	(511)
Professional services	(117)	(118)	(218)	(231)
Occupancy expense	(15)	(14)	(28)	(26)
Other administrative expense	(103)	(90)	(198)	(184)
Total administrative expense	(475)	(501)	(923)	(952)
Real estate owned operations expense	(29)	(52)	(113)	(127)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(280)	(235)	(552)	(457)
Other expense	(151)	(501)	(304)	(964)
Non-interest expense	(935)	(1,289)	(1,892)	(2,500)
Income before income tax expense	1,459	6,078	951	6,866
Income tax expense	(466)	(1,909)	(312)	(2,173)
Net income	993	4,169	639	4,693
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	109	(314)	228	(157)
Changes in unrealized gains (losses) related to cash flow hedge relationships	32	38	66	97
Changes in defined benefit plans	(1)	20	—	26
Total other comprehensive income (loss), net of taxes and reclassification adjustments	140	(256)	294	(34)
Comprehensive income	$ 1,133	$ 3,913	$ 933	$ 4,659
Net income	$ 993	$ 4,169	$ 639	$ 4,693
Undistributed net worth sweep and senior preferred stock dividends	(933)	(3,913)	(933)	(4,659)
Net income (loss) attributable to common stockholders	$ 60	$ 256	$ (294)	$ 34
Net income (loss) per common share — basic and diluted	$ 0.02	$ 0.08	$ (0.09)	$ 0.01
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,234	3,234	3,235

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

FREDDIE MAC
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share-related amounts)	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents (Note 12)	$ 8,140	$ 5,595
Restricted cash and cash equivalents (Notes 3, 12)	17,399	14,533
Securities purchased under agreements to resell (Notes 3, 8)	48,989	63,644
Investments in securities, at fair value (Note 5)	112,269	114,215
Mortgage loans held-for-sale (Notes 3, 4) (includes $14,905 and $17,660 at fair value)	19,545	24,992
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of $13,502 and $15,331)	1,742,040	1,729,201
Accrued interest receivable (Note 3)	6,060	6,074
Derivative assets, net (Notes 7, 8)	1,479	395
Real estate owned, net (Note 3)	1,381	1,725
Deferred tax assets, net (Note 10)	18,671	18,205
Other assets (Notes 3, 16)	10,464	7,313
Total assets	$ 1,986,437	$ 1,985,892
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	$ 6,057	$ 6,183
Debt, net (Notes 3, 6) (includes $6,744 and $7,184 at fair value)	1,972,103	1,970,269
Derivative liabilities, net (Notes 7, 8)	1,243	1,254
Other liabilities (Notes 3, 16)	4,901	5,246
Total liabilities	1,984,304	1,982,952
Commitments and contingencies (Notes 3, 7, and 14)		
Equity (Note 9)		
Senior preferred stock, at redemption value	72,336	72,336
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,046,828 shares and 650,045,962 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(81,874)	(80,773)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $585 and $778, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	1,968	1,740
Cash flow hedge relationships	(555)	(621)
Defined benefit plans	34	34
Total AOCI, net of taxes	1,447	1,153
Treasury stock, at cost, 75,817,058 shares and 75,817,924 shares	(3,885)	(3,885)
Total equity (See Note 9 for information on our dividend obligation to Treasury)	2,133	2,940
Total liabilities and equity	$ 1,986,437	$ 1,985,892

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

(in millions)	June 30, 2016	December 31, 2015
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		
Mortgage loans held-for-sale	$ 268	$ 1,403
Mortgage loans held-for-investment	1,641,856	1,625,184
All other assets	47,971	37,305
Total assets of consolidated VIEs	$ 1,690,095	$ 1,663,892
Liabilities: (Note 3)		
Debt, net	$ 1,594,236	$ 1,556,121
All other liabilities	4,802	4,769
Total liabilities of consolidated VIEs	$ 1,599,038	$ 1,560,890

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

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	YTD 2016	YTD 2015
Net cash used in operating activities	$ 4,143	$ (3,273)
Cash flows from investing activities		
Purchases of trading securities	(26,500)	(17,624)
Proceeds from sales of trading securities	17,127	8,637
Proceeds from maturities of trading securities	14,400	6,907
Purchases of available-for-sale securities	(19,724)	(3,976)
Proceeds from sales of available-for-sale securities	9,388	11,723
Proceeds from maturities of available-for-sale securities	8,208	10,140
Purchases of held-for-investment mortgage loans	(70,402)	(61,545)
Proceeds from sales of mortgage loans held-for-investment	1,997	1,116
Repayments of mortgage loans held-for-investment	148,157	158,719
(Increase) decrease in restricted cash	(2,866)	(10,257)
Net proceeds from dispositions of real estate owned and other recoveries	1,388	2,182
Net (increase) decrease in securities purchased under agreements to resell	14,655	14,862
Derivative premiums and terminations and swap collateral, net	(6,679)	1,286
Changes in other assets	(9,674)	(4,855)
Net cash provided by investing activities	79,475	117,315
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	110,886	81,919
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(153,637)	(163,370)
Proceeds from issuance of other debt	315,636	271,387
Repayments of other debt	(352,214)	(307,845)
Payment of cash dividends on senior preferred stock	(1,740)	(1,597)
Changes in other liabilities	(4)	(3)
Net cash used in financing activities	(81,073)	(119,509)
Net (decrease) increase in cash and cash equivalents	2,545	(5,467)
Cash and cash equivalents at beginning of year	5,595	10,928
Cash and cash equivalents at end of period	$ 8,140	$ 5,461
Supplemental cash flow information		
Cash paid for:		
Debt interest	$ 30,834	$ 30,477
Income taxes	1,337	859
Non-cash investing and financing activities (Note 4)		

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We are regulated by FHFA, the SEC, HUD, and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see Note 2 in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2015, or 2015 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the "GLOSSARY" of this Form 10-Q and our 2015 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we refer to the three months ended June 30, 2016 and the three months ended June 30, 2015 as "2Q 2016" and "2Q 2015," respectively, and we refer to the six months ended June 30, 2016 and the six months ended June 30, 2015 as "YTD 2016" and "YTD 2015," respectively.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2015 Annual Report.

BASIS OF PRESENTATION

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

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

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

USE OF ESTIMATES

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

RECENTLY ISSUED ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

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

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

Standard	Description	Date of Adoption	Effect on Consolidated Financial Statements
ASU 2016-06, Derivatives and Hedging (Topic 815)	The amendment clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendment is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence.	January 1, 2017	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2016-02, Leases (Topic 842)	The amendment addresses the accounting for lease arrangements.	January 1, 2019	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2016-10, Revenue from Contracts with Customers (Topic 606)	The amendments in this Update do not change the core principle of the guidance in Topic 606, but clarify two issues: i) identifying performance obligations; and ii) licensing. These clarifications are intended to reduce diversity in practice and to reduce the cost and complexity of Topic 606 at transition and on an ongoing basis.	January 1, 2018	We are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements.
ASU 2016-12, Revenue from Contracts with Customers (Topic 606)	The amendments in this Update do not change the core principle of the guidance in Topic 606, but affect aspects of the guidance and technical corrections.	January 1, 2018	We are evaluating the effect that the adoption of this amendment will have on our 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	While we are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements, it will increase (perhaps substantially) our provision for credit losses in the period of adoption.

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

BUSINESS OBJECTIVES

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

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

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

For purposes of the limit imposed by the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio cannot exceed $339.3 billion at December 31, 2016 and was $320.7 billion at June 30, 2016. Our Retained Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement (subject to certain exceptions). Our mortgage-related investments portfolio cap is reduced by 15% annually until it reaches $250 billion. This amount is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual UPB of the mortgage-related investments portfolio, as of December 31 of the preceding year. Our ability to acquire and sell mortgage assets is significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA.

GOVERNMENT SUPPORT FOR OUR BUSINESS

We receive substantial support from Treasury and are dependent upon its continued support in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement, is critical to:

- Keeping us solvent;
- Allowing us to focus on our primary business objectives under conservatorship; and
- Avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

At March 31, 2016, 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 2Q 2016. Since conservatorship began through June 30, 2016, we have paid cash dividends of $98.2 billion to Treasury at the direction of the Conservator.

See Note 6 and Note 9 for more information on the conservatorship and the Purchase Agreement.

RELATED PARTIES AS A RESULT OF CONSERVATORSHIP

We are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. Common Securitization Solutions, LLC (CSS), was formed in 2013 as a limited liability company equally-owned by Freddie Mac and Fannie Mae. Therefore, CSS is also deemed a related party. During YTD 2016, we contributed $65 million of capital to CSS.

NOTE 3: SECURITIZATION AND GUARANTEE ACTIVITIES

Our primary business activities in our Single-family Guarantee and Multifamily segments involve the securitization of loans or other mortgage-related assets using trusts that are VIEs. These trusts issue beneficial interests in the loans or other mortgage-related assets that they own. We guarantee the principal and interest payments on some or all of the issued beneficial interests in substantially all of our securitization transactions. We consolidate VIEs when we have a controlling financial interest in the VIE and are therefore considered the primary beneficiary of the VIE.

VIEs FOR WHICH WE ARE THE PRIMARY BENEFICIARY

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

(in millions)	June 30, 2016	December 31, 2015
Consolidated Balance Sheet Line Item		
Assets:		
Restricted cash and cash equivalents	$ 17,116	$ 14,529
Securities purchased under agreements to resell	21,200	14,840
Mortgage loans held-for-sale	268	1,403
Mortgage loans held-for-investment	1,641,856	1,625,184
Accrued interest receivable	5,394	5,305
Real estate owned, net	33	40
Other assets	4,228	2,591
Total assets of consolidated VIEs	$ 1,690,095	$ 1,663,892
Liabilities:		
Accrued interest payable	$ 4,801	$ 4,763
Debt, net	1,594,236	1,556,121
Other liabilities	1	6
Total liabilities of consolidated VIEs	$ 1,599,038	$ 1,560,890

VIEs FOR WHICH WE ARE NOT THE PRIMARY BENEFICIARY

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

	June 30, 2016	December 31, 2015
(in millions)	Freddie Mac Securities	
Assets and Liabilities Recorded on our Consolidated Balance Sheets		
Assets:		
Investments in securities	$ 62,148	$ 49,040
Accrued interest receivable	249	200
Other assets	1,540	1,232
Liabilities:		
Other liabilities	(1,423)	(1,230)
Maximum Exposure to Loss	$ 134,062	$ 114,193
Total Assets of Non-Consolidated VIEs	$ 157,745	$ 134,900

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

FINANCIAL GUARANTEES

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

	June 30, 2016			December 31, 2015		
(dollars in millions, terms in years)	Maximum Exposure	Recognized Liability(1)	Maximum Remaining Term	Maximum Exposure	Recognized Liability(1)	Maximum Remaining Term
K Certificates and other securitization products	$ 134,062	$ 1,324	39	$ 114,193	$ 1,136	40
Other mortgage-related guarantees	14,807	635	35	13,067	596	38
Derivative instruments	11,563	175	29	17,894	151	30

(1) This amount excludes our reserve for guarantee losses, which totaled $74 million and $76 million as of June 30, 2016 and December 31, 2015, respectively, and is included within other liabilities on our consolidated balance sheets.

CREDIT ENHANCEMENTS

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

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

	UPB at		Maximum Coverage at	
(in millions)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
K Certificates	$ 120,097	$ 101,473	$ 21,273	$ 18,453
Other securitization products	8,681	7,026	1,732	1,477
Total	$ 128,778	$ 108,499	$ 23,005	$ 19,930

In addition to subordination, the Multifamily segment also has various other credit enhancements, primarily related to our mortgage loans and other mortgage-related guarantees, in the form of collateral posting requirements, loss sharing agreements, credit-linked notes, and other similar arrangements. We expect that these credit enhancements will enable us to recover all or a portion of our losses or the amounts paid under our guarantee. Our historical recoveries pursuant to these agreements have not been significant.

NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

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

	June 30, 2016			December 31, 2015		
(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	$ 4,692	$ 366	$ 5,058	$ 6,045	$ 1,702	$ 7,747
Multifamily	15,685	—	15,685	19,582	—	19,582
Total UPB	20,377	366	20,743	25,627	1,702	27,329
Cost basis and fair value adjustments, net	(1,100)	(98)	(1,198)	(2,038)	(299)	(2,337)
Total held-for-sale loans	19,277	268	19,545	23,589	1,403	24,992
Held-for-investment:						
Single-family	88,676	1,611,936	1,700,612	90,532	1,597,590	1,688,122
Multifamily	25,755	2,630	28,385	29,505	1,711	31,216
Total UPB	114,431	1,614,566	1,728,997	120,037	1,599,301	1,719,338
Cost basis adjustments	(3,335)	29,880	26,545	(3,465)	28,659	25,194
Allowance for loan losses	(10,912)	(2,590)	(13,502)	(12,555)	(2,776)	(15,331)
Total held-for-investment loans	100,184	1,641,856	1,742,040	104,017	1,625,184	1,729,201
Total loans, net	$ 119,461	$ 1,642,124	$ 1,761,585	$ 127,606	$ 1,626,587	$ 1,754,193

During 2Q 2016 and 2Q 2015, we purchased $90.0 billion and $99.8 billion, respectively, in UPB of single-family loans and $1.2 billion and $1.0 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment. During YTD 2016 and YTD 2015, we purchased $158.2 billion and $179.0 billion, respectively, in UPB of single-family loans and $2.0 billion and $1.8 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment.

Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates. During 2Q 2016 and 2Q 2015, we sold $15.4 billion and $10.1 billion, respectively, in UPB of held-for-sale multifamily loans. During YTD 2016 and YTD 2015, we sold $26.2 billion and $15.2 billion, respectively, in UPB of held-for-sale multifamily loans. See Note 3 for more information on our issuances of K Certificates.

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we completed sales of $1.0 billion and $0.9 billion in UPB of seriously delinquent single-family loans during 2Q 2016 and 2Q 2015, respectively, and $1.8 billion and $1.2 billion during YTD 2016 and YTD 2015, respectively.

We reclassified $3.1 billion and $4.5 billion in UPB of seriously delinquent single-family loans from held-for-investment to held-for-sale during 2Q 2016 and 2Q 2015, respectively, and $3.5 billion and $8.1 billion during YTD 2016 and YTD 2015, respectively. For additional information regarding the fair value of our loans classified as held-for-sale, see Note 13.

CREDIT QUALITY

The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As current LTV ratios increase, the borrower’s equity in the home decreases, which negatively affects the borrower’s ability to refinance (outside of HARP) or to sell the property for an amount at or above the balance of the outstanding loan. A second-lien loan also reduces the borrower’s equity in the home, and has a similar negative effect on the borrower’s ability to refinance or sell the property for an amount at or above the combined balances of the first and second loans. As of June 30, 2016 and December 31, 2015, based on data collected by us at loan delivery, approximately 12% and 13%, respectively, of loans in our single-family credit guarantee portfolio had second-lien financing by third parties at origination of the first loan. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. For further information about concentrations of risk associated with our single-family and multifamily loans, see Note 12.

For reporting purposes:

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

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

	June 30, 2016				December 31, 2015			
	Current LTV Ratio				Current LTV Ratio			
(in millions)	≤ 80	> 80 to 100	> 100[(1)]	Total	≤ 80	> 80 to 100	> 100[(1)]	Total
20 and 30-year or more, amortizing fixed-rate[(2)]	$ 1,064,367	$ 234,845	$ 40,327	$ 1,339,539	$ 1,020,227	$ 242,948	$ 50,893	$ 1,314,068
15-year amortizing fixed-rate[(2)]	269,564	11,066	1,301	281,931	271,456	12,400	1,754	285,610
Adjustable-rate	56,595	3,912	149	60,656	59,724	5,055	249	65,028
Alt-A, interest-only, and option ARM	27,315	11,307	6,423	45,045	27,014	13,124	8,485	48,623
Total single-family loans	$ 1,417,841	$ 261,130	$ 48,200	$ 1,727,171	$ 1,378,421	$ 273,527	$ 61,381	$ 1,713,329

(1) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with current LTV ratios in excess of 100% was 6.06% and 6.03% as of June 30, 2016 and December 31, 2015, respectively.
(2) The majority of our loan modifications result in new terms that include fixed interest rates after modification. As of June 30, 2016 and December 31, 2015, we have categorized UPB of approximately $35.6 billion and $38.3 billion, respectively, of modified loans as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust, such rates and the timing of the adjustment are determined at the time of modification rather than at a subsequent date.

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

(in millions)	June 30, 2016	December 31, 2015
Credit risk profile by internally assigned grade:[(1)]		
Pass	$ 27,400	$ 29,660
Special mention	608	1,135
Substandard	363	408
Doubtful	—	—
Total	$ 28,371	$ 31,203

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

MORTGAGE LOAN PERFORMANCE

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

	June 30, 2016					
(in millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure(1)	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$ 1,308,970	$ 15,366	$ 4,412	$ 10,791	$ 1,339,539	$ 10,787
15-year amortizing fixed-rate	280,595	875	161	300	281,931	299
Adjustable-rate	60,046	332	73	205	60,656	205
Alt-A, interest-only, and option ARM	40,574	1,771	640	2,060	45,045	2,059
Total single-family	1,690,185	18,344	5,286	13,356	1,727,171	13,350
Total multifamily	28,371	—	—	—	28,371	105
Total single-family and multifamily	$ 1,718,556	$ 18,344	$ 5,286	$ 13,356	$ 1,755,542	$ 13,455

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

(1) Includes $6.0 billion and $7.0 billion of loans that were in the process of foreclosure as of June 30, 2016 and December 31, 2015, respectively.

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

(dollars in millions)	June 30, 2016	December 31, 2015
Single-family:(1)		
Non-credit-enhanced portfolio		
Serious delinquency rate	1.12%	1.30%
Total number of seriously delinquent loans	85,674	105,071
Credit-enhanced portfolio:(2)		
Primary mortgage insurance:		
Serious delinquency rate	1.58%	2.06%
Total number of seriously delinquent loans	22,026	27,813
Other credit protection:(3)		
Serious delinquency rate	0.39%	0.58%
Total number of seriously delinquent loans	8,255	9,422
Total single-family:		
Serious delinquency rate	1.08%	1.32%
Total number of seriously delinquent loans	115,151	141,255
Multifamily:(4)		
Non-credit-enhanced portfolio:		
Delinquency rate	0.04%	0.03%
UPB of delinquent loans	$ 19	$ 19
Credit-enhanced portfolio:		
Delinquency rate	0.01%	0.02%
UPB of delinquent loans	$ 15	$ 20
Total Multifamily:		
Delinquency rate	0.02%	0.02%
UPB of delinquent loans	$ 34	$ 39

(1) Serious delinquencies on single-family loans underlying certain REMICs, other securitization products, and other mortgage-related guarantees may be reported on a different schedule due to variances in industry practice.
(2) The credit-enhanced categories are not mutually exclusive, as a single loan may be covered by both primary mortgage insurance and other credit protection.
(3) Consists of single-family loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See "Credit Protection and Other Forms of Credit Enhancement" for more information.
(4) Multifamily delinquency performance is based on UPB of loans that are two monthly payments or more past due or those in the process of foreclosure.

LOAN LOSS RESERVES

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

- Our allowance for loan losses, which pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets; and
- Our reserve for guarantee losses, which pertains to single-family and multifamily loans underlying our K Certificates, other securitization products, and other mortgage-related guarantees.

The table below presents our loan loss reserves activity.

	2Q 2016				2Q 2015			
	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
Single-family:								
Beginning balance	$ 11,667	$ 2,819	$ 57	$ 14,543	$ 16,020	$ 2,554	$ 105	$ 18,679
Provision (benefit) for credit losses	(740)	(31)	2	(769)	(929)	125	(36)	(840)
Charge-offs	(467)	(16)	(3)	(486)	(793)	(57)	(2)	(852)
Recoveries	148	4	—	152	192	4	—	196
Transfers, net[(1)]	278	(187)	—	91	45	112	—	157
Ending balance	10,886	2,589	56	13,531	14,535	2,738	67	17,340
Multifamily ending balance	26	1	18	45	54	—	14	68
Total ending balance	$ 10,912	$ 2,590	$ 74	$ 13,576	$ 14,589	$ 2,738	$ 81	$ 17,408

	YTD 2016				YTD 2015			
	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
Single-family:								
Beginning balance	$ 12,516	$ 2,775	$ 57	$ 15,348	$ 18,800	$ 2,884	$ 109	$ 21,793
Provision (benefit) for credit losses	(1,175)	(60)	4	(1,231)	(1,398)	100	(38)	(1,336)
Charge-offs	(966)	(84)	(5)	(1,055)	(3,574)	(225)	(4)	(3,803)
Recoveries	274	6	—	280	361	9	—	370
Transfers, net[(1)]	237	(48)	—	189	346	(30)	—	316
Ending balance	10,886	2,589	56	13,531	14,535	2,738	67	17,340
Multifamily ending balance	26	1	18	45	54	—	14	68
Total ending balance	$ 10,912	$ 2,590	$ 74	$ 13,576	$ 14,589	$ 2,738	$ 81	$ 17,408

(1) Consists of approximately $0.1 billion and $0.2 billion during 2Q 2016 and 2Q 2015, respectively, and $0.2 billion and $0.3 billion during YTD 2016 and YTD 2015, respectively, attributable to capitalization of past due interest on modified loans. Also includes amounts associated with reclassified single-family reserves related to our removal of loans previously held by consolidated trusts, net of reclassifications for single-family loans subsequently resecuritized after such removal.

The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 9.8% and 10.8% of the recorded investment in such loans at June 30, 2016 and December 31, 2015, respectively, and a substantial portion of the allowance associated with these loans represented interest rate concessions provided to borrowers as part of loan modifications. The allowance for loan losses associated with loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such loans as of both June 30, 2016 and December 31, 2015.

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs, based on the original category of the loan before the loan was classified as a TDR. Loans classified as a TDR in one period may be subject to further action (such as a modification or remodification) in a subsequent period. In such cases, the subsequent action would not be reflected in the table below since the loan would already have been classified as a TDR.

	2Q 2016		2Q 2015		YTD 2016		YTD 2015	
(dollars in millions)	Number of Loans	Post-TDR Recorded Investment	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	8,564	$ 1,233	11,730	$ 1,672	18,896	$ 2,689	25,023	$ 3,591
15-year amortizing fixed-rate	1,128	86	1,403	102	2,446	180	3,055	225
Adjustable-rate	222	31	328	51	496	71	733	108
Alt-A, interest-only, and option ARM	751	129	1,126	206	1,670	298	2,514	475
Total single-family	10,665	1,479	14,587	2,031	23,508	3,238	31,325	4,399
Multifamily	—	—	1	30	2	8	1	30
Total	10,665	$ 1,479	14,588	$ 2,061	23,510	$ 3,246	31,326	$ 4,429

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during 2Q 2016 and YTD 2016 was $1.5 billion and $3.3 billion, respectively, compared to $2.0 billion and $4.4 billion during 2Q 2015 and YTD 2015, 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.

	2Q 2016		2Q 2015		YTD 2016		YTD 2015	
(dollars in millions)	Number of Loans	Post-TDR Recorded Investment	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	3,912	$ 599	4,466	$ 737	7,904	$ 1,233	8,773	$ 1,491
15-year amortizing fixed-rate	192	17	231	19	425	35	437	37
Adjustable-rate	64	10	82	14	137	21	150	26
Alt-A, interest-only, and option ARM	385	71	444	106	844	169	958	228
Total single-family	4,553	$ 697	5,223	$ 876	9,310	$ 1,458	10,318	$ 1,782
Multifamily	—	$ —	—	$ —	—	$ —	—	$ —

In addition to modifications, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or trial period modifications). During YTD 2016 and YTD 2015, 4,331 and 4,921, respectively, of such loans (with a post-TDR recorded investment of $0.5 billion and $0.7 billion, respectively) experienced a payment default within a year after the loss mitigation activity occurred.

Loans may also be initially classified as TDRs because the borrowers' debts were discharged in Chapter 7 bankruptcy (and the loan was not already classified as a TDR for other reasons). During YTD 2016 and YTD 2015, 671 and 1,321, respectively, of such loans (with a post-TDR recorded investment of $0.1

billion and $0.2 billion, respectively) experienced a payment default within a year after the borrowers' Chapter 7 bankruptcy.

Single-Family TDRs

During both 2Q 2016 and YTD 2016, approximately 41% of completed single-family loan modifications that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions, and approximately 16% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During 2Q 2016 and YTD 2016, the average term extension was 176 months and 178 months, respectively, and the average interest rate reduction was 0.8% in both periods on completed single-family loan modifications classified as TDRs.

Impaired Loans

The tables below present the UPB, recorded investment, related allowance for loan losses, average recorded investment and interest income recognized for individually impaired loans.

	June 30, 2016			December 31, 2015		
(in millions)	UPB	Recorded Investment	Associated Allowance	UPB	Recorded Investment	Associated Allowance
Single-family —						
With no specific allowance recorded:[1]						
20 and 30-year or more, amortizing fixed-rate	$ 5,357	$ 4,055	N/A	$ 4,957	$ 3,724	N/A
15-year amortizing fixed-rate	39	34	N/A	45	38	N/A
Adjustable-rate	248	245	N/A	194	191	N/A
Alt-A, interest-only, and option ARM	1,781	1,396	N/A	1,370	1,033	N/A
Total with no specific allowance recorded	7,425	5,730	N/A	6,566	4,986	N/A
With specific allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	69,948	68,253	$ (9,937)	72,886	71,215	$ (11,245)
15-year amortizing fixed-rate	907	911	(21)	975	978	(21)
Adjustable-rate	416	408	(23)	518	510	(28)
Alt-A, interest-only, and option ARM	13,564	12,955	(2,376)	14,409	13,839	(2,725)
Total with specific allowance recorded	84,835	82,527	(12,357)	88,788	86,542	(14,019)
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	75,305	72,308	(9,937)	77,843	74,939	(11,245)
15-year amortizing fixed-rate	946	945	(21)	1,020	1,016	(21)
Adjustable-rate	664	653	(23)	712	701	(28)
Alt-A, interest-only, and option ARM	15,345	14,351	(2,376)	15,779	14,872	(2,725)
Total single-family	$ 92,260	$ 88,257	$ (12,357)	$ 95,354	$ 91,528	$ (14,019)
Multifamily —						
With no specific allowance recorded[1]	$ 313	$ 297	N/A	$ 341	$ 333	N/A
With specific allowance recorded	78	78	$ (13)	149	142	$ (21)
Total multifamily	$ 391	$ 375	$ (13)	$ 490	$ 475	$ (21)
Total single-family and multifamily	$ 92,651	$ 88,632	$ (12,370)	$ 95,844	$ 92,003	$ (14,040)

	2Q 2016			2Q 2015		
(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]
Single-family —						
With no specific allowance recorded:[1]						
20 and 30-year or more, amortizing fixed-rate	$ 4,114	$ 117	$ 4	$ 3,369	$ 100	$ 5
15-year amortizing fixed-rate	35	2	—	43	2	—
Adjustable rate	250	2	—	85	1	—
Alt-A, interest-only, and option ARM	1,413	27	1	816	20	2
Total with no specific allowance recorded	5,812	148	5	4,313	123	7
With specific allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	69,118	653	61	73,778	639	94
15-year amortizing fixed-rate	903	8	2	1,033	12	3
Adjustable rate	406	3	1	660	5	1
Alt-A, interest-only, and option ARM	13,166	99	7	14,966	104	20
Total with specific allowance recorded	83,593	763	71	90,437	760	118
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	73,232	770	65	77,147	739	99
15-year amortizing fixed-rate	938	10	2	1,076	14	3
Adjustable rate	656	5	1	745	6	1
Alt-A, interest-only, and option ARM	14,579	126	8	15,782	124	22
Total single-family	$ 89,405	$ 911	$ 76	$ 94,750	$ 883	$ 125
Multifamily —						
With no specific allowance recorded[1]	$ 305	$ 4	$ 1	$ 515	$ 7	$ 2
With specific allowance recorded	82	—	—	210	2	2
Total multifamily	$ 387	$ 4	$ 1	$ 725	$ 9	$ 4
Total single-family and multifamily	$ 89,792	$ 915	$ 77	$ 95,475	$ 892	$ 129

(in millions)	YTD 2016 Average Recorded Investment	YTD 2016 Interest Income Recognized	YTD 2016 Interest Income Recognized On Cash Basis[3]	YTD 2015 Average Recorded Investment	YTD 2015 Interest Income Recognized	YTD 2015 Interest Income Recognized On Cash Basis[3]
Single-family —						
With no specific allowance recorded:[1]						
20 and 30-year or more, amortizing fixed-rate	$ 4,065	$ 219	$ 6	$ 3,191	$ 188	$ 7
15-year amortizing fixed-rate	35	3	—	43	4	—
Adjustable rate	236	4	—	59	1	—
Alt-A, interest-only, and option ARM	1,304	52	2	750	38	2
Total with no specific allowance recorded	5,640	278	8	4,043	231	9
With specific allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	69,924	1,338	135	75,021	1,271	175
15-year amortizing fixed-rate	923	20	4	1,090	24	6
Adjustable rate	434	8	2	724	10	2
Alt-A, interest-only, and option ARM	13,419	223	17	15,547	206	33
Total with specific allowance recorded	84,700	1,589	158	92,382	1,511	216
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	73,989	1,557	141	78,212	1,459	182
15-year amortizing fixed-rate	958	23	4	1,133	28	6
Adjustable rate	670	12	2	783	11	2
Alt-A, interest-only, and option ARM	14,723	275	19	16,297	244	35
Total single-family	$ 90,340	$ 1,867	$ 166	$ 96,425	$ 1,742	$ 225
Multifamily —						
With no specific allowance recorded[1]	$ 339	$ 7	$ 2	$ 622	$ 14	$ 4
With specific allowance recorded	82	2	1	268	5	4
Total multifamily	$ 421	$ 9	$ 3	$ 890	$ 19	$ 8
Total single-family and multifamily	$ 90,761	$ 1,876	$ 169	$ 97,315	$ 1,761	$ 233

(1) Individually impaired loans with no specific related valuation allowance primarily represent those loans for which the collateral value is sufficiently in excess of the loan balance to result in recovery of the entire recorded investment if the property were foreclosed upon or otherwise subject to disposition.
(2) Consists primarily of loans classified as TDRs.
(3) Consists of income recognized during the period related to loans on non-accrual status.

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

	June 30, 2016			December 31, 2015		
(in millions)	Single-family	Multifamily	Total	Single-family	Multifamily	Total
Recorded investment:						
Collectively evaluated	$ 1,638,914	$ 27,996	$ 1,666,910	$ 1,621,801	$ 30,728	$ 1,652,529
Individually evaluated	88,257	375	88,632	91,528	475	92,003
Total recorded investment	1,727,171	28,371	1,755,542	1,713,329	31,203	1,744,532
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,118)	(14)	(1,132)	(1,273)	(18)	(1,291)
Individually evaluated	(12,357)	(13)	(12,370)	(14,019)	(21)	(14,040)
Total ending balance of the allowance	(13,475)	(27)	(13,502)	(15,292)	(39)	(15,331)
Net investment in loans	$ 1,713,696	$ 28,344	$ 1,742,040	$ 1,698,037	$ 31,164	$ 1,729,201

CREDIT PROTECTION AND OTHER FORMS OF CREDIT ENHANCEMENT

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

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

	UPB[1] at		Maximum Coverage[1][2] at	
(in millions)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Primary mortgage insurance	$ 269,389	$ 257,063	$ 68,983	$ 65,760
STACR debt note and ACIS transactions[3]	324,743	241,450	19,507	14,916
Lender recourse and indemnifications	5,954	6,339	5,133	5,396
Pool insurance[4]	1,557	1,706	688	753
HFA indemnification	2,398	2,599	2,398	2,599
Subordination	2,776	3,021	302	336
Other credit enhancements	14	15	9	10
Total	$ 606,831	$ 512,193	$ 97,020	$ 89,770

(1) Except for the majority of our single-family credit risk transfer transactions, our credit enhancements generally provide protection for the first, or initial, credit losses associated with the related loans. Excludes: (a) FHA/VA and other governmental loans; (b) credit protection associated with $7.6 billion and $8.3 billion in UPB of single-family loans underlying other securitization products as of June 30, 2016 and December 31, 2015, respectively, as the information was not available; and (c) repurchase rights (subject to certain conditions and limitations) we have under representations and warranties provided by our agreements with seller/servicers to underwrite loans and service them in accordance with our standards. The UPB of single-family loans covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA and USDA) was $3.0 billion and $3.2 billion as of June 30, 2016 and December 31, 2015, respectively.

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

(3) Excludes $114.1 billion and $87.4 billion in UPB at June 30, 2016 and December 31, 2015, respectively, where the related loans are also covered by primary mortgage insurance. Maximum coverage amounts presented represent the outstanding balance of STACR debt notes held by third parties as well as the remaining aggregate limit of insurance purchased from third parties in ACIS transactions.

(4) Excludes approximately $0.4 billion and $0.6 billion in UPB at June 30, 2016 and December 31, 2015, respectively, where the related loans are also covered by primary mortgage insurance.

Primary mortgage insurance and credit risk transfer transactions are the most prevalent types of credit enhancement protecting our single-family credit guarantee portfolio. Pool insurance contracts provide insurance on a group of mortgage loans up to a stated aggregate loss limit. We have not purchased pool insurance on single-family mortgage loans since March 2008. For information about counterparty risk associated with mortgage insurers, see Note 12.

Our credit risk transfer transactions provide credit enhancement by transferring a portion of our expected credit losses to third-party investors, insurers, and selected sellers. The value of these transactions to us is dependent on various economic scenarios, and we will primarily benefit from these transactions if we experience significant mortgage loan defaults.

NON-CASH INVESTING AND FINANCING ACTIVITIES

During YTD 2016 and YTD 2015, we acquired $94.5 billion and $123.9 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. The guarantor swap transactions during YTD 2016 and YTD 2015 included approximately $9.4 billion and $3.8 billion, respectively, of loans received from sellers to satisfy advances that were recorded in other assets on our consolidated balance sheets.

In addition, we acquired REO properties as a result of the derecognition of loans held on our consolidated balance sheets upon foreclosure of the underlying collateral or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During YTD 2016 and YTD 2015, we had transfers of $0.8 billion, and $1.1 billion, respectively, from loans to REO.

NOTE 5: INVESTMENTS IN SECURITIES

The table below summarizes the fair values of our investments in securities by classification.

(in millions)	June 30, 2016	December 31, 2015
Trading securities	$ 34,209	$ 39,278
Available-for-sale securities	78,060	74,937
Total	$ 112,269	$ 114,215

As of June 30, 2016 and December 31, 2015, we did not classify any securities as held-to-maturity, although we may elect to do so in the future.

TRADING SECURITIES

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

(in millions)	June 30, 2016	December 31, 2015
Mortgage-related securities:		
Freddie Mac	$ 14,978	$ 15,513
Fannie Mae	6,815	6,438
Ginnie Mae	135	30
Other	73	146
Total mortgage-related securities	22,001	22,127
Non-mortgage-related securities	12,208	17,151
Total fair value of trading securities	$ 34,209	$ 39,278

During 2Q 2016 and YTD 2016, we recorded net unrealized gains (losses) on trading securities held at those dates of $25 million and $225 million, respectively. During 2Q 2015 and YTD 2015, we recorded net unrealized gains (losses) on trading securities held at those dates of $(325) million and $(281) million, respectively.

AVAILABLE-FOR-SALE SECURITIES

At June 30, 2016 and December 31, 2015, all available-for-sale securities were mortgage-related securities.

The table below presents the amortized cost, gross unrealized gains and losses, and fair value by major security type for our securities classified as available-for-sale.

	June 30, 2016				
			Gross Unrealized Losses		
(in millions)	Amortized Cost	Gross Unrealized Gains	Other-Than-Temporary Impairment(1)	Temporary Impairment(2)	Fair Value
Available-for-sale securities:					
Freddie Mac	$ 45,595	$ 1,632	$ —	$ (57)	$ 47,170
Fannie Mae	4,816	173	—	(28)	4,961
Ginnie Mae	130	11	—	—	141
CMBS	8,969	459	(7)	(20)	9,401
Subprime	9,845	423	(243)	(50)	9,975
Option ARM	2,379	261	(49)	(5)	2,586
Alt-A and other	1,965	436	(3)	(4)	2,394
Obligations of states and political subdivisions	874	17	—	(1)	890
Manufactured housing	458	85	(1)	—	542
Total available-for-sale securities	$ 75,031	$ 3,497	$ (303)	$ (165)	$ 78,060

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

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

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

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

	June 30, 2016			
	Less than 12 Months		12 Months or Greater	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities:				
Freddie Mac	$ 4,282	$ (46)	$ 832	$ (11)
Fannie Mae	1,611	(17)	1,264	(11)
Ginnie Mae	—	—	50	—
CMBS	269	(19)	72	(8)
Subprime	407	(14)	3,337	(279)
Option ARM	146	(5)	467	(49)
Alt-A and other	125	(2)	131	(5)
Obligations of states and political subdivisions	—	—	8	(1)
Manufactured housing	—	—	13	(1)
Total available-for-sale securities in a gross unrealized loss position	$ 6,840	$ (103)	$ 6,174	$ (365)

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

At June 30, 2016, the gross unrealized losses relate to 313 individual lots representing 274 separate securities.

Impairment Recognition on Investments in Securities

For our available-for-sale securities in an unrealized loss position at June 30, 2016, we have asserted that we have no intent to sell and believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis.

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

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

	June 30, 2016	
(dollars in millions)	Subprime	Other(1)
UPB	$ 13,580	$ 5,667
Weighted average collateral cumulative loss	27%	16%
Weighted average voluntary prepayment rates	5%	8%
Average security credit enhancements	6%	1%

(1) Consists of Option ARM and Alt-A.

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

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

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Net impairment of available-for-sale securities recognized in earnings				
Intent to sell	$ 10	$ 76	$ 62	$ 165
Other	62	22	67	26
Total net impairment of available-for-sale securities recognized in earnings	$ 72	$ 98	$ 129	$ 191

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

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Credit-related other-than-temporary impairments on available-for-sale securities recognized in earnings:				
Beginning balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings	$ 4,551	$ 6,281	$ 5,306	$ 6,798
Additions:				
Amounts related to credit losses on securities for which an other-than-temporary impairment was previously recognized	62	22	67	26
Reductions:				
Amounts related to securities which were sold, written off, or matured	(7)	(35)	(62)	(87)
Amounts related to securities which we intend to sell or it is more likely than not that we will be required to sell before recovery of amortized cost basis	(21)	(511)	(657)	(891)
Amounts related to amortization resulting from significant increases in cash flows expected to be collected and/or due to the passage of time that are recognized over the remaining life of the security	(68)	(78)	(137)	(167)
Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairments were recognized in earnings	$ 4,517	$ 5,679	$ 4,517	$ 5,679

Realized Gains and Losses on Sales of Available-For-Sale Securities

The table below summarizes the gross realized gains and gross realized losses from the sale of available-for-sale securities.

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Gross realized gains	$ 413	$ 486	$ 493	$ 853
Gross realized losses	(27)	(6)	(35)	(11)
Net realized gains (losses)	$ 386	$ 480	$ 458	$ 842

Maturities of Available-For-Sale Securities

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

	As of June 30, 2016									
			One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
(in millions)	Total Amortized Cost	Total Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale securities:										
Freddie Mac	$ 45,595	$ 47,170	$ 11	$ 11	$ 51	$ 51	$ 2,154	$ 2,158	$ 43,379	$ 44,950
Fannie Mae	4,816	4,961	1	1	7	8	51	57	4,757	4,895
Ginnie Mae	130	141	—	—	1	1	26	30	103	110
CMBS	8,969	9,401	140	141	—	—	—	—	8,829	9,260
Subprime	9,845	9,975	—	—	—	—	—	—	9,845	9,975
Option ARM	2,379	2,586	—	—	—	—	—	—	2,379	2,586
Alt-A and other	1,965	2,394	—	—	11	11	6	7	1,948	2,376
Obligations of states and political subdivisions	874	890	5	5	22	23	74	77	773	785
Manufactured housing	458	542	—	—	—	—	13	18	445	524
Total available-for-sale securities	$ 75,031	$ 78,060	$ 157	$ 158	$ 92	$ 94	$ 2,324	$ 2,347	$ 72,458	$ 75,461

NOTE 6: DEBT SECURITIES AND SUBORDINATED BORROWINGS

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

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

	Balance, Net		Interest Expense			
(in millions)	June 30, 2016	December 31, 2015	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Debt securities of consolidated trusts held by third parties	$ 1,594,236	$ 1,556,121	$ 11,249	$ 11,005	$ 23,040	$ 22,492
Other debt:						
Short-term debt	75,868	113,569	82	36	175	74
Long-term debt	301,999	300,579	1,450	1,587	2,954	3,150
Total other debt	377,867	414,148	1,532	1,623	3,129	3,224
Total debt, net	$ 1,972,103	$ 1,970,269	$ 12,781	$ 12,628	$ 26,169	$ 25,716

Our debt cap under the Purchase Agreement is $479.0 billion in 2016 and will decline to $407.2 billion on January 1, 2017. As of June 30, 2016, our aggregate indebtedness for purposes of the debt cap was $381.5 billion. Our aggregate indebtedness is calculated as the par value of other short- and long-term debt.

DEBT SECURITIES OF CONSOLIDATED TRUSTS HELD BY THIRD PARTIES

The table below summarizes the debt securities of consolidated trusts held by third parties based on underlying loan product type.

	June 30, 2016				December 31, 2015			
(dollars in millions)	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon(1)	Contractual Maturity	UPB	Carrying Amount	Weighted Average Coupon(1)
Single-family:								
30-year or more, fixed-rate(2)	2016 - 2055	$1,136,223	$1,171,536	3.81%	2016 - 2053	$1,090,584	$1,123,290	3.88%
20-year fixed-rate	2016 - 2036	74,603	76,899	3.55	2016 - 2036	73,018	75,221	3.61
15-year fixed-rate	2016 - 2031	263,621	269,974	2.97	2016 - 2031	270,036	276,531	3.01
Adjustable-rate	2016 - 2047	58,244	59,576	2.64	2016 - 2047	62,496	63,899	2.61
Interest-only	2026 - 2041	12,453	12,510	3.29	2026 - 2041	14,252	14,317	3.16
FHA/VA	2016 - 2044	894	911	5.34	2016 - 2044	986	1,005	5.37
Total single-family		1,546,038	1,591,406			1,511,372	1,554,263	
Multifamily(2)	2017 - 2030	2,635	2,830	4.76	2017 - 2028	1,717	1,858	4.90
Total debt securities of consolidated trusts held by third parties		$1,548,673	$1,594,236			$1,513,089	$1,556,121	

(1) The effective rate for debt securities of consolidated trusts held by third parties was 2.81% and 3.06% as of June 30, 2016 and December 31, 2015, respectively.
(2) Carrying amount includes securities recorded at fair value.

Other Debt

The table below summarizes the balances and effective interest rates for other debt. We had no balances of securities sold under agreements to repurchase at either June 30, 2016 or December 31, 2015.

	June 30, 2016			December 31, 2015		
(dollars in millions)	Par Value	Carrying Amount(1)	Weighted Average Effective Rate	Par Value	Carrying Amount(1)	Weighted Average Effective Rate
Other short-term debt:						
Discount notes and Reference Bills®	$ 68,099	$ 68,023	0.42%	$ 104,088	$ 104,024	0.28%
Medium-term notes	7,845	7,845	0.17	9,545	9,545	0.20
Total other short-term debt	$ 75,944	$ 75,868	0.40	$ 113,633	$ 113,569	0.28
Other long-term debt:						
Original maturities on or before December 31,						
2016	$ 33,671	$ 33,678	1.89%	$ 58,765	$ 58,821	2.13%
2017	95,655	95,714	1.41	91,544	91,636	1.48
2018	61,302	61,400	1.33	48,189	48,187	1.52
2019	43,599	43,528	1.65	31,352	31,259	1.84
2020	15,171	15,146	1.65	26,697	26,664	1.96
Thereafter	56,206	52,533	3.56	47,841	44,012	3.72
Total other long-term debt(2)	305,604	301,999	1.87	304,388	300,579	2.02
Total other debt	$ 381,548	$ 377,867		$ 418,021	$ 414,148	

(1) Represents par value, net of associated discounts or premiums, issuance cost and hedge-related basis adjustments. Includes \$6.6 billion and \$7.0 billion at June 30, 2016 and December 31, 2015, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected.

(2) Balance, net for other long-term debt includes callable debt of $108.7 billion and $106.9 billion at June 30, 2016 and December 31, 2015, respectively, which gives us the option to call or not call debt for a variety of reasons that include managing the composition of liabilities or economic reasons.

NOTE 7: DERIVATIVES

At June 30, 2016 and December 31, 2015, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges which are recognized in earnings when the originally forecasted transactions affect earnings. Amounts reclassified from AOCI linked to interest payments on other debt are recorded in other debt interest expense and amounts not linked to interest payments on other debt are recorded in expense related to derivatives. During YTD 2016 and YTD 2015, we reclassified from AOCI into earnings, pre-tax losses of $100 million and $124 million, respectively, related to closed cash flow hedges. See Note 9 for information about future reclassifications of deferred net losses related to closed cash flow hedges to net income.

USE OF DERIVATIVES

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

We classify derivatives into three categories:

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

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

TYPES OF DERIVATIVES

We principally use the following types of derivatives:

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

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

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

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.

	June 30, 2016			December 31, 2015		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
(in millions)		Assets	Liabilities		Assets	Liabilities
Total derivative portfolio						
Interest-rate swaps:						
Receive-fixed	$ 268,018	$ 9,321	$ (14)	$ 209,988	$ 4,591	$ (486)
Pay-fixed	217,312	5	(24,176)	218,599	319	(11,736)
Basis (floating to floating)	1,125	1	—	1,125	1	—
Total interest-rate swaps	486,455	9,327	(24,190)	429,712	4,911	(12,222)
Option-based:						
Call swaptions						
Purchased	60,130	6,613	—	57,925	3,450	—
Written	1,125	—	(151)	4,375	—	(100)
Put Swaptions						
Purchased	31,430	438	—	24,050	580	—
Written	8,275	—	(1)	11,025	—	(28)
Other option-based derivatives(1)	15,791	1,035	—	12,088	791	—
Total option-based	116,751	8,086	(152)	109,463	4,821	(128)
Futures	78,220	—	—	56,332	—	—
Commitments	68,819	190	(284)	29,114	34	(28)
Credit derivatives	3,530	9	(10)	3,899	25	(10)
Other	3,000	—	(23)	3,033	—	(23)
Total derivatives not designated as hedging instruments	756,775	17,612	(24,659)	631,553	9,791	(12,411)
Derivative interest receivable (payable)		1,158	(1,521)		814	(1,393)
Netting adjustments(2)		(17,291)	24,937		(10,210)	12,550
Total derivative portfolio, net	$ 756,775	$ 1,479	$ (1,243)	$ 631,553	$ 395	$ (1,254)

(1) Primarily consists of purchased interest-rate caps and floors.
(2) Represents counterparty netting and cash collateral netting. Cash collateral amounts were a net $7.6 billion and $2.3 billion at June 30, 2016 and December 31, 2015, respectively.

See Note 8 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, reported in our consolidated statements of comprehensive income as derivative gains (losses).

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Interest-rate swaps:				
Receive-fixed	$ 1,939	$ (1,599)	$ 4,883	$ (282)
Pay-fixed	(4,303)	6,440	(12,938)	2,462
Basis (floating to floating)	—	(1)	1	(1)
Total interest-rate swaps	(2,364)	4,840	(8,054)	2,179
Option based:				
Call swaptions				
Purchased	1,300	(1,513)	3,399	(498)
Written	(18)	38	(89)	9
Put swaptions				
Purchased	(236)	131	(514)	65
Written	9	8	47	23
Other option-based derivatives[1]	86	(129)	233	(48)
Total option-based	1,141	(1,465)	3,076	(449)
Other:				
Futures	(287)	29	(468)	(11)
Commitments	(104)	265	(230)	154
Credit derivatives	(23)	(1)	(31)	(38)
Other	(1)	(1)	(2)	—
Total other	(415)	292	(731)	105
Accrual of periodic cash settlements:				
Receive-fixed interest-rate swaps	622	621	1,239	1,301
Pay-fixed interest-rate swaps	(1,042)	(1,154)	(2,149)	(2,405)
Other	—	1	—	1
Total accrual of periodic cash settlements	(420)	(532)	(910)	(1,103)
Total	$ (2,058)	$ 3,135	$ (6,619)	$ 732

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

NOTE 8: COLLATERALIZED AGREEMENTS AND OFFSETTING ARRANGEMENTS

DERIVATIVE PORTFOLIO

Derivative Counterparties

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

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

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our derivative counterparties for interest-rate swap and option-based derivatives. At June 30, 2016 and December 31, 2015, all amounts of cash collateral related to derivatives with master netting and collateral agreements were offset against derivative assets, net or derivative liabilities, net, as applicable.

In the event that all of our counterparties for OTC interest-rate swaps and option-based derivatives were to have defaulted simultaneously on June 30, 2016, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately $5 million. A significant majority of our net uncollateralized exposure to OTC derivative counterparties is concentrated among two counterparties, both of which were investment grade as of June 30, 2016.

Exposure to Certain Counterparties

The total exposure on our forward purchase and sale commitments, which are treated as derivatives, was $190 million and $34 million at June 30, 2016 and December 31, 2015, respectively. Many of our transactions involving forward purchase and sale commitments of mortgage-related securities, including our dollar roll transactions, utilize the Mortgage Backed Securities Division of the Fixed Income Clearing Corporation (“MBSD/FICC”) as a clearinghouse. As a clearing member of the clearinghouse, we post margin to the MBSD/FICC and are exposed to the institutional credit risk of the organization (including its clearing members).

OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

	June 30, 2016				
(in millions)	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets(1)	Gross Amount Not Offset in the Consolidated Balance Sheets(2)	Net Amount
Assets:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$ 13,504	$ (12,570)	$ 934	$ (929)	$ 5
Cleared and exchange-traded derivatives	5,067	(4,721)	346	—	346
Other	199	—	199	—	199
Total derivatives	18,770	(17,291)	1,479	(929)	550
Securities purchased under agreements to resell	48,989	—	48,989	(48,989)	—
Total	$ 67,759	$ (17,291)	$ 50,468	$ (49,918)	$ 550
Liabilities:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$ (12,633)	$ 11,717	$ (916)	$ 862	$ (54)
Cleared and exchange-traded derivatives	(13,230)	13,220	(10)	—	(10)
Other	(317)	—	(317)	—	(317)
Total	$ (26,180)	$ 24,937	$ (1,243)	$ 862	$ (381)

	December 31, 2015				
(in millions)	Gross Amount Recognized	Amount Offset in the Consolidated Balance Sheets	Net Amount Presented in the Consolidated Balance Sheets(1)	Gross Amount Not Offset in the Consolidated Balance Sheets(2)	Net Amount
Assets:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$ 8,763	$ (8,433)	$ 330	$ (269)	$ 61
Cleared and exchange-traded derivatives	1,783	(1,777)	6	—	6
Other	59	—	59	—	59
Total derivatives	10,605	(10,210)	395	(269)	126
Securities purchased under agreements to resell	63,644	—	63,644	(63,644)	—
Total	$ 74,249	$ (10,210)	$ 64,039	$ (63,913)	$ 126
Liabilities:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$ (8,886)	$ 7,801	$ (1,085)	$ 948	$ (137)
Cleared and exchange-traded derivatives	(4,857)	4,749	(108)	—	(108)
Other	(61)	—	(61)	—	(61)
Total	$ (13,804)	$ 12,550	$ (1,254)	$ 948	$ (306)

(1) For derivatives, includes cash collateral posted or held in excess of exposure.
(2) Does not include the fair value amount of non-cash collateral posted or held that exceeds the associated net asset or liability, netted by counterparty, presented on the consolidated balance sheets. For cleared and exchange-traded derivatives, does not include non-cash collateral posted by us with an aggregate fair value of $2.8 billion as of both June 30, 2016 and December 31, 2015.

COLLATERAL PLEDGED

Collateral Pledged to Freddie Mac

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

(in millions)	June 30, 2016	December 31, 2015
Restricted cash and cash equivalents	$ 273	$ 175
Securities purchased under agreements to resell	1,022	905
Investments in securities - Trading securities	1,275	447
Total	$ 2,570	$ 1,527

At June 30, 2016 and December 31, 2015, we had $0.9 billion and $0.3 billion, respectively, of collateral in the form of securities pledged to and held by us related to OTC derivative instruments. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master netting agreements related to our derivative instruments. In addition, we had $15 million and $22 million of cash pledged to us related to cleared and exchange-traded derivatives at June 30, 2016 and December 31, 2015, respectively.

Also, at June 30, 2016 and December 31, 2015, we had $0.3 billion and $0.7 billion, respectively, of securities pledged to us for transactions involving securities purchased under agreements to resell that we had the right to repledge. From time to time we may obtain pledges of collateral from certain seller/servicers as additional security for certain of their obligations to us, including their obligations to repurchase loans sold to us in breach of representations and warranties. This collateral may, at our discretion, take the form of cash, cash equivalents, or agency securities.

Collateral Pledged by Freddie Mac

The aggregate fair value of all OTC derivative instruments netted by counterparty that were in a liability position on June 30, 2016, was $2.6 billion for which we posted cash and non-cash collateral of $2.6 billion in the normal course of business. A reduction in our credit ratings may trigger additional collateral requirements related to our OTC derivative instruments. If a reduction in our credit ratings had triggered additional collateral requirements related to our OTC derivative instruments on June 30, 2016, we would have been required to post an additional $34 million of collateral to our counterparties. A reduction in our credit ratings could also cause the clearinghouses or clearing members we use for our cleared and exchange-traded derivatives to demand additional collateral.

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

(in millions)	June 30, 2016	December 31, 2015
Securities pledged with the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties[1]	$ 1,469	$ 1,293
Available-for-sale securities	178	—
Trading securities	2,195	2,487
Total securities pledged	$ 3,842	$ 3,780

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

Cash Pledged

At June 30, 2016, we pledged $10.7 billion of collateral in the form of cash and cash equivalents, of which $1.7 billion related to our OTC derivative agreements as we had $2.6 billion of such derivatives in a net loss position. The remaining $9.0 billion was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at June 30, 2016.

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

NOTE 9: STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE

ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	YTD 2016			
(in millions)	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	$ 1,740	$ (621)	$ 34	$ 1,153
Other comprehensive income before reclassifications[1]	442	—	1	443
Amounts reclassified from accumulated other comprehensive income	(214)	66	(1)	(149)
Changes in AOCI by component	228	66	—	294
Ending balance	$ 1,968	$ (555)	$ 34	$ 1,447

	YTD 2015			
(in millions)	AOCI Related to Available-For-Sale Securities	AOCI Related to Cash Flow Hedge Relationships	AOCI Related to Defined Benefit Plans	Total
Beginning balance	$ 2,546	$ (803)	$ (13)	$ 1,730
Other comprehensive income before reclassifications[1]	265	—	26	291
Amounts reclassified from accumulated other comprehensive income	(422)	97	—	(325)
Changes in AOCI by component	(157)	97	26	(34)
Ending balance	$ 2,389	$ (706)	$ 13	$ 1,696

(1) For YTD 2016 and YTD 2015, net of tax expense of $0.2 billion and $0.1 billion, respectively, for AOCI related to available-for-sale securities.

Reclassifications from AOCI to Net Income

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

Details about Accumulated Other Comprehensive Income Components (in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015	Affected Line Item in the Consolidated Statements of Comprehensive Income
AOCI related to available-for-sale securities					
	$ 386	$ 480	$ 458	$ 842	Other gains (losses) on investment securities recognized in earnings
	(72)	(98)	(129)	(191)	Net impairment of available-for-sale securities recognized in earnings
	314	382	329	651	Total before tax
	(110)	(134)	(115)	(229)	Tax (expense) or benefit
	204	248	214	422	Net of tax
AOCI related to cash flow hedge relationships					
	(1)	(1)	(1)	(1)	Interest expense — Other debt
	(48)	(58)	(99)	(123)	Expense related to derivatives
	(49)	(59)	(100)	(124)	Total before tax
	17	21	34	27	Tax (expense) or benefit
	(32)	(38)	(66)	(97)	Net of tax
AOCI related to defined benefit plans					
	1	—	2	—	Salaries and employee benefits
	(1)	—	(1)	—	Tax (expense) or benefit
	—	—	1	—	Net of tax
Total reclassifications in the period	$ 172	$ 210	$ 149	$ 325	Net of tax

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

The total AOCI related to derivatives designated as cash flow hedges was a loss of $0.6 billion and $0.7 billion at June 30, 2016 and June 30, 2015, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no effect on the deferred portion of AOCI relating to losses on closed cash flow hedges.

The previously deferred amount related to closed cash flow hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted transactions affect earnings, unless it is deemed probable that the forecasted transactions will not occur. Over the next 12 months, we estimate that approximately $131 million, net of taxes, of the $0.6 billion of cash flow hedge losses in AOCI at June 30, 2016 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 17 years.

SENIOR PREFERRED STOCK

At June 30, 2016, our assets exceeded our liabilities under GAAP; therefore, no draw is being requested from Treasury under the Purchase Agreement. Based on our Net Worth Amount at June 30, 2016 and the Capital Reserve Amount of $1.2 billion in 2016, our dividend obligation to Treasury in September 2016 will be $0.9 billion. See Note 2 for additional information. The aggregate liquidation preference on the senior preferred stock owned by Treasury was $72.3 billion as of both June 30, 2016 and December 31, 2015.

STOCK ISSUANCES AND REPURCHASES

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2Q 2016 and YTD 2016, except for issuances of treasury stock relating to stock-based compensation granted prior to conservatorship.

EARNINGS PER SHARE

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

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

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

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

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

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

During periods in which a net loss attributable to common stockholders has been incurred, potential common equivalent shares outstanding are not included in the calculation because it would have an antidilutive effect.

For purposes of the earnings-per-share calculation, all stock options outstanding at June 30, 2016 and June 30, 2015 were out of the money and excluded from the computation of dilutive potential common shares during 2Q 2016 and YTD 2016, and 2Q 2015 and YTD 2015, respectively.

DIVIDENDS DECLARED

No common dividends were declared during YTD 2016. During 1Q 2016 and 2Q 2016, we paid dividends of $1.7 billion and $0 billion, respectively, in cash on the senior preferred stock at the direction of our Conservator. We did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during YTD 2016.

NOTE 10: INCOME TAXES

INCOME TAX EXPENSE

For 2Q 2016 and 2Q 2015, we reported an income tax expense of $0.5 billion and $1.9 billion, respectively, resulting in effective tax rates of 31.9% and 31.4%, respectively. For YTD 2016 and YTD 2015, we reported an income tax expense of $0.3 billion and $2.2 billion, respectively, resulting in effective tax rates of 32.8% and 31.6%, respectively. Our effective tax rate differed from the statutory rate of 35% in these periods primarily due to our recognition of low income housing tax credits.

Deferred Tax Assets, Net

We had net deferred tax assets of $18.7 billion and $18.2 billion as of June 30, 2016 and December 31, 2015, respectively. At June 30, 2016, our net deferred tax assets consisted primarily of basis differences related to derivative instruments and deferred fees.

Based on all positive and negative evidence available at June 30, 2016, we determined that it is more likely than not that our net deferred tax assets will be realized. Therefore, a valuation allowance was not necessary.

UNRECOGNIZED TAX BENEFITS

We evaluated all income tax positions and determined that there were no uncertain tax positions that required reserves as of June 30, 2016.

NOTE 11: SEGMENT REPORTING

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

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

Segment Earnings

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

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

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

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

- The discontinuation of adjustments to net interest income and guarantee fee income which reflected the amortization of cash premiums and discounts on the consolidated Freddie Mac mortgage-related securities we purchased as investments, as well as the amortization of certain guarantee buy-up and buy-down fees and credit delivery fees on mortgage loans we purchased. The discontinuation of the adjustments resulted in an increase to net interest income for the Investments segment of $216 million and $397 million and a decrease to guarantee fee income for the Single-family Guarantee segment of $74 million and $140 million for 2Q 2015 and YTD 2015, respectively, to align with the current presentation.

- Previously when we securitized loans into PCs, the premiums and discounts on the loans were amortized in net interest income. This amortization is now reflected in other non-interest income, consistent with the amortization of the premiums and discounts on the securitized PCs themselves. We reclassified $371 million and $719 million of expense from net interest income into other non-interest income for the Investments segment for 2Q 2015 and YTD 2015, respectively, to align with the current presentation.
- Impacts from the reclassification of mortgage loans from held-for-investment to held-for-sale will be reflected in aggregate as other non-interest income. We reclassified $800 million and $1.5 billion of benefit from (provision) benefit for credit losses and $400 million and $760 million of expense from other non-interest expense into other non-interest income for the Single-family Guarantee segment for 2Q 2015 and YTD 2015, respectively, to align with the current presentation.

The table below presents Segment Earnings by segment.

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Segment Earnings (loss), net of taxes:				
Single-family Guarantee	$ 584	$ 489	$ 1,394	$ 549
Multifamily	264	473	411	757
Investments	145	3,207	(1,166)	3,387
All Other	—	—	—	—
Total Segment Earnings, net of taxes	993	4,169	639	4,693
Net income	$ 993	$ 4,169	$ 639	$ 4,693
Comprehensive income (loss) of segments:				
Single-family Guarantee	$ 583	$ 489	$ 1,394	$ 548
Multifamily	271	366	421	630
Investments	279	3,038	(882)	3,454
All Other	—	20	—	27
Comprehensive income of segments	1,133	3,913	933	4,659
Comprehensive income	$ 1,133	$ 3,913	$ 933	$ 4,659

The tables below present detailed reconciliations between our GAAP financial statements and Segment Earnings for our reportable segments and All Other.

	2Q 2016						
(in millions)	Single-family Guarantee	Multifamily	Investments	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income (loss)	$ (151)	$ 216	$ 606	$ —	$ 671	$ 2,772	$ 3,443
Guarantee fee income[(1)]	1,501	124	—	—	1,625	(1,501)	124
Benefit for credit losses	121	6	—	—	127	648	775
Net interest income and guarantee fee income after benefit (provision) for credit losses	1,471	346	606	—	2,423	1,919	4,342
Net impairment of available-for-sale securities recognized in earnings	—	—	49	—	49	(121)	(72)
Derivative gains (losses)	(21)	(296)	(1,003)	—	(1,320)	(738)	(2,058)
Gains (losses) on trading securities	—	42	22	—	64	—	64
Gains (losses) on mortgage loans	—	124	—	—	124	(605)	(481)
Other non-interest income (loss)	(96)	279	551	—	734	(135)	599
Administrative expenses	(314)	(86)	(75)	—	(475)	—	(475)
REO operations expense	(29)	—	—	—	(29)	—	(29)
Other non-interest expense	(101)	(9)	(1)	—	(111)	(320)	(431)
Income tax expense	(326)	(136)	(4)	—	(466)	—	(466)
Net income	584	264	145	—	993	—	993
Changes in unrealized gains (losses) related to available-for-sale securities	—	7	102	—	109	—	109
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	32	—	32	—	32
Changes in defined benefit plans	(1)	—	—	—	(1)	—	(1)
Total other comprehensive income (loss), net of taxes	(1)	7	134	—	140	—	140
Comprehensive income	$ 583	$ 271	$ 279	$ —	$ 1,133	$ —	$ 1,133

	YTD 2016						
(in millions)	Single-family Guarantee	Multifamily	Investments	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income (expense)	$ (269)	$ 468	$ 1,354	$ —	$ 1,553	$ 5,295	$ 6,848
Guarantee fee income[(1)]	2,786	232	—	—	3,018	(2,784)	234
Benefit for credit losses	410	11	—	—	421	821	1,242
Net interest income and guarantee fee income after benefit (provision) for credit losses	2,927	711	1,354	—	4,992	3,332	8,324
Net impairment of available-for-sale securities recognized in earnings	—	—	130	—	130	(259)	(129)
Derivative gains (losses)	(29)	(1,083)	(3,998)	—	(5,110)	(1,509)	(6,619)
Gains (losses) on trading securities	—	104	191	—	295	—	295
Gains (losses) on loans	—	621	—	—	621	(624)	(3)
Other non-interest income	99	457	740	—	1,296	(321)	975
Administrative expense	(609)	(166)	(148)	—	(923)	—	(923)
REO operations expense	(113)	—	—	—	(113)	—	(113)
Other non-interest expense	(201)	(33)	(3)	—	(237)	(619)	(856)
Income tax (expense) benefit	(680)	(200)	568	—	(312)	—	(312)
Net income (loss)	1,394	411	(1,166)	—	639	—	639
Changes in unrealized gains (losses) related to available-for-sale securities	—	10	218	—	228	—	228
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	66	—	66	—	66
Changes in defined benefit plans	—	—	—	—	—	—	—
Total other comprehensive income (loss), net of taxes	—	10	284	—	294	—	294
Comprehensive income (loss)	$ 1,394	$ 421	$ (882)	$ —	$ 933	$ —	$ 933

2Q 2015							
(in millions)	Single-family Guarantee	Multifamily	Investments	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income	$ 26	$ 281	$ 1,047	$ —	$ 1,354	$ 2,615	$ 3,969
Guarantee fee income[1]	1,325	79	—	—	1,404	(1,312)	92
Benefit (provision) for credit losses	(137)	17	—	—	(120)	977	857
Net interest income and guarantee fee income after benefit (provision) for credit losses	1,214	377	1,047	—	2,638	2,280	4,918
Net impairment of available-for-sale securities recognized in earnings	—	(8)	95	—	87	(185)	(98)
Derivative gains (losses)	(1)	708	3,157	—	3,864	(729)	3,135
Gains (losses) on trading securities	—	(57)	(271)	—	(328)	—	(328)
Gains (losses) on mortgage loans	—	(259)	—	—	(259)	(665)	(924)
Other non-interest income (loss)	(31)	20	741	—	730	(66)	664
Administrative expenses	(329)	(90)	(82)	—	(501)	—	(501)
REO operations expense	(52)	—	—	—	(52)	—	(52)
Other non-interest expense	(87)	(12)	(2)	—	(101)	(635)	(736)
Income tax expense	(225)	(206)	(1,478)	—	(1,909)	—	(1,909)
Net income	489	473	3,207	—	4,169	—	4,169
Changes in unrealized gains (losses) related to available-for-sale securities	—	(107)	(207)	—	(314)	—	(314)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	38	—	38	—	38
Changes in defined benefit plans	—	—	—	20	20	—	20
Total other comprehensive income (loss), net of taxes	—	(107)	(169)	20	(256)	—	(256)
Comprehensive income	$ 489	$ 366	$ 3,038	$ 20	$ 3,913	$ —	$ 3,913

YTD 2015							
(in millions)	Single-family Guarantee	Multifamily	Investments	All Other	Total Segment Earnings (Loss)	Reclassifications	Total per Consolidated Statements of Comprehensive Income
Net interest income (expense)	$ (111)	$ 523	$ 2,202	$ —	$ 2,614	$ 5,002	$ 7,616
Guarantee fee income[1]	2,582	152	—	—	2,734	(2,554)	180
Benefit (provision) for credit losses	(517)	20	—	—	(497)	1,853	1,356
Net interest income and guarantee fee income after benefit (provision) for credit losses	1,954	695	2,202	—	4,851	4,301	9,152
Net impairment of available-for-sale securities recognized in earnings	—	(25)	213	—	188	(379)	(191)
Derivative gains (losses)	(38)	509	1,729	—	2,200	(1,468)	732
Gains (losses) on trading securities	—	(47)	(226)	—	(273)	—	(273)
Gains (losses) on loans	—	94	—	—	94	(1,218)	(1,124)
Other non-interest income	(177)	64	1,202	—	1,089	(19)	1,070
Administrative expense	(629)	(160)	(163)	—	(952)	—	(952)
REO operations expense	(127)	—	—	—	(127)	—	(127)
Other non-interest expense	(179)	(23)	(2)	—	(204)	(1,217)	(1,421)
Income tax expense	(255)	(350)	(1,568)	—	(2,173)	—	(2,173)
Net income	549	757	3,387	—	4,693	—	4,693
Changes in unrealized gains (losses) related to available-for-sale securities	—	(127)	(30)	—	(157)	—	(157)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	97	—	97	—	97
Changes in defined benefit plans	(1)	—	—	27	26	—	26
Total other comprehensive income (loss), net of taxes	(1)	(127)	67	27	(34)	—	(34)
Comprehensive income	$ 548	$ 630	$ 3,454	$ 27	$ 4,659	$ —	$ 4,659

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

NOTE 12: CONCENTRATION OF CREDIT AND OTHER RISKS

SINGLE-FAMILY CREDIT GUARANTEE PORTFOLIO

The table below summarizes the concentration by book and geographic area of the approximately $1.7 trillion UPB of our single-family credit guarantee portfolio at both June 30, 2016 and December 31, 2015. See Note 4 and Note 5 for more information about credit risk associated with loans and mortgage-related securities that we hold or guarantee.

	June 30, 2016		December 31, 2015		Percent of Credit Losses	
	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate	YTD 2016	YTD 2015
Book of Business						
Core single-family book	69%	0.18%	66%	0.21%	7%	2%
HARP and other relief refinance book	17	0.67%	18	0.72%	17	6
Legacy single-family book	14	3.59%	16	4.12%	76	92
Total	100%	1.08%	100%	1.32%	100%	100%
Region[(1)]						
West	29%	0.65%	29%	0.79%	10%	12%
Northeast	25	1.63%	26	2.04%	40	45
North Central	17	0.95%	17	1.13%	26	15
Southeast	16	1.27%	16	1.57%	19	25
Southwest	13	0.75%	12	0.88%	5	3
Total	100%	1.08%	100%	1.32%	100%	100%
State[(2)]						
New Jersey	4%	2.85%	4%	3.90%	10%	16%
Illinois	5	1.38%	5	1.62%	10	8
New York	5	2.37%	5	2.94%	10	13
Florida	5	1.65%	5	2.16%	8	20
Maryland	3	1.37%	3	1.64%	6	4
All other	78	0.86%	78	1.03%	56	39
Total	100%	1.08%	100%	1.32%	100%	100%

(1) Region designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).
(2) States presented based on those with the highest percentage of credit losses during YTD 2016.

CREDIT PERFORMANCE OF CERTAIN HIGHER RISK SINGLE-FAMILY LOAN CATEGORIES

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

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

- Part of our relief refinance initiative; or
- In another refinance loan initiative and the pre-existing loan (including Alt-A loans) was originated under less than full documentation standards.

In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as Alt-A in the table below because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred.

Although we do not categorize single-family loans we purchase or guarantee as prime or subprime, we recognize that there are a number of loan types with certain characteristics that indicate a higher degree of credit risk.

For example, a borrower's credit score is a useful measure for assessing the credit quality of the borrower. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores.

Presented below is a summary of the serious delinquency rates of certain higher-risk categories (based on characteristics of the loan at origination) of loans in our single-family credit guarantee portfolio. The table includes a presentation of each higher-risk category in isolation. A single loan may fall within more than one category (for example, an interest-only loan may also have an original LTV ratio greater than 90%). Loans with a combination of these attributes will have an even higher risk of delinquency than those with an individual attribute.

	Percentage of Portfolio[1]		Serious Delinquency Rate[1]	
(Percentage of portfolio based on UPB)	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Interest-only	1%	1%	4.90%	6.02%
Alt-A	2%	2%	5.53%	6.32%
Original LTV ratio greater than 90%[2]	16%	16%	1.64%	2.01%
Lower credit scores at origination (less than 620)	2%	2%	5.69%	6.67%

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

SELLERS AND SERVICERS

We acquire a significant portion of our single-family and multifamily loan purchase volume from several large sellers. The table below summarizes the concentration of single-family and multifamily sellers who provided 10% or more of our purchase volume during YTD 2016.

	YTD 2016	YTD 2015
Single-family Seller		
Wells Fargo Bank, N.A.	13%	11%
Other top 10 sellers	34	40
Top 10 single-family sellers	47%	51%
Multifamily Seller		
Berkadia Commercial Mortgage LLC	20%	8%
CBRE Capital Markets, Inc.	18	17
Walker & Dunlop, LLC	12	14
Other top 10 sellers	32	45
Top 10 multifamily sellers	82%	84%

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

Significant portions of our single-family and multifamily loans are serviced by several large servicers. The table below summarizes the concentration of single-family and multifamily servicers who serviced 10% or more of our single-family credit guarantee portfolio and our multifamily mortgage portfolio, excluding loans underlying K Certificates as of June 30, 2016.

	June 30, 2016	December 31, 2015
Single-family Servicer		
Wells Fargo Bank, N.A.	20%	20%
Other top 10 servicers	42	45
Top 10 single-family servicers	62%	65%
Multifamily Servicer		
Wells Fargo Bank, N.A.	14%	14%
CBRE Capital Markets, Inc.	12	12
Berkadia Commercial Mortgage LLC	10	14
Other top 10 servicers	41	36
Top 10 multifamily servicers	77%	76%

In recent years, there has been a shift in our servicing from depository institutions to non-depository servicers. Some of these non-depository servicers have grown rapidly in recent years and now service a large share of our loans. As of both June 30, 2016 and December 31, 2015, approximately 10% of our single-family credit guarantee portfolio was serviced by our three largest non-depository servicers, on a combined basis. Several of these non-depository servicers also service a large share of the loans underlying our investments in non-agency mortgage-related securities. We routinely monitor the performance of our largest non-depository servicers.

Ocwen Financial Corp. (Ocwen) and its subsidiaries and/or affiliates continue to be the subject of adverse regulatory scrutiny. Although we have taken steps to reduce our exposure to them, Ocwen remains one of our significant non-depository servicers. We continue to closely monitor the performance of Ocwen's $25.9 billion servicing portfolio as of June 30, 2016.

MORTGAGE INSURERS

We have institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. We evaluate the recovery and collectability from mortgage insurers as part of the estimate of our loan loss reserves. See Note 4 for additional information. As of June 30, 2016, mortgage insurers provided coverage with maximum loss limits of $69.7 billion, for $271.4 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected loan is covered under both primary and pool insurance.

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

		Mortgage Insurance Coverage	
	Credit Rating[1]	June 30, 2016	December 31, 2015
Radian Guaranty Inc.	BBB-	22%	22%
United Guaranty Residential Insurance Company	BBB+	22	23
Mortgage Guaranty Insurance Corporation	BBB-	21	21
Genworth Mortgage Insurance Corporation	BB+	14	14
Total		79%	80%

(1) Ratings are for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of June 30, 2016. Represents the lower of S&P and Moody's credit ratings and outlooks stated in terms of the S&P equivalent.

We received proceeds of $0.2 billion and $0.4 billion during YTD 2016 and YTD 2015, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers of $0.2 billion and $0.3 billion (excluding deferred payment obligations associated with unpaid claim amounts) as of June 30, 2016 and December 31, 2015, respectively. The balance of these receivables, net of associated reserves, was approximately $0.1 billion and $0.2 billion at June 30, 2016 and December 31, 2015, respectively.

PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both in rehabilitation, and a substantial portion of their claims is recorded by us as deferred payment obligations. As of both June 30, 2016 and December 31, 2015, we had cumulative unpaid deferred payment obligations of $0.5 billion from these insurers. We reserved for all of these unpaid amounts as collectability is uncertain. It is not clear how the regulators of these companies will administer their respective deferred payment plans in the future, nor when or if those obligations will be paid.

CASH AND OTHER INVESTMENT COUNTERPARTIES

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

Our cash and other investments (including non-mortgage-related investments and cash equivalents) counterparties are primarily major financial institutions, including other GSEs, Treasury, and the Federal Reserve Bank of New York. As of June 30, 2016 and December 31, 2015, including amounts related to our consolidated VIEs, there were $74.5 billion and $83.8 billion, respectively, of cash and securities purchased under agreements to resell invested with institutional counterparties, U.S. Treasury securities classified as cash equivalents, or cash deposited with the Federal Reserve Bank of New York. As of June 30, 2016, all of our securities purchased under agreements to resell were fully collateralized.

NON-AGENCY MORTGAGE-RELATED SECURITY ISSUERS

We are engaged in various loss mitigation efforts concerning certain investments in non-agency mortgage-related securities, including the efforts described below.

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

We have been working with an investor consortium that seeks to enforce certain claims relating to certain Countrywide non-agency mortgage-related securities. In June 2011, Bank of America Corporation, BAC Home Loans Servicing, LP, Countrywide Financial Corporation and Countrywide Home Loans, Inc. entered into a settlement agreement with The Bank of New York Mellon, as trustee, to resolve certain claims with respect to a number of Countrywide mortgage securitization trusts. In January 2014, a New York state court approved a significant portion of the settlement. In March 2015, a New York intermediate appellate court upheld the settlement in full. The conditions to the settlement have been satisfied. In February 2016, the trustee filed a petition in New York state court seeking the court's resolution of a dispute among the investors over the proper allocation of the settlement proceeds through certain trusts covered by the agreement. In May 2016, a judge ordered distribution of allocable shares under the settlement agreement to most of the trusts covered by the settlement, including to all of the securities we hold. In June 2016, we received the funds from the settlement with a benefit to Freddie Mac of approximately $315 million. The benefit from this settlement will be recognized in earnings over the expected remaining life of the securities.

We have also been working with an investor consortium that seeks to enforce certain claims relating to certain Citigroup non-agency mortgage-related securities. In April 2014, Citigroup Inc. entered into a settlement agreement with the trustees of the securities covered by the settlement. In December 2015, a New York state court entered a judgment approving the settlement in all respects. The order became final in January 2016. It is likely that the conditions of the settlement will be fully satisfied in the near term. As a result, we expect to receive a benefit for those securitizations that we hold at the time of such distributions. This benefit, which is expected to be approximately $45 million, will be reflected in earnings recognized over the expected life of the securities.

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

The majority of the single-family loans underlying our investments in non-agency mortgage-related securities are serviced by non-depository servicers. As of June 30, 2016 and December 31, 2015, approximately $10.4 billion and $13.0 billion, respectively, in UPB of loans underlying our investments in single-family non-agency mortgage-related securities were serviced by subsidiaries and/or affiliates of Ocwen.

NOTE 13: FAIR VALUE DISCLOSURE

The accounting guidance for fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis.

FAIR VALUE MEASUREMENTS

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

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

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

VALUATION PROCESSES AND CONTROLS OVER FAIR VALUE MEASUREMENTS

We designed our control processes so that our fair value measurements are appropriate and reliable, that they are based on observable inputs where possible, and that our valuation approaches are consistently applied and the assumptions and inputs are reasonable. Our control processes provide a framework for segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

VALUATION TECHNIQUES

HARP Loans

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

The total compensation that we receive for the delivery of a HARP loan reflects the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. When HARP ends in December 2016, the beneficial pricing afforded to HARP loans will no longer be reflected in the pricing structure of our guarantee fees. If these benefits were not reflected in the pricing for these loans, the fair value of our loans would have decreased by $9.9 billion and $12.9 billion as of June 30, 2016 and December 31, 2015, respectively. The total fair value of the loans in our portfolio that reflect the pricing afforded to HARP loans as of June 30, 2016 and December 31, 2015 is $69.8 billion and $82.8 billion, respectively.

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

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

	June 30, 2016				
(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:					
Freddie Mac	$ —	$ 35,708	$ 11,462	$ —	$ 47,170
Fannie Mae	—	4,888	73	—	4,961
Ginnie Mae	—	141	—	—	141
CMBS	—	5,790	3,611	—	9,401
Subprime	—	—	9,975	—	9,975
Option ARM	—	—	2,586	—	2,586
Alt-A and other	—	—	2,394	—	2,394
Obligations of states and political subdivisions	—	—	890	—	890
Manufactured housing	—	—	542	—	542
Total available-for-sale securities, at fair value	—	46,527	31,533	—	78,060
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	14,663	315	—	14,978
Fannie Mae	—	6,200	615	—	6,815
Ginnie Mae	—	135	—	—	135
Other	—	72	1	—	73
Total mortgage-related securities	—	21,070	931	—	22,001
Non-mortgage-related securities	12,131	77	—	—	12,208
Total trading securities, at fair value	12,131	21,147	931	—	34,209
Total investments in securities	12,131	67,674	32,464	—	112,269
Mortgage loans:					
Held-for-sale, at fair value	—	14,905	—	—	14,905
Derivative assets, net:					
Interest-rate swaps	—	9,327	—	—	9,327
Option-based derivatives	—	8,086	—	—	8,086
Other	—	189	10	—	199
Subtotal, before netting adjustments	—	17,602	10	—	17,612
Netting adjustments[1]	—	—	—	(16,133)	(16,133)
Total derivative assets, net	—	17,602	10	(16,133)	1,479
Other assets:					
Guarantee asset, at fair value	—	—	2,057	—	2,057
Non-derivative held-for-sale purchase commitments, at fair value	—	126	—	—	126
Total other assets	—	126	2,057	—	2,183
Total assets carried at fair value on a recurring basis	$ 12,131	$ 100,307	$ 34,531	$ (16,133)	$130,836
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$ —	$ 185	$ —	$ —	$ 185
Other debt, at fair value	—	6,507	52	—	6,559
Derivative liabilities, net:					
Interest-rate swaps	—	24,190	—	—	24,190
Option-based derivatives	—	152	—	—	152
Other	—	280	37	—	317
Subtotal, before netting adjustments	—	24,622	37	—	24,659
Netting adjustments[1]	—	—	—	(23,416)	(23,416)
Total derivative liabilities, net	—	24,622	37	(23,416)	1,243
Other liabilities:					
Non-derivative held-for-sale purchase commitments, at fair value	—	12	—	—	12
All other, at fair value	—	—	15	—	15
Total other liabilities	—	12	15	—	27
Total liabilities carried at fair value on a recurring basis	$ —	$ 31,326	$ 104	$ (23,416)	$ 8,014

	December 31, 2015				
(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:					
Freddie Mac	$ —	$ 30,919	$ 2,608	$ —	$ 33,527
Fannie Mae	—	7,172	90	—	7,262
Ginnie Mae	—	161	1	—	162
CMBS	—	8,918	3,530	—	12,448
Subprime	—	—	12,802	—	12,802
Option ARM	—	—	3,678	—	3,678
Alt-A and other	—	—	3,278	—	3,278
Obligations of states and political subdivisions	—	—	1,205	—	1,205
Manufactured housing	—	—	575	—	575
Total available-for-sale securities, at fair value	—	47,170	27,767	—	74,937
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	15,182	331	—	15,513
Fannie Mae	—	6,397	41	—	6,438
Ginnie Mae	—	30	—	—	30
Other	—	144	2	—	146
Total mortgage-related securities	—	21,753	374	—	22,127
Non-mortgage-related securities	17,151	—	—	—	17,151
Total trading securities, at fair value	17,151	21,753	374	—	39,278
Total investments in securities	17,151	68,923	28,141	—	114,215
Mortgage loans:					
Held-for-sale, at fair value	—	17,660	—	—	17,660
Derivative assets, net:					
Interest-rate swaps	—	4,911	—	—	4,911
Option-based derivatives	—	4,821	—	—	4,821
Other	—	34	25	—	59
Subtotal, before netting adjustments	—	9,766	25	—	9,791
Netting adjustments[1]	—	—	—	(9,396)	(9,396)
Total derivative assets, net	—	9,766	25	(9,396)	395
Other assets:					
Guarantee asset, at fair value	—	—	1,753	—	1,753
Total assets carried at fair value on a recurring basis	$ 17,151	$ 96,349	$ 29,919	$ (9,396)	$134,023
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$ —	$ 139	$ —	$ —	$ 139
Other debt, at fair value	—	7,045	—	—	7,045
Derivative liabilities, net:					
Interest-rate swaps	—	12,222	—	—	12,222
Option-based derivatives	—	128	—	—	128
Other	—	28	33	—	61
Subtotal, before netting adjustments	—	12,378	33	—	12,411
Netting adjustments[1]	—	—	—	(11,157)	(11,157)
Total derivative liabilities, net	—	12,378	33	(11,157)	1,254
Other liabilities:					
All other, at fair value	—	—	10	—	10
Total liabilities carried at fair value on a recurring basis	$ —	$ 19,562	$ 43	$ (11,157)	$ 8,448

(1) Represents counterparty netting, cash collateral netting and net derivative interest receivable or payable. The net cash collateral posted was $7.6 billion and $2.3 billion, respectively, at June 30, 2016 and December 31, 2015. The net interest receivable (payable) of derivative assets and derivative liabilities was $(0.4) billion and $(0.6) billion at June 30, 2016 and December 31, 2015, respectively, which was mainly related to interest rate swaps.

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

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

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

	June 30, 2016				December 31, 2015			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a non-recurring basis:								
Mortgage loans(1)	$ —	$ 615	$ 4,375	$ 4,990	$ —	$ 1,130	$ 5,851	$ 6,981
REO, net(2)	—	—	278	278	—	—	1,046	1,046
Total assets measured at fair value on a non-recurring basis	$ —	$ 615	$ 4,653	$ 5,268	$ —	$ 1,130	$ 6,897	$ 8,027

(1) Includes loans that are classified as held-for-investment and have been measured for impairment based on the fair value of the underlying collateral and held-for-sale loans where the fair value is below cost.

(2) Represents the fair value of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was adjusted to fair value of $0.3 billion, less estimated costs to sell of $18 million (or approximately $0.3 billion) at June 30, 2016. The carrying amount of REO, net was adjusted to fair value of $1.0 billion, less estimated costs to sell of $68 million (or approximately $0.9 billion) at December 31, 2015.

LEVEL 3 FAIR VALUE MEASUREMENTS

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

	2Q 2016											
		Realized and unrealized gains (losses)										
	Balance, April 1, 2016	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, June 30, 2016	Unrealized gains (losses) still held
	in millions											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 4,369	$ 6	$ 96	$ 102	$ 9,621	$ —	$ (109)	$ (61)	$ —	$ (2,460)	$ 11,462	$ —
Fannie Mae	84	—	—	—	—	—	—	(5)	—	(6)	73	—
Ginnie Mae	1	(1)	—	(1)	—	—	—	—	—	—	—	—
CMBS	3,627	1	10	11	—	—	(17)	(10)	—	—	3,611	1
Subprime	11,947	141	(3)	138	—	—	(1,402)	(708)	—	—	9,975	8
Option ARM	3,325	50	40	90	—	—	(679)	(150)	—	—	2,586	12
Alt-A and other	2,940	63	(23)	40	—	—	(362)	(224)	—	—	2,394	24
Obligations of states and political subdivisions	1,012	—	—	—	—	—	—	(122)	—	—	890	—
Manufactured housing	556	1	2	3	—	—	—	(17)	—	—	542	1
Total available-for-sale mortgage-related securities	27,861	261	122	383	9,621	—	(2,569)	(1,297)	—	(2,466)	31,533	46
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	123	3	—	3	204	46	(4)	(2)	19	(74)	315	(3)
Fannie Mae	29	(1)	—	(1)	595	—	—	(8)	—	—	615	(1)
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
Other	1	—	—	—	—	—	—	—	—	—	1	—
Total trading mortgage-related securities	153	2	—	2	799	46	(4)	(10)	19	(74)	931	(4)
Other assets:												
Guarantee asset	1,894	10	—	10	219	22	—	(88)	—	—	2,057	10

		Realized and unrealized (gains) losses										
	Balance, April 1, 2016	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, June 30, 2016	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Other debt, at fair value	$ —	$ —	$ —	$ —	$ —	$ 52	$ —	$ —	$ —	$ —	$ 52	$ —
Net derivatives[2]	11	71	—	71	—	—	—	(55)	—	—	27	19
Other liabilities:												
All other, at fair value	8	7	—	7	—	—	—	—	—	—	15	15

	YTD 2016											
		Realized and unrealized gains (losses)										
	Balance, January 1, 2016	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, June 30, 2016	Unrealized gains (losses) still held
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 2,608	$ 20	$ 67	$ 87	$ 9,637	$ —	$ (471)	$ (84)	$ —	$ (315)	$ 11,462	$ —
Fannie Mae	90	—	—	—	—	—	—	(10)	—	(7)	73	—
Ginnie Mae	1	—	—	—	—	—	—	(1)	—	—	—	—
CMBS	3,530	1	98	99	—	—	—	(18)	—	—	3,611	1
Subprime	12,802	167	(173)	(6)	—	—	(1,610)	(1,211)	—	—	9,975	39
Option ARM	3,678	108	(49)	59	—	—	(861)	(290)	—	—	2,586	43
Alt-A and other	3,278	98	(63)	35	—	—	(547)	(372)	—	—	2,394	50
Obligations of states and political subdivisions	1,205	1	(2)	(1)	—	—	—	(314)	—	—	890	—
Manufactured housing	575	1	(2)	(1)	—	—	—	(32)	—	—	542	1
Total available-for-sale mortgage-related securities	27,767	396	(124)	272	9,637	—	(3,489)	(2,332)	—	(322)	31,533	134
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	331	(8)	—	(8)	204	46	(142)	(2)	19	(133)	315	(5)
Fannie Mae	41	—	—	—	594	—	(13)	(7)	—	—	615	(2)
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
Other	2	—	—	—	—	—	—	(1)	—	—	1	—
Total trading mortgage-related securities	374	(8)	—	(8)	798	46	(155)	(10)	19	(133)	931	(7)
Other assets:												
Guarantee asset	1,753	68	—	68	360	38	—	(162)	—	—	2,057	68

		Realized and unrealized (gains) losses										
	Balance, January 1, 2016	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3[1]	Transfers out of Level 3[1]	Balance, June 30, 2016	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Other debt, at fair value	$ —	$ —	$ —	$ —	$ —	$ 52	$ —	$ —	$ —	$ —	$ 52	$ —
Net derivatives[2]	8	75	—	75	—	—	—	(56)	—	—	27	19
Other liabilities:												
All other, at fair value	10	5	—	5	—	—	—	—	—	—	15	15

	2Q 2015											
		Realized and unrealized gains (losses)										
	Balance, April 1, 2015	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, June 30, 2015	Unrealized gains (losses) still held
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 2,683	$ 14	$ (2)	$ 12	$ 624	$ —	$ (332)	$ 302	$ 4	$ (150)	$ 3,143	$ (1)
Fannie Mae	113	—	1	1	—	—	—	(7)	—	(3)	104	—
Ginnie Mae	3	—	—	—	—	—	(1)	—	—	—	2	—
CMBS	3,552	(9)	(2)	(11)	—	—	—	(7)	—	—	3,534	(9)
Subprime	17,799	242	92	334	—	—	(1,701)	(630)	—	—	15,802	54
Option ARM	5,276	48	88	136	—	—	(422)	(157)	—	—	4,833	(1)
Alt-A and other	4,788	91	42	133	—	—	(483)	(214)	—	(2)	4,222	36
Obligations of states and political subdivisions	1,827	—	(8)	(8)	—	—	—	(192)	—	—	1,627	—
Manufactured housing	619	—	12	12	—	—	—	(17)	—	—	614	—
Total available-for-sale mortgage-related securities	36,660	386	223	609	624	—	(2,939)	(922)	4	(155)	33,881	79
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	511	(15)	—	(15)	41	19	(10)	(2)	45	(244)	345	(12)
Fannie Mae	139	10	—	10	100	—	(95)	—	23	(6)	171	(2)
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
Other	4	—	—	—	—	—	—	(1)	—	—	3	—
Total trading mortgage-related securities	654	(5)	—	(5)	141	19	(105)	(3)	68	(250)	519	(14)
Other assets:												
Guarantee asset	1,569	3	—	3	—	220	—	(140)	—	—	1,652	3
All other, at fair value	6	1	—	1	—	—	—	—	—	—	7	1
Total other assets	1,575	4	—	4	—	220	—	(140)	—	—	1,659	4

		Realized and unrealized (gains) losses										
	Balance, April 1, 2015	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, June 30, 2015	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Net derivatives(2)	$ 25	$ (9)	$ —	$ (9)	$ —	$ —	$ —	$ 6	$ —	$ —	$ 22	$ (8)

	YTD 2015											
		Realized and unrealized gains (losses)										
	Balance, January 1, 2015	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, June 30, 2015	Unrealized gains (losses) still held
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 4,231	$ 25	$ (13)	$ 12	$ 722	$ —	$ (394)	$ 276	$ 5	$ (1,709)	$ 3,143	$ (2)
Fannie Mae	85	—	4	4	—	—	—	(14)	38	(9)	104	—
Ginnie Mae	4	—	—	—	—	—	—	(2)	—	—	2	—
CMBS	3,474	(25)	100	75	—	—	(1)	(14)	—	—	3,534	(25)
Subprime	20,589	527	105	632	—	—	(4,140)	(1,279)	—	—	15,802	77
Option ARM	5,649	120	58	178	—	—	(689)	(305)	—	—	4,833	46
Alt-A and other	5,027	137	31	168	—	—	(572)	(412)	11	—	4,222	75
Obligations of states and political subdivisions	2,198	—	(12)	(12)	—	—	—	(559)	—	—	1,627	—
Manufactured housing	638	(1)	11	10	—	—	—	(34)	—	—	614	(1)
Total available-for-sale mortgage-related securities	41,895	783	284	1,067	722	—	(5,796)	(2,343)	54	(1,718)	33,881	170
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	927	(18)	—	(18)	41	19	(11)	(3)	46	(656)	345	(13)
Fannie Mae	232	10	—	10	100	—	(95)	(1)	23	(98)	171	(1)
Ginnie Mae	1	—	—	—	—	—	(1)	—	—	—	—	—
Other	4	4	—	4	—	—	(4)	(1)	—	—	3	—
Total trading mortgage-related securities	1,164	(4)	—	(4)	141	19	(111)	(5)	69	(754)	519	(14)
Other assets:												
Guarantee asset	1,626	(12)	—	(12)	—	314	—	(276)	—	—	1,652	(12)
All other, at fair value	5	2	—	2	—	—	—	—	—	—	7	2
Total other assets	1,631	(10)	—	(10)	—	314	—	(276)	—	—	1,659	(10)

		Realized and unrealized (gains) losses										
	Balance, January 1, 2015	Included in earnings	Included in other comprehensive income	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, June 30, 2015	Unrealized (gains) losses still held
						(in millions)						
Liabilities												
Net derivatives[2]	$ 10	$ 16	$ —	$ 16	$ —	$ —	$ —	$ (4)	$ —	$ —	$ 22	$ 11

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

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

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

	June 30, 2016				
			Unobservable Inputs		
(dollars in millions)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Recurring fair value measurements					
Assets					
Investments in securities					
Available-for-sale, at fair value					
Mortgage-related securities					
Freddie Mac	$ 10,822	Discounted cash flows	OAS	(170) - 491 bps	94 bps
	640	Other			
Total Freddie Mac	11,462				
Fannie Mae	35	Median of external sources			
	26	Single external source			
	12	Other			
Total Fannie Mae	73				
CMBS	3,611	Risk Metrics	Effective duration	2.65 - 10.52 years	9.07 years
Total CMBS	3,611				
Subprime, option ARM, and Alt-A:					
Subprime	9,296	Median of external sources	External pricing sources	$72.5 - $76.1	$ 74.2
	679	Other			
Total subprime	9,975				
Option ARM	2,459	Median of external sources	External pricing sources	$64.3 - $69.8	$ 67.6
	127	Other			
Total option ARM	2,586				
Alt-A and other	1,773	Median of external sources	External pricing sources	$84.3 - $88.1	$ 85.9
	450	Single external source	External pricing source	$84.3 - $84.3	$ 84.3
	171	Other			
Total Alt-A and other	2,394				
Obligations of states and political subdivisions	825	Median of external sources	External pricing sources	$101.6 - $102.2	$ 101.9
	65	Other			
Total obligations of states and political subdivisions	890				
Manufactured housing	478	Median of external sources	External pricing sources	$88.9 - $93.1	$ 91.7
	64	Other			
Total manufactured housing	542				
Total available-for-sale mortgage-related securities	31,533				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	96	Discounted cash flows			
	219	Other			
Total Freddie Mac	315				
Fannie Mae	615	Discounted cash flows	OAS	(886) - 109 bps	5 bps
Total Fannie Mae	615				
Other	1	Discounted cash flows			
Total other	1				
Total trading mortgage-related securities	931				
Total investments in securities	$ 32,464				
Other assets:					
Guarantee asset, at fair value	$ 1,920	Discounted cash flows	OAS	17 - 198 bps	55 bps
	137	Other			
Total guarantee asset, at fair value	2,057				
Liabilities					
Other debt, at fair value	52	Other			
Total other debt, at fair value	52				
Net derivatives	27	Other			
Total net derivatives	27				
Other liabilities					
All other, at fair value	15	Other			
Total all other, at fair value	15				

December 31, 2015					
(dollars in millions)	Level 3 Fair Value	Predominant Valuation Technique(s)	Unobservable Inputs Type	Range	Weighted Average
Recurring fair value measurements					
Assets					
Investments in securities					
Available-for-sale, at fair value					
Mortgage-related securities					
Freddie Mac	$ 2,145	Discounted cash flows	OAS	(46) - 503 bps	86 bps
	463	Other			
Total Freddie Mac	2,608				
Fannie Mae	37	Median of external sources			
	36	Single external source			
	17	Other			
Total Fannie Mae	90				
Ginnie Mae	1	Discounted cash flows			
Total Ginnie Mae	1				
CMBS	3,530	Risk Metrics	Effective duration	3.15 - 11.02 years	9.57 years
Total CMBS	3,530				
Subprime, option ARM, and Alt-A:					
Subprime	11,652	Median of external sources	External pricing sources	$73.2 - $77.3	$ 75.0
	1,150	Other			
Total subprime	12,802				
Option ARM	3,190	Median of external sources	External pricing sources	$67.8 - $72.4	$ 69.9
	488	Other			
Total option ARM	3,678				
Alt-A and other	2,601	Median of external sources	External pricing sources	$85.8 - $89.3	$ 87.6
	506	Single external source	External pricing source	$84.7 - $84.7	$ 84.7
	171	Other			
Total Alt-A and other	3,278				
Obligations of states and political subdivisions	1,099	Median of external sources	External pricing sources	$101.4 - $101.8	$ 101.6
	106	Other			
Total obligations of states and political subdivisions	1,205				
Manufactured housing	505	Median of external sources	External pricing sources	$90.4 - $93.7	$ 92.1
	70	Other			
Total manufactured housing	575				
Total available-for-sale mortgage-related securities	27,767				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	249	Discounted cash flows	OAS	(1,315) - 1,959 bps	129 bps
	19	Risk Metrics			
	63	Other			
Total Freddie Mac	331				
Fannie Mae	41	Discounted cash flows			
Total Fannie Mae	41				
Ginnie Mae	—				
Other	1	Median of external sources			
	1	Discounted cash flows			
Total other	2				
Total trading mortgage-related securities	374				
Total investments in securities	$ 28,141				
Other assets:					
Guarantee asset, at fair value	$ 1,623	Discounted cash flows	OAS	17 - 198 bps	57 bps
	130	Other			
Total guarantee asset, at fair value	1,753				
Liabilities					
Net derivatives	8	Other			
Total net derivatives	8				
Other liabilities					
All other, at fair value	10	Other			
Total all other, at fair value	10				

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

June 30, 2016					
			Unobservable Inputs		
(dollars in millions)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	$ 4,375				
		Internal model	Historical sales proceeds	$3,000 - $960,000	$162,855
		Internal model	Housing sales index	41 - 469 bps	92 bps
		Income capitalization(1)	Capitalization rates	6% - 9%	7%
		Median of external sources	External pricing sources	$37.3 - $94.3	$74.1
REO, net	$ 278				
		Internal model	Historical sales proceeds	$3,000 - $677,440	$149,971
		Internal model	Housing sales index	41 - 469 bps	90 bps
		Other			

December 31, 2015					
			Unobservable Inputs		
(dollars in millions)	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
Non-recurring fair value measurements					
Mortgage loans	$ 5,851				
		Internal model	Historical sales proceeds	$3,000 - $788,699	$191,957
		Internal model	Housing sales index	44 - 428 bps	90 bps
		Third-party appraisal	Property value	$1 million - $30 million	$28 million
		Income capitalization(1)	Capitalization rates	6%- 9%	7%
		Median of external sources	External pricing sources	$39.0 - $94.6	$70.0
REO, net	$ 1,046				
		Internal model	Historical sales proceeds	$3,000 - $581,751	$155,885
		Internal model	Housing sales index	44 - 428 bps	87 bps
		Other			

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	June 30, 2016					
		Fair Value				
(in millions)	GAAP Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustments	Total
Financial Assets						
Cash and cash equivalents	$ 8,140	$ 8,140	$ —	$ —	$ —	$ 8,140
Restricted cash and cash equivalents	17,399	17,399	—	—	—	17,399
Securities purchased under agreements to resell	48,989	—	48,989	—	—	48,989
Investments in securities:						
Available-for-sale, at fair value	78,060	—	46,527	31,533	—	78,060
Trading, at fair value	34,209	12,131	21,147	931	—	34,209
Total investments in securities	112,269	12,131	67,674	32,464	—	112,269
Mortgage loans:						
Loans held by consolidated trusts	1,642,124	—	1,540,876	149,309	—	1,690,185
Loans held by Freddie Mac	119,461	—	33,116	88,249	—	121,365
Total mortgage loans	1,761,585	—	1,573,992	237,558	—	1,811,550
Derivative assets, net	1,479	—	17,602	10	(16,133)	1,479
Guarantee asset	2,057	—	—	2,264	—	2,264
Non-derivative purchase commitments, at fair value	126	—	126	15	—	141
Advances to lenders	1,020	—	—	1,020	—	1,020
Total financial assets	$ 1,953,064	$ 37,670	$ 1,708,383	$ 273,331	$ (16,133)	$ 2,003,251
Financial Liabilities						
Debt, net:						
Debt securities of consolidated trusts held by third parties	$ 1,594,236	$ —	$ 1,643,806	$ 1,016	$ —	$ 1,644,822
Other debt	377,867	—	380,181	5,382	—	385,563
Total debt, net	1,972,103	—	2,023,987	6,398	—	2,030,385
Derivative liabilities, net	1,243	—	24,622	37	(23,416)	1,243
Guarantee obligation	1,957	—	—	3,451	—	3,451
Non-derivative purchase commitments, at fair value	12	—	12	42	—	54
Total financial liabilities	$ 1,975,315	$ —	$ 2,048,621	$ 9,928	$ (23,416)	$ 2,035,133

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

FAIR VALUE OPTION

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

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

	June 30, 2016		December 31, 2015	
(in millions)	Multifamily Held-For-Sale Loans	Other Debt - Long Term	Multifamily Held-For-Sale Loans	Other Debt - Long Term
Fair value	$ 14,905	$ 6,559	$ 17,660	$ 7,045
Unpaid principal balance	14,595	6,485	17,673	7,093
Difference	$ 310	$ 74	$ (13)	$ (48)

Changes in Fair Value under the Fair Value Option Election

We recorded gains (losses) of $107 million and $(254) million for 2Q 2016 and 2Q 2015, respectively, and $579 million and $99 million for YTD 2016 and YTD 2015, respectively, from the change in fair value on multifamily held-for-sale loans recorded at fair value in other income in our condensed consolidated statements of comprehensive income.

We recorded gains of $207 million and $244 million for 2Q 2016 and YTD 2016 respectively, from the change in fair value of multifamily held-for-sale loan purchase commitments recorded at fair value in other income in our condensed consolidated statements of comprehensive income. We elected the fair value option for these commitments in 2016.

Gains (losses) on debt securities with the fair value option elected were $(108) million and $44 million for 2Q 2016 and 2Q 2015, respectively, and $(94) million and $(145) million for YTD 2016 and YTD 2015, respectively, and were recorded in other income in our condensed consolidated statements of comprehensive income.

Changes in fair value attributable to instrument-specific credit risk were not material for 2Q 2016 and YTD 2016 and for 2Q 2015 and YTD 2015 for any assets or liabilities for which we elected the fair value option.

NOTE 14: LEGAL CONTINGENCIES

We are involved as a party in a variety of legal and regulatory proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller/servicer's eligibility to sell loans to, and/or service loans for, us. In these cases, the former seller/servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of loans. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification of Freddie Mac against liability arising from seller/servicers' wrongful actions with respect to loans sold to or serviced for Freddie Mac.

Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. In accordance with the accounting guidance for contingencies, we reserve for litigation claims and assessments asserted or threatened against us when a loss is probable (as defined in such guidance) and the amount of the loss can be reasonably estimated.

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.

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: the inherent uncertainty of pre-trial litigation and the fact that the District Court has not yet ruled upon motions for class certification or summary judgment. In particular, absent the certification of a class, the identification of a class period, 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.

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

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

On or about May 14, 2010, certain underwriters at Lloyds, London and London Market Insurance Companies brought an adversary proceeding in the U.S. Bankruptcy Court for the Middle District of Florida against TBW, Freddie Mac and other parties seeking a declaration rescinding $90 million of mortgage bankers bonds providing fidelity and errors and omissions insurance coverage. Several excess insurers on the bonds thereafter filed similar claims in that action. Freddie Mac filed a proof of loss under the bonds. In February 2015, the Court granted summary judgment against TBW on its claims. Thereafter, Freddie Mac moved for clarification that the Court’s judgment did not apply to Freddie Mac’s separate claims against Lloyds. In March 2016, a settlement agreement among the parties was submitted to the Court for approval. On April 25, 2016, the Court approved the settlement. On May 6, 2016, Sovereign Bank, which was not a party to the settlement agreement, appealed the order approving the settlement agreement and various other prior Bankruptcy Court orders to the U.S. District Court. TBW has moved to dismiss Sovereign’s appeal.

On December 29, 2014, Freddie Mac filed an action in the U.S. District Court for the Southern District of New York against certain underwriters at Lloyds, London and several other insurance carriers seeking coverage for $111 million in losses under Freddie Mac’s primary and excess financial institution bonds. The losses resulted from fraud perpetrated by senior officers and employees of TBW. On April 11, 2016, the parties advised the Court that a settlement in principle had been reached. Thereafter, settlement agreements with all the insurers were executed and, in July 2016, the parties stipulated to voluntary dismissal of the case.

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 the plaintiffs are “efficient enforcers” of the antitrust laws. Briefing of this issue is underway in our case.

LITIGATION CONCERNING THE PURCHASE AGREEMENT

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

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

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

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

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

American European Insurance Company, Cacciapalle and Miller vs. Treasury and FHFA. This case was filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac as a “nominal” defendant, on July 30, 2014. The complaint alleged that, through the August 2012 amendment to the Purchase Agreement, Treasury and FHFA breached their respective fiduciary duties to Freddie Mac, causing Freddie Mac to suffer damages. The plaintiffs asked that Freddie Mac be awarded compensatory damages and disgorgement, as well as attorneys’ fees, costs and other expenses.

FHFA, joined by Freddie Mac and Fannie Mae, moved to dismiss the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case and the other related cases in January 2014. Treasury filed a motion to dismiss the same day. In September 2014, the District Court granted the motions and dismissed the plaintiffs' claims. In October 2014, plaintiffs in the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations case filed a notice of appeal of the District Court's decision. The scope of this appeal includes the American European Insurance Company shareholder derivative lawsuit. In October 2014, Arrowood filed a notice of appeal of the District Court's decision. Defendants have opposed the appeals.

Litigation in the U.S. Court of Federal Claims

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

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

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

Jacobs and Hindes vs. FHFA and Treasury. This case was filed on August 17, 2015 as a putative class action lawsuit purportedly on behalf of a class of holders of preferred stock or common stock issued by Freddie Mac or Fannie Mae. The case was also filed as a shareholder derivative lawsuit, purportedly on behalf of Freddie Mac and Fannie Mae as "nominal" defendants. The complaint alleges, among other items, that the August 2012 amendment to the Purchase Agreement violated applicable state law and constituted a breach of contract, as well as a breach of covenants of good faith and fair dealing. Plaintiffs seek equitable and injunctive relief (including restitution of the monies paid by Freddie Mac and Fannie Mae to Treasury under the net worth sweep dividend), compensatory damages, attorneys' fees, costs and expenses. The case was stayed pending resolution of FHFA's motion to the U.S. Judicial Panel on Multidistrict Litigation to transfer this case to the U.S. District Court for the District of Columbia. This motion was denied on June 2, 2016, and the stay was lifted on July 13, 2016.

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

Pagliara vs. Federal Home Loan Mortgage Corporation. This case was filed on March 14, 2016 in the Circuit Court of Fairfax County, Virginia, and subsequently removed to the U.S. District Court for the

Eastern District of Virginia. The plaintiff seeks an order to permit inspection and copying of corporate records under Virginia law, primarily for the purpose of investigating potential claims arising from the net worth sweep. The case was stayed pending resolution of FHFA's request to the U.S. Judicial Panel on Multidistrict Litigation to transfer this case to the U.S. District Court for the District of Columbia, which was denied on June 2, 2016. On June 17, 2016, Freddie Mac and FHFA filed a motion to dismiss or, in the alternative, substitute FHFA as plaintiff in the case.

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

Stockholder Letters

We received a letter dated January 19, 2016 addressed to the Board of Directors, purportedly on behalf of a holder of stock of Freddie Mac. The letter urged the members of the Board to take various steps under Virginia law including, among others, causing Freddie Mac to immediately stop paying dividends to Treasury on account of the senior preferred stock. On January 28, 2016, FHFA (as Conservator) informed the purported stockholder's representative that the state law principles asserted in the letter are not applicable to the Board.

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

NOTE 15: REGULATORY CAPITAL

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

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

(in millions)	June 30, 2016	December 31, 2015
GAAP net worth	$ 2,133	$ 2,940
Core capital (deficit)(1)(2)	$ (71,650)	$ (70,549)
Less: Minimum capital requirement(1)	19,020	19,687
Minimum capital surplus (deficit)(1)	$ (90,670)	$ (90,236)

(1) Core capital and minimum capital figures are estimates and represent amounts submitted to FHFA. FHFA is the authoritative source for our regulatory capital.
(2) Core capital excludes certain components of GAAP total equity (i.e., AOCI and the liquidation preference of the senior preferred stock) as these items do not meet the statutory definition of core capital.

NOTE 16: SELECTED FINANCIAL STATEMENT LINE ITEMS

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

(in millions)	2Q 2016	2Q 2015	YTD 2016	YTD 2015
Other income (loss):				
Gains (losses) on loans	$ (481)	$ (924)	$ (3)	$ (1,124)
Gains (losses) on held-for-sale purchase commitments	207	—	244	—
Other	249	356	681	567
Total other income (loss)	$ (25)	$ (568)	$ 922	$ (557)
Other expense:				
Property tax and insurance expense on held-for-sale loans	$ (39)	$ (401)	$ (66)	$ (761)
Other expense	(112)	(100)	(238)	(203)
Total other expense	$ (151)	$ (501)	$ (304)	$ (964)

The table below presents the significant components of other assets and other liabilities on our consolidated balance sheets.

(in millions)	June 30, 2016	December 31, 2015
Other assets:		
Accounts and other receivables[1]	$ 5,820	$ 3,625
Guarantee asset	2,057	1,753
Advances to lenders	1,020	910
All other	1,567	1,025
Total other assets	$ 10,464	$ 7,313
Other liabilities:		
Servicer liabilities	$ 949	$ 1,191
Guarantee obligation	1,957	1,729
Accounts payable and accrued expenses	1,145	1,286
All other	850	1,040
Total other liabilities	$ 4,901	$ 5,246

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

END OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

OTHER INFORMATION

LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings. For more information, see Note 14 in this report and Note 15 in our 2015 Annual Report.

In addition, a number of lawsuits have been filed against the U.S. government related to the conservatorship and the Purchase Agreement. For information on these lawsuits, see the "LEGAL PROCEEDINGS" sections in our 2015 Annual Report and in our Form 10-Q for the first quarter 2016.

RISK FACTORS

This Form 10-Q should be read together with the "Risk Factors" sections in our 2015 Annual Report and our Form 10-Q for the first quarter of 2016, which describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies, and/or prospects.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

RECENT SALES OF UNREGISTERED SECURITIES

The securities we issue are "exempted securities" under the Securities Act of 1933, as amended. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

Following our entry into conservatorship, we suspended the operation of, and ceased making grants under, equity compensation plans. Previously, we had provided equity compensation under those plans to employees and members of the Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury's prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.

No stock options were exercised during 2Q 2016. See Note 10 in our 2015 Annual Report for more information.

DIVIDEND RESTRICTIONS

Our payment of dividends on Freddie Mac common stock or any series of Freddie Mac preferred stock (other than senior preferred stock) is subject to certain restrictions as described in "MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES - Dividends and Dividend Restrictions" in our 2015 Annual Report.

INFORMATION ABOUT CERTAIN SECURITIES ISSUANCES BY FREDDIE MAC

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report these types of obligations either in offering circulars or supplements thereto that we post on our web site or in a current report on Form 8-K, in accordance with a "no-action" letter we received from the SEC staff. In cases where the information is disclosed in an offering circular posted on our web site, the document will be posted within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The web site address for disclosure about our debt securities, other than debt securities of consolidated trusts, is www.freddiemac.com/debt. From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities. Similar information about our STACR debt notes and Whole Loan Securities is available at www.freddiemac.com/creditriskofferings.

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

EXHIBITS

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

CONTROLS AND PROCEDURES

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 June 30, 2016. As a result of management's evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2016, at a reasonable level of assurance, because we have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is communicated from FHFA to Freddie Mac's management in a manner that allows for timely decisions regarding our required disclosure under the federal securities laws. We consider this situation to be a material weakness in our internal control over financial reporting.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING DURING 2Q 2016

We evaluated the changes in our internal control over financial reporting that occurred during 2Q 2016 and concluded that there were no changes that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MITIGATING ACTIONS RELATED TO THE MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As described above under "Evaluation of Disclosure Controls and Procedures," we have one material weakness in internal control over financial reporting as of June 30, 2016 that we have not remediated.

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

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

In view of our mitigating actions related to this material weakness, we believe that our condensed consolidated financial statements for 2Q 2016 have been prepared in conformity with GAAP.

SIGNATURES

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

Federal Home Loan Mortgage Corporation

By: /s/ Donald H. Layton

Donald H. Layton
Chief Executive Officer

Date: August 2, 2016

By: /s/ James G. Mackey

James G. Mackey
Executive Vice President — Chief Financial Officer
(Principal Financial Officer)

Date: August 2, 2016

GLOSSARY

This Glossary supplements the Glossary contained in our 2015 Annual Report and includes a defined term that is used throughout this report.

Guarantee fee (management and guarantee fee) - The fee that we receive for managing mortgage pools and guaranteeing the payment of principal and interest to mortgage security investors, which consists primarily of a combination of fees paid on a monthly basis, as a percentage of the UPB of the underlying loans, and initial upfront payments, such as delivery fees.

FORM 10-Q INDEX

EXHIBIT INDEX

Exhibit No.	Description*
3.1	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, as filed July 8, 2016)
10.1	PC Master Trust Agreement dated July 19, 2016
12.1	Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Executive Vice President —Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Executive Vice President —Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

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

Exhibit 10.1

Freddie Mac

PC MASTER TRUST AGREEMENT

THIS PC MASTER TRUST AGREEMENT is entered into as of July 19, 2016, by and among Freddie Mac in its corporate capacity as Depositor, Administrator and Guarantor, Freddie Mac in its capacity as Trustee, and the Holders of the PCs offered from time to time pursuant to Freddie Mac's Offering Circular referred to herein.

WHEREAS:

(a) Freddie Mac is a corporation duly organized and existing under and by virtue of the Freddie Mac Act and has full corporate power and authority to enter into this Agreement and to undertake the obligations undertaken by it herein; and

(b) Freddie Mac may from time to time (i) purchase Mortgages, in accordance with the applicable provisions of the Freddie Mac Act, (ii) as Depositor, transfer and deposit such Mortgages into various trust funds that are established pursuant to this Agreement and that are referred to herein as "PC Pools," (iii) as Trustee, create and issue hereunder, on behalf of the related PC Pool, PCs representing undivided beneficial ownership interests in the assets of that PC Pool and otherwise act as trustee for each such PC Pool, (iv) as Guarantor, guarantee the payment of interest and principal for the benefit of the Holders of such PCs and (v) as Administrator, administer the affairs of each such PC Pool.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained in this Agreement, the parties to this Agreement, do hereby declare and establish this Agreement and do hereby undertake and otherwise agree as follows with respect to the transfer of the Mortgages to various PC Pools, the issuance of the PCs and the establishment of the rights and obligations of the parties.

Definitions

The following terms used in this Agreement have the respective meanings set forth below.

Accrual Period: As to any PC and any Payment Date, (i) the calendar month preceding the month of the Payment Date for Gold PCs or (ii) the second calendar month preceding the month of the Payment Date for ARM PCs.

Administrator: Freddie Mac, in its corporate capacity, as administrator of the PC Pools created under this Agreement.

Agreement: This PC Master Trust Agreement, dated as of July19, 2016, by and among Freddie Mac in its corporate capacity as Depositor, Administrator and Guarantor, Freddie Mac in its capacity as Trustee, and the Holders of the various PCs, as originally executed, or as modified, amended or supplemented in accordance with the provisions set forth herein. Unless the context requires otherwise, the term "Agreement" shall be deemed to include any applicable Pool Supplement entered into pursuant to Section 1.01 of this Agreement.

ARM: An adjustable rate Mortgage.

ARM PC: A PC with a Payment Delay of 75 days and which is backed by ARMs. ARM PCs include Deferred Interest PCs.

Book-Entry Rules: The provisions from time to time in effect, currently contained in Title 12, Part 1249 of the Code of Federal Regulations, setting forth the terms and conditions under which Freddie Mac may issue securities on the book-entry system of the Federal Reserve Banks and authorizing a Federal Reserve Bank to act as its agent in connection with such securities.

Business Day: A day other than (i) a Saturday or Sunday and (ii) a day when the Federal Reserve Bank of New York (or other agent acting as Freddie Mac's fiscal agent) is closed or, as to any Holder, a day when the Federal Reserve Bank that maintains the Holder's account is closed.

Conventional Mortgage: A Mortgage that is not guaranteed or insured by the United States or any agency or instrumentality of the United States.

Custodial Account: As defined in Section 3.05(e) of this Agreement.

Deferred Interest: The amount by which the interest due on a Mortgage exceeds the borrower's monthly payment, which amount is added to the unpaid principal balance of the Mortgage.

Deferred Interest PC: A PC representing an undivided beneficial ownership interest in a PC Pool that includes Mortgages providing for negative amortization.

Depositor: Freddie Mac, in its corporate capacity, as depositor of Mortgages into the PC Pools created under this Agreement.

Eligible Investments: Any one or more of the following obligations, securities or holdings maturing on or before the Payment Date applicable to the funds so invested:

(i) obligations of, or obligations guaranteed as to the full and timely payment of principal and interest by, the United States;

(ii) obligations of any agency or instrumentality of the United States (other than Freddie Mac) or taxable debt obligations of any state or local government (or political subdivision thereof) that have a long-term rating or a short-term rating, as applicable, from S&P, Moody's or Fitch in any case in one of its two highest rating categories for long-term securities or in its highest ratings category for short-term securities;

(iii) time deposits of any depository institution or trust company domiciled in the Cayman Islands or Nassau and affiliated with a financial institution that is a member of the Federal Reserve System, provided that the short-term securities of the depository institution or trust company are rated by S&P, Moody's or Fitch in the highest applicable ratings category for short-term securities;

(iv) federal funds, certificates of deposit, time deposits and bankers' acceptances with a fixed maturity of no more than 365 days of any depository institution or trust company, provided that the short-term securities of the depository institution or trust company are rated by S&P, Moody's or Fitch in the highest applicable ratings category for short-term securities;

(v) commercial paper with a fixed maturity of no more than 270 days, of any corporation that is rated by S&P, Moody's or Fitch in its highest short-term ratings category;

(vi) debt securities that have a long-term rating or a short-term rating, as applicable, from S&P, Moody's or Fitch, in any case in one of its two highest ratings categories for long-term securities or in its highest ratings category for short-term securities;

(vii) money market funds that are registered under the Investment Company Act of 1940, as amended, are entitled, pursuant to Rule 2a-7 of the Securities and Exchange Commission, or any successor to that rule, to hold themselves out to investors as money market funds, and are rated by S&P, Moody's or Fitch in one of its two highest ratings categories for money market funds;

(viii) asset-backed commercial paper that is rated by S&P, Moody's or Fitch in its highest short-term ratings category;

(ix) repurchase agreements on obligations that are either specified in any of clauses (i), (ii), (iv), (v), (vi) or (viii) above or are mortgage-backed securities insured or guaranteed by an entity that is an agency or instrumentality of the United States; provided that the counterparty to the repurchase agreement is an entity whose short-term debt securities are rated by S&P, Moody's or Fitch in its highest ratings category for short-term securities; and

(x) any other investment without options that is approved by Freddie Mac and is within the two highest ratings categories of the applicable rating agency for long-term securities or the highest ratings category of the applicable rating agency for short-term securities.

The rating requirement will be satisfied if the relevant security, issue or fund at the time of purchase receives at least the minimum stated rating from at least one of S&P, Moody's or Fitch. The rating requirement will not be satisfied by a rating that is the minimum rating followed by a minus sign or by a rating lower than Aa2 from Moody's.

Event of Default: As defined in Section 5.01 of this Agreement.

FHA/VA Mortgage: A Mortgage insured by the Federal Housing Administration or by the Department of Agriculture Rural Development (formerly the Rural Housing Service) or guaranteed by the Department of Veterans Affairs or the Department of Housing and Urban Development.

Final Payment Date: As to any PC, the first day of the latest month in which the related Pool Factor will be reduced to zero. The Administrator publishes the Final Payment Date upon formation of the related PC Pool.

Fitch: Fitch, Inc., also known as Fitch Ratings, or any successor thereto.

Freddie Mac: The Federal Home Loan Mortgage Corporation, a corporation created pursuant to the Freddie Mac Act for the purpose of establishing and supporting a secondary market in residential mortgages. Unless the context requires otherwise, the term "Freddie Mac" shall be deemed to refer to Freddie Mac acting in one or more of its corporate capacities, as specified or as provided in context, and not in its capacity as Trustee.

Freddie Mac Act: Title III of the Emergency Home Finance Act of 1970, as amended, 12 U.S.C. §§1451-1459.

Gold PC: A PC with a Payment Delay of 45 days and which is backed by fixed-rate Mortgages.

Guarantor: Freddie Mac, in its corporate capacity, as guarantor of the PCs issued by each PC Pool.

Guide: Freddie Mac's Single-Family Seller/Servicer Guide, as supplemented and amended from time to time, in which Freddie Mac sets forth its mortgage purchase standards, credit, appraisal and underwriting guidelines and servicing policies.

Holder: With respect to any PC Pool, any entity that appears on the records of a Federal Reserve Bank as a holder of the related PCs.

Monthly Reporting Period: The period, which period the Administrator has the right to change as provided in Section 3.05(d) of this Agreement, during which servicers report Mortgage payments to the Administrator, generally consisting of:

(i) in the case of all payments other than full prepayments on the Mortgages, the one-month period (A) ending on the 15^{th} of the month preceding the related Payment Date for Gold PCs and (B) ending on the 15^{th} of the second month preceding the related Payment Date for ARM PCs; and

(ii) in the case of full prepayments on the Mortgages (including repurchases of the Mortgages pursuant to Section 1.02(c) of this Agreement), the calendar month preceding the related Payment Date for Gold PCs and the second calendar month preceding the related Payment Date for ARM PCs; *provided, however*, that with respect to full prepayments on PCs issued before September 1, 1995, the Monthly Reporting Period generally is from the 16^{th} of a month through the 15^{th} of the next month.

Moody's: Moody's Investors Service, Inc., or any successor thereto.

Mortgage: A mortgage loan or a participation interest in a mortgage loan that is secured by a first or second lien on a one-to-four family dwelling and that has been purchased by the Depositor and transferred by the Depositor to the Trustee for inclusion in the related PC Pool. With respect to each PC Pool, the Mortgages to be included therein shall be identified on the books and records of the Depositor and the Administrator.

Mortgage Coupon: The per annum fixed or adjustable interest rate of a Mortgage.

MultiLender Swap Program: A program under which Freddie Mac purchases Mortgages from one or more sellers in exchange for PCs representing undivided beneficial ownership interests in a PC Pool consisting of Mortgages that may or may not be those delivered by the seller(s).

Negative Amortization Factor: With respect to PCs backed by Mortgages providing for negative amortization, a truncated (or, commencing with the Negative Amortization Factors for the month of August 2016, rounded rather than truncated) eight-digit decimal number that reflects the amount of Deferred Interest added to the principal balances of the related Mortgages in the preceding month.

Offering Circular: Freddie Mac's Mortgage Participation Certificates Offering Circular dated July 19, 2016, as amended and supplemented by any Supplements issued from time to time, or any successor thereto, as it may be amended and supplemented from time to time.

Payment Date: The 15th of each month or, if the 15th is not a Business Day, the next Business Day.

Payment Delay: The delay between the first day of the Accrual Period for a PC and the related Payment Date.

PC: With respect to each PC Pool, a Mortgage Participation Certificate issued pursuant to this Agreement, representing a beneficial ownership interest in such PC Pool. The term "PC" includes a Gold PC or an ARM PC unless the context requires otherwise.

PC Coupon: The per annum fixed or adjustable rate of a PC calculated as described in the Offering Circular or the applicable Pool Supplement, computed on the basis of a 360-day year of twelve 30-day months.

PC Issue Date: With respect to each PC Pool, the date specified in the related Pool Supplement or, if not specified therein, the date on which Freddie Mac issues a PC in exchange for the Mortgages delivered by a dealer or other customer.

PC Pool: With respect to each PC, the corpus of the related trust fund created by this Agreement, consisting of (i) the related Mortgages and all proceeds thereof, (ii) amounts on deposit in the Custodial Account, to the extent allocable to such PC Pool, (iii) the right to receive payments under the related guarantee and (iv) any other assets specified in the related Pool Supplement, excluding any investment earnings on any of the assets of that PC Pool. With respect to each PC Pool, and unless expressly stated otherwise, the provisions of this Agreement will be interpreted as referring only to the Mortgages included in that PC Pool, the PCs issued by that PC Pool and the Holders of those PCs.

Person: Any legal person, including any individual, corporation, partnership, limited liability company, financial institution, joint venture, association, joint stock company, trust, unincorporated organization or governmental unit or political subdivision of any governmental unit.

Pool Factor: With respect to each PC Pool, a truncated (or, commencing with the Pool Factors for the month of August 2016, rounded rather than truncated) eight-digit decimal calculated for each month by the Administrator which, when multiplied by the original principal balance of the related PCs, will equal their remaining principal amount. The Pool Factor for any month reflects the remaining principal amount after the payment to be made on the Payment Date in the same month for Gold PCs or in the following month for ARM PCs.

Pool Supplement: Any physical or electronic document or record (which may be a supplement to the Offering Circular or any other supplemental document prepared by Freddie Mac for the related PCs), which, together herewith, evidences the establishment of a PC Pool and modifies, amends or supplements the provisions hereof in any respect whatsoever. The Pool Supplement for a particular PC Pool shall be binding and effective upon formation of the related PC Pool and issuance of the related PCs, whether or not such Pool Supplement is executed, delivered or published by Freddie Mac.

Purchase Documents: The mortgage purchase agreements between Freddie Mac and its Mortgage sellers and servicers, which are the contracts that govern the purchase and servicing of Mortgages and which include, among other things, the Guide and any negotiated modifications, amendments or supplements to the Guide.

Record Date: As to any Payment Date, the close of business on the last day of (i) the preceding month for Gold PCs or (ii) the second preceding month for ARM PCs.

S&P: Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., or any successor thereto.

Trustee: Freddie Mac, in its capacity as trustee of each PC Pool formed under this Agreement, and its successors and assigns, which will have the trustee responsibilities specified in this Agreement, as amended or supplemented from time to time.

Trustee Event of Default: As defined in Section 6.06 of this Agreement.

ARTICLE I

Conveyance of Mortgages; Creation of PC Pools

Section 1.01. Declaration of Trust; Transfer of Mortgages. The Depositor, by delivering any Mortgages pursuant to this Agreement, unconditionally, absolutely and irrevocably hereby transfers, assigns, sets over and otherwise conveys to the Trustee, on behalf of the related Holders, all of the Depositor's right, title and interest in and to such Mortgages, including all payments of principal and interest thereon received after the month in which the PC Issue Date occurs. Once Mortgages have been identified as being part of a related PC Pool for which at least one PC has been issued, they shall remain in that PC Pool unless removed in a manner consistent with this Agreement. Concurrently with the Depositor's transferring, assigning, setting over and otherwise conveying the Mortgages to the Trustee for a PC Pool, the Trustee hereby accepts the Mortgages so conveyed and acknowledges that it holds the entire corpus of each PC Pool in trust for the exclusive benefit of the related Holders and shall deliver to, or on the order of, the Depositor, the PCs issued by such PC Pool. The Administrator agrees to administer the related PC Pool and such PCs in accordance with the terms of this Agreement. On the related PC Issue Date and upon payment to the Depositor for any such PC by a Holder, such Holder shall, by virtue thereof, acknowledge, accept and agree to be bound by all of the terms and conditions of this Agreement.

A Pool Supplement shall evidence the establishment of a particular PC Pool and shall relate to specific PCs representing the entire beneficial ownership interests in such PC Pool. If for any reason the creation of a Pool Supplement is delayed, Freddie Mac shall create one as soon as practicable, and such delay shall not affect the validity and existence of the PC Pool or the related PCs. With respect to each PC Pool, the collective terms hereof and of the related Pool Supplement shall govern the issuance and administration of the PCs related to such PC Pool, and all matters related thereto, and shall have no applicability to any other PC Pool or PCs. As applied to each PC Pool, the collective terms hereof and of the related Pool Supplement shall constitute an agreement as if the collective terms of those instruments were set forth in a single instrument. In the event of a conflict between the terms hereof and the terms of a Pool Supplement for a PC Pool, the terms of the Pool Supplement shall control with respect to that PC Pool. A Pool Supplement is not considered an amendment to this Agreement requiring approval pursuant to Section 7.05.

Section 1.02. Identity of the Mortgages; Substitution and Repurchase.

(a) In consideration for the transfer of the related Mortgages by the Depositor to a PC Pool, the Depositor (i) shall receive the PCs issued by such PC Pool and (ii) may retain such PCs or transfer them to the related Mortgage seller or otherwise, as the Depositor deems appropriate.

(b) After the PC Issue Date but prior to the first Payment Date, the Depositor may, in accordance with its customary mortgage purchase and pooling procedures, adjust the amount and identity of the Mortgages to be transferred to a PC Pool, the PC Coupon and/or the original unpaid principal balance of the PCs and the Mortgages in the PC Pool, provided that any changes to the characteristics of the PCs shall be evidenced by an amendment or supplement to the related Pool Supplement.

(c) Except as provided in this Section 1.02 or in Section 1.03, once the Depositor has transferred a Mortgage to a particular PC Pool, such Mortgage may not be transferred out of such PC Pool, except (x) if a mortgage insurer exercises an option under an insurance contract to purchase such Mortgage or (y) in the case of repurchase by the Guarantor, the Administrator or the related Mortgage seller or servicer, under the following circumstances:

(i) The Guarantor may repurchase from the related PC Pool a Mortgage in connection with a guarantee payment under Section 3.09(a)(ii).

(ii) The Administrator may repurchase from the related PC Pool, or require or permit a Mortgage seller or servicer to repurchase, any Mortgage if a repurchase is necessary or advisable (A) to maintain servicing of the Mortgage in accordance with the provisions of the Guide, or (B) to maintain the status of the PC Pool as a grantor trust for federal income tax purposes.

(iii) The Guarantor may repurchase from the related PC Pool, or require or permit a Mortgage seller or servicer to repurchase, any Mortgage if (A) such Mortgage is 120 or more days delinquent, or (B) the Guarantor determines, on the basis of information from the related borrower or servicer, that loss of ownership of the property securing a Mortgage is likely or default is imminent due to borrower incapacity, death or hardship or other extraordinary circumstances that make future payments on such Mortgage unlikely or impossible.

(iv) The Guarantor may repurchase from the related PC Pool a Mortgage if a bankruptcy court approves a plan that materially affects the terms of the Mortgage or authorizes a transfer or substitution of the underlying property.

(v) The Administrator may require or permit a Mortgage seller or servicer to repurchase from the related PC Pool any Mortgage or (within six months of the issuance of the related PCs) substitute for any Mortgage a Mortgage of comparable type, unpaid principal balance, remaining term and yield, if there is (A) a material breach of warranty by the Mortgage seller or servicer, (B) a material defect in documentation as to such Mortgage or (C) a failure by a seller or servicer to comply with any requirements or terms set forth in the Guide and, if applicable, other Purchase Documents.

(vi) The Administrator shall repurchase from the related PC Pool any Mortgage or (within two years of the issuance of the related PCs) substitute for any Mortgage a Mortgage of comparable type, unpaid principal balance, remaining term and yield, if (A) a court of competent jurisdiction or a federal government agency duly authorized to oversee or regulate Freddie Mac's mortgage purchase business determines that Freddie Mac's purchase of such Mortgage was unauthorized and Freddie Mac determines that a cure is not practicable without unreasonable effort or expense or (B) such court or government agency requires repurchase of such Mortgage.

(vii) To the extent a PC Pool includes convertible ARMs or Balloon/Reset Mortgages (each, as defined in the Offering Circular), the Administrator shall repurchase from the related PC Pool or require or allow the Mortgage seller or servicer to repurchase such Mortgages (a) when the borrower exercises its option to convert the related interest rate from an adjustable rate to a fixed rate, in the case of a convertible ARM; and (b) shortly before such Mortgage reaches its scheduled balloon repayment date, in the case of a Balloon/Reset Mortgage.

(d) The purchase price of a Mortgage repurchased by a Mortgage seller or servicer shall be equal to the then unpaid principal balance of such Mortgage, less any principal on such Mortgage that the Mortgage seller or servicer advanced to the Depositor or the Administrator. The purchase price of a Mortgage repurchased by the Administrator or the Guarantor under this Agreement shall be equal to the then unpaid principal balance of such Mortgage, less any outstanding advances of principal on such Mortgage that the Administrator, on behalf of the Trustee, distributed to Holders. The Administrator, on behalf of the Trustee, agrees to release any Mortgage from the PC Pool upon payment of the applicable purchase price.

(e) In determining whether a Mortgage shall be repurchased from the related PC Pool as described in this Section 1.02, the Guarantor and the Administrator may consider such factors as they deem appropriate, including the reduction of administrative costs (in the case of the Administrator) or possible exposure as Guarantor under its guarantee (in the case of the Guarantor).

Section 1.03. Post-Settlement Purchase Adjustments

(a) The Administrator shall make any post-settlement purchase adjustments necessary to reflect the actual aggregate unpaid principal balance of the related Mortgages or other Mortgage characteristics as of the date of their purchase by the Depositor or their delivery to the Trustee in exchange for PCs, as the case may be.

(b) Post-settlement adjustments may be made in such manner as the Administrator deems appropriate, but shall not adversely affect any Holder's rights to monthly payments of interest at the PC Coupon, any Holder's pro rata share of principal or any Holder's rights under the Guarantor's guarantees. Any reduction in the principal balance of the Mortgages held by a PC Pool shall be reflected by the Administrator as a corresponding reduction in the principal balance of the related PCs with a corresponding principal payment to the related Holders, on a pro rata basis.

Section 1.04. Custody of Mortgage Documents. With respect to each PC Pool, the Administrator, a custodian acting as its agent (which may be a third party or a trust or custody department of the related seller or servicer), or the originator or seller of the Mortgage may hold the related Mortgage documents, including Mortgage notes and participation certificates evidencing the Trustee's legal ownership interest in the Mortgages. The Administrator may adopt and modify its policies and procedures for the custody of Mortgage documents at any time, provided such modifications are prudent and do not materially and adversely affect the Holders' interests.

Section 1.05. Interests Held or Acquired by Freddie Mac. Freddie Mac shall have the right to purchase and hold for its own account any PCs. Subject to Section 7.06, PCs held or acquired by Freddie Mac from time to time and PCs held by other Holders shall have equal and proportionate benefits, without preference, priority or distinction. In the event that Freddie Mac retains any interest in a Mortgage, the remaining interest in which is part of a PC Pool, Freddie Mac's interest in such Mortgage shall rank equally with that of the related PC Pool, without preference, priority or distinction. No Holder shall have any priority over any other Holder.

Section 1.06. Intended Characterization. It is intended that the conveyance, transfer, assignment and setting over of the Mortgages by the Depositor to the Trustee pursuant to this Agreement be a true, absolute and unconditional sale of the related Mortgages by the Depositor to the Trustee, and not a pledge of the Mortgages to secure a debt or other obligation of the Depositor, and that the Holders of the related PCs shall be the beneficial owners of such Mortgages. Notwithstanding this express intention, however, if the Mortgages are determined by a court of competent jurisdiction or other competent authority to be the property of the Depositor, then it is intended that: (a) this Agreement be deemed to be a security agreement within the meaning of Articles 8 and 9 of the Uniform Commercial Code; (b) the conveyances provided for in Section 1.01 shall be deemed to be (1) a grant by the Depositor to the Trustee on behalf of the related Holders of a security interest in all of the Depositor's right (including the power to convey title thereto), title and interest, whether now owned or hereafter acquired, in and to the related Mortgages, any and all general intangibles consisting of, arising from or relating to any of the foregoing, and all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, instruments, securities or other property, including without limitation all amounts from time to time held or invested in the Custodial Account and allocable to such Mortgages, whether in the form of cash, instruments, securities or other property and (2) an assignment by the Depositor to the Trustee on behalf of the related Holders of any security interest in any and all of the Depositor's right (including the power to convey title thereto), title and interest, whether now owned or hereafter acquired, in and to the property described in the foregoing clause (1); and (c) notifications to Persons holding such property, and acknowledgments, receipts or confirmations from Persons holding such property, shall be deemed notifications to, or acknowledgments, receipts or confirmations from, financial intermediaries, bailees or agents (as applicable) of the Trustee on behalf of the related Holders, for the purpose of perfecting such security interest under applicable law.

Section 1.07. Encumbrances. Except as may otherwise be provided expressly in this Agreement, neither Freddie Mac nor the Trustee shall directly or indirectly, assign, sell, dispose of or transfer all or any portion of or interest in any PC Pool, or permit all or any portion of any PC Pool to be subject to any lien, claim, mortgage, security interest, pledge or other encumbrance of any other Person. This Section shall not be construed as a limitation on Freddie Mac's rights with respect to PCs held by it in its corporate capacity.

ARTICLE II

Administration and Servicing of the Mortgages

Section 2.01. The Administrator as Primary Servicer. With respect to each PC Pool, the Administrator shall service or supervise servicing of the related Mortgages and administer, on behalf of the Trustee, in accordance with the provisions of the Guide and this Agreement, including management of any property acquired through foreclosure or otherwise, all for the benefit of the related Holders. The Administrator shall have full power and authority to do or cause to be done any and all things in connection with such servicing and administration that the Administrator deems necessary or desirable. The Administrator shall seek from the Trustee, as representative of the related Holders, any consents or approvals relating to the control, management and servicing of the Mortgages included in any PC Pool and that are required hereunder.

Section 2.02. Servicing Responsibilities. With respect to each PC Pool, the Administrator shall service or supervise servicing of the related Mortgages in a manner consistent with prudent servicing standards and in substantially the same manner as the Administrator services or supervises the servicing of unsold mortgages of the same type in its portfolio. In performing its servicing responsibilities hereunder, the Administrator may engage servicers, subservicers and other independent contractors or agents. The Administrator may discharge its responsibility to supervise servicing of the Mortgages by monitoring servicers' performance on a reporting and exception basis. Except as provided in Articles V and VI and Sections 7.05 and 7.06 of this Agreement, Freddie Mac, as Administrator shall not be subject to the control of the Holders in the discharge of its responsibilities pursuant to this Article. Except with regard to its guarantee obligations pursuant to Section 3.09 with respect to a PC Pool, the Administrator shall have no liability to any related Holder for the Administrator's actions or omissions in discharging its responsibilities under this Article II other than for any direct damage resulting from its failure to exercise that degree of ordinary care it exercises in the conduct and management of its own affairs. In no event shall the Administrator have any liability for consequential damages.

Section 2.03. Realization Upon Defaulted Mortgages. With respect to each PC Pool, unless the Administrator deems that another course of action (e.g., charge-off) would be in the best economic interest of the Holders, the Administrator (or its authorized designee or representative) shall, as soon as practicable, foreclose upon (or otherwise comparably convert the ownership of) any real property securing a Mortgage which comes into and continues in default and as to which no satisfactory arrangements can be made for collection of delinquent payments. In connection with such foreclosure or conversion, the Administrator (or its authorized designee or representative) shall follow such practices or procedures as it deems necessary or advisable and consistent with general mortgage servicing standards.

Section 2.04. Automatic Acceleration and Assumptions.

(a) With respect to each PC Pool, to the extent provided in the Guide, the Administrator shall enforce the terms of each applicable Mortgage that gives the mortgagee the right to demand full payment of the unpaid principal balance of the Mortgage upon sale or transfer of the property securing the Mortgage regardless of the creditworthiness of the transferee (a right of "automatic acceleration"), subject to applicable state and federal law and the Administrator's then-current servicing policies.

(b) With respect to each PC Pool, the Administrator shall permit the assumption by a new mortgagor of an FHA/VA Mortgage upon the sale or transfer of the underlying property, as required by applicable regulations. Any such assumption shall be in accordance with applicable regulations, policies, procedures and credit requirements and shall not result in loss or impairment of any insurance or guaranty.

Section 2.05. Prepayment Penalties. Unless otherwise provided in the Pool Supplement for a PC Pool, the related Holders shall not be entitled to receive any prepayment penalties, assumption fees or other fees charged on the Mortgages included in such PC Pool, and either the related servicer or the Administrator shall retain such amounts.

Section 2.06. Mortgage Insurance and Guarantees.

(a) With respect to each PC Pool, if a Conventional Mortgage is insured by a mortgage insurer and the mortgage insurance policy is an asset of such PC Pool, the related Holders acknowledge that the insurer shall have no obligation to recognize or deal with any Person other than the Administrator, the Trustee, or their respective authorized designees or representatives regarding the mortgagee's rights, benefits and obligations under the related insurance contract.

(b) With respect to each PC Pool, each FHA/VA Mortgage shall have in full force and effect a certificate or other satisfactory evidence of insurance or guaranty, as the case may be, as may be issued by the applicable government agency from time to time. None of these agencies has any obligation to recognize or deal with any Person other than the Administrator, the Trustee, or their respective authorized designees or representatives with regard to the rights, benefits and obligations of the mortgagee under the contract of insurance or guaranty relating to each FHA/VA Mortgage included in such PC Pool.

ARTICLE III

Distributions to Holders; Guarantees

Section 3.01. Monthly Reporting Period. For purposes of this Agreement with respect to any PC Pool, any payment or any event with respect to any Mortgage included in such PC Pool that is reported to the Administrator by the related servicer as having been made or having occurred within a Monthly Reporting Period shall be deemed to have been received by the Administrator or to have in fact occurred within such Monthly Reporting Period used by the Administrator for such purposes. Payments reported by servicers include all principal and interest payments made by a borrower, insurance proceeds, liquidation proceeds and repurchase proceeds. Events reported by servicers include foreclosure sales, payments of insurance claims and payments of guarantee claims.

Section 3.02. Holder's Undivided Beneficial Ownership Interest. With respect to each PC Pool, the Holder of a PC on the Record Date shall be the owner of record of a pro rata undivided beneficial ownership interest in the remaining principal balance of the Mortgages in the related PC Pool as of such date and shall be entitled to interest at the PC Coupon on such pro rata undivided beneficial ownership interest, in each case on the related Payment Date. Such pro rata undivided beneficial ownership interest shall change accordingly if any Mortgage is added to or removed from such PC Pool in accordance with this Agreement. A Holder's pro rata undivided beneficial ownership interest in the Mortgages included in a PC Pool is calculated by dividing the original unpaid principal balance of the Holder's PC by the original unpaid principal balance of all the Mortgages in the related PC Pool.

Section 3.03. Distributions of Principal. With respect to each PC Pool, the Administrator, on behalf of the Trustee, shall withdraw from the Custodial Account and shall distribute to each related Holder its pro rata share of principal collections with respect to the Mortgages in such PC Pool, including, if applicable, each Holder's pro rata share of the aggregate amount of any Deferred Interest that has been added to the principal balance of the related Mortgages; *provided, however*, that with respect to guarantee payments, the Guarantor's obligations herein shall be subject to its subrogation rights pursuant to Section 3.10. The Administrator may retain from any prepayment or delinquent principal payment on any Mortgage, for reimbursement to the Guarantor, any amount not previously received with respect to such Mortgage but paid by the Guarantor to the related Holders under its guarantee. For Mortgages purchased by the Depositor in exchange for PCs under its MultiLender Swap Program, the Depositor shall retain principal payments made on such Mortgages in the amount of any difference between the aggregate unpaid principal balance of the Mortgages as of delivery by the seller and the aggregate unpaid principal balance as of the PC Issue Date, and the Depositor shall purchase additional Mortgages with such principal payments; such additional Mortgages may or may not be included in the related PC Pool represented by the PCs received by the seller.

Section 3.04. Distributions of Interest. With respect to each PC Pool, the Administrator, on behalf of the Trustee, shall withdraw from the Custodial Account and shall distribute to each related Holder its pro rata share of interest collections with respect to the Mortgages included in such PC Pool, at a rate equal to the PC Coupon (excluding, if applicable, each Holder's pro rata share of any Deferred Interest that has been added to the principal balance of the related Mortgages). Interest shall accrue during the applicable Accrual Periods. The Administrator may retain from any delinquent interest payment on any Mortgage, for reimbursement to the Guarantor, any amount not previously received with respect to such Mortgage but paid by the Guarantor to the related Holders under its guarantee. With respect to each PC Pool, a partial month's interest retained by Freddie Mac or remitted to the related Holders with respect to prepayments shall constitute an adjustment to the fee payable to the Administrator and the Guarantor pursuant to Section 3.08(a) for such PC Pool.

Section 3.05. Payments.

(a) With respect to each PC Pool, distributions of principal and interest on the related PCs shall begin in the month after issuance for Gold PCs and in the second month after issuance for ARM PCs. The Administrator, on behalf of the Trustee, shall calculate, or cause to be calculated, for each PC the distribution amount for the current calendar month.

(b) On or before each Payment Date, the Administrator, on behalf of the Trustee, shall instruct the Federal Reserve Banks to credit payments on PCs from the Custodial Account to the appropriate Holders' accounts. The related PC Pool's payment obligations shall be met upon transmittal of the Administrator's payment order to the Federal Reserve Banks provided sufficient funds are then on deposit in the Custodial Account. A Holder shall receive the payment of principal, if applicable, and interest on each Payment Date on each PC held by such Holder as of the related Record Date.

(c) The Administrator relies on servicers' reports of mortgage activity to prepare the Pool Factors. There may be delays or errors in processing mortgage information, such as a servicer's failure to file an accurate or timely report of its collections of principal or its having filed a report that cannot be processed. In these situations the Administrator's calculation of scheduled principal to be made on Gold PCs may not reflect actual payments on the related Mortgages. The Administrator shall account for and reconcile any differences as soon as practicable.

(d) The Administrator reserves the right to change the period during which a servicer may hold funds prior to payment to the Administrator, as well as the period for which servicers report payments to the Administrator, including adjustments to the Monthly Reporting Period. Either change may change the time at which prepayments are distributed to Holders. Any such change, however, shall not impair Holders' rights to payments as otherwise provided in this Section.

(e) The Administrator shall maintain one or more accounts (together, the "Custodial Account"), segregated from the general funds of Freddie Mac, in its corporate capacity, for the deposit of collections of principal (including full and partial principal prepayments) and interest received from or advanced by the servicers in respect of the Mortgages. Mortgage collections in respect of the PC Pools established by Freddie Mac under this Agreement or trust funds established by Freddie Mac pursuant to any other trust agreements may be commingled in the Custodial Account, provided that the Administrator keeps, or causes to be kept, separate records of funds with respect to each such PC Pool and other trust fund. Collections due to Freddie Mac, in its corporate capacity as owner of mortgages held in its portfolio, may also be commingled in the Custodial Account, provided that the Administrator shall withdraw such amounts for remittance to Freddie Mac on a monthly basis. Funds on deposit in the Custodial Account may be invested by the Administrator in Eligible Investments. Investment earnings on deposits in the Custodial Account shall be for the benefit of the Administrator, and any losses on such investments shall be paid by the Administrator. On each Payment Date, amounts on deposit in the Custodial Account shall be withdrawn upon the order of the Administrator, on behalf of the Trustee, for the purpose of making distributions to the related Holders, in accordance with this Agreement.

Section 3.06. Pool Factors.

(a) The Administrator, on behalf of the Trustee, shall calculate and make payments to Holders on each Payment Date based on the monthly Pool Factors (including Negative Amortization Factors) until such time as the Administrator determines that a more accurate and practicable method for calculating such payments is available and implements that method. Pursuant to Section 7.05(e), the Administrator may modify the Pool Factor methodology from time to time, without the consent of Holders. With respect to each PC Pool, the Administrator, on behalf of the Trustee, shall do the following:

(i) The Administrator shall publish or cause to be published for each month a Pool Factor with respect to each PC Pool. Beginning in the month after formation of a PC Pool, Pool Factors shall be published on or about the fifth Business Day of the month, which Pool Factors may reflect prepayments reported to the Administrator after the end of the related Monthly Reporting Period and before the publication of the applicable Pool Factors. However, the Administrator may, in its own discretion, publish Pool Factors on any other Business Day. The Pool Factor for the month in which the PC Pool is established is 1.00000000 and need not be published.

(ii) The Administrator shall distribute principal each month to a Holder of a Gold PC in an amount equal to such Holder's pro rata share of such principal, calculated by multiplying the original principal balance of the Gold PC by the difference between its Pool Factors for the preceding and current months.

(iii) The Administrator shall distribute principal each month to a Holder of an ARM PC in an amount equal to such Holder's pro rata share of such principal, calculated by multiplying the original principal balance of the ARM PC by the difference between its Pool Factors for the two preceding months.

(iv) The Administrator shall distribute interest each month in arrears to a Holder (assuming no Deferred Interest) in an amount equal to 1/12th of the applicable PC Coupon multiplied by such Holder's pro rata share of principal, calculated by multiplying the original principal balance of such Holder's PC by the preceding month's Pool Factor for Gold PCs or by the second preceding month's Pool Factor for ARM PCs.

(v) For any month that Deferred Interest has accrued on a Deferred Interest PC, the Administrator shall distribute principal (if any is due) to a Holder in an amount equal to such Holder's pro rata share of principal, calculated by (A) subtracting the preceding month's Pool Factor from the second preceding month's Pool Factor, (B) adding to the difference the Negative Amortization Factor for the preceding month and (C) multiplying the resulting sum by the original PC principal balance. The interest payment on the Deferred Interest PC in that month shall be (i) 1/12th of the PC Coupon multiplied by (ii) the original principal balance of the Holder's PC multiplied by (iii) the preceding month's Pool Factor minus the preceding month's Negative Amortization Factor.

(b) With respect to each PC Pool, a Pool Factor shall reflect prepayments reported for the applicable Monthly Reporting Period. The Administrator, on behalf of the Trustee, may also, in its discretion, reflect in a Pool Factor any prepayments reported after the end of the applicable Monthly Reporting Period. To the extent a given Pool Factor (adjusted as necessary for payments made pursuant to the Guarantor's guarantee of timely payment of scheduled principal on Gold PCs) does not reflect the actual unpaid principal balance of the related Mortgages, the Administrator shall account for any difference by adjusting subsequent Pool Factors as soon as practicable.

(c) In the case of a PC Pool that is comprised of ARMs, a Pool Factor shall be based upon the unpaid principal balance of the related Mortgages that servicers report to the Administrator for the Monthly Reporting Period that ended in the second month preceding the month in which the Pool Factor is published. The Administrator, on behalf of the Trustee, may also, in its discretion, include as part of the aggregate principal payment in any month any prepayments received after the Monthly Reporting Period that ended in the second month preceding the month in which the Pool Factor is published. To the extent a given Pool Factor does not reflect the actual aggregate unpaid principal balance of the Mortgages, the Administrator shall account for any difference by adjusting subsequent Pool Factors as soon as practicable.

(d) The Pool Factor method for a PC Pool may affect the timing of receipt of payments by related Holders but shall not affect the Guarantor's guarantee with respect to such PC Pool, as set forth in Section 3.09. The Guarantor's guarantee shall not be affected by the implementation of any different method for calculating and paying principal and interest for any PC Pool, as permitted by this Section 3.06.

Section 3.07. Servicing Fees; Retained Interest.

(a) To the extent provided by contractual arrangement with the Administrator, with respect to each PC Pool, the related servicer of each Mortgage included in such PC Pool shall be entitled to retain each month, as a servicing fee, any interest payable by the borrower on a Mortgage that exceeds the servicer's required remittance with respect to such Mortgage. Each servicer is required to pay all expenses incurred by it in connection with its servicing activities and shall not be entitled to reimbursement for those expenses, except as provided in Section 3.08(c). If a servicer advances any principal and/or interest on a Mortgage to the Administrator prior to the receipt of such funds from the borrower, the servicer may retain (i) from prepayments or collections of delinquent principal on such Mortgage any payments of principal so advanced, or (ii) from collections of delinquent interest on such Mortgage any payments of interest so advanced. To the extent permitted by its servicing agreement, the servicer is entitled to retain as additional compensation certain incidental fees related to Mortgages it services.

(b) With respect to a PC Pool, pursuant to the related Purchase Documents, a seller may retain each month as extra compensation a fixed amount of interest on a Mortgage included in such PC Pool. In such event, the related servicer shall retain each month as a servicing fee the excess of any interest payable by the borrower on such Mortgage (less the seller's retained interest amount) over the servicer's required remittance with respect to such Mortgage.

Section 3.08. Administration Fee; Guarantee Fee.

(a) Subject to any adjustments required by Section 3.04, with respect to any PC Pool, the Administrator and the Guarantor shall be entitled to receive from monthly interest payments on each related Mortgage a fee (to be allocated between the Administrator and the Guarantor as they may agree) equal to the excess of any interest received by the Administrator from the servicer over the amount of interest payable to the related Holders; *provided, however,* that the aggregate fee amount shall be automatically adjusted with respect to each PC Pool to the extent a Pool Factor does not reflect the unpaid principal balance of the Mortgages. Any such adjustment shall equal the difference between (i) interest at the applicable PC Coupon computed on the aggregate unpaid principal balance of the Mortgages for such month based on monthly principal payments actually received by the Administrator and (ii) interest at the applicable PC Coupon computed on the remaining balance of the Mortgages included in the PC Pool derived from the Pool Factor. The Administrator shall (i) withdraw the aggregate fee amount from the Custodial Account prior to distributions to the related Holders, (ii) retain its portion of the fee for the Administrator's own account and (iii) remit the remaining portion of the fee to the Guarantor as the guarantee fee. In addition, the Administrator is entitled to retain as additional compensation certain incidental fees on the Mortgages as provided in Section 2.05 and certain investment earnings as provided in Section 3.05(e).

(b) The Depositor shall pay all expenses incurred in connection with the transfer of the Mortgages, the establishment and administration of each PC Pool and the issuance of the PCs. Any amounts (including attorney's fees) expended by the Trustee or the Administrator (or the servicers on the Administrator's behalf) for the protection, preservation or maintenance of the Mortgages, or of the real property securing the Mortgages, or of property received in liquidation of or realization upon the Mortgages, shall be expenses to be borne pro rata by the Administrator and the Holders in accordance with their interests in each Mortgage. The Administrator, on behalf of the Trustee, may retain an amount sufficient to pay the portion of such expenses borne pro rata by the Depositor and the Holders from payments otherwise due to Holders, which may affect the timing of receipt of payments by Holders but shall not affect the Guarantor's obligations under Section 3.09.

(c) The Administrator shall reimburse a servicer for any amount (including attorney's fees) it expends (on the Administrator's behalf and with its approval) for the protection, preservation or maintenance of the Mortgages, or of the real property securing the Mortgages, or of property received in liquidation of or realization upon the Mortgages. Such expenses shall be reimbursable to the servicer from the assets of the related PC Pool, to the extent provided in the Guide.

(d) Any fees and expenses described above shall not affect the Guarantor's guarantee with respect to any PC Pool, as set forth in Section 3.09.

Section 3.09. Guarantees.

(a) With respect to each PC Pool, the Guarantor guarantees to the Trustee and to each Holder of a PC:

(i) the timely payment of interest at the applicable PC Coupon;

(ii) the full and final payment of principal on the underlying Mortgages on or before the Payment Date that falls (A) in the month of its Final Payment Date, for Gold PCs, or (B) in the month after its Final Payment Date, for ARM PCs; and

(iii) for Gold PCs only, the timely payment of scheduled principal on the underlying Mortgages.

In the case of Deferred Interest PCs, the Guarantor's guarantee of principal includes, and its guarantee of interest excludes, any Deferred Interest added to the principal balances of the related Mortgages. The Guarantor shall make payments of any guaranteed amounts by transfer to the Custodial Account for distribution to the related Holders, in accordance with Sections 3.03 and 3.04. The guarantees pursuant to this Section will inure to the benefit of each PC Pool and its related Holders, and shall be enforceable by the Trustee of that PC Pool and by such Holders, as provided in Article V of this Agreement.

(b) The Guarantor shall compute guaranteed scheduled monthly principal payments on any Gold PC, subject to any applicable adjustments, in accordance with procedures adopted by the Guarantor from time to time. With respect to each PC Pool, any payment the Guarantor makes to the Administrator, on behalf of the Trustee, on account of the Guarantor's guarantee of scheduled principal payments shall be considered to be a payment of principal for purposes of calculating the Pool Factor for such PC Pool and the Holder's pro rata share of the remaining unpaid principal balance of the related Mortgages.

(c) The Guarantor's guarantees shall continue to be effective or shall be reinstated (i) in the event that any principal or interest payment made to a Holder is for any reason returned by the Holder pursuant to an order, decree or judgment of any court of competent jurisdiction that the Holder was not entitled to retain such payment pursuant to this Agreement and (ii) notwithstanding any provision hereof permitting fees, expenses, indemnities or other amounts to be paid from the assets of any PC Pool.

Section 3.10. Subrogation. With respect to each PC Pool, the Guarantor shall be subrogated to all the rights, interests, remedies, powers and privileges of each related Holder in respect of any Mortgage included in such PC Pool on which it has made guarantee payments of principal and/or interest to the extent of such payments. Nothing in this Section shall impair the Guarantor's right to receive distributions in its capacity as Holder, if it is a Holder of any PCs.

Section 3.11. Termination Upon Final Payment. Each PC Pool is irrevocable and will terminate only in accordance with the terms of this Agreement. Except as provided in Sections 3.05(e), 6.06 and 7.01, with respect to each PC Pool, Freddie Mac's and the Trustee's obligations and responsibilities under this Agreement shall terminate as to a PC Pool and its Holders upon (i) the full payment to such Holders of all principal and interest due to the Holders based on the Pool Factors or by reason of the Guarantor's guarantees or (ii) the payment to the Holder of all amounts held by Freddie Mac and the Trustee, respectively, and required to be paid hereunder; *provided, however*, that in no event shall any PC Pool created hereby continue beyond the expiration of 21 years from the death of the survivor of the descendants of Joseph P. Kennedy, the late ambassador of the United States to the Court of St. James's, living on the date hereof.

Section 3.12. Effect of Final Payment Date. The actual final payment on a PC may occur prior to the Payment Date specified in Section 3.09(a)(ii) due to prepayments of principal, including prepayments made in connection with the repurchase of any Mortgage from the related PC Pool.

Section 3.13. Payment Error Corrections. In the event of a principal or interest payment error, the Administrator, in its sole discretion, may effect corrections by the adjustment of payments to be made on future Payment Dates or in such other manner as it deems appropriate.

ARTICLE IV

PCs

Section 4.01. Form and Denominations. With respect to each PC Pool, the principal balances, PC Coupons and other characteristics of the PCs to be issued shall be specified in the related Pool Supplement. Delivery of the PCs of a PC Pool shall constitute the issuance of the PCs for that PC Pool. PCs shall be issued, held and transferable only on the book-entry system of the Federal Reserve Banks in minimum original principal amounts of $1,000 and additional increments of $1. PCs shall at all times remain on deposit with a Federal Reserve Bank in accordance with the provisions of the Book-Entry Rules. A Federal Reserve Bank will maintain a book-entry recordkeeping system for all transactions in PCs with respect to Holders.

Section 4.02. Transfer of PCs. PCs may be transferred only in minimum original principal amounts of $1,000 and additional increments of $1. PCs may not be transferred if, as a result of the transfer, the transferor or the new Holder would have on deposit in its account PCs of the same issue with an original principal amount of less than $1,000. The transfer, exchange or pledge of PCs shall be governed by the fiscal agency agreement between Freddie Mac and a Federal Reserve Bank, the Book-Entry Rules and such other procedures as shall be agreed upon from time to time by Freddie Mac and a Federal Reserve Bank. A Federal Reserve Bank shall act only upon the instructions of the Holder in recording transfers of a PC. A charge may be made for any transfer of a PC and shall be made for any tax or other governmental charge imposed in connection with a transfer of a PC. Freddie Mac hereby assigns to the Trustee Freddie Mac's rights under each fiscal agency agreement with respect to PCs issued by any PC Pool.

Section 4.03. Record Date. The Record Date for each Payment Date shall be the close of business on the last day of the preceding month for Gold PCs and the second preceding month for ARM PCs. A Holder of a PC on the books and records of a Federal Reserve Bank on the Record Date shall be entitled to payment of principal and interest on the related Payment Date. A transfer of a PC made on or before the Record Date in a month shall be recognized as effective as of the first day of such month.

ARTICLE V

Remedies

Section 5.01. Events of Default. With respect to each PC Pool, an "Event of Default" means any one of the following events:

(a) Default by the Guarantor or the Administrator in the payment of interest or principal to the related Holders as and when the same shall become due and payable as provided in this Agreement, and the continuance of such default for a period of 30 days.

(b) Failure by the Guarantor or the Administrator to observe or perform any other covenants of this Agreement relating to their respective obligations, and the continuance of such failure for a period of 60 days after the date of receipt by such party of written notice of such failure and a demand for remedy by the affected Holders representing not less than 65 percent of the remaining principal balance of any affected PC Pool.

(c) The entry by any court having jurisdiction over the Guarantor or the Administrator of a decree or order for relief in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or for the appointment of a receiver, liquidator, assignee, custodian or sequestrator (or other similar official) of the Guarantor or the Administrator or for any substantial part of its property, or for the winding up or liquidation of its affairs, if such decree or order remains unstayed and in effect for a period of 60 consecutive days.

(d) Commencement by the Guarantor or the Administrator of a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consent by the Guarantor or the Administrator to the entry of an order for relief in an involuntary case under any such law, or its consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Guarantor or the Administrator or for any substantial part of their respective properties, or any general assignment made by the Guarantor or the Administrator for the benefit of creditors, or failure by the Guarantor or the Administrator generally to pay their debts as they become due.

The appointment of a conservator (or other similar official) by a regulator having jurisdiction over the Guarantor or the Administrator, whether or not such party consents to such appointment, shall not constitute an Event of Default.

Section 5.02. Remedies.

(a) If an Event of Default occurs and is continuing with respect to a PC Pool, the Holders of PCs representing a majority of the remaining principal balance of such PC Pool may, by written notice to Freddie Mac, remove Freddie Mac as Administrator and nominate its successor under this Agreement with respect to such PC Pool. The nominee shall be deemed appointed as Freddie Mac's successor as Administrator unless Freddie Mac objects within 10 days after such nomination. Upon such objection:

(i) The Administrator may petition any court of competent jurisdiction for the appointment of its successor; or

(ii) Any bona fide Holder that has been a Holder for at least six months may, on behalf of such Holder and all others similarly situated, petition any such court for appointment of the Administrator's successor.

(b) If a successor Administrator is appointed, the Administrator shall submit to its successor a complete written report and accounting of the Mortgages in the affected PC Pool and shall take all other steps necessary or desirable to transfer its interest in and administration of such PC Pool to its successor.

(c) Subject to the Freddie Mac Act, a successor may take any action with respect to the Mortgages as may be reasonable and appropriate in the circumstances. Prior to the designation of a successor, the Holders of PCs representing a majority of the remaining principal balance of any affected PC Pool may waive any past or current Event of Default.

(d) Appointment of a successor shall not relieve Freddie Mac, in its capacity as Guarantor, of its guarantee obligations as set forth in this Agreement.

Section 5.03. Limitation on Suits by Holders.

(a) With respect to any PC Pool, except as provided in Section 5.02, no Holder shall have any right to institute any action or proceeding at law or in equity or in bankruptcy or otherwise or seek any other remedy whatsoever against Freddie Mac or the Trustee with respect to this Agreement or the related PCs or Mortgages, unless:

(i) Such Holder previously has given the Trustee written notice of an Event of Default and the continuance thereof;

(ii) The Holders of PCs representing a majority of the remaining principal balance of any affected PC Pool have made a written request to the Trustee to institute an action or proceeding in its own name and have offered the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred;

(iii) The Trustee has failed to institute any such action or proceeding for 60 days after its receipt of the written notice, request and offer of indemnity described above; and

(iv) The Trustee has not received from such Holders any direction inconsistent with the written request described above during the 60-day period.

(b) No Holder shall have any right under this Agreement to prejudice the rights of any other Holder, to obtain or seek preference or priority over any other Holder or to enforce any right under this Agreement, except for the ratable and common benefit of all Holders of PCs representing interests in any affected PC Pool.

(c) For the protection and enforcement of the provisions of this Section, Freddie Mac, the Trustee and each and every Holder shall be entitled to such relief as can be given either at law or in equity. Notwithstanding the foregoing, no Holder's right to receive payment (or to institute suit to enforce payment) of principal and interest as provided herein on or after the due date of such payment shall be impaired or affected without the consent of the Holder.

ARTICLE VI

Trustee

Section 6.01. Duties of Trustee.

(a) If an Event of Default has occurred and is continuing with respect to a PC Pool, the Trustee shall exercise the rights and powers vested in it by this Agreement and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Agreement and shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Agreement and no implied covenants or obligations shall be read into this Agreement against the Trustee.

(c) The Trustee and its directors, officers, employees and agents may not be protected from liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of their respective duties or by reason of reckless disregard of obligations and duties under this Agreement, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any action taken, or not taken, by the Trustee in good faith pursuant to this Agreement or for errors in judgment; and

(iii) the Trustee shall not be required to take notice or be deemed to have notice or knowledge of any default or Event of Default, unless the Trustee obtains actual knowledge or written notice of such default or Event of Default. In the absence of such actual knowledge or notice, the Trustee may conclusively assume that there is no default or Event of Default.

(d) Every provision of this Agreement shall be subject to the provisions of this Section and Section 6.02.

(e) The Trustee shall not be liable for indebtedness evidenced by or arising under this Agreement, including principal of or interest on the PCs, or interest on any money received by it except as the Trustee may agree in writing.

(f) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law or the terms of this Agreement.

(g) No provision of this Agreement shall require the Trustee to expend, advance or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(h) The Trustee may, but shall not be obligated to, undertake any legal action that it deems necessary or desirable in the interest of Holders. The Trustee may be reimbursed for the legal expenses and costs of such action from the assets of the related PC Pool.

Section 6.02. Certain Matters Affecting the Trustee.

(a) The Trustee, and any director, officer, employee or agent of the Trustee may rely in good faith on any certificate, opinion or other document of any kind which, prima facie, is properly executed and submitted by any appropriate Person respecting any matters arising hereunder. The Trustee may rely on any such documents believed by it to be genuine and to have been signed or presented by the proper Person and on their face conforming to the requirements of this Agreement. The Trustee need not investigate any fact or matter stated in such documents.

(b) Before the Trustee acts or refrains from acting, it may require an officer's certificate or an opinion of counsel, which shall not be at the expense of the Trustee. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on an officer's certificate or opinion of counsel. The right of the Trustee to perform any discretionary act enumerated in this Agreement shall not be construed as a duty and the Trustee shall not be answerable for other than its willful misfeasance, bad faith or gross negligence in the performance of such act.

(c) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, that the Trustee's conduct does not constitute willful misfeasance, bad faith or gross negligence. In no event shall the Trustee have any liability for consequential damages.

(e) The Trustee may consult with and rely on the advice of counsel, accountants and other advisors and shall not be liable for errors in judgment or for anything it does or does not do in good faith if it so relies. Any opinion of counsel with respect to legal matters relating to this Agreement and the PCs shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with any opinion of such counsel.

(f) Any fees, expenses and indemnities payable from the assets of any PC Pool to Freddie Mac, in its capacity as Trustee, in the performance of its duties and obligations hereunder shall not affect Freddie Mac's guarantee with respect to that PC Pool, as set forth in Section 3.09.

Section 6.03. Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Agreement, the assets of the PC Pool or the PCs.

Section 6.04. Trustee May Own PCs. Subject to Section 7.06, the Trustee in its individual or any other capacity may become the owner or pledgee of PCs with the same rights as it would have if it were not the Trustee.

Section 6.05. Indemnity. Each PC Pool shall indemnify the Trustee and the Trustee's employees, directors, officers and agents, as provided in this Agreement, against any and all claims, losses, liabilities or expenses (including attorneys' fees) incurred by it in connection with the administration of this trust and the performance of its duties under this Agreement (to the extent not previously reimbursed above), including, without limitation, the execution and filing of any federal or state tax returns and information returns and being the mortgagee of record with respect to the related Mortgages. The Trustee shall notify the Administrator promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Administrator shall not relieve the related PC Pool of its obligations hereunder. A PC Pool shall not be required to reimburse any expense or indemnify against any loss, liability or expense incurred by the Trustee through the Trustee's own willful misfeasance, bad faith or gross negligence.

The Trustee's rights pursuant to this Section shall survive the discharge of this Agreement.

Section 6.06. Replacement of Trustee. The Trustee may resign at any time. Any successor Trustee shall resign if it ceases to be eligible in accordance with the provisions of Section 6.09. In either case, the resignation of the Trustee shall become effective, and the resigning Trustee shall be discharged from its obligations with respect to the PC Pools created under this Agreement by giving 90 days' written notice of the resignation to the Depositor, the Guarantor and the Administrator and upon the effectiveness of an appointment of a successor Trustee, which may be as of a date prior to the end of the 90-day period. Upon receiving such notice of resignation, the Depositor shall promptly appoint one or more successor Trustees by written instrument, one copy of which is delivered to the resigning Trustee and one copy of which is delivered to the successor Trustee. The successor Trustee need not be the same Person for all PC Pools. If no successor Trustee has been appointed for a PC Pool, or one that has been appointed has not accepted the appointment within 90 days after giving such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Prior to an Event of Default, or if an Event of Default has occurred and has been cured with respect to a PC Pool, Freddie Mac cannot be removed as Trustee with respect to that PC Pool. If an Event of Default has occurred and is continuing while Freddie Mac is the Trustee, at the direction of Holders of PCs representing a majority of the remaining principal balance of such PC Pool, Freddie Mac shall resign or be removed as Trustee, and to the extent permitted by law, all of the rights and obligations of the Trustee with respect to the related PC Pool only, will be terminated by notifying the Trustee in writing. Holders of PCs representing a majority of the remaining principal balance of the PC Pool will then be authorized to name and appoint one or more successor Trustees. Notwithstanding the termination of the Trustee, its liability under this Agreement and arising prior to such termination shall survive such termination.

If a successor Trustee is serving as the Trustee, the following events are "Trustee Events of Default" with respect to a PC Pool:

(i) the Trustee fails to comply with Section 6.09;

(ii) the Trustee is adjudged bankrupt or insolvent;

(iii) a receiver or other public officer takes charge of the Trustee or its property; or

(iv) the Trustee otherwise becomes incapable of acting.

If at any time a Trustee Event of Default has occurred and is continuing, the Guarantor (or if an Event of Default has occurred and is continuing, the Depositor) may, and if directed by Holders of PCs representing a majority of the remaining principal balance of such PC Pool, shall, remove the Trustee as to such PC pool and appoint a successor Trustee by written instrument, one copy of which shall be delivered to the Trustee so removed and one copy of which shall be delivered to the successor Trustee, and the Guarantor (or if an Event of Default has occurred and is continuing, the Depositor) shall give written notice of the successor Trustee to the Holders affected by the succession. Notwithstanding the termination of the Trustee, its liability under this Agreement arising prior to such termination will survive such termination.

If the Trustee resigns or is removed or if a vacancy exists in the office of the Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Depositor shall promptly appoint a successor Trustee that satisfies the eligibility requirements of Section 6.09.

The retiring Trustee agrees to cooperate with the Depositor and any successor Trustee in effecting the termination of the retiring Trustee's responsibilities and rights hereunder and shall promptly provide such successor Trustee all documents and records reasonably requested by it to enable it to assume the Trustee's functions hereunder.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Depositor, the Guarantor and the Administrator. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Agreement with respect to such PC Pool. The successor Trustee shall mail a notice of its succession to the related Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee.

If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee or the Depositor may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Section 6.07. Successor Trustee By Merger. If a successor Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee; provided, that such corporation or banking association shall be otherwise qualified and eligible under Section 6.09.

Section 6.08. Appointment of Co-Trustee or Separate Trustee.

(a) Notwithstanding any other provisions of this Agreement, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of a PC Pool may at the time be located, the Trustee shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of such PC Pool and to vest in such Person or Persons, in such capacity and for the benefit of the related Holders, such title to such PC Pool, or any part thereof, and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Trustee may consider necessary or desirable. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 6.09 and no notice to the related Holders of the appointment of any co-trustee or separate trustee shall be required under Section 6.06 hereof.

(b) With respect to each PC Pool, every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Trustee shall be conferred or imposed upon and exercised or performed by the Trustee and such separate trustee or co-trustee jointly (it being understood that such separate trustee or co-trustee is not authorized to act separately without the Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed the Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the related PC Pool or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate trustee or co-trustee, but solely at the direction of the Trustee;

(ii) no trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(iii) the Trustee may at any time accept the resignation of or remove any separate trustee or co-trustee.

(c) Any notice, request or other writing given to the Trustee shall be deemed to have been given to each of the then separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Agreement and the conditions of this Article VI. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Trustee or separately, as may be provided therein, subject to all the provisions of this Agreement, specifically including every provision of this Agreement relating to the conduct of, affecting the liability of, or affording protection to, the Trustee. Every such instrument shall be filed with the Trustee.

(d) Any separate trustee or co-trustee may at any time constitute the Trustee, its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Agreement on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Trustee, to the extent permitted by law, without the appointment of a new or successor trustee.

Section 6.09. Eligibility; Disqualification. Freddie Mac is eligible to act as the Trustee and is initially the Trustee for the PC Pools created under this Agreement. Any successor to Freddie Mac (i) at the time of its appointment as Trustee, must be reasonably acceptable to Freddie Mac and (ii) must be organized as a corporation or association doing business under the laws of the United States or any State thereof, be authorized under such laws to exercise corporate trust powers, have combined capital and surplus of at least $50,000,000 and be subject to supervision or examination by federal or state financial regulatory authorities. If any successor Trustee shall cease to satisfy the eligibility requirements set forth in (ii) above, that successor Trustee shall resign immediately in the manner and with the effect specified in Section 6.06.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. Annual Statements. Within a reasonable time after the end of each calendar year, the Administrator (or its agent) shall furnish to each Holder on any Record Date during such year information that the Administrator deems necessary or desirable to enable Holders and beneficial owners of PCs to prepare their United States federal income tax returns, if applicable.

Section 7.02. Limitations on Liability. Neither Freddie Mac, in its corporate capacity, nor any of its directors, officers, employees, authorized designees, representatives or agents ("related persons") shall be liable to Holders for any action taken, or not taken, by them or by a servicer in good faith pursuant to this Agreement or for errors in judgment. This provision shall not protect Freddie Mac or any related person against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or gross negligence in the performance of duties or by reason of reckless disregard of obligations and duties under this Agreement. In no event shall Freddie Mac or any related person be liable for any consequential damages. Freddie Mac and any related person may rely in good faith on any document or other communication of any kind properly executed and submitted by any Person with respect to any matter arising under this Agreement. Freddie Mac has no obligation to appear in, prosecute or defend any legal action which is not incidental to its duties to service or supervise the servicing of the Mortgages in accordance with this Agreement and which in its opinion may involve any expense or liability for Freddie Mac. Freddie Mac may, in its discretion, undertake or participate in any action it deems necessary or desirable with respect to any Mortgage, this Agreement, the PCs or the rights and duties of the parties hereto and the interests of the Holders hereunder. In such event, the legal expenses and costs of such action and any resulting liability shall be expenses for the protection, preservation and maintenance of the Mortgages borne pro rata by Freddie Mac and Holders as provided in Section 3.08(b).

Section 7.03. Limitation on Rights of Holders. The death or incapacity of any Person having an interest in a PC shall not terminate this Agreement or any PC Pool. Such death or incapacity shall not entitle the legal representatives or heirs of such Person, or any Holder for such Person, to claim an accounting, take any action or bring any proceeding in any court for a partition or winding up of the related PC Pool, nor otherwise affect the rights, obligations and liabilities of the parties hereto or any of them.

Section 7.04. Control by Holders. With respect to any PC Pool, except as otherwise provided in Articles V and VI and Sections 7.05 and 7.06, no Holder shall have any right to vote or to otherwise control in any manner the operation and management of the Mortgages included in such PC Pool, or the obligations of the parties hereto. This Agreement shall not be construed so as to make the Holders from time to time partners or members of an association. Holders shall not be liable to any third person by reason of any action taken by the parties to this Agreement pursuant to any provision hereof.

Section 7.05. Amendment.

(a) Freddie Mac and the Trustee may amend this Agreement (including any related Pool Supplement) from time to time without the consent of any Holders to (i) cure any ambiguity or correct or supplement any provision in this Agreement, *provided, however,* that any such amendment shall not have a material adverse effect on any Holder; (ii) maintain the classification of any PC Pool as a grantor trust for federal income tax purposes; or (iii) avoid the imposition of any state or federal tax on a PC Pool; it being understood that any amendment permitting the repurchase of a Mortgage by Freddie Mac due to a delinquency of less than 120 days, other than in the circumstances described in Section 1.02(c)(iii), may not be adopted under this clause (a).

(b) Except as provided in Section 7.05(c), Freddie Mac and the Trustee may amend this Agreement as to any PC Pool, with the consent of Holders representing not less than a majority of the remaining principal balance of the affected PC Pool.

(c) Freddie Mac and the Trustee may not amend this Agreement, without the consent of a Holder, if such amendment would impair or affect the right of such Holder to receive payment of principal and interest on or after the due date of such payment or to institute suit for the enforcement of any such payment on or after such date.

(d) To the extent that any provisions of this Agreement differ from the provisions of any Freddie Mac Mortgage Participation Certificates Agreement or PC Master Trust Agreement dated prior to the date of this Agreement, this Agreement shall be deemed to amend such provisions of the prior agreement, but only to the extent that Freddie Mac, under the terms of such prior agreement, could have effected such change as an amendment of such prior agreement without the consent of Holders of PCs thereunder; *provided, however,* that the trust declarations and related provisions set forth in Section 7.05(d) of the PC Master Trust Agreement dated as of December 31, 2007 are hereby reaffirmed with respect to each PC Pool created before December 31, 2007.

(e) Notwithstanding any other provision of this Section, (i) the Administrator (in its own discretion and in its own interest) and the Trustee (at the Administrator's direction) may amend this Agreement to reflect any modification in the Administrator's methodology of calculating payments to Holders, including any modifications described in Section 3.05(d) and Section 3.06(a) and the manner in which it distributes prepayments to Holders, (ii) the Administrator (in its own discretion and in its own interest) and the Trustee (at the Administrator's direction) may amend this Agreement to cure any inconsistency between this

Agreement and the provisions of the Guide and (iii) the Depositor (in its own discretion and in its own interest) and the Trustee (at the Administrator's direction) may amend any Pool Supplement to make the adjustments described in Section 1.02(b) to the characteristics of the Mortgages to be transferred to a PC Pool or to the related PCs.

Section 7.06. Voting Rights.

If Freddie Mac is acting as Administrator or Trustee and an Event of Default has occurred and is continuing, any PCs held by Freddie Mac for its own account shall be disregarded and deemed not to be outstanding for purposes of exercising the remedies set forth in Section 5.02 and the second paragraph of Section 6.06.

Section 7.07. Persons Deemed Owners. With respect to each PC Pool, Freddie Mac, the Trustee, the Administrator and a Federal Reserve Bank (or any agent of any of them) may deem and treat the related Holder(s) as the absolute owner(s) of a PC and the undivided beneficial ownership interests in the Mortgages included in the related PC Pool for the purpose of receiving payments and for all other purposes, and none of Freddie Mac, the Trustee, the Administrator or a Federal Reserve Bank (nor any agent of any of them) shall be affected by any notice to the contrary. All payments made to a Holder, or upon such Holder's order, shall be valid, and, to the extent of the payment, shall satisfy and discharge the related PC Pool's payment obligations with respect to the Holder's PC. None of Freddie Mac, the Trustee, the Administrator or any Federal Reserve Bank shall have any direct obligation to any beneficial owner unless it is also the Holder of a PC.

Section 7.08. Governing Law. THIS AGREEMENT AND THE PARTIES' RIGHTS AND OBLIGATIONS WITH RESPECT TO PCs, SHALL BE GOVERNED BY THE LAWS OF THE UNITED STATES. INSOFAR AS THERE MAY BE NO APPLICABLE PRECEDENT, AND INSOFAR AS TO DO SO WOULD NOT FRUSTRATE THE PURPOSES OF THE FREDDIE MAC ACT OR ANY PROVISION OF THIS AGREEMENT OR THE TRANSACTIONS GOVERNED HEREBY, THE LOCAL LAWS OF THE STATE OF NEW YORK SHALL BE DEEMED REFLECTIVE OF THE LAWS OF THE UNITED STATES.

Section 7.09. Grantor Trust Status. No provision in this Agreement shall be construed to grant Freddie Mac, the Trustee or any other Person authority to act in any manner which would cause a PC Pool not to be treated as a grantor trust for federal income tax purposes.

Section 7.10. Payments Due on Non-Business Days. If the date fixed for any payment on any PC is a day that is not a Business Day, then such payment shall be made on the next succeeding Business Day, with the same force and effect as though made on the date fixed for such payment, and no interest shall accrue for the period after such date.

Section 7.11. Successors. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors, including any successor by operation of law, and permitted assigns.

Section 7.12. Headings. The headings in this Agreement are for convenience only and shall not affect the construction of this Agreement.

Section 7.13. Notice and Demand.

(a) Any notice, demand or other communication required or permitted under this Agreement to be given to or served upon any Holder may be given or served (i) in writing by deposit in the United States mail, postage prepaid, and addressed to such Holder as such Holder's name and address may appear on the books and records of a Federal Reserve Bank or (ii) by transmission to such Holder through the communication system of the Federal Reserve Banks. Any notice, demand or other communication to or upon a Holder shall be deemed to have been sufficiently given or made, for all purposes, upon mailing or transmission.

(b) Any notice, demand or other communication which is required or permitted to be given to or served under this Agreement may be given in writing addressed as follows (i) in the case of Freddie Mac in its corporate capacity, to Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102, Attention: Executive Vice President - General Counsel and Secretary and (ii) in the case of the Trustee, to: Freddie Mac (as Trustee), 8200 Jones Branch Drive, McLean, Virginia 22102, Attention: Executive Vice President - General Counsel and Secretary.

(c) Any notice, demand or other communication to or upon Freddie Mac or the Trustee shall be deemed to have been sufficiently given or made only upon its actual receipt of the writing.

THE SALE OF A PC AND RECEIPT AND ACCEPTANCE OF A PC BY OR ON BEHALF OF A HOLDER, WITHOUT ANY SIGNATURE OR FURTHER MANIFESTATION OF ASSENT, SHALL CONSTITUTE THE UNCONDITIONAL ACCEPTANCE BY THE HOLDER AND ALL OTHERS HAVING A BENEFICIAL INTEREST IN SUCH PC OF ALL THE TERMS AND PROVISIONS OF THIS AGREEMENT (INCLUDING THE RELATED POOL SUPPLEMENT) AND THE AGREEMENT OF FREDDIE MAC, SUCH HOLDER AND SUCH OTHERS THAT THOSE TERMS AND PROVISIONS SHALL BE BINDING, OPERATIVE AND EFFECTIVE.

FEDERAL HOME LOAN MORTGAGE CORPORATION,
in its corporate capacity and as Trustee

/s/ Mark D. Hanson
Authorized Signatory

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

			Year Ended December 31,				
	YTD 2016	YTD 2015	2015	2014	2013	2012	2011
			(dollars in millions)				
Net income (loss) before income tax (expense) benefit and cumulative effect of changes in accounting principles	$ 951	$ 6,866	$ 9,274	$ 11,002	$ 25,363	$ 9,445	$ (5,666)
Add:							
Total interest expense	26,169	25,716	51,916	54,916	55,779	66,502	79,988
Interest factor in rental expenses	1	1	2	5	4	4	4
Earnings, as adjusted	$ 27,121	$ 32,583	$ 61,192	$ 65,923	$ 81,146	$ 75,951	$ 74,326
Fixed charges:							
Total interest expense	$ 26,169	$ 25,716	$ 51,916	$ 54,916	$ 55,779	$ 66,502	$ 79,988
Interest factor in rental expenses	1	1	2	5	4	4	4
Total fixed charges	$ 26,170	$ 25,717	$ 51,918	$ 54,921	$ 55,783	$ 66,506	$ 79,992
Senior preferred stock and preferred stock dividends(1)	2,597	1,597	5,510	19,610	47,591	7,229	6,498
Total fixed charges including preferred stock dividends	$ 28,767	$ 27,314	$ 57,428	$ 74,531	$ 103,374	$ 73,735	$ 86,490
Ratio of earnings to fixed charges(2)	1.04	1.27	1.18	1.20	1.45	1.14	—
Ratio of earnings to combined fixed charges and preferred stock dividends(3)	—	1.19	1.07	—	—	1.03	—

(1) Senior preferred stock and preferred stock dividends represent pre-tax earnings required to cover any senior preferred stock and preferred stock dividend requirements computed using our effective tax rate, whenever there is an income tax provision, for the relevant periods.

(2) Ratio of earnings to fixed charges is computed by dividing earnings, as adjusted by total fixed charges. For the ratio to equal 1.00, earnings, as adjusted must increase by $5.7 billion for the year ended December 31, 2011.

(3) Ratio of earnings to combined fixed charges and preferred stock dividends is computed by dividing earnings, as adjusted by total fixed charges including preferred stock dividends. For the ratio to equal 1.00, earnings, as adjusted must increase by $1.6 billion, $8.6 billion, $22.2 billion, and $12.2 billion for the YTD 2016 and for the years ended December 31, 2014, 2013 and 2011, respectively.

Exhibit 31.1

CERTIFICATION

PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, Donald H. Layton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 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: August 2, 2016

/s/ Donald H. Layton

Donald H. Layton

Chief Executive Officer

Exhibit 31.2

CERTIFICATION

PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, James G. Mackey, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 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: August 2, 2016

/s/ James G. Mackey

James G. Mackey

Executive Vice President — 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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 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 H. Layton, 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: August 2, 2016

/s/ Donald H. Layton

Donald H. Layton
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 Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 of the Federal Home Loan Mortgage Corporation (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James G. Mackey, Executive Vice President – 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: August 2, 2016

/s/ James G. Mackey

James G. Mackey

Executive Vice President — Chief Financial Officer