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 September 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 October 19, 2016, there were 650,046,828 shares of the registrant's common stock outstanding.

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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 Reports on Form 10-Q for the first and second quarters 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 our 2015 Annual Report and our Quarterly Report on Form 10-Q for the second quarter of 2016.

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 nine months ended September 30, 2016 included in "Financial Statements." Throughout this Form 10-Q, we refer to the three months ended September 30, 2016 and the three months ended September 30, 2015 as "3Q 2016" and "3Q 2015," respectively, and we refer to the nine months ended September 30, 2016 and the nine months ended September 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 borrowers.

We support the U.S. housing market and the overall economy by enabling America's families to access mortgage loan funding with better terms and by providing consistent liquidity to the multifamily mortgage market, 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 (loss) was $2.3 billion in 3Q 2016 compared to $(0.5) billion in 3Q 2015. The increase in comprehensive income was primarily driven by two market-related items, including an estimated:

- $1.4 billion increase resulting from changes in interest rates during 3Q 2016 compared to 3Q 2015; and
- $1.2 billion increase resulting from spreads tightening during 3Q 2016 compared to spreads widening during 3Q 2015.

Our total equity was $3.5 billion at September 30, 2016. Because our net worth was positive we are not requesting a draw from Treasury under the Purchase Agreement for 3Q 2016. Following payment of our dividend obligation of $2.3 billion in December 2016, our cumulative senior preferred stock dividend payments will total $101.4 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 September 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 could 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 during the first half of 2016 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.

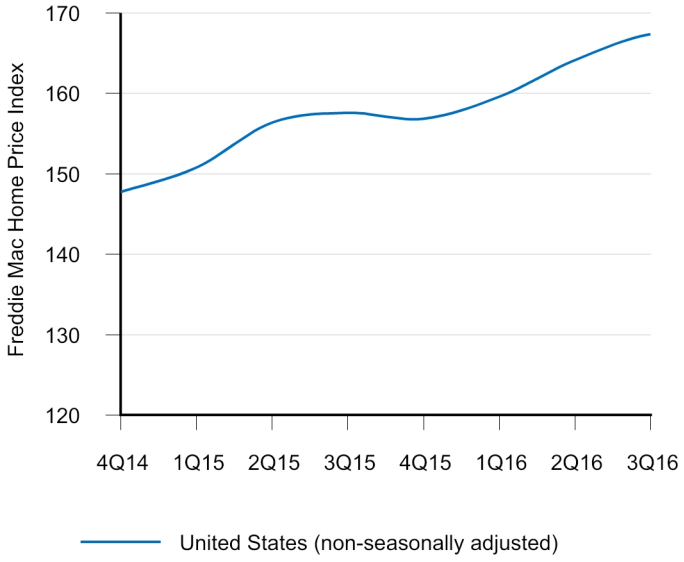
Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury constrain our business activities. The Purchase Agreement also requires our future profits to effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited capital reserve 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



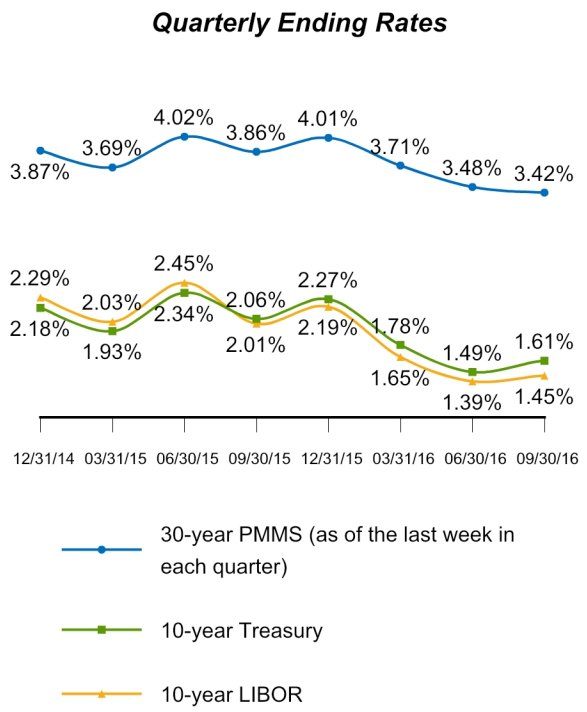
(December 2000 = 100)

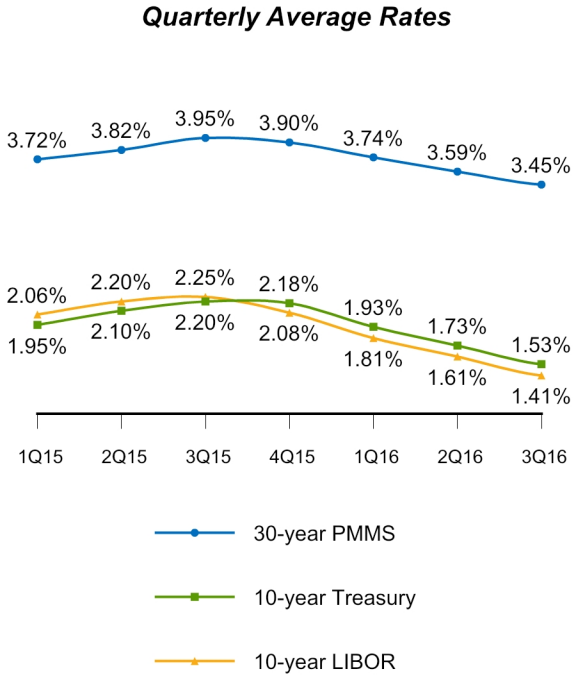
COMMENTARY

- Home prices continued to appreciate during 3Q 2016 and YTD 2016, increasing 0.9% and 6.5%, respectively, compared to an increase of 0.8% and 6.3%, respectively, during 3Q 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 September 30, 2016 surpassed their previous peak level of 167 reached in June 2006, based on our index.

INTEREST RATES

KEY MARKET INTEREST RATES



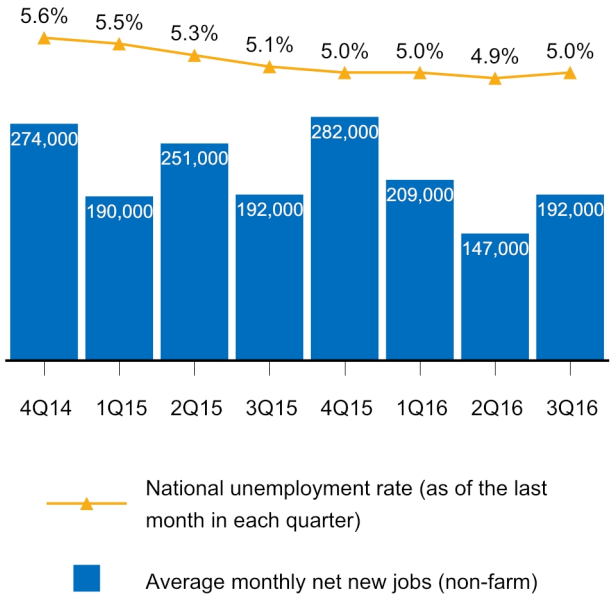


COMMENTARY

- Both ending and average mortgage interest rates, as indicated by the 30-year PMMS rate, decreased during 3Q 2016 and YTD 2016.
- The average 30-year PMMS rate was 3.45% and 3.59% during 3Q 2016 and YTD 2016, respectively, compared to 3.95% and 3.83% during 3Q 2015 and YTD 2015, respectively.
- Quarterly ending longer-term interest rates, as indicated by the 10-year LIBOR and the 10-year Treasury rates, increased during 3Q 2016, but still declined overall during YTD 2016.

UNEMPLOYMENT RATE

UNEMPLOYMENT RATE AND JOB CREATION



Source: U.S. Bureau of Labor Statistics

COMMENTARY

- An average of approximately 192,000 and 178,000 monthly net new jobs were added to the economy during 3Q 2016 and YTD 2016, respectively. The unemployment rate was relatively unchanged in 3Q 2016.

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 3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015.

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Net interest income	$ 3,646	$ 3,743	$ (97)	(3)%	$10,494	$11,359	$ (865)	(8)%
Benefit (provision) for credit losses	(113)	528	(641)	(121)%	1,129	1,884	(755)	(40)%
Net interest income after benefit (provision) for credit losses	3,533	4,271	(738)	(17)%	11,623	13,243	(1,620)	(12)%
Non-interest income (loss):								
Gains (losses) on extinguishment of debt	(92)	4	(96)	(2,400)%	(266)	(155)	(111)	72 %
Derivative gains (losses)	(36)	(4,172)	4,136	(99)%	(6,655)	(3,440)	(3,215)	93 %
Net impairment of available-for-sale securities recognized in earnings	(9)	(54)	45	(83)%	(138)	(245)	107	(44)%
Other gains on investment securities recognized in earnings	309	256	53	21 %	1,062	825	237	29 %
Other income (loss)	605	125	480	384 %	1,527	(432)	1,959	(453)%
Total non-interest income (loss)	777	(3,841)	4,618	(120)%	(4,470)	(3,447)	(1,023)	30 %
Non-interest expense:								
Administrative expense	(498)	(465)	(33)	7 %	(1,421)	(1,417)	(4)	— %
REO operations expense	(56)	(116)	60	(52)%	(169)	(243)	74	(30)%
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(293)	(248)	(45)	18 %	(845)	(705)	(140)	20 %
Other expense	(138)	(270)	132	(49)%	(442)	(1,234)	792	(64)%
Total non-interest expense	(985)	(1,099)	114	(10)%	(2,877)	(3,599)	722	(20)%
Income (loss) before income tax (expense) benefit	**3,325**	**(669)**	**3,994**	(597)%	**4,276**	**6,197**	**(1,921)**	(31)%
Income tax (expense) benefit	(996)	194	(1,190)	(613)%	(1,308)	(1,979)	671	(34)%
Net income (loss)	**2,329**	**(475)**	**2,804**	(590)%	**2,968**	**4,218**	**(1,250)**	(30)%
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(19)	(26)	7	(27)%	275	(60)	335	(558)%
Comprehensive income (loss)	**$ 2,310**	**$ (501)**	**$ 2,811**	(561)%	**$ 3,243**	**$ 4,158**	**$ (915)**	(22)%

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 3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015 include:

- **Gains (losses) on extinguishment of debt**
  - ***3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015*** - Losses on extinguishment of debt increased primarily due to an increase in the amount of losses recognized from the extinguishment of certain fixed-rate debt securities of consolidated trusts. While our repurchase activity remained relatively flat during each comparative period, we recognized increased losses

during the 2016 periods primarily due to larger declines in market interest rates between the time of issuance and repurchase of certain debt securities of consolidated trusts.

- **Other gains on investment securities recognized in earnings**
  - ***YTD 2016 vs. YTD 2015*** - increased primarily due to the recognition of greater gains on our agency mortgage-related securities classified as trading, as longer-term interest rates declined by a larger amount during YTD 2016 compared to YTD 2015, partially offset by a decrease in realized gains, as we sold fewer non-agency mortgage-related securities classified as available-for-sale during YTD 2016. Our sales of non-agency mortgage-related securities will continue to vary as our portfolio that is saleable, based on a variety of criteria, has decreased.
- **Other income (loss)**
  - ***3Q 2016 vs. 3Q 2015 -*** other income (loss) improved reflecting:
    - Gains on multifamily loans and commitments for which we elected the fair value option due to higher spread-related fair value gains during 3Q 2016. Spread-related fair value gains increased due to tightening of the K Certificate benchmark spreads during 3Q 2016 compared to 3Q 2015 when the spreads widened; and
    - 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 3Q 2016; partially offset by
    - Losses on STACR debt notes carried at fair value driven by tightening spreads between STACR yields and LIBOR during 3Q 2016 compared to gains as a result of widening spreads during 3Q 2015.
  - ***YTD 2016 vs. YTD 2015 -*** other income (loss) improved 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
    - Gains on multifamily mortgage loans and commitments for which we elected the fair value option due to both increased interest rate-related and spread-related fair value gains. Interest rate-related fair value gains increased due to larger declines in longer-term interest rates during YTD 2016 compared to YTD 2015. Spread-related fair value gains increased due to K Certificate benchmark spreads tightening during YTD 2016 compared to the spreads widening during YTD 2015.
- **Other expense**
  - ***3Q 2016 vs. 3Q 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. This was partially offset by higher credit risk transfer ("CRT") expense which resulted from an increase in the outstanding cumulative volume of ACIS transactions.

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

LOAN RECLASSIFICATIONS

During 3Q 2016 and 3Q 2015, we reclassified $0.3 billion and $2.5 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 $3.8 billion and $10.6 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.

(in millions)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Benefit for credit losses	$ 59	$ 485	$ 632	$ 1,977
Other income (loss) - lower-of-cost-or-fair-value adjustment	(65)	(403)	(799)	(1,616)
Other expense - property taxes and insurance associated with these loans	(10)	(241)	(150)	(1,037)
Effect on income before income tax (expense) benefit	$ (16)	$ (159)	$ (317)	$ (676)

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). 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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Components of derivative gains (losses)				
Derivative gains (losses)	$ —	$ (4.1)	$ (6.6)	$ (3.4)
Less: Accrual of periodic cash settlements	(0.4)	(0.5)	(1.3)	(1.6)
Derivative fair value changes	$ 0.4	$ (3.6)	$ (5.3)	$ (1.8)
Estimated Net Interest Rate Effect				
Interest rate effect on derivative fair values	$ 0.5	$ (3.6)	$ (5.2)	$ (1.7)
Estimate of offsetting interest rate effect related to financial instruments measured at fair value	(0.5)	1.5	2.4	1.0
Income tax benefit (expense)	—	0.7	1.0	0.2
Estimated Net Interest Rate Effect on Comprehensive income	$ —	$ (1.4)	$ (1.8)	$ (0.5)

As this table demonstrates, the estimated net effect of derivatives on our comprehensive income is volatile, and can be significant. However, the estimated net interest rate effect during 3Q 2016 was minimal as the impact of a modest increase in longer-term interest rates was offset by the impact of yield curve flattening. 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 (loss) was affected by changes in spreads in amounts estimated to be $0.7 billion and $(0.5) billion (after-tax) during 3Q 2016 and 3Q 2015, respectively, and $0.2 billion (after-tax) during both YTD 2016 and YTD 2015. During 3Q 2016 and YTD 2016, spreads tightening on our agency and non-agency mortgage-related securities and our multifamily mortgage loans and commitments measured at fair value resulted in an increase in comprehensive income. During 3Q 2015, the negative effect on comprehensive income was primarily due to spreads widening on these investments. During YTD 2015, spreads tightening on our agency and non-agency mortgage-related securities was partially offset by spreads widening on our multifamily mortgage loans measured at fair value, resulting in an increase in comprehensive income.

NET INTEREST INCOME

NET INTEREST YIELD ANALYSIS

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

	3Q 2016			3Q 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	$ 21,664	$ 15	0.28%	$ 11,849	$ 1	0.04%
Securities purchased under agreements to resell	62,735	59	0.38	53,046	18	0.13
Mortgage-related securities:						
Mortgage-related securities	185,235	1,779	3.84	217,830	2,092	3.84
Extinguishment of PCs held by Freddie Mac	(88,066)	(829)	(3.76)	(105,709)	(951)	(3.60)
Total mortgage-related securities, net	97,169	950	3.91	112,121	1,141	4.07
Non-mortgage-related securities	15,671	26	0.67	8,738	4	0.17
Loans held by consolidated trusts[1]	1,654,288	13,602	3.29	1,601,069	14,032	3.51
Loans held by Freddie Mac[1]	131,945	1,395	4.23	156,248	1,563	4.00
Total interest-earning assets	$1,983,472	$ 16,047	3.24	$1,943,071	$ 16,759	3.45
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,680,388	$ (11,716)	(2.79)	$1,621,197	$ (12,315)	(3.04)
Extinguishment of PCs held by Freddie Mac	(88,066)	829	3.76	(105,709)	951	3.60
Total debt securities of consolidated trusts held by third parties	1,592,322	(10,887)	(2.73)	1,515,488	(11,364)	(3.00)
Other debt:						
Short-term debt	81,057	(83)	(0.40)	99,050	(40)	(0.16)
Long-term debt	302,062	(1,384)	(1.82)	310,204	(1,559)	(2.01)
Total other debt	383,119	(1,467)	(1.53)	409,254	(1,599)	(1.56)
Total interest-bearing liabilities	1,975,441	(12,354)	(2.50)	1,924,742	(12,963)	(2.70)
Expense related to derivatives	—	(47)	(0.01)	—	(53)	(0.01)
Impact of net non-interest-bearing funding	8,031	—	0.01	18,329	—	0.03
Total funding of interest-earning assets	$1,983,472	$ (12,401)	(2.50)	$1,943,071	$ (13,016)	(2.68)
Net interest income/yield		$ 3,646	0.74		$ 3,743	0.77

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were $737 million and $500 million for loans held by consolidated trusts and were $53 million and $80 million for loans held by Freddie Mac during 3Q 2016 and 3Q 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	$ 16,112	$ 31	0.26%	$ 12,458	$ 6	0.06%
Securities purchased under agreements to resell	57,767	156	0.36	50,278	39	0.11
Mortgage-related securities:						
Mortgage-related securities	193,492	5,546	3.82	231,969	6,728	3.87
Extinguishment of PCs held by Freddie Mac	(96,388)	(2,679)	(3.71)	(109,167)	(3,002)	(3.67)
Total mortgage-related securities, net	97,104	2,867	3.94	122,802	3,726	4.05
Non-mortgage-related securities	14,219	56	0.53	9,965	10	0.12
Loans held by consolidated trusts[1]	1,640,997	41,735	3.39	1,579,720	41,641	3.51
Loans held by Freddie Mac[1]	138,648	4,318	4.15	161,628	4,792	3.95
Total interest-earning assets	$1,964,847	$ 49,163	3.33	$1,936,851	$ 50,214	3.46
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,665,226	$ (36,606)	(2.93)	$1,600,556	$ (36,858)	(3.07)
Extinguishment of PCs held by Freddie Mac	(96,388)	2,679	3.71	(109,167)	3,002	3.67
Total debt securities of consolidated trusts held by third parties	1,568,838	(33,927)	(2.88)	1,491,389	(33,856)	(3.03)
Other debt:						
Short-term debt	85,995	(258)	(0.39)	107,941	(114)	(0.14)
Long-term debt	301,791	(4,338)	(1.91)	320,506	(4,709)	(1.96)
Total other debt	387,786	(4,596)	(1.58)	428,447	(4,823)	(1.50)
Total interest-bearing liabilities	1,956,624	(38,523)	(2.62)	1,919,836	(38,679)	(2.69)
Expense related to derivatives	—	(146)	(0.01)	—	(176)	(0.01)
Impact of net non-interest-bearing funding	8,223	—	0.01	17,015	—	0.02
Total funding of interest-earning assets	$1,964,847	$ (38,669)	(2.62)	$1,936,851	$ (38,855)	(2.68)
Net interest income/yield		$ 10,494	0.71		$ 11,359	0.78

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income were $1.9 billion and $1.6 billion for loans held by consolidated trusts and were $184 million and $289 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.

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Contractual net interest income:								
Guarantee fee income	$ 822	$ 663	$ 159	24 %	$ 2,212	$ 1,899	$ 313	16 %
Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	292	246	46	19 %	838	693	145	21 %
Other contractual net interest income	1,635	1,944	(309)	(16)%	5,219	6,336	(1,117)	(18)%
Total contractual net interest income	2,749	2,853	(104)	(4)%	8,269	8,928	(659)	(7)%
Net amortization - loans and debt securities of consolidated trusts	884	808	76	9 %	2,191	2,190	1	— %
Net amortization - other assets and debt	60	135	(75)	(56)%	180	417	(237)	(57)%
Expense related to derivatives	(47)	(53)	6	(11)%	(146)	(176)	30	(17)%
Net interest income	**$ 3,646**	**$ 3,743**	**$ (97)**	**(3)%**	**$ 10,494**	**$ 11,359**	**$ (865)**	**(8)%**

Key Drivers:

- **Guarantee fee income (contractual)**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015** - increased during the 2016 periods due to higher average contractual guarantee fee rates, reflecting the continued growth in the size of the Core single-family book, and a larger overall single-family credit guarantee portfolio. 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.
- **Other contractual net interest income**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015** - decreased during the 2016 periods primarily due to the continued reduction in the balance of our mortgage-related investments portfolio pursuant to the portfolio limits established by the Purchase Agreement and FHFA. See "Conservatorship and Related Matters - Reducing Our Mortgage-Related Investments Portfolio Over Time" for a discussion of the key drivers of the decline in our mortgage-related investments portfolio.
- **Net amortization of other assets and debt**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015** - decreased during the 2016 periods primarily due to less accretion of previously recognized other-than-temporary impairment. The decrease in accretion during the 2016 periods 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 impairment 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.

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in billions)			$	%			$	%
Provision for newly impaired loans	$ (0.2)	$ (0.2)	$ —	— %	$ (0.6)	$ (0.8)	$ 0.2	(25)%
Amortization of interest rate concessions	0.2	0.3	(0.1)	(33)%	0.7	0.9	(0.2)	(22)%
Reclassifications of held-for-investment loans to held-for-sale loans	—	0.5	(0.5)	(100)%	0.6	2.0	(1.4)	(70)%
Other, including changes in estimated default probability and loss severity	(0.1)	(0.1)	—	— %	0.4	(0.2)	0.6	(300)%
Benefit (provision) for credit losses	$ (0.1)	$ 0.5	$ (0.6)	(120)%	$ 1.1	$ 1.9	$ (0.8)	(42)%

Key Drivers:

- **3Q 2016 vs. 3Q 2015** - Benefit (provision) for credit losses changed to a provision in 3Q 2016 compared to a benefit in 3Q 2015 primarily because:
  - Fewer seriously delinquent single-family loans were reclassified from held-for-investment to held-for-sale in 3Q 2016. During 3Q 2016, $0.3 billion in UPB of seriously delinquent single-family loans were reclassified to held-for-sale, compared to $2.5 billion during 3Q 2015. See "Loan Reclassifications" for the effect of these loan reclassifications on benefit (provision) for credit losses and pre-tax net income.
  - Management qualitatively increased the modeled estimate of incurred losses for mortgage loans during 3Q 2016 due to several factors. Sales prices of foreclosed properties have not improved over the last few years as much as national home price appreciation. Additionally, we have observed rising delinquency rates and increases in loan loss reserves at several large financial institutions for certain consumer financing receivables, such as credit card receivables and auto loans, which can be indicators for increases in mortgage loan defaults.
- **YTD 2016 vs. YTD 2015** - Benefit for credit losses declined in YTD 2016 compared to YTD 2015 primarily because fewer seriously delinquent single-family loans were reclassified from held-for-investment to held-for-sale in YTD 2016. During YTD 2016, $3.8 billion in UPB of seriously delinquent single-family loans were reclassified to held-for-sale, compared to $10.6 billion during YTD 2015. The smaller benefit for credit losses from the reclassifications of loans was partially offset by improvements in estimated loss severity and probability of default during YTD 2016 compared to YTD 2015.

DERIVATIVE GAINS (LOSSES)

Our sensitivity to interest rates on an economic basis remains low based on our models. Furthermore, our exposure to earnings volatility resulting from our use of derivatives has recently decreased as we have rebalanced our derivative portfolio in response to the declining interest-rate environment. We also entered into certain structured transactions during the first half of 2016, which resulted in more financial assets being recognized and measured at fair value. We continue to align our derivative portfolio 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).

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Fair value change in interest-rate swaps	$ 541	$ (4,693)	$ 5,234	(112)%	$ (7,513)	$ (2,514)	$ (4,999)	199 %
Fair value change in option-based derivatives	(235)	1,171	(1,406)	(120)%	2,841	722	2,119	293 %
Accrual of periodic cash settlements	(416)	(536)	120	(22)%	(1,326)	(1,639)	313	(19)%
Fair value change in other derivatives	74	(114)	188	(165)%	(657)	(9)	(648)	7,200 %
Derivative gains (losses)	**$ (36)**	**$ (4,172)**	**$ 4,136**	**(99)%**	**$ (6,655)**	**$ (3,440)**	**$ (3,215)**	**93 %**

Key Drivers:

- **3Q 2016 vs. 3Q 2015** - Derivative fair value losses declined during 3Q 2016 compared to 3Q 2015 primarily due to an increase in longer-term interest rates during 3Q 2016, compared to a decrease in longer-term interest rates during 3Q 2015. The improvement in fair value was partially offset by losses in our receive-fixed swaps and option-based derivatives. The 10-year par swap rate increased 6 basis points during 3Q 2016, while the 10-year par swap rate declined 44 basis points during 3Q 2015.
- **YTD 2016 vs. YTD 2015** - We recognized derivative fair value losses during YTD 2016 and YTD 2015 primarily due to declines in interest rates in both periods. The decline in fair value was partially offset by gains in our receive-fixed swaps and option-based derivatives. The 10-year par swap rate declined 74 basis points and 28 basis points during YTD 2016 and YTD 2015, respectively.
- 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.

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(in millions)			$	%			$	%
Other comprehensive income, excluding accretion and reclassifications	$ 336	$ 217	$ 119	55 %	$ 948	$ 754	$ 194	26 %
Accretion due to significant increases in expected cash flows on previously impaired available-for-sale securities	(66)	(108)	42	(39)%	(235)	(354)	119	(34)%
Reclassifications from AOCI	(289)	(135)	(154)	114 %	(438)	(460)	22	(5)%
Total other comprehensive income (loss)	**$ (19)**	**$ (26)**	**$ 7**	**(27)%**	**$ 275**	**$ (60)**	**$ 335**	**(558)%**

Key Drivers:

- **Other comprehensive income, excluding accretion and reclassifications**
  - **3Q 2016 vs. 3Q 2015** - increased primarily due to unrealized gains from spreads tightening for our agency and non-agency mortgage-related securities during 3Q 2016 compared to unrealized losses from spreads widening for these securities during 3Q 2015. The increase attributable to spread changes was partially offset by unrealized losses due to an increase in longer-term interest rates during 3Q 2016 compared to unrealized gains due to a decrease in longer-term interest rates during 3Q 2015.
  - **YTD 2016 vs. YTD 2015** - increased primarily due to a larger decline in longer-term interest rates during YTD 2016 compared to YTD 2015, which resulted in greater unrealized gains on our available-for-sale mortgage-related securities. The increase attributable to interest rate changes was partially offset by less spread tightening for our agency and non-agency mortgage-related securities during YTD 2016 compared to YTD 2015.
- **Accretion due to significant increases in expected cash flows on previously impaired available-for-sale securities**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015** - decreased during the 2016 periods primarily due to a decline in the population of impaired securities as a result of our active dispositions of these securities, coupled with less new other-than-temporary impairment due to stabilized collateral performance.
- **Reclassifications from AOCI**
  - **3Q 2016 vs. 3Q 2015** - increased due to greater sales of agency and non-agency mortgage-related securities in an unrealized gain position.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

	September 30, 2016	December 31, 2015	Change	
(dollars in millions)			$	%
Assets:				
Cash and cash equivalents	$ 3,940	$ 5,595	$ (1,655)	(30)%
Restricted cash and cash equivalents	19,131	14,533	4,598	32 %
Securities purchased under agreements to resell	55,673	63,644	(7,971)	(13)%
Subtotal	78,744	83,772	(5,028)	(6)%
Investments in securities	115,393	114,215	1,178	1 %
Mortgage loans, net	1,782,436	1,754,193	28,243	2 %
Accrued interest receivable	6,103	6,074	29	— %
Derivative assets, net	1,499	395	1,104	279 %
Real estate owned, net	1,272	1,725	(453)	(26)%
Deferred tax assets, net	18,730	18,205	525	3 %
Other assets	11,085	7,313	3,772	52 %
Total assets	$ 2,015,262	$ 1,985,892	$ 29,370	1 %
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	$ 5,890	$ 6,183	$ (293)	(5)%
Debt, net	1,999,841	1,970,269	29,572	2 %
Derivative liabilities, net	1,178	1,254	(76)	(6)%
Other liabilities	4,843	5,246	(403)	(8)%
Total liabilities	2,011,752	1,982,952	28,800	1 %
Total equity	3,510	2,940	570	19 %
Total liabilities and equity	$ 2,015,262	$ 1,985,892	$ 29,370	1 %

Key Drivers:

As of September 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 as of September 30, 2016 decreased due to higher near term cash needs at December 31, 2015 for upcoming maturities and anticipated calls of other debt. However, the amounts held by consolidated trusts increased primarily due to an increase in prepayment proceeds. Our use of these proceeds is restricted by the provisions of the Master Trust Agreement as the proceeds are trust assets that will be distributed to the holders of our debt securities of consolidated trusts shortly following receipt.
- **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 on our consolidated balance sheets, 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. In addition, REO acquisitions continue to decline due to fewer seriously delinquent loans (see "Our

Business Segments - Single-Family Loan Performance"), due in part to sales of certain seriously delinquent loans, and a large proportion of property sales to third parties at foreclosure.

- **Other assets** increased primarily because of receivables from servicers. Lower mortgage interest rates during YTD 2016 caused an increase in prepayments, and thus, an increase in receivables from servicers. When a borrower prepays, there is a brief delay before the servicer remits the payoff proceeds to us.
- **Total equity** increased as a result of higher comprehensive income in 3Q 2016 than in the fourth quarter of 2015.

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.

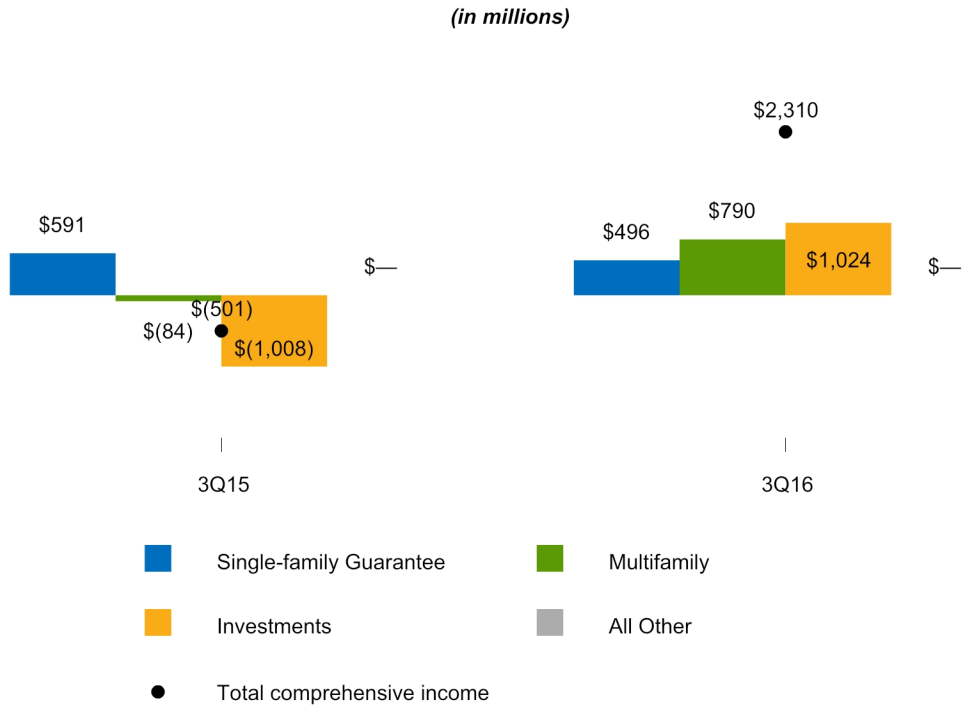
- **Single-family Guarantee** - reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk.
- **Multifamily** - reflects results from our purchase, securitization, and guarantee of multifamily loans and securities, 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.

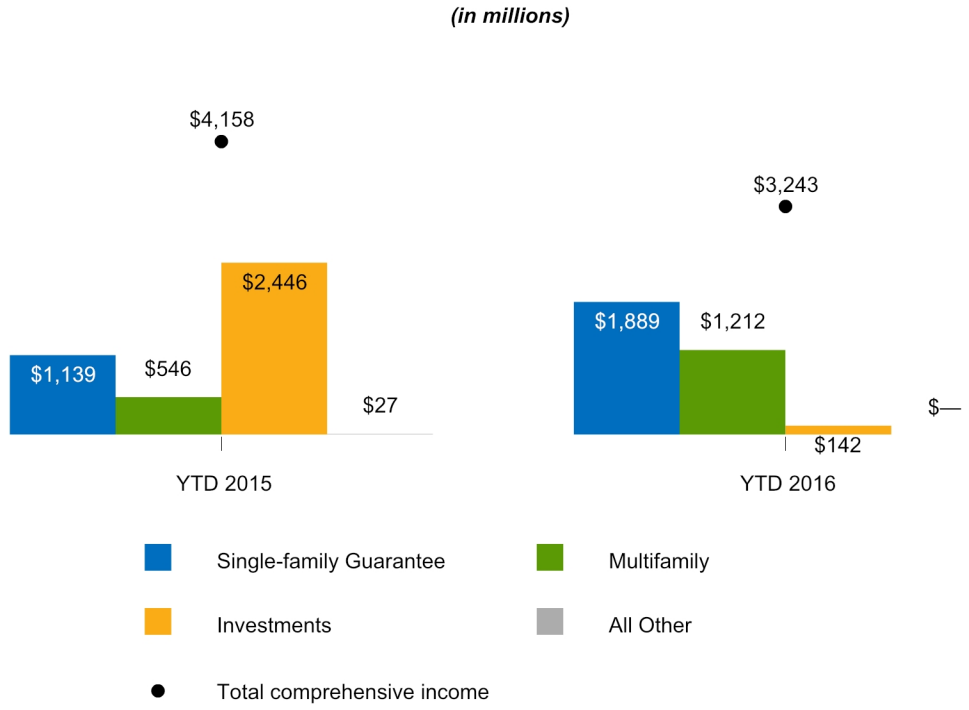
SEGMENT EARNINGS

During the first and third quarters of 2016, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee, Multifamily, 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.



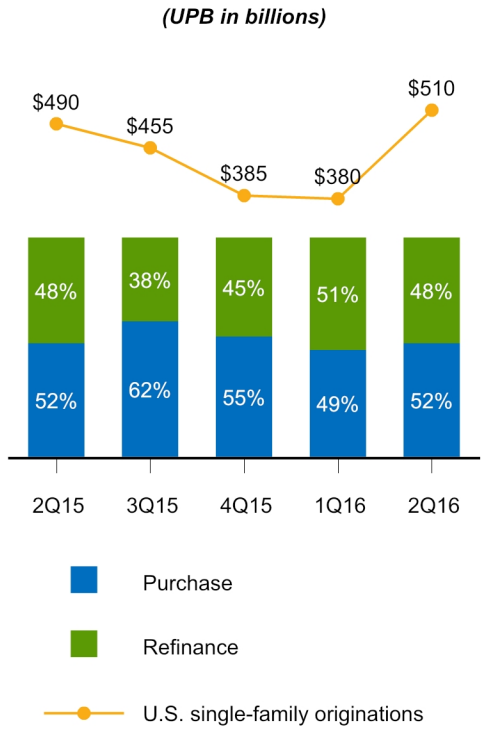


SINGLE-FAMILY GUARANTEE

MARKET CONDITIONS

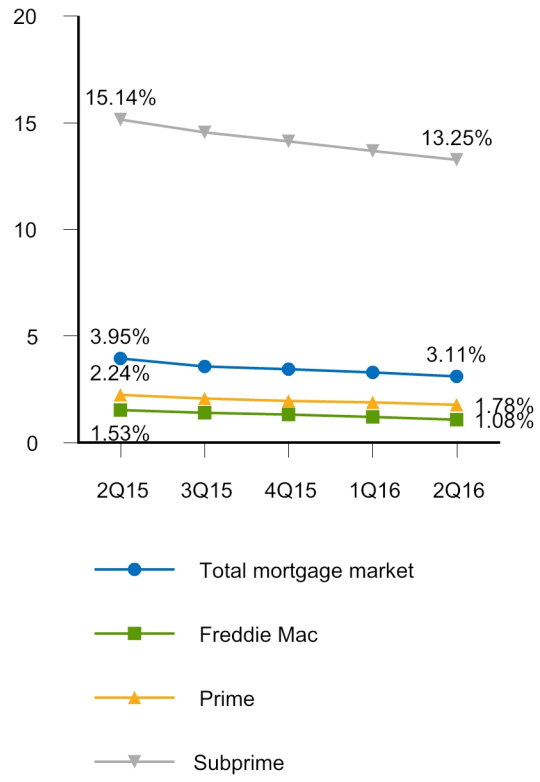
The following graphs and related discussion present certain market indicators that can significantly affect the business and financial results of our Single-family Guarantee segment.

U.S. Single-Family Originations



Source: Inside Mortgage Finance dated August 19, 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 August 11, 2016 (latest available NDS information).

Commentary

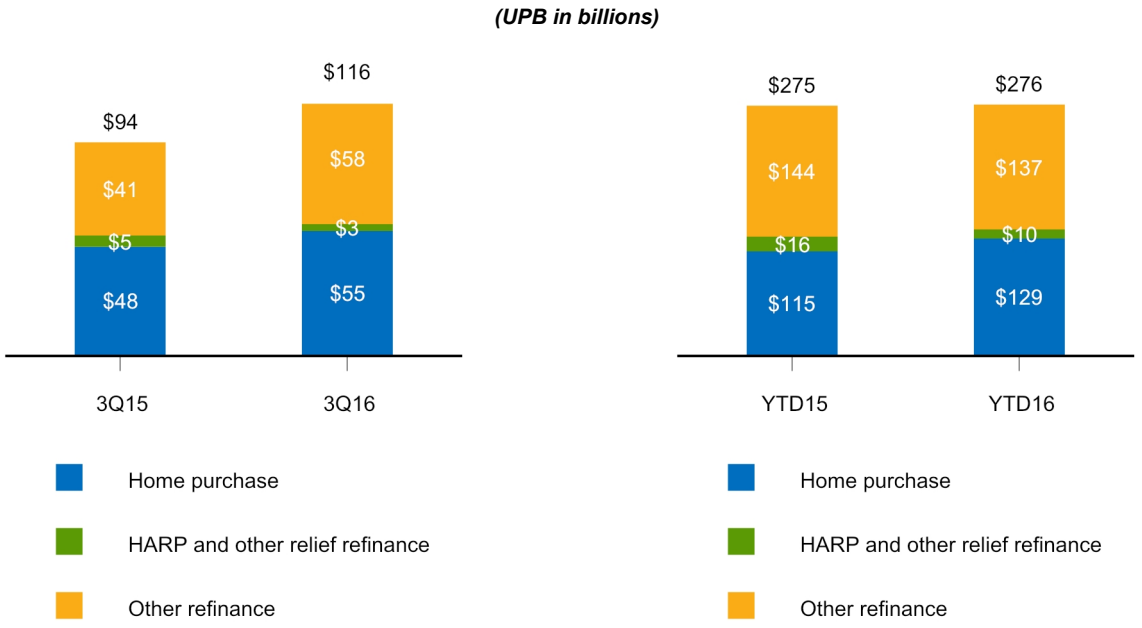
- Single-family loan origination volumes:
  - **3Q 2016 vs. 3Q 2015 -** increased to $580 billion in 3Q 2016 compared to $455 billion in 3Q 2015, driven by an increase in refinancing activity due to continued low mortgage interest rates and continued home price appreciation. Mortgage origination data from Inside Mortgage Finance as of October 28, 2016.
  - **YTD 2016 vs. YTD 2015 -** increased to $1,470 billion in YTD 2016 compared to $1,350 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

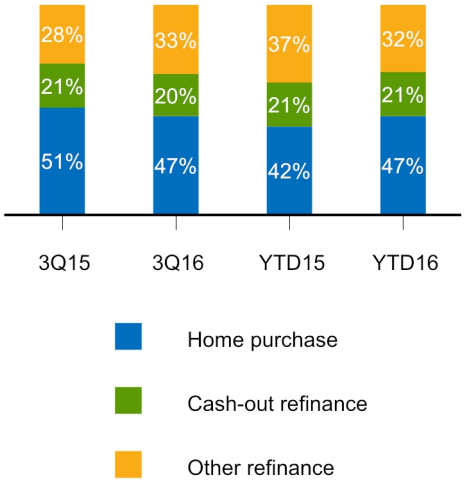
The following tables, graphs and related discussion present the business results of our Single-family Guarantee segment.

New Business Activity

Single-Family Loan Purchases and Guarantees



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

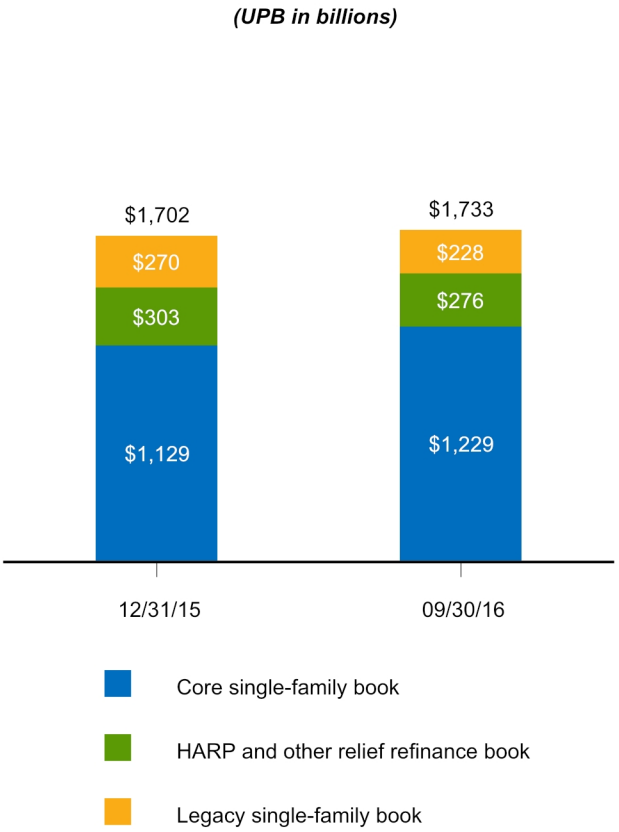


Commentary

- Our loan purchase and guarantee activity:
  - **3Q 2016 vs. 3Q 2015 -** increased due to higher refinance loan purchase volume as quarterly average mortgage interest rates were lower in 3Q 2016 as compared to 3Q 2015.
- On August 25, 2016, FHFA announced that Freddie Mac and Fannie Mae would be implementing a new refinance offering aimed at borrowers with high LTV ratios. The new offering will not be available until October 2017. In the interim, Freddie Mac and Fannie Mae have been directed to extend HARP through September 30, 2017.

Single-Family Credit Guarantee Portfolio

Single-Family Credit Guarantee Portfolio



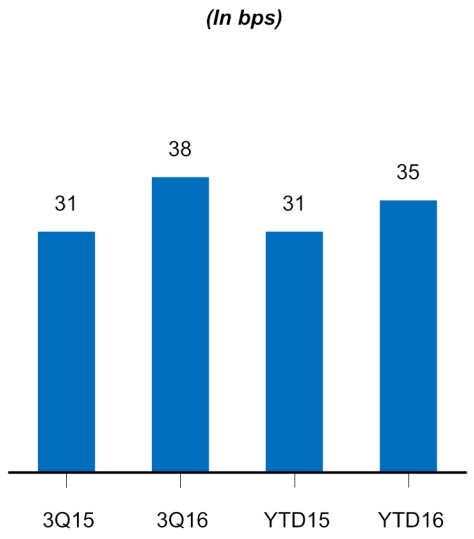
Commentary

- The Core single-family book grew to 71% of the single-family credit guarantee portfolio at September 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 16% of the single-family credit guarantee portfolio at September 30, 2016 compared to 18% at December 31, 2015.
- The Legacy single-family book declined to 13% of the single-family credit guarantee portfolio at September 30, 2016 compared to 16% at December 31, 2015, primarily as a result of liquidations.
- We had 10.7 million loans in our single-family credit guarantee portfolio at both September 30, 2016 and December 31, 2015.

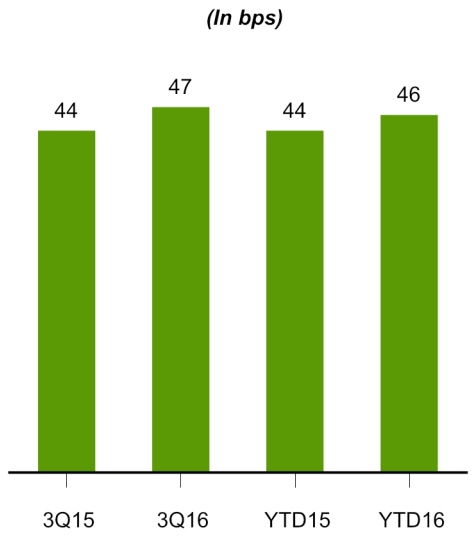
Guarantee Fees

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]



Average Guarantee Fee Rate Charged on New Acquisitions[1]



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

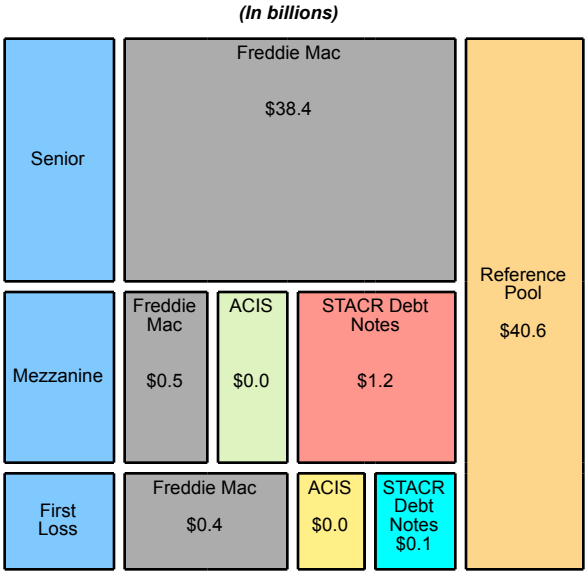
Commentary

- Average portfolio Segment Earnings guarantee fee rates:
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015 -** increased primarily due to higher amortization of upfront fees resulting from increased loan liquidations. 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.
- Average guarantee fee rate charged on new acquisitions:
  - **3Q 2016 vs. 3Q 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.

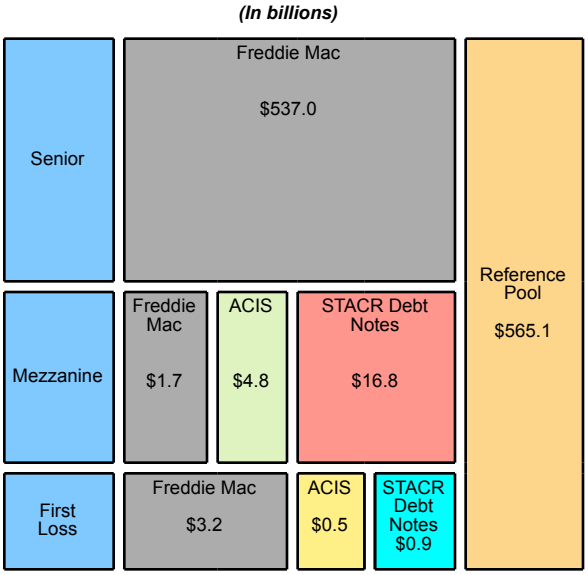
Credit Risk Transfer Activity

Since 2013, STACR debt note and ACIS transactions have been our principal methods of transferring 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 to third parties. The following charts present transactions that occurred during 3Q 2016 and the cumulative amount of such transactions as of September 30, 2016 by loss position and the party holding each loss position.

New STACR Debt Note and ACIS Transactions during 3Q 2016[1]



Cumulative STACR Debt Note and ACIS Transactions as of September 30, 2016[1]



(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 and a significant portion of stress credit losses to third-party investors, insurers, and selected sellers through CRT transactions. During YTD 2016, we transferred a portion of the expected credit losses and a significant portion of stress credit losses associated with $181.8 billion in UPB of loans in our Core single-family book through STACR debt note, ACIS, seller indemnification, whole loan security and Deep Mortgage Insurance CRT, or Deep MI, transactions. Deep MI transactions are described below.
- 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 33%, on average, for all transactions executed through September 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. We expect that the aggregate cost of our credit risk transfer activity will continue to increase as we enter into additional 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 September 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 3Q 2016, we announced a pilot of a new credit risk transfer offering called Deep MI, which is a credit enhancement purchased by us that takes effect immediately upon the sale of the mortgage loan to Freddie Mac. The pilot transaction provides additional coverage beyond primary mortgage insurance on 30-year fixed-rate mortgages with LTV ratios between 80% and 95%. The pilot has a 6-month loan aggregation period which ends in the first quarter of 2017.

Credit Enhancements

The table below provides information on the credit enhanced loans in our single-family credit guarantee portfolio by book as of September 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 September 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	$ 1,228,915	$ 567,381	$ 82,484	$ 17,049	25%
HARP and other relief refinance book	275,857	29,967	8,208	—	—%
Legacy single-family book	228,029	30,042	9,309	—	—%
Total	$ 1,732,801	$ 627,390	$ 100,001	$ 17,049	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 primarily related to ACIS transactions.
(4) Credit risk transfer transactions include STACR debt notes, ACIS insurance policies, seller indemnification agreements, whole loan securities, and Deep MI. 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 September 30, 2016 compared to 39% as of December 31, 2015. Credit protection increased primarily as a result of our ongoing credit risk transfer transactions.
- At September 30, 2016, as noted above, credit risk transfer transactions provided 25% of the coverage remaining on our Core single-family book, an increase from 23% at December 31, 2015. The increase reflects additional CRT transactions during 2016.

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.

	September 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%	1.96%	—%	3.74%	—%	14.77%	0.2%	2.28%	3.1%
620 to 659	1.5	0.92%	0.2	1.20%	—	5.88%	1.7	0.97%	1.3%
≥ 660	59.3	0.14%	9.6	0.22%	0.1	1.58%	69.0	0.15%	0.2%
Not available	—	1.62%	0.1	3.28%	—	6.89%	0.1	2.83%	3.8%
Total	61.0%	0.17%	9.9%	0.27%	0.1%	2.94%	71.0%	0.19%	0.2%
Relief refinance book:									
< 620	0.6%	1.61%	0.2%	2.91%	0.1%	4.53%	0.9%	2.18%	4.1%
620 to 659	0.8	1.03%	0.3	2.05%	0.1	3.36%	1.2	1.49%	2.4%
≥ 660	10.2	0.30%	2.5	1.02%	1.1	1.79%	13.8	0.51%	0.7%
Not available	—	0.54%	—	—%	—	—%	—	0.38%	1.2%
Total	11.6%	0.41%	3.0%	1.26%	1.3%	2.18%	15.9%	0.67%	1.0%
Legacy single-family book:									
< 620	0.7%	5.86%	0.2%	11.84%	0.2%	19.03%	1.1%	7.74%	33.0%
620 to 659	1.3	4.25%	0.4	9.33%	0.3	15.56%	2.0	5.75%	27.2%
≥ 660	7.4	1.85%	1.6	6.34%	0.8	11.10%	9.8	2.61%	13.0%
Not available	0.2	4.79%	—	16.14%	—	18.37%	0.2	5.43%	15.2%
Total	9.6%	2.53%	2.2%	7.60%	1.3%	13.24%	13.1%	3.53%	16.6%

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 $1.3 billion and $1.5 billion of security collateral underlying our other securitization products at September 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 September 30, 2016, we have purchased approximately $34.0 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including $0.4 billion in 3Q 2016.

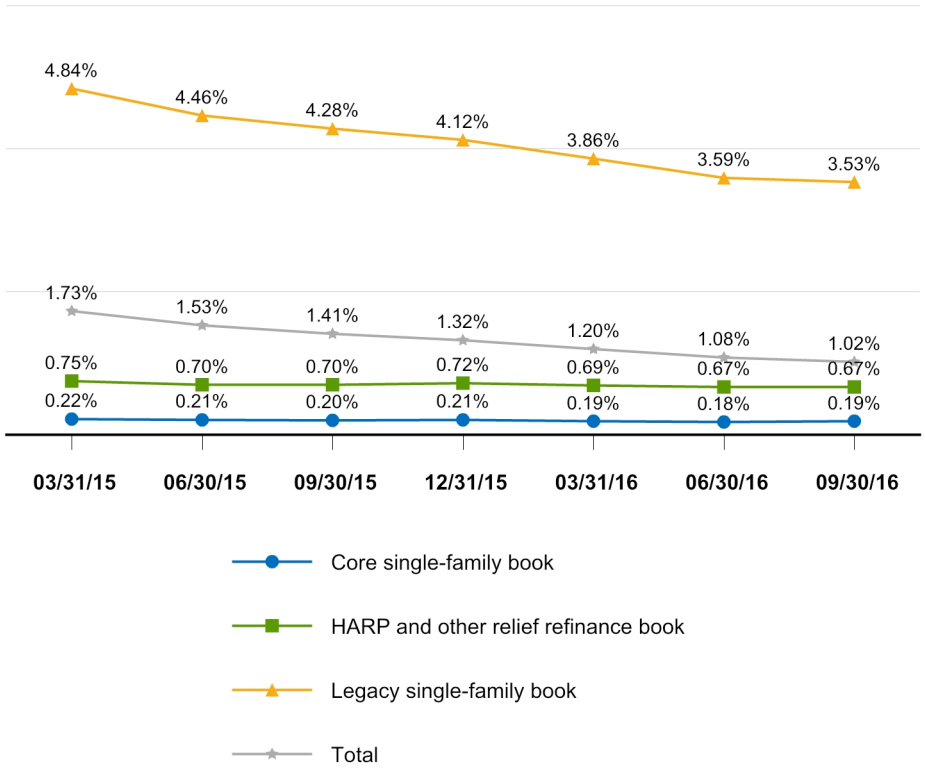
The table below contains information on Alt-A loans in our single-family credit guarantee portfolio.

	September 30, 2016				December 31, 2015			
(dollars in billions)	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate
Alt-A	$ 34.7	73%	25.3%	5.28%	$ 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 growing Core single-family book, continued home price appreciation, a stable labor market, 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 $2.4 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 3.96% as of September 30, 2016, respectively.

- Delinquency rates declined to 1.30% and 0.39% for loans one month and two months past due, respectively, as of September 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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Charge-offs, gross	$ 461	$ 680	$ 1,516	$ 4,483
Recoveries	(115)	(177)	(395)	(547)
Charge-offs, net	346	503	1,121	3,936
REO operations expense	56	116	169	243
Total credit losses	$ 402	$ 619	$ 1,290	$ 4,179
Total credit losses (in bps)	9.2	14.5	9.9	32.9
Ratio of total loan loss reserves (excluding reserves for TDR concessions) to annualized net charge-offs for single-family loans	3.5	2.9		
Ratio of total loan loss reserves to annualized net charge-offs for single-family loans	9.7	8.2		

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.

	September 30, 2016		September 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	32,581	4,482	44,439	6,176
Repayments and reclassifications to held-for-sale	(45,334)	(8,863)	(52,947)	(10,695)
Foreclosure transfers and foreclosure alternatives	(8,856)	(1,261)	(14,625)	(2,304)
TDRs, at September 30,	490,644	80,318	516,457	87,578
Loans impaired upon purchase	8,266	583	10,327	747
Total impaired loans with specific reserve	498,910	80,901	526,784	88,325
Allowance for loan losses		(11,910)		(14,847)
Net investment, at September 30,		$ 68,991		$ 73,478

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

(in millions)	September 30, 2016	December 31, 2015
TDRs on accrual status	$ 78,891	$ 82,026
Non-accrual loans	16,719	22,460
Total TDRs and non-accrual loans	$ 95,610	$ 104,486
Loan loss reserves associated with:		
TDRs on accrual status	$ 10,245	$ 12,105
Non-accrual loans	2,303	2,677
Total	$ 12,548	$ 14,782

(in millions)	YTD 2016	YTD 2015
Foregone interest income on TDRs and non-accrual loans[1]	$ 1,720	$ 2,172

(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.

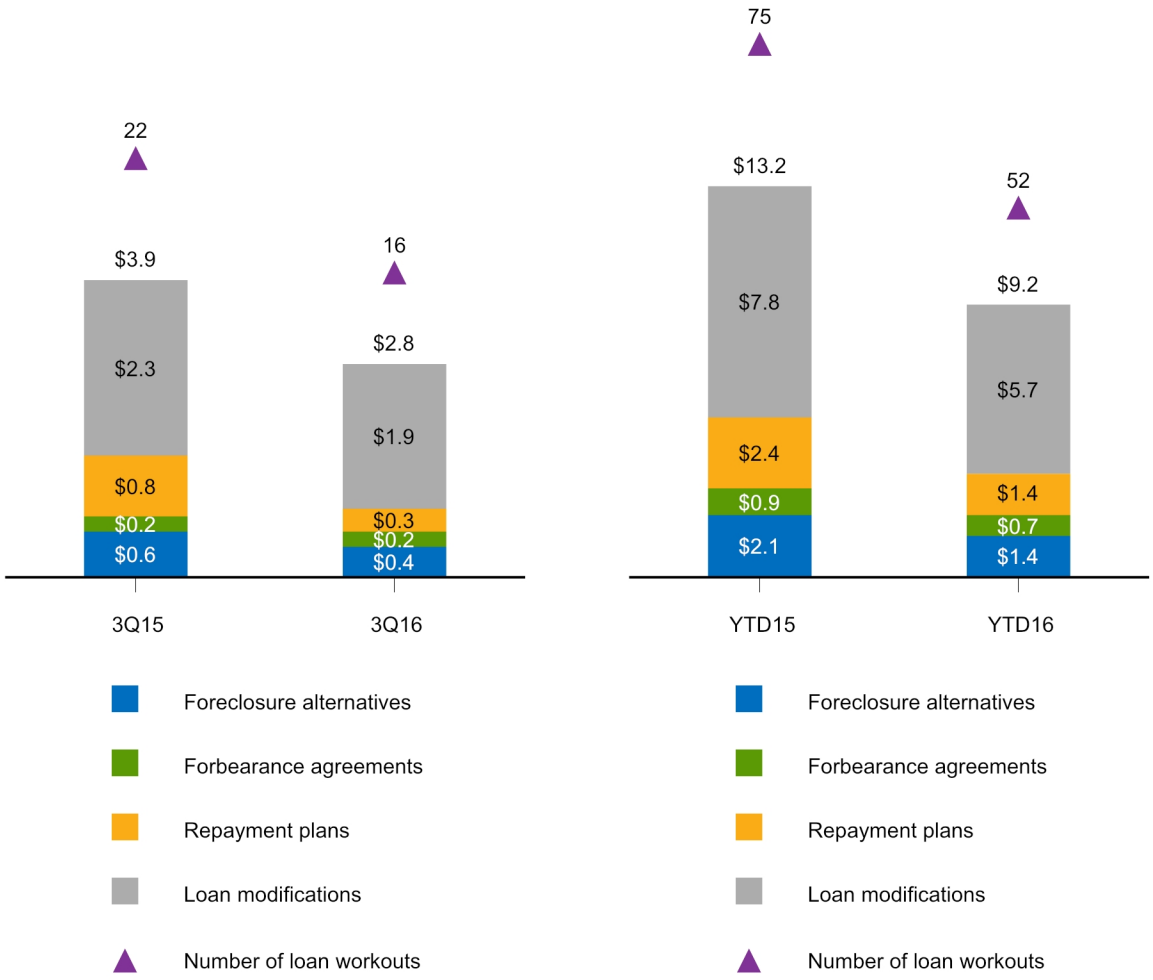
Commentary

- As of September 30, 2016, 64% 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 September 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:
  - **3Q 2016 vs. 3Q 2015 -** decreased REO acquisition and foreclosure alternative volumes due to fewer seriously delinquent loans, due in part to sales of certain seriously delinquent loans, and a large proportion of property sales to third parties at foreclosure;
  - **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.
- As a result of the pending expiration of HAMP, borrowers must submit final modification applications on or before December 30, 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.

	3Q 2016		3Q 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	13,284	$ 1,394	19,484	$ 2,034	17,004	$ 1,774	25,768	$ 2,684
Additions	3,986	397	5,278	516	12,770	1,229	18,303	1,761
Dispositions	(5,085)	(503)	(6,982)	(696)	(17,589)	(1,715)	(26,291)	(2,591)
Ending balance — REO	12,185	1,288	17,780	1,854	12,185	1,288	17,780	1,854
Beginning balance, valuation allowance		(17)		(56)		(52)		(126)
Change in valuation allowance		1		(11)		36		59
Ending balance, valuation allowance		(16)		(67)		(16)		(67)
Ending balance — REO, net		$ 1,272		$ 1,787		$ 1,272		$ 1,787

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, due in part to sales of certain 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.

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Guarantee fee income	$ 1,641	$ 1,283	$ 358	28 %	$ 4,427	$ 3,864	$ 563	15 %
Benefit (provision) for credit losses	(297)	(125)	(172)	138 %	113	(642)	755	(118)%
Other non-interest income (loss)	6	338	(332)	(98)%	131	207	(76)	(37)%
Administrative expense	(330)	(309)	(21)	7 %	(939)	(938)	(1)	— %
REO operations expense	(59)	(118)	59	(50)%	(177)	(248)	71	(29)%
Other non-interest expense	(311)	(198)	(113)	57 %	(832)	(568)	(264)	46 %
Segment Earnings before income tax expense	**650**	**871**	**(221)**	**(25)%**	**2,723**	**1,675**	**1,048**	**63 %**
Income tax expense	(153)	(280)	127	(45)%	(833)	(535)	(298)	56 %
Segment Earnings, net of taxes	**497**	**591**	**(94)**	**(16)%**	**1,890**	**1,140**	**750**	**66 %**
Total other comprehensive income (loss), net of tax	(1)	—	(1)	N/A	(1)	(1)	—	— %
Total comprehensive income	**$ 496**	**$ 591**	**$ (95)**	**(16)%**	**$ 1,889**	**$ 1,139**	**$ 750**	**66 %**

Key Drivers:

- **Guarantee fee income**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015 -** increased primarily due to higher amortization of upfront fees resulting from increased loan liquidations. Higher average contractual guarantee fee rates, reflecting the continued growth in the size of the Core single-family book, also contributed.
- **Benefit (provision) for credit losses**
  - **3Q 2016 vs. 3Q 2015** - (provision) increased primarily due to a change in management's outlook of the probability of default. Management qualitatively increased the modeled estimate of incurred losses for mortgage loans during 3Q 2016 due to several factors. Sales prices of foreclosed properties have not improved over the last few years as much as national home price appreciation. Additionally, we have observed rising delinquency rates and increases in loan loss reserves at several large financial institutions for certain consumer financing receivables, such as credit card receivables and auto loans, which can be indicators for increases in mortgage loan defaults.
  - **YTD 2016 vs. YTD 2015** - changed from a (provision) to a benefit due to improvements in severity during YTD 2016 as compared to worsening severity during YTD 2015.
- **Other non-interest income (loss)**
  - **3Q 2016 vs. 3Q 2015** - declined during 3Q 2016 primarily due to fair value losses on STACR debt notes, as spreads between STACR yields and LIBOR tightened in 3Q 2016, compared to fair value gains in 3Q 2015 when spreads widened.
- **Other non-interest expense**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015** - increased primarily due to higher credit risk transfer expense reflecting higher outstanding cumulative volumes in the 2016 periods than in the 2015 periods.

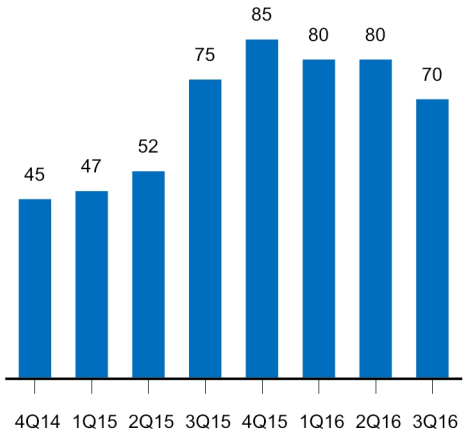
MULTIFAMILY

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.

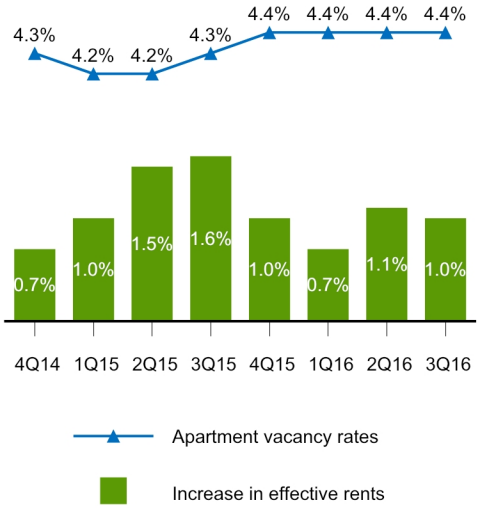
K Certificate Benchmark Spreads

(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 benchmark spreads during the period between our commitment to purchase a loan and execution of the K Certificate transaction. These spread impacts contribute to our earnings variability which we try to manage through the size of our securitization pipeline of held-for-sale mortgage loans.
- K Certificate benchmark spreads tightened during 3Q 2016, ending at 70 bps, which had a positive effect on K Certificate profitability.
- During 3Q 2016, the rate of increase in effective rents fell, 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.

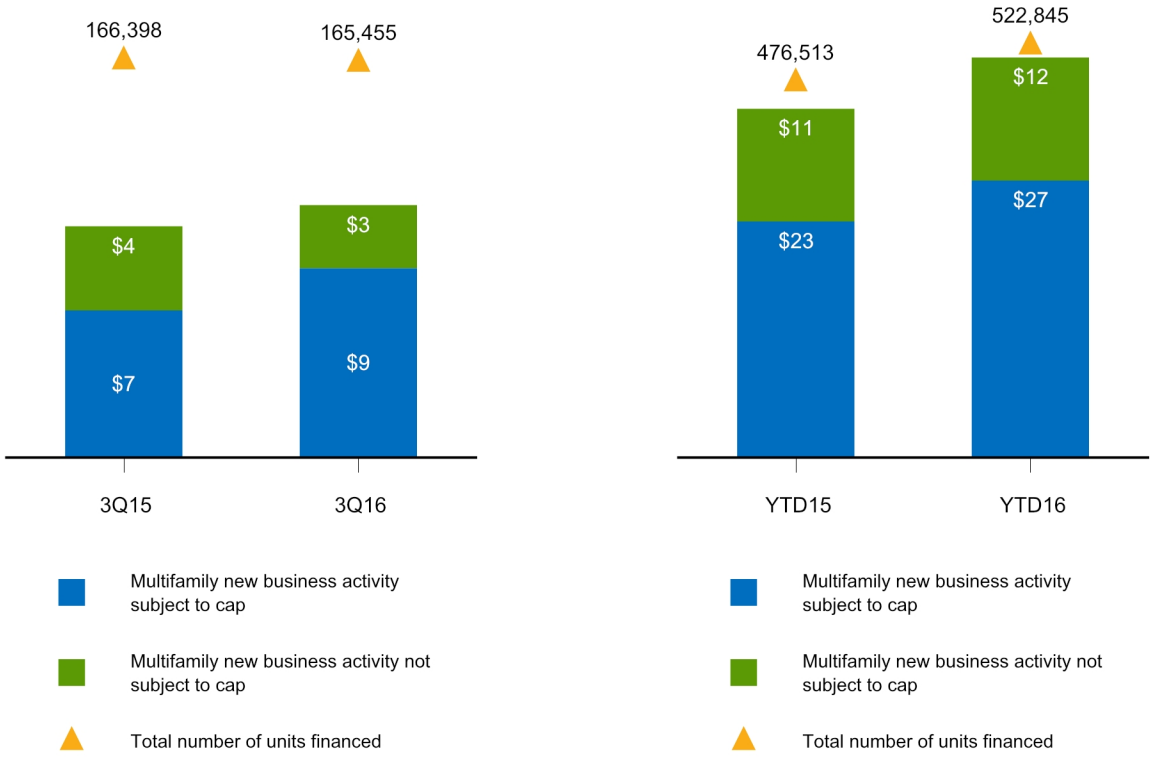
BUSINESS RESULTS

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

New Business Activity

Multifamily New Business Activity

(UPB in billions)



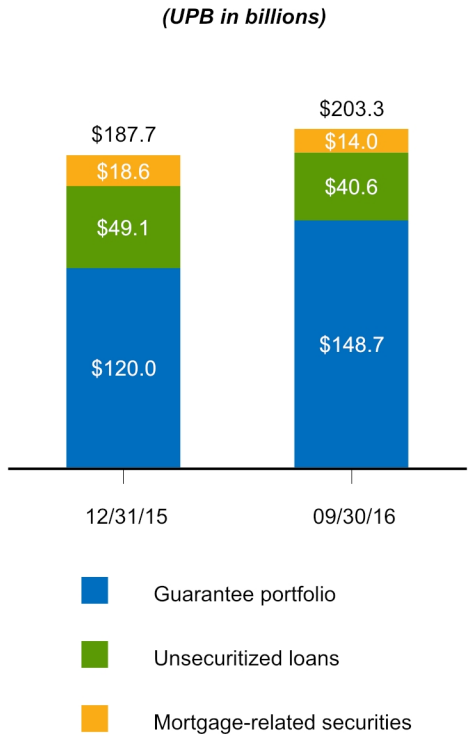
Commentary

- 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 by FHFA during 3Q 2016 from $35 billion to $36.5 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.
- The dollar amount of our multifamily new business volumes increased during 3Q 2016 compared to 3Q 2015 and during YTD 2016 compared to YTD 2015, primarily due to an increase in overall multifamily market originations as a result of strong demand for apartments.

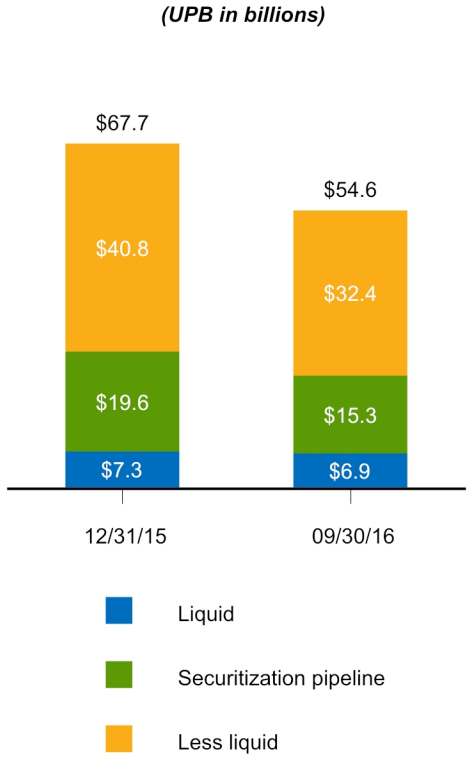
- Approximately two-thirds of our multifamily new business activity during YTD 2016 counted towards the 2016 Scorecard production cap, and the remaining one-third was not subject to the production cap.
- Our multifamily new business activity outstanding commitments were $14 billion and $17 billion, as of September 30, 2016 and September 30, 2015, respectively. The September 30, 2016 amount includes loan purchase commitments for which we have elected the fair value option.

Multifamily Portfolio

Total Multifamily Portfolio



Multifamily Mortgage Investments Portfolio



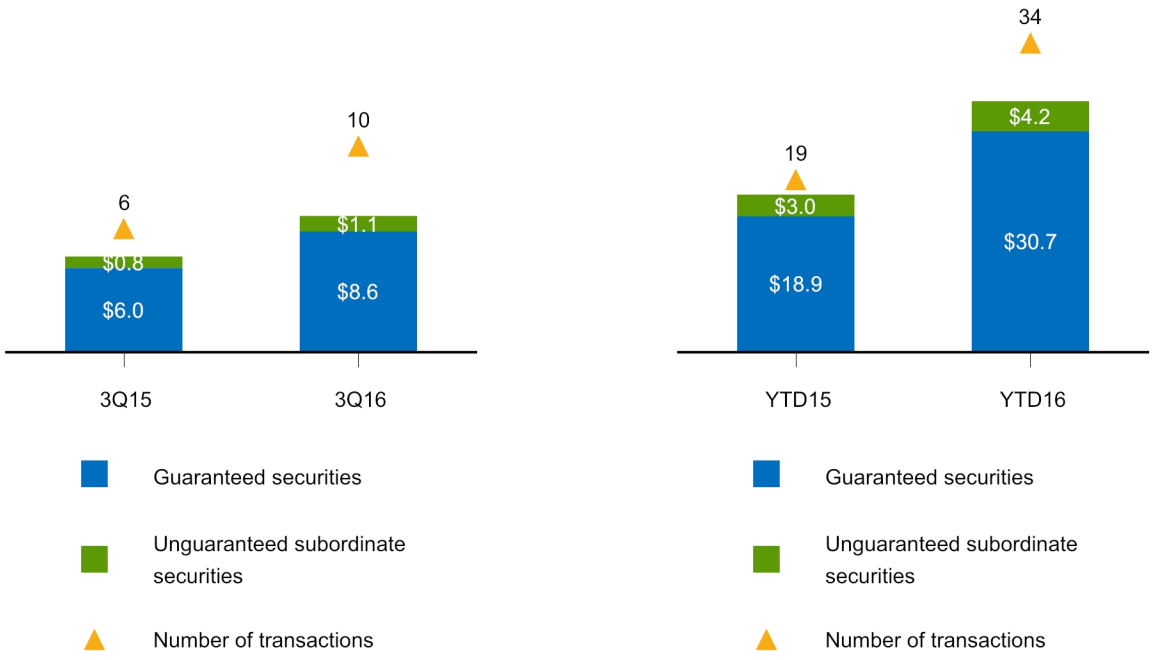
Commentary

- Our total multifamily portfolio grew during 3Q 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 $15.3 billion at September 30, 2016, a reduction from the elevated levels in recent quarters. This balance decreased slightly during 3Q 2016 as our securitization of loans into K Certificates and other securitization products outpaced our 3Q 2016 held-for-sale mortgage 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 September 30, 2016 was 0.01%.

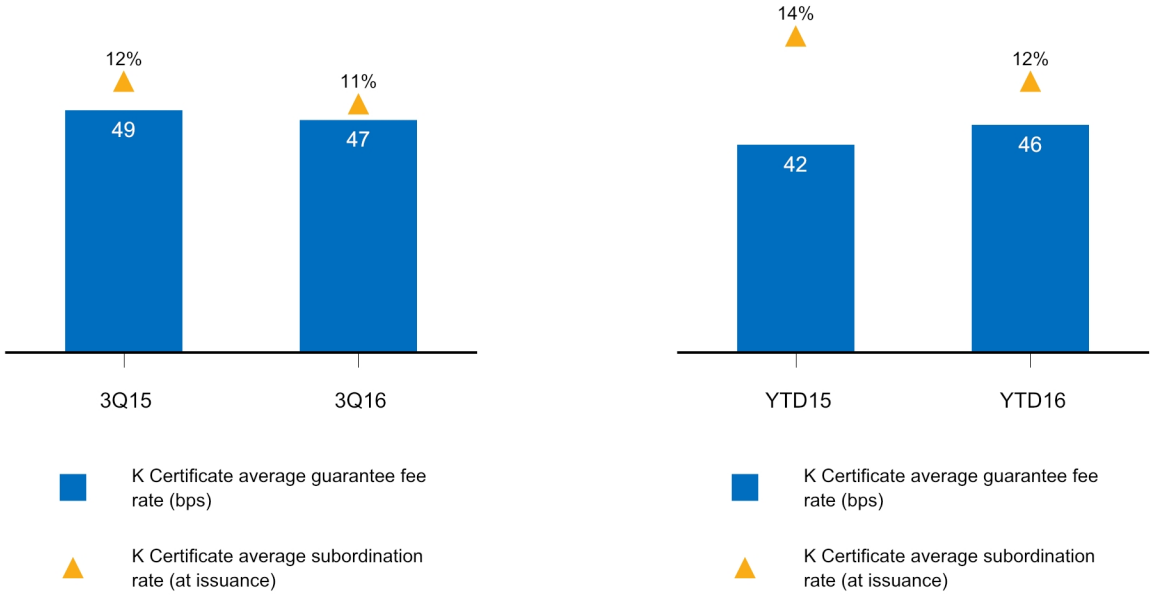
Credit Risk Transfer Activity

New K Certificate Issuances

(UPB in billions)



Average Guarantee Fee Rate Charged on New K Certificates



Commentary

- Our K Certificate issuance volume increased during 3Q 2016 compared to 3Q 2015 as well as YTD 2016 compared to YTD 2015 as we continued to reduce our securitization pipeline, which was elevated in recent quarters as a result of the record origination volume in the multifamily market during 2015 as well as strong YTD 2016 purchase volume. While we may purchase portions of our newly issued K Certificates or the unguaranteed subordinated securities, to date we have not purchased any of the unguaranteed securities that are in the first loss position nor do we currently hold any in our portfolio.
- In addition to the credit risk we transferred on K Certificates, we transferred a large majority of expected and stress credit losses associated with $0.5 billion of additional loans during 3Q 2016 through other securitization products, such as small balance loan securitizations.
- The average guarantee fee rate on newly issued K Certificates increased during YTD 2016 compared to 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.

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Net interest income	$ 255	$ 270	$ (15)	(6)%	$ 791	$ 793	$ (2)	— %
Guarantee fee income	134	87	47	54 %	366	239	127	53 %
Benefit (provision) for credit losses	8	—	8	N/A	19	20	(1)	(5)%
Gains (losses) on loans and other non-interest income	551	92	459	499 %	1,666	178	1,488	836 %
Derivative gains (losses)	205	(502)	707	(141)%	(878)	7	(885)	(12,643)%
Administrative expense	(89)	(80)	(9)	11 %	(255)	(240)	(15)	6 %
Other non-interest expense	(10)	(13)	3	(23)%	(43)	(36)	(7)	19 %
Segment Earnings before income tax (expense) benefit	**1,054**	**(146)**	**1,200**	**(822)%**	**1,666**	**961**	**705**	**73 %**
Income tax (expense) benefit	(310)	43	(353)	(821)%	(510)	(307)	(203)	66 %
Segment Earnings, net of taxes	**744**	**(103)**	**847**	**(822)%**	**1,156**	**654**	**502**	**77 %**
Total other comprehensive income (loss), net of tax	46	19	27	142 %	56	(108)	164	(152)%
Total comprehensive income (loss)	**$ 790**	**$ (84)**	**$ 874**	**(1,040)%**	**$ 1,212**	**$ 546**	**$ 666**	**122 %**

Key Drivers:

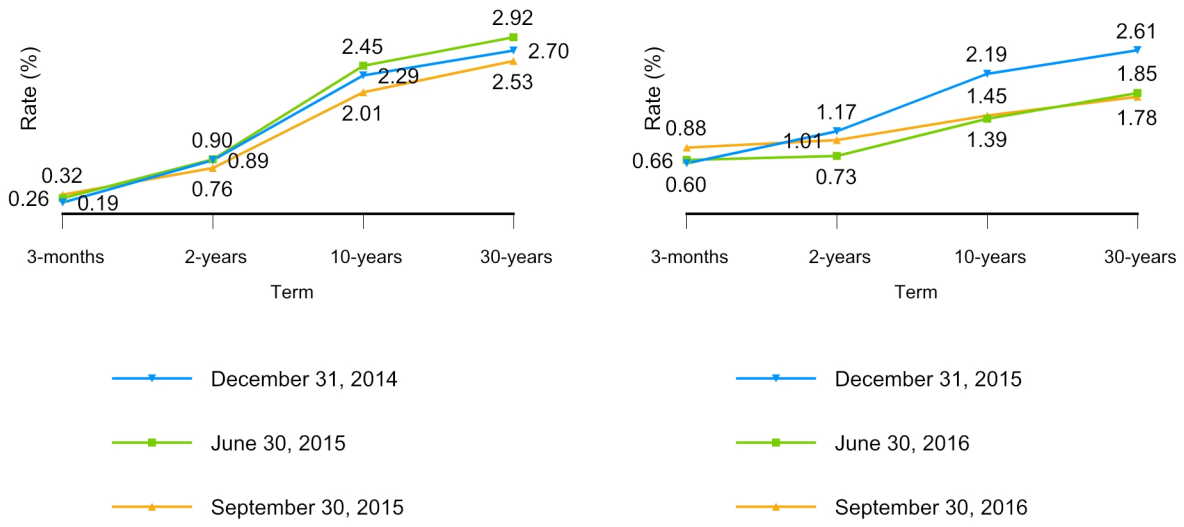
- **Guarantee fee income**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015** - increased primarily due to higher average multifamily guarantee portfolio balances as a result of ongoing issuances of K Certificates.
- **Gains (losses) on loans and other non-interest income, derivative gains (losses),** and **total other comprehensive income (loss)** are evaluated together as they are collectively driven by a combination of spread-related and interest rate-related fair value changes. We use derivatives in the Multifamily segment to economically offset interest rate-related fair value changes of certain assets. The fair value changes of these economically hedged assets are included in **gains (losses) on loans and other non-interest income** and **total other comprehensive income (loss)**. These changes and the interest rate-related derivative fair value changes that are included in **derivative gains (losses)** largely offset each other and, as a result, there is minimal net impact on total comprehensive income for the Multifamily segment from interest rate-related derivatives.
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs YTD 2015** - increased due to spread-related fair value changes. During 3Q 2016 and YTD 2016 K Certificate benchmark spreads and available-for-sale CMBS spreads tightened, leading to larger gains than compared to 3Q 2015 and YTD 2015 when these spreads widened.

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

- Longer-term interest rates (e.g., 2-year and 10-year rates) declined during 3Q 2015, YTD 2015 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, longer-term interest rates generally increased during 3Q 2016, 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.

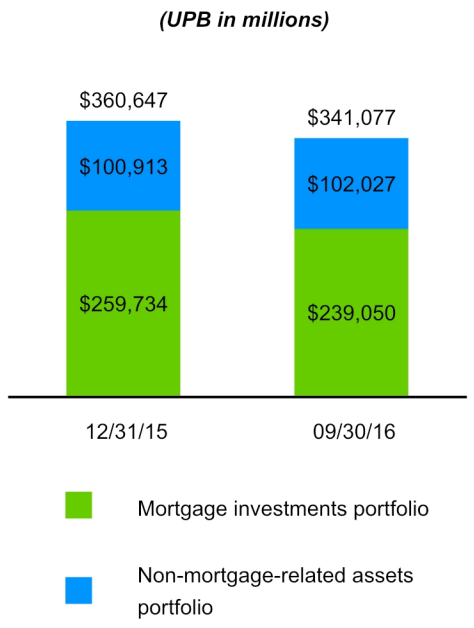
BUSINESS RESULTS

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

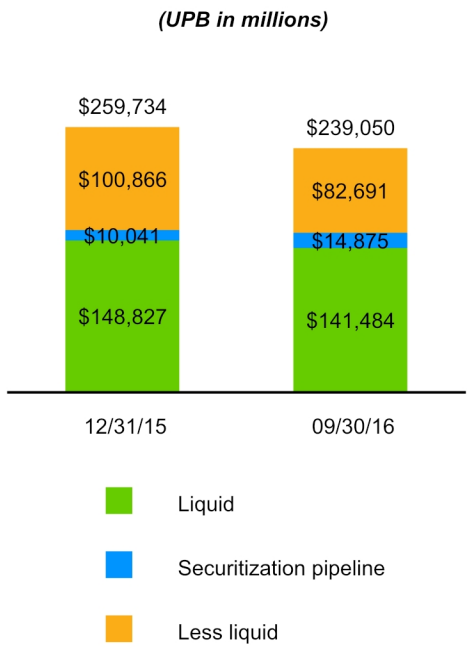
Investing Activity

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

Investments Portfolio



Mortgage Investments Portfolio



Commentary

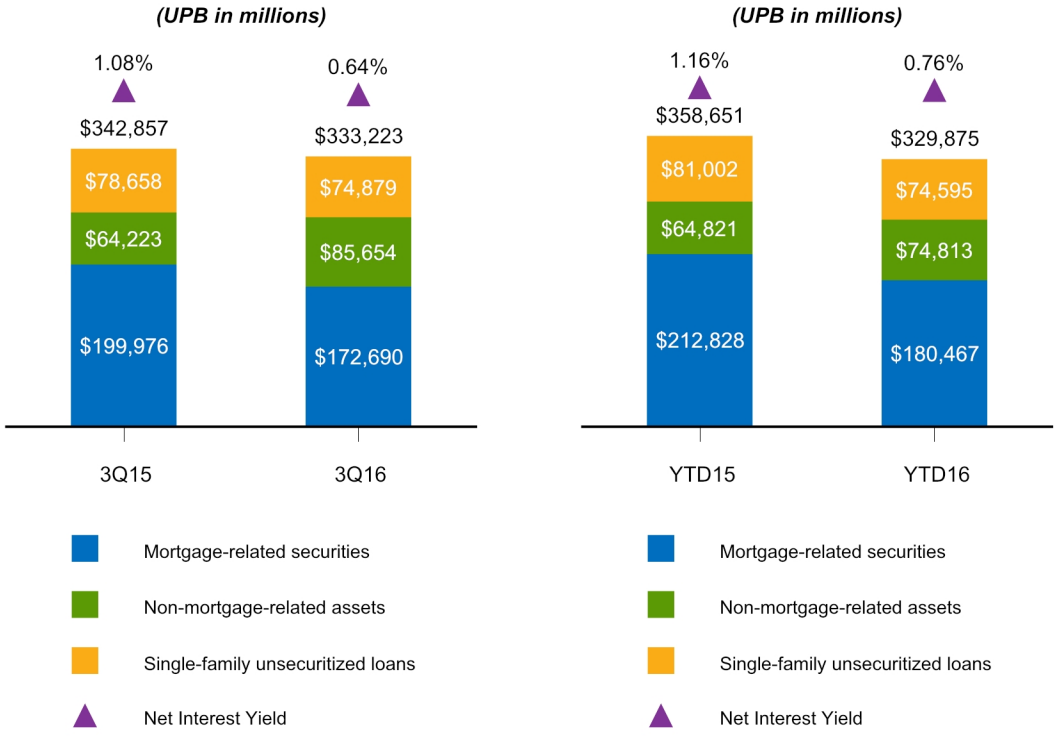
- We continue to reduce the size of our mortgage investments portfolio in order to comply with the mortgage-related investments portfolio year-end limits. The balance of our mortgage investments portfolio declined 8.0% from December 31, 2015 to September 30, 2016.
- Although the balance of our non-mortgage-related assets portfolio was elevated at December 31, 2015, due to higher near-term cash needs, the balance of this portfolio increased 1.1% from December 31, 2015 to September 30, 2016, primarily due to an increase in prepayment proceeds received by the custodial account. These proceeds are invested prior to being distributed to the holders of our debt securities of consolidated trusts shortly following receipt.
- The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 38.8% at December 31, 2015 to 34.6% at September 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 $7.7 billion of non-agency mortgage-related securities and enhancing the liquidity of $5.7 billion of single-family reperforming loans and performing modified loans through securitization. Our strategy related to securitization of less liquid assets is to initially retain all of the resulting mortgage-related securities and then resecuritize a portion of these securities 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**
  - ***3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015 -*** declined 44 basis points and 40 basis points, respectively, primarily due to higher hedging costs from an increase in amortization of upfront cash paid for swaptions, coupled with a reduction in the balance of our higher yielding mortgage-related assets due to repayments. The upfront cash paid for swaptions is amortized on a straight-line basis and reclassified from **derivative gains (losses)** into **net interest income**. The increase in amortization is due to an increase in upfront cash paid for swaptions to hedge our increased exposure to mortgage prepayment risk due to the continued low interest rate environment. The increase in amortization is partially offset by gains recognized in **derivative gains (losses)**.
- **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 and U.S. Treasury securities, which are classified as non-mortgage-related assets. 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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Discount notes and Reference Bills:				
Beginning balance	$ 68,099	$ 93,149	$ 104,088	$ 134,670
Issuances	107,355	128,189	319,298	307,746
Maturities	(106,104)	(116,854)	(354,036)	(337,932)
Ending balance	69,350	104,484	69,350	104,484
Callable debt:				
Beginning balance	109,394	110,191	107,675	107,070
Issuances	31,473	26,438	103,540	91,657
Repurchases	—	—	—	—
Calls	(37,204)	(32,837)	(107,177)	(93,378)
Maturities	(505)	(2,015)	(880)	(3,572)
Ending balance	103,158	101,777	103,158	101,777
Non-callable debt:				
Beginning balance	189,126	204,508	194,372	206,393
Issuances	19,661	9,895	40,402	30,252
Repurchases	—	—	—	(217)
Maturities	(23,474)	(19,053)	(49,461)	(41,078)
Ending balance	185,313	195,350	185,313	195,350
Total other debt [1]	$ 357,821	$ 401,611	$ 357,821	$ 401,611

(1) Activity and balances disclosed in the table above exclude collateralized borrowings, including securities sold under agreements to repurchase, and certain other debt issued by other segments (e.g., STACR debt notes).

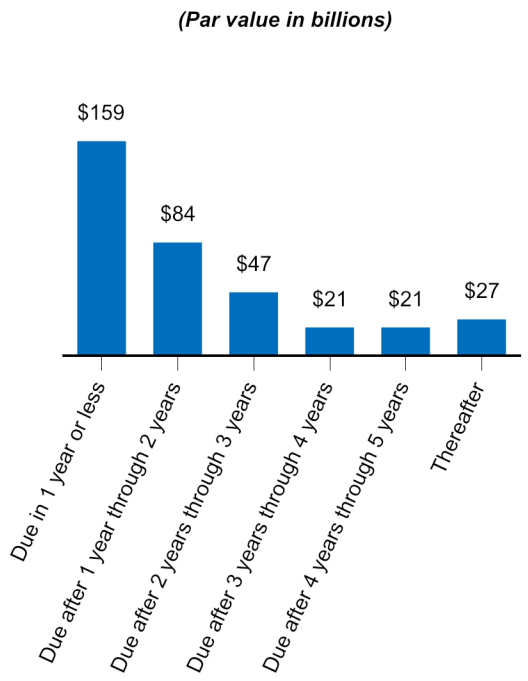
Commentary

- 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. During 3Q 2016 compared to 3Q 2015, our issuances of callable and non-callable debt increased, while our issuances of discount notes decreased. The increase in term debt issuances offsets an increased amount of outstanding debt that was nearing maturity.

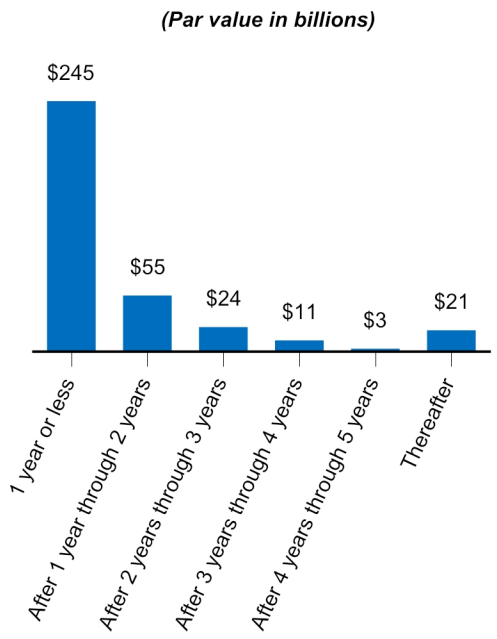
Debt Composition

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 September 30, 2016



Earliest Redemption Date as of September 30, 2016



Commentary

- 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 and collateralized borrowings that are excluded from the graphs above) that is expected to mature within one year, increased to 44.1% as of September 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. In October 2016, amendments to the SEC rules that govern money market mutual funds became effective. These amendments make certain structural and operational reforms to address the risks of investor withdrawals from money market funds. These amendments do not apply to mutual funds that invest solely in debt issued or guaranteed by the U.S. government or its agencies and instrumentalities, including GSEs. As a result, the demand for government and agency debt has increased, which has contributed to the improvement in our short-term debt spreads during 2016.

- 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 September 30, 2016, $86 billion of the outstanding $103 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.

	3Q 2016	3Q 2015	Change		YTD 2016	YTD 2015	Change	
(dollars in millions)			$	%			$	%
Net interest income	$ 532	$ 923	$ (391)	(42)%	$ 1,886	$ 3,125	$ (1,239)	(40)%
Net impairment of available-for-sale securities recognized in earnings	94	109	(15)	(14)%	224	322	(98)	(30)%
Derivative gains (losses)	613	(2,950)	3,563	(121)%	(3,385)	(1,221)	(2,164)	177 %
Losses on trading securities	(203)	(103)	(100)	97 %	(12)	(329)	317	(96)%
Other non-interest income	664	703	(39)	(6)%	1,404	1,905	(501)	(26)%
Administrative expense	(79)	(76)	(3)	4 %	(227)	(239)	12	(5)%
Other non-interest expense	—	—	—	N/A	(3)	(2)	(1)	50 %
Segment Earnings before income tax (expense) benefit	**1,621**	**(1,394)**	**3,015**	**(216)%**	**(113)**	**3,561**	**(3,674)**	**(103)%**
Income tax (expense) benefit	(533)	431	(964)	(224)%	35	(1,137)	1,172	(103)%
Segment Earnings, net of taxes	**1,088**	**(963)**	**2,051**	**(213)%**	**(78)**	**2,424**	**(2,502)**	**(103)%**
Total other comprehensive income (loss), net of tax	(64)	(45)	(19)	42 %	220	22	198	900 %
Total comprehensive income (loss)	**$ 1,024**	**$ (1,008)**	**$ 2,032**	**(202)%**	**$ 142**	**$ 2,446**	**$ (2,304)**	**(94)%**

Key Drivers:

- **Net interest income**
  - **3Q 2016 vs. 3Q 2015 and YTD 2016 vs. YTD 2015** - decreased primarily due to higher hedging costs from an increase in amortization of upfront cash paid for swaptions, coupled with a reduction in the balance of our higher yielding mortgage-related assets due to repayments. The increase in amortization is due to an increase in upfront cash paid for swaptions to hedge our increased exposure to mortgage prepayment risk due to the continued low interest rate environment. The increase in amortization is partially offset by gains recognized in **derivative gains (losses)**.
- **Derivative gains (losses)**
  - **3Q 2016 vs. 3Q 2015** - improved as we recognized derivative gains during 3Q 2016 compared to derivative losses during 3Q 2015, primarily as a result of an increase in longer-term interest rates during 3Q 2016 and a decrease in longer-term interest rates during 3Q 2015. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.
  - **YTD 2016 vs. YTD 2015** - worsened as we recognized larger derivative losses due to a larger decline in longer-term interest rates during YTD 2016 compared to YTD 2015. See "Consolidated Results of Operations - Derivative Gains (Losses)" for additional information.
- **Losses on trading securities**
  - **3Q 2016 vs. 3Q 2015** - increased primarily due to losses from an increase in longer-term interest rates during 3Q 2016 compared to gains from a decrease in longer-term interest rates during 3Q 2015. The changes attributable to interest rates were partially offset by gains from spreads

tightening for our agency securities during 3Q 2016 compared to losses from spreads widening for our agency securities during 3Q 2015.

- **YTD 2016 vs. YTD 2015** - decreased primarily due to a larger decline in longer-term interest rates during YTD 2016 compared to YTD 2015, which resulted in greater gains on our trading securities. These changes attributable to interest rates were partially offset by less spread tightening for our agency securities.

- **Other non-interest income**
  - **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 and less accretion of previously recognized other-than-temporary impairment, partially offset by an increase in sales of agency mortgage-related securities in an unrealized gain position. The volume of our sales of non-agency mortgage-related securities will continue to vary as our portfolio that is saleable, based on a variety of criteria, has decreased.
- **Other comprehensive income (loss)**
  - **YTD 2016 vs. YTD 2015** - increased primarily due to a decline in sales of available-for-sale non-agency mortgage-related securities in an unrealized gain position, which resulted in less unrealized gains being reclassified from accumulated other comprehensive income to **other non-interest income**. While we recognized greater unrealized gains as a result of a larger interest rate decline, these gains were largely offset by less unrealized gains as a result of less spread tightening on our agency and non-agency mortgage-related securities and greater unrealized losses due to the movement of a larger number of premium securities towards their maturities.

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 Forms 10-Q for the first and second quarters 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 recent quarters. 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.

Mortgage Insurers

On August 15, 2016, American International Group, Inc. announced that it had entered into an agreement to sell 100% of its interest in United Guaranty Corporation to Arch Capital Group Ltd. Because Arch US Mortgage Insurance, a subsidiary of Arch Capital Group Ltd., and United Guaranty Corporation are both approved mortgage insurers, Freddie Mac will evaluate the effect on the combined entity’s financial strength when considering the planned acquisition. The transaction is also subject to other required approvals.

On October 23, 2016, Genworth Financial, Inc. announced that it had entered into an agreement to be acquired by China Oceanwide Holdings Group Co., Ltd. Because Genworth Mortgage Insurance Corporation, a subsidiary of Genworth Financial, Inc., is an approved mortgage insurer, Freddie Mac will evaluate the financial strength of China Oceanwide Holdings Group Co., Ltd. when considering the planned acquisition. The transaction is also subject to other required approvals. For more information about counterparty risk associated with mortgage insurers, see Note 12.

OPERATIONAL RISK

OPERATIONAL RISK UPDATE RELATING TO MASTER TRUST AGREEMENTS

As previously disclosed, the company identified that some of its operational procedures were not sufficiently detailed to comply with certain obligations under its Master Trust Agreements, which are amended from time to time. During 2016, we have made significant progress to correct the deficiencies in these operational procedures including developing the capability to record separate, individual receipts and payments in the custodial account to reflect transactions between the company and the trusts, rather than netting amounts due to and due from the trusts.

Past practices led to a build-up in the custodial account of funds that belonged to the company. This build-up totaled approximately $19 billion as of June 30, 2016. We withdrew approximately $8 billion of this amount during 3Q 2016, and anticipate withdrawing the vast majority of the remainder during 4Q 2016. We have also established processes to withdraw company funds from the custodial account on a regular basis as new amounts are received. For more information, see “MD&A -Risk Management - Operational Risk” 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:			
September 30, 2016	$ 10	$ —	$ —
December 31, 2015	$ 12	$ 50	$ 186

	3Q 2016			3Q 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	$ 14	0.1	$ 9	$ 72
Minimum	(0.4)	$ —	$ —	(0.4)	$ —	$ 26
Maximum	0.6	$ 21	$ 68	0.8	$ 23	$ 173
Standard deviation	0.2	$ 4	$ 17	0.3	$ 6	$ 29

	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	$ 21	0.2	$ 20	$ 97
Minimum	(0.4)	$ —	$ —	(0.4)	$ —	$ 23
Maximum	0.7	$ 31	$ 92	1.0	$ 47	$ 250
Standard deviation	0.2	$ 5	$ 22	0.3	$ 12	$ 43

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
September 30, 2016	$ 3,106	$ —	$ (3,106)
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 September 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
September 30, 2016	$ 411	$ 965	$ 1,953
December 31, 2015	$ 635	$ 1,630	$ 3,573

Our adverse exposures under these interest-rate scenarios as of September 30, 2016 declined compared to December 31, 2015 as we have rebalanced our derivative portfolio in response to the declining interest-rate environment. We increased our use of receive-fixed swaps as the duration of our financial assets declined, including those measured at amortized cost. We also entered into certain structured transactions during the first half of 2016, which resulted in additional financial assets being recognized and measured at fair value.

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 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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Beginning balance	$ 381,548	$ 417,461	$ 418,021	$ 454,029
Issued during the period:				
Short-term:				
Amount	$ 136,108	$ 136,034	$ 354,281	$ 315,591
Weighted-average effective interest rate[1]	0.23%	0.11%	0.27%	0.09%
Long-term:				
Amount	$ 52,494	$ 29,360	$ 149,164	$ 119,063
Weighted-average effective interest rate[1]	1.28%	1.58%	1.36%	1.41%
Total issued:				
Amount	$ 188,602	$ 165,394	$ 503,445	$ 434,654
Weighted-average effective interest rate[1]	0.52%	0.37%	0.59%	0.45%
Paid off during the period:				
Short-term:				
Amount	$ (134,494)	$ (116,854)	$ (390,354)	$ (337,932)
Weighted-average effective interest rate[1]	0.23%	0.07%	0.25%	0.07%
Long-term:				
Amount	$ (54,120)	$ (54,196)	$ (149,576)	$ (138,946)
Weighted-average effective interest rate[1]	1.67%	1.48%	1.77%	1.43%
Total paid off:				
Amount	$ (188,614)	$ (171,050)	$ (539,930)	$ (476,878)
Weighted-average effective interest rate[1]	0.65%	0.52%	0.67%	0.47%
Ending balance	$ 381,536	$ 411,805	$ 381,536	$ 411,805

(1) Effective interest rate is weighted based on par value.

We continue to rely on short-term and medium-term other debt to meet our overall funding needs. Medium-term other debt is classified as long-term in the table above. Issuances and pay-offs of our short-term other debt increased during YTD 2016 compared to YTD 2015 as we continued to utilize overnight discount notes as a more cost effective tool to manage our intra-day liquidity needs. 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. 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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Beginning balance	$ 1,548,673	$ 1,473,961	$ 1,513,089	$ 1,440,325
New issuances	117,841	98,676	275,750	278,743
Newly-issued debt securities retained at issuance	(21,863)	(27,390)	(61,737)	(71,981)
Net new issuances to third parties	95,978	71,286	214,013	206,762
Additional issuances of securities	36,768	37,199	115,913	100,079
Total issuances	132,746	108,485	329,926	306,841
Extinguishments, net	(107,301)	(85,554)	(268,897)	(250,274)
Ending balance	$ 1,574,118	$ 1,496,892	$ 1,574,118	$ 1,496,892

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 September 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

The investments in our Liquidity and Contingency Operating Portfolio 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. The table below summarizes the balances in our Cash and Other Investments Portfolio, which includes the Liquidity and Contingency Operating Portfolio.

	September 30, 2016				December 31, 2015			
(in billions)	Liquidity and Contingency Operating Portfolio	Custodial Account	Other[1]	Total Cash and Other Investments Portfolio	Liquidity and Contingency Operating Portfolio	Custodial Account	Other[1]	Total Cash and Other Investments Portfolio
Cash and cash equivalents	$ 3.9	$ —	$ —	$ 3.9	$ 5.4	$ —	$ 0.2	$ 5.6
Restricted cash and cash equivalents	—	19.0	0.1	19.1	—	14.5	—	14.5
Securities purchased under agreements to resell	37.1	17.8	0.8	55.7	48.4	14.8	0.4	63.6
Non-mortgage related investments	21.4	—	2.2	23.6	16.2	—	1.0	17.2
Total	$ 62.4	$ 36.8	$ 3.1	$ 102.3	$ 70.0	$ 29.3	$ 1.6	$ 100.9

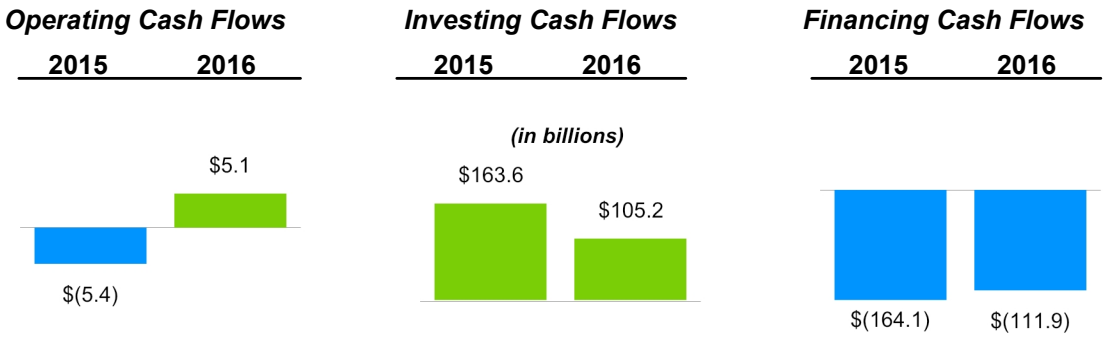
(1) Consists of amounts related to collateral held by us from OTC derivative counterparties, and investments in unsecured agency debt that we may not otherwise invest in, other than to pledge as collateral to our counterparties when our derivatives are in a liability position.

Our non-mortgage-related investments in the Liquidity and Contingency Operating Portfolio consist of U.S. Treasury securities and other investments that we could sell to provide us with an additional source

of liquidity to fund our business operations. We also maintain non-interest-bearing deposits at the Federal Reserve Bank of New York.

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 $10.5 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 $58.4 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 an increase in loan purchases;
- Increase in cash collateral posted to our derivative counterparties due to greater derivative losses resulting from larger declines in longer-term interest rates; and
- Increase in advances to lenders.

Cash used in financing activities decreased $52.2 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.

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 September 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 September 30, 2016 and the 2016 Capital Reserve Amount of $1.2 billion, our dividend obligation to Treasury in December 2016 will be $2.3 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 capital reserve 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, this Update increases the risk that we will need to request a draw from Treasury for the period of adoption.

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

(in millions)	3Q 2016	2Q 2016	1Q 2016	4Q 2015	3Q 2015	YTD 2016
Beginning balance	$ 2,133	$ 1,000	$ 2,940	$ 1,299	$ 5,713	$ 2,940
Comprehensive (loss) income	2,310	1,133	(200)	1,641	(501)	3,243
Capital draw from Treasury	—	—	—	—	—	—
Senior preferred stock dividends declared	(933)	—	(1,740)	—	(3,913)	(2,673)
Total equity / net worth	$ 3,510	$ 2,133	$ 1,000	$ 2,940	$ 1,299	$ 3,510
Aggregate draws under Purchase Agreement	$ 71,336	$ 71,336	$ 71,336	$ 71,336	$ 71,336	$ 71,336
Aggregate cash dividends paid to Treasury	$ 99,138	$ 98,205	$ 98,205	$ 96,465	$ 96,465	$ 99,138

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.

	September 30, 2016				December 31, 2015			
(dollars in millions)	Liquid	Securitiz-ation Pipeline	Less Liquid	Total	Liquid	Securitiz-ation Pipeline	Less Liquid	Total
Investments segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	$ —	$ 14,875	$ —	$ 14,875	$ —	$ 10,041	$ —	$ 10,041
Reperforming loans and performing modified loans	—	—	60,270	60,270	—	—	67,036	67,036
Total single-family unsecuritized loans	—	14,875	60,270	75,145	—	10,041	67,036	77,077
Freddie Mac mortgage-related securities	131,481	—	5,204	136,685	135,869	—	6,076	141,945
Non-agency mortgage-related securities	—	—	17,217	17,217	—	—	27,754	27,754
Non-Freddie Mac agency mortgage-related securities	10,003	—	—	10,003	12,958	—	—	12,958
Total Investments segment - Mortgage investments portfolio	141,484	14,875	82,691	239,050	148,827	10,041	100,866	259,734
Single-family Guarantee segment - Single-family unsecuritized seriously delinquent loans	—	—	14,420	14,420	—	—	19,501	19,501
Multifamily segment - unsecuritized loans and mortgage-related securities	6,901	15,280	32,463	54,644	7,304	19,563	40,809	67,676
Total mortgage-related investments portfolio	$148,385	$ 30,155	$129,574	$308,114	$156,131	$ 29,604	$161,176	$346,911
Percentage of total mortgage-related investments portfolio	48%	10%	42%	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 $10.2 billion of less liquid assets, including $7.7 billion in UPB of non-agency mortgage-related securities and $2.4 billion in UPB of seriously delinquent unsecuritized single-family loans;
- Securitizations of $1.3 billion in UPB of less liquid multifamily loans; and
- Securitizations of $5.7 billion in UPB of single-family reperforming loans and performing modified loans, thereby enhancing their liquidity. Our strategy related to securitization of less liquid assets is to

initially retain all of the resulting mortgage-related securities and then resecuritize a portion of these securities 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 pay this amount to certain housing funds. During 3Q 2016 and YTD 2016, we completed $128 billion and $313 billion, respectively, of new business purchases subject to this requirement and accrued $54 million and $131 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 these costs to the originators of the loans that we purchase.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

CAP INCREASE FOR NEW MULTIFAMILY BUSINESS

On August 18, 2016, FHFA announced an increase to the 2016 multifamily lending cap for Freddie Mac and Fannie Mae under the 2016 Conservatorship Scorecard from $35 billion to $36.5 billion, effective immediately. The adjustment is based on increased estimates of the overall size of the 2016 multifamily finance market.

AFFORDABLE HOUSING GOALS AND RESULTS FOR 2015

In October 2016, FHFA informed us that it had reviewed our performance with respect to the affordable housing goals for 2015, and preliminarily determined that we achieved three of our five single-family affordable housing goals and all three of our multifamily goals. Our performance on the goals, as preliminarily determined by FHFA, is set forth below.

	Goals for 2015	Market level for 2015	Preliminary Results for 2015
Single-family purchase money goals (benchmark levels):			
Low-income	24%	23.6%	22.3%
Very low-income	6%	5.8%	5.4%
Low-income areas	19%	19.8%	19.0%
Low-income areas sub-goal	14%	15.2%	14.5%
Single-family refinance low-income goal (benchmark level)	21%	22.5%	22.8%
Multifamily low-income goal (in units)	300,000	N/A	379,042
Multifamily very low-income subgoal (in units)	60,000	N/A	76,935
Multifamily small property low-income subgoal (in units)	6,000	N/A	12,801

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 $156.3 billion and $127.3 billion at September 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;
- 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;
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance vs. purchase, and fixed-rate vs. ARM);
- The success of our efforts to mitigate our losses on our Legacy 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 adequate liquidity to fund our operations;
- Our ability to maintain the security of our operating systems and infrastructure (e.g., against cyberattacks);
- 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 Forms 10-Q for the first and second quarters 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 (LOSS) (UNAUDITED)

(in millions, except share-related amounts)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Interest income				
Mortgage loans	$ 14,997	$ 15,595	$ 46,053	$ 46,433
Investments in securities	976	1,145	2,923	3,736
Other	74	19	187	45
Total interest income	16,047	16,759	49,163	50,214
Interest expense	(12,354)	(12,963)	(38,523)	(38,679)
Expense related to derivatives	(47)	(53)	(146)	(176)
Net interest income	3,646	3,743	10,494	11,359
Benefit (provision) for credit losses	(113)	528	1,129	1,884
Net interest income after benefit (provision) for credit losses	3,533	4,271	11,623	13,243
Non-interest income (loss)				
Gains (losses) on extinguishment of debt	(92)	4	(266)	(155)
Derivative gains (losses)	(36)	(4,172)	(6,655)	(3,440)
Net impairment of available-for-sale securities recognized in earnings	(9)	(54)	(138)	(245)
Other gains on investment securities recognized in earnings	309	256	1,062	825
Other income (loss)	605	125	1,527	(432)
Non-interest income (loss)	777	(3,841)	(4,470)	(3,447)
Non-interest expense				
Salaries and employee benefits	(248)	(231)	(727)	(742)
Professional services	(129)	(130)	(347)	(361)
Occupancy expense	(13)	(14)	(41)	(40)
Other administrative expense	(108)	(90)	(306)	(274)
Total administrative expense	(498)	(465)	(1,421)	(1,417)
Real estate owned operations expense	(56)	(116)	(169)	(243)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(293)	(248)	(845)	(705)
Other expense	(138)	(270)	(442)	(1,234)
Non-interest expense	(985)	(1,099)	(2,877)	(3,599)
Income (loss) before income tax (expense) benefit	3,325	(669)	4,276	6,197
Income tax (expense) benefit	(996)	194	(1,308)	(1,979)
Net income (loss)	2,329	(475)	2,968	4,218
Other comprehensive income (loss), net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	(47)	(61)	181	(218)
Changes in unrealized gains (losses) related to cash flow hedge relationships	29	35	95	132
Changes in defined benefit plans	(1)	—	(1)	26
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(19)	(26)	275	(60)
Comprehensive income (loss)	$ 2,310	$ (501)	$ 3,243	$ 4,158
Net income (loss)	$ 2,329	$ (475)	$ 2,968	$ 4,218
Undistributed net worth sweep and senior preferred stock dividends	(2,310)	—	(3,243)	(4,659)
Net income (loss) attributable to common stockholders	$ 19	$ (475)	$ (275)	$ (441)
Net income (loss) per common share — basic and diluted	$ 0.01	$ (0.15)	$ (0.09)	$ (0.14)
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)	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents (Note 12)	$ 3,940	$ 5,595
Restricted cash and cash equivalents (Notes 3, 12)	19,131	14,533
Securities purchased under agreements to resell (Notes 3, 8)	55,673	63,644
Investments in securities, at fair value (Note 5)	115,393	114,215
Mortgage loans held-for-sale (Notes 3, 4) (includes $15,018 and $17,660 at fair value)	18,646	24,992
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of $13,356 and $15,331)	1,763,790	1,729,201
Accrued interest receivable (Note 3)	6,103	6,074
Derivative assets, net (Notes 7, 8)	1,499	395
Real estate owned, net (Note 3)	1,272	1,725
Deferred tax assets, net (Note 10)	18,730	18,205
Other assets (Notes 3, 16)	11,085	7,313
Total assets	$ 2,015,262	$ 1,985,892
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	$ 5,890	$ 6,183
Debt, net (Notes 3, 6) (includes $6,448 and $7,184 at fair value)	1,999,841	1,970,269
Derivative liabilities, net (Notes 7, 8)	1,178	1,254
Other liabilities (Notes 3, 16)	4,843	5,246
Total liabilities	2,011,752	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)	(80,478)	(80,773)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $708 and $778, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	1,921	1,740
Cash flow hedge relationships	(526)	(621)
Defined benefit plans	33	34
Total AOCI, net of taxes	1,428	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)	3,510	2,940
Total liabilities and equity	$ 2,015,262	$ 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)	September 30, 2016	December 31, 2015
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		
Mortgage loans held-for-sale	$ 199	$ 1,403
Mortgage loans held-for-investment	1,666,352	1,625,184
All other assets	47,140	37,305
Total assets of consolidated VIEs	$ 1,713,691	$ 1,663,892
Liabilities: (Note 3)		
Debt, net	$ 1,621,782	$ 1,556,121
All other liabilities	4,841	4,769
Total liabilities of consolidated VIEs	$ 1,626,623	$ 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 provided by (used in) operating activities	$ 5,053	$ (5,443)
Cash flows from investing activities		
Purchases of trading securities	(70,690)	(33,987)
Proceeds from sales of trading securities	45,650	12,851
Proceeds from maturities of trading securities	18,602	15,585
Purchases of available-for-sale securities	(21,988)	(5,025)
Proceeds from sales of available-for-sale securities	17,009	16,364
Proceeds from maturities of available-for-sale securities	11,412	16,099
Purchases of held-for-investment mortgage loans	(120,753)	(92,535)
Proceeds from sales of mortgage loans held-for-investment	2,605	1,647
Repayments of mortgage loans held-for-investment	245,212	233,586
(Increase) decrease in restricted cash	(4,598)	(6,573)
Net proceeds from dispositions of real estate owned and other recoveries	2,023	2,990
Net (increase) decrease in securities purchased under agreements to resell	7,971	13,165
Derivative premiums and terminations and swap collateral, net	(6,528)	(1,888)
Changes in other assets (Note 16)	(20,711)	(8,634)
Net cash provided by investing activities	105,216	163,645
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	178,727	129,086
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(251,296)	(245,624)
Proceeds from issuance of other debt	504,447	437,415
Repayments of other debt	(541,125)	(479,494)
Payment of cash dividends on senior preferred stock	(2,673)	(5,510)
Changes in other liabilities	(4)	(3)
Net cash used in financing activities	(111,924)	(164,130)
Net (decrease) increase in cash and cash equivalents	(1,655)	(5,928)
Cash and cash equivalents at beginning of year	5,595	10,928
Cash and cash equivalents at end of period	$ 3,940	$ 5,000
Supplemental cash flow information		
Cash paid for:		
Debt interest	$ 46,399	$ 45,839
Income taxes	1,834	910
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 our 2015 Annual Report and our Quarterly Report on Form 10-Q for the second quarter of 2016. Throughout our unaudited condensed consolidated financial statements and related notes, we refer to the three months ended September 30, 2016 and the three months ended September 30, 2015 as "3Q 2016" and "3Q 2015," respectively, and we refer to the nine months ended September 30, 2016 and the nine months ended September 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.
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	The main objective of this Update is to address the diversity in practice that currently exists in regards to how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	We are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements.

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

BUSINESS OBJECTIVES

We operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA, as our Conservator. The conservatorship and related matters significantly affect our management, business activities, financial condition and results of operations. Upon its appointment, FHFA, as Conservator, immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director thereof, with respect to the company and its assets. The Conservator also succeeded to the title to all books, records, and assets of Freddie Mac held by any other legal custodian or third party. The Conservator 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 $308.1 billion at September 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 June 30, 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 3Q 2016. Since conservatorship began through September 30, 2016, we have paid cash dividends of $99.1 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 $88 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)	September 30, 2016	December 31, 2015
Consolidated Balance Sheet Line Item		
Assets:		
Restricted cash and cash equivalents	$ 18,966	$ 14,529
Securities purchased under agreements to resell	17,850	14,840
Mortgage loans held-for-sale	199	1,403
Mortgage loans held-for-investment	1,666,352	1,625,184
Accrued interest receivable	5,427	5,305
Real estate owned, net	35	40
Other assets	4,862	2,591
Total assets of consolidated VIEs	$ 1,713,691	$ 1,663,892
Liabilities:		
Accrued interest payable	$ 4,821	$ 4,763
Debt, net	1,621,782	1,556,121
Other liabilities	20	6
Total liabilities of consolidated VIEs	$ 1,626,623	$ 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.

	September 30, 2016	December 31, 2015
(in millions)	Freddie Mac Securities	
Assets and Liabilities Recorded on our Consolidated Balance Sheets		
Assets:		
Investments in securities	$ 58,854	$ 49,040
Accrued interest receivable	247	200
Other assets	1,611	1,232
Liabilities:		
Other liabilities	(1,463)	(1,230)
Maximum Exposure to Loss	$ 140,520	$ 114,193
Total Assets of Non-Consolidated VIEs	$ 165,114	$ 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.

	September 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	$ 140,520	$ 1,392	39	$ 114,193	$ 1,136	40
Other mortgage-related guarantees	15,761	666	34	13,067	596	38
Derivative instruments	6,051	143	29	17,894	151	30

(1) This amount excludes our reserve for guarantee losses, which totaled $70 million and $76 million as of September 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)	**September 30, 2016**	**December 31, 2015**	**September 30, 2016**	**December 31, 2015**
K Certificates	$ 126,379	$ 101,473	$ 22,196	$ 18,453
Other securitization products	9,261	7,026	1,802	1,477
Total	$ 135,640	$ 108,499	$ 23,998	$ 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 losses and related 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.

	September 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	$ 3,495	$ 263	$ 3,758	$ 6,045	$ 1,702	$ 7,747
Multifamily	15,453	—	15,453	19,582	—	19,582
Total UPB	18,948	263	19,211	25,627	1,702	27,329
Cost basis and fair value adjustments, net	(501)	(64)	(565)	(2,038)	(299)	(2,337)
Total held-for-sale loans	18,447	199	18,646	23,589	1,403	24,992
Held-for-investment:						
Single-family	86,070	1,634,776	1,720,846	90,532	1,597,590	1,688,122
Multifamily	25,156	2,969	28,125	29,505	1,711	31,216
Total UPB	111,226	1,637,745	1,748,971	120,037	1,599,301	1,719,338
Cost basis adjustments	(3,340)	31,515	28,175	(3,465)	28,659	25,194
Allowance for loan losses	(10,448)	(2,908)	(13,356)	(12,555)	(2,776)	(15,331)
Total held-for-investment loans	97,438	1,666,352	1,763,790	104,017	1,625,184	1,729,201
Total loans, net	$ 115,885	$ 1,666,551	$ 1,782,436	$ 127,606	$ 1,626,587	$ 1,754,193

During 3Q 2016 and 3Q 2015, we purchased $115.7 billion and $92.6 billion, respectively, in UPB of single-family loans and $1.7 billion and $1.4 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment. During YTD 2016 and YTD 2015, we purchased $273.9 billion and $271.6 billion, respectively, in UPB of single-family loans and $3.7 billion and $3.2 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 3Q 2016 and 3Q 2015, we sold $10.2 billion and $6.0 billion, respectively, in UPB of held-for-sale multifamily loans. During YTD 2016 and YTD 2015, we sold $36.4 billion and $21.2 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 $0.6 billion in UPB of seriously delinquent single-family loans during both 3Q 2016 and 3Q 2015, and $2.4 billion and $1.9 billion during YTD 2016 and YTD 2015, respectively.

We reclassified $0.3 billion and $2.5 billion in UPB of seriously delinquent single-family loans from held-for-investment to held-for-sale during 3Q 2016 and 3Q 2015, respectively, and $3.8 billion and $10.6 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 September 30, 2016 and December 31, 2015, based on data collected by us at loan delivery,

approximately 11% 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 or adjustable interest-rate 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.

	September 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]	$ 1,087,076	$ 241,576	$ 36,398	$ 1,365,050	$ 1,020,227	$ 242,948	$ 50,893	$ 1,314,068
15-year amortizing fixed-rate[2]	270,639	11,469	1,131	283,239	271,456	12,400	1,754	285,610
Adjustable-rate	54,307	3,555	120	57,982	59,724	5,055	249	65,028
Alt-A, interest-only, and option ARM	26,593	10,438	5,734	42,765	27,014	13,124	8,485	48,623
Total single-family loans	$ 1,438,615	$ 267,038	$ 43,383	$ 1,749,036	$ 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 6.39% and 6.03% as of September 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 September 30, 2016 and December 31, 2015, we have categorized UPB of approximately $34.2 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)	September 30, 2016	December 31, 2015
Credit risk profile by internally assigned grade:[1]		
Pass	$ 27,034	$ 29,660
Special mention	588	1,135
Substandard	488	408
Doubtful	—	—
Total	$ 28,110	$ 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.

	September 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	$ 1,333,997	$ 15,693	$ 4,628	$ 10,732	$ 1,365,050	$ 10,725
15-year amortizing fixed-rate	281,869	915	167	288	283,239	288
Adjustable-rate	57,379	332	77	194	57,982	194
Alt-A, interest-only, and option ARM	38,333	1,726	659	2,047	42,765	2,044
Total single-family	1,711,578	18,666	5,531	13,261	1,749,036	13,251
Total multifamily	28,110	—	—	—	28,110	94
Total single-family and multifamily	$ 1,739,688	$ 18,666	$ 5,531	$ 13,261	$ 1,777,146	$ 13,345

	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 $5.8 billion and $7.0 billion of loans that were in the process of foreclosure as of September 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)	September 30, 2016	December 31, 2015
Single-family:[1]		
Non-credit-enhanced portfolio		
Serious delinquency rate	1.05%	1.30%
Total number of seriously delinquent loans	79,943	105,071
Credit-enhanced portfolio:[2]		
Primary mortgage insurance:		
Serious delinquency rate	1.49%	2.06%
Total number of seriously delinquent loans	21,377	27,813
Other credit protection:[3]		
Serious delinquency rate	0.41%	0.58%
Total number of seriously delinquent loans	8,914	9,422
Total single-family:		
Serious delinquency rate	1.02%	1.32%
Total number of seriously delinquent loans	109,089	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	—%	0.02%
UPB of delinquent loans	$ 5	$ 20
Total Multifamily:		
Delinquency rate	0.01%	0.02%
UPB of delinquent loans	$ 24	$ 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.

	3Q 2016				3Q 2015			
	Allowance for Loan Losses		Reserve for Guarantee Losses	Total	Allowance for Loan Losses		Reserve for Guarantee Losses	Total
(in millions)	Held by Freddie Mac	Held By Consolidated Trusts			Held by Freddie Mac	Held By Consolidated Trusts		
Single-family:								
Beginning balance	$ 10,886	$ 2,589	$ 56	$ 13,531	$ 14,535	$ 2,738	$ 67	$ 17,340
Provision (benefit) for credit losses	(249)	368	2	121	(652)	122	2	(528)
Charge-offs	(422)	(37)	(2)	(461)	(605)	(73)	(2)	(680)
Recoveries	113	2	—	115	174	3	—	177
Transfers, net[1]	98	(16)	—	82	(128)	260	(1)	131
Ending balance	10,426	2,906	56	13,388	13,324	3,050	66	16,440
Multifamily ending balance	22	2	14	38	44	1	20	65
Total ending balance	$ 10,448	$ 2,908	$ 70	$ 13,426	$ 13,368	$ 3,051	$ 86	$ 16,505

	YTD 2016				YTD 2015			
	Allowance for Loan Losses		Reserve for Guarantee Losses	Total	Allowance for Loan Losses		Reserve for Guarantee Losses	Total
(in millions)	Held by Freddie Mac	Held By Consolidated Trusts			Held by Freddie Mac	Held By Consolidated Trusts		
Single-family:								
Beginning balance	$ 12,516	$ 2,775	$ 57	$ 15,348	$ 18,800	$ 2,884	$ 109	$ 21,793
Provision (benefit) for credit losses	(1,424)	308	6	(1,110)	(2,050)	222	(36)	(1,864)
Charge-offs	(1,388)	(121)	(7)	(1,516)	(4,179)	(298)	(6)	(4,483)
Recoveries	387	8	—	395	535	12	—	547
Transfers, net[1]	335	(64)	—	271	218	230	(1)	447
Ending balance	10,426	2,906	56	13,388	13,324	3,050	66	16,440
Multifamily ending balance	22	2	14	38	44	1	20	65
Total ending balance	$ 10,448	$ 2,908	$ 70	$ 13,426	$ 13,368	$ 3,051	$ 86	$ 16,505

(1) Consists of approximately $0.1 billion and $0.1 billion during 3Q 2016 and 3Q 2015, respectively, and $0.3 billion and $0.4 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 9.7% and 10.8% of the recorded investment in such loans at September 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 September 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.

	3Q 2016		3Q 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	8,052	$ 1,166	10,899	$ 1,530	26,948	$ 3,855	35,922	$ 5,121
15-year amortizing fixed-rate	1,052	74	1,428	102	3,498	254	4,483	327
Adjustable-rate	228	33	293	42	724	104	1,026	150
Alt-A, interest-only, and option ARM	669	113	941	167	2,339	411	3,455	642
Total single-family	10,001	1,386	13,561	1,841	33,509	4,624	44,886	6,240
Multifamily	—	—	—	—	2	8	1	30
Total	10,001	$ 1,386	13,561	$ 1,841	33,511	$ 4,632	44,887	$ 6,270

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during 3Q 2016 and YTD 2016 was $1.4 billion and $4.6 billion, respectively, compared to $1.8 billion and $6.2 billion during 3Q 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.

	3Q 2016		3Q 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	4,043	$ 626	4,919	$ 787	11,947	$ 1,859	13,692	$ 2,278
15-year amortizing fixed-rate	206	17	227	17	631	52	664	54
Adjustable-rate	74	9	93	15	211	30	243	41
Alt-A, interest-only, and option ARM	358	71	506	109	1,202	240	1,464	337
Total single-family	4,681	$ 723	5,745	$ 928	13,991	$ 2,181	16,063	$ 2,710
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 loans in modification trial periods). During YTD 2016 and YTD 2015, 6,352 and 7,280, respectively, of such loans (with a post-TDR recorded investment of $0.8 billion and $0.9 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, 920 and 1,821, 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 3Q16 and YTD 2016, approximately 43% and 42% of the single-family loan modifications completed during the respective periods that were classified as TDRs involved interest rate reductions and, in certain cases, term extensions. During 3Q16 and YTD 2016, approximately 15% and 16% of the single-family loan modifications completed during the respective periods that were classified as TDRs involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions. During 3Q 2016 and YTD 2016, the average term extension was 177 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.

	September 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	$ 5,443	$ 4,140	N/A	$ 4,957	$ 3,724	N/A
15-year amortizing fixed-rate	37	32	N/A	45	38	N/A
Adjustable-rate	267	264	N/A	194	191	N/A
Alt-A, interest-only, and option ARM	1,869	1,483	N/A	1,370	1,033	N/A
Total with no specific allowance recorded	7,616	5,919	N/A	6,566	4,986	N/A
With specific allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	68,791	67,101	$ (9,592)	72,886	71,215	$ (11,245)
15-year amortizing fixed-rate	862	866	(19)	975	978	(21)
Adjustable-rate	373	366	(20)	518	510	(28)
Alt-A, interest-only, and option ARM	13,182	12,568	(2,279)	14,409	13,839	(2,725)
Total with specific allowance recorded	83,208	80,901	(11,910)	88,788	86,542	(14,019)
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	74,234	71,241	(9,592)	77,843	74,939	(11,245)
15-year amortizing fixed-rate	899	898	(19)	1,020	1,016	(21)
Adjustable-rate	640	630	(20)	712	701	(28)
Alt-A, interest-only, and option ARM	15,051	14,051	(2,279)	15,779	14,872	(2,725)
Total single-family	$ 90,824	$ 86,820	$ (11,910)	$ 95,354	$ 91,528	$ (14,019)
Multifamily —						
With no specific allowance recorded[1]	$ 324	$ 311	N/A	$ 341	$ 333	N/A
With specific allowance recorded	48	46	$ (10)	149	142	$ (21)
Total multifamily	$ 372	$ 357	$ (10)	$ 490	$ 475	$ (21)
Total single-family and multifamily	$ 91,196	$ 87,177	$ (11,920)	$ 95,844	$ 92,003	$ (14,040)

	3Q 2016			3Q 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	$ 4,184	$ 118	$ 4	$ 3,415	$ 100	$ 2
15-year amortizing fixed-rate	33	1	—	38	2	—
Adjustable rate	268	2	—	135	1	—
Alt-A, interest-only, and option ARM	1,500	30	—	844	20	—
Total with no specific allowance recorded	5,985	151	4	4,432	123	2
With specific allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	67,333	677	61	72,585	627	67
15-year amortizing fixed-rate	857	10	1	989	11	2
Adjustable rate	359	3	—	579	4	1
Alt-A, interest-only, and option ARM	12,642	108	10	14,509	100	11
Total with specific allowance recorded	81,191	798	72	88,662	742	81
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	71,517	795	65	76,000	727	69
15-year amortizing fixed-rate	890	11	1	1,027	13	2
Adjustable rate	627	5	—	714	5	1
Alt-A, interest-only, and option ARM	14,142	138	10	15,353	120	11
Total single-family	$ 87,176	$ 949	$ 76	$ 93,094	$ 865	$ 83
Multifamily —						
With no specific allowance recorded[1]	$ 311	$ 4	$ 1	$ 423	$ 6	$ 3
With specific allowance recorded	46	—	—	197	2	1
Total multifamily	$ 357	$ 4	$ 1	$ 620	$ 8	$ 4
Total single-family and multifamily	$ 87,533	$ 953	$ 77	$ 93,714	$ 873	$ 87

	YTD 2016			YTD 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	$ 4,105	$ 337	$ 10	$ 3,265	$ 288	$ 9
15-year amortizing fixed-rate	35	4	—	42	6	—
Adjustable rate	247	6	—	84	2	—
Alt-A, interest-only, and option ARM	1,362	82	2	781	59	2
Total with no specific allowance recorded	5,749	429	12	4,172	355	11
With specific allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	69,060	2,015	196	74,209	1,898	242
15-year amortizing fixed-rate	901	30	5	1,056	35	8
Adjustable rate	409	11	2	676	14	3
Alt-A, interest-only, and option ARM	13,156	331	27	15,201	305	44
Total with specific allowance recorded	83,526	2,387	230	91,142	2,252	297
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	73,165	2,352	206	77,474	2,186	251
15-year amortizing fixed-rate	936	34	5	1,098	41	8
Adjustable rate	656	17	2	760	16	3
Alt-A, interest-only, and option ARM	14,518	413	29	15,982	364	46
Total single-family	$ 89,275	$ 2,816	$ 242	$ 95,314	$ 2,607	$ 308
Multifamily —						
With no specific allowance recorded[1]	$ 354	$ 11	$ 3	$ 635	$ 20	$ 7
With specific allowance recorded	67	2	1	261	7	5
Total multifamily	$ 421	$ 13	$ 4	$ 896	$ 27	$ 12
Total single-family and multifamily	$ 89,696	$ 2,829	$ 246	$ 96,210	$ 2,634	$ 320

(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.

	September 30, 2016			December 31, 2015		
(in millions)	Single-family	Multifamily	Total	Single-family	Multifamily	Total
Recorded investment:						
Collectively evaluated	$ 1,662,216	$ 27,753	$ 1,689,969	$ 1,621,801	$ 30,728	$ 1,652,529
Individually evaluated	86,820	357	87,177	91,528	475	92,003
Total recorded investment	1,749,036	28,110	1,777,146	1,713,329	31,203	1,744,532
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,422)	(14)	(1,436)	(1,273)	(18)	(1,291)
Individually evaluated	(11,910)	(10)	(11,920)	(14,019)	(21)	(14,040)
Total ending balance of the allowance	(13,332)	(24)	(13,356)	(15,292)	(39)	(15,331)
Net investment in loans	$ 1,735,704	$ 28,086	$ 1,763,790	$ 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)	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Primary mortgage insurance	$ 281,975	$ 257,063	$ 72,155	$ 65,760
STACR debt note and ACIS transactions[3]	333,112	241,450	19,766	14,916
Lender recourse and indemnifications	5,757	6,339	4,992	5,396
Deep MI and pool insurance[4]	1,477	1,706	682	753
HFA indemnification	2,095	2,599	2,095	2,599
Subordination	2,961	3,021	304	336
Other credit enhancements	13	15	7	10
Total	$ 627,390	$ 512,193	$ 100,001	$ 89,770

(1) Except for the majority of our single-family credit risk transfer ("CRT") 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 $7.2 billion and $8.3 billion in UPB of single-family loans underlying other securitization products as of September 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 $2.9 billion and $3.2 billion as of September 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 $120.6 billion and $87.4 billion in UPB at September 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 $1.3 billion and $0.6 billion in UPB at September 30, 2016 and December 31, 2015, respectively, where the related loans are also covered by primary mortgage insurance. Deep Mortgage Insurance CRT, or Deep MI, began in 3Q 2016.

Primary mortgage insurance and credit risk transfer transactions are the most prevalent types of credit enhancement protecting our single-family credit guarantee portfolio. 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 $165.3 billion and $189.0 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 $20.0 billion and $7.6 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 $1.1 billion, and $1.6 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)	September 30, 2016	December 31, 2015
Trading securities	$ 45,375	$ 39,278
Available-for-sale securities	70,018	74,937
Total	$ 115,393	$ 114,215

As of September 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)	September 30, 2016	December 31, 2015
Mortgage-related securities:		
Freddie Mac	$ 15,521	$ 15,513
Fannie Mae	6,068	6,438
Ginnie Mae	153	30
Other	54	146
Total mortgage-related securities	21,796	22,127
Non-mortgage-related securities	23,579	17,151
Total fair value of trading securities	$ 45,375	$ 39,278

During 3Q 2016 and YTD 2016, we recorded net unrealized gains (losses) on trading securities held at those dates of $(166) million and $38 million, respectively. During 3Q 2015 and YTD 2015, we recorded net unrealized gains (losses) on trading securities held at those dates of $(63) million and $(349) million, respectively.

AVAILABLE-FOR-SALE SECURITIES

At September 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.

	September 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	$ 42,117	$ 1,280	$ —	$ (64)	$ 43,333
Fannie Mae	4,273	157	—	(22)	4,408
Ginnie Mae	124	10	—	(1)	133
CMBS	8,223	542	(3)	(21)	8,741
Subprime	7,726	536	(96)	(25)	8,141
Option ARM	2,133	263	(30)	(3)	2,363
Alt-A and other	1,240	340	(1)	(3)	1,576
Obligations of states and political subdivisions	782	14	—	—	796
Manufactured housing	444	83	—	—	527
Total available-for-sale securities	$ 67,062	$ 3,225	$ (130)	$ (139)	$ 70,018

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

	September 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	$ 7,859	$ (50)	$ 1,376	$ (14)
Fannie Mae	246	(1)	2,122	(21)
Ginnie Mae	8	—	47	(1)
CMBS	355	(21)	32	(3)
Subprime	—	—	2,571	(121)
Option ARM	121	(2)	384	(31)
Alt-A and other	41	—	154	(4)
Obligations of states and political subdivisions	10	—	—	—
Manufactured housing	—	—	13	—
Total available-for-sale securities in a gross unrealized loss position	$ 8,640	$ (74)	$ 6,699	$ (195)

	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 September 30, 2016, the gross unrealized losses relate to 257 separate securities.

Impairment Recognition on Investments in Securities

For our available-for-sale securities in an unrealized loss position at September 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.

	September 30, 2016	
(dollars in millions)	Subprime	Other[1]
UPB	$ 10,977	$ 4,353
Weighted average collateral cumulative loss	26%	16 %
Weighted average voluntary prepayment rates	5%	8 %
Average security credit enhancements[2]	2%	(2)%

(1) Consists of Option ARM and Alt-A.
(2) Positive values reflect the amount of subordination and other financial support (excluding credit enhancement provided by bond insurance) that will incur losses in the securitization structure before any losses are allocated to securities that we own. Percentage generally calculated based on the total UPB of securities subordinate to the securities we own, divided by the total UPB of all of the securities issued by the trust (excluding notional balances). Negative values are shown when unallocated collateral losses will be allocated to the securities that we own in excess of current remaining credit enhancement, if any. The unallocated collateral losses have been considered in our assessment of other-than-temporary impairment.

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

The table below summarizes other-than-temporary impairment on available-for-sale securities recognized in earnings.

(in millions)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	$ 7	$ 38	$ 69	$ 204
Portion of other-than-temporary impairment recognized in AOCI	2	16	69	41
Net impairment of available-for-sale securities recognized in earnings[1]	$ 9	$ 54	$ 138	$ 245

(1) Includes $6 million and $38 million during 3Q 2016 and 3Q 2015, respectively, and $68 million and $203 million during YTD 2016 and YTD 2015, respectively, of impairment recognized in earnings due to change in status from intent to hold to intent to sell.

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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Credit-related other-than-temporary impairment on available-for-sale securities recognized in earnings:				
Beginning balance — remaining credit losses on available-for-sale securities where other-than-temporary impairment was recognized in earnings	$ 4,517	$ 5,679	$ 5,306	$ 6,798
Additions:				
Amounts related to credit losses on securities for which an other-than-temporary impairment was previously recognized	3	16	70	42
Reductions:				
Amounts related to securities which were sold, written off, or matured	(69)	(21)	(131)	(108)
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	(176)	(60)	(833)	(951)
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	(66)	(79)	(203)	(246)
Ending balance — remaining credit losses on available-for-sale securities where other-than-temporary impairment was recognized in earnings	$ 4,209	$ 5,535	$ 4,209	$ 5,535

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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Gross realized gains	$ 510	$ 324	$ 1,003	$ 1,177
Gross realized losses	(13)	(12)	(48)	(23)
Net realized gains (losses)	$ 497	$ 312	$ 955	$ 1,154

Maturities of Available-For-Sale Securities

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

	As of September 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	$ 42,117	$ 43,333	$ 6	$ 6	$ 51	$ 51	$ 2,267	$ 2,280	$ 39,793	$ 40,996
Fannie Mae	4,273	4,408	2	2	6	6	46	53	4,219	4,347
Ginnie Mae	124	133	—	—	—	1	25	29	99	103
CMBS	8,223	8,741	140	141	—	—	—	—	8,083	8,600
Subprime	7,726	8,141	—	—	—	—	—	—	7,726	8,141
Option ARM	2,133	2,363	—	—	—	—	—	—	2,133	2,363
Alt-A and other	1,240	1,576	—	—	9	9	8	8	1,223	1,559
Obligations of states and political subdivisions	782	796	5	5	19	20	64	67	694	704
Manufactured housing	444	527	—	—	—	—	13	18	431	509
Total available-for-sale securities	$ 67,062	$ 70,018	$ 153	$ 154	$ 85	$ 87	$ 2,423	$ 2,455	$ 64,401	$ 67,322

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)	September 30, 2016	December 31, 2015	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Debt securities of consolidated trusts held by third parties	$ 1,621,782	$ 1,556,121	$ 10,887	$ 11,364	$ 33,927	$ 33,856
Other debt:						
Short-term debt	77,483	113,569	83	40	258	114
Long-term debt	300,576	300,579	1,384	1,559	4,338	4,709
Total other debt	378,059	414,148	1,467	1,599	4,596	4,823
Total debt, net	$ 1,999,841	$ 1,970,269	$ 12,354	$ 12,963	$ 38,523	$ 38,679

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 September 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.

	September 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	$1,161,953	$1,199,124	3.76%	2016 - 2053	$1,090,584	$1,123,290	3.88%
20-year fixed-rate	2016 - 2036	75,312	77,700	3.52	2016 - 2036	73,018	75,221	3.61
15-year fixed-rate	2016 - 2031	265,537	272,056	2.93	2016 - 2031	270,036	276,531	3.01
Adjustable-rate	2016 - 2047	56,476	57,788	2.67	2016 - 2047	62,496	63,899	2.61
Interest-only	2026 - 2041	10,796	10,850	3.39	2026 - 2041	14,252	14,317	3.16
FHA/VA	2016 - 2046	1,068	1,093	4.93	2016 - 2044	986	1,005	5.37
Total single-family		1,571,142	1,618,611			1,511,372	1,554,263	
Multifamily[2]	2017 - 2033	2,976	3,171	4.55	2017 - 2028	1,717	1,858	4.90
Total debt securities of consolidated trusts held by third parties		$1,574,118	$1,621,782			$1,513,089	$1,556,121	

(1) The effective rate for debt securities of consolidated trusts held by third parties was 2.57% and 3.06% as of September 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. Securities sold under agreements to repurchase are effectively collateralized borrowing transactions where we sell securities with an agreement to repurchase such securities. These agreements require the underlying securities to be delivered to the counterparties to the transactions.

	September 30, 2016			December 31, 2015		
(dollars in millions)	Par Value	Carrying Amount[1]	Weighted Average Effective Rate[2]	Par Value	Carrying Amount[1]	Weighted Average Effective Rate[2]
Other short-term debt:						
Discount notes and Reference Bills®	$ 69,350	$ 69,274	0.43%	$ 104,088	$ 104,024	0.28%
Medium-term notes	—	—	—	9,545	9,545	0.20
Securities sold under agreements to repurchase	8,209	8,209	0.06	—	—	—
Total other short-term debt	$ 77,559	$ 77,483	0.39	$ 113,633	$ 113,569	0.28
Other long-term debt:						
Original maturities on or before December 31,						
2016	$ 17,563	$ 17,564	1.58%	$ 58,765	$ 58,821	2.13%
2017	93,469	93,513	1.42	91,544	91,636	1.48
2018	72,201	72,327	1.20	48,189	48,187	1.52
2019	46,941	46,881	1.58	31,352	31,259	1.84
2020	14,389	14,367	1.57	26,697	26,664	1.96
Thereafter	59,414	55,924	3.49	47,841	44,012	3.72
Total other long-term debt[3]	303,977	300,576	1.79	304,388	300,579	2.02
Total other debt	$ 381,536	$ 378,059		$ 418,021	$ 414,148	

(1) Represents par value, net of associated discounts or premiums, issuance cost and hedge-related basis adjustments. Includes $6.3 billion and $7.0 billion at September 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) Based on carrying amount.
(3) Carrying amount for other long-term debt includes callable debt of $102.4 billion and $106.9 billion at September 30, 2016 and December 31, 2015, respectively.

NOTE 7: DERIVATIVES

At September 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 $147 million and $177 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.

	September 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	$ 285,191	$ 8,805	$ (180)	$ 209,988	$ 4,591	$ (486)
Pay-fixed	242,157	88	(22,211)	218,599	319	(11,736)
Basis (floating to floating)	1,125	1	—	1,125	1	—
Total interest-rate swaps	528,473	8,894	(22,391)	429,712	4,911	(12,222)
Option-based:						
Call swaptions						
Purchased	63,880	6,026	—	57,925	3,450	—
Written	850	—	(118)	4,375	—	(100)
Put swaptions						
Purchased	38,180	614	—	24,050	580	—
Written	3,200	—	(2)	11,025	—	(28)
Other option-based derivatives[1]	15,891	1,017	—	12,088	791	—
Total option-based	122,001	7,657	(120)	109,463	4,821	(128)
Futures	123,163	—	—	56,332	—	—
Commitments	72,259	94	(152)	29,114	34	(28)
Credit derivatives	3,254	2	(31)	3,899	25	(10)
Other	3,019	—	(23)	3,033	—	(23)
Total derivatives not designated as hedging instruments	852,169	16,647	(22,717)	631,553	9,791	(12,411)
Derivative interest receivable (payable)		1,517	(1,853)		814	(1,393)
Netting adjustments[2]		(16,665)	23,392		(10,210)	12,550
Total derivative portfolio, net	$ 852,169	$ 1,499	$ (1,178)	$ 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 $6.7 billion and $2.3 billion at September 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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Interest-rate swaps:				
Receive-fixed	$ (1,176)	$ 1,845	$ 3,707	$ 1,563
Pay-fixed	1,717	(6,538)	(11,221)	(4,076)
Basis (floating to floating)	—	—	1	(1)
Total interest-rate swaps	541	(4,693)	(7,513)	(2,514)
Option based:				
Call swaptions				
Purchased	(116)	1,293	3,283	795
Written	1	(49)	(88)	(40)
Put swaptions				
Purchased	(98)	(259)	(612)	(194)
Written	2	47	49	70
Other option-based derivatives[1]	(24)	139	209	91
Total option-based	(235)	1,171	2,841	722
Other:				
Futures	103	(2)	(365)	(13)
Commitments	8	(114)	(222)	40
Credit derivatives	(35)	2	(66)	(36)
Other	(2)	—	(4)	—
Total other	74	(114)	(657)	(9)
Accrual of periodic cash settlements:				
Receive-fixed interest-rate swaps	586	647	1,825	1,948
Pay-fixed interest-rate swaps	(1,003)	(1,183)	(3,152)	(3,588)
Other	1	—	1	1
Total accrual of periodic cash settlements	(416)	(536)	(1,326)	(1,639)
Total	$ (36)	$ (4,172)	$ (6,655)	$ (3,440)

(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 September 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 September 30, 2016, our maximum loss for accounting purposes after applying netting agreements and collateral on an individual counterparty basis would have been approximately $155 million. A significant majority of our net uncollateralized exposure to OTC derivative counterparties is concentrated among three counterparties, all of which were investment grade as of September 30, 2016.

Exposure to Certain Counterparties

The total exposure on our forward purchase and sale commitments, which are treated as derivatives, was $94 million and $34 million at September 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, securities purchased under agreements to resell, and securities sold under agreements to repurchase that are included in debt, net on our consolidated balance sheets.

	September 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	$ 12,789	$ (11,770)	$ 1,019	$ (864)	$ 155
Cleared and exchange-traded derivatives	5,279	(4,895)	384	—	384
Other	96	—	96	—	96
Total derivatives	18,164	(16,665)	1,499	(864)	635
Securities purchased under agreements to resell	55,673	—	55,673	(55,673)	—
Total	$ 73,837	$ (16,665)	$ 57,172	$ (56,537)	$ 635
Liabilities:					
Derivatives:					
OTC interest-rate swaps and option-based derivatives	$ (11,771)	$ 10,857	$ (914)	$ 854	$ (60)
Cleared and exchange-traded derivatives	(12,593)	12,535	(58)	—	(58)
Other	(206)	—	(206)	—	(206)
Total derivatives	(24,570)	23,392	(1,178)	854	(324)
Securities sold under agreements to repurchase	(8,209)	—	(8,209)	8,209	—
Total	$ (32,779)	$ 23,392	$ (9,387)	$ 9,063	$ (324)

	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 derivatives	$ (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 $3.2 billion and $2.8 billion as of September 30, 2016 and December 31, 2015, respectively.

COLLATERAL PLEDGED

Collateral Pledged to Freddie Mac

We have cash pledged to us as collateral related to OTC derivative transactions. A portion of the cash collateral amount has 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)	September 30, 2016	December 31, 2015
Restricted cash and cash equivalents	$ 148	$ 175
Securities purchased under agreements to resell	714	905
Investments in securities - Trading securities	1,700	447
Total	$ 2,562	$ 1,527

At September 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.

Also, at September 30, 2016 and December 31, 2015, we had $8.2 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 contain credit-risk related contingent features that were in a liability position on September 30, 2016, was $2.5 billion for which we posted cash and non-cash collateral of $2.5 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 September 30, 2016, we would have been required to post an additional $61 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 collateralized borrowing transactions, including securities sold under agreements to repurchase, where the secured party may repledge.

(in millions)	September 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]	$ 1,392	$ 1,293
Available-for-sale securities	260	—
Trading securities	11,057	2,487
Total securities pledged	$ 12,709	$ 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 September 30, 2016, we pledged $9.8 billion of collateral in the form of cash, of which $1.6 billion related to our OTC derivative agreements as we had $2.5 billion of such derivatives in a net loss position. The remaining $8.2 billion was posted at clearing members or clearinghouses in connection with derivatives and securities transactions at September 30, 2016.

At December 31, 2015, we pledged $4.0 billion of collateral in the form of cash, 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]	712	—	1	713
Amounts reclassified from accumulated other comprehensive income	(531)	95	(2)	(438)
Changes in AOCI by component	181	95	(1)	275
Ending balance	$ 1,921	$ (526)	$ 33	$ 1,428

	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]	373	—	27	400
Amounts reclassified from accumulated other comprehensive income	(591)	132	(1)	(460)
Changes in AOCI by component	(218)	132	26	(60)
Ending balance	$ 2,328	$ (671)	$ 13	$ 1,670

(1) For YTD 2016 and YTD 2015, net of tax expense of $0.4 billion and $0.2 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					Affected Line Item in the Consolidated Statements of Comprehensive Income
(in millions)	3Q 2016	3Q 2015	YTD 2016	YTD 2015	
AOCI related to available-for-sale securities					
	$ 497	$ 312	$ 955	$ 1,154	Other gains (losses) on investment securities recognized in earnings
	(9)	(54)	(138)	(245)	Net impairment of available-for-sale securities recognized in earnings
	488	258	817	909	Total before tax
	(171)	(89)	(286)	(318)	Tax (expense) or benefit
	317	169	531	591	Net of tax
AOCI related to cash flow hedge relationships					
	—	—	(1)	(1)	Interest expense — Other debt
	(47)	(53)	(146)	(176)	Expense related to derivatives
	(47)	(53)	(147)	(177)	Total before tax
	18	18	52	45	Tax (expense) or benefit
	(29)	(35)	(95)	(132)	Net of tax
AOCI related to defined benefit plans					
	1	1	3	1	Salaries and employee benefits
	—	—	(1)	—	Tax (expense) or benefit
	1	1	2	1	Net of tax
Total reclassifications in the period	$ 289	$ 135	$ 438	$ 460	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 $0.5 billion and $0.7 billion at September 30, 2016 and September 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 $127 million, net of taxes, of the $0.5 billion of cash flow hedge losses in AOCI at September 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 September 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 September 30, 2016 and the Capital Reserve Amount of $1.2 billion in 2016, our dividend obligation to Treasury in December 2016 will be $2.3 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 September 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 3Q 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 September 30, 2016 and September 30, 2015 were out of the money and excluded from the computation of dilutive potential common shares during 3Q 2016 and YTD 2016, and 3Q 2015 and YTD 2015, respectively.

DIVIDENDS DECLARED

No common dividends were declared during YTD 2016. During 1Q 2016, 2Q 2016, and 3Q 2016, we paid dividends of $1.7 billion, $0 billion, and $0.9 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 3Q 2016 and 3Q 2015, we reported an income tax benefit (expense) of $(1.0) billion and $0.2 billion, respectively, resulting in effective tax rates of 30.0% and 29.0%, respectively. For YTD 2016 and YTD 2015, we reported an income tax expense of $1.3 billion and $2.0 billion, respectively, resulting in effective tax rates of 30.6% and 31.9%, 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 September 30, 2016 and December 31, 2015, respectively. At September 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 September 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 September 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 $205 million and $602 million and a decrease to guarantee fee income for the Single-family Guarantee

segment of $62 million and $202 million for 3Q 2015 and YTD 2015, respectively, to align with the current presentation.

- Adjustments to record amortization of premiums and discounts on loans that were securitized in other non-interest income. Previously when we securitized loans into PCs, the premiums and discounts on the loans were amortized in net interest income. We reclassified $325 million and $1.0 billion of expense from net interest income into other non-interest income (loss) for the Investments segment for 3Q 2015 and YTD 2015, respectively, to align with the current presentation.
- Adjustments to reflect the impacts from the reclassification of mortgage loans from held-for-investment to held-for-sale as other non-interest income. We reclassified $485 million and $2.0 billion of benefit from (provision) benefit for credit losses and $177 million and $937 million of expense from other non-interest expense into other non-interest income (loss) for the Single-family Guarantee segment for 3Q 2015 and YTD 2015, respectively, to align with the current presentation.

In addition, during the third quarter of 2016, we changed how we calculate certain components of our Segment Earnings for our Single-family Guarantee and Multifamily segments. The purpose of these changes is to better reflect how management evaluates the Single-family Guarantee and Multifamily segments. Prior period results have been revised to conform to the current period presentation. Changes include:

- Adjustments to record amortization of non-cash premiums and discounts on single-family loans in trusts and on consolidated PCs and amortization of discounts on loans purchased with deteriorated credit quality that are on accrual status into other non-interest income (loss). Previously this activity was included in net interest income. We reclassified $171 million and $254 million of income from net interest income into other non-interest income (loss) for the Single-family Guarantee segment for 3Q 2015 and YTD 2015, respectively, to align with the current presentation.
- Adjustments to record STACR debt note expense and net float income or expense into other non-interest expense. Previously this activity was included in net interest income. We reclassified $(118) million and $(309) million of expense from net interest income into other non-interest expense for the Single-family Guarantee segment for 3Q 2015 and YTD 2015, respectively, to align with the current presentation.
- Multifamily segment net interest income previously reflected the internally allocated costs associated with the refinancing of debt related to held-for-investment loans which we securitized. These costs are now reflected in other non-interest income (loss). We reclassified $122 million of expense from net interest income into other non-interest income (loss) for the Multifamily segment for both 3Q 2015 and YTD 2015 to align with the current presentation.

The table below presents Segment Earnings by segment.

(in millions)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Segment Earnings (loss), net of taxes:				
Single-family Guarantee	$ 497	$ 591	$ 1,890	$ 1,140
Multifamily	744	(103)	1,156	654
Investments	1,088	(963)	(78)	2,424
All Other	—	—	—	—
Total Segment Earnings, net of taxes	2,329	(475)	2,968	4,218
Net income	$ 2,329	$ (475)	$ 2,968	$ 4,218
Comprehensive income (loss) of segments:				
Single-family Guarantee	$ 496	$ 591	$ 1,889	$ 1,139
Multifamily	790	(84)	1,212	546
Investments	1,024	(1,008)	142	2,446
All Other	—	—	—	27
Comprehensive income of segments	2,310	(501)	3,243	4,158
Comprehensive income	$ 2,310	$ (501)	$ 3,243	$ 4,158

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

	3Q 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	$ —	$ 255	$ 532	$ —	$ 787	$ 2,859	$ 3,646
Guarantee fee income[1]	1,641	134	—	—	1,775	(1,642)	133
Benefit for credit losses	(297)	8	—	—	(289)	176	(113)
Net impairment of available-for-sale securities recognized in earnings	—	—	94	—	94	(103)	(9)
Derivative gains (losses)	(35)	205	613	—	783	(819)	(36)
Gains (losses) on trading securities	—	15	(203)	—	(188)	—	(188)
Gains (losses) on loans	—	126	—	—	126	13	139
Other non-interest income (loss)	41	410	664	—	1,115	(377)	738
Administrative expenses	(330)	(89)	(79)	—	(498)	—	(498)
REO operations expense	(59)	—	—	—	(59)	3	(56)
Other non-interest expense	(311)	(10)	—	—	(321)	(110)	(431)
Income tax expense	(153)	(310)	(533)	—	(996)	—	(996)
Net income	497	744	1,088	—	2,329	—	2,329
Changes in unrealized gains (losses) related to available-for-sale securities	—	46	(93)	—	(47)	—	(47)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	29	—	29	—	29
Changes in defined benefit plans	(1)	—	—	—	(1)	—	(1)
Total other comprehensive income (loss), net of taxes	(1)	46	(64)	—	(19)	—	(19)
Comprehensive income	$ 496	$ 790	$ 1,024	$ —	$ 2,310	$ —	$ 2,310

	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	$ —	$ 791	$ 1,886	$ —	$ 2,677	$ 7,817	$ 10,494
Guarantee fee income[1]	4,427	366	—	—	4,793	(4,426)	367
Benefit for credit losses	113	19	—	—	132	997	1,129
Net impairment of available-for-sale securities recognized in earnings	—	—	224	—	224	(362)	(138)
Derivative gains (losses)	(64)	(878)	(3,385)	—	(4,327)	(2,328)	(6,655)
Gains (losses) on trading securities	—	119	(12)	—	107	—	107
Gains (losses) on loans	—	747	—	—	747	(611)	136
Other non-interest income (loss)	195	800	1,404	—	2,399	(686)	1,713
Administrative expense	(939)	(255)	(227)	—	(1,421)	—	(1,421)
REO operations expense	(177)	—	—	—	(177)	8	(169)
Other non-interest expense	(832)	(43)	(3)	—	(878)	(409)	(1,287)
Income tax (expense) benefit	(833)	(510)	35	—	(1,308)	—	(1,308)
Net income (loss)	1,890	1,156	(78)	—	2,968	—	2,968
Changes in unrealized gains (losses) related to available-for-sale securities	—	56	125	—	181	—	181
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	95	—	95	—	95
Changes in defined benefit plans	(1)	—	—	—	(1)	—	(1)
Total other comprehensive income (loss), net of taxes	(1)	56	220	—	275	—	275
Comprehensive income (loss)	$ 1,889	$ 1,212	$ 142	$ —	$ 3,243	$ —	$ 3,243

	3Q 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	$ —	$ 270	$ 923	$ —	$ 1,193	$ 2,550	$ 3,743
Guarantee fee income[1]	1,283	87	—	—	1,370	(1,280)	90
Benefit (provision) for credit losses	(125)	—	—	—	(125)	653	528
Net impairment of available-for-sale securities recognized in earnings	—	3	109	—	112	(166)	(54)
Derivative gains (losses)	2	(502)	(2,950)	—	(3,450)	(722)	(4,172)
Gains (losses) on trading securities	—	47	(103)	—	(56)	—	(56)
Gains (losses) on loans	—	122	—	—	122	(319)	(197)
Other non-interest income (loss)	336	(80)	703	—	959	(411)	548
Administrative expenses	(309)	(80)	(76)	—	(465)	—	(465)
REO operations expense	(118)	—	—	—	(118)	2	(116)
Other non-interest expense	(198)	(13)	—	—	(211)	(307)	(518)
Income tax expense	(280)	43	431	—	194	—	194
Net income	591	(103)	(963)	—	(475)	—	(475)
Changes in unrealized gains (losses) related to available-for-sale securities	—	19	(80)	—	(61)	—	(61)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	35	—	35	—	35
Changes in defined benefit plans	—	—	—	—	—	—	—
Total other comprehensive income (loss), net of taxes	—	19	(45)	—	(26)	—	(26)
Comprehensive income	$ 591	$ (84)	$ (1,008)	$ —	$ (501)	$ —	$ (501)

	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	$ —	$ 793	$ 3,125	$ —	$ 3,918	$ 7,441	$ 11,359
Guarantee fee income[1]	3,864	239	—	—	4,103	(3,834)	269
Benefit (provision) for credit losses	(642)	20	—	—	(622)	2,506	1,884
Net impairment of available-for-sale securities recognized in earnings	—	(22)	322	—	300	(545)	(245)
Derivative gains (losses)	(36)	7	(1,221)	—	(1,250)	(2,190)	(3,440)
Gains (losses) on trading securities	—	—	(329)	—	(329)	—	(329)
Gains (losses) on loans	—	216	—	—	216	(1,537)	(1,321)
Other non-interest income (loss)	243	(16)	1,905	—	2,132	(513)	1,619
Administrative expense	(938)	(240)	(239)	—	(1,417)	—	(1,417)
REO operations expense	(248)	—	—	—	(248)	5	(243)
Other non-interest expense	(568)	(36)	(2)	—	(606)	(1,333)	(1,939)
Income tax expense	(535)	(307)	(1,137)	—	(1,979)	—	(1,979)
Net income	1,140	654	2,424	—	4,218	—	4,218
Changes in unrealized gains (losses) related to available-for-sale securities	—	(108)	(110)	—	(218)	—	(218)
Changes in unrealized gains (losses) related to cash flow hedge relationships	—	—	132	—	132	—	132
Changes in defined benefit plans	(1)	—	—	27	26	—	26
Total other comprehensive income (loss), net of taxes	(1)	(108)	22	27	(60)	—	(60)
Comprehensive income	$ 1,139	$ 546	$ 2,446	$ 27	$ 4,158	$ —	$ 4,158

(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 September 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.

	September 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	71%	0.19%	66%	0.21%	6%	3%
HARP and other relief refinance book	16	0.67%	18	0.72%	17	7
Legacy single-family book	13	3.53%	16	4.12%	77	90
Total	100%	1.02%	100%	1.32%	100%	100%
Region[1]						
West	29%	0.60%	29%	0.79%	10%	13%
Northeast	25	1.51%	26	2.04%	40	43
North Central	17	0.94%	17	1.13%	25	16
Southeast	16	1.20%	16	1.57%	19	25
Southwest	13	0.74%	12	0.88%	6	3
Total	100%	1.02%	100%	1.32%	100%	100%
State[2]						
New Jersey	3%	2.46%	4%	3.90%	11%	15%
Illinois	5	1.36%	5	1.62%	10	8
New York	5	2.13%	5	2.94%	9	12
Florida	6	1.49%	5	2.16%	9	19
Maryland	3	1.34%	3	1.64%	6	4
All other	78	0.83%	78	1.03%	55	42
Total	100%	1.02%	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)	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Interest-only	1%	1%	4.42%	6.02%
Alt-A	2%	2%	5.28%	6.32%
Original LTV ratio greater than 90%[2]	16%	16%	1.59%	2.01%
Lower credit scores at origination (less than 620)	2%	2%	5.55%	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 Sellers		
Wells Fargo Bank, N.A.	14%	12%
Other top 10 sellers	33	39
Top 10 single-family sellers	47%	51%
Multifamily Sellers		
Berkadia Commercial Mortgage LLC	19%	8%
CBRE Capital Markets, Inc.	17	17
Walker & Dunlop, LLC	12	14
Other top 10 sellers	30	43
Top 10 multifamily sellers	78%	82%

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 September 30, 2016.

	September 30, 2016	December 31, 2015
Single-family Servicers		
Wells Fargo Bank, N.A.	19%	20%
Other top 10 servicers	42	45
Top 10 single-family servicers	61%	65%
Multifamily Servicers		
Wells Fargo Bank, N.A.	13%	14%
CBRE Capital Markets, Inc.	12	12
Berkadia Commercial Mortgage LLC	12	14
Other top 10 servicers	38	36
Top 10 multifamily servicers	75%	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 September 30, 2016 and December 31, 2015, approximately 10% of our single-family credit guarantee portfolio was serviced by our top three 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 $21.7 billion servicing portfolio as of September 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 September 30, 2016, mortgage insurers provided coverage with maximum loss limits of $72.8 billion, for $283.9 billion of UPB, in connection with our single-family credit guarantee portfolio. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected loan is covered under 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. On August 15, 2016, American International Group, Inc. announced that it had entered into an agreement to sell 100% of its interest in United Guaranty Corporation to Arch Capital Group Ltd. Completion of this sale will affect the concentrations shown in the table below. As of September 30, 2016, Arch Capital Group, Ltd. provided 3% of our overall mortgage insurance coverage and was rated BBB+. On October 23, 2016, Genworth Financial, Inc. announced that it had entered into an agreement to be acquired by China Oceanwide Holdings Group Co., Ltd. Genworth Mortgage Insurance Corporation is a subsidiary of Genworth Financial, Inc.

		Mortgage Insurance Coverage	
	Credit Rating[1]	September 30, 2016	December 31, 2015
Radian Guaranty Inc.	BBB-	21%	22%
United Guaranty Residential Insurance Company	BBB+	21	23
Mortgage Guaranty Insurance Corporation	BBB-	20	21
Genworth Mortgage Insurance Corporation	BB+	15	14
Essent Guaranty, Inc.	BBB	10	9%
Total		87%	89%

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

We received proceeds of $0.4 billion and $0.5 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 September 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 September 30, 2016 and December 31, 2015, respectively.

PMI Mortgage Insurance Co. and Triad Guaranty Insurance Corp. are both under the control of their state regulators and are in run-off. A substantial portion of their claims is recorded by us as deferred payment obligations. As of both September 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, the Federal Reserve Bank of New York, and money market funds. As of September 30, 2016 and December 31, 2015, including amounts related to our consolidated VIEs, there were $78.7 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 September 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. 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 ultimately 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 worked with an investor consortium 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 May 2016, after various judicial proceedings, 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. This benefit, which was received in June 2016, was approximately $315 million. We subsequently sold certain of the securities covered by this settlement during 3Q 2016.

We also worked with an investor consortium 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. The order became final in January 2016. The conditions of the settlement have been satisfied. As a result, we expect to receive a benefit for those securitizations that we hold at the time settlement proceeds are distributed to the trust. This benefit, which is expected to be approximately $26 million, will be recognized in earnings over the expected remaining life of the securities, unless the securities are sold, at which time the benefit would be considered in the sales price 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 non-agency mortgage-related securities. In November 2013, J.P. Morgan Chase & Co. announced a settlement of these claims. In August 2016, a New York state court entered a judgment approving the settlement. The settlement is subject to certain additional conditions, which have not yet been satisfied. We expect to receive a benefit for those securitizations that we hold at the time settlement proceeds are distributed to the trusts. This benefit, which is expected to be approximately $78 million, will be recognized in earnings over the expected remaining life of the securities, unless the securities are sold, at which time the benefit would be considered in the sales price of the securities.

The majority of the single-family loans underlying our investments in non-agency mortgage-related securities are serviced by non-depository servicers. As of September 30, 2016 and December 31, 2015, approximately $8.8 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 September 2017, 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 $9.0 billion and $12.9 billion as of September 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 September 30, 2016 and December 31, 2015 is $63.2 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.

	September 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	$ —	$ 36,193	$ 7,140	$ —	$ 43,333
Fannie Mae	—	4,339	69	—	4,408
Ginnie Mae	—	133	—	—	133
CMBS	—	5,012	3,729	—	8,741
Subprime	—	—	8,141	—	8,141
Option ARM	—	—	2,363	—	2,363
Alt-A and other	—	—	1,576	—	1,576
Obligations of states and political subdivisions	—	—	796	—	796
Manufactured housing	—	—	527	—	527
Total available-for-sale securities, at fair value	—	45,677	24,341	—	70,018
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac	—	14,587	934	—	15,521
Fannie Mae	—	6,055	13	—	6,068
Ginnie Mae	—	153	—	—	153
Other	—	53	1	—	54
Total mortgage-related securities	—	20,848	948	—	21,796
Non-mortgage-related securities	22,508	1,071	—	—	23,579
Total trading securities, at fair value	22,508	21,919	948	—	45,375
Total investments in securities	22,508	67,596	25,289	—	115,393
Mortgage loans:					
Held-for-sale, at fair value	—	15,018	—	—	15,018
Derivative assets, net:					
Interest-rate swaps	—	8,894	—	—	8,894
Option-based derivatives	—	7,657	—	—	7,657
Other	—	91	5	—	96
Subtotal, before netting adjustments	—	16,642	5	—	16,647
Netting adjustments[1]	—	—	—	(15,148)	(15,148)
Total derivative assets, net	—	16,642	5	(15,148)	1,499
Other assets:					
Guarantee asset, at fair value	—	—	2,165	—	2,165
Non-derivative held-for-sale purchase commitments, at fair value	—	258	—	—	258
Total other assets	—	258	2,165	—	2,423
Total assets carried at fair value on a recurring basis	$ 22,508	$ 99,514	$ 27,459	$ (15,148)	$134,333
Liabilities:					
Debt securities of consolidated trusts held by third parties, at fair value	$ —	$ 164	$ —	$ —	$ 164
Other debt, at fair value	—	6,232	52	—	6,284
Derivative liabilities, net:					
Interest-rate swaps	—	22,391	—	—	22,391
Option-based derivatives	—	120	—	—	120
Other	—	144	62	—	206
Subtotal, before netting adjustments	—	22,655	62	—	22,717
Netting adjustments[1]	—	—	—	(21,539)	(21,539)
Total derivative liabilities, net	—	22,655	62	(21,539)	1,178
Other liabilities:					
Non-derivative held-for-sale purchase commitments, at fair value	—	7	—	—	7
Total other liabilities	—	7	—	—	7
Total liabilities carried at fair value on a recurring basis	$ —	$ 29,058	$ 114	$ (21,539)	$ 7,633

	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 $6.7 billion and $2.3 billion, respectively, at September 30, 2016 and December 31, 2015. The net interest receivable (payable) of derivative assets and derivative liabilities was $(0.3) billion and $(0.6) billion at September 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.

	September 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]	$ —	$ 439	$ 3,684	$ 4,123	$ —	$ 1,130	$ 5,851	$ 6,981
REO, net[2]	—	—	502	502	—	—	1,046	1,046
Total assets measured at fair value on a non-recurring basis	$ —	$ 439	$ 4,186	$ 4,625	$ —	$ 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 $0.5 billion, less estimated costs to sell of $33 million (or approximately $0.5 billion) at September 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.

	3Q 2016											
		Realized and unrealized gains (losses)										
	Balance, July 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, September 30, 2016	Unrealized gains (losses) still held
	in millions											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 11,462	$ —	$ (38)	$ (38)	$ 462	$ —	$ (366)	$ (246)	$ —	$ (4,134)	$ 7,140	$ (1)
Fannie Mae	73	—	—	—	—	—	—	(4)	—	—	69	—
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
CMBS	3,611	1	125	126	—	—	—	(8)	—	—	3,729	1
Subprime	9,975	194	285	479	—	—	(1,895)	(418)	—	—	8,141	33
Option ARM	2,586	77	23	100	—	—	(223)	(100)	—	—	2,363	29
Alt-A and other	2,394	164	(92)	72	—	—	(751)	(139)	—	—	1,576	24
Obligations of states and political subdivisions	890	—	(2)	(2)	—	—	—	(92)	—	—	796	—
Manufactured housing	542	2	(2)	—	—	—	—	(15)	—	—	527	1
Total available-for-sale mortgage-related securities	31,533	438	299	737	462	—	(3,235)	(1,022)	—	(4,134)	24,341	87
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	315	11	—	11	753	—	(5)	(5)	99	(234)	934	3
Fannie Mae	615	4	—	4	—	—	(112)	(20)	—	(474)	13	—
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
Other	1	—	—	—	—	—	—	—	—	—	1	—
Total trading mortgage-related securities	931	15	—	15	753	—	(117)	(25)	99	(708)	948	3
Other assets:												
Guarantee asset	2,057	—	—	—	—	204	—	(96)	—	—	2,165	—

		Realized and unrealized (gains) losses										
	Balance, July 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, September 30, 2016	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Other debt, at fair value	$ 52	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 52	$ —
Net derivatives[2]	27	39	—	39	—	—	—	(9)	—	—	57	33
Other liabilities:												
All other, at fair value	15	10	—	10	(25)	—	—	—	—	—	—	10

	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, September 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	$ 28	$ 48	$ 5,618	$ —	$ (491)	$ (328)	$ —	$ (315)	$ 7,140	$ (1)
Fannie Mae	90	—	(1)	(1)	—	—	—	(14)	—	(6)	69	—
Ginnie Mae	1	—	—	—	—	—	—	(1)	—	—	—	—
CMBS	3,530	2	224	226	—	—	—	(27)	—	—	3,729	2
Subprime	12,802	361	111	472	—	—	(3,505)	(1,628)	—	—	8,141	65
Option ARM	3,678	184	(26)	158	—	—	(1,084)	(389)	—	—	2,363	68
Alt-A and other	3,278	262	(154)	108	—	—	(1,298)	(512)	—	—	1,576	66
Obligations of states and political subdivisions	1,205	1	(4)	(3)	—	—	—	(406)	—	—	796	—
Manufactured housing	575	3	(4)	(1)	—	—	—	(47)	—	—	527	2
Total available-for-sale mortgage-related securities	27,767	833	174	1,007	5,618	—	(6,378)	(3,352)	—	(321)	24,341	202
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	331	(4)	—	(4)	800	—	(142)	(3)	74	(122)	934	(4)
Fannie Mae	41	(1)	—	(1)	—	—	(20)	(7)	—	—	13	(2)
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
Other	2	—	—	—	—	—	—	(1)	—	—	1	—
Total trading mortgage-related securities	374	(5)	—	(5)	800	—	(162)	(11)	74	(122)	948	(6)
Other assets:												
Guarantee asset	1,753	68	—	68	—	602	—	(258)	—	—	2,165	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, September 30, 2016	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Other debt, at fair value	$ —	$ —	$ —	$ —	$ —	$ 52	$ —	$ —	$ —	$ —	$ 52	$ —
Net derivatives[2]	8	67	—	67	—	1	—	(19)	—	—	57	48
Other liabilities:												
All other, at fair value	10	7	—	7	(17)	—	—	—	—	—	—	7

	3Q 2015											
		Realized and unrealized gains (losses)										
	Balance, July 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, September 30, 2015	Unrealized gains (losses) still held
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 3,143	$ 3	$ 37	$ 40	$ 186	$ 34	$ (155)	$ (88)	$ —	$ (156)	$ 3,004	$ (1)
Fannie Mae	104	—	—	—	—	—	—	(7)	—	(40)	57	—
Ginnie Mae	2	—	—	—	—	—	—	—	—	—	2	—
CMBS	3,534	4	108	112	—	—	—	(8)	—	—	3,638	4
Subprime	15,802	177	(176)	1	—	—	(1,392)	(602)	—	—	13,809	37
Option ARM	4,833	66	4	70	—	—	(832)	(189)	—	—	3,882	30
Alt-A and other	4,222	84	(82)	2	—	—	(346)	(232)	—	(14)	3,632	35
Obligations of states and political subdivisions	1,627	—	1	1	—	—	—	(148)	—	—	1,480	—
Manufactured housing	614	—	(3)	(3)	—	—	—	(17)	—	—	594	—
Total available-for-sale mortgage-related securities	33,881	334	(111)	223	186	34	(2,725)	(1,291)	—	(210)	30,098	105
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	345	(29)	—	(29)	212	—	—	(2)	28	(111)	443	(29)
Fannie Mae	171	(6)	—	(6)	—	—	(1)	—	—	(122)	42	(6)
Ginnie Mae	—	—	—	—	—	—	—	—	—	—	—	—
Other	3	—	—	—	—	—	—	(1)	—	—	2	—
Total trading mortgage-related securities	519	(35)	—	(35)	212	—	(1)	(3)	28	(233)	487	(35)
Other assets:												
Guarantee asset	1,652	(6)	—	(6)	—	131	—	(173)	—	—	1,604	(6)
All other, at fair value	7	(7)	—	(7)	—	—	—	—	—	—	—	—
Total other assets	1,659	(13)	—	(13)	—	131	—	(173)	—	—	1,604	(6)

		Realized and unrealized (gains) losses										
	Balance, July 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, September 30, 2015	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Net derivatives[2]	$ 22	$ (12)	$ —	$ (12)	$ —	$ —	$ —	$ 13	$ —	$ —	$ 23	$ 1
Other Liabilities:												
All other, at fair value	—	7	—	7	—	—	—	—	—	—	7	14

	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, September 30, 2015	Unrealized gains (losses) still held
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 4,231	$ 29	$ 19	$ 48	$ 800	$ 34	$ (527)	$ 214	$ —	$ (1,796)	$ 3,004	$ (1)
Fannie Mae	85	—	(1)	(1)	—	—	—	(18)	1	(10)	57	—
Ginnie Mae	4	—	—	—	—	—	—	(2)	—	—	2	—
CMBS	3,474	(21)	209	188	—	—	(2)	(22)	—	—	3,638	(21)
Subprime	20,589	704	(71)	633	—	—	(5,532)	(1,881)	—	—	13,809	109
Option ARM	5,649	186	63	249	—	—	(1,522)	(494)	—	—	3,882	105
Alt-A and other	5,027	221	(55)	166	—	—	(919)	(642)	—	—	3,632	—
Obligations of states and political subdivisions	2,198	—	(11)	(11)	—	—	—	(707)	—	—	1,480	(1)
Manufactured housing	638	(1)	8	7	—	—	(1)	(50)	—	—	594	80
Total available-for-sale mortgage-related securities	41,895	1,118	161	1,279	800	34	(8,503)	(3,602)	1	(1,806)	30,098	271
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	927	(40)	—	(40)	212	—	(10)	(6)	26	(666)	443	(40)
Fannie Mae	232	4	—	4	—	—	(95)	—	—	(99)	42	(8)
Ginnie Mae	1	—	—	—	—	—	(1)	—	—	—	—	—
Other	4	3	—	3	—	—	(3)	(2)	—	—	2	—
Total trading mortgage-related securities	1,164	(33)	—	(33)	212	—	(109)	(8)	26	(765)	487	(48)
Other assets:												
Guarantee asset	1,626	(30)	—	(30)	—	457	—	(449)	—	—	1,604	(30)
All other, at fair value	5	(5)	—	(5)	—	—	—	—	—	—	—	—
Total other assets	1,631	(35)	—	(35)	—	457	—	(449)	—	—	1,604	(30)

		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, September 30, 2015	Unrealized (gains) losses still held
	(in millions)											
Liabilities												
Net derivatives[2]	$ 10	$ 5	$ —	$ 5	$ —	$ —	$ —	$ 8	$ —	$ —	$ 23	$ 13
Other Liabilities:												
All other, at fair value	—	7	—	7	—	—	—	—	—	—	7	12

(1) Transfers out of Level 3 during 3Q 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. Certain Freddie Mac securities are classified as Level 3 at issuance and generally are classified as Level 2 when they begin trading. Transfers into Level 3 during 3Q 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).

	September 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	$ 6,827	Discounted cash flows	OAS	(170) - 490 bps	115 bps
	313	Other			
Total Freddie Mac	7,140				
Fannie Mae	34	Median of external sources			
	25	Single external source			
	10	Other			
Total Fannie Mae	69				
CMBS	3,729	Risk Metrics	Effective duration	2.40 - 10.27 years	8.82 years
Total CMBS	3,729				
Subprime, option ARM, and Alt-A:					
Subprime	6,737	Median of external sources	External pricing sources	$74.8 - $78.6	$ 76.7
	1,404	Other			
Total subprime	8,141				
Option ARM	2,218	Median of external sources	External pricing sources	$66.9 - $72.9	$ 70.2
	145	Other			
Total option ARM	2,363				
Alt-A and other	917	Median of external sources	External pricing sources	$89.6 - $93.2	$ 91.3
	420	Single external source	External pricing source	$84.9 - $84.9	$ 84.9
	239	Other			
Total Alt-A and other	1,576				
Obligations of states and political subdivisions	743	Median of external sources	External pricing sources	$101.5 - $102.1	$ 101.8
	53	Other			
Total obligations of states and political subdivisions	796				
Manufactured housing	465	Median of external sources	External pricing sources	$88.2 - $92.9	$ 91.4
	62	Other			
Total manufactured housing	527				
Total available-for-sale mortgage-related securities	24,341				
Trading, at fair value					
Mortgage-related securities					
Freddie Mac	875	Discounted cash flows	OAS	(3,346) - 1,886 bps	4 bps
	59	Other			
Total Freddie Mac	934				
Fannie Mae	13	Discounted cash flows			
Total Fannie Mae	13				
Other	1	Discounted cash flows			
Total other	1				
Total trading mortgage-related securities	948				
Total investments in securities	$ 25,289				
Other assets:					
Guarantee asset, at fair value	$ 2,011	Discounted cash flows	OAS	17 - 198 bps	56 bps
	154	Other			
Total guarantee asset, at fair value	2,165				
Liabilities					
Other debt, at fair value	52	Other			
Total other debt, at fair value	52				
Net derivatives	57	Other			
Total net derivatives	57				

	December 31, 2015				
			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	$ 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.

September 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	$ 3,684				
		Internal model	Historical sales proceeds	$3,000 - $775,346	$182,555
		Internal model	Housing sales index	40 - 385 bps	95 bps
		Income capitalization[1]	Capitalization rates	6% - 10%	7%
		Median of external sources	External pricing sources	$35.9 - $95.0	$75.0
REO, net	$ 502				
		Internal model	Historical sales proceeds	$3,000 - $667,706	$154,107
		Internal model	Housing sales index	40 - 385 bps	92 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, advances to lenders and certain other debt, including securities sold under agreements to repurchase, 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.

	September 30, 2016					
		Fair Value				
(in millions)	GAAP Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustments	Total
Financial Assets						
Cash and cash equivalents	$ 3,940	$ 3,940	$ —	$ —	$ —	$ 3,940
Restricted cash and cash equivalents	19,131	19,131	—	—	—	19,131
Securities purchased under agreements to resell	55,673	—	55,673	—	—	55,673
Investments in securities:						
Available-for-sale, at fair value	70,018	—	45,677	24,341	—	70,018
Trading, at fair value	45,375	22,508	21,919	948	—	45,375
Total investments in securities	115,393	22,508	67,596	25,289	—	115,393
Mortgage loans:						
Loans held by consolidated trusts	1,666,551	—	1,568,711	147,936	—	1,716,647
Loans held by Freddie Mac	115,885	—	32,468	85,722	—	118,190
Total mortgage loans	1,782,436	—	1,601,179	233,658	—	1,834,837
Derivative assets, net	1,499	—	16,642	5	(15,148)	1,499
Guarantee asset	2,165	—	—	2,372	—	2,372
Non-derivative purchase commitments, at fair value	258	—	258	29	—	287
Advances to lenders	1,362	—	—	1,362	—	1,362
Total financial assets	$ 1,981,857	$ 45,579	$ 1,741,348	$ 262,715	$ (15,148)	$ 2,034,494
Financial Liabilities						
Debt, net:						
Debt securities of consolidated trusts held by third parties	$ 1,621,782	$ —	$ 1,672,294	$ 536	$ —	$ 1,672,830
Other debt	378,059	—	380,484	5,214	—	385,698
Total debt, net	1,999,841	—	2,052,778	5,750	—	2,058,528
Derivative liabilities, net	1,178	—	22,655	62	(21,539)	1,178
Guarantee obligation	2,055	—	—	3,530	—	3,530
Non-derivative purchase commitments, at fair value	7	—	7	31	—	38
Total financial liabilities	$ 2,003,081	$ —	$ 2,075,440	$ 9,373	$ (21,539)	$ 2,063,274

	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 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.

	September 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	$ 15,018	$ 6,284	$ 17,660	$ 7,045
Unpaid principal balance	14,560	6,015	17,673	7,093
Difference	$ 458	$ 269	$ (13)	$ (48)

Changes in Fair Value under the Fair Value Option Election

We recorded gains of $118 million and $164 million for 3Q 2016 and 3Q 2015, respectively, and $697 million and $262 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 $391 million and $635 million for 3Q 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 $(174) million and $80 million for 3Q 2016 and 3Q 2015, respectively, and $(268) million and $(65) 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 3Q 2016 and YTD 2016 and for 3Q 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 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. Sovereign's appeal and related motions are pending.

LIBOR LAWSUIT

On March 14, 2013, Freddie Mac filed a lawsuit in the U.S. District Court for the Eastern District of Virginia against the British Bankers Association and the 16 U.S. Dollar LIBOR panel banks and a number of their affiliates. The case was subsequently transferred to the U.S. District Court for the Southern District of New York. The complaint alleges, among other things, that the defendants fraudulently and collusively depressed LIBOR, a benchmark interest rate indexed to trillions of dollars of financial products, and asserts claims for antitrust violations, breach of contract, tortious interference with contract and fraud. Freddie Mac filed an amended complaint in July 2013, and a second amended complaint in October 2014. In August 2015, the District Court dismissed the portion of our claim related to antitrust violations and fraud and we filed a motion for reconsideration. On March 31, 2016, the District Court granted a portion of our motion, finding personal jurisdiction over certain defendants, and denied the portion of our motion with respect to statutes of limitation for our fraud claims. Subsequently, in a related case, the U.S. Court of Appeals for the Second Circuit reversed the District Court’s dismissal of certain plaintiffs’ antitrust claims and remanded the case to the District Court for consideration of whether, among other things, the plaintiffs are “efficient enforcers” of the antitrust laws. Briefing on these issues is complete.

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. Plaintiffs filed an application for certification of a question to the Delaware and Virginia Supreme Courts, which was denied on September 12, 2016. On September 7, 2016, plaintiffs filed a motion to amend the complaint, which Treasury opposed in part.

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. On August 23, 2016, the U.S. District Court for the Eastern District of Virginia dismissed the case. The plaintiff filed a notice of appeal on September 21, 2016.

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)	September 30, 2016	December 31, 2015
GAAP net worth	$ 3,510	$ 2,940
Core capital (deficit)[1][2]	$ (70,254)	$ (70,549)
Less: Minimum capital requirement[1]	19,262	19,687
Minimum capital surplus (deficit)[1]	$ (89,516)	$ (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)	3Q 2016	3Q 2015	YTD 2016	YTD 2015
Other income (loss):				
Gains (losses) on loans	$ 139	$ (197)	$ 136	$ (1,321)
Gains (losses) on held-for-sale purchase commitments	391	—	635	—
Gains (losses) on debt recorded at fair value	(174)	80	(268)	(65)
All other	249	242	1,024	954
Total other income (loss)	$ 605	$ 125	$ 1,527	$ (432)
Other expense:				
Property tax and insurance expense on held-for-sale loans	$ (2)	$ (176)	$ (68)	$ (937)
All other	(136)	(94)	(374)	(297)
Total other expense	$ (138)	$ (270)	$ (442)	$ (1,234)

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

(in millions)	September 30, 2016	December 31, 2015
Other assets:		
Accounts and other receivables[(1)]	$ 6,273	$ 3,625
Guarantee asset	2,165	1,753
Advances to lenders[(2)]	1,362	910
All other	1,285	1,025
Total other assets	$ 11,085	$ 7,313
Other liabilities:		
Servicer liabilities	$ 815	$ 1,191
Guarantee obligation	2,055	1,729
Accounts payable and accrued expenses	893	1,286
All other	1,080	1,040
Total other liabilities	$ 4,843	$ 5,246

(1) Primarily consists of servicer receivables and other non-interest receivables.
(2) During YTD 2016 and YTD 2015, we advanced $20.5 billion and $8.5 billion, respectively, to lenders. Refer to Note 4 (Non-cash Investing and Financing activities) for disclosure of the satisfaction of the advances to lenders.

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 of 2016. One of the cases was filed in the US. District Court for the Eastern District of Kentucky. On September 9, 2016, the U.S. District Court for the Eastern District of Kentucky entered an order dismissing the case in that Court. In addition, on October 20, 2016, a lawsuit was filed in the U.S. District Court for the Southern District of Texas against FHFA, the Director of FHFA, Treasury and the Secretary of the Treasury. This new lawsuit seeks to invalidate the net worth sweep dividend provisions of the senior preferred stock, and is generally similar to the other lawsuits. Freddie Mac is not a party to any of these lawsuits.

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 3Q 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 September 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 September 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 3Q 2016

We evaluated the changes in our internal control over financial reporting that occurred during 3Q 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 September 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 3Q 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: November 1, 2016

By: /s/ James G. Mackey

James G. Mackey

Executive Vice President — Chief Financial Officer

(Principal Financial Officer)

Date: November 1, 2016

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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 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q, as filed August 2, 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 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	$ 4,276	$ 6,197	$ 9,274	$ 11,002	$ 25,363	$ 9,445	$ (5,666)
Add:							
Total interest expense	38,523	38,679	51,916	54,916	55,779	66,502	79,988
Interest factor in rental expenses	2	2	2	5	4	4	4
Earnings, as adjusted	$ 42,801	$ 44,878	$ 61,192	$ 65,923	$ 81,146	$ 75,951	$ 74,326
Fixed charges:							
Total interest expense	$ 38,523	$ 38,679	$ 51,916	$ 54,916	$ 55,779	$ 66,502	$ 79,988
Interest factor in rental expenses	2	2	2	5	4	4	4
Total fixed charges	$ 38,525	$ 38,681	$ 51,918	$ 54,921	$ 55,783	$ 66,506	$ 79,992
Senior preferred stock and preferred stock dividends[1]	3,874	5,510	5,510	19,610	47,591	7,229	6,498
Total fixed charges including preferred stock dividends	$ 42,399	$ 44,191	$ 57,428	$ 74,531	$ 103,374	$ 73,735	$ 86,490
Ratio of earnings to fixed charges[2]	1.11	1.16	1.18	1.20	1.45	1.14	—
Ratio of earnings to combined fixed charges and preferred stock dividends[3]	1.01	1.02	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 $8.6 billion, $22.2 billion, and $12.2 billion 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 September 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: November 1, 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 September 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: November 1, 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 September 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: November 1, 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 September 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: November 1, 2016

/s/ James G. Mackey

James G. Mackey

Executive Vice President — Chief Financial Officer