FEDERAL HOME LOAN MORTGAGE CORP
Form 10-K
February 28, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

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)*

Securities registered pursuant to Section 12(b) of the Act: None

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

Voting Common Stock, no par value per share (OTCQB: FMCC)

Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCI)

5% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKK)

Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCG)

5.1% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCH)

5.79% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCK)

Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCL)

Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCM)

Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCN)

5.81% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCO)

6% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCP)

Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCJ)

5.7% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKP)

Variable Rate, Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCS)

6.42% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCT)

5.9% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKO)

5.57% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKM)

5.66% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKN)

6.02% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKL)

6.55% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKI)

Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKJ)

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

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

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 [X] 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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer (Do not check if a smaller reporting company) [ ]	Smaller reporting company [ ]

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

The aggregate market value of the common stock held by non-affiliates computed by reference to the price at which the common equity was last sold on June 29, 2012 (the last business day of the registrant s most recently completed second fiscal quarter) was $162.5 million.

As of February 15, 2013, there were 650,038,674 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None

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FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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PART I

This Annual Report on Form 10-K includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-K and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-K. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in: the BUSINESS Forward-Looking Statements and RISK FACTORS sections of this Form 10-K.

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

ITEM 1. BUSINESS

Conservatorship and Government Support for Our Business

We continue to operate under the direction of FHFA, as our Conservator. We are also subject to certain constraints on our business activities imposed by Treasury due to the terms of, and Treasury s rights under, the Purchase Agreement. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. The conservatorship and related matters have had a wide-ranging impact on us, including our regulatory supervision, management, business, financial condition, and results of operations.

There is significant uncertainty as to whether or when we will emerge from conservatorship, as it has no specified termination date, and as to what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term. Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term. We have no ability to predict the outcome of these deliberations.

As our Conservator, FHFA 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. FHFA, as Conservator, has directed and will continue to direct certain of our business activities and strategies. FHFA has delegated certain authority to our Board of Directors to oversee, and to management to conduct, day-to-day operations. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

In March 2012, FHFA instituted the 2012 conservatorship scorecard, or the Conservatorship Scorecard, for use by both us and Fannie Mae that established business objectives and performance targets and measures, and provided the implementation roadmap for FHFA s strategic plan for Freddie Mac and Fannie Mae. We continue to align our resources and internal business plans to meet the goals and objectives in FHFA s directives. See Regulation and Supervision *Legislative and Regulatory Developments FHFA s Strategic Plan for Freddie Mac and Fannie Mae Conservatorships* and EXECUTIVE COMPENSATION Compensation Discussion and Analysis for further information.

Our current business objectives reflect direction we have received from the Conservator (including the Conservatorship Scorecard), our charter, other legislation, and public statements from FHFA and Treasury officials. Our business objectives have changed considerably since we entered into conservatorship and may continue to change. Certain changes to our business objectives and strategies are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives. However, these changes to our business objectives and strategies may not contribute to our profitability. Some of these changes increase our expenses, while others require us to forego revenue opportunities.

On February 21, 2012, FHFA sent to Congress a strategic plan for the next phase of the conservatorships of Freddie Mac and Fannie Mae. FHFA stated that the steps envisioned in the plan are consistent with each of the housing finance reform frameworks set forth in the report delivered by the Administration to Congress in February 2011, which is described below, as well as with the leading congressional proposals previously introduced. FHFA s plan provides lawmakers and the

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public with an outline of how FHFA as Conservator intends to guide Freddie Mac and Fannie Mae over the next few years, and identifies three strategic goals:

- **Build.** Build a new infrastructure for the secondary mortgage market;
- **Contract.** Gradually contract Freddie Mac and Fannie Mae s dominant presence in the marketplace while simplifying and shrinking their operations; and
- **Maintain.** Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

On February 11, 2011, the Administration delivered a report to Congress that lays out the Administration s plan to reform the U.S. housing finance market, including options for structuring the government s long-term role in a housing finance system in which the private sector is the dominant provider of mortgage credit. The report recommends winding down Freddie Mac and Fannie Mae, and states that the Administration will work with FHFA to determine the best way to responsibly reduce the role of Freddie Mac and Fannie Mae in the market and ultimately wind down both institutions. The report states that these efforts must be undertaken at a deliberate pace, which takes into account the impact that these changes will have on borrowers and the housing market.

The report states that the government is committed to ensuring that Freddie Mac and Fannie Mae have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, and further states that the Administration will not pursue policies or reforms in a way that would impair the ability of Freddie Mac and Fannie Mae to honor their obligations. The report states the Administration s belief that under the companies senior preferred stock purchase agreements with Treasury, there is sufficient funding to ensure the orderly and deliberate wind down of Freddie Mac and Fannie Mae, as described in the Administration s plan.

Based on our Net Worth Amount at December 31, 2012, our dividend obligation to Treasury in March 2013 will be $5.8 billion. On August 17, 2012, Freddie Mac, acting through FHFA, as Conservator, and Treasury entered into an amendment to the Purchase Agreement that, among other items, replaced the fixed 10% dividend rate on the senior preferred stock with a net worth sweep dividend beginning in the first quarter of 2013. Under the net worth sweep dividend provisions, we are required to pay dividends to the extent that our Net Worth Amount exceeds a permitted capital reserve amount (established at $3 billion for 2013 and declining to zero in 2018). This amendment effectively ends the circular practice of taking draws from Treasury to pay dividends to Treasury, thereby helping to preserve remaining funding available to us under the Purchase Agreement. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Purchase Agreement for more information.

The aggregate liquidation preference of the senior preferred stock was $72.3 billion and $72.2 billion at December 31, 2012, and 2011, respectively. Beginning January 1, 2013, the remaining funding commitment from Treasury under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock will increase further if we receive additional draws. For a discussion of factors that could result in additional draws, see RISK FACTORS Conservatorship and Related Matters *We may request additional draws under the Purchase Agreement in future periods.*

For more information on our current business objectives, see Executive Summary *Our Primary Business Objectives.* For more information on the conservatorship and government support for our business, including the Purchase Agreement, see Conservatorship and Related Matters and Treasury Agreements.

Executive Summary

You should read this Executive Summary in conjunction with our MD&A and consolidated financial statements and related notes for the year ended December 31, 2012.

Overview

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

Summary of Financial Results

During 2012, we observed certain signs of improvement in the housing market, which contributed positively to our financial results. Our comprehensive income for the year ended December 31, 2012 was $16.0 billion, consisting of $11.0 billion of net income and $5.1 billion of total other comprehensive income. By comparison, our comprehensive income (loss) for the year ended December 31, 2011 was $(1.2) billion, consisting of $(5.3) billion of net income (loss) and $4.0 billion of total other comprehensive income.

Our total equity was $8.8 billion at December 31, 2012, reflecting our total equity balance of $4.9 billion at September 30, 2012, comprehensive income of $5.7 billion for the fourth quarter of 2012 and our dividend payment of $1.8 billion on our senior preferred stock in December 2012. As a result of our positive net worth at December 31, 2012, no draw is being requested from Treasury under the Purchase Agreement for the fourth quarter of 2012.

Our Primary Business Objectives

We are focused on the following primary business objectives: (a) providing credit availability for mortgages and maintaining foreclosure prevention activities; (b) minimizing our credit losses; (c) developing mortgage market enhancements in support of a new infrastructure for the secondary mortgage market; (d) maintaining sound credit quality on the loans we purchase or guarantee; (e) contracting the dominant presence of the GSEs in the marketplace; and (f) strengthening our infrastructure and improving overall efficiency while also focusing on retention of key employees. Our business objectives reflect direction we have received from the Conservator, including the Conservatorship Scorecard. See EXECUTIVE COMPENSATION Compensation Discussion and Analysis for further information.

Providing Credit Availability for Mortgages and Maintaining Foreclosure Prevention Activities

We provide liquidity and support to the U.S. mortgage market in a number of important ways:

- Our support enables borrowers to have access to a variety of conforming mortgage products, including the prepayable 30-year fixed-rate mortgage, which historically has represented the foundation of the mortgage market.

- Our support provides lenders with a constant source of liquidity for conforming mortgage products. We estimate that we, Fannie Mae, and Ginnie Mae collectively guaranteed more than 90% of the single-family conforming mortgages originated during 2012 and 2011.

- Our consistent market presence provides assurance to our customers that there will be a buyer for their conforming loans that meet our credit standards. We believe this liquidity provides our customers with confidence to continue lending in difficult environments.

- We are an important counter-cyclical influence as we stay in the market even when other sources of capital have withdrawn. During 2012 and 2011, we purchased or issued other guarantee commitments for $426.8 billion and $320.8 billion in UPB of single-family conforming mortgage loans, representing approximately 2.0 million and 1.5 million homes, respectively.

Borrowers typically pay a lower interest rate on loans acquired or guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae. Mortgage originators are able to offer homebuyers and homeowners lower mortgage rates on conforming loan products, in part because of the value investors place on GSE-guaranteed mortgage-related securities. In December 2012, we estimated that borrowers were paying an average of 43 basis points less on these conforming loans than on non-conforming loans. These estimates were based on data provided by HSH Associates, a third-party provider of mortgage market data.

We are focused on reducing the number of foreclosures and helping to keep families in their homes. In 2012, we continued to introduce new initiatives designed to help eligible borrowers keep their homes and avoid foreclosure. Since 2009, we have helped more than 785,000 borrowers experiencing hardship complete a loan workout.

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Our relief refinance initiative, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), is a significant part of our effort to keep families in their homes. We implemented a number of changes to HARP in late 2011 and 2012. These changes allowed more borrowers to participate in the program and benefit from refinancing their home mortgages, including borrowers whose mortgages have LTV ratios above 125%. Our purchases of HARP loans increased to $86.9 billion in 2012, compared to $39.7 billion in 2011. We have purchased HARP loans provided to nearly 915,000 borrowers since the initiative began in 2009, including more than 434,000 borrowers during 2012.

Under our loan workout programs, our servicers contact borrowers and attempt to help borrowers experiencing hardship stay in their homes or avoid foreclosure. Our servicers seek and also facilitate the completion of foreclosure alternatives when a home retention solution is not possible. Under HAMP and the non-HAMP standard modification, borrowers are required to complete a trial period before the loan modification becomes effective. Based on information provided by the MHA Program administrator, our servicers had completed approximately 217,209 loan modifications under HAMP from the introduction of the initiative in 2009 through December 31, 2012. As of December 31, 2012, approximately 24,000 borrowers were in modification trial periods, including approximately 15,000 borrowers in trial periods for our non-HAMP standard modification. Our new non-HAMP standard loan modification initiative was implemented for all servicers beginning on January 1, 2012. Our completed modification volume during the first half of 2012 was below what otherwise would be expected, as servicers completed the transition to the non-HAMP standard modification initiative; however, the volume of our non-HAMP standard modifications increased in the second half of 2012 compared to the first half of 2012. See Our Business Segments *Single-Family Guarantee Segment* for more information about loss mitigation activities and our efforts to provide credit availability, including through HAMP, and our relief refinance mortgage initiative, which includes HARP.

Short sale activity increased in 2012 compared to 2011. Short sale activity as a percentage of the combined total of short sales and foreclosure transfers increased from 27% in 2011 to 33% in 2012, primarily resulting from our increased focus on this foreclosure alternative. At the direction of FHFA, and as part of the servicing alignment initiative, we announced a new standard short sale process during the third quarter of 2012 designed to help more struggling borrowers use short sales to avoid foreclosure. We believe this new process may lead to an increase in short sales in 2013.

The table below presents our single-family loan workout activities for the last five quarters.

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

	For the Three Months Ended				
	12/31/2012	09/30/2012	06/30/2012	03/31/2012	12/31/2011
	(number of loans)				
Loan modifications	19,898	20,864	15,142	13,677	19,048
Repayment plans	6,964	7,099	8,712	10,575	8,008
Forbearance agreements[2]	2,442	2,190	4,738	3,656	3,867
Short sales and deed in lieu of foreclosure transactions	13,849	14,383	12,531	12,245	12,675
Total single-family loan workouts	43,153	44,536	41,123	40,153	43,598

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

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

Minimizing Our Credit Losses

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

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

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

managing our inventory of foreclosed properties to reduce costs and maximize proceeds; and

pursuing contractual remedies against originators, lenders, servicers, and insurers, as appropriate.

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

During 2012, we continued to implement the FHFA-directed servicing alignment initiative, under which we and Fannie Mae are aligning certain standards for servicing non-performing loans owned or guaranteed by the companies. We have provided standards to our servicers under this initiative that require them to initiate earlier and more frequent communication with delinquent borrowers, employ consistent requirements for collecting documents from borrowers, and follow consistent timelines for responding to borrowers and for processing foreclosures. Under these new servicing standards, we pay incentives to servicers that exceed certain performance standards with respect to servicing delinquent loans. We also assess compensatory fees from servicers if they do not achieve minimum performance benchmarks with respect to servicing delinquent loans, including foreclosure timelines.

Our servicers pursue repayment plans and loan modifications for borrowers facing financial or other hardships since the level of recovery (if a loan reperforms) may often be much higher than with foreclosure or foreclosure alternatives. In cases where these alternatives are not possible or successful, a short sale transaction typically provides us with a comparable or higher level of recovery than what we would receive through property sales from our REO inventory. In large part, the benefit of short sales arises from the avoidance of costs we would otherwise incur to complete the foreclosure and dispose of the property, including maintenance and other property expenses associated with holding REO property. The foreclosure process is a lengthy one in many jurisdictions with significant associated costs to complete, including, in times of declining home values, foregone recovery we might receive from an earlier sale.

We have contractual arrangements with our seller/servicers under which they agree to sell us mortgage loans, and represent and warrant that those loans have been originated under specified underwriting standards. In addition, our servicers represent and warrant to us that those loans will be serviced in accordance with our servicing contract. If we subsequently discover that the representations and warranties were breached (i.e., contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These contractual remedies include the ability to require the seller/servicer to repurchase the loan at its current UPB and/or to make us whole for losses realized with respect to the loan, after consideration of other recoveries, if any. The amount we expect to collect on outstanding repurchase requests is significantly less than the UPB of the loans subject to the repurchase requests primarily because many of these requests will likely be satisfied by the seller/servicers reimbursing us for realized credit losses. Some of these requests also may be rescinded in the course of the contractual appeals process. As of December 31, 2012, the UPB of loans subject to repurchase requests issued to our single-family seller/servicers was approximately $3.0 billion, and approximately 41% of these requests were outstanding for more than four months since issuance of our initial repurchase request (this figure includes repurchase requests for which appeals were pending). Of the total amount of repurchase requests outstanding at December 31, 2012, approximately $1.2 billion were issued due to mortgage insurance rescission or mortgage insurance claim denial.

Historically, we have used a process of reviewing a sample of the loans we purchase to validate compliance with our standards. In addition, we review many delinquent loans and loans that have resulted in credit losses, such as through foreclosure or short sale. Beginning in 2012, we made revisions to our selection approach for these loans that expanded the coverage of our loan reviews. Certain of these changes are designed to increase our loss recoveries. We expect that the changes made to our loan review process will increase our repurchase request volumes with our seller/servicers in the future.

We, together with Fannie Mae, also launched a new representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. The objective of the new framework is to clarify lenders repurchase exposures and liability on future sales of mortgage loans to Freddie Mac and Fannie Mae and, under the new framework, lenders will be relieved of certain repurchase obligations in specific cases, such as for loans that perform for 36 consecutive months (subject to certain exclusions). As a result, if we are unable to identify breaches in representations and warranties timely, we may face greater exposure to credit and other losses under this new framework, as our ability to seek recovery or repurchase from the seller is more limited. The new framework does not affect seller/servicers obligations under their contracts with us with respect to loans sold to us prior to January 1, 2013. The new framework also does not affect their obligation to service these loans in accordance with our servicing standards. For more information, see Our Business

Segments Single-Family Guarantee Segment New Representation and Warranty Framework and MD&A RISK MANAGEMENT Credit Risk Institutional Credit Risk Single-Family Mortgage Seller/Servicers.

Our credit loss exposure is also partially mitigated by mortgage insurance, which is a form of credit enhancement. Primary mortgage insurance is generally required to be purchased, typically at the borrower s expense, for certain mortgages with higher LTV ratios. Although we received payments under primary and other mortgage insurance of $2.0 billion and $2.5 billion in 2012 and 2011, respectively, which helped to mitigate our credit losses, many of our mortgage insurers remain financially weak. As a result, we expect to receive substantially less than full payment of our claims from three of our mortgage insurance counterparties that are currently partially paying claims under orders of their state regulators. We believe that certain other of our mortgage insurance counterparties lack sufficient ability to meet all their expected lifetime claims paying obligations to us as those claims emerge. See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES Table 4.5 Recourse and Other Forms of Credit Protection for information about credit enhancements of our single-family credit guarantee portfolio.

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

We continue efforts that we believe will create value for the industry by building the infrastructure for a future housing finance system. These efforts include the implementation of the UMDP, which provides us with the ability to collect additional data that we believe will improve our risk management practices. In the first quarter of 2012, we completed a key milestone of the UMDP with the launch of the Uniform Collateral Data Portal for the electronic submission of appraisal reports for conventional mortgages. The implementation of the portal was effective for mortgages with application dates after November 30, 2011 that were delivered to us after March 18, 2012. In the second quarter of 2012, we implemented the ULDD, which provides for the efficient collection and use of consistent information about loan terms, collateral, and borrowers. The implementation of ULDD was effective for mortgages with application dates after November 30, 2011 that were delivered to us after July 22, 2012, with a transition period allowing for optional usage of ULDD for mortgages delivered to us between April 23, 2012 and July 22, 2012.

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

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

Maintaining Sound Credit Quality on the Loans We Purchase or Guarantee

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

The credit quality of the single-family loans we acquired beginning in 2009 (excluding HARP and other relief refinance mortgages) is significantly better than that of loans we acquired from 2005 to 2008, as measured by original LTV ratios, FICO scores, and the proportion of loans underwritten with fully documented income. The improvement in credit quality of loans we have purchased since 2008 (excluding HARP and other relief refinance mortgages) is primarily the result of: (a) changes in our credit policies, including changes in our underwriting standards; (b) fewer purchases of loans with higher risk characteristics; and (c) changes in mortgage insurers and lenders underwriting practices.

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

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generally reflect many of the credit risk attributes of the original loans. However, borrower participation in our relief refinance mortgage initiative may help reduce our exposure to credit risk in cases where the borrowers payments under their mortgages are reduced, thereby strengthening the borrowers potential to make their mortgage payments. Relief refinance mortgages of all LTV ratios comprised approximately 18% and 11% of the UPB in our total single-family credit guarantee portfolio at December 31, 2012 and 2011, respectively.

HARP loans represented 11% and 6% of the UPB of our single-family credit guarantee portfolio as of December 31, 2012 and 2011, respectively. Mortgages originated after 2008, including HARP loans, represented 63% and 51% of the UPB of our single-family credit guarantee portfolio as of December 31, 2012 and 2011, respectively, while the single-family loans originated from 2005 through 2008 represented 24% and 32% of this portfolio at these dates, respectively.

Approximately 96% and 92% of the single-family mortgages we purchased in 2012 and 2011, respectively, were fixed-rate, first lien amortizing mortgages, based on UPB. Approximately 82% and 78% of the single-family mortgages we purchased in 2012 and 2011, respectively, were refinance mortgages, and approximately 24% and 16%, respectively, of these refinance mortgages were HARP loans, based on UPB. HARP loans comprised approximately 20% and 12% of our single-family purchase volume in 2012 and 2011, respectively.

Due to our participation in HARP, we purchase a significant number of loans that have original LTV ratios over 100%. The proportion of loans we purchased with LTV ratios over 100% increased from approximately 4% of our single-family mortgage purchases (including HARP loans) in 2011 to 12% of our single-family mortgage purchases in 2012. This increase was mainly due to the changes in HARP announced in the fourth quarter of 2011, which allow borrowers (whose loans we already hold in our single-family credit guarantee portfolio) with higher LTV ratios to refinance. Over time, HARP loans may not perform as well as other refinance mortgages because the continued high LTV ratios and reduced underwriting standards of these loans increase the probability of default. In addition, HARP loans may not be covered by mortgage insurance for the full excess of their UPB over 80%. See Our Business *Relief Refinance Mortgage Initiative and the Home Affordable Refinance Program* for further information about our relief refinance initiative and HARP.

The table below presents the composition and certain other information about loans in our single-family credit guarantee portfolio, by year of origination at December 31, 2012 and 2011, and for the years ended December 31, 2012 and 2011.

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Table 2 Single-Family Credit Guarantee Portfolio Summary[1]

	At December 31, 2012					Year Ended December 31, 2012
	Percent of Portfolio	Average Credit Score[2]	Current LTV Ratio[3]	Current LTV Ratio >100%[3][4]	Serious Delinquency Rate[5]	Percent of Credit Losses[6]
Loans originated 2009 to 2012:						
Relief refinance loans:						
HARP loans	11%	735	100%	43%	1.06%	2.1%
Other relief refinance loans	7	749	58		0.29	0.1
All other loans	45	757	66	1	0.27	1.5
Subtotal 2009 to 2012 originations	63	753	71	7	0.39	3.7
Loans originated 2005 to 2008	24	708	98	42	9.56	87.2
Loans originated 2004 and prior	13	715	56	6	3.20	9.1
Total	100%	737	75	15	3.25	100.0%

	At December 31, 2011					Year Ended December 31, 2011
	Percent of Portfolio	Average Credit Score[2]	Current LTV Ratio[3]	Current LTV Ratio >100%[3][4]	Serious Delinquency Rate[5]	Percent of Credit Losses[6]
Loans originated 2009 to 2011:						
Relief refinance loans:						
HARP loans	6%	737	97%	35%	1.08%	1.0%
Other relief refinance loans	5	751	61		0.17	0.1
All other loans	40	757	69	2	0.21	0.8
Subtotal- 2009 to 2011 originations	51	754	71	5	0.30	1.9
Loans originated 2005 to 2008	32	713	104	48	8.75	89.5
Loans originated 2004 and prior	17	719	61	9	2.83	8.6
Total	100%	735	80	20	3.58	100.0%

(1) Based on the loans remaining in the portfolio at December 31, 2012 and 2011, which totaled $1.6 trillion and $1.7 trillion, respectively, rather than all loans originally guaranteed by us and originated in the respective year. Includes loans acquired under our relief refinance initiative, which began in 2009. For credit scores, LTV ratios, serious delinquency rates, and other information about the loans in our single-family credit guarantee portfolio, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk*.
(2) Credit score data is based on FICO scores, which are ranked on a scale of approximately 300 to 850 points. Although we obtain updated credit information on certain borrowers after the origination of a mortgage, such as those borrowers seeking a modification, the scores presented in this table represent the credit score of the borrower at the time of loan origination and may not be indicative of the borrowers creditworthiness at December 31, 2012.
(3) We estimate current market values by adjusting the value of the property at origination based on changes in the market value of homes in the same geographical area since origination. See endnote (4) to Table 41 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of current LTV ratios.
(4) Calculated as a percentage of the aggregate UPB of loans with LTV ratios greater than 100% in relation to the total UPB of loans in the category.
(5)

See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-family Mortgage Credit Risk Delinquencies* for further information about our reported serious delinquency rates.

(6) Historical credit losses for each origination year may not be representative of future results.

Contracting the Dominant Presence of the GSEs in the Marketplace

We continue to take steps toward the goal of gradually shifting mortgage credit risk from Freddie Mac to private investors, while simplifying and shrinking certain of our operations. In the case of single-family credit guarantees, we are exploring several ways to accomplish this goal, including increasing guarantee fees and evaluating new risk-sharing transactions beyond the traditional charter-required mortgage insurance coverage. Two across-the-board increases in guarantee fees occurred in 2012, and FHFA has proposed additional fee adjustments, as discussed in BUSINESS Our Business Segments *Single-Family Guarantee Segment Overview of the Securitization Process*.

In the Investments segment, under the terms of the Purchase Agreement, as amended on August 17, 2012, and FHFA regulation, the UPB of our mortgage-related investments portfolio: (a) could not exceed $650 billion on December 31, 2012; and (b) on December 31 of each year thereafter, may not exceed 85% of the aggregate amount of the UPB we were permitted to own as of December 31 of the immediately preceding calendar year, until the portfolio reaches $250 billion. This strategy is designed to reduce the portfolio and provide the best return to the taxpayer while minimizing market disruption.

In the Multifamily segment, our primary business model is to purchase held-for-sale multifamily loans for aggregation and then securitization through multifamily K Certificates, which are considered Other Guarantee Transactions. In substantially all of these transactions we guarantee only the most senior tranches of the securities. As a result, a significant portion of our expected credit risk associated with these loans is sold in subordinated tranches to third party investors.

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

We continue to work to both enhance the quality of our infrastructure and to improve our efficiency to preserve the taxpayers investment. We are focusing our resources primarily on key projects, many of which are related to FHFA-mandated strategic initiatives that will likely take several years to fully implement. We are also focused on making significant improvements to our systems infrastructure in order to: (a) replace legacy hardware or software systems at the end of their useful lives and to strengthen our disaster recovery capabilities; and (b) improve our data collection and administration capabilities as well as our ability to assist in the servicing of loans.

We continue to actively manage our general and administrative expenses, while also continuing to focus on retaining key talent. In the first half of 2012, we introduced a new compensation program for employees to help mitigate the uncertainty surrounding compensation. Under the program, the majority of employees have a more predictable income, as the program either reduces or eliminates the amount of compensation that is subject to variability. The variable elements of compensation for our senior executives are subject only to reduction based on the company s and their individual performance, with no upside potential. While employee turnover moderated in 2012 compared to 2011, we are continuing to explore various strategic arrangements with outside firms to provide operational capability and staffing for key functions, as needed.

Our general and administrative expenses increased in 2012 compared to 2011, largely due to an increase in spending for FHFA-mandated strategic initiatives. We believe the various FHFA-mandated strategic initiatives will likely continue to require significant resources and thus continue to affect our level of administrative expenses going forward.

Single-Family Credit Guarantee Portfolio

The UPB of our single-family credit guarantee portfolio declined approximately 6.2% and 3.5% during 2012 and 2011, respectively, as the amount of single-family loan liquidations exceeded new loan purchase and guarantee activity. We believe this is due, in part, to declines in the amount of single-family mortgage debt outstanding in the market and a decline in our single-family competitive position compared to other market participants (primarily Fannie Mae and Ginnie Mae). See RISK FACTORS Competitive and Market Risks *A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business* for further information on our competitive position in the single-family mortgage market.

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

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Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio

	As of				
	12/31/2012	9/30/2012	6/30/2012	3/31/2012	12/31/2011
Payment status					
One month past due	1.85%	2.02%	1.79%	1.63%	2.02%
Two months past due	0.66%	0.66%	0.60%	0.57%	0.70%
Seriously delinquent(1)	3.25%	3.37%	3.45%	3.51%	3.58%
Non-performing loans (in millions)(2)	$ 128,599	$ 131,106	$ 118,463	$ 119,599	$ 120,514
Single-family loan loss reserve (in millions)(3)	$ 30,508	$ 33,298	$ 35,298	$ 37,771	$ 38,916
REO inventory (in properties)	49,071	50,913	53,271	59,307	60,535
REO assets, net carrying value (in millions)	$ 4,314	$ 4,459	$ 4,715	$ 5,333	$ 5,548

	For the Three Months Ended				
	12/31/2012	9/30/2012	6/30/2012	3/31/2012	12/31/2011
	(in units, unless noted)				
Seriously delinquent loan additions(1)	72,626	76,104	75,904	80,815	95,661
Loan modifications(4)	19,898	20,864	15,142	13,677	19,048
REO acquisitions	18,672	20,302	20,033	23,805	24,758
REO disposition severity ratio:(5)					
California	34.4%	37.7%	41.6%	44.2%	44.6%
Arizona	35.9%	36.3%	40.4%	45.0%	46.7%
Florida	42.6%	44.7%	46.2%	48.6%	50.1%
Nevada	45.6%	50.6%	54.3%	56.5%	54.2%
Illinois	46.5%	47.7%	47.8%	49.3%	51.2%
Total U.S	35.2%	36.2%	37.9%	40.3%	41.2%
Single-family provision (benefit) for credit losses (in millions)	$ (658)	$ 650	$ 177	$ 1,844	$ 2,664
Single-family credit losses (in millions)	$ 2,396	$ 2,936	$ 2,858	$ 3,435	$ 3,209

(1) See MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* *Single-Family Mortgage Credit Risk* *Delinquencies* for further information about our reported serious delinquency rates.
(2) Consists of the UPB of loans in our single-family credit guarantee portfolio that have undergone a TDR or that are seriously delinquent. During the third quarter of 2012, we changed the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs, regardless of the borrowers payment status. As a result, we newly classified approximately $19.5 billion in UPB of loans discharged in Chapter 7 bankruptcy as TDRs in the third quarter of 2012. As of December 31, 2012 and 2011, approximately $65.8 billion and $44.4 billion in UPB of TDR loans, respectively, were no longer seriously delinquent.
(3) Consists of the combination of: (a) our allowance for loan losses on mortgage loans held for investment; and (b) our reserve for guarantee losses associated with non-consolidated single-family mortgage securitization trusts and other guarantee commitments.
(4) Represents the number of modification agreements with borrowers completed during the quarter. Excludes forbearance agreements, repayment plans, and loans in modification trial periods.
(5) States presented represent the five states where our credit losses were greatest during 2012. Calculated as the amount of our losses recorded on disposition of REO properties during the respective quarterly period, excluding those subject to repurchase requests made to our seller/servicers, divided by the aggregate UPB of the related loans. The amount of losses recognized on disposition of the properties is equal to the amount by which the UPB of the loans exceeds the amount of sales proceeds from disposition of the properties. Excludes sales commissions and other expenses, such as property maintenance and costs, as well as applicable recoveries from credit enhancements, such as mortgage insurance.

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

Since the beginning of 2008, on an aggregate basis, we have recorded provision for credit losses associated with single-family loans of approximately $75.2 billion, and have recorded an additional $3.9 billion in losses on loans purchased from PC trusts, net of recoveries. The majority of these losses are associated with loans originated in 2005 through 2008. While loans originated in 2005 through 2008 will give rise to additional credit losses that have not yet been incurred and, thus, have not yet been provisioned for, we believe that, as of December 31, 2012, we have reserved for or charged-off the majority of the total expected credit losses for these loans. Nevertheless, various factors, such as continued high unemployment rates or future declines in home prices, could require us to provide for losses on these loans beyond our current expectations.

Our loan loss reserves declined in every quarter of 2012, which reflects improvement in both borrower payment performance and lower severity ratios for both REO dispositions and short sale transactions due to the improvements in home prices in most areas during 2012. Our REO inventory also declined in every quarter of 2012, which reflects that our sales of REO properties exceeded the volume of our REO acquisitions due to lower foreclosure activity as well as an increase in the volume of short sales prior to foreclosure.

Our average REO disposition severity ratio improved to 35.2% for the fourth quarter of 2012 compared to 41.2% for the fourth quarter of 2011. Although this ratio improved for each quarter of 2012, it remains high as compared to our experience in periods before 2007.

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The serious delinquency rate for our single-family credit guarantee portfolio improved at December 31, 2012, compared to December 31, 2011. Excluding relief refinance loans, the improvement in borrower payment performance during 2012 reflects an improved credit profile of borrowers with loans originated since 2008. However, several factors, including the lengthening of the foreclosure process, have resulted in loans remaining in serious delinquency for longer periods than experienced prior to 2008, particularly in states that require a judicial foreclosure process. As of December 31, 2012 and 2011, the percentage of seriously delinquent loans that have been delinquent for more than six months was 72% and 70%, respectively.

The balance of our non-performing loans increased during the third quarter of 2012, due to a change in the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs (unless they were already classified as TDRs for other reasons), regardless of the borrowers payment status. Except for this change in classification, which resulted in approximately $19.5 billion in UPB of loans being newly classified as TDRs in the third quarter of 2012, the balance of our non-performing loans would have declined in every quarter of 2012. Although we experienced improvement in the amount of our non-performing loans during the year, this balance remained high at the end of 2012, compared to periods prior to 2009.

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

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

- Continued negative effect of certain loan groups within the single-family credit guarantee portfolio, such as: (a) loans originated in 2005 through 2008; and (b) loans with higher-risk characteristics (such as those underwritten with certain lower documentation standards and interest-only loans), a significant portion of which were originated in 2005 through 2008. These groups continue to be large contributors to our credit losses.

- Cumulative decline in national home prices of 22% since June 2006, based on our own index. As a result of this price decline, approximately 15% of loans in our single-family credit guarantee portfolio, based on UPB, had estimated current LTV ratios in excess of 100% (i.e., underwater loans) as of December 31, 2012.

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

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

Consolidated Financial Results 2012 versus 2011

Net income was $11.0 billion for 2012 compared to net income (loss) of $(5.3) billion for 2011. Key highlights of our financial results include:

- Net interest income for 2012 decreased to $17.6 billion from $18.4 billion for 2011, mainly due to the impact of a reduction in the balance of our higher-yielding mortgage-related assets, partially offset by lower funding costs.

- Provision for credit losses for 2012 declined to $1.9 billion, compared to $10.7 billion for 2011. The significant reduction in provision for credit losses in 2012 primarily reflects declines in the volume of newly delinquent loans (largely due to a decline in the portion of our single-family credit guarantee portfolio originated in 2005 through 2008), and lower estimates of incurred loss due to the positive impact of an increase in national home prices.

Non-interest income (loss) was $(4.1) billion for 2012, compared to $(10.9) billion for 2011. The improvement was largely driven by a decrease in derivative losses during 2012 compared to 2011.

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- Non-interest expense declined to $2.2 billion for 2012, from $2.5 billion for 2011, primarily due to a decrease in REO operations expense during 2012 compared to 2011 as a result of improving home prices in certain geographical areas with significant REO activity.

- Comprehensive income was $16.0 billion for 2012 compared to comprehensive income (loss) of $(1.2) billion for 2011. Comprehensive income for 2012 consisted of $11.0 billion of net income and $5.1 billion of other comprehensive income, primarily due to a reduction in net unrealized losses on our available-for-sale securities.

Our Business

We conduct business in the U.S. residential mortgage market and the global securities market, subject to the direction of our Conservator, FHFA, and under regulatory supervision of FHFA, the SEC, HUD, and Treasury. The size of the U.S. residential mortgage market is affected by many factors, including changes in interest rates, home ownership rates, home prices, the supply of housing and lender preferences regarding credit risk and borrower preferences regarding mortgage debt. The amount of residential mortgage debt available for us to purchase and the mix of available loan products are also affected by several factors, including the volume of mortgages meeting the requirements of our charter (which is affected by changes in the conforming loan limit determined by FHFA), our own preference for credit risk reflected in our purchase standards and the mortgage purchase and securitization activity of other financial institutions. We conduct our business operations solely in the U.S. and its territories.

In addition to the directives given us by our Conservator, our charter forms the framework for our business activities, the initiatives we bring to market and the services we provide to the nation s residential housing and mortgage industries. Our charter also determines the types of mortgage loans that we are permitted to purchase. Our statutory mission as defined in our charter is to:

- provide stability in the secondary market for residential mortgages;

- respond appropriately to the private capital market;

- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages for low- and moderate-income families, involving a reasonable economic return that may be less than the return earned on other activities); and

- promote access to mortgage credit throughout the U.S. (including central cities, rural areas, and other underserved areas).

Our charter does not permit us to originate mortgage loans or lend money directly to consumers in the primary mortgage market. We provide liquidity, stability and affordability to the U.S. housing market primarily by providing our credit guarantee for residential mortgages originated by mortgage lenders and investing in mortgage loans and mortgage-related securities. We use mortgage securitization as an integral part of our activities. Mortgage securitization is a process by which we purchase mortgage loans that lenders originate, and pool these loans into guaranteed mortgage securities that are sold in global capital markets, generating proceeds that support future loan origination activity by lenders. The primary Freddie Mac guaranteed mortgage-related security is the single-class PC. We also aggregate and resecuritize mortgage-related securities that are issued by us, other GSEs, HFAs, or private (non-agency) entities, and issue other single-class and multiclass mortgage-related securities to third-party investors. We also enter into certain other guarantee commitments for mortgage loans, HFA bonds under the HFA initiative, and multifamily housing revenue bonds held by third parties.

Our charter limits our purchases of single-family loans to the conforming loan market. The conforming loan market is defined by loans originated with UPBs at or below limits determined annually based on changes in FHFA s housing price index, a method established and maintained by FHFA for determining the national average single-family home price. Since 2006, the base conforming loan limit for a one-family residence has been set at $417,000, and higher limits have been established in certain high-cost areas (currently, up to $625,500 for a one-family residence). Higher limits also apply to two- to four-family residences and for mortgages secured by properties in Alaska, Guam, Hawaii, and the U.S. Virgin Islands.

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Our charter generally prohibits us from purchasing first-lien single-family mortgages if the outstanding UPB of the mortgage at the time of our purchase exceeds 80% of the value of the property securing the mortgage unless we have one of the following credit protections:

- mortgage insurance from a mortgage insurer that we determine is qualified on the portion of the UPB of the mortgage that exceeds 80%;
- a seller s agreement to repurchase or replace any mortgage that has defaulted; or
- retention by the seller of at least a 10% participation interest in the mortgage.

Under our charter, our mortgage purchase operations are confined, so far as practicable, to mortgages that we deem to be of such quality, type and class as to meet generally the purchase standards of other private institutional mortgage investors. This is a general marketability standard.

Our charter requirement for credit protection on mortgages with LTV ratios greater than 80% does not apply to multifamily mortgages or to mortgages that have the benefit of any guarantee, insurance or other obligation by the U.S. or any of its agencies or instrumentalities (e.g., the FHA, the VA or the USDA Rural Development). Additionally, as part of HARP, we may purchase single-family mortgages that refinance borrowers whose mortgages we currently own or guarantee without obtaining additional credit enhancement in excess of that already in place for any such loan, even if the LTV ratio of the new loan is above 80%.

Our Business Segments

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

We evaluate segment performance and allocate resources based on a Segment Earnings approach. For more information on our segments, including financial information, see MD&A CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings and NOTE 13: SEGMENT REPORTING.

Single-Family Guarantee Segment

The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related security in exchange for management and guarantee fees.

Our Customers

Our customers are predominantly lenders in the primary mortgage market that originate mortgages for homeowners. These lenders include mortgage banking companies, commercial banks, savings banks, community banks, credit unions, HFAs, and savings and loan associations.

We acquire a significant portion of our mortgages from several large lenders. These lenders are among the largest mortgage loan originators in the U.S. During 2012, three mortgage lenders, Wells Fargo Bank, N.A, U.S. Bank, N.A., and JPMorgan Chase Bank, N.A., each accounted for 10% or more of our single-family mortgage purchase volume and collectively accounted for approximately 49% of our single-family mortgage purchase volume. In the last two years, a number of our largest mortgage seller/servicers have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we are acquiring an increasing portion of our business volume directly from smaller lenders. Our top ten lenders accounted for approximately 73% and 82% of our single-family mortgage purchase volume during 2012 and 2011, respectively.

We are the master servicer for the loans we purchase, and delegate the primary servicing function to our customers. A significant portion of our single-family mortgage loans are serviced by several of our large customers. If our servicers lack appropriate process controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans, our business and financial results could be adversely affected. For additional information about our

relationships with our customers, see MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Single-Family Mortgage Seller/Servicers.*

Our Competition

Historically, our principal competitors have been Fannie Mae, Ginnie Mae and FHA/VA, and other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, and thrift institutions. Since 2008, most of our competitors, other than Fannie Mae and Ginnie Mae, have ceased their activities in the residential mortgage securitization business or severely curtailed these activities relative to their previous levels. We compete on the basis of price, products, the structure of our securities, and service. Competition to acquire single-family mortgages can also be significantly affected by changes in our credit standards.

Ginnie Mae, which became a more significant competitor beginning in 2009, guarantees the timely payment of principal and interest on mortgage-related securities backed by federally insured or guaranteed loans, primarily those insured by FHA or guaranteed by VA. Ginnie Mae maintained a significant market share in 2012 and 2011, in large part due to favorable pricing of loans insured by FHA, the increase in the FHA loan limit and the availability, through FHA, of a mortgage product for borrowers seeking greater than 80% financing who could not otherwise qualify for a conventional mortgage.

The conservatorship, including direction provided to us by our Conservator, and the restrictions on our activities under the Purchase Agreement may affect our ability to compete. FHFA, through its strategic plan activities, has required that we and Fannie Mae adopt uniform approaches in a number of areas. Through the servicing alignment initiative, we and Fannie Mae have aligned many of our policies and procedures with respect to the servicing of single-family loans. We are also aligning certain terms of the contracts we and Fannie Mae use with our respective single-family customers, and are working with Fannie Mae on a new securitization platform. For more information, see RISK FACTORS Conservatorship and Related Matters *FHFA directives that we and Fannie Mae adopt uniform approaches in some areas could have an adverse impact on our business or on our competitive position with respect to Fannie Mae.*

Overview of the Mortgage Securitization Process

Mortgage securitization is a process by which we purchase mortgage loans that lenders originate, and pool these loans into mortgage securities that are sold in global capital markets. The following diagram illustrates how we support mortgage market liquidity when we create PCs through mortgage securitizations. These PCs can be sold to investors or held by us or our customers.

The U.S. residential mortgage market consists of a primary mortgage market that links homebuyers and lenders and a secondary mortgage market that links lenders and investors. We participate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities for investment and by issuing guaranteed mortgage-related securities. In the Single-family Guarantee segment, we purchase and securitize single-family mortgages, which are mortgages that are secured by one- to four-family properties.

In general, the securitization and Freddie Mac guarantee process works as follows: (a) a lender originates a mortgage loan to a borrower purchasing a home or refinancing an existing mortgage loan; (b) we purchase the loan from the lender and place it with other mortgages into a security that is sold to investors (this process is referred to as pooling); (c) the lender may then use the proceeds from the sale of the loan or security to originate another mortgage loan; (d) we provide a credit guarantee, for a fee (generally a portion of the interest collected on the mortgage loan), to those who invest in the security; (e) the borrower s monthly payment of mortgage principal and interest (net of a servicing fee and our management and guarantee fee) is passed through to the investors in the security; and (f) if the borrower stops making monthly payments because a family member loses a job, for example we step in and, pursuant to our guarantee, make the applicable payments to investors in the security. In the event a borrower defaults on the mortgage, our servicer works with the borrower to find a solution to help them stay in the home, or sell the property and avoid foreclosure, through our many different workout options. If this is not possible, we ultimately foreclose and sell the home.

The terms of single-family mortgages that we purchase or guarantee allow borrowers to prepay these loans, thereby allowing borrowers to refinance their loans when mortgage rates decline. Because of the nature of long-term, fixed-rate mortgages, borrowers with these mortgages are protected against rising interest rates, but are able to take advantage of

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declining rates through refinancing. When a borrower prepays a mortgage that we have securitized, the outstanding balance of the security owned by investors is reduced by the amount of the prepayment. Unscheduled reductions in loan principal, regardless of whether they are voluntary or involuntary, result in prepayments of security balances. Consequently, the owners of our guaranteed securities are subject to prepayment risk on the related mortgage loans, which is principally that the investor will receive an unscheduled return of the principal, and therefore may not earn the rate of return originally expected on the investment.

We guarantee these mortgage-related securities in exchange for compensation, which consists primarily of a combination of management and guarantee fees paid on a monthly basis as a percentage of the UPB of the underlying loans (referred to as base fees), and initial upfront payments (referred to as delivery fees). We may also make upfront payments to buy-up the monthly management and guarantee fee rate, or receive upfront payments to buy-down the monthly management and guarantee fee rate. These fees are paid in conjunction with the formation of a PC to provide for a uniform coupon rate for the mortgage pool underlying the issued PC.

We enter into mortgage purchase volume commitments with many of our single-family customers. These commitments provide for the lenders to deliver to us a certain volume of mortgages during a specified period of time. Some commitments may also provide for the lender to deliver to us a minimum percentage of their total sales of conforming loans. The purchase and securitization of mortgage loans from customers under these contracts have pricing schedules for our management and guarantee fees that are negotiated at the outset of the contract with initial terms that may range from one month to one year. We call these transactions flow activity and they represent the majority of our purchase volumes. The remainder of our purchases and securitizations of mortgage loans occurs in bulk transactions for which purchase prices and management and guarantee fees are negotiated on an individual transaction basis. Mortgage purchase volumes from individual customers can fluctuate significantly. If a mortgage lender fails to meet its contractual commitment, we have a variety of contractual remedies, which may include the right to assess certain fees. Our mortgage purchase contracts contain no penalty or liquidated damages clauses based on our inability to take delivery of presented mortgage loans. However, if we were to fail to meet our contractual commitment, we could be deemed to be in breach of our contract and could be liable for damages in a lawsuit. Given the uncertainty of the housing market in recent years, since 2009 we have entered into arrangements with certain existing customers at their renewal dates that allow us to change credit and pricing terms more quickly than in the past, including the ability to change our base management and guarantee fees upon 90 days or less notice to customers, if directed to do so by FHFA.

We seek to issue guarantees with fee terms that we believe will, over the long-term, provide management and guarantee fee income that exceeds our anticipated credit-related and administrative expenses on the underlying loans. To compensate us for higher levels of risk in some mortgage products, we charge upfront delivery fees above the base management and guarantee fee, which are calculated based on credit risk factors such as the mortgage product type, loan purpose, LTV ratio and other loan or borrower characteristics. Historically, we have varied our guarantee and delivery fee pricing for different customers, mortgage products, and mortgage or borrower underwriting characteristics based on our assessment of credit risk and loss mitigation related to single-family loans.

We implemented several increases in delivery fees in recent years that are applicable to single-family mortgages with certain higher-risk loan characteristics. Certain of these fee increases do not apply to relief refinance mortgages with LTV ratios greater than 80% and with settlement dates on or after July 1, 2011. We have established maximum limits on the amount of delivery fees that are imposed for relief refinance mortgages, regardless of the LTV ratio of the loan.

We also implemented two across-the-board increases in guarantee fees in 2012. Effective April 1, 2012, at the direction of FHFA, both we and Fannie Mae increased the guarantee fee on single-family residential mortgages sold to us by 10 basis points. Under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this increase are being remitted to Treasury to fund the payroll tax cut. We pay these fees to Treasury on a quarterly basis and refer to this fee increase as the legislated 10 basis point increase in guarantee fees. In the fourth quarter of 2012, both we and Fannie Mae implemented, at FHFA s direction, a further increase in guarantee fees on single-family mortgages of an average of 10 basis points. In announcing this increase, FHFA stated that the changes to the guarantee fee pricing represent a step toward encouraging greater participation in the mortgage market by private firms.

In September 2012, FHFA also requested public comment on a proposed approach under which we and Fannie Mae would adjust our delivery fees charged on single-family mortgages in states where costs related to foreclosures are statistically higher than the national average. FHFA stated in its September 2012 announcement that it expects to direct us and Fannie Mae to implement the pricing adjustments in 2013.

Securitization Activities

The types of mortgage-related securities we issue and guarantee include the following:

- PCs;
- REMICs and Other Structured Securities; and
- Other Guarantee Transactions.

For information about the amount of mortgage-related securities we have issued, see Table 35 Freddie Mac Mortgage-Related Securities. For information about the relative performance of mortgages underlying these securities, see MD&A RISK MANAGEMENT Credit Risk.

PCs

Our PCs are single-class pass-through securities that represent undivided beneficial interests in trusts that hold pools of mortgages we have purchased. Holding investments in single-family loans in the form of PCs rather than as unsecuritized loans gives us greater flexibility in managing the composition of our mortgage-related investments portfolio, as it is generally easier to purchase and sell PCs than unsecuritized mortgage loans, and allows more cost effective interest-rate risk management. For our fixed-rate PCs, we guarantee the timely payment of principal and interest. For our single-family ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans. We also guarantee the full and final payment of principal for ARM PCs; however, we do not guarantee the timely payment of principal on ARM PCs. We issue most of our single-family PCs in transactions in which our customers provide us with mortgage loans in exchange for PCs. We refer to these transactions as guarantor swaps. The following diagram illustrates a guarantor swap transaction:

Guarantor Swap

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We also issue PCs in exchange for cash. The following diagram illustrates an exchange for cash in a cash auction of PCs:

Cash Auction of PCs

Institutional and other fixed-income investors, including pension funds, insurance companies, securities dealers, money managers, REITs, and commercial banks, purchase our PCs. For the past several years, the Federal Reserve has purchased significant amounts of mortgage-related securities issued by us, Fannie Mae and Ginnie Mae. These purchases, which are ongoing, have affected mortgage spreads (positively and, in some periods, negatively) and the demand for and values of our PCs.

PCs differ from most other fixed-income securities in several ways. For example, and most significantly, single-family PCs can be partially or fully prepaid at any time. Homeowners have the right to prepay their mortgage at any time (known as the prepayment option), and homeowner mortgage prepayments are passed through to the PC holder. Consequently, mortgage-related securities implicitly have a call option that significantly reduces the average life of the security from the contractual loan maturity. As a result, our PCs generally provide a higher nominal yield than certain other fixed-income products. In addition, in contrast to U.S. Treasury securities, PCs are not backed by the full faith and credit of the United States and are instead backed by interests in real estate, in addition to our own guarantee.

From time to time we undertake actions in an effort to support the liquidity and the relative price performance of our PCs to comparable Fannie Mae securities through a variety of activities, including the resecuritization of PCs into REMICs and Other Structured Securities. Other strategies may include: (a) encouraging sellers to pool mortgages that they deliver to us into PC pools with a larger and more diverse population of mortgages; (b) influencing the volume and characteristics of mortgages delivered to us by tailoring our loan eligibility guidelines and other means; and (c) engaging in portfolio purchase and retention activities. See *Investments Segment PC Support Activities* and RISK FACTORS Competitive and Market Risks *A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business* for additional information about our effort to support the liquidity and relative price performance of our PCs.

REMICs and Other Structured Securities

We issue single-class and multiclass securities. Single-class securities (e.g., PCs) involve the straight pass-through of all of the cash flows of the underlying collateral to holders of the beneficial interests. Our primary multiclass securities qualify for tax treatment as REMICs. Multiclass securities divide all of the cash flows of the underlying mortgage-related assets into two or more classes designed to meet the investment criteria and portfolio needs of different investors by creating classes of securities with varying maturities, payment priorities and coupons, each of which represents a beneficial ownership interest in a separate portion of the cash flows of the underlying collateral. Usually, the cash flows are divided to modify the relative exposure of different classes to interest-rate risk, or to create various coupon structures. The simplest division of cash flows is into principal-only and interest-only classes. Other securities we issue can involve the creation of sequential payment and planned or targeted amortization classes. In a sequential payment class structure, one or more classes receive all or a disproportionate percentage of the principal payments on the underlying mortgage assets for a period of time until that class or classes are retired, following which the principal payments are directed to other classes. Planned or targeted amortization classes involve the creation of classes that have relatively more predictable amortization schedules across different prepayment scenarios, thus reducing prepayment risk, extension risk, or both.

Our REMICs and Other Structured Securities represent beneficial interests in pools of PCs and/or certain other types of mortgage-related assets. We create these securities primarily by using PCs or previously issued REMICs and Other Structured Securities as the underlying collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of tranches of our REMICs and Other Structured Securities. We do not charge a management and guarantee fee for these securities if the underlying collateral is already guaranteed by us since no additional credit risk is introduced. Because the collateral underlying nearly all of our single-family REMICs and Other Structured Securities consists of other mortgage-related securities that we guarantee, there are no economic residual interests in the related securitization trust. We do not issue tranches of securities in these transactions that have concentrations of credit risk beyond those embedded in the underlying assets. The following diagram provides a general example of how we create REMICs and Other Structured Securities.

REMICs and Other Structured Securities

We issue many of our REMICs and Other Structured Securities in transactions in which securities dealers or investors sell us mortgage-related assets or we use our own mortgage-related assets (e.g., PCs and REMICs and Other Structured Securities) in exchange for the REMICs and Other Structured Securities. The creation of REMICs and Other Structured Securities allows for setting differing terms for specific classes of investors, and our issuance of these securities can expand the range of investors in our mortgage-related securities to include those seeking specific security attributes. For REMICs and Other Structured Securities that we issue to third parties, we typically receive a transaction, or resecuritization, fee. This transaction fee is compensation for facilitating the transaction, as well as future administrative responsibilities.

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Other Guarantee Transactions

We also issue mortgage-related securities to third parties in exchange for non-Freddie Mac mortgage-related securities. We refer to these as Other Guarantee Transactions. The non-Freddie Mac mortgage-related securities are transferred to trusts that were specifically created for the purpose of issuing securities, or certificates, in the Other Guarantee Transactions. The following diagram illustrates an example of an Other Guarantee Transaction:

Other Guarantee Transaction

Other Guarantee Transactions can generally be segregated into two different types. In one type, we purchase only senior tranches from a non-Freddie Mac senior-subordinated securitization, place the senior tranches into securitization trusts, and issue Other Guarantee Transaction certificates guaranteeing the principal and interest payments on those certificates. In this type of transaction, our credit risk is reduced by the structural credit protections from the related subordinated tranches, which we do not guarantee. In the second type, we purchase single-class pass-through securities, place them in securitization trusts, and issue Other Guarantee Transaction certificates guaranteeing the principal and interest payments on those certificates. Our Other Guarantee Transactions backed by single-class pass-through securities do not benefit from structural or other credit enhancement protections.

Although Other Guarantee Transactions generally have underlying mortgage loans with varying risk characteristics, we do not issue tranches that have concentrations of credit risk beyond those embedded in the underlying assets, as all cash flows of the underlying collateral are passed through to the holders of the securities and there are no economic residual interests in the securitization trusts. Additionally, there may be other credit enhancements and structural features retained by the seller, such as excess interest or overcollateralization, that provide credit protection to our interests, and reduce the likelihood that we will have to perform under our guarantee of the senior tranches. In exchange for providing our guarantee, we may receive a management and guarantee fee or other delivery fees, if the underlying collateral is not already guaranteed by us.

In 2010 and 2009, we entered into transactions under Treasury s NIBP with HFAs, for the partial guarantee of certain single-family and multifamily HFA bonds, which were Other Guarantee Transactions with significant credit enhancement provided by Treasury. While we have not engaged in any of these transactions since 2010, we continue to participate in and support this program and these guarantees remain outstanding. The securities issued by us pursuant to the NIBP were purchased by Treasury. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Housing Finance Agency Initiative for further information.

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Single-Family PC Trust Documents

We establish trusts for all of our issued PCs pursuant to our PC master trust agreement. In accordance with the terms of our PC trust documents, we have the option, and in some instances the requirement, to remove specified mortgage loans from the applicable trust. To remove these loans, we pay the trust an amount equal to the current UPB of the mortgage, less any outstanding advances of principal that have been distributed to PC holders. Our payments to the trust are distributed to the PC holders at the next scheduled payment date.

We have the option to remove a mortgage loan from a PC trust under certain circumstances to resolve an existing or impending delinquency or default. Since 2010, our practice generally has been to remove substantially all single-family mortgage loans that are 120 days or more delinquent from our issued PCs. From time to time, we reevaluate our practice of removing delinquent loans from PCs and alter it if circumstances warrant.

We are required to remove a mortgage loan (or, in some cases, substitute a comparable mortgage loan) from a PC trust in the following situations:

- if a court of competent jurisdiction or a federal government agency, duly authorized to oversee or regulate our mortgage purchase business, determines that our purchase of the mortgage was unauthorized and a cure is not practicable without unreasonable effort or expense, or if such a court or government agency requires us to repurchase the mortgage;

- if a borrower exercises its option to convert the interest rate from an adjustable-rate to a fixed-rate on a convertible ARM; and

- in the case of balloon-reset loans, shortly before the mortgage reaches its scheduled balloon-reset date.

The To Be Announced Market

Because our fixed-rate single-family PCs are considered to be homogeneous, and are issued in high volume and are highly liquid, they generally trade on a generic basis by PC coupon rate, also referred to as trading in the TBA market. A TBA trade in Freddie Mac securities represents a contract for the purchase or sale of PCs to be delivered at a future date; however, the specific PCs that will be delivered to fulfill the trade obligation, and thus the specific characteristics of the mortgages underlying those PCs, are not known (i.e., announced) at the time of the trade, but only shortly before the trade is settled. The use of the TBA market increases the liquidity of mortgage investments and improves the distribution of investment capital available for residential mortgage financing, thereby helping us to accomplish our statutory mission. The Securities Industry and Financial Markets Association publishes guidelines pertaining to the types of mortgages that are eligible for TBA trades. Certain of our PC securities are not eligible for TBA trades, such as those backed by relief refinance mortgages with LTV ratios greater than 105%.

Other Guarantee Commitments

In certain circumstances, we provide our guarantee of mortgage-related assets held by third parties, in exchange for a management and guarantee fee, without our securitization of the related assets. For example, we provide long-term standby commitments to certain of our single-family customers, which obligate us to purchase seriously delinquent loans that are covered by those agreements. In addition, during 2010 and 2009, we issued guarantees under the TCLFP on securities backed by HFA bonds as part of the HFA Initiative. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Housing Finance Agency Initiative for further information.

Underwriting Requirements and Quality Control Standards

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, our contracts with seller/servicers describe mortgage underwriting standards and the seller/servicers represent and warrant to us that the mortgages sold to us meet these standards. In our contracts with individual seller/servicers, we may waive or modify selected underwriting standards. Through our delegated underwriting process, mortgage loans and the borrowers ability to repay the loans are evaluated using a number of critical risk characteristics, including, but not limited to, the borrower s credit score and credit history, the borrower s monthly income relative to debt payments (or DTI), the original LTV ratio, the type of mortgage product, the property type and market value, and the occupancy type of the loan. Our single-family loans are generally underwritten with a requirement for a maximum original LTV ratio of 95% (excluding jumbo conforming, cash-out refinance, and HARP mortgages). We prescribe maximum LTV ratio limits of 80% for cash-out refinance loans and 90% for jumbo conforming mortgages.

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Due to adverse market and economic conditions, and based in part on our reviews of the underwriting quality for loans originated in 2005 through 2007, we implemented several credit limits since 2008. These credit limits are defined by specified criteria such as the LTV ratio, credit score and DTI ratio. For documentation to substantiate assets and income, we require the borrower to provide at least one paystub, one IRS Form W-2, and one current bank statement. FICO scores are the most commonly used credit scores today. FICO scores are ranked on a scale of approximately 300 to 850 points. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores. We obtain credit scores of borrowers at the time of origination and do not typically receive updated data on borrower credit scores after origination.

The majority of our single-family mortgage purchase volume is evaluated using automated underwriting software, either our proprietary software (Loan Prospector), the seller/servicers own software, or Fannie Mae s proprietary software. The percentage of our single-family mortgage purchase flow activity volume evaluated by the loan originator using Loan Prospector prior to being purchased by us was 45%, 41%, and 39% during 2012, 2011, and 2010, respectively. Beginning in 2009, we added a number of additional credit standards for loans evaluated by other underwriting software to improve the quality of loans we purchase that are evaluated using such other software. Consequently, we do not currently believe that the use of an automated underwriting software other than Loan Prospector significantly increases our loan performance risk.

As part of our quality control process, we review the underwriting documentation for certain loans we have purchased for compliance with our standards. In recent years, we have worked actively with our seller/servicers to improve loan underwriting quality. As a result, we observed improved quality control results for loans funded during 2011 as compared to 2010. As of December 31, 2012, the average aggregate underwriting deficiency rate across all seller/servicers for loans funded during 2011 and 2010 was approximately 5% and 13%, respectively. These rates may change in the future as our seller/servicers may appeal our findings. We have not yet sufficiently compiled our 2012 results for loan reviews due to the normal processing time to complete such reviews. The most common underwriting deficiencies found in the review of loans purchased during 2011 related to insufficient income and inadequate or missing documentation to support borrower qualification. The next most common deficiency was inaccurate data entered into Loan Prospector. We give our seller/servicers an opportunity to appeal ineligible loan determinations in response to our request for the repurchase of the loan. Beginning in the latter half of 2011, we required certain of our larger seller/servicers to maintain ineligible loan rates below a stated threshold (generally 5%), with financial consequences for non-compliance, as part of the renewals of our contracts with them. We expect these changes in seller/servicer contracts to positively impact ineligible loan rates. In addition, for all of our largest seller/servicers, we actively manage the current quality of loan originations by providing monthly written and oral communications regarding loan defect rates and the drivers of those defects as identified in our performing loan quality control sampling reviews. If necessary, we work with seller/servicers to develop an appropriate plan of corrective action.

Through 2012, for loans with identified underwriting deficiencies, we required either immediate repurchase or allowed performing loans to remain in our portfolio subject to our continued right to issue a repurchase request to the seller/servicers at a later date. Beginning January 1, 2013, our practice for lender repurchases is based upon the new framework discussed below. Our right to request repurchase by seller/servicers is intended to protect us against deficiencies in underwriting by our seller/servicers. For more information on our seller/servicers repurchase obligations, including recent performance under those obligations, see MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Single-family Mortgage Seller/Servicers*.

New Representation and Warranty Framework

At the direction of FHFA, we and Fannie Mae launched a new representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. The objective of the new framework is to clarify lenders repurchase exposures and liability on future sales of mortgage loans to Freddie Mac and Fannie Mae and, under this new framework, lenders will be relieved of certain repurchase obligations for loans that meet specific payment requirements. Examples, subject to certain exclusions, include:

- loans with 36 months of consecutive, on-time payments after we purchase them; and

- relief refinance mortgages with 12 months of consecutive, on-time payments after we purchase them.

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Under the new framework, Freddie Mac and Fannie Mae, under the supervision of FHFA, have established consistent standards for:

- conducting quality control reviews earlier in the loan process, generally between 30 to 120 days after loan purchase;
- requiring lenders to submit requested loan files for review within specified timelines;
- evaluating loan files on a more comprehensive basis to ensure a focus on identifying significant deficiencies; and
- making available more transparent appeals processes for lenders to appeal repurchase requests.

Additionally, we will use our tools and available data to enable earlier identification of potentially defective loans prior to their purchase and delivery. The changes to the representation and warranty process are key elements of the seller/servicer contract harmonization project that supports FHFA s strategic plan for the Freddie Mac and Fannie Mae conservatorships announced in 2012.

The new framework does not affect seller/servicers obligations under their contracts with us with respect to loans sold to us prior to January 1, 2013. The new framework also does not affect their obligation to service these loans in accordance with our servicing standards. Freddie Mac will continue to work with lenders to resolve contractual claims on loans delivered prior to January 1, 2013.

Credit Enhancements

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests. However, we may purchase single-family mortgages under HARP that refinance mortgages we currently own or guarantee without obtaining additional credit enhancement in excess of that already in place, even if the LTV ratio of the new loan is above 80%. Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is typically provided on a loan-level basis. Generally, in order to file a claim under a primary mortgage insurance policy, the insured loan must be in default and the borrower s interest in the underlying property must have been extinguished, such as through a short sale or foreclosure action. The mortgage insurer has a prescribed period of time within which to process a claim and make a determination as to its validity and amount.

For some mortgage loans, we elect to share the default risk by transferring a portion of that risk to various third parties through a variety of other credit enhancements. Other types of credit enhancements that we use are lender recourse (under which we may require a lender to repurchase a loan upon default), indemnification agreements (under which we may require a lender to reimburse us for credit losses realized on mortgages), collateral pledged by lenders, and subordinated security structures. Lender recourse and indemnification agreements are typically entered into contemporaneously with the purchase of a mortgage loan as an alternative to requiring primary mortgage insurance on the loan or in exchange for a lower guarantee fee on the loan.

We also use pool insurance, although we have not purchased pool insurance on single-family loans since March 2008. Pool insurance provides insurance on a pool of loans up to a stated aggregate loss limit. In addition to a pool-level loss coverage limit, some pool insurance contracts may have limits on coverage at the loan level. During 2012, we reached the maximum limit of loss on certain pool insurance contracts before their maturity dates. In order to file a claim under a pool insurance policy, we generally must have finalized the primary mortgage claim, disposed of the foreclosed property, and quantified our net loss with respect to the insured loan to determine the amount due under the pool insurance policy. Certain pool insurance policies have specified loss deductibles that must be met before we are entitled to recover under the policy.

Our use of credit enhancements to reduce our exposure to mortgage credit risk increases our exposure to institutional credit risk. See MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk* for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio, including information about pool insurance coverage and our mortgage loan insurers.

Loss Mitigation and Loan Workout Activities

Loan workout activities are a key component of our loss mitigation strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention by servicers in delinquent mortgages and provides alternatives to foreclosure. Our single-family loss mitigation activities include providing our single-family servicers with default management tools designed to help them manage non-performing loans more effectively and to assist borrowers in maintaining home ownership where possible, or facilitate foreclosure alternatives when continued homeownership is not an option. We require our single-family seller/servicers to first evaluate problem loans for a repayment or forbearance plan before considering modification. If a borrower is not eligible for a modification, our seller/servicers pursue other workout options before considering foreclosure.

Our loan workouts include:

- Forbearance agreements, where reduced payments or no payments are required during a defined period, generally less than one year. They provide additional time for the borrower to return to compliance with the original terms of the mortgage or to implement another loan workout. During 2012, the average time period granted for completed short-term forbearance agreements was between two and three months.

- Repayment plans, which are contractual plans to make up past due amounts. These plans assist borrowers in returning to compliance with the original terms of their mortgages. During 2012, the average time period granted for completed repayment plans was between two and six months.

- Loan modifications, which may involve changing the terms of the loan, or adding outstanding indebtedness, such as delinquent interest, to the UPB of the loan, or a combination of both. We require our servicers to examine the borrower s capacity to make payments under the new terms by reviewing the borrower s qualifications, including income. During 2012, we granted principal forbearance but did not utilize principal forgiveness for our loan modifications. Principal forbearance is a change to a loan s terms to designate a portion of the principal as non-interest-bearing and non-amortizing. A borrower may only receive one HAMP modification; however, a loan may be modified twice under our standard loan modification program. Generally, a borrower may only receive one standard modification during a 12 month period. However, we reserve the right to approve additional non-HAMP loan modifications to the same borrower, based on the borrower s individual facts and circumstances.

- Short sale and deed in lieu of foreclosure transactions.

We also participate in the MHA Program, which is designed to help in the housing recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts, and set market standards. Participation in the MHA Program is an integral part of our mission of providing stability to the housing market. Through our participation in this program, we help borrowers maintain home ownership. Some of the key initiatives of this program include HAMP and HARP, which are discussed below.

Home Affordable Modification Program

HAMP commits U.S. government, Freddie Mac, and Fannie Mae funds to help eligible homeowners avoid foreclosures and keep their homes through mortgage modifications, where possible. HAMP applies to loans originated on or before January 1, 2009. The program is scheduled to end on December 31, 2013.

Under this program, we offer loan modifications to financially struggling homeowners with mortgages on their primary residences that reduce the monthly principal and interest payments on their mortgages. HAMP requires that each borrower complete a trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. Trial periods are required to be at least three months. After the final trial-period payment is received by our servicer the borrower and servicer will enter into the modification.

To address documentation issues experienced when the program began, guidelines for HAMP provide that, for trial periods that became effective on or after June 1, 2010, borrowers must provide income documentation before entering into the trial period. Prior to the June 1, 2010 changes to HAMP, we experienced approximately a 38% modification completion rate under the program. Subsequent to the June 1, 2010 changes, we have experienced a modification completion rate in excess of 75%. When a borrower s trial period is cancelled, the loan is considered for our other workout activities.

HAMP includes the following features:

Under HAMP, the goal is to reduce the borrower s monthly mortgage payments to 31% of gross monthly income, which may be achieved through a combination of methods, including interest rate reductions, term extensions, and principal forbearance. Although HAMP contemplates that some servicers will also make use of principal reduction to achieve reduced payments for borrowers, we have only used forbearance and have not used principal reduction in modifying our loans. Borrowers whose loans are modified through HAMP accrue monthly incentive payments (in the form of credits) that are applied annually to reduce up to $1,000 of their principal per year, for five years, as long as they are making timely payments under the modified loan terms.

Servicers are paid incentive fees for each completed HAMP modification. Servicers receive additional incentive fees for any modification that reduces a borrower s monthly payment by 6% or more, in each of the first three years after the modification, as long as the modified loan remains current.

Except in limited instances, each borrower s reduced payment will remain in effect for a minimum of five years, and borrowers whose interest rates were adjusted below market levels will have their interest rate and payment gradually increased after the fifth year to a rate consistent with the market rate at the time of modification. Although mortgage investors under the MHA Program are entitled to certain subsidies from Treasury for reducing the borrowers monthly payments from 38% to 31% of the borrower s income, we do not receive such subsidies on modified mortgages owned or guaranteed by us. We also bear the costs of borrower incentive payments and servicer incentive fees for our HAMP loans, without reimbursement of such costs from Treasury.

Trial periods are required to be at least three months in duration. Our servicers are permitted to add an interim month, which will be reported as a fourth trial period month. In addition, our servicers are authorized to extend a trial period for up to an additional two months when the borrower is in bankruptcy in order to provide additional time to have the mortgage removed from the bankruptcy plan, which is a prerequisite to a modification under HAMP.

We are the compliance agent for Treasury for certain foreclosure avoidance activities under HAMP by mortgage holders other than Freddie Mac and Fannie Mae. Among other duties, as the program compliance agent, we conduct examinations and review servicer compliance with the published requirements for the program. Some of these examinations are on-site, and others involve off-site documentation reviews. We report the results of our examination findings to Treasury. Based on the examinations, we may also provide Treasury with advice, guidance and lessons learned to improve operation of the program.

Relief Refinance Mortgage Initiative and the Home Affordable Refinance Program

Our relief refinance opportunities, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), are a significant part of our effort to keep families in their homes. Only borrowers with Freddie Mac-owned or guaranteed mortgages are eligible for our relief refinance mortgage initiative. Our relief refinance initiative began in 2009 and is designed to provide eligible homeowners with existing loans owned or guaranteed by us an opportunity to refinance their mortgage without obtaining new mortgage insurance in excess of what was already in place. Our relief refinance initiative enables us to assist homeowners by making their mortgage payments more affordable through one or more of the following ways: (a) a reduction in payment; (b) a reduction in interest rate; (c) movement to a more stable mortgage product type (i.e., from an adjustable-rate mortgage to a fixed-rate mortgage); or (d) a reduction in amortization term.

HARP and the relief refinance mortgage initiative originally permitted eligible borrowers with Freddie Mac mortgages (that were sold to us on or before May 31, 2009) and LTVs up to 125% to refinance their mortgages. In October 2011, FHFA, Freddie Mac, and Fannie Mae announced a series of FHFA-directed changes to HARP, in an effort to attract more eligible borrowers who can benefit from refinancing their home mortgages. We subsequently made similar changes to the relief refinance mortgage initiative for loans with LTV ratios of 80% and less. The enhancements to HARP and the relief refinance mortgage initiative included:

- removing the 125% LTV ratio ceiling for fixed-rate mortgages;
- relieving the lenders of certain underwriting and borrower eligibility representations and warranties on the original mortgage being refinanced;
- eliminating the need for a new property appraisal where there is a reliable automated valuation model estimate provided by the purchasing GSE; and
- extending the last application date for HARP loans to December 31, 2013.

We began purchasing HARP loans under the revised program in January 2012. In September 2012, we announced additional changes to our relief refinance process that are intended to reduce the seller/servicers operational complexities associated with originating these loans.

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Underwriting procedures for relief refinance mortgages are limited in many cases, and such procedures generally do not include all of the changes in underwriting standards we have implemented since 2008. As a result, relief refinance mortgages generally reflect many of the credit risk attributes of the original loans. However, borrower participation in our relief refinance mortgage initiative may help reduce our exposure to credit risk in cases where the borrowers payments under their mortgages are reduced, thereby strengthening the borrowers potential to make their mortgage payments. See MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program* for additional information about HARP and our relief refinance mortgage initiative.

Non-HAMP Standard Modifications

In late 2011, as part of the servicing alignment initiative (described below), we implemented a new non-HAMP standard loan modification initiative, replacing our previous non-HAMP modification initiative. The standard modification requires a three-month trial period (our previous non-HAMP modification program did not require a trial period). The standard modification provides an extension of the loan s term to 480 months. In addition, the standard modification initiative currently provides for a standard modified interest rate of 4% (though the rate could change in the future). This initiative also provides for a servicer incentive fee schedule for non-HAMP modifications, comparable to the current HAMP servicer incentive fee structure. The incentive fees are intended to provide greater incentives to our servicers to modify loans earlier in the delinquency. Unlike with HAMP modifications, our non-HAMP standard modification does not provide for borrower incentive payments or recurring servicer incentive fees after the initial servicer incentive payment.

Servicing Alignment Initiative

During 2012, we continued to implement the FHFA-directed servicing alignment initiative, under which we and Fannie Mae are aligning certain standards for servicing non-performing loans owned or guaranteed by the companies. We believe that the servicing alignment initiative will continue to: (a) change, among other things, the way servicers communicate and work with troubled borrowers; (b) bring greater consistency and accountability to the servicing industry; and (c) help more distressed homeowners avoid foreclosure. We have provided standards to our servicers under this initiative that require them to initiate earlier and more frequent communication with delinquent borrowers, employ consistent requirements for collecting documents from borrowers, and follow consistent timelines for responding to borrowers and for processing foreclosures. These standards have resulted in greater alignment of servicer processes for both HAMP and most non-HAMP workouts.

Under these new servicing standards, we pay incentives to servicers that exceed certain performance standards with respect to servicing delinquent loans. We also assess compensatory fees if servicers do not achieve a minimum performance benchmark with respect to servicing delinquent loans. Incentive fees paid to servicers and compensatory fees received from servicers are recorded in other expenses and other income, respectively, within our consolidated statements of comprehensive income. These incentives may result in our payment of increased fees to our seller/servicers, the cost of which may be partially mitigated by the compensatory fees paid to us by our servicers that do not perform as required.

In August 2012, as part of the servicing alignment initiative we announced a new standard short sale process, aligned with Fannie Mae, which is designed to help more struggling borrowers use short sales to avoid foreclosure. This new process became effective November 1, 2012, and changes many of the operational procedures required to complete a transaction, including: (a) expanding the eligibility for borrowers to qualify for these transactions; (b) delegating the authority to complete these transactions to our seller/servicers in most cases; and (c) providing for a standardized and simplified method for seller/servicers to value the property and evaluate the transaction on a more timely basis.

In addition, in November 2012 we announced a new process, aligned with Fannie Mae, for deed in lieu of foreclosure transactions. This new process will become effective on March 1, 2013.

For more information regarding credit risk, see MD&A RISK MANAGEMENT Credit Risk, NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES, and NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS.

Investments Segment

The Investments segment reflects results from our investment, funding and hedging activities. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans, which are funded by other debt issuances and hedged using derivatives. In our Investments segment, we also provide funding and hedging

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management services to the Single-family Guarantee and Multifamily segments. In the Investments segment, we are not currently a substantial buyer or seller of mortgage assets.

Our Customers

Our customers for our debt securities predominantly include insurance companies, money managers, central banks, depository institutions, and pension funds. Within the Investments segment, we buy securities and single-family mortgage loans through various market sources. We purchase a significant portion of these loans from a variety of lenders, as discussed in *Single-Family Guarantee Segment Our Customers*.

Our Competition

Historically, our principal competitors have been Fannie Mae and other financial institutions that invest in mortgage-related securities and mortgage loans, such as commercial and investment banks, dealers, thrift institutions, REITs, and insurance companies. The conservatorship, including direction provided to us by our Conservator and the restrictions on our activities under the Purchase Agreement, has affected and will continue to affect our ability to compete in the business of investing in mortgage-related securities and mortgage loans.

We compete for debt funding with Fannie Mae, the FHLBs and other institutions. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments.

Assets

Historically, we have primarily been a buy-and-hold investor in mortgage-related securities and single-family performing mortgage loans. We purchase these assets to improve profitability, support our customers, and support the liquidity and price performance of our PCs. We may sell assets to reduce risk, provide liquidity, and improve our returns. However, due to limitations under the Purchase Agreement and those imposed by FHFA, our ability to acquire and sell mortgage assets is significantly constrained. For more information, see Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio* and MD&A CONSOLIDATED RESULTS OF OPERATIONS Segment Earnings *Segment Earnings-Results Investments.*

We may enter into a variety of transactions to improve investment returns, including: (a) dollar roll transactions; (b) purchases of agency securities (including agency REMICs); and (c) purchases of performing single-family mortgage loans. In addition, we may create REMICs from existing agency securities and sell tranches that are in demand by investors to reduce our asset balance, while conserving value for the taxpayer. We estimate our expected investment returns using an OAS approach, which is an estimate of the yield spread between a given financial instrument and a benchmark (LIBOR, agency or Treasury) yield curve. In this approach, we consider potential variability in the instrument s cash flows resulting from any options embedded in the instrument, such as the prepayment option. Additionally, in this segment we hold reperforming and modified single-family mortgage loans related to our single-family business. For our liquidity needs, we maintain a portfolio comprised primarily of cash and cash equivalents, non-mortgage-related securities (primarily Treasury securities), and securities purchased under agreements to resell.

Debt Financing

We fund our investment activities by issuing short-term and long-term debt. The conservatorship, and the resulting support we receive from Treasury, has enabled us to access debt funding on terms sufficient for our needs. While 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, the costs of our debt funding could vary for a number of reasons, including the uncertainty about the future of the GSEs. Additionally, the Purchase Agreement limits the amount of indebtedness we can incur.

For more information, see Conservatorship and Related Matters and MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity.

Risk Management

Our Investments segment has responsibility for managing our interest rate risk and certain liquidity risks. Derivatives are an important part of our risk management strategy. We use derivatives primarily to: (a) hedge forecasted issuances of debt; (b) synthetically create callable and non-callable funding; (c) adjust or rebalance our funding mix in response to

changes in the interest-rate characteristics of our mortgage-related assets; and (d) hedge foreign-currency exposure. For more information regarding our use of derivatives, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK and NOTE 10: DERIVATIVES. For information regarding our liquidity management, see MD&A LIQUIDITY AND CAPITAL RESOURCES.

PC Support Activities

Our PCs are an integral part of our mortgage purchase program. Our Single-family Guarantee segment purchases many of our mortgages by issuing PCs in exchange for those mortgage loans in guarantor swap transactions. We also issue PCs backed by mortgage loans that we purchased for cash. The relative price performance of our PCs and comparable Fannie Mae securities can directly affect the volume and/or profitability of our new single-family guarantee business.

From time to time, we undertake actions in an effort to support the liquidity and the relative price performance of our PCs to comparable Fannie Mae securities through a variety of activities. These activities can include the purchase and sale of Freddie Mac mortgage-related securities, purchases of loans, and dollar roll transactions, as well as the issuance of REMICs and Other Structured Securities. Our purchases and sales of mortgage-related securities and our issuances of REMICs and Other Structured Securities influence the relative supply and demand (i.e., liquidity) for these securities, helping to support the price performance of our PCs. Depending upon market conditions, including the relative prices, supply and demand for our PCs and comparable Fannie Mae securities, as well as other factors, there may be substantial variability in any period in the total amount of securities we purchase or sell, and in the success of our efforts to support the liquidity and price performance of our PCs. In the first half of 2012, we curtailed mortgage-related investments portfolio purchase and retention activities that were undertaken primarily in an effort to support the liquidity and price performance of our PCs. However, due to a decline in our single-family competitive position compared to other market participants (primarily Fannie Mae and Ginnie Mae) in the first half of 2012, we resumed certain of the activities noted above during the second half of 2012 in an effort to support the price performance of our PCs while minimizing market disruption. For more information about our efforts to support the liquidity and relative price performance for PCs, see *Single-Family Credit Guarantee Segment Securitization Activities*.

We incur costs in connection with our efforts to support the liquidity and price performance of our PCs, including engaging in transactions that yield less than our target rate of return. We may increase, reduce or discontinue these or other related activities at any time, which could affect the liquidity and price performance of our PCs. For more information, see RISK FACTORS Competitive and Market Risks *A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business.*

Multifamily Segment

The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Although historically we were primarily a buy and hold investor in multifamily mortgage assets (both loans held for investment and investment securities, primarily CMBS), since 2009 our primary business model is to purchase held-for-sale multifamily loans for aggregation and then securitization through multifamily K Certificates, which are considered Other Guarantee Transactions. In substantially all of these transactions we guarantee only the most senior tranches of the securities. As a result, a significant portion of our expected credit risk associated with these loans is sold in subordinated tranches to third party investors. With this model, we utilize securitization to substantially reduce our credit risk while providing liquidity to the multifamily market. See *Single-Family Guarantee Segment Securitization Activities Other Guarantee Transactions* for a diagram that illustrates these transactions.

To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. These housing revenue bonds are collateralized by mortgage loans on low- and moderate-income multifamily housing developments. In addition, we guarantee the payment of principal and interest on tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans.

The multifamily property market is affected by local and regional economic factors, such as employment rates, construction cycles, and relative affordability of single-family home prices, all of which influence the supply and demand for multifamily properties and pricing for apartment rentals. Our multifamily loan volume is largely sourced through established institutional channels where we are generally providing post-construction financing to larger apartment project operators with established performance records.

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Our lending decisions are largely based on the assessment of the property s ability to provide rents that will generate sufficient operating cash flows to support payment of debt service obligations (both principal and interest) as measured by the expected DSCR and the loan amount relative to the value of the property as measured by the LTV ratio. Multifamily mortgages generally are without recourse to the borrower (i.e., the borrower is not personally liable for any deficiency remaining after foreclosure and sale of the property), except in the event of fraud or certain other specified types of default. Therefore, repayment of the mortgage depends on the ability of the underlying property to generate cash flows sufficient to cover the related debt obligations. That, in turn, depends on conditions in the local rental market, local and regional economic conditions, the physical condition of the property, the quality of property management, and the level of operating expenses.

Our Customers

We acquire a significant portion of our multifamily mortgage loans from several large seller/servicers. For 2012, our top two multifamily sellers, CBRE Capital Markets, Inc. and Berkadia Commercial Mortgage, LLC, each accounted for more than 10% of our multifamily purchase volume, and together accounted for approximately 34% of our multifamily purchase volume. Our top 10 multifamily lenders represented an aggregate of approximately 80% of our multifamily purchase volume for 2012.

A significant portion of our multifamily mortgage loans are serviced by several of our large customers. See MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Seller/Servicers* for additional information.

Our Competition

We compete on the basis of: (a) price; (b) products, including our use of certain securitization structuring; and (c) service. Historically, our principal competitors have been Fannie Mae, FHA, and other financial institutions that retain or securitize multifamily mortgages, such as commercial and investment banks, dealers, thrift institutions, and insurance companies. During the period of significant market volatility (primarily during 2008 and 2009), many of our competitors, other than Fannie Mae and FHA, significantly curtailed their activities in the multifamily mortgage business relative to their previous levels. Beginning in 2010, as multifamily fundamentals were improving, more market participants began to re-emerge in the multifamily market, and we have faced increased competition.

Underwriting Requirements and Quality Control Standards

Our process and standards for underwriting multifamily mortgages differ from those used for single-family mortgages. Unlike single-family mortgages, we currently do not use a delegated underwriting process for the newly-originated multifamily mortgages we purchase or securitize. Instead, we typically underwrite and evaluate each mortgage prior to purchase or providing our guarantee. This process includes review of third-party appraisals and cash flow analysis. Our underwriting standards focus on loan quality measurement based, in part, on the LTV ratio and DSCR. The DSCR estimates a multifamily borrower s ability to service its mortgage obligation using the secured property s cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely a multifamily borrower will be able to continue servicing its mortgage obligation. Our standards for multifamily loans specify maximum original LTV ratio and minimum DSCR that vary based on the loan characteristics, such as loan type (new acquisition or supplemental financing), loan term (intermediate or longer-term), and loan features (interest-only or amortizing, fixed- or variable-rate). Our multifamily loans are generally underwritten with requirements for a maximum original LTV ratio of 80% and a DSCR of greater than 1.25 (which for interest-only and partial interest-only loans is based on an assumed monthly payment that reflects amortization of principal). In certain circumstances, our standards for multifamily loans allow for certain types of loans to have an original LTV ratio over 80% and/or a DSCR of less than 1.25, typically where this will serve our mission and contribute to achieving our affordable housing goals. In cases where we commit to purchase or guarantee a permanent loan upon completion of construction or rehabilitation, we generally require additional credit enhancements, because underwriting for these loans typically requires estimates of future cash flows for calculating the DSCR that is expected after construction or rehabilitation is completed.

Multifamily seller/servicers make representations and warranties to us about the mortgage and about certain information submitted to us in the underwriting process. We have the right to require that a seller/servicer repurchase a multifamily mortgage for which there has been a breach of representation or warranty. However, because of our evaluation of underwriting information for most multifamily properties prior to purchase, repurchases have been rare.

We generally require multifamily seller/servicers to service mortgage loans they have sold to us in order to mitigate potential losses. This includes property monitoring tasks beyond those typically performed by single-family servicers. We

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are not the master servicer for multifamily loans we have securitized (i.e., K Certificates) since we transfer the master servicing responsibilities to the trustees on behalf of the bondholders in accordance with the securitization and trust documents. For loans over $1 million where we own the servicing rights, servicers must generally submit an annual assessment of the mortgaged property to us based on the servicer s analysis of the property as well as the borrower s quarterly financial statements. In situations where a borrower or property is in distress, the frequency of communications with the borrower may be increased. Because the activities of multifamily seller/servicers are an important part of our loss mitigation process, we rate their performance regularly and may conduct on-site reviews of their servicing operations in an effort to confirm compliance with our standards.

For loans for which we are the master servicer, if a borrower is in distress, we may offer a workout option to the borrower. For example, we may modify the terms of a multifamily mortgage loan, which gives the borrower an opportunity to bring the loan current and retain ownership of the property. These arrangements are made with the expectation that we will recover our initial investment or minimize our losses. We do not enter into these arrangements in situations where we believe we would experience a loss in the future that is greater than or equal to the loss we would experience if we foreclosed on the property at the time of the agreement.

Conservatorship and Related Matters

Overview and Entry into Conservatorship

We have been operating under conservatorship, with FHFA acting as our conservator, since September 6, 2008. The conservatorship and related matters have had a wide-ranging impact on us, including our regulatory supervision, management, business, financial condition and results of operations.

On September 7, 2008, the then Secretary of the Treasury and the then Director of FHFA announced several actions taken by Treasury and FHFA regarding Freddie Mac and Fannie Mae. These actions included the execution of the Purchase Agreement, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock. At that time, FHFA set forth the purpose and goals of the conservatorship as follows: The purpose of appointing the Conservator is to preserve and conserve the company s assets and property and to put the company in a sound and solvent condition. The goals of the conservatorship are to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market. We refer to the Purchase Agreement and the warrant as the Treasury Agreements.

There is significant uncertainty as to whether or when we will emerge from conservatorship, as it has no specified termination date, and as to what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term. Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term. We have no ability to predict the outcome of these deliberations.

On February 21, 2012, FHFA sent to Congress a strategic plan for the next phase of the conservatorships of Freddie Mac and Fannie Mae. The plan outlines how FHFA, as Conservator, intends to guide us and Fannie Mae over the next few years, and identifies the strategic goals of (a) building a new infrastructure for the secondary mortgage market; (b) gradually contracting Freddie Mac and Fannie Mae s dominant presence in the marketplace while simplifying and shrinking their operations; and (c) maintaining foreclosure prevention activities and credit availability for new and refinanced mortgages. In March 2012, FHFA instituted the Conservatorship Scorecard that established objectives, performance targets and measures, and provided the implementation roadmap for FHFA s strategic plan.

We receive substantial support from Treasury and FHFA, as our Conservator and regulator, and are dependent upon their continued support in order to continue operating our business. This support includes our ability to access funds from Treasury under the Purchase Agreement, which is critical to: (a) keeping us solvent; (b) allowing us to focus on our primary business objectives under conservatorship; and (c) avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. For the past several years, the Federal Reserve has purchased significant amounts of mortgage-related securities issued by us, Fannie Mae, and Ginnie Mae. These purchases, which are ongoing, have affected mortgage spreads (positively and, in some periods, negatively) and the demand for and value of our PCs.

For a description of certain risks to our business relating to the conservatorship and Treasury Agreements, see RISK FACTORS.

Supervision of Our Company During Conservatorship

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 of Freddie Mac with respect to Freddie Mac and its assets, and succeeded to the title to all books, records and assets of Freddie Mac held by any other legal custodian or third party. Under conservatorship, we have additional heightened supervision and direction from our regulator, FHFA, which is also acting as our Conservator.

During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and to management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business. The directors serve on behalf of, and exercise authority as directed by, the Conservator. The Conservator retains the authority to withdraw or revise its delegations of authority at any time. The Conservator also retained certain significant authorities for itself, and did not delegate them to the Board. For more information on limitations on the Board s authority during conservatorship, see DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE Authority of the Board and Board Committees.

Because the Conservator succeeded to the powers, including voting rights, of our stockholders, who therefore do not currently have voting rights of their own, we do not expect to hold stockholders meetings during the conservatorship, nor will we prepare or provide proxy statements for the solicitation of proxies.

We describe the powers of our Conservator in detail below under Powers of the Conservator.

Impact of Conservatorship and Related Actions on Our Business

We conduct our business subject to the direction of FHFA as our Conservator. While the conservatorship has benefited us through, for example, improved access to the debt markets because of the support we receive from Treasury, we are also subject to certain constraints on our business activities by Treasury due to the terms of, and Treasury s rights under, the Purchase Agreement.

The Conservator continues to determine, and direct the efforts of the Board of Directors and management to address, the strategic direction for the company. While the Conservator has delegated certain authority to management to conduct day-to-day operations, many management decisions are subject to review and approval by FHFA and Treasury. In addition, management frequently receives directions from FHFA on various matters involving day-to-day operations.

Our current business objectives reflect direction we received from the Conservator (including the Conservatorship Scorecard). Our business objectives changed considerably since we entered into conservatorship. See Executive Summary *Our Primary Business Objectives* for more information. At the direction of the Conservator, we made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability. Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. However, some of our initiatives are expected to have an adverse impact on our near- and long-term financial results. The Conservator stated that it is taking actions in support of the objectives of a gradual transition to greater private capital participation in housing finance and greater distribution of risk to participants other than the government. The Conservator also stated that it is focusing on retaining value in the business operations of Freddie Mac and Fannie Mae, overseeing remediation of identified weaknesses in corporate operations and risk management, and ensuring that sound corporate governance principles are followed. Given the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions and our public mission, we may be required to take additional actions that could have a negative impact on our business, operating results or financial condition, and thus could contribute to a need for additional draws under the Purchase Agreement.

These actions and objectives create risks and uncertainties that we discuss in RISK FACTORS Conservatorship and Related Matters. For more information on the impact of conservatorship and our current business objectives, see NOTE 2: CONSERVATORSHIP AND RELATED MATTERS.

Limits on Investment Activity and Our Mortgage-Related Investments Portfolio

The conservatorship has significantly affected our investment activity. FHFA has stated that we will not be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio. Under the terms of the Purchase Agreement, as amended on August 17, 2012, and FHFA regulation, the UPB of our mortgage-related investments portfolio: (a) could not

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exceed $650 billion on December 31, 2012; and (b) on December 31 of each year thereafter, may not exceed 85% of the aggregate amount of the UPB we were permitted to own as of December 31 of the immediately preceding calendar year, until the portfolio reaches $250 billion. As a result, the UPB of our mortgage-related investments portfolio may not exceed $553 billion as of December 31, 2013. FHFA has indicated that such portfolio reduction targets should be viewed as minimum reductions and has encouraged us to reduce the mortgage-related investments portfolio at a faster rate than required, while indicating that the pace of reducing the portfolio may be moderated by conditions in the housing and financial markets. This strategy is designed to reduce the portfolio and provide the best return to the taxpayer while minimizing market disruption.

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

Table 4 Mortgage-Related Investments Portfolio[1]

	December 31, 2012	December 31, 2011
	(in millions)	
Investments segment Mortgage investments portfolio	$ 375,924	$ 449,273
Single-family Guarantee segment Single-family unsecuritized mortgage loans[2]	53,333	62,469
Multifamily segment Mortgage investments portfolio	128,287	141,571
Total mortgage-related investments portfolio	$ 557,544	$ 653,313

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

The UPB of our mortgage-related investments portfolio at December 31, 2012 was $557.5 billion, a decline of $95.8 billion compared to $653.3 billion at December 31, 2011. The reduction in UPB resulted primarily from liquidations and is consistent with our efforts to reduce the size of our mortgage-related investments portfolio as described above. The mortgage-related investments portfolio is comprised of agency securities, single-family non-agency mortgage-related securities, CMBS, housing revenue bonds, and single-family and multifamily unsecuritized mortgage loans.

We consider the liquidity of the assets in our mortgage-related investments portfolio based on three categories: (a) agency securities; (b) assets that are less liquid than agency securities; and (c) illiquid assets. Assets that are less liquid than agency securities include unsecuritized performing single-family mortgage loans, multifamily mortgage loans, CMBS, and housing revenue bonds. Our less liquid assets collectively represented approximately 28% of the UPB of the portfolio at December 31, 2012, compared to 32% as of December 31, 2011. Illiquid assets include unsecuritized seriously delinquent and modified single-family mortgage loans which we removed from PC trusts, and our investments in non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans. Our illiquid assets collectively represented approximately 35% of the UPB of the portfolio at December 31, 2012, as compared to 29% as of December 31, 2011. The increase in the percentage of illiquid assets at December 31, 2012 compared to December 31, 2011 is primarily due to our agency securities balance decreasing at a faster rate than our assets that are less liquid than agency securities and illiquid assets.

Powers of the Conservator

Under the GSE Act, the conservatorship provisions applicable to Freddie Mac are based generally on federal banking law. As discussed below, FHFA has broad powers when acting as our conservator. For more information on the GSE Act, see Regulation and Supervision.

General Powers of the Conservator

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

Under the GSE Act, the Conservator may take any actions it determines are necessary and appropriate to carry on our business, support public mission objectives, and preserve and conserve our assets and property. The Conservator s powers include the ability to transfer or sell any of our assets or liabilities (subject to certain limitations and post-transfer notice provisions for transfers of qualified financial contracts, as defined below under Special Powers of the Conservator Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts) without any approval, assignment of rights or consent of any party. The GSE Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Freddie Mac securitization trust must be held for the beneficial owners of the trust and cannot be used to satisfy our general creditors.

Under the GSE Act, in connection with any sale or disposition of our assets, the Conservator must conduct its operations to maximize the NPV return from the sale or disposition of such assets, to minimize the amount of any loss realized in the resolution of cases, and to ensure adequate competition and fair and consistent treatment of offerors. The Conservator is required to maintain a full accounting of the conservatorship and make its reports available upon request to stockholders and members of the public.

We remain liable for all of our obligations relating to our outstanding debt and mortgage-related securities. FHFA has stated that our obligations will be paid in the normal course of business during the conservatorship.

Special Powers of the Conservator

Disaffirmance and Repudiation of Contracts

Under the GSE Act, the Conservator may disaffirm or repudiate contracts (subject to certain limitations for qualified financial contracts) that we entered into prior to its appointment as Conservator if it determines, in its sole discretion, that performance of the contract is burdensome and that disaffirmance or repudiation of the contract promotes the orderly administration of our affairs. The GSE Act requires FHFA to exercise its right to disaffirm or repudiate most contracts within a reasonable period of time after its appointment as Conservator. In a final rule published in June 2011, FHFA defines a reasonable period of time following appointment of a conservator or receiver to be 18 months. The Conservator has advised us that it has no intention of repudiating any guarantee obligation relating to Freddie Mac s mortgage-related securities because it views repudiation as incompatible with the goals of the conservatorship. We can, and have continued to, enter into, perform and enforce contracts with third parties.

Limitations on Enforcement of Contractual Rights by Counterparties

The GSE Act provides that the Conservator may enforce most contracts entered into by us, notwithstanding any provision of the contract that provides for termination, default, acceleration, or exercise of rights upon the appointment of, or the exercise of rights or powers by, a conservator.

Security Interests Protected; Exercise of Rights Under Qualified Financial Contracts

Notwithstanding the Conservator s powers under the GSE Act described above, the Conservator must recognize legally enforceable or perfected security interests, except where such an interest is taken in contemplation of our insolvency or with the intent to hinder, delay or defraud us or our creditors. In addition, the GSE Act provides that no person will be stayed or prohibited from exercising specified rights in connection with qualified financial contracts, including termination or acceleration (other than solely by reason of, or incidental to, the appointment of the Conservator), rights of offset, and rights under any security agreement or arrangement or other credit enhancement relating to such contract. Such rights in connection with qualified financial contracts that arise solely by reason of, or incidental to, the appointment of a receiver may be exercised only after: (a) 5:00 p.m. on the business day following the receiver s appointment; or (b) notice to such person that such contract has been transferred by the receiver to another person. The term qualified financial contract means any securities contract, commodity contract, forward contract, repurchase agreement, swap agreement, and any similar agreement as determined by FHFA by regulation, resolution or order.

Avoidance of Fraudulent Transfers

Under the GSE Act, the Conservator may avoid, or refuse to recognize, a transfer of any property interest of Freddie Mac or of any of our debtors, and also may avoid any obligation incurred by Freddie Mac or by any debtor of Freddie Mac, if the transfer or obligation was made: (a) within five years of September 6, 2008; and (b) with the intent to hinder, delay, or defraud Freddie Mac, FHFA, the Conservator or, in the case of a transfer in connection with a qualified financial contract, our creditors. To the extent a transfer is avoided, the Conservator may recover, for our benefit, the property or, by court order, the value of that property from the initial or subsequent transferee, other than certain transfers that were made for value, including satisfaction or security of a present or antecedent debt, and in good faith. These rights are superior to any rights of a trustee or any other party, other than a federal agency, under the U.S. bankruptcy code.

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Modification of Statutes of Limitations

Under the GSE Act, notwithstanding any provision of any contract, the statute of limitations with regard to any action brought by the Conservator is: (a) for claims relating to a contract, the longer of six years or the applicable period under state law; and (b) for tort claims, the longer of three years or the applicable period under state law, in each case, from the later of September 6, 2008 or the date on which the cause of action accrues. In addition, notwithstanding the state law statute of limitation for tort claims, the Conservator may bring an action for any tort claim that arises from fraud, intentional misconduct resulting in unjust enrichment, or intentional misconduct resulting in substantial loss to us, if the state s statute of limitations expired not more than five years before September 6, 2008.

Suspension of Legal Actions

Under the GSE Act, in any judicial action or proceeding to which we are or become a party, the Conservator may request, and the applicable court must grant, a stay for a period not to exceed 45 days.

Treatment of Breach of Contract Claims

Under the GSE Act, any final and unappealable judgment for monetary damages against the Conservator for breach of an agreement executed or approved in writing by the Conservator will be paid as an administrative expense of the Conservator.

Attachment of Assets and Other Injunctive Relief

Under the GSE Act, the Conservator may seek to attach assets or obtain other injunctive relief without being required to show that any injury, loss or damage is irreparable and immediate.

Subpoena Power

The GSE Act provides the Conservator, with the approval of the Director of FHFA, with subpoena power for purposes of carrying out any power, authority or duty with respect to Freddie Mac.

Treasury Agreements

Treasury entered into several agreements with us in connection with our entry into conservatorship, as described below.

Purchase Agreement, Senior Preferred Stock, and Common Stock Warrant

Purchase Agreement

On September 7, 2008, we, through FHFA, in its capacity as Conservator, and Treasury entered into the Purchase Agreement. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, and August 17, 2012. Pursuant to the Purchase Agreement, on September 8, 2008 we issued to Treasury: (a) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (b) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. The terms of the senior preferred stock and warrant are summarized in separate sections below. We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant. However, deficits in our net worth have made it necessary for us to make substantial draws on Treasury s funding commitment under the Purchase Agreement. As a result, the aggregate liquidation preference of the senior preferred stock has increased from $1.0 billion as of September 8, 2008 to $72.3 billion at December 31, 2012. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all.

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the initial commitment from Treasury to provide up to $100 billion (subsequently increased to $200 billion and further increased as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011, and 2012) in funds to us under the terms and conditions set forth in the Purchase Agreement. Beginning January 1, 2013, the amount of available funding remaining under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws. The provisions of the Purchase Agreement whereby Treasury s funding commitment would increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011, and 2012 no longer apply.

In addition to the issuance of the senior preferred stock and warrant, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. Under the Purchase Agreement, the fee is to be determined in an amount mutually agreed to by us and Treasury with reference to the market value of Treasury s funding commitment as then in effect. However, pursuant to the August 2012 amendment to the Purchase Agreement, for each quarter commencing January 1, 2013, and for as long as the net worth sweep dividend provisions remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue or be payable. Treasury had waived the fee for all applicable quarters prior to that date.

The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP balance sheet for the applicable fiscal quarter (referred to as the deficiency amount), provided that the aggregate amount funded under the Purchase Agreement may not exceed Treasury s commitment. The Purchase Agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement), then FHFA, in its capacity as our Conservator, may request that Treasury provide funds to us in such amount. The Purchase Agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement). Any amounts that we draw under the Purchase Agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the Purchase Agreement.

The Purchase Agreement provides that the Treasury s funding commitment will terminate under any of the following circumstances: (a) the completion of our liquidation and fulfillment of Treasury s obligations under its funding commitment at that time; (b) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (c) the funding by Treasury of the maximum amount of the commitment under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator s powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury s aggregate funding commitment or add conditions to Treasury s funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations.

In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (a) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (b) the lesser of: (i) the deficiency amount; and (ii) the maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends.

Senior Preferred Stock

Shares of the senior preferred stock have a par value of $1, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013. For more information regarding our net worth sweep dividend, see NOTE 2: CONSERVATORSHIP AND RELATED MATTERS.

The senior preferred stock is senior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless: (a) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (b) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury s funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of: (a) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (b) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury s funding commitment. Following the termination of Treasury s funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury s funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

Common Stock Warrant

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person.

As of February 28, 2013, Treasury has not exercised the warrant.

Covenants Under Treasury Agreements

The Purchase Agreement and warrant contain covenants that significantly restrict our business activities. For example, as a result of these covenants, we can no longer obtain additional equity financing (other than pursuant to the Purchase Agreement) and we are limited in the amount and type of debt financing we may obtain.

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Purchase Agreement Covenants

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);
- redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);
- sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);
- terminate the conservatorship (other than in connection with a receivership);
- sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) of assets and properties having fair market value individually or in aggregate less than $250 million in one transaction or a series of related transactions; (d) in connection with our liquidation by a receiver; (e) of cash or cash equivalents for cash or cash equivalents; or (f) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio;
- issue any subordinated debt;
- enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
- engage in transactions with affiliates unless the transaction is: (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant; (b) upon arm s length terms; or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

These covenants also apply to our subsidiaries.

The Purchase Agreement also requires us to reduce the amount of mortgage assets we own. The Purchase Agreement, as revised in the August 2012 amendment, provides that we could not own mortgage assets with UPB in excess of $650 billion on December 31, 2012 and on December 31 of each year thereafter, may not own mortgage assets with UPB in excess of 85% of the aggregate amount of mortgage assets we are permitted to own as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. Under the Purchase Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. The mortgage asset and indebtedness limitations are determined without giving effect to the changes to the accounting guidance for transfers of financial assets and consolidation of VIEs, under which we consolidated our single-family PC trusts and certain of our Other Guarantee Transactions in our financial statements as of January 1, 2010.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

The Purchase Agreement also provides that, on an annual basis, we are required to deliver a risk management plan to Treasury setting out our strategy for reducing our enterprise-wide risk profile and the actions we will take to reduce the financial and operational risk associated with each of our reportable business segments.

As of February 28, 2013, we believe we were in compliance with the covenants under the Purchase Agreement.

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants: (a) we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights; (b) we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect

Treasury s rights against impairment or dilution; and (c) we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

As of February 28, 2013, we believe we were in compliance with the covenants under the warrant.

Effect of Conservatorship and Treasury Agreements on Existing Stockholders

The conservatorship, the Purchase Agreement and the senior preferred stock and warrant issued to Treasury have materially limited the rights of our common and preferred stockholders (other than Treasury as holder of the senior preferred stock) and had a number of adverse effects on our common and preferred stockholders. See RISK FACTORS Conservatorship and Related Matters *The conservatorship and investment by Treasury has had, and will continue to have, a material adverse effect on our common and preferred stockholders*.

As described above, the conservatorship and Treasury Agreements also impact our business in ways that indirectly affect our common and preferred stockholders. By their terms, the Purchase Agreement, senior preferred stock and warrant will continue to exist even if we are released from the conservatorship. For a description of the risks to our business relating to the conservatorship and Treasury Agreements, see RISK FACTORS.

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, which was modified substantially by the Reform Act. We are also subject to certain regulation by other government agencies.

Federal Housing Finance Agency

FHFA is an independent agency of the federal government responsible for oversight of the operations of Freddie Mac, Fannie Mae and the FHLBs. The Director of FHFA is appointed by the President and confirmed by the Senate for a five-year term, removable only for cause. In the discussion below, we refer to Freddie Mac and Fannie Mae as the enterprises.

The Federal Housing Finance Oversight Board, or the Oversight Board, is responsible for advising the Director of FHFA with respect to overall strategies and policies. The Oversight Board consists of the Director of FHFA as Chairperson, the Secretary of the Treasury, the Chair of the SEC and the Secretary of HUD.

Under the GSE Act, FHFA has safety and soundness authority that is comparable to, and in some respects, broader than that of the federal banking agencies. The GSE Act also provides FHFA with powers that, even if we were not in conservatorship, include the authority to raise capital levels above statutory minimum levels, regulate the size and content of our mortgage-related investments portfolio, and approve new mortgage products.

FHFA is responsible for implementing the various provisions of the GSE Act that were added by the Reform Act. In general, we remain subject to existing regulations, orders and determinations until new ones are issued or made.

Receivership

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 days. FHFA notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the then Director of FHFA placed us into conservatorship. These include: (a) a substantial dissipation of assets or earnings due to unsafe or unsound practices; (b) the existence of an unsafe or unsound condition to transact business; (c) an inability to meet our obligations in the ordinary course of business; (d) a weakening of our condition due to unsafe or unsound practices or conditions; (e) critical undercapitalization; (f) the likelihood of losses that will deplete substantially all of our capital; or (g) by consent.

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On June 20, 2011, FHFA published a final rule that addresses conservatorship and receivership operations of Freddie Mac, Fannie Mae and the FHLBs. The final rule establishes a framework to be used by FHFA when acting as conservator or receiver, supplementing and clarifying statutory authorities. Among other provisions, the final rule indicates that FHFA will not permit payment of securities litigation claims during conservatorship and that claims by current or former shareholders arising as a result of their status as shareholders would receive the lowest priority of claim in receivership. In addition, the final rule indicates that administrative expenses of the conservatorship will also be deemed to be administrative expenses of a subsequent receivership and that capital distributions may not be made during conservatorship, except as specified in the final rule.

Capital Standards

FHFA suspended capital classification of us during conservatorship in light of the Purchase Agreement. The existing statutory and FHFA-directed regulatory capital requirements are not binding during the conservatorship. We continue to provide our submission to FHFA on minimum capital. FHFA continues to publish relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) but does not publish our critical capital, risk-based capital or subordinated debt levels during conservatorship.

On October 9, 2008, FHFA also announced that it will engage in rulemaking to revise our minimum capital and risk-based capital requirements. The GSE Act provides that FHFA may increase minimum capital levels from the existing statutory percentages either by regulation or on a temporary basis by order. On March 3, 2011, FHFA issued a final rule setting forth procedures and standards for such a temporary increase in minimum capital levels. FHFA may also, by regulation or order, establish capital or reserve requirements with respect to any product or activity of an enterprise, as FHFA considers appropriate. In addition, under the GSE Act, FHFA must, by regulation, establish risk-based capital requirements to ensure the enterprises operate in a safe and sound manner, maintaining sufficient capital and reserves to support the risks that arise in their operations and management. In developing the new risk-based capital requirements, FHFA is not bound by the risk-based capital standards in effect prior to the amendment of the GSE Act by the Reform Act.

Our regulatory minimum capital is a leverage-based measure that is generally calculated based on GAAP and reflects a 2.50% capital requirement for on-balance sheet assets and 0.45% capital requirement for off-balance sheet obligations. Pursuant to regulatory guidance from FHFA, our minimum capital requirement was not automatically affected by our January 1, 2010 adoption of amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs. Specifically, upon adoption of this accounting guidance, FHFA directed us, for purposes of minimum capital, to continue reporting our PCs held by third parties and other aggregate off-balance sheet obligations using a 0.45% capital requirement. Notwithstanding this guidance, FHFA reserves the authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

For additional information, see MD&A LIQUIDITY AND CAPITAL RESOURCES Capital Resources and NOTE 14: REGULATORY CAPITAL. Also, see RISK FACTORS Legal and Regulatory Risks for more information.

New Products

The GSE Act requires the enterprises to obtain the approval of FHFA before initially offering any product, subject to certain exceptions. The GSE Act provides for a public comment process on requests for approval of new products. FHFA may temporarily approve a product without soliciting public comment if delay would be contrary to the public interest. FHFA may condition approval of a product on specific terms, conditions and limitations. The GSE Act also requires the enterprises to provide FHFA with written notice of any new activity that we or Fannie Mae consider not to be a product.

On July 2, 2009, FHFA published an interim final rule on prior approval of new products, implementing the new product provisions for us and Fannie Mae in the GSE Act. The rule establishes a process for Freddie Mac and Fannie Mae to provide prior notice to the Director of FHFA of a new activity and, if applicable, to obtain prior approval from the Director if the new activity is determined to be a new product. On August 31, 2009, Freddie Mac and Fannie Mae filed joint public comments on the interim final rule with FHFA. FHFA stated that permitting us to engage in new products is inconsistent with the goals of conservatorship and instructed us not to submit such requests under the interim final rule. This could have an adverse effect on our business and profitability in future periods. We cannot currently predict when or if FHFA will permit us to engage in new products under the interim final rule, nor when the rule will be finalized.

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Affordable Housing Goals

We are subject to annual affordable housing goals. In light of these housing goals, we may make adjustments to our mortgage loan sourcing and purchase strategies, which could potentially increase our credit losses. These strategies could include entering into some purchase and securitization transactions with lower expected economic returns than our typical transactions. We have at times relaxed some of our underwriting criteria to obtain goal-qualifying mortgage loans and made additional investments in higher risk mortgage loan products that we believe are more likely to serve the borrowers targeted by the goals, but have not done so to a significant extent since we entered into conservatorship. The Acting Director of FHFA stated that FHFA does not intend for us to undertake uneconomic or high risk activities in support of the housing goals nor does it intend for the state of conservatorship to be a justification for withdrawing our support from these market segments.

If the Director of FHFA finds that we failed to meet a housing goal and that achievement of the housing goal was feasible, the GSE Act states that the Director may require the submission of a housing plan with respect to the housing goal for approval by the Director. The housing plan must describe the actions we would take to achieve the unmet goal in the future. FHFA has the authority to take actions against us, including issuing a cease and desist order or assessing civil money penalties, if we: (a) fail to submit a required housing plan or fail to make a good faith effort to comply with a plan approved by FHFA; or (b) fail to submit certain data relating to our mortgage purchases, information or reports as required by law. See RISK FACTORS Legal and Regulatory Risks *We may make certain changes to our business in an attempt to meet our housing goals and subgoals*.

FHFA has established four goals and one subgoal for single-family owner-occupied housing, one multifamily special affordable housing goal, and one multifamily special affordable housing subgoal. Three of the single-family housing goals and the subgoal target purchase money mortgages for: (a) low-income families; (b) very low-income families; and/or (c) families that reside in low-income areas. The single-family housing goals also include one that targets refinancing mortgages for low-income families. The multifamily special affordable housing goal targets multifamily rental housing affordable to low-income families. The multifamily special affordable housing subgoal targets multifamily rental housing affordable to very low-income families.

The single-family goals are expressed as a percentage of the total number of eligible mortgages underlying our total single-family mortgage purchases. The multifamily goals are expressed in terms of minimum numbers of units financed.

The single-family goals include: (a) an assessment of performance as compared to the actual share of the market that meets the criteria for each goal; and (b) a benchmark level to measure performance. Where our performance on a single-family goal falls short of the benchmark for a goal, we still could achieve the goal if our performance meets or exceeds the actual share of the market that meets the criteria for the goal for that year. For example, if the actual market share of mortgages to low-income families relative to all mortgages originated to finance owner-occupied single-family properties is lower than the 23% benchmark rate, we would still satisfy this goal if we achieve that actual market percentage.

Affordable Housing Goals for 2012 to 2014

FHFA s affordable housing goals for Freddie Mac for 2012 to 2014 are set forth below.

Table 5 Affordable Housing Goals for 2012 to 2014

	Goals for 2012	Goals for 2013	Goals for 2014
Single-family purchase money goals (benchmark levels):			
Low-income	23%	23%	23%
Very low-income	7%	7%	7%
Low-income areas[1]	20%	TBD	TBD
Low-income areas subgoal	11%	11%	11%
Single-family refinance low-income goal (benchmark level)	20%	20%	20%
Multifamily low-income goal (in units)	225,000	215,000	200,000
Multifamily low-income subgoal (in units)	59,000	50,000	40,000

(1) FHFA will annually set the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available. For 2012, FHFA set the benchmark level at 20%.

We expect to report our performance with respect to the 2012 affordable housing goals in March 2013. We anticipate that the difficult market conditions and our financial condition will affect our affordable housing activities in 2013. However, we view the purchase of mortgage loans that are eligible to count toward our affordable housing goals to be a principal part of our mission and business and we are committed to facilitating the financing of affordable housing for low- and moderate-income families.

Duty to Serve Underserved Markets

The GSE Act establishes a duty for Freddie Mac and Fannie Mae to serve three underserved markets (manufactured housing, affordable housing preservation and rural areas) by developing loan products and flexible underwriting guidelines to facilitate a secondary market for mortgages for very low-, low- and moderate-income families in those markets. Effective for 2010 and subsequent years, FHFA is required to establish a manner for annually: (a) evaluating whether and to what extent Freddie Mac and Fannie Mae have complied with the duty to serve underserved markets; and (b) rating the extent of compliance.

In June 2010, FHFA published in the Federal Register a proposed rule regarding the duty of Freddie Mac and Fannie Mae to serve the underserved markets. FHFA has not yet issued a final rule. We cannot predict the content of any such final rule, or the impact that the final rule will have on our business or operations.

Affordable Housing Goals and Results for 2010 and 2011

In October 2012, FHFA informed us that it had reviewed our performance with respect to the affordable housing goals for 2011, and determined that we achieved the single-family refinance low-income goal and both multifamily goals.

Our housing goals and results for 2010 and 2011 are set forth in the table below.

Table 6 Affordable Housing Goals and Results for 2010 and 2011

	Goals for 2010 and 2011	Market Level for 2010(1)	Results for 2010	Market Level for 2011(1)	Results for 2011
Single -family purchase money goals (benchmark levels):					
Low-income	27%	27.2%	27.8%	26.5%	23.3%
Very low-income	8%	8.1%	8.4%	8.0%	6.6%
Low-income areas(2)	24%	24.0%	23.8%	22.0%	19.2%
Low-income areas subgoal	13%	12.1%	10.8%	11.4%	9.2%
Single -family refinance low-income goal (benchmark level)	21%	20.2%	22.0%	21.5%	23.4%
Multifamily low-income goal (in units)	161,250	N/A	161,500	N/A	229,001
Multifamily low-income subgoal (in units)	21,000	N/A	29,656	N/A	35,471

(1) Determined by FHFA based on its analysis of market data.
(2) FHFA annually sets the benchmark level for the low-income areas goal based on the benchmark level for the low-income areas subgoal, plus an adjustment factor reflecting the additional incremental share of mortgages for low- and moderate-income families in designated disaster areas in the three most recent years for which such data are available. For both 2010 and 2011, FHFA set the benchmark level for the low-income areas goal at 24%.

We failed to achieve two of the single-family purchase money goals in 2010, and failed to achieve all four of the single-family purchase money goals for 2011. FHFA has not required us to submit housing plans for goals that we did not achieve in 2010 or 2011.

Affordable Housing Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the UPB of total new business purchases, and allocate or transfer such amount to: (a) HUD to fund a Housing Trust Fund established and managed by HUD; and (b) a Capital Magnet Fund established and managed by Treasury. FHFA has the authority to suspend our allocation upon finding that the payment would contribute to our financial instability, cause us to be classified as undercapitalized or prevent us from successfully completing a capital restoration plan. In November 2008, FHFA advised us that it has suspended the requirement to set aside or allocate funds for the Housing Trust Fund and the Capital Magnet Fund until further notice.

Prudential Management and Operations Standards

FHFA has established prudential standards relating to the management and operations of Freddie Mac, Fannie Mae, and the FHLBs. The standards address a number of business, controls, and risk management areas. The standards specify the possible consequences for any entity that fails to meet any of the standards or otherwise fails to comply (including submission of a corrective plan, limits on asset growth, increases in capital, limits on dividends and stock redemptions or repurchases, a minimum level of retained earnings or any other action that the FHFA Director determines will contribute to bringing the entity into compliance with the standards). In addition, a failure to meet any standard also may constitute an unsafe or unsound practice, which may form the basis for FHFA initiating an administrative enforcement action.

Portfolio Activities

The GSE Act requires FHFA to establish, by regulation, criteria governing portfolio holdings to ensure the holdings are backed by sufficient capital and consistent with the enterprises mission and safe and sound operations. In establishing these criteria, FHFA must consider the ability of the enterprises to provide a liquid secondary market through securitization activities, the portfolio holdings in relation to the mortgage market and the enterprises compliance with the prudential management and operations standards prescribed by FHFA.

On December 28, 2010, FHFA issued a final rule adopting the portfolio holdings criteria established in the Purchase Agreement, as it may be amended from time to time, for so long as we remain subject to the Purchase Agreement.

See Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio* for additional information on restrictions on our portfolio activities.

Anti-Predatory Lending

Predatory lending practices are in direct opposition to our mission, our goals and our practices. We instituted anti-predatory lending policies intended to prevent the purchase or assignment of mortgage loans with unacceptable terms or conditions or resulting from unacceptable practices. These policies include processes related to the origination, delivery and validation of loans sold to us. In addition to the purchase policies we instituted, we promote consumer education and financial literacy efforts to help borrowers avoid abusive lending practices and we provide competitive mortgage products to reputable mortgage originators so that borrowers have a greater choice of financing options.

Subordinated Debt

FHFA directed us to continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. In addition, the requirements in the agreement we entered into with FHFA in September 2005 with respect to issuance, maintenance, and reporting and disclosure of Freddie Mac subordinated debt have been suspended during the term of conservatorship and thereafter until directed otherwise. See NOTE 14: REGULATORY CAPITAL Subordinated Debt Commitment for more information regarding subordinated debt.

Department of Housing and Urban Development

HUD has regulatory authority over Freddie Mac with respect to fair lending. Our mortgage purchase activities are subject to federal anti-discrimination laws. In addition, the GSE Act prohibits discriminatory practices in our mortgage purchase activities, requires us to submit data to HUD to assist in its fair lending investigations of primary market lenders with which we do business and requires us to undertake remedial actions against such lenders found to have engaged in discriminatory lending practices. In addition, HUD periodically reviews and comments on our underwriting and appraisal guidelines for consistency with the Fair Housing Act and the anti-discrimination provisions of the GSE Act.

Department of the Treasury

Treasury has significant rights and powers with respect to our company as a result of the Purchase Agreement. In addition, under our charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. In addition, our charter authorizes Treasury to purchase Freddie Mac debt obligations not exceeding $2.25 billion in aggregate principal amount at any time.

Securities and Exchange Commission

We are subject to the reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on

Form 8-K. Although our common stock is required to be registered under the Exchange Act, we continue to be exempt from certain federal securities law requirements, including the following:

- Securities we issue or guarantee are exempted securities under the Securities Act and may be sold without registration under the Securities Act;
- We are excluded from the definitions of government securities broker and government securities dealer under the Exchange Act;
- The Trust Indenture Act of 1939 does not apply to securities issued by us; and
- We are exempt from the Investment Company Act of 1940 and the Investment Advisers Act of 1940, as we are an agency, authority or instrumentality of the U.S. for purposes of such Acts.

Legislative and Regulatory Developments

We discuss certain significant legislative and regulatory developments below. For more information regarding these and other legislative and regulatory developments that could impact our business, see RISK FACTORS Conservatorship and Related Matters and Legal and Regulatory Risks.

Administration Report on Reforming the U.S. Housing Finance Market

On February 11, 2011, the Administration delivered a report to Congress that lays out the Administration s plan to reform the U.S. housing finance market, including options for structuring the government s long-term role in a housing finance system in which the private sector is the dominant provider of mortgage credit. The report recommends winding down Freddie Mac and Fannie Mae, stating that the Administration will work with FHFA to determine the best way to responsibly reduce the role of Freddie Mac and Fannie Mae in the market and ultimately wind down both institutions. The report states that these efforts must be undertaken at a deliberate pace, which takes into account the impact that these changes will have on borrowers and the housing market.

The report states that the government is committed to ensuring that Freddie Mac and Fannie Mae have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, and further states that the Administration will not pursue policies or reforms in a way that would impair the ability of Freddie Mac and Fannie Mae to honor their obligations. The report states the Administration s belief that under the companies senior preferred stock purchase agreements with Treasury, there is sufficient funding to ensure the orderly and deliberate wind down of Freddie Mac and Fannie Mae, as described in the Administration s plan.

The report identifies a number of policy levers that could be used to wind down Freddie Mac and Fannie Mae, shrink the government s footprint in housing finance, and help bring private capital back to the mortgage market, including increasing guarantee fees, phasing in a 10% down payment requirement, reducing conforming loan limits, and winding down Freddie Mac and Fannie Mae s investment portfolios, consistent with the senior preferred stock purchase agreements. These recommendations, if implemented, would have a material impact on our business volumes, market share, results of operations and financial condition.

As discussed in Our Business Segments *Single-Family Guarantee Segment*, we were directed by FHFA to implement two across-the-board increases in guarantee fees in 2012. Temporary high-cost area loan limits that had been in place since 2008 expired on September 30, 2011 (effectively reducing the conforming loan limits in certain high-cost areas). In addition, the annual rate at which the mortgage-related investments portfolio limit declines increased from 10% to 15%, as a result of the August 2012 amendment to the Purchase Agreement.

We cannot predict the extent to which the other recommendations in the report will be implemented or when any actions to implement them may be taken. However, we are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term.

FHFA s Strategic Plan for Freddie Mac and Fannie Mae Conservatorships

On February 21, 2012, FHFA sent to Congress a strategic plan for the next phase of the conservatorships of Freddie Mac and Fannie Mae. The plan sets forth objectives and steps FHFA is taking or will take to meet FHFA s obligations as Conservator. FHFA stated that the steps envisioned in the plan are consistent with each of the housing finance reform frameworks set forth in the report delivered by the Administration to Congress in February 2011, as well as with the leading

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congressional proposals previously introduced. FHFA indicated that the plan leaves open all options for Congress and the Administration regarding the resolution of the conservatorships and the degree of government involvement in supporting the secondary mortgage market in the future.

FHFA s plan provides lawmakers and the public with an outline of how FHFA as Conservator intends to guide Freddie Mac and Fannie Mae over the next few years, and identifies three strategic goals:

- **Build**. Build a new infrastructure for the secondary mortgage market;
- **Contract**. Gradually contract Freddie Mac and Fannie Mae s dominant presence in the marketplace while simplifying and shrinking their operations; and
- **Maintain**. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

The first of these goals establishes the steps FHFA, Freddie Mac, and Fannie Mae will take to create the necessary infrastructure, including a new securitization platform and national standards for mortgage securitization, that Congress and market participants may use to develop the secondary mortgage market of the future. This securitization platform would replace our and Fannie Mae s current separate proprietary systems. In addition, we completed a key milestone of the UMDP with the launch of the Uniform Collateral Data Portal for the electronic submission of appraisal reports for conventional mortgages. We also implemented ULDD, which provides for the efficient collection and use of consistent information about loan terms, collateral, and borrowers. In October 2012, we announced, pursuant to a directive by FHFA, changes to requirements in certain areas related to loan servicing, including a process and criteria for evaluating servicer performance. These changes align our and Fannie Mae s requirements in these areas.

The second goal describes steps that FHFA plans to take to gradually shift mortgage credit risk from Freddie Mac and Fannie Mae to private investors and eliminate the direct funding of mortgages by the enterprises. The plan states that the goal of gradually shifting mortgage credit risk from Freddie Mac and Fannie Mae to private investors could be accomplished, in the case of single-family credit guarantees, in several ways, including increasing guarantee fees, establishing loss-sharing arrangements and expanding reliance on mortgage insurance. To evaluate how to accomplish the goal of contracting enterprise operations in the multifamily business, the plan states that Freddie Mac and Fannie Mae will each undertake a market analysis of the viability of its respective multifamily operations without government guarantees.

For the third goal, the plan states that programs and strategies to ensure ongoing mortgage credit availability, assist troubled homeowners, and minimize taxpayer losses while restoring stability to housing markets continue to require energy, focus, and resources. The plan states that activities that must be continued and enhanced include: (a) successful implementation of HARP, including the significant program changes announced in October 2011; (b) continued implementation of the Servicing Alignment Initiative; (c) renewed focus on short sales, deeds-in-lieu, and deeds-for-lease options that enable households and Freddie Mac and Fannie Mae to avoid foreclosure; and (d) further development and implementation of the REO disposition initiative announced by FHFA in 2011.

The Conservatorship Scorecard provides the implementation roadmap for the strategic plan. For information about our performance with respect to the scorecard, see EXECUTIVE COMPENSATION Compensation Discussion and Analysis.

Legislation Related to the Future Status of Freddie Mac and Fannie Mae

Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term. Congress did not adopt any significant legislation on the future status of Freddie Mac and Fannie Mae in 2012. However, a number of bills were introduced in Congress in 2011 relating to the future status of Freddie Mac, Fannie Mae, and the secondary mortgage market. Several of the bills would have revoked our charter and wound us down or placed us into receivership. Other bills would have limited the companies operations or altered FHFA s or Treasury s authority over the companies. These bills were not enacted prior to the adjournment of the 112th Congress on January 3, 2013 and would need to be reintroduced in the 113th Congress. It is likely that similar or new bills will be introduced and considered in the 113th Congress.

For more information, see RISK FACTORS Conservatorship and Related Matters *The future status and role of Freddie Mac is uncertain and could be materially adversely affected by legislative and regulatory action that alters the ownership, structure, and mission of the company.*

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Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, significantly changed the regulation of the financial services industry, including by creating new standards related to regulatory oversight of systemically important financial companies, derivatives, capital requirements, asset-backed securitization, mortgage underwriting, and consumer financial protection. The Dodd-Frank Act has directly affected and will continue to directly affect the business and operations of Freddie Mac by subjecting us to new and additional regulatory oversight and standards, including with respect to our activities and products. We may also be affected by provisions of the Dodd-Frank Act and implementing regulations that affect the activities of other financial services entities that are our customers and counterparties.

Implementation of the Dodd-Frank Act is being accomplished through numerous rulemakings, many of which are still in process. Accordingly, it is difficult to assess fully the impact of the Dodd-Frank Act on Freddie Mac and the financial services industry at this time. The final effects of the legislation will not be known with certainty until these rulemakings are complete. The Dodd-Frank Act also mandates the preparation of studies on a wide range of issues, which could lead to additional legislation or regulatory changes.

Recent developments with respect to Dodd-Frank rulemakings that may have a significant impact on Freddie Mac include the following:

CFPB final rules: The Consumer Financial Protection Bureau, or CFPB, adopted a number of final rules in early 2013 relating to mortgage finance and servicing practices. The rules generally will become effective by January 2014, although some provisions have earlier effective dates. The ability-to-repay rule requires mortgage originators to make a reasonable and good faith determination that a borrower has a reasonable ability to repay the loan according to its terms. This rule provides certain protection from liability for originators making loans that satisfy the definition of a qualified mortgage. The rule includes several alternative definitions of a qualified mortgage, one of which is a loan that, in addition to meeting certain other requirements, is eligible to be purchased or guaranteed by Freddie Mac or Fannie Mae. This provision expires on January 10, 2021 (or earlier if Freddie Mac and Fannie Mae cease operating under FHFA conservatorship or receivership). The CFPB concurrently proposed an amendment to the rule to add an exemption for the GSEs refinancing programs, subject to certain conditions.

Other CFPB rules include: (a) the high-cost mortgage and homeownership counseling rule, which extends consumer protections related to high-cost mortgages; (b) the mortgage servicing rule, which substantially reforms servicers procedural obligations to borrowers when servicing mortgage loans; (c) the escrow accounts rule, which requires that escrow accounts be established for a minimum of five years for higher-cost mortgages; (d) the loan originator compensation rule, which expands and strengthens loan originator qualification requirements and regulates loan originator compensation practices; and (e) the appraisals rule, which sets disclosure and delivery requirements for appraisals and other written valuations. In addition, the CFPB, FHFA, and four other agencies jointly adopted a rule on appraisals for higher priced mortgage loans, which requires creditors for certain mortgages to obtain an appraisal or appraisals meeting specified standards, among other requirements.

These rules will, individually and in combination, significantly change many aspects of the mortgage industry and may affect us both directly and indirectly. Certain of these rules establish requirements that apply directly to us, and may cause operational and compliance challenges. These rules also may lead to significant changes in the structure of the mortgage industry or the business practices of our customers and counterparties, which may affect us indirectly. For example, customers and counterparties could change their pricing practices, which could cause the volume of mortgage originations to decline, which would in turn adversely affect our business and financial results. Some of these changes could slow the rate of foreclosures generally and result in significant changes to mortgage servicing and foreclosure practices that could adversely affect our business. Mortgage originators and assignees, including Freddie Mac, may be subject to increased legal risk for loans that do not meet the requirements of the new rules.

Derivatives: Pursuant to rules adopted by the U.S. Commodity Futures Trading Commission, or CFTC, many of the types of interest rate swaps that we use will become subject to central clearing requirements in 2013. For more information, see MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Derivative Counterparties*.

Annual stress tests: On October 5, 2012, FHFA proposed a rule that would require Freddie Mac, Fannie Mae and the FHLBs to conduct annual stress tests. If adopted as proposed, the rule would require Freddie Mac to conduct annual stress tests using scenarios specified by FHFA.

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We continue to review and assess the impact of rulemakings and other activities under the Dodd-Frank Act. For more information, see RISK FACTORS Legal and Regulatory Risks *The Dodd-Frank Act and related regulation may adversely affect our business activities and financial results.*

Developments Concerning Single-Family Servicing Practices

In addition to regulatory changes related to the Dodd-Frank Act discussed above, there have been a number of legislative and regulatory developments in recent periods impacting single-family mortgage servicing and foreclosure practices, including those discussed below. It is possible that these developments will result in significant changes to mortgage servicing and foreclosure practices that could adversely affect our business. New compliance requirements placed on servicers as a result of these developments could expose Freddie Mac to financial risk as a result of further extensions of foreclosure timelines if home prices remain weak or decline. We may need to make additional significant changes to our practices, which could increase our operational risk. It is difficult to predict other impacts on our business of these changes, though such changes could adversely affect our credit losses and costs of servicing, and make it more difficult for us to transfer mortgage servicing rights to a successor servicer should we need to do so. The legislative and regulatory developments and changes include the following:

- On February 9, 2012, a coalition of state attorneys general and federal agencies announced that it had entered into a settlement with five large seller/servicers concerning certain issues related to mortgage servicing practices. The settlement includes changes to mortgage servicing practices. We believe that resource constraints on these servicers foreclosure activities affected our REO acquisition volumes in 2012.

- On July 11, 2012, the Governor of California signed into law a package of foreclosure prevention bills that will likely slow foreclosures in California.

For more information on operational risks related to these developments in mortgage servicing, see MD&A RISK MANAGEMENT Operational Risks.

FHFA Advisory Bulletin

On April 9, 2012, FHFA issued an advisory bulletin, Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention, which was effective upon issuance and is applicable to Freddie Mac, Fannie Mae, and the FHLBs. The advisory bulletin establishes guidelines for adverse classification and identification of specified assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000. Among other provisions, the advisory bulletin requires that we classify a single-family loan as loss when the loan is no more than 180 days delinquent. The advisory bulletin, and subsequent FHFA guidance, specify that, once a loan is classified as loss, we generally are required to charge off the portion of the loan balance that exceeds the fair value of the property, less cost to sell and other available cash flows. The advisory bulletin also specifies that, if we subsequently receive full or partial payment of a previously charged-off loan, we may report a recovery of the amount, either through our loan loss reserves or as a reduction in REO operations expenses.

We continue to work with FHFA and Fannie Mae to determine how to apply the guidance to loans that reperform after having previously been 180 days or more delinquent. Our historical experience shows that a significant number of single-family loans that are 180 days or more delinquent will subsequently return to a current payment status either under the original loan s terms or after a modification is completed. FHFA has informed us that we are required to implement the advisory bulletin by phasing in the adverse classification and charge-off requirements in 2014 and 2015, respectively. On January 31, 2013, we submitted a comprehensive implementation plan for the advisory bulletin to FHFA. We are currently assessing the operational and accounting impacts of this advisory bulletin and have not yet determined its impact on our consolidated financial statements.

Bank Regulatory Guidance on Accounting for Loans Discharged in Chapter 7 Bankruptcy

Regulatory guidance from the Office of the Comptroller of the Currency in 2012 effectively changed industry practice to require single-family mortgage loans discharged in Chapter 7 bankruptcy to be classified as TDRs, regardless of delinquency status or payment history. As a result of this guidance, in the third quarter of 2012, we changed our accounting treatment for single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs (unless they were already classified as such for other reasons). For information on our accounting policy regarding TDRs and the impact of this

guidance, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Impaired Loans and Basis of Presentation, respectively.

Employees

At February 15, 2013, we had 4,961 full-time and 56 part-time employees. Our principal offices are located in McLean, Virginia.

Available Information

SEC Reports

We file reports and other information with the SEC. In view of the Conservator s succession to all of the voting power of our stockholders, we have not prepared or provided proxy statements for the solicitation of proxies from stockholders since we entered into conservatorship, and do not expect to do so while we remain in conservatorship. We make available free of charge through our website at www.freddiemac.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. In addition, materials that we file with the SEC are available for review and copying at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC.

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

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 are not required to and 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 our incurrence of these types of obligations either in offering circulars (or supplements thereto) that we post on our website 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 website, the document will be posted on our website within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The website address for disclosure about our debt securities 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.

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations, 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.

Forward-Looking Statements

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-K, contain forward-looking statements, including statements pertaining to the conservatorship, our current expectations and objectives for our efforts under the MHA Program, the servicing alignment initiative and other programs to assist the U.S. residential mortgage market, future business plans, liquidity, capital management, economic and market conditions and trends, market share, the effect of legislative and regulatory developments, implementation of new accounting guidance, credit losses, internal control remediation efforts, and 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

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control. Forward-looking statements are often accompanied by, and identified with, terms such as objective, expect, trend, forecast, anticipate believe, intend, could, future, may, will, and similar phrases. These statements are not historical facts, but rather represent our expectatio on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the RISK FACTORS section of this Form 10-K, and:

the actions FHFA, Treasury, the Federal Reserve, the SEC, HUD, other federal agencies, the Administration, Congress, and our management may take, including actions related to implementing FHFA s strategic plan for Freddie Mac and Fannie Mae s conservatorships and the Conservatorship Scorecard;

the effect of the restrictions and other terms of the conservatorship and the Treasury Agreements on our business, including payment of our dividend obligation on the senior preferred stock;

our ability to maintain adequate liquidity to fund our operations, including following any changes in the support provided to us by Treasury or FHFA, a change in the credit ratings of our debt securities or a change in the credit rating of the U.S. government;

changes in our charter or applicable legislative or regulatory requirements (including any restructuring or reorganization in the form of our company, whether we will remain a stockholder-owned company or continue to exist and whether we will be wound down or placed under receivership), regulations under the GSE Act, the Reform Act, or the Dodd-Frank Act, regulatory or legislative actions that require us to support non-mortgage market initiatives, changes to affordable housing goals regulation, reinstatement of regulatory capital requirements, or the exercise or assertion of additional regulatory or administrative authority;

changes in the regulation of the mortgage, housing finance, and financial services industries, including changes caused by the Dodd-Frank Act, or any other legislative, regulatory, or judicial action at the federal, state, or local level;

actions against mortgage originators and servicers, mortgage insurers, and other mortgage industry participants by federal or state authorities;

the scope of various initiatives designed to help in the housing recovery (including the extent to which borrowers participate in HAMP, HARP, the non-HAMP standard loan modification initiative, and the new short sale initiative), and the effect of such programs on our credit losses, expenses, and the size and composition of our mortgage-related investments portfolio;

the effect of any deficiencies in foreclosure documentation practices and related lengthening of the foreclosure timeline;

the ability of our financial, accounting, data processing, and other operating systems or infrastructure, and those of our vendors to process the complexity and volume of our transactions;

changes in accounting or tax guidance or in our accounting policies or estimates, and our ability to effectively implement any such changes in guidance, policies, or estimates;

changes in general regional, national, or international economic, business, or market conditions and competitive pressures, including changes in employment rates and interest rates, and changes in the federal government s fiscal and monetary policy;

changes in the U.S. residential mortgage market, including changes in the rate of growth in total outstanding U.S. residential mortgage debt, the size of the U.S. residential mortgage market, and home prices;

our ability to effectively implement our business strategies, including any efforts to improve the supply and liquidity of, and demand for, our mortgage-related and debt securities, and restrictions on our ability to offer new products or engage in new activities;

our ability to recruit and retain executive officers and other key employees;

our ability to effectively identify and manage credit, interest-rate, operational, and other risks in our business, including changes to the credit environment and the levels and volatilities of interest rates, as well as the shape and slope of the yield curves;

the effects of internal control deficiencies and our ability to effectively identify, assess, evaluate, manage, mitigate, or remediate control deficiencies and risks, including material weaknesses and significant deficiencies, in our internal control over financial reporting and disclosure controls and procedures;

incomplete or inaccurate information provided by customers and counterparties;

consolidation among, or adverse changes in the financial condition of, our customers and counterparties;

the failure of our customers and counterparties to fulfill their obligations to us, including (a) the failure of seller/servicers to meet their obligations to repurchase loans sold to us in breach of their representations and warranties, and the potential cost and difficulty of legally enforcing those obligations, and (b) the failure of mortgage insurers to pay our claims in full;

changes in our judgments, assumptions, forecasts, or estimates regarding the volume of our business and spreads we expect to earn;

the availability of options, interest-rate and currency swaps, and other derivative financial instruments of the types and quantities, on acceptable terms, and with acceptable counterparties needed for investment funding and risk management purposes;

changes in pricing, valuation or other methodologies, models, assumptions, judgments, estimates and/or other measurement techniques, or their respective reliability;

changes in mortgage-to-debt OAS;

the potential effect on the market for our securities resulting from any purchases or sales by any large investor, including the Federal Reserve, of Freddie Mac debt or mortgage-related securities;

adverse judgments or settlements in connection with legal proceedings, governmental investigations, and IRS examinations;

volatility of reported results due to changes in the fair value of certain instruments or assets;

the development of different types of mortgage servicing structures and servicing compensation;

preferences of originators in selling into the secondary mortgage market;

changes to our underwriting or servicing requirements (including servicing alignment efforts under the servicing alignment initiative), our practices with respect to the disposition of REO properties, or investment standards for mortgage-related products;

investor preferences for mortgage loans and mortgage-related and debt securities compared to other investments;

- borrower preferences for fixed-rate mortgages versus ARMs;
- the occurrence of a major natural or other disaster in geographic areas in which our offices or portions of our total mortgage portfolio are concentrated;
- other factors and assumptions described in this Form 10-K, including in the MD&A section;
- our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their effects; and
- market reactions to the foregoing.

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-K.

ITEM 1A. RISK FACTORS

Investing in our securities involves risks, including the risks described below and in BUSINESS, MD&A, and elsewhere in this Form 10-K. These risks and uncertainties could, directly or indirectly, adversely affect our business, financial condition, results of operations, cash flows, strategies and/or prospects.

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Conservatorship and Related Matters

The future status and role of Freddie Mac is uncertain and could be materially adversely affected by legislative and regulatory action that alters the ownership, structure, and mission of the company.

The Acting Director of FHFA stated on November 15, 2011 that the long-term outlook is that neither [Freddie Mac nor Fannie Mae] will continue to exist, at least in its current form, in the future. Future legislation will likely materially affect the role of the company, our business model, our structure, and future results of operations. Some or all of our functions could be transferred to other institutions, and we could cease to exist as a stockholder-owned company or at all. If any of these events were to occur, our shares could further diminish in value, or cease to have any value, and there can be no assurance that our stockholders would receive any compensation for such loss in value.

While there have not been significant legislative developments on the future status of Freddie Mac and Fannie Mae in recent quarters, it is likely that bills related to GSE reform will be introduced and considered during the 113th Congress that began in January 2013. There were a number of significant developments in 2011, including the Administration s February 2011 report to Congress that, among other items, recommends reducing the role of Freddie Mac and Fannie Mae and ultimately winding down both companies. In addition, a number of bills were introduced in Congress in 2011 concerning the future status of Freddie Mac and Fannie Mae, including several bills that would have wound down Freddie Mac and Fannie Mae (or completely restructured the companies).

FHFA is driving significant changes in our business model, primarily in our single-family guarantee business, through its strategic plan for Freddie Mac and Fannie Mae and the Conservatorship Scorecard. At the time FHFA released its strategic plan, it stated that the steps envisioned in the plan were consistent with each of the housing finance reform frameworks set forth in the Administration s February 2011 report, as well as with the leading congressional proposals previously introduced. In addition, FHFA has expansive regulatory authority over us, and the manner in which FHFA will use its authority in the future is unclear. FHFA could take a number of regulatory actions that could materially adversely affect our company, such as changing or reinstating our current capital requirements, which are not binding during conservatorship, or imposing additional restrictions on our portfolio activities or new initiatives.

For more information on the Administration s February 2011 report, proposed GSE reform legislation, and FHFA s strategic plan and the Conservatorship Scorecard, see BUSINESS Regulation and Supervision *Legislative and Regulatory Developments*.

The conservatorship is indefinite in duration and the timing, conditions, and likelihood of our emerging from conservatorship are uncertain. Even if the conservatorship is terminated, we would remain subject to the Purchase Agreement, senior preferred stock, and warrant.

FHFA has stated that there is no exact time frame as to when the conservatorship may end. Termination of the conservatorship (other than in connection with receivership) also requires Treasury s consent under the Purchase Agreement. There can be no assurance as to when, and under what circumstances, Treasury would give such consent. There is also significant uncertainty as to what changes may occur to our business structure during or following our conservatorship, including whether we will continue to exist. It is possible that the conservatorship will end with us being placed into receivership.

In addition, Treasury has the ability to acquire almost 80% of our common stock for nominal consideration by exercising the warrant we issued to it pursuant to the Purchase Agreement. Consequently, the company could effectively remain under the control of the U.S. government even if the conservatorship was ended and the voting rights of common stockholders restored. The warrant held by Treasury, the restrictions on our business contained in the Purchase Agreement, and the senior status of the senior preferred stock issued to Treasury under the Purchase Agreement, if the senior preferred stock has not been redeemed, also could adversely affect our ability to attract new private sector capital in the future should the company be in a position to seek such capital.

Moreover, we do not have the ability over the long-term to retain any capital generated by our business operations. Under the Purchase Agreement, as revised on August 17, 2012, we are required to pay dividends to the extent that our Net Worth Amount exceeds a permitted capital reserve amount. The amount of this reserve decreases over time. Accordingly, over the long-term, we will not be able to build or retain any net worth surplus or return capital to stockholders other than Treasury.

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We may request additional draws under the Purchase Agreement in future periods.

We may request additional draws under the Purchase Agreement in future periods. The need for any such future draws will be determined by a variety of factors that could adversely affect our net worth or our ability to generate comprehensive income, including the following:

- how long and to what extent the U.S. economy and housing market, including home prices, remain weak, which could increase credit expenses and cause additional other-than-temporary impairments of the non-agency mortgage-related securities we hold;
- foreclosure prevention and other loss mitigation efforts, and foreclosure processing delays, which could increase our expenses;
- competitiveness with other mortgage market participants, including Fannie Mae;
- adverse changes in interest rates, the yield curve, implied volatility or mortgage-to-debt OAS, which could increase realized and unrealized mark-to-fair value losses recorded in earnings or AOCI;
- required reductions in the size of our mortgage-related investments portfolio and other limitations on our investment activities that reduce the earnings capacity of our investment activities;
- adverse changes in our funding costs or limitations in our access to public debt markets;
- changes in accounting practices or guidance;
- effects of the MHA Program and other government initiatives, including any future requirements to reduce the principal amount of loans;
- losses resulting from control failures, including any control failures because of our inability to retain staff;
- prohibition on developing new products and limitations on our ability to enter into new lines of business;
- introduction of additional public mission-related initiatives that may adversely affect our financial results;
- establishment of additional valuation allowances for our remaining net deferred tax asset; or
- changes in business practices resulting from legislative and regulatory developments or direction from our Conservator.

Through the fourth quarter of 2012, we paid cash dividends to Treasury on the senior preferred stock at an annual rate of 10%. In past periods, this fixed-rate dividend obligation substantially contributed to draws under the Purchase Agreement. However, on August 17, 2012, Freddie Mac, acting through FHFA, as Conservator, and Treasury entered into an amendment to the Purchase Agreement. Under this amendment, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013. This effectively ends the circular practice of Treasury advancing funds to us to pay dividends back to Treasury. As a result, beginning in 2013, the need for future draws will not be driven by the dividend obligation. This amendment also suspended the periodic commitment fee, beginning in the first quarter of 2013. The amount of the net worth sweep dividend could vary substantially from quarter to quarter for a number of reasons, including as a result of non-cash changes in net worth. It is possible that, due to non-cash changes in net worth, the amount of our dividend for a quarter could exceed the amount of available cash, which could have an adverse effect on our financial results.

Although additional draws under the Purchase Agreement will allow us to remain solvent and avoid mandatory receivership, they will also increase the liquidation preference of the senior preferred stock, which was $72.3 billion as of December 31, 2012. In addition, draws we take for deficits in our net worth will reduce the amount of available funding remaining under the Purchase Agreement, which beginning January 1, 2013, is $140.5 billion. Additional draws and corresponding increases in the already substantial liquidation preference, along with limited flexibility to redeem the senior preferred stock, may add to the uncertainty regarding our long-term financial sustainability.

Our business objectives and strategies have in some cases been significantly altered since we were placed into conservatorship, and may continue to change, in ways that negatively affect our future financial condition and results of operations.

Our current business objectives reflect direction we have received from the Conservator (including the Conservatorship Scorecard), and have changed considerably since we entered into conservatorship. See BUSINESS Executive Summary *Our Primary Business Objectives* for more information.

At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability. Some of these changes have increased our expenses or caused us to forego revenue opportunities. For example, FHFA has directed that we implement various initiatives under the MHA Program. We have incurred significant costs associated with the implementation of these initiatives and we cannot currently estimate whether, or the extent to which, costs incurred in the near term from these initiatives may be offset, if at all, by the prevention or reduction of potential future costs of serious delinquencies and foreclosures due to these initiatives. The Conservator and Treasury have also not authorized us to engage in certain business activities and transactions, including the purchase or sale of certain assets, which we believe might have had a beneficial impact on our results of operations or financial condition, if executed. Other agencies of the U.S. government, as well as Congress, also have an interest in the conduct of our business. We do not know what actions they may request us to take.

In view of the conservatorship and the reasons stated by FHFA for its establishment, it is likely that our business model and strategic objectives will continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives. Among other things, we could experience significant changes in the size, growth, and characteristics of our guarantee activities, and we could further change our operational objectives, including our pricing strategy in our core mortgage guarantee business.

One of FHFA s goals for conservatorship, as set forth in its strategic plan, is to contract our presence in the mortgage market and shrink our operations. The conservatorship has significantly affected our investment activity, and we may face further restrictions on this activity. For example, on August 17, 2012, the Purchase Agreement was amended to, among other items, accelerate the wind-down of our mortgage-related investments portfolio. Accordingly, our strategic and operational focus may not always be consistent with the generation of net income. It is possible that we will make material changes to our capital strategy and to our accounting policies, methods, and estimates. In addition, we may be directed to engage in initiatives that are operationally difficult or costly to implement, unprofitable, or that otherwise adversely affect our financial results. For example, FHFA has directed us to take various actions in support of the objectives of a gradual transition to greater private capital participation in housing finance and greater distribution of risk to participants other than the government, such as developing security structures that allow for private sector risk sharing.

FHFA, as our Conservator, could further change our business objectives and strategies at any time. As our Conservator, FHFA possesses all of the powers of our stockholders, officers, and directors. During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and to management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business. However, FHFA has the ability to withdraw or revise its delegations of authority and override actions of our Board of Directors or management at any time. The directors serve on behalf of, and exercise authority as directed by, the Conservator. In addition, FHFA has the power to take actions without our knowledge that could be material to investors and could significantly affect our financial performance.

These changes and other factors could have material adverse effects on, among other things, our portfolio growth, net worth, credit losses, net interest income, guarantee fee income, net deferred tax assets, loan loss reserves, and future results of operations and financial condition, and thus could contribute to a need for additional draws under the Purchase Agreement. In light of the significant uncertainty surrounding these changes, there can be no assurances regarding our future profitability.

We have a variety of different, and potentially competing, objectives that could lead to suboptimal outcomes for these objectives.

We have a variety of different, and potentially competing, objectives. For example, we are focused on the following primary business objectives: (a) providing credit availability for mortgages and maintaining foreclosure prevention activities; (b) minimizing our credit losses; (c) developing mortgage market enhancements in support of a new infrastructure for the secondary mortgage market; (d) maintaining sound credit quality on the loans we purchase or guarantee; (e) contracting the dominant presence of the GSEs in the marketplace; and (f) strengthening our infrastructure and improving overall efficiency while also focusing on retention of key employees. However, FHFA has also stated that the focus of the conservatorship is on, among other items, conserving assets and minimizing corporate losses.

These objectives can create conflicts in strategic and day-to-day decision making that could lead to suboptimal outcomes for one or more, or possibly all, of these objectives. For example, our efforts to provide credit availability for mortgages and maintain foreclosure prevention activities could increase our expenses, thereby affecting our ability to

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conserve assets and minimize corporate losses. Failure to achieve a satisfactory outcome with respect to any one objective could lead to negative publicity and damage our reputation. We may face increased operational risk from these competing objectives, particularly given the difficulty of devoting sufficient resources and management attention to multiple priorities.

FHFA directives that we and Fannie Mae adopt uniform approaches in many areas could have an adverse impact on our business or on our competitive position with respect to Fannie Mae.

FHFA is also Conservator of Fannie Mae, our primary competitor. On multiple occasions, FHFA has directed us and Fannie Mae to confer and suggest to FHFA possible uniform approaches to particular business and accounting issues and problems. It is likely that we will receive additional directives in the future. In most such cases, FHFA subsequently directed us and Fannie Mae to adopt a specific uniform approach. For example, we and Fannie Mae:

- have aligned many of our standards and approaches for addressing non-performing loans, including certain standards relating to our respective loan workout activities;
- have aligned certain aspects of our respective relief refinance initiatives (including HARP);
- have been directed to adopt a new framework for representation and warranty obligations;
- were directed to implement certain across-the-board guarantee fee price increases in 2012 to make certain aspects of our pricing more uniform; and
- are working together in a number of areas to develop mortgage market enhancements in support of a new infrastructure for the secondary mortgage market, including (a) improving and standardizing certain mortgage data requirements; (b) aligning certain terms of the contracts we and Fannie Mae use with our respective single-family seller/servicers, as well as certain practices we follow in managing our remedies and our respective business relationships with these companies; and (c) designing and developing a new securitization platform.

We cannot predict the impact on our business of these actions or any similar actions FHFA may require us and Fannie Mae to take in the future. It is possible that in some areas FHFA could require us and Fannie Mae to take a uniform approach that, because of differences in our respective businesses, could place Freddie Mac at a competitive disadvantage to Fannie Mae. We may be required to adopt approaches that are operationally difficult for us to implement. It also is possible that in some cases identifying, adopting and maintaining a uniform approach could entail higher costs than would a unilateral approach, and that when market conditions merit a change in a uniform approach, coordinating the change might entail additional cost and delay. If and when conservatorship ends, market acceptance of a uniform approach could make it difficult to depart from that approach even if doing so would be economically desirable.

We are subject to significant limitations on our business under the Purchase Agreement and Senior Preferred Stock that could have a material adverse effect on our results of operations and financial condition.

The Purchase Agreement and terms of the senior preferred stock include significant restrictions on our ability to manage our business, including limitations on the amount of indebtedness we may incur, the size of our mortgage-related investments portfolio, and the circumstances in which we may pay dividends, transfer certain assets, raise capital, and pay down the liquidation preference on the senior preferred stock. Over the long-term, as a result of the net worth sweep dividend provisions of the senior preferred stock, we do not have the ability to retain any capital generated by our business operations and will not be able to build or retain any net worth surplus or return capital to stockholders other than Treasury. In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any executive officers without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. In deciding whether or not to consent to any request for approval it receives from us under the Purchase Agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. The limitations under the Purchase Agreement and terms of the senior preferred stock could have a material adverse effect on our future results of operations and financial condition.

Our regulator may, and in some cases must, place us into receivership, which would result in the liquidation of our assets and terminate all rights and claims that our stockholders and creditors may have against our assets or under our charter; if we are liquidated, there may not be sufficient funds to pay the secured and unsecured claims of the company, repay the liquidation preference of any series of our preferred stock, or make any distribution to the holders of our common stock.

We could be put into receivership at the discretion of the Director of FHFA at any time for a number of reasons, including conditions that FHFA has already asserted existed at the time the then Director of FHFA placed us into conservatorship. These include: (a) a substantial dissipation of assets or earnings due to unsafe or unsound practices; (b) the existence of an unsafe or unsound condition to transact business; (c) an inability to meet our obligations in the ordinary course of business; (d) a weakening of our condition due to unsafe or unsound practices or conditions; (e) critical undercapitalization; (f) the likelihood of losses that will deplete substantially all of our capital; or (g) by consent. In addition, FHFA could be required to place us in receivership if Treasury is unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth. For more information, see *If Treasury is unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth, FHFA could be required to place us into receivership*.

A receivership would terminate the conservatorship. The appointment of FHFA as our receiver would terminate all rights and claims that our stockholders and creditors may have against our assets or under our charter arising as a result of their status as stockholders or creditors, other than the potential ability to be paid upon our liquidation. Unlike conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of receivership is to liquidate our assets and resolve claims against us.

In the event of a liquidation of our assets, there can be no assurance that there would be sufficient proceeds to pay the secured and unsecured claims of the company, repay the liquidation preference of any series of our preferred stock or make any distribution to the holders of our common stock. To the extent that we are placed into receivership and do not or cannot fulfill our guarantee to the holders of our mortgage-related securities, such holders could become unsecured creditors of ours with respect to claims made under our guarantee. Only after paying the secured and unsecured claims of the company, the administrative expenses of the receiver and the liquidation preference of the senior preferred stock, which ranks senior to our common stock and all other series of preferred stock upon liquidation, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. The aggregate liquidation preference on the senior preferred stock owned by Treasury is $72.3 billion as of December 31, 2012. The liquidation preference will increase further if we make additional draws under the Purchase Agreement.

If we are placed into receivership or no longer operate as a going concern, we would no longer be able to assert that we will realize assets and satisfy liabilities in the normal course of business, and, therefore, our basis of accounting would change to liquidation-based accounting. Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their estimated settlement amounts, which could adversely affect our net worth. In addition, the amounts in AOCI would be reclassified to earnings, which could also adversely affect our net worth.

If Treasury is unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth, FHFA could be required to place us into receivership.

Under the Purchase Agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are less than our obligations for a period of 60 calendar days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA has also advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination. If funding has been requested under the Purchase Agreement to address a deficit in our net worth, and Treasury is unable to provide us with such funding within the 60-day period specified by FHFA, FHFA would be required to place us into receivership if our assets remain less than our obligations during that 60-day period.

The conservatorship, uncertainty concerning our future, and restrictions on our ability to compensate employees have had, and may continue to have, an adverse effect on the retention and recruitment of executives and other employees, which could have a material adverse effect on our ability to operate our business.

Our ability to recruit and retain executives and other employees with the necessary skills to conduct our business has been, and may continue to be, adversely affected by the actions taken by Congress, Treasury, and the Conservator to date, or that may be taken by them or other government agencies in the future, the uncertainty regarding the duration of the conservatorship, the potential for future legislative or regulatory actions that could significantly affect our existence and our role in the secondary mortgage market, and the negative publicity concerning the GSEs. Accordingly, we may not be able to retain or replace executives or other employees with the requisite institutional knowledge and the technical, operational, risk management, and other key skills needed to conduct our business effectively.

For example, we are subject to restrictions on the amount and type of compensation we may pay our executives under conservatorship. Also contributing to our concerns regarding executive retention risk is the aggregate level of target compensation paid to our executive officers, which for 2012 performance was below the 25th percentile of the competitive market. See EXECUTIVE COMPENSATION for more information. We cannot offer equity-based compensation, which is both common in our industry and provides a key incentive for employees to stay with the company. Our senior executives are prohibited by law from receiving bonuses during any period of conservatorship.

Voluntary turnover moderated in 2012 compared to 2011. However, we may find it difficult to retain critical employees and attract people with the skills and experience we need for the reasons discussed above. In addition, the level of scrutiny from FHFA and its Office of Inspector General and other regulators has contributed to stress levels throughout the organization and placed additional burdens on staff. For more information about risks related to employee retention, see MD&A RISK MANAGEMENT Operational Risks.

In 2011, the Financial Services Committee of the House of Representatives approved a bill that would generally put our employees on the federal government s pay scale. If this or similar legislation were to become law, many of our employees would experience a sudden and sharp decrease in compensation. The Acting Director of FHFA stated on November 15, 2011 that this would certainly risk a substantial exodus of talent, the best leaving first in many instances. [Freddie Mac and Fannie Mae] likely would suffer a rapidly growing vacancy list and replacements with lesser skills and no experience in their specific jobs. A significant increase in safety and soundness risks and in costly operational failures would, in my opinion, be highly likely. The Acting Director noted that [s]hould the risks I fear materialize, FHFA might well be forced to limit [Freddie Mac and Fannie Mae s] business activities. Some of the business [Freddie Mac and Fannie Mae] would be unable to undertake might simply not occur, with potential disruption in housing markets and the economy.

The conservatorship and investment by Treasury has had, and will continue to have, a material adverse effect on our common and preferred stockholders.

Prior to our entry into conservatorship, the market price for our common stock declined substantially. After our entry into conservatorship, the market price of our common stock continued to decline, and has been $1 or less per share since June 2010. As a result, the investments of our common and preferred stockholders lost substantial value, which they may never recover. There is significant uncertainty as to what changes may occur to our business structure during or following our conservatorship, including whether we will continue to exist. Therefore, it is likely that our shares could further diminish in value, and they are not likely to have any value in the longer-term. The Acting Director of FHFA has stated that [Freddie Mac and Fannie Mae s] equity holders retain an economic claim on the companies but that claim is subordinate to taxpayer claims. As a practical matter, taxpayers are not likely to be repaid in full, so [Freddie Mac and Fannie Mae] stock lower in priority is not likely to have any value.

The conservatorship and investment by Treasury has had, and will continue to have, other material adverse effects on our common and preferred stockholders, including the following:

No voting rights during conservatorship. The rights and powers of our stockholders are suspended during the conservatorship and our common stockholders do not have the ability to elect directors or to vote on other matters.

Our future profits will effectively be distributed to Treasury. Under the Purchase Agreement, we are required to pay dividends to the extent that our Net Worth Amount exceeds a permitted capital reserve amount. The amount of this reserve decreases over time. Accordingly, over the long-term, we will not be able to build or retain any net worth surplus, and our future profits will effectively be distributed to Treasury. Therefore, the holders of our common stock and non-senior preferred stock will not receive benefits that would otherwise flow from any such future profits.

Priority of Senior Preferred Stock. The senior preferred stock ranks senior to the common stock and all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company.

Dividends have been eliminated. The Conservator has eliminated dividends on Freddie Mac common and preferred stock (other than dividends on the senior preferred stock) during the conservatorship. In addition, under the terms of the Purchase Agreement, dividends may not be paid to common or preferred stockholders (other than on the senior preferred stock) without the consent of Treasury, regardless of whether or not we are in conservatorship.

Warrant may substantially dilute investment of current stockholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common stockholders will be substantially diluted. It is possible that stockholders, other than Treasury, will not own more than 20.1% of our total common stock for the duration of our existence. Under our charter, bylaws and applicable law, 20.1% is insufficient to control the outcome of any vote that is presented to the common stockholders. Accordingly, existing common stockholders have no assurance that, as a group, they will be able to control the election of our directors or the outcome of any other vote after the time, if any, that the conservatorship ends.

Competitive and Market Risks

Our investment activity is significantly limited under the Purchase Agreement and by FHFA, which will reduce our earnings from investment activities over time and result in greater reliance on our guarantee activities to generate revenue.

We are subject to significant limitations on our investment activity, which have and will continue to adversely affect the earnings capacity of our mortgage-related investments portfolio. These limitations include: (a) a requirement to reduce the size of our mortgage-related investments portfolio; and (b) significant constraints on our ability to purchase or sell mortgage assets.

Under the terms of the Purchase Agreement and FHFA regulation, our mortgage-related investments portfolio is subject to a cap that decreases each year until the portfolio reaches $250 billion. As a result of the August 2012 amendment to the Purchase Agreement, the annual rate at which the mortgage-related investments portfolio limit declines increased from 10% to 15%. As a result, the UPB of our mortgage-related investments portfolio could not exceed $650 billion as of December 31, 2012 and may not exceed $553 billion as of December 31, 2013. FHFA has indicated that such portfolio reduction targets should be viewed as minimum reductions and has encouraged us to reduce the mortgage-related investments portfolio at a faster rate than required, while indicating that the pace of reducing the portfolio may be moderated by conditions in the housing and financial markets. Our mortgage-related investments portfolio has contracted considerably since we entered into conservatorship. Our ability to take advantage of opportunities to purchase or sell mortgage assets at attractive prices has been, and likely will continue to be, limited. In addition, we can provide no assurance that the cap on our mortgage-related investments portfolio will not, over time, force us to sell mortgage assets at unattractive prices. For more information on the various restrictions and limitations on our investment activity and our mortgage-related investments portfolio, see BUSINESS Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio*.

These limitations will reduce the earnings capacity of our mortgage-related investments portfolio business and require us to place greater emphasis on our guarantee activities to generate revenue. However, under conservatorship, our ability to generate revenue through guarantee activities may be limited, as we may be required to adopt business practices that provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives, but that may negatively impact our future financial results from guarantee activities. In addition, the overall volume of our guarantee business will likely decline over time, as one of FHFA s goals for conservatorship, as set forth in its strategic plan, is to contract our presence in the mortgage market and shrink our operations. The combination of the restrictions on our business activities under the Purchase Agreement and FHFA regulation, combined with our potential inability to generate sufficient revenue through our guarantee activities to offset the effects of those restrictions, may have an adverse effect on our results of operations and financial condition. There can be no assurance that current or future profitability levels on our new single-family business would be sufficient to attract new private sector capital in the future, should the company be in a position to seek such capital. We generally must obtain FHFA s approval to implement across-the-board price increases in our guarantee business, and although FHFA has recently directed us to increase our prices, there can be no assurance FHFA will approve any such increase requests in the future. It is also possible that we could be required to increase our guarantee fees, but not receive the benefit from such an increase. For example, effective April 1, 2012, at the direction of FHFA, we increased the guarantee fee on single-family residential mortgages sold to us by 10 basis points. However, under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this legislated increase are being remitted to Treasury to fund the payroll tax cut that occurred in 2012. Therefore, our business and financial condition will not benefit from this increase in guarantee fees. For more information, see BUSINESS Our Business Segments *Single-Family Guarantee Segment Overview of the Mortgage Securitization Process.*

We are subject to mortgage credit risks, including mortgage credit risk relating to off-balance sheet arrangements; increased credit costs related to these risks could adversely affect our financial condition and/or results of operations.

Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee, exposing us to the risk of credit losses and credit-related expenses. We are primarily exposed to mortgage credit risk with respect to the single-family and multifamily loans that we own or guarantee and hold on our consolidated balance sheets. We are also exposed to mortgage credit risk with respect to securities and guarantee arrangements that are not reflected as assets on our consolidated balance sheets. These relate primarily to: (a) Freddie Mac mortgage-related securities backed by multifamily loans; (b) certain Other Guarantee Transactions; and (c) other guarantee commitments, including long-term standby commitments and liquidity guarantees.

Single-family mortgage credit risk is primarily influenced by the credit profile of the borrower (e.g., credit score, credit history, and monthly income relative to debt payments), documentation level, the number of borrowers, the features of the mortgage itself, the purpose of the mortgage, occupancy type, the type of property securing the mortgage, the LTV ratio of the loan, and local and regional economic conditions, including home prices and unemployment rates. Our credit losses will remain elevated for the near term due to the substantial number of mortgage loans in our single-family credit guarantee portfolio on which borrowers owe more than their home is currently worth, as well as the substantial inventory of seriously delinquent loans.

While mortgage interest rates remained low in 2012, there can be no assurance that continued low mortgage interest rates or efforts to modify and refinance mortgages pursuant to the MHA Program (including pursuant to the revisions to HARP announced in October 2011) and to modify mortgages under our other loss mitigation initiatives will reduce our overall mortgage credit risk.

We also continue to have significant amounts of mortgage loans in our single-family credit guarantee portfolio with certain characteristics, such as Alt-A, interest-only, option ARMs, loans with original LTV ratios greater than 90%, and loans where borrowers had FICO scores less than 620 at the time of origination, that expose us to greater credit risk than do other types of mortgage loans. As of December 31, 2012, loans with one or more of the above characteristics comprised approximately 22% of our single-family credit guarantee portfolio. See Table 46 Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio for more information.

Our multifamily mortgage credit risk is affected by the mortgaged property s ability to generate rental income from which debt service can be paid. That ability in turn is affected by rental market conditions (e.g., rental and vacancy rates), the physical condition of the property, the quality of the property s management, and the level of operating costs. Our primary multifamily business strategy is to purchase loans for aggregation and then securitization through K Certificates, whereby we mitigate our credit risk exposure by structuring our securities to shift a significant portion of expected losses to third party investors through the sale of subordinate tranches. The subordinate tranches that we do not guarantee provide credit loss protection to the senior classes that we do guarantee. While the subordination is set at an amount we believe is adequate to cover expected credit losses, the amount of such subordination may not be sufficient to prevent us from incurring credit losses with respect to any senior classes that we guarantee.

A risk we continue to monitor is that multifamily borrowers will default if they are unable to refinance their loans at an affordable rate. This risk is particularly important with respect to multifamily loans because such loans generally have a balloon payment and typically have a shorter contractual term than single-family mortgages. Borrowers may be less able to refinance their obligations during periods of rising interest rates, reduced demand for rental housing, or weak economic conditions, which could lead to default if the borrower is unable to find affordable refinancing. However, of the $127.4 billion in UPB of loans in our multifamily mortgage portfolio as of December 31, 2012, only approximately 3% and 5% will reach their maturity during 2013 and 2014, respectively.

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We are exposed to significant credit risk related to the subprime, Alt-A, and option ARM loans that back the non-agency mortgage-related securities we hold.

Our investments in non-agency mortgage-related securities include securities that are backed by subprime, Alt-A, and option ARM loans. As of December 31, 2012, we held $69.0 billion of such securities, which represented approximately 12% of our total mortgage-related investments portfolio. Since 2007, mortgage loan delinquencies and credit losses in the U.S. mortgage market have substantially increased, particularly in the subprime, Alt-A, and option ARM sectors of the residential mortgage market. In addition, home prices have experienced significant cumulative declines, after extended periods during which home prices appreciated. As a result, the fair value of these investments has declined significantly since 2007, and we have recorded substantial other-than-temporary impairments, which has adversely impacted our net worth. In addition, most of these investments do not trade in a liquid secondary market and the size of our holdings relative to normal market activity is such that, if we were to attempt to sell a significant quantity of these securities, the pricing in such markets could be significantly disrupted and the price we ultimately realize may be materially lower than the value at which we carry these investments on our consolidated balance sheets.

We could experience additional GAAP losses due to other-than-temporary impairments on our investments in these non-agency mortgage-related securities if, among other things: (a) interest rates change; (b) delinquency and loss rates on subprime, Alt-A, and option ARM loans further increase; (c) there is a future decline in actual or forecasted home prices; or (d) there is a deterioration in servicing performance on the underlying loans. In addition, the fair value of these investments may decline in the future due to additional ratings downgrades or market events, including overall uncertainty related to recovery efforts, capital requirements or regulatory changes. Any such declines would adversely affect our net worth. Any credit enhancements covering these securities, including subordination and other structural enhancements, may not prevent us from incurring losses. During 2012, we continued to experience the erosion of structural credit enhancements on many securities backed by subprime, option ARM, and Alt-A loans due to poor performance of the underlying mortgages. The financial condition of bond insurers also continued to deteriorate in 2012. See MD&A CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities for information about the credit ratings for these securities and the extent to which these securities have been downgraded.

Certain strategies to mitigate our losses as an investor in non-agency mortgage-related securities may adversely affect our relationships with some of our largest seller/servicers and counterparties.

In 2011, FHFA, as Conservator for Freddie Mac and Fannie Mae, filed lawsuits against 18 corporate families of financial institutions and related defendants seeking to recover losses and damages sustained by Freddie Mac and Fannie Mae as a result of their investments in certain residential non-agency mortgage-related securities issued or sold by, or backed by mortgages originated by, these financial institutions or control persons thereof. These institutions include some of our largest seller/servicers and counterparties, including counterparties to debt funding and derivatives transactions. One of these lawsuits was settled recently.

At the direction of our Conservator, we are also working to enforce contractual rights of certain trusts with respect to the non-agency mortgage-related securities we hold, and are engaged in other efforts to mitigate losses on our investments in these securities, in some cases in conjunction with other investors. We have directed the trustees of certain of these non-agency mortgage-related securities to initiate litigation on behalf of certificate holders against several financial institutions (many of whom are Freddie Mac counterparties) for breach of contract claims.

These and other loss mitigation efforts may lead to further disputes with some of our largest seller/servicers and counterparties that may result in further litigation. This could adversely affect our relationship with any such company and could, for example, result in the loss of some or all of our business with a large seller/servicer. For more information, see *Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to repurchase loans sold to us in breach of representations and warranties or fail to honor any related indemnification or recourse obligations* and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS.

The effectiveness of these various loss mitigation efforts is highly uncertain, in part because our rights as an investor are limited, and any potential recoveries may take significant time to realize.

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The credit losses we experience in future periods could be larger, perhaps substantially larger in the event of another recession or another sharp drop in home prices, than our current loan loss reserves.

Our loan loss reserves, as reflected on our consolidated balance sheets, do not reflect the total of all future credit losses we will ultimately incur with respect to our single-family and multifamily mortgage loans, including those underlying our financial guarantees. Rather, pursuant to GAAP, our reserves only reflect probable losses we believe we have already incurred as of the balance sheet date. Accordingly, it is likely that the credit losses we ultimately incur on the loans we currently own or guarantee will exceed the amounts we have already reserved for such loans. If we were to experience another recession or another sharp drop in home prices, it is possible that the credit losses we ultimately incur related to such an event could be larger, perhaps substantially larger, than our current loan loss reserves. Additional credit losses we incur in future periods will adversely affect our business, results of operations, financial condition, liquidity, and net worth.

Future declines in U.S. home prices or other adverse changes in the U.S. housing market could negatively impact our business and increase our losses.

Our financial results and business volumes can be significantly, negatively affected by declines in home prices and other adverse changes in the housing market. Although the single-family housing market exhibited certain signs of improvement in 2012, our credit losses remained high, in part because home prices have experienced significant cumulative declines in many geographic areas since 2006. While we expect modest home price increases in 2013, there can be no assurance that this will occur. In addition, it is likely that we will continue to experience a high rate of serious delinquencies or defaults and an elevated level of credit losses.

We prepare internal forecasts of future home prices, which we use for certain business activities, including: (a) hedging prepayment risk; (b) setting fees for new guarantee business; and (c) portfolio activities. It is possible that a sustained recovery in home prices would not begin until much later than we anticipate, or that home prices could decline in the future, which could adversely affect our performance of these business activities. For example, this could cause the return we earn on new single-family guarantee business to be less than expected. This could also result in higher losses due to other-than-temporary impairments on our investments in non-agency mortgage-related securities (which would be recognized in earnings) or fair value declines on our investments in non-agency mortgage-related securities (which would be recognized in AOCI). Government programs designed to strengthen the U.S. housing market, such as the MHA Program, may fail to achieve expected results, and new programs could be instituted that cause our credit losses to increase. For more information, see MD&A RISK MANAGEMENT Credit Risk.

Our business volumes are closely tied to the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market. Total residential mortgage debt declined approximately 2.3% in the first nine months of 2012 (the most recent data available) compared to a decline of approximately 2.4% in 2011. If total outstanding U.S. residential mortgage debt were to continue to decline, there would likely be fewer mortgage loans available for us to purchase, and we could face more competition to purchase a smaller number of loans.

While multifamily market fundamentals (i.e., vacancy rates and effective rents) improved on a national level during 2012, this trend may not continue. The multifamily market is affected by regional and local economic factors, such as employment rates, construction cycles, and the relative affordability of single-family home prices, all of which influence supply and demand for multifamily properties and pricing for apartment rentals. Any softening of the broader economy could have negative impacts on multifamily markets, which could cause delinquencies and credit losses relating to our multifamily activities to increase beyond our current expectations.

Our refinance volumes could decline if interest rates rise, which could cause our overall new mortgage-related security issuance volumes to decline.

We continued to experience a high percentage of refinance mortgages in our purchase volume during 2012 due to continued low interest rates and the impact of our relief refinance initiatives. However, originations of refinance mortgages will likely decline if HARP expires as currently scheduled in December 2013. Interest rates have been at historically low levels for an extended period of time. In addition, many eligible borrowers have already refinanced at least once during this period of low interest rates, and therefore may be unlikely to do so again in the near future. Overall originations of refinance mortgages, and our purchases of them, will likely decrease if interest rates rise. It is possible that our overall mortgage-related security issuance volumes could decline if our volumes of purchase money mortgages do not increase to offset any such decrease in refinance mortgages. This could adversely affect the amount of revenue we receive from our guarantee activities.

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We could incur significant credit losses and credit-related expenses in the event of a major natural disaster or other catastrophic event in geographic areas in which portions of our total mortgage portfolio and REO holdings are concentrated.

We own or guarantee mortgage loans and own REO properties throughout the United States. The occurrence of a major natural or environmental disaster (such as an earthquake, hurricane, tsunami, flood, or widespread damage caused to the environment by commercial entities), terrorist attack, pandemic, or similar catastrophic event in a regional geographic area of the United States could negatively impact our credit losses and credit-related expenses in the affected area.

The occurrence of a catastrophic event could negatively impact a geographic area in a number of different ways, depending on the nature of the event. A catastrophic event that either damaged or destroyed residential real estate underlying mortgage loans we own or guarantee or negatively impacted the ability of homeowners to continue to make principal and interest payments on mortgage loans we own or guarantee could increase our serious delinquency rates and average loan loss severity in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Such an event could also damage or destroy REO properties we own. While we attempt to maintain a geographically diverse portfolio, there can be no assurance that a catastrophic event, depending on its magnitude, scope and nature, will not generate significant credit losses and credit-related expenses. We may not have insurance coverage for some of these catastrophic events. In some cases, we may be prohibited by state law from requiring such insurance as a condition to our purchasing or guaranteeing loans. In addition, any efforts we make to assist borrowers in affected areas could increase our expenses.

We depend on our institutional counterparties to provide services that are critical to our business, and our results of operations or financial condition may be adversely affected if one or more of our institutional counterparties do not meet their obligations to us.

We face the risk that one or more of the institutional counterparties that has entered into a business contract or arrangement with us may fail to meet its obligations to us. We face similar risks with respect to contracts or arrangements we benefit from indirectly or that we enter into on behalf of our securitization trusts. Our primary exposures to institutional counterparty risk are with:

- mortgage seller/servicers;
- mortgage insurers;
- issuers, guarantors or third-party providers of other credit enhancements (including bond insurers);
- counterparties to short-term lending and other investment-related agreements and cash equivalent transactions, including such agreements and transactions we manage for our PC trusts;
- derivative counterparties;
- hazard and title insurers;
- mortgage investors; and
- document custodians and funds custodians.

Many of our counterparties provide several types of services to us. In some cases, our business with institutional counterparties is concentrated. The concentration of our exposure to our counterparties has increased in recent years due to industry consolidation and counterparty failures or downgrades, and we continue to face challenges in reducing our risk concentrations with counterparties. Efforts we take to reduce exposure to financially weakened counterparties could further increase our exposure to other individual counterparties. A significant failure by a major institutional counterparty could harm our business and financial results in a variety of ways, including by adversely affecting our ability to conduct operations efficiently and at cost-effective rates, and have a material adverse effect on our investments in mortgage loans, investments in securities, our derivative portfolio or our credit guarantee activities.

Some of our counterparties may become subject to serious liquidity problems affecting their businesses, either temporarily or permanently, which may adversely affect their ability to meet their obligations to us. In recent years, challenging market conditions have, at times, adversely affected the liquidity and financial condition of our counterparties. These trends may continue. In particular, we believe all of our derivative portfolio and cash and other investments portfolio counterparties are exposed to fiscally troubled European countries. It is possible that continued adverse developments in the

Eurozone could significantly impact such counterparties. In turn, this could adversely affect their ability to meet their obligations to us.

In the past few years, some of our largest seller/servicers have experienced ratings downgrades and liquidity constraints, and certain large lenders have failed. These challenging market conditions could also increase the likelihood that we will have disputes with our counterparties concerning their obligations to us, especially with respect to counterparties that have experienced financial strain and/or have large exposures to us. See MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk* and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for additional information regarding our credit risks to certain categories of counterparties and how we seek to manage them.

The servicing of mortgage loans backing our single-family non-agency mortgage-related securities investments is concentrated in a small number of institutions. We could experience losses on these investments from servicing performance deterioration should one of these institutions come under financial distress. Furthermore, Freddie Mac s rights as a non-agency mortgage-related securities investor to transfer servicing are limited.

Our financial condition or results of operations may be adversely affected if mortgage seller/servicers fail to repurchase loans sold to us in breach of representations and warranties or fail to honor any related indemnification or recourse obligations.

We require seller/servicers to make certain representations and warranties regarding the loans they sell to us. If loans are sold to us in breach of those representations and warranties, we have the contractual right to require the seller/servicer to repurchase those loans from us. In lieu of repurchase, we may agree to allow a seller/servicer to indemnify us against losses on such mortgages or otherwise compensate us for the risk of continuing to hold the mortgages. Sometimes a seller/servicer sells us mortgages with recourse, meaning that the seller/servicer agrees to repurchase any mortgage that is delinquent for more than a specified period (usually 120 days), regardless of whether there has been a breach of representations and warranties. If a seller/servicer does not satisfy its repurchase or indemnification obligations with respect to a loan, we will be subject to the full range of credit risks posed by the loan if the loan fails to perform, including the risk that a mortgage insurer may deny or rescind coverage on the loan (if the loan is insured) and the risk that we will incur credit losses on the loan through the workout or foreclosure process.

As of December 31, 2012 and 2011, the UPB of loans subject to repurchase requests based on breaches of representations and warranties issued to our single-family seller/servicers was approximately $3.0 billion and $2.7 billion, respectively. As of December 31, 2012, approximately $1.2 billion of such loans were subject to repurchase requests issued due to mortgage insurance rescission or mortgage insurance claim denial.

Our contracts require that a seller/servicer repurchase a mortgage within 30 days after we issue a repurchase request, unless the seller/servicer avails itself of an appeal process provided for in our contracts, in which case the deadline for repurchase is extended until we decide the appeal. As of December 31, 2012 and 2011, approximately 41% and 39%, respectively, of these repurchase requests were outstanding more than four months since issuance of our repurchase request (these figures include repurchase requests for which appeals were pending).

The amount we collect on these requests and others we may make in the future could be significantly less than the UPB of the loans subject to the repurchase requests primarily because we expect many of these requests will likely be satisfied by reimbursement of our realized credit losses by seller/servicers, instead of repurchase of loans at their UPB, or may be rescinded in the course of the contractual appeals process. Based on our historical loss experience and the fact that many of these loans are covered by credit enhancement, we expect the actual credit losses experienced by us should we fail to collect on these repurchase requests will also be less than the UPB of the loans. We may also enter into agreements with seller/servicers to resolve claims for repurchases. The amounts we receive under any such agreements may be less than the losses we ultimately incur.

Our credit losses may increase to the extent our seller/servicers do not fully perform their repurchase obligations. Enforcing repurchase obligations of seller/servicers could also negatively impact our relationships with such customers and could result in the loss of some or all of our business with such customers, which could negatively impact our ability to retain market share. This could also lead to further disputes with such customers. It may be difficult, expensive, and time-consuming to legally enforce a seller/servicer s repurchase obligations, in the event a seller/servicer continues to fail to perform such obligations. We are also acquiring an increasing portion of single-family business volume directly from smaller financial institutions. We may face increased risk that these institutions would not be able to satisfy their repurchase obligations, as these institutions may not have the same financial strength as our larger seller/servicers.

At the direction of FHFA, we have launched a new representation and warranty framework for conventional loans purchased by us on or after January 1, 2013. We may face greater exposure to credit and other losses under this new framework since it relieves lenders of certain repurchase obligations in specific cases, such as for loans that perform for 36 consecutive months after we purchase them, with certain exclusions. For more information, see MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Single-Family Mortgage Seller/Servicers*.

In 2012 and late 2011, we changed our relief refinance program (which includes HARP) such that we are relieving lenders of certain representations and warranties on the original mortgage being refinanced. As a result, we may face greater exposure to credit and other losses on these loans. For more information, see MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program Relief Refinance Mortgage Initiative and the Home Affordable Refinance Program*.

We also have exposure to seller/servicers with respect to mortgage insurance. When a mortgage insurer rescinds coverage or denies or curtails a claim, we may require the seller/servicer to repurchase the mortgage or to indemnify us for additional loss. The volume of rescissions, claim denials, and curtailments by mortgage insurers remains high.

Seller/servicers may fail to perform their obligations to service loans in our single-family and multifamily mortgage portfolios or their servicing performance could decline.

Our seller/servicers have a significant role in servicing loans in our single-family credit guarantee portfolio, which includes an active role in our loss mitigation efforts. Therefore, a decline in their performance could impact our credit performance (including through missed opportunities for mortgage modifications), which could adversely affect our financial condition or results of operations and have a significant impact on our ability to mitigate credit losses. The risk of such a decline in performance remains high. The high levels of seriously delinquent loan volume, the weak conditions of the mortgage market, and the number and variety of additions and changes to our loan modification and other loss mitigation initiatives have placed a strain on the loss mitigation resources of many of our seller/servicers. This has also increased the operational complexity of the servicing function, as well as the risk that errors will occur. A number of seller/servicers have had to address issues relating to the improper preparation and execution of certain documents used in foreclosure proceedings, which has further strained their resources. There have also been a number of legislative and regulatory developments that have increased, or could increase, the complexity of the servicing function. It is also possible that we could be directed to introduce additional changes to the servicing function that increase its complexity, such as new or revised loan modification or loss mitigation initiatives or new compensation arrangements. Our expected ability to partially mitigate losses through loan modifications and other alternatives to foreclosure is a factor we consider in determining our allowance for loan losses. Therefore, the inability to realize the anticipated benefits of our loss mitigation plans could cause our losses to be significantly higher than those currently estimated. Weak economic conditions continue to affect the liquidity and financial condition of many of our seller/servicers, including some of our largest seller/servicers. Any efforts we take to attempt to improve our servicers performance could adversely affect our relationships with such servicers, many of which also sell loans to us.

In recent periods, a number of our servicers who specialize in servicing troubled loans have experienced rapid growth in their servicing portfolios, including an increase in troubled loans they service for Freddie Mac. Although the ability of these servicers to service troubled loans may benefit us by reducing our credit losses, the rapid expansion of their servicing portfolios could expose us to increased risks in the event that it results in operational strains that adversely affect their servicing performance or weakens their financial strength.

If a servicer does not fulfill its servicing obligations (including its repurchase or other responsibilities), we may seek partial or full recovery of the amounts that such servicer owes us, such as by attempting to sell the applicable mortgage servicing rights to a different servicer and applying the proceeds to such owed amounts, or by contracting the servicing responsibilities to a different servicer and retaining the net servicing fee. The weakness in the housing market has negatively affected the market for mortgage servicing rights, which increases the risk that we might not receive a sufficient price for such rights or that we may be unable to find buyers who: (a) have sufficient capacity to service the affected mortgages in compliance with our servicing standards; (b) are willing to assume the representations and warranties of the former servicer regarding the affected mortgages (which we typically require); and (c) have sufficient capacity to service all of the affected mortgages. Increased industry consolidation, bankruptcies of mortgage bankers or bank failures may also make it more difficult for us to sell such rights, because there may not be sufficient capacity in the market, particularly in the event of multiple failures. This option may be difficult to accomplish with respect to our larger seller/servicers due to operational and capacity challenges of transferring a large servicing portfolio.

Our seller/servicers also have a significant role in servicing loans in our multifamily mortgage portfolio. We are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us including their monitoring of each property s financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements, or other credit enhancements, where applicable.

See MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Single-family Mortgage Seller/Servicers* and *Multifamily Mortgage Seller/Servicers* for additional information on our institutional credit risk related to our mortgage seller/servicers.

Our financial condition or results of operations may be adversely affected by the financial distress of our counterparties to derivatives, funding, and other transactions.

We use derivatives for several purposes, including to adjust or rebalance our funding mix in response to changes in the interest-rate characteristics of our mortgage-related assets and to hedge forecasted issuances of debt. The relative concentration of our derivative exposure among our primary derivative counterparties remains high as compared to historical levels. This concentration increased in the last several years due to industry consolidation and the failure or downgrade of certain counterparties, and could further increase. Five of our derivative counterparties each accounted for greater than 10% of our net uncollateralized exposure, excluding commitments, at December 31, 2012. For a further discussion of our exposure to derivative counterparties, see MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Derivative Counterparties* and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS.

Some of our derivative and other capital markets counterparties have experienced various degrees of financial distress in the past few years, including liquidity constraints, and credit downgrades. Our financial condition and results of operations may be adversely affected by the financial distress of these derivative and other capital markets counterparties to the extent that they fail to meet their obligations to us. For example, our OTC derivative counterparties are required to post collateral to us in certain circumstances to cover our net exposure to them on derivative contracts. We may incur losses if the collateral held by us cannot be liquidated at prices that are sufficient to cover the amount of such exposure. We also face the risk that, if a counterparty becomes insolvent, we may not be able to recover any collateral we posted to the counterparty.

Our ability to engage in routine derivatives, funding, and other transactions could be adversely affected by the actions of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, could lead to market-wide disruptions in which it may be difficult for us to find acceptable counterparties for such transactions.

We also use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. Thus, if our access to the derivative markets were disrupted, it may become more difficult or expensive to fund our business activities and achieve the funding mix we desire, which could adversely affect our business and results of operations.

Our credit losses and other-than-temporary impairments recognized in earnings could increase if more of our mortgage or bond insurers become insolvent or fail to perform their obligations to us.

A number of our mortgage insurers (that insure single-family mortgages we purchase or guarantee) and bond insurers (that insure certain of the non-agency mortgage-related securities we hold) are insolvent or are not fully performing their obligations to us. We are exposed to the risk that additional mortgage or bond insurance counterparties could become insolvent or fail to fully perform their obligations to us. The weakened financial condition and liquidity position of many of these counterparties increases the risk that additional entities will fail to fully reimburse us for claims under insurance policies. This risk could increase if home prices decline in the future or if the economy worsens.

As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. Thus, if any of our mortgage insurers that provide credit enhancement fails to fulfill its obligation, we could experience increased credit losses. In addition, if a regulator determined that a mortgage insurer lacked sufficient capital to pay all claims when due, the regulator could take action that might impact the timing and amount

of claim payments made to us. We independently assess the financial condition, including the claims-paying resources, of each of our mortgage insurers. Based on our analysis of the financial condition of a mortgage insurer and pursuant to our eligibility requirements for mortgage insurers, we could take action against a mortgage insurer intended to protect our interests that may impact the timing and amount of claims payments received from that insurer.

We believe that certain of our mortgage insurers are not sufficiently capitalized to withstand the stress of the current weak economic environment. We expect to receive substantially less than full payment of our claims from Triad Guaranty Insurance Corporation, Republic Mortgage Insurance Company and PMI Mortgage Insurance Co. We also believe that certain other of our mortgage insurance counterparties lack sufficient ability to meet all their expected lifetime claims paying obligations to us as such claims emerge. In the future, we believe our mortgage insurance exposure will likely be concentrated among a smaller number of counterparties.

In the event one or more of our bond insurers were to become insolvent, it is likely that we would not collect our claims from the affected insurer. This would impact our ability to recover certain unrealized losses on our investments in non-agency mortgage-related securities, and could contribute to net impairment of available-for-sale securities recognized in earnings. We evaluate the expected recovery from primary bond insurance policies as part of our impairment analysis for our investments in securities. If a bond insurer s performance with respect to its obligations on our investments in securities is worse than expected, this could contribute to additional net impairment of those securities.

Some of our larger bond insurers are in runoff mode and are not writing new business. We expect to receive substantially less than full payment from Ambac Assurance Corporation and Financial Guaranty Insurance Company, as these companies are insolvent. Financial Guaranty Insurance Company is currently not paying any of its claims. Ambac, which had not paid claims since March 2010, began paying a portion of its claims in cash in the fall of 2012. We believe that we will likely receive substantially less than full payment of our claims from some of our other bond insurers, because we believe they also lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge.

For more information on developments concerning our mortgage insurers and bond insurers, see MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk Mortgage Insurers* and *Bond Insurers.*

If mortgage insurers were to tighten their standards or fall out of compliance with regulatory capital requirements, the volume of high LTV ratio mortgages available for us to purchase could be reduced, which could reduce our overall volume of new business. Mortgage insurance standards could constrain our future ability to purchase loans with LTV ratios over 80%.

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests. Our purchases of mortgages with LTV ratios above 80% (other than relief refinance mortgages) have generally been low in recent years, as compared to 2005 2008 levels, in part because mortgage insurers tightened their eligibility requirements with respect to the issuance of insurance on new mortgages with such higher LTV ratios. However, our acquisitions of non-HARP mortgages with LTV ratios greater than 90% increased during 2012 compared to 2011, in part because most mortgage insurance companies lowered their premiums in 2011 for certain higher-risk loans. For more information, see MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Other Categories of Single-Family Mortgage Loans* Higher-Risk Loans in the Single-Family Credit Guarantee Portfolio. There can be no assurance that this will continue. If mortgage insurers restrict their eligibility requirements or increase premiums for loans with LTV ratios over 80%, or if we are no longer willing or able to obtain mortgage insurance from these counterparties under terms we find reasonable, and we are not able to avail ourselves of suitable alternative methods of obtaining credit enhancement for these loans, we may be restricted in our ability to purchase or securitize such loans. This could reduce our overall volume of new business. This could also negatively impact our ability to participate in a significant segment of the mortgage market (i.e., loans with LTV ratios over 80%) should we seek, or be directed, to do so. See Table 40 Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio for more information about our mortgage purchases.

If a mortgage insurance company were to fall out of compliance with regulatory capital requirements and not obtain appropriate waivers, it could become subject to regulatory actions that restrict its ability to write new business in certain, or in some cases all, states. Over the past several years, three of our mortgage insurers (Triad Guaranty Insurance Corporation, Republic Mortgage Insurance Company and PMI Mortgage Insurance Co.) were each prohibited from writing new business by their primary state regulators and none of them writes new business in any state any longer. Given the difficulties in the mortgage insurance industry, we believe it is likely that other companies may be unable to meet regulatory capital requirements.

A mortgage insurer may attempt a corporate restructuring designed to enable it to continue to write new business through a new entity in the event the insurer falls out of compliance with regulatory capital requirements. However, there can be no assurance that an insurer would be able to accomplish such a restructuring, as the restructured entity would be required to satisfy regulatory requirements as well as our own conditions. We monitor the claim paying ability of our mortgage insurers. As these restructuring plans are presented to us for review, we attempt to determine whether the insurers plans make available sufficient resources to meet their obligations to policyholders of the insurance entities involved in the restructuring. However, there can be no assurance that any such restructuring will enable payment in full of all claims in the future. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guarantee Losses *Single-Family Loans* for more information.

The loss of business volume from key mortgage originators could result in a decline in our market share and revenues.

Our business depends on our ability to acquire a steady flow of mortgage loans. We purchase a significant percentage of our single-family mortgages from several large mortgage originators. During 2012 and 2011, approximately 73% and 82%, respectively, of our single-family mortgage purchase volume was associated with our ten largest customers. During 2012, three mortgage lenders (Wells Fargo Bank, N.A., U.S. Bank N.A., and JPMorgan Chase Bank, N.A.) each accounted for more than 10% of our single-family mortgage purchase volume and collectively accounted for approximately 49% of our single-family mortgage purchase volume. Similarly, we acquire a significant portion of our multifamily mortgage loans from several large lenders.

We enter into mortgage purchase volume commitments with many of our single-family customers that provide for the customers to deliver to us a certain volume of mortgages during a specified period of time. Some commitments may also provide for the lender to deliver to us a minimum percentage of their total sales of conforming loans. There is a risk that we will not be able to enter into new commitments with our single-family customers that will maintain mortgage purchase volume following the expiration of our existing commitments with them. The loss of business from any one of our major lenders could adversely affect our market share and our revenues. Many of our seller/servicers also have tightened their lending criteria in recent years, which has reduced their loan volume, thus reducing the volume of loans available for us to purchase.

Weak business and economic conditions in the U.S. and abroad may adversely affect our business and results of operations.

Our business and results of operations are significantly affected by general business and economic conditions, including conditions in the international markets for our mortgage-related and debt securities and for the various types of securities we hold as investments. These conditions include employment rates, fluctuations in both debt and equity capital markets, the value of the U.S. dollar as compared to foreign currencies, the strength of the U.S. financial markets and national economy and the local economies in which we conduct business, the regulatory environment, and the economies of other countries that purchase our mortgage-related and debt securities. Concerns about fiscal challenges in several Eurozone economies continued during 2012, creating significant uncertainty in the financial markets and potential increased risk exposure for our counterparties and for us. There is also significant uncertainty regarding fiscal challenges facing the U.S. and the strength of the U.S. economic recovery. Weak economic conditions in the U.S. could result in high serious delinquencies and credit losses, which would adversely affect our results of operations and financial condition.

The mortgage credit markets continue to be impacted by relatively low levels of corporate credit and liquidity within the mortgage industry, which has at times caused disruptions to normal operations of major mortgage servicers and originators, including some of our largest customers. This has, at times, also contributed to significant volatility, wide credit spreads and a lack of price transparency, and the potential for further consolidation within the financial services industry.

Competition from banking and non-banking companies may harm our business.

Competition in the secondary mortgage market combined with a decline in the amount of residential mortgage debt outstanding may make it more difficult for us to purchase mortgages. Furthermore, competitive pricing pressures may make our products less attractive in the market and negatively impact our financial results. Increased competition from Fannie Mae, Ginnie Mae, FHA/VA, and new entrants may alter our product mix, lower volumes, and reduce revenues on new business. FHFA is also Conservator of Fannie Mae, our primary competitor, and FHFA s actions as Conservator of both companies could affect competition between us and Fannie Mae. It is possible that FHFA could require us and Fannie Mae to take a uniform approach that, because of differences in our respective businesses, could place Freddie Mac at a competitive disadvantage to Fannie Mae. FHFA may also prevent us from taking actions that could provide us with a competitive advantage. Efforts we may make or may be directed to make to increase the profitability of new single-family guarantee business, such as by tightening credit standards or raising guarantee fees, could cause our market share to decrease and the volume of our single-family guarantee business to decline. Historically, we also competed with other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers, thrift institutions, and insurance companies. Many of these institutions have ceased or substantially reduced their activities in the secondary market for single-family mortgages since 2008. However, one of FHFA s goals for conservatorship, as set forth in its strategic plan, is to contract our presence in the mortgage market and shrink our operations, and FHFA is taking a number of actions designed to encourage these other financial institutions to return to the mortgage market.

We could be prevented from competing efficiently and effectively by competitors who use their patent portfolios to prevent us from using necessary business processes and products, or to require us to pay significant royalties to use those processes and products.

Beginning in 2010, as multifamily market fundamentals were starting to improve, more market participants began to re-enter the multifamily market, and as a result we have faced increased competition. Although we continued to be a significant participant in the multifamily market in 2012, other participants, including life insurers, banks, and CMBS issuers, also were active in acquiring multifamily mortgages and we expect continued competition in the multifamily market.

Our investment activities may be adversely affected by limited availability of financing and increased funding costs.

The amount, type and cost of our funding, including financing from other financial institutions and the capital markets, directly impacts our interest expense and results of operations. A number of factors could make such financing more difficult to obtain, more expensive or unavailable on any terms, both domestically and internationally, including:

- changes in our government support;
- reduced demand for our debt securities;
- competition for debt funding from other debt issuers; and
- downgrades in our credit ratings or the credit ratings of the U.S. government.

Our ability to obtain funding in the public debt markets or by pledging mortgage-related securities as collateral to other financial institutions could cease or change rapidly, and the cost of available funding could increase significantly, due to changes in market confidence and other factors. For example, in the fall of 2008, we experienced significant deterioration in our access to the unsecured medium- and long-term debt markets, and were forced to rely on short-term debt to fund our purchases of mortgage assets and refinance maturing debt and to rely on derivatives to synthetically create the substantive economic equivalent of various debt funding structures.

We follow certain liquidity management practices and procedures. However, in the event we were unable to obtain funding from the public debt markets, there can be no assurance that such practices and procedures would provide us with sufficient liquidity to meet ongoing cash obligations for an extended period.

Since 2008, the ratings on the non-agency mortgage-related securities we hold backed by Alt-A, subprime, and option ARM loans have decreased, limiting their availability as a significant source of liquidity for us through sales or use as collateral in secured lending transactions.

The composition of our mortgage-related investments portfolio has changed significantly since we entered into conservatorship, as the proportion of single-family whole loans has significantly increased and the proportion of agency mortgage-related securities has significantly declined. This changing composition presents heightened liquidity risk, which influences management s decisions regarding funding and hedging.

Changes in Government Support

Changes or perceived changes in the government s support of us could have a severe negative effect on our access to the debt markets and our debt funding costs. Beginning January 1, 2013, the amount of available funding remaining under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws. The provisions of the Purchase Agreement whereby Treasury s funding commitment would increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011, and 2012 no longer apply. While 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, the costs of our debt funding could vary due to the uncertainty about the future of the GSEs. The cost of our debt funding could increase if debt investors believe that the risk that we could be placed into receivership is increasing. Our access to the debt markets and the cost of funding could also be adversely affected if we were to make significant draws in the future, and thereby significantly reduce the amount of available funding remaining under the Purchase Agreement. In addition, under the Purchase Agreement, without the prior consent of Treasury, we may not increase our total indebtedness above a specified limit or become liable for any subordinated indebtedness. For more information, see MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity *Actions of Treasury and FHFA*.

We do not currently have a liquidity backstop available to us (other than draws from Treasury under the Purchase Agreement and Treasury s ability to purchase up to $2.25 billion of our obligations under its permanent statutory authority) if we are unable to obtain funding from issuances of debt or other conventional sources. At present, we are not able to predict the likelihood that a liquidity backstop will be needed, or to identify the alternative sources of liquidity that might be available to us if needed, other than from Treasury as referenced above.

Demand for Debt Funding

The willingness of investors to purchase or hold our debt securities, and any changes to such willingness, may materially affect our liquidity, business and results of operations. The willingness of domestic and foreign investors to purchase and hold our debt securities can be influenced by many factors, including changes in the world economy, changes in foreign-currency exchange rates, regulatory and political factors, as well as the availability of and preferences for other investments. If investors were to divest their holdings or reduce their purchases of our debt securities, our funding costs could increase and our business activities could be curtailed.

Competition for Debt Funding

We compete for debt funding with Fannie Mae, the FHLBs, and other institutions. Competition for debt funding from these entities can vary with changes in economic, financial market, and regulatory environments. Increased competition for debt funding may result in a higher cost to finance our business, which could negatively affect our financial results. An inability to issue debt securities at attractive rates in amounts sufficient to fund our business activities and meet our obligations could have an adverse effect on our business, liquidity, financial condition, and results of operations. See MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity *Other Debt Securities* for a description of our debt issuance programs. Our funding costs may also be affected by changes in the amount of, and demand for, debt issued by Treasury.

Line of Credit

We maintain a secured intraday line of credit to provide additional intraday liquidity to fund our activities through the Fedwire system. This line of credit requires us to post collateral to a third party. In certain circumstances, this secured counterparty may be able to repledge the collateral underlying our financing without our consent. In addition, because the secured intraday line of credit is uncommitted, we may not be able to continue to draw on it if and when needed.

Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business.

Nationally recognized statistical rating organizations play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of funding. Our credit ratings are important to our liquidity. We currently receive ratings from three nationally recognized statistical rating organizations (S&P, Moody s, and Fitch) for our unsecured borrowings. These ratings are primarily based on the support we receive from Treasury, and therefore are affected by changes in the credit ratings of the U.S. government. Any downgrade in the credit ratings of the U.S. government would be expected to be followed or accompanied by a downgrade in our credit ratings.

In August 2011, S&P lowered our senior long-term debt credit rating to AA+ from AAA and assigned a negative outlook to the rating. This action followed S&P s downgrade of the credit rating of the U.S. government. In addition, Moody s confirmed our senior long-term debt and subordinated debt ratings and assigned a negative outlook to the ratings in August 2011. This action accompanied Moody s confirmation of the U.S. government s AAA long-term credit rating and assignment of a negative outlook to the rating. In November 2011, Fitch affirmed our long-term Issuer Default Rating (IDR)

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at AAA and revised the outlook to negative from stable. This action followed Fitch s affirmation of the U.S. government s AAA IDR and revision of its long-term rating to negative from stable. S&P, Moody s, and Fitch have indicated that additional actions on the U.S. government s ratings could occur if steps toward a credible deficit reduction plan are not taken or if the U.S. experiences a weaker than expected economic recovery.

In addition to a downgrade in the credit ratings of or outlook on the U.S. government, a number of other events could adversely affect our debt credit ratings, including actions by governmental entities or others, changes in government support for us, future GAAP losses, and additional draws under the Purchase Agreement. Any such downgrades could lead to major disruptions in the mortgage market and to our business due to lower liquidity, higher borrowing costs, lower asset values, and higher credit losses, and could cause us to experience net losses and net worth deficits. The full range and extent of the adverse effects to our business that would result from any such ratings downgrades and market disruptions cannot be predicted with certainty. However, we expect that they could: (a) adversely affect our liquidity and cause us to limit or suspend new business activities that entail outlays of cash; (b) make new issuances of debt significantly more costly, or potentially prohibitively expensive, and adversely affect the supply of debt financing available to us; (c) reduce the value of our guarantee to investors and adversely affect our ability to issue our guaranteed mortgage-related securities; (d) reduce the value of Treasury and agency mortgage securities we hold; (e) increase the cost of mortgage financing for borrowers, thereby reducing the supply of mortgages available to us to purchase; (f) adversely affect home prices, reducing the value of our REO and likely leading to additional borrower defaults on mortgage loans we guarantee; and (g) trigger additional collateral requirements under our derivatives contracts.

A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business.

Security performance is one of Freddie Mac s more significant risks and competitive issues, with both short- and long-term implications. Our PCs are an integral part of our mortgage purchase program. Our competitiveness in purchasing single-family mortgages from our seller/servicers, and thus the volume and/or profitability of our new single-family guarantee business, can be directly affected by the relative price performance of our PCs and comparable Fannie Mae securities.

The profitability of our securitization financing and our ability to compete for mortgage purchases are affected by the price differential between PCs and comparable Fannie Mae securities. Freddie Mac fixed-rate PCs provide for faster remittance of mortgage principal and interest payments to investors than Fannie Mae fixed-rate securities. However, our PCs have typically traded at prices below the level that we believe reflects the full value of their faster remittance cycle, resulting in a pricing discount relative to comparable Fannie Mae securities. This difference in relative pricing creates an economic incentive for customers to conduct a disproportionate share of their single-family business with Fannie Mae and negatively affects the financial performance of our business.

Recent deterioration in the pricing of our PCs relative to comparable Fannie Mae securities has adversely affected our competitiveness. Our 2012 mortgage purchase market share was volatile and at times significantly below its average levels during 2010 and 2011. We believe the primary factor adversely affecting our security performance was the substantially lower liquidity of our PCs versus comparable Fannie Mae securities. If this trend continues, the volume and/or profitability of our new single-family guarantee business could be adversely affected. Market conditions can also affect the price performance of our PCs.

We may be unable to maintain a liquid market for our PCs, which could adversely affect the price performance of PCs and our single-family market share. A significant reduction in our market share, and thus in the volume of mortgage loans that we securitize, could further reduce the liquidity of our PCs. While we may employ a variety of strategies in an effort to support the liquidity and price performance of our PCs and may consider additional strategies, any such strategies may fail or adversely affect our business or we may cease such activities if deemed appropriate. In addition, we believe the liquidity-related price differences between our PCs and comparable Fannie Mae securities are, in part, the result of factors that are largely outside of our control. Thus, while we may employ strategies in an effort to support the liquidity-related price differences, we do not believe the strategies currently available to us can fully eliminate these price differences over the long-term. A curtailment of such mortgage-related investments portfolio purchase and retention activities that are undertaken primarily in an effort to support the price performance of our PCs may result in a decline in the volume and/or profitability of our new single-family guarantee business, lower comprehensive income, and an accelerated decline in the size of our total mortgage portfolio.

In certain circumstances, we compensate customers for the difference in price between our PCs and comparable Fannie Mae securities, and this could adversely affect the volume and/or profitability of our new single-family guarantee business. We also incur costs in connection with our efforts to support the liquidity and price performance of our PCs, including engaging in transactions that yield less than our target rate of return. For more information, see BUSINESS Our Business Segments *Single-Family Guarantee Segment Securitization Activities* and *Investments Segment PC Support Activities.*

Mortgage fraud could result in significant financial losses and harm to our reputation.

We rely on representations and warranties by seller/servicers about the characteristics of the single-family mortgage loans we purchase and securitize, and we do not independently verify most of the information that is provided to us before we purchase the loan. This exposes us to the risk that one or more of the parties involved in a transaction (such as the borrower, seller, broker, appraiser, title agent, loan officer, lender or servicer) will engage in fraud by misrepresenting facts about the property underlying the real estate transaction, borrower, or mortgage loan. While we subsequently review a sample of these loans to determine if such loans are in compliance with our contractual standards, there can be no assurance that this would detect or deter mortgage fraud, or otherwise reduce our exposure to the risk of fraud. We are also exposed to fraud by third parties in the mortgage servicing function, particularly with respect to sales of REO properties, single-family short sales, and other dispositions of non-performing assets. We may experience significant financial losses and reputational damage as a result of such fraud.

The value of mortgage-related securities guaranteed by us and held as investments may decline if we are unable to perform under our guarantee or if investor confidence in our ability to perform under our guarantee diminishes.

A portion of our investments in mortgage-related securities are securities guaranteed by us. Our valuation of these securities is consistent with GAAP and the legal structure of the guarantee transaction. These securities are collateralized by Freddie Mac assets transferred to the securitization trusts and include: (a) REMICs and Other Structured Securities; (b) certain Other Guarantee Transactions; and (c) multifamily PCs. The valuation of our guaranteed mortgage-related securities reflects investor confidence in our ability to perform under our guarantee and the liquidity that our guarantee provides. If we were unable to perform under our guarantee or if investor confidence in our ability to perform under our guarantee were to diminish, the value of our guaranteed securities may decline, thereby reducing the value of the securities reported on our consolidated balance sheets, which could have an adverse effect on our financial condition and results of operations. This could also adversely affect our ability to sell or otherwise use these securities for liquidity purposes.

Changes in interest rates could negatively impact our results of operations, net worth, and fair value of net assets.

Our investment activities and credit guarantee activities expose us to interest rate and other market risks. Changes in interest rates, up or down, could adversely affect our net interest yield. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, either can rise or fall faster than the other, causing our net interest yield to expand or compress. For example, due to the timing of maturities or rate reset dates on variable-rate instruments, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets. This rate change could cause our net interest yield to compress until the effect of the increase is fully reflected in asset yields. Changes in the slope of the yield curve could also reduce our net interest yield.

Our GAAP results can be significantly affected by changes in interest rates, and adverse changes in interest rates could adversely affect our net income or net worth. For example, changes in interest rates affect the fair value of our derivative portfolio. Since we generally record changes in fair values of our derivatives in current income, such changes could significantly impact our GAAP results. While derivatives are an important aspect of our management of interest-rate risk, they generally increase the volatility of reported net income (loss), because, while fair value changes in derivatives affect net income, fair value changes in several of the types of assets and liabilities being hedged do not affect net income. We could record substantial gains or losses from derivatives in any period, which could significantly contribute to our overall results for the period and affect our net worth as of the end of such period. It is difficult for us to predict the amount or direction of derivative results. Additionally, increases in interest rates could increase other-than-temporary impairments on our investments in non-agency mortgage-related securities. Higher interest rates can result in a reduction in the benefit from expected structural credit enhancements on these securities.

Changes in interest rates may also affect prepayment assumptions, thus potentially impacting the fair value of our assets, including our investments in mortgage-related assets. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. An increased likelihood of prepayment on the mortgages underlying our mortgage-related securities may adversely impact the value of these securities.

When interest rates increase, our credit losses from ARM and interest-only ARM loans may increase as borrower payments increase at their reset dates, which increases the borrower s risk of default. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan.

Interest rates can fluctuate for a number of reasons, including changes in the fiscal and monetary policies of the federal government and its agencies, such as the Federal Reserve. Federal Reserve policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities.

Changes in OAS could materially impact our fair value of net assets and adversely affect future results of operations and net worth.

OAS is an estimate of the incremental yield spread between a particular financial instrument and a benchmark yield curve. This includes consideration of potential variability in the instrument s cash flows resulting from any options embedded in the security, such as prepayment options. The OAS between the mortgage and agency debt sectors can significantly affect the fair value of our net assets. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in the fair value of net assets arising from net fluctuations in OAS during that period. We do not attempt to hedge or actively manage the impact of changes in mortgage-to-debt OAS.

Changes in market conditions, including changes in interest rates, liquidity, prepayment and/or default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in OAS. A widening of the OAS on a given asset, which typically causes a decline in the current fair value of that asset, may cause significant mark-to-fair value losses, and may adversely affect our financial results and net worth. Conversely, a narrowing or tightening of the OAS typically causes an increase in the current fair value of that asset, but may reduce the number of attractive investment opportunities in mortgage loans and mortgage-related securities. Consequently, a tightening of the OAS may adversely affect our future financial results and net worth. See MD&A FAIR VALUE MEASUREMENTS AND ANALYSIS Consolidated Fair Value Balance Sheets Analysis *Discussion of Fair Value Results* for a more detailed description of the impacts of changes in mortgage-to-debt OAS.

While wider spreads might create favorable investment opportunities, we are limited in our ability to take advantage of any such opportunities due to various restrictions on our mortgage-related investments portfolio activities. See BUSINESS Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio*.

We could experience significant reputational harm, which could affect the future of our company, if our efforts to support the U.S. residential mortgage market do not succeed.

We are focused on a number of initiatives designed to support the U.S. residential mortgage market, including the MHA Program and other foreclosure avoidance programs, the servicing alignment initiative and various other alignment initiatives, and the development of various mortgage market enhancements. If these initiatives do not achieve their desired results, or are otherwise perceived to have failed to achieve their objectives, we may experience damage to our reputation, which may impact the extent of future government support for our business and government decisions with respect to the future status and role of Freddie Mac.

Negative publicity causing damage to our reputation could adversely affect our business prospects, financial results, or net worth.

Reputation risk, or the risk to our financial results and net worth from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers or otherwise impair our customer relationships, adversely affect our ability to obtain financing, impede our ability to hire and retain qualified personnel, hinder our business prospects, or adversely impact the trading price of our securities. Perceptions regarding the practices of our competitors, our seller/servicers or the financial services and mortgage industries as a whole, particularly as they relate to the recent housing and economic downturn, may also adversely impact our reputation. Adverse reputation impacts on third parties with whom we have important relationships may impair market confidence or investor confidence in our business operations as well. In addition, negative publicity could expose us to adverse legal and regulatory consequences, including greater regulatory scrutiny or adverse regulatory or legislative changes, and could affect what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. These adverse consequences could result from perceptions concerning our activities and role in addressing the housing and economic downturn, concerns about our compensation practices, concerns about deficiencies in foreclosure documentation practices or our actual or alleged action or failure to act in any number of areas, including corporate governance, regulatory compliance, financial reporting and disclosure, purchases of products perceived to be predatory, safeguarding or using nonpublic personal information, or from actions taken by government regulators in response to our actual or alleged conduct.

The servicing alignment initiative, MHA Program, and other efforts to reduce foreclosures, modify loan terms and refinance mortgages, including HARP, may fail to mitigate our credit losses and may adversely affect our results of operations or financial condition.

The servicing alignment initiative, MHA Program, and other loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. However, our loss mitigation strategies may not be successful and our credit losses may continue to remain high. The costs we incur related to loan modifications and other activities have been, and will likely continue to be, significant because we bear the full cost of the monthly payment reductions related to modifications of loans we own or guarantee, and all applicable servicer and borrower incentives. We are not reimbursed for these costs by Treasury. For information on our loss mitigation activities, see MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program.*

We could be required or elect to make changes to our implementation of our loss mitigation activities that could make these activities more costly to us, both in terms of credit expenses and the cost of implementing and operating the activities. For example, we could be required to use principal reduction to achieve reduced payments for borrowers. This could further increase our losses, as we could bear some or all of the costs of such reductions.

A significant number of loans are in the trial period of HAMP or our non-HAMP standard loan modification. For information on completion rates for HAMP and non-HAMP modifications, see MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program.* A number of loans will fail to complete the applicable trial period or qualify for our other loss mitigation programs. For these loans, the trial period will have effectively delayed the foreclosure process and could increase our losses, to the extent the prices we ultimately receive for the foreclosed properties are less than the prices we could have received had we foreclosed upon the properties earlier. These delays in foreclosure could also cause our REO operations expense to increase, perhaps substantially.

Mortgage modification initiatives, particularly any future focus on principal reductions (which at present we do not offer to borrowers), have the potential to change borrower behavior and mortgage underwriting. Principal reductions may create an incentive for borrowers that are current to become delinquent in order to receive a principal reduction. This, coupled with the phenomenon of widespread underwater mortgages, could significantly affect borrower attitudes towards homeownership, the commitment of borrowers to making their mortgage payments, the way the market values residential mortgage assets, the way in which we conduct business and, ultimately, our financial results.

Depending on the type of loss mitigation activities we pursue, those activities could result in accelerating or slowing prepayments on our PCs and REMICs and Other Structured Securities, either of which could affect the pricing of such securities. At the direction of FHFA, we implemented a series of changes to HARP in late 2011 and 2012. We subsequently made similar changes to the relief refinance mortgage initiative for loans with LTV ratios of 80% and less. There can be no assurance that the benefits from the revised programs will exceed our costs. We may face greater exposure to credit and other losses on HARP and other relief refinance loans (starting in late 2012) because we are relieving lenders of certain representations and warranties on the original mortgage being refinanced. Due to the impact of HARP and other refinance initiatives of Freddie Mac and Fannie Mae, we could experience declines in the fair values of certain agency security investments classified as available-for-sale or trading resulting from changes in expectations of mortgage prepayments and lower net interest yields over time on other mortgage-related investments. The ultimate impact of the HARP revisions on our financial results will be driven by the level of borrower participation and the volume of loans with high LTV ratios that we acquire under the program. Over time, relief refinance mortgages with LTV ratios above 80% may not perform as well as relief refinance mortgages with LTV ratios of 80% and below because of the continued high LTV ratios of these loans. Based on our historical experience, there is an increase in borrower default risk as LTV ratios increase. In addition, relief refinance mortgages may not be covered by mortgage insurance for the full excess of their UPB over 80%. For more information, see MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program.*

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We are devoting significant internal resources to the implementation of the servicing alignment initiative and the MHA Program. The costs we incur related to these initiatives have been, and will likely continue to be, significant. The size and scope of these efforts may also limit our ability to pursue other business opportunities or corporate initiatives.

We may experience further write-downs and losses relating to our assets, including our investment securities, net deferred tax assets, REO properties or mortgage loans, that could materially adversely affect our business, results of operations, financial condition, liquidity and net worth.

We experienced significant losses and write-downs relating to certain of our assets during the past several years, including significant declines in market value, impairments of our investment securities, write-downs of REO properties, losses on non-performing loans removed from PC pools, and impairments on other assets. The fair value of our assets may be further adversely affected by continued weakness in the economy, any further deterioration in the housing and financial markets, additional ratings downgrades, or other events.

Since we entered into conservatorship in September 2008, we have established a significant valuation allowance on our deferred tax assets. If future events significantly alter our current outlook, additional valuation allowances may need to be established for the remaining deferred tax asset. The future status and role of Freddie Mac could be affected by actions of the Conservator, and legislative and regulatory action that alters the ownership, structure, and mission of the company. The uncertainty of these developments could materially affect our operations, which could in turn affect our ability or intent to hold investments until the recovery of any temporary unrealized losses.

We may experience additional write-downs and losses relating to our assets, including those that are currently AAA-rated, and the fair values of our assets may decline in the future. This could adversely affect our results of operations, financial condition, liquidity, and net worth.

There may not be an active, liquid trading market for our equity securities.

Our common stock and classes of preferred stock that previously were listed and traded on the NYSE were delisted from the NYSE effective July 8, 2010, and now trade on the OTCQB Marketplace. The market price of our common stock declined significantly between June 16, 2010, the date we announced our intention to delist these securities, and July 8, 2010, the first day the common stock traded exclusively on the OTC market, and may decline further. Trading volumes on the OTCQB Marketplace have generally been, and will likely continue to be, less than those on the NYSE, which would make it more difficult for investors to execute transactions in our securities and could make the prices of our securities decline or be more volatile.

Operational Risks

We face significant levels of operational risk. Our risk management efforts may not effectively mitigate the risks we seek to manage.

We face significant levels of operational risk, due to a variety of factors, including: (a) the level and pace of organizational change within our company; (b) the complexity of our business operations; (c) limitation in our core systems; (d) the fact that we face a variety of different, and potentially competing, business objectives and new FHFA-mandated activities (e.g., the initiatives we are pursuing under the Conservatorship Scorecard); and (e) employee turnover.

We could incur substantial losses and our business operations could be disrupted if we are unable to effectively identify, manage, monitor and mitigate operational risks related to our business. Our risk management policies, procedures and techniques may not be sufficient to mitigate the risks we have identified or to appropriately identify additional risks to which we are subject. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK and MD&A RISK MANAGEMENT for a discussion of our approach to managing certain of the risks we face.

We have incurred, and will continue to incur, expenses and we may otherwise be adversely affected by delays and deficiencies in the foreclosure process.

We have been, and will likely continue to be, adversely affected by delays and deficiencies in the foreclosure process, which could increase our expenses.

The average length of time for foreclosure of a Freddie Mac loan significantly increased in recent years, particularly in states that require a judicial foreclosure process, and may further increase. A number of factors have contributed to this

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increase, including: (a) the increasingly lengthy foreclosure process in many states (affected, in some states, by new foreclosure requirements); (b) the difficulty of servicers in processing the high volume of seriously delinquent loans, due in part to general constraints on servicer capacity and the increasing complexity of the servicing function; and (c) concerns about deficiencies in seller/servicers conduct of the foreclosure process. For more information on these developments, see BUSINESS Regulation and Supervision *Legislative and Regulatory Developments Developments Concerning Single-Family Servicing Practices*.

Delays in the foreclosure process could cause our credit losses to increase for a number of reasons. For example, properties awaiting foreclosure could deteriorate until we acquire ownership of them through foreclosure. This would increase our expenses to repair and maintain the properties when we do acquire them. Such delays may also adversely affect the values of, and our losses on, the non-agency mortgage-related securities we hold. Delays in the foreclosure process may also adversely affect trends in home prices regionally or nationally, which could also adversely affect our financial results.

It also is possible that mortgage insurance claims could be reduced if delays caused by servicers deficient foreclosure practices prevent servicers from completing foreclosures within required timelines defined by mortgage insurers. Mortgage insurance companies establish foreclosure timelines that vary by state and range between 60 and 990 days.

Delays in the foreclosure process could create fluctuations in our single-family credit statistics. For example, our realization of credit losses, which consists of REO operations income (expense) plus charge-offs, net, could be delayed because we typically record charge-offs at the time we take ownership of a property through foreclosure. Delays could also temporarily increase the number of seriously delinquent loans that remain in our single-family mortgage portfolio, which could result in higher reported serious delinquency rates and a larger number of non-performing loans than would otherwise have been the case.

In the fall of 2010, several large seller/servicers announced issues relating to the improper preparation and execution of certain documents used in foreclosure proceedings. These announcements raised various concerns relating to foreclosure practices, and caused significant delays in the foreclosure process, particularly during 2011. It is possible that additional deficiencies in foreclosure practices will be identified in the future. The integrity of the foreclosure process is critical to our business, and our financial results could be adversely affected by deficiencies in the conduct of that process.

Issues related to mortgages recorded through the MERS System could delay or disrupt foreclosure activities and have an adverse effect on our business.

The Mortgage Electronic Registration System, or the MERS® System, is an electronic registry that is widely used by seller/servicers, Freddie Mac, and other participants in the mortgage finance industry, to maintain records of beneficial ownership of mortgages. The MERS System is owned, operated, and maintained by MERSCORP Holdings, Inc., a privately held company (which we refer to below as MERSCORP), the shareholders of which include a number of organizations in the mortgage industry, including Freddie Mac, Fannie Mae, and certain seller/servicers, mortgage insurance companies, and title insurance companies.

Mortgage Electronic Registration Systems, Inc., or MERS, a wholly-owned subsidiary of MERSCORP, has the ability to serve as a nominee for the owner of a mortgage loan and in that role become the mortgagee of record for the loan in local land records. Freddie Mac seller/servicers may choose to use MERS as a nominee, though they are no longer permitted to initiate foreclosures in MERS name with respect to mortgages owned or guaranteed by us. Approximately 41% of the loans Freddie Mac owns or guarantees were registered in MERS name as of December 31, 2012; the beneficial ownership and the ownership of the servicing rights related to those loans are tracked in the MERS System.

MERS has been the subject of numerous lawsuits challenging foreclosures on mortgages for which MERS is mortgagee of record as nominee for the beneficial owner. It is possible that adverse judicial decisions, regulatory proceedings or action, or legislative action related to MERS, could delay or disrupt foreclosure of mortgages that are registered on the MERS System. Negative publicity about MERS could adversely affect the mortgage industry and negatively impact public confidence in the foreclosure process, which could lead to legislative or regulatory action. Because MERS often executes legal documents in connection with foreclosure proceedings, it is possible that investigations by governmental authorities and others into deficiencies in foreclosure practices may negatively impact MERS and the MERS System.

Federal or state legislation or regulatory action could prevent us from using the MERS System for mortgages that we own, guarantee, and securitize, or could create additional requirements for the transfer of mortgages that could affect the process for and costs of acquiring, transferring, servicing, and foreclosing on mortgages. Such legislation or regulatory action

could increase our costs or otherwise adversely affect our business. For example, we could be required to transfer mortgages out of the MERS System. There is also uncertainty regarding the extent to which seller/servicers will choose to use the MERS System in the future.

Failures by MERS to apply prudent and effective process controls and to comply with legal and other requirements in the foreclosure process could pose legal and operational risks for us. We may also face significant reputational risk due to our ties to MERS, as we are a shareholder of MERSCORP and a Freddie Mac officer serves on MERSCORP s board of directors. In April 2011, federal banking regulators and FHFA entered into a consent order with MERSCORP and MERS, which stated that such regulators had identified a number of deficiencies and unsafe or unsound practices by both entities that present financial, operational, compliance, legal and reputational risk to both entities and to participating members, including Freddie Mac. The regulators required MERSCORP and MERS to take certain corrective actions, including simplifying MERSCORP s governance structures. Such changes have resulted in our giving up certain governance rights. For example, while Freddie Mac had the right to appoint a Freddie Mac officer to serve on MERS board of directors in the past, it is not certain if this will continue. It is unclear what the consequent impact of these changes will be on Freddie Mac s relationship with and rights with respect to the two entities.

Weaknesses in internal control over financial reporting and in disclosure controls could result in errors and inadequate disclosures, affect operating results, and cause investors to lose confidence in our reported results.

We face continuing challenges because of deficiencies in our controls. Control deficiencies could result in errors, and lead to inadequate or untimely disclosures, and affect operating results. Control deficiencies could also cause investors to lose confidence in our reported financial results, which may have an adverse effect on the trading price of our securities. For information about our ineffective disclosure controls and one material weakness in internal control over financial reporting, see CONTROLS AND PROCEDURES.

There are a number of factors that may impede our efforts to establish and maintain effective disclosure controls and internal control over financial reporting, including: (a) the nature of the conservatorship and our relationship with FHFA; (b) the complexity of, and significant changes in, our business activities and related GAAP requirements; (c) employee and management turnover; (d) internal reorganizations; (e) uncertainty regarding the sustainability of newly established controls; (f) data quality or servicing-related issues; and (g) the uncertain long-term impacts of the recent housing and economic downturn on the results of our models, which are used for financial accounting and reporting purposes. Disruptive levels of employee turnover could negatively impact our internal control environment, including internal control over financial reporting, and ability to issue timely financial statements. We cannot be certain that our efforts to improve and maintain our internal control over financial reporting will ultimately be successful.

Effectively designed and operated internal control over financial reporting provides only reasonable assurance that material errors in our financial statements will be prevented or detected on a timely basis. A failure to maintain effective internal control over financial reporting increases the risk of a material error in our reported financial results and delay in our financial reporting timeline. Depending on the nature of a control failure and any required remediation, ineffective controls could have a material adverse effect on our business.

We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties.

We make significant use of business and financial models for financial accounting and reporting purposes and to manage risk. We face risk associated with our use of models. First, there is inherent uncertainty associated with model results. Second, we could fail to properly implement, operate, or use our models. Either of these situations could adversely affect our financial statements and our ability to manage risks.

We use market-based information as inputs to our models. However, it can take time for data providers to prepare information, and thus the most recent information may not be available for the preparation of our financial statements. When market conditions change quickly and in unforeseen ways, there is an increased risk that the inputs reflected in our models are not representative of current market conditions.

The severe deterioration of the housing and credit markets beginning in 2008 and, more recently, the extended period of economic weakness and uncertainty have increased the risks associated with our use of models. For example, certain economic events or the implementation of government policies could create increased model uncertainty as models may not fully capture these events, which makes it more difficult to assess model performance and requires a higher degree of management judgment. Our models may not perform as well in situations for which there are few or no recent historical precedents. We have adjusted our models in response to recent events, but there remains considerable uncertainty about model results.

Models are inherently imperfect predictors of actual results. Our models rely on various assumptions that may be incorrect, including that historical experience can be used to predict future results. It has been more difficult to predict the behaviors of the housing and credit capital markets and market participants over the past several years, due to, among other factors: (a) the uncertainty concerning trends in home prices; (b) the lack of historical evidence about the behavior of deeply underwater borrowers, the effect of an extended period of extremely low interest rates on prepayments, and the impact of widespread loan refinancing and modification programs (such as HARP and HAMP), including the potential for the extensive use of principal reductions; and (c) the impact of the concerns about deficiencies in foreclosure documentation practices and related delays in the foreclosure process.

We face the risk that we could fail to implement, operate, or adjust or use our models properly. For example, the assumptions underlying a model could be invalid, or we could apply a model to events or products outside the model s intended use. We may fail to code a model correctly or we could use incorrect data. The complexity and interconnectivity of our models create additional risk regarding the accuracy of model output. While we have processes and controls in place designed to mitigate these risks, there can be no assurances that such processes and controls will be successful. This risk may be elevated to the extent that we have difficulty attracting and retaining employees with the necessary experience and skills.

We have increased our use of third-party models. This may expose us to additional risk, as third-parties typically do not provide us with proprietary information regarding their models. As a result, we may not fully understand the risks associated with the use of such models.

Management often needs to exercise judgment to interpret or adjust modeled results to take into account new information or changes in conditions. The dramatic changes in the housing and credit capital markets in recent years have required frequent adjustments to our models and the application of greater management judgment in the interpretation and adjustment of the results produced by our models. This further increases both the uncertainty about model results and the risk of errors in the implementation, operation, or use of the models.

We face the risk that the valuations, risk metrics, amortization results, loan loss reserve estimations, and security impairment charges produced by our models may be different from actual results, which could adversely affect our business results, cash flows, fair value of net assets, business prospects, and future financial results. For example, our models may under-predict the losses we will suffer in various aspects of our business. Changes in, or replacements of, any of our models or in any of the assumptions, judgments, or estimates used in the models may cause the results generated by the model to be materially different from those generated by the prior model. The different results could cause a revision of previously reported financial condition or results of operations, depending on when the change to the model, assumption, judgment, or estimate is implemented. Any such changes may also cause difficulties in comparisons of the financial condition or results of operations of prior or future periods.

Due to increased uncertainty about model results, we also face increased risk that we could make poor business decisions in areas where model results are an important factor, including loan purchases, management and guarantee fee pricing, asset and liability management, market risk management, and quality-control sampling strategies for loans in our single-family credit guarantee portfolio. Furthermore, any strategies we employ to attempt to manage the risks associated with our use of models may not be effective. See MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES and QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for more information on our use of models.

Changes in our accounting policies, as well as estimates we make, could materially affect how we report our financial condition or results of operations.

Our accounting policies are fundamental to understanding our financial condition and results of operations. Certain of our accounting policies, as well as estimates we make, are critical, as they are both important to the presentation of our financial condition and results of operations and they require management to make particularly difficult, complex or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements. For a description of our critical accounting policies, see MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES.

From time to time, the FASB and the SEC change the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could result in material adverse effects to our net worth and result in or contribute to the need for additional draws under the Purchase Agreement.

FHFA may require us to change our accounting policies, including to align more closely with those of Fannie Mae. FHFA may also require us and Fannie Mae to have the same independent public accounting firm. Either of these events could significantly increase our expenses and require a substantial time commitment of management. For example, in April 2012, FHFA issued an advisory bulletin that could have an effect on our provision for credit losses in the future. The accounting methods outlined in FHFA s advisory bulletin are significantly different from our current methods of accounting for single-family loans that are 180 days or more delinquent. For more information, see BUSINESS Regulation and Supervision *Legislative and Regulatory Developments FHFA Advisory Bulletin*.

See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for more information.

A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation, and cause losses.

Shortcomings or failures in our internal processes, people, or systems could lead to impairment of our liquidity, financial loss, errors in our financial statements, disruption of our business, liability to customers, further legislative or regulatory intervention, or reputational damage. Servicing and loss mitigation processes are currently under considerable stress, which increases the risk that we may experience further operational problems in the future. Our core systems and technical architecture include many legacy systems and applications that lack scalability and flexibility, which increases the risk of system failure. While we are working to enhance the quality of our infrastructure, we have had difficulty in the past conducting large-scale infrastructure improvement projects.

Our business is highly dependent on our ability to process a large number of transactions on a daily basis and manage and analyze significant amounts of information, much of which is provided by third parties. The transactions we process are complex and are subject to various legal, accounting, and regulatory standards. The types of transactions we process and the standards relating to those transactions can change rapidly in response to external events, such as the implementation of government-mandated programs and changes in market conditions. Our financial, accounting, data processing, or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. The information provided by third parties may be incorrect, or we may fail to properly manage or analyze it. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives or change or improve existing business activities.

Our employees could act improperly for their own gain and cause unexpected losses or reputational damage. While we have processes and systems in place designed to prevent and detect fraud, there can be no assurance that such processes and systems will be successful.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearinghouses, or other financial intermediaries we use to facilitate our securities and derivatives transactions. Any such failure or termination could adversely affect our ability to effect transactions, service our customers, and manage our exposure to risk.

Most of our key business activities are conducted in our principal offices located in McLean, Virginia and represent a concentrated risk of people, technology, and facilities. Despite the contingency plans and local recovery facilities we have in place, our ability to conduct business would be adversely impacted by a disruption in the infrastructure that supports our business and the geographical area in which we are located. Potential disruptions may include outages or disruptions to electrical, communications, transportation, or other services we use or that are provided to us. If a disruption occurs and our employees are unable to occupy our offices or communicate with or travel to other locations, our ability to service and interact with our customers or counterparties may deteriorate and we may not be able to successfully implement contingency plans that allow us to carry out critical business functions at an acceptable level.

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This geographical concentration also creates exposure to the risk that a catastrophic event, such as a terrorist event or natural disaster, could result in a significant business disruption and an inability to process transactions through normal business operations. Any measures we take to mitigate this risk may not be sufficient to respond to the full range of catastrophic events that may occur. Freddie Mac management has determined that current business recovery capabilities would not be effective in the event of a catastrophic regional business event and could result in a significant business disruption and inability to process transactions through normal business processes. While management has developed a remediation plan to address the current capability gaps, any measures we take to mitigate this risk may not be sufficient to respond to the full range of catastrophic events that may occur.

Management changes and turnover of key staff could increase our operational and control risks and have a material adverse effect on our ability to do business and our results of operations.

Disruptive levels of turnover among both executives and other employees could lead to operational or control failures, affect our ability to execute ongoing business activities, cause delays and disruptions in the implementation of FHFA-directed and other important business initiatives, delay or disrupt critical technology and other projects, and erode our business, modeling, internal audit, risk management, information security, financial reporting, legal, compliance, and other capabilities. Internal reorganizations could have a similar effect. Any such event could add to the risk of operational or control failures, including a failure in the effective operation of our internal control over financial reporting or our disclosure controls and procedures. Operational or control failures could result in material adverse effects on our financial condition and results of operations. For more information, see MD&A RISK MANAGEMENT Operational Risks and CONTROLS AND PROCEDURES.

We may not be able to protect the security of our systems or the confidentiality of our information from cyber attack and other unauthorized access, disclosure, and disruption.

Our operations rely on the secure receipt, processing, storage, and transmission of confidential and other information in our computer systems and networks and with our business partners. Like many corporations and government entities, from time to time we have been, and likely will continue to be, the target of attempted cyber attacks. Although Freddie Mac devotes significant resources to maintain and regularly upgrade its systems and processes which are designed to protect the security of its computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to Freddie Mac and its customers, there is no assurance that all of Freddie Mac s security measures will provide fully effective security. Our computer systems, software, and networks may be vulnerable to cyber attack, unauthorized access, computer viruses or other malicious code, or other attempts to harm our systems or misuse our confidential information. If one or more of such events were to occur, this potentially could jeopardize or result in the unauthorized disclosure, misuse or corruption of confidential and other information (including information of our customers or our counterparties), or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. This could result in significant losses or reputational damage, adversely affect our relationships with our customers and counterparties, and otherwise harm our business. We could also face regulatory action. We might be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we might be subject to litigation and financial losses that are not fully insured.

We rely on third parties for certain important functions, including some that are critical to financial reporting, our mortgage-related investment activity, and mortgage loan underwriting. Any failures by those vendors could disrupt our business operations.

At times, we outsource certain key functions to external parties, which may include processes related to: (a) functions for trade capture, market risk management analytics, and financial instrument valuation, (b) modeling, (c) custody and recordkeeping for our mortgage-related investments; (d) processing functions for mortgage loan underwriting and servicing; (e) certain services we provide to Treasury in our role as program compliance agent under HAMP; and (f) certain technology infrastructure and operations. We may enter into other key outsourcing relationships in the future. If one or more of these key external parties were not able to perform their functions for a period of time, at an acceptable service level, or for increased volumes, our business operations could be constrained, disrupted, or otherwise negatively impacted. Our use of vendors also exposes us to the risk of a loss of intellectual property or of confidential information or other harm. We may also be exposed to reputational harm, to the extent vendors do not conduct their activities under appropriate ethical standards. Our ability to monitor the activities or performance of vendors may be constrained. Financial or operational difficulties of an outside vendor could also hurt our operations if those difficulties interfere with the vendor s ability to provide services to us.

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Legal and Regulatory Risks

The Dodd-Frank Act and related regulation may adversely affect our business activities and financial results.

The Dodd-Frank Act, which was signed into law on July 21, 2010, significantly changed the regulation of the financial services industry and could affect us in substantial and unforeseeable ways and have an adverse effect on our business, results of operations, financial condition, liquidity, and net worth. For example, the Dodd-Frank Act and related current and future regulatory changes could affect the value of assets that we hold, require us to change certain of our business practices, impose significant additional costs on us, limit the products we offer, require us to increase our regulatory capital, or make it more difficult for us to retain and recruit executives and other employees. We will also face a more complicated regulatory environment due to the Dodd-Frank Act and related current and future regulatory changes, which will increase compliance costs and could divert management attention or other resources. The Dodd-Frank Act and related current and future regulatory changes also significantly affect many aspects of the financial services industry and may significantly change the business practices of our customers and counterparties; it is possible that any such changes will adversely affect our business and financial results.

Implementation of the Dodd-Frank Act is being accomplished through numerous rulemakings, many of which are still in process. The final effects of the legislation will not be known with certainty until these rulemakings are complete. The Dodd-Frank Act also mandates the preparation of studies of a wide range of issues, which could lead to additional legislative or regulatory changes. It could be difficult for us to comply with any future regulatory changes in a timely manner, due to the potential scope and number of such changes, which could limit our operations and expose us to liability.

The long-term impact of the Dodd-Frank Act and related current and future regulatory changes on our business and the financial services industry will depend on a number of factors that are difficult to predict, including our ability to successfully implement any changes to our business, changes in consumer behavior, and our competitors and customers responses to the Dodd-Frank Act and related current and future regulatory changes.

Examples of aspects of the Dodd-Frank Act that may significantly affect us include the following:

- The Financial Stability Oversight Council could designate Freddie Mac as a non-bank financial company to be subject to supervision and regulation by the Federal Reserve. If this occurs, the Federal Reserve will have authority to examine Freddie Mac and we may be required to meet more stringent prudential standards than those applicable to other non-bank financial companies. New prudential standards could include requirements related to risk-based capital and leverage, liquidity, single-counterparty credit limits, overall risk management and risk committees, stress tests, and debt-to-equity limits, among other requirements.

- The Dodd-Frank Act will create new standards and requirements related to asset-backed securities, including requiring securitizers and potentially originators to retain a portion of the underlying loans credit risk. Any such new standards and requirements could modify or remove incentives for financial institutions to sell mortgage loans to us.

- The Dodd-Frank Act and related current and future regulatory changes could have a negative effect on the volume of mortgage originations, and thus adversely affect the number of mortgages available for us to purchase or guarantee.

For more information on the Dodd-Frank Act, see BUSINESS Regulation and Supervision *Legislative and Regulatory Developments*.

Legislative or regulatory actions could adversely affect our business activities and financial results.

In addition to the Dodd-Frank Act discussed in the immediately preceding risk factor, and possible GSE reform discussed in Conservatorship and Related Matters *The future status and role of Freddie Mac is uncertain and could be materially adversely affected by legislative and regulatory action that alters the ownership, structure, and mission of the company*, our business initiatives may be directly adversely affected by other legislative and regulatory actions at the federal, state, and local levels. We could be negatively affected by legislation or regulatory action that changes the foreclosure process of any individual state. For example, various states and local jurisdictions have implemented mediation programs designed to bring servicers and borrowers together to negotiate workout options. These actions could delay the foreclosure process and increase our expenses, including by potentially delaying the final resolution of seriously delinquent mortgage loans and the disposition of non-performing assets. We could also be affected by any legislative or regulatory changes that would expand the responsibilities and liability of servicers and assignees for maintaining vacant properties prior to foreclosure. These laws and regulatory changes could significantly expand mortgage costs and liabilities. We could be affected by legislative or regulatory changes that permit or require principal reductions, including through the bankruptcy process. Our business could also be adversely affected by any modification, reduction, or repeal of the federal income tax deductibility of mortgage interest payments. A number of local governments are considering or may consider using eminent domain to seize mortgage loans and forgive principal on the loans. Such seizures, if they are successful, could result in further losses and write-downs relating to our investment securities and could increase our credit losses.

We are subject to a number of lawsuits challenging our statutory exemption from real estate transfer taxes imposed on the transfer of real property for which we were the grantor or grantee. If we were to become subject to transfer taxes in a large number of states and localities, and if we were required to pay a number of years of past transfer taxes in these states and localities, it would increase our costs going forward and could have an adverse effect on our financial results. For more information, see NOTE 17: LEGAL CONTINGENCIES Lawsuits Involving Real Estate Transfer Taxes.

Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, FHFA required Freddie Mac and Fannie Mae to increase guarantee fees by no less than 10 basis points above the average guarantee fees charged in 2011 on single-family mortgage-backed securities to fund the payroll tax cut that occurred in 2012. If we are found to be out of compliance with this requirement of the Act for two consecutive years, we will be precluded from providing any guarantee for a period to be determined by FHFA, but in no case less than one year.

Legislation or regulatory actions could indirectly adversely affect us to the extent such legislation or actions affect the activities of banks, savings institutions, insurance companies, securities dealers, and other regulated entities that constitute a significant part of our customer base or counterparties, or could indirectly affect us to the extent that they modify industry practices. Legislative or regulatory provisions that remove incentives for these entities to sell mortgage loans to us, purchase our securities or enter into derivatives, or other transactions with us could have a material adverse effect on our business results and financial condition.

The Office of the Comptroller of the Currency, the Federal Reserve and the FDIC (collectively, the Banking Agencies) are in the process of substantially revising capital requirements applicable to banking organizations. In June 2012, the Banking Agencies jointly released three notices of proposed rulemaking that would revise and replace the Banking Agencies current capital rules by implementing the Basel III regulatory reforms as well as certain provisions of the Dodd-Frank Act. In addition, in June 2012, the Banking Agencies jointly announced the finalization of a market risk capital rule applicable to banking organizations with significant trading assets and liabilities. Phase-in of new bank capital requirements is expected to take several years and there is significant uncertainty about how the proposed regulations will be finalized and what effects any new bank capital requirements will have on us. For example, it is possible that any new regulations on the capital treatment of mortgage servicing rights, risk-based capital requirements for credit risk, and liquidity treatment of our debt and guarantee obligations could adversely affect our business results and financial condition.

We may make certain changes to our business in an attempt to meet our housing goals and subgoals.

We may make adjustments to our mortgage loan sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including changes to our underwriting standards and the expanded use of targeted initiatives to reach underserved populations. For example, we may purchase loans that offer lower expected returns on our investment and potentially increase our exposure to credit losses. Doing so could cause us to forgo other purchase opportunities that we would expect to be more profitable. If our current efforts to meet the goals and subgoals prove to be insufficient, we may need to take additional steps that could potentially adversely affect our profitability. FHFA has not yet published a final rule with respect to our duty to serve underserved markets. However, it is possible that we could also make changes to our business in the future in response to this duty. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition.

We are involved in legal proceedings and governmental investigations that could result in the payment of substantial damages or otherwise harm our business.

We are a party to various legal actions. In addition, certain of our former directors and officers are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings. The defense of these or any future claims or proceedings could divert management s attention and resources from the needs of the business. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations, proceedings, or examinations. Any legal proceeding, governmental investigation, or IRS examination issue, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and

other expenses. Furthermore, developments in, outcomes of, impacts of, and costs, expenses, settlements, and judgments related to these legal proceedings and governmental investigations and examinations may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. We are also cooperating with other investigations. These proceedings could divert management s attention or other resources. See LEGAL PROCEEDINGS and NOTE 17: LEGAL CONTINGENCIES for information about our pending legal proceedings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal offices consist of five office buildings in McLean, Virginia. We own four of the office buildings, comprising approximately 1.3 million square feet. We occupy the fifth building, comprising approximately 200,000 square feet, under a lease from a third party.

ITEM 3. LEGAL PROCEEDINGS

We are involved as a party to a variety of legal proceedings arising from time to time in the ordinary course of business. See NOTE 17: LEGAL CONTINGENCIES for more information regarding our involvement as a party to various legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED

STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock, par value $0.00 per share, trades on the OTCQB Marketplace, operated by the OTC Markets Group Inc., under the ticker symbol FMCC. As of February 15, 2013, there were 650,038,674 shares of our common stock outstanding.

The table below sets forth the high and low bid information for our common stock on the OTCQB Marketplace for the indicated periods and reflects inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

T able 7 Quarterly Common Stock Information

	High	Low
2012 Quarter Ended		
December 31	$ 0.32	$ 0.24
September 30	0.33	0.14
June 30	0.33	0.24
March 31	0.42	0.21
2011 Quarter Ended		
December 31	$ 0.27	$ 0.18
September 30	0.41	0.24
June 30	0.54	0.34
March 31	1.00	0.13

Holders

As of February 15, 2013, we had 2,023 common stockholders of record.

Dividends and Dividend Restrictions

We did not pay any cash dividends on our common stock during 2012 or 2011.

Our payment of dividends is subject to the following restrictions:

Restrictions Relating to the Conservatorship

As Conservator, FHFA announced on September 7, 2008 that we would not pay any dividends on Freddie Mac s common stock or on any series of Freddie Mac s preferred stock (other than the senior preferred stock). FHFA has instructed our Board of Directors that it should consult with and obtain the approval of FHFA before taking actions involving dividends. In addition, FHFA has adopted a regulation prohibiting us from making capital distributions during conservatorship, except as authorized by the director of FHFA.

Restrictions Under the Purchase Agreement

The Purchase Agreement prohibits us and any of our subsidiaries from declaring or paying any dividends on Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant) without the prior written consent of Treasury.

Restrictions Under the GSE Act

Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet applicable capital requirements. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition. If FHFA classifies us as undercapitalized, we are not permitted to make a capital distribution that would result in our being reclassified as significantly undercapitalized or critically undercapitalized. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment; the Director may approve a capital distribution only if the Director determines that the distribution will enhance the ability of the company to meet required capital levels promptly, will contribute to the long-term financial safety-and-soundness of the company, or is otherwise in the public interest. Our capital requirements have been suspended during conservatorship.

Restrictions Under our Charter

Without regard to our capital classification, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level. As noted above, our capital requirements have been suspended during conservatorship.

Restrictions Relating to Subordinated Debt

During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock. Our qualifying subordinated debt provides for the deferral of the payment of interest for up to five years if either: (a) our core capital is below 125% of our critical capital requirement; or (b) our core capital is below our statutory minimum capital requirement, and the Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 306(c) of our charter to purchase our debt obligations. FHFA has directed us to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable. As noted above, our capital requirements have been suspended during conservatorship.

Restrictions Relating to Preferred Stock

Payment of dividends on our common stock is also subject to the prior payment of dividends on our 24 series of preferred stock and one series of senior preferred stock, representing an aggregate of 464,170,000 shares and 1,000,000 shares, respectively, outstanding as of December 31, 2012. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is subject to the prior payment of dividends on the senior preferred stock. We paid dividends on the senior preferred stock during 2012 at the direction of the Conservator, as discussed in MD&A

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LIQUIDITY AND CAPITAL RESOURCES Liquidity *Dividend Obligation on the Senior Preferred Stock* and NOTE 11: STOCKHOLDERS EQUITY (DEFICIT) Dividends Declared During 2012. We did not declare or pay dividends on any other series of preferred stock outstanding in 2012.

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 these plans to employees and members of our Board of Directors. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations, or other equity interests without Treasury s prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.

No stock options were exercised during the three months ended December 31, 2012, and all remaining restrictions on restricted stock units lapsed during the first quarter of 2012.

See NOTE 11: STOCKHOLDERS EQUITY (DEFICIT) for more information.

Issuer Purchases of Equity Securities

We did not repurchase any of our common or preferred stock during 2012. Additionally, we do not currently have any outstanding authorizations to repurchase common or preferred stock. Under the Purchase Agreement, we cannot repurchase our common or preferred stock without Treasury s prior consent, and we may only purchase or redeem the senior preferred stock in certain limited circumstances set forth in the Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock.

Transfer Agent and Registrar

Computershare Trust Company, N.A.

P.O. Box 43078

Providence, RI 02940-3078

Telephone: 781-575-2879

http://www.computershare.com/investors

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IT EM 6. SELECTED FINANCIAL DATA[1]

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

	At or For The Year Ended December 31,				
	2012	2011	2010	2009	2008
	(dollars in millions, except share-related amounts)				
Statements of Comprehensive Income Data					
Net interest income	$ 17,611	$ 18,397	$ 16,856	$ 17,073	$ 6,796
Provision for credit losses	(1,890)	(10,702)	(17,218)	(29,530)	(16,432)
Non-interest income (loss)	(4,083)	(10,878)	(11,588)	(2,732)	(29,175)
Non-interest expense	(2,193)	(2,483)	(2,932)	(7,195)	(5,753)
Net income (loss) attributable to Freddie Mac	10,982	(5,266)	(14,025)	(21,553)	(50,119)
Total comprehensive income (loss) attributable to Freddie Mac	16,039	(1,230)	282	(2,913)	(70,483)
Net loss attributable to common stockholders[2]	(2,074)	(11,764)	(19,774)	(25,658)	(50,795)
Net loss per common share basic and diluted	(0.64)	(3.63)	(6.09)	(7.89)	(34.60)
Cash dividends per common share					0.50
Weighted average common shares outstanding (in thousands) basic and diluted[3]	3,240,028	3,244,896	3,249,369	3,253,836	1,468,062
Balance Sheets Data					
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$ 1,495,932	$ 1,564,131	$ 1,646,172	$	$
Total assets	1,989,856	2,147,216	2,261,780	841,784	850,963
Debt securities of consolidated trusts held by third parties	1,419,524	1,471,437	1,528,648		
Other debt	547,518	660,546	713,940	780,604	843,021
All other liabilities	13,987	15,379	19,593	56,808	38,576
Total Freddie Mac stockholders equity (deficit)	8,827	(146)	(401)	4,278	(30,731)
Portfolio Balances[4]					
Mortgage-related investments portfolio	$ 557,544	$ 653,313	$ 696,874	$ 755,272	$ 804,762
Total Freddie Mac mortgage-related securities[5]	1,562,040	1,624,684	1,712,918	1,854,813	1,807,553
Total mortgage portfolio[6]	1,956,276	2,075,394	2,164,859	2,250,539	2,207,476
Non-performing assets[7]	135,677	129,152	125,405	104,984	46,620
Ratios[8]					
Return on average assets[9]	0.5%	(0.2)%	(0.6)%	(2.5)%	(6.1)%
Non-performing assets ratio[10]	7.5	6.8	6.4	5.2	2.4
Equity to assets ratio[11]	0.2		(0.2)	(1.6)	(0.2)

(1) See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for information regarding our accounting policies and the impact of new accounting policies on our consolidated financial statements. Effective January 1, 2010, we adopted amendments to the accounting guidance for transfers of financial assets and the consolidation of VIEs. This had a significant impact on our consolidated financial statements. Consequently, certain of the line items in our consolidated financial statements for 2008 and 2009 are not comparable with those of more recent years.
(2) For a discussion of how the change in the manner in which the senior preferred stock dividend is determined affects net income (loss) attributable to common stockholders beginning in the fourth quarter of 2012, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Earnings Per Common Share.
(3) Includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement, because it is unconditionally exercisable by the holder at a cost of $0.00001 per share.
(4) Represents the UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(5) See Table 35 Freddie Mac Mortgage-Related Securities for the composition of this line item.
(6) See Table 16 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios for the composition of our total mortgage portfolio.
(7) See Table 55 Non-Performing Assets for a description of our non-performing assets.
(8) The dividend payout ratio on common stock is not presented because: (a) the amount of cash dividends per common share is zero for all periods presented after 2008; and (b) we reported a net loss attributable to common stockholders in 2008. The return on common equity ratio is not presented because the simple average of the beginning and ending balances of total Freddie Mac stockholders equity (deficit), net of preferred stock (at redemption value) is less than zero for all periods presented.
(9) Ratio computed as net income (loss) attributable to Freddie Mac divided by the simple average of the beginning and ending balances of total assets.
(10) Ratio computed as non-performing assets divided by the ending UPB of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities.

(11) Ratio computed as the simple average of the beginning and ending balances of total Freddie Mac stockholders equity (deficit) divided by the simple average of the beginning and ending balances of total assets.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

You should read this MD&A in conjunction with BUSINESS Executive Summary and our consolidated financial statements and related notes.

MORTGAGE MARKET AND ECONOMIC CONDITIONS, AND OUTLOOK

Mortgage Market and Economic Conditions

Overview

The U.S. real gross domestic product rose by 1.5% during 2012, compared to 2.0% in 2011, according to the Bureau of Economic Analysis. The national unemployment rate was 7.8% in December 2012, compared to 8.5% in December 2011, based on data from the U.S. Bureau of Labor Statistics. In the data underlying the unemployment rate, an average of approximately 181,000 monthly net new jobs (non-farm) were added to the economy during 2012, which shows evidence of a slow, but steady positive trend for the economy and the labor market.

Table 8 Mortgage Market Indicators

	Year Ended December 31,		
	2012	2011	2010
Home sale units (in thousands)(1)	5,027	4,566	4,513
Home price change(2)	6.4%	(3.7)%	(5.4)%
Single-family originations (in billions)(3)	$ 1,835	$ 1,470	$ 1,630
ARM share(4)	11%	12%	10%
Refinance share(5)	84%	79%	80%
U.S. single-family mortgage debt outstanding (in billions)(6)	$ 9,926	$ 10,158	$ 10,413
U.S. multifamily mortgage debt outstanding (in billions)(6)	$ 847	$ 830	$ 835

(1) Consists of sales of new and existing homes in the U.S. Source: National Association of Realtors news release dated February 21, 2013 (sales of existing homes) and U.S. Census Bureau news release dated January 25, 2013 (sales of new homes).
(2) Calculated internally using estimates of changes in single-family home prices by state, which are weighted using the property values underlying our single-family credit guarantee portfolio to obtain a national index. The rate for each year presented incorporates property value information on loans purchased by both Freddie Mac and Fannie Mae through December 31, 2012 and the percentage change will be subject to revision based on more recent purchase information. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions than our own.
(3) Source: Inside Mortgage Finance estimates of originations of single-family first-and second liens dated February 1, 2013.
(4) ARM share of the dollar amount of total mortgage applications. Source: Mortgage Bankers Association s Mortgage Applications Survey. Data reflect annual average of weekly figures.
(5) Refinance share of the number of conventional mortgage applications. Source: Mortgage Bankers Association s Mortgage Applications Survey. Data reflect annual average of weekly figures.
(6) Source: Federal Flow of Funds Accounts of the United States dated December 6, 2012. The outstanding amounts for 2012 presented above reflect balances as of September 30, 2012.

Single-Family Housing Market

The single-family housing market showed significant improvement in 2012 despite continued weakness in the employment market and a significant inventory of seriously delinquent loans and REO properties in the market.

Based on data from the National Association of Realtors, sales of existing homes in 2012 were 4.66 million, increasing 9.4% from 4.26 million in 2011. Based on data from the U.S. Census Bureau and HUD, sales of new homes in 2012 were 367,000, increasing 19.9% from 306,000 in

2011. Home prices increased during 2012, with our nationwide index registering approximately a 6.4% increase from December 2011 through December 2012 and a 0.4% increase from September 2012 to December 2012 without seasonal adjustment. The increase in national home prices during 2012 represents the first such full-year increase since 2006. These estimates were based on our own price index of mortgage loans on one-family homes funded by us or Fannie Mae. Other indices of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions than our own.

The serious delinquency rate of our single-family loans declined during 2012, but remained near historically high levels. The Mortgage Bankers Association reported in its National Delinquency Survey that serious delinquency rates on all single-family loans in the survey declined to 6.8% as of December 31, 2012, down from 7.7% at year-end 2011. Residential loan performance has been generally worse in areas with higher unemployment rates and where declines in property values have been more significant during recent years. In its survey, the Mortgage Bankers Association presents delinquency rates both

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for mortgages it classifies as subprime and for mortgages it classifies as prime conventional. The delinquency rates of subprime mortgages are markedly higher than those of prime conventional loan products in the Mortgage Bankers Association survey; however, the delinquency experience in prime conventional mortgage loans during the last five years has been significantly worse than in any year since the 1930s.

Based on data from the Federal Reserve s Flow of Funds Accounts, there was a sustained and significant increase in single-family mortgage debt outstanding from 2001 to 2006. This increase in mortgage debt was driven by increasing sales of new and existing single-family homes during this same period. As reported by FHFA in its Conservator s Report on the Enterprises Financial Condition, dated June 13, 2011, the market share of mortgage-backed securities issued by the GSEs and Ginnie Mae declined significantly from 2001 to 2006 while the market share of non-GSE securities peaked. Non-traditional mortgage types, such as interest-only, Alt-A, and option ARMs, also increased in market share during these years, which we believe introduced greater risk into the market. We believe these shifts in market activity, in part, help explain the significant differentiation in delinquency performance of securitized non-GSE and GSE mortgage loans as discussed below.

Based on the National Delinquency Survey s data, we estimate that we owned or guaranteed approximately 23% of the outstanding single-family mortgages in the U.S. at December 31, 2012, based on number of loans. At December 31, 2012, we held or guaranteed approximately 353,000 seriously delinquent single-family loans, representing approximately 11% of the seriously delinquent single-family mortgages in the market as of that date. We estimate that loans backing non-GSE securities comprised approximately 8% of the single-family mortgages in the U.S. and represented approximately 26% of the seriously delinquent single-family mortgages at September 30, 2012 (based on the latest information available). As of December 31, 2012, we held non-GSE single-family mortgage-related securities with a UPB of $71.2 billion as investments.

The foreclosure process has lengthened significantly in recent years, due to a number of factors, but particularly in states that require a judicial foreclosure process. A number of legislative and regulatory developments in recent periods have resulted in significant changes to mortgage servicing and foreclosure practices that could adversely affect our business. For information on these matters, see RISK FACTORS Operational Risks *We have incurred, and will continue to incur, expenses and we may otherwise be adversely affected by delays and deficiencies in the foreclosure process* and BUSINESS *Legislative and Regulatory Developments* Developments Concerning Single-Family Servicing Practices.

Multifamily Housing Market

Multifamily market fundamentals continued to improve on a national level during 2012, although at a slower pace as compared to 2011. As reported by REIS, Inc., the national apartment vacancy rate was 4.5% and 5.2% at the end of 2012 and 2011, respectively, and remained at the lowest levels since 2001. The multifamily sector continued to experience strong investor interest and continued to outperform other commercial real estate sectors. Vacancy rates and effective rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property and these factors significantly influence those cash flows. We believe positive market fundamentals, such as low vacancy rates and increasing effective rents, as well as optimism about demand for multifamily housing have contributed to improvement in property values in most markets during 2012.

Outlook

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

Overview

We continue to expect key macroeconomic drivers of the economy, such as income growth, employment, and inflation, to affect the performance of the housing and mortgage markets in 2013. Since we expect that economic growth will continue and mortgage interest rates will remain low in 2013, we believe that housing affordability will remain relatively high in 2013 for potential home buyers. We also expect that the volume of home sales will likely increase in 2013, but still remain relatively low compared to historical levels. Important factors that we believe will continue to negatively affect single-family housing demand are the relatively high unemployment rate and relatively low consumer confidence measures. Consumer

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confidence measures, while up from recession lows of 2009, remain below long-term averages and suggest that households will likely continue to be cautious in home buying. We also expect to continue to experience high levels of refinancing activity in the near term, due to the impact of the expanded HARP initiative as well as the historically low interest rates on fixed-rate single-family mortgages. For information on the HARP initiative, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program*.

While home prices remained at significantly lower levels from their peak in most areas during 2012, declines in the market s inventory of vacant housing have supported stabilization in home prices in a number of metropolitan areas. However, to the extent a large volume of loans complete the foreclosure process in a short period, the resulting increase in the market s inventory of homes for sale could have a negative effect on home prices. Our expectation is that national average home prices will experience a modest increase in 2013.

Single-Family

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

- REO disposition severity ratios and losses on short sale transactions to remain high. However, our recovery rates have been positively impacted by recent improvements in home prices and home sales, as well as, to a lesser extent, by recent changes in our process for determining our estimate of market values for properties, which we use to determine the list price for our REO;
- the amount of non-performing assets and the volume of our loan workouts to remain high;
- continued high volume of loans in the foreclosure process as well as prolonged foreclosure timelines; and
- continued high rates of rescission and reduced payments for mortgage insurance coverage compared to periods before 2008.

Multifamily

During 2012, we continued to serve as a stable source of liquidity and continued our support of the multifamily market and the nation s renters, as evidenced by our $28.8 billion of multifamily loan purchases and issuance of other guarantee commitments in 2012, which provided financing for more than 1,600 properties amounting to more than 435,000 apartment units. The majority of these apartments were affordable to low and moderate income families. We expect similar purchase and guarantee volumes for 2013, as demand for multifamily financing is expected to remain strong.

We expect continued strength in the multifamily market during 2013. As a result of the positive market fundamentals and continuing strong portfolio performance, we expect our credit losses and delinquency rates to remain low in 2013. We believe that the supply of multifamily housing will remain relatively low in the near term and that new construction, while increasing, will continue to be constrained by the availability of financing and rising construction costs.

CONSOLIDATED RESULTS OF OPERATIONS

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

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Table 9 Summary Consolidated Statements of Comprehensive Income

	Year Ended December 31, 2012	2011	2010
	(in millions)		
Net interest income	$ 17,611	$ 18,397	$ 16,856
Provision for credit losses	(1,890)	(10,702)	(17,218)
Net interest income (loss) after provision for credit losses	15,721	7,695	(362)
Non-interest income (loss):			
Gains (losses) on extinguishment of debt securities of consolidated trusts	(58)	(219)	(164)
Gains (losses) on retirement of other debt	(77)	44	(219)
Gains (losses) on debt recorded at fair value	16	91	580
Derivative gains (losses)	(2,448)	(9,752)	(8,085)
Impairment of available-for-sale securities:			
Total other-than-temporary impairment of available-for-sale securities	(1,236)	(2,101)	(1,778)
Portion of other-than-temporary impairment recognized in AOCI	(932)	(200)	(2,530)
Net impairment of available-for-sale securities recognized in earnings	(2,168)	(2,301)	(4,308)
Other gains (losses) on investment securities recognized in earnings	(1,522)	(896)	(1,252)
Other income	2,174	2,155	1,860
Total non-interest income (loss)	(4,083)	(10,878)	(11,588)
Non-interest expense:			
Administrative expenses	(1,561)	(1,506)	(1,597)
REO operations expense	(59)	(585)	(673)
Other expenses	(573)	(392)	(662)
Total non-interest expense	(2,193)	(2,483)	(2,932)
Income (loss) before income tax benefit	9,445	(5,666)	(14,882)
Income tax benefit	1,537	400	856
Net income (loss)	10,982	(5,266)	(14,026)
Other comprehensive income (loss), net of taxes and reclassification adjustments:			
Changes in unrealized gains (losses) related to available-for-sale securities	4,769	3,465	13,621
Changes in unrealized gains (losses) related to cash flow hedge relationships	414	509	673
Changes in defined benefit plans	(126)	62	13
Total other comprehensive income (loss), net of taxes and reclassification adjustments	5,057	4,036	14,307
Comprehensive income (loss)	$ 16,039	$ (1,230)	$ 281
Less: Comprehensive loss attributable to noncontrolling interest			1
Total comprehensive income (loss) attributable to Freddie Mac	$ 16,039	$ (1,230)	$ 282

Net Interest Income

The table below summarizes our net interest income and net interest yield and provides an attribution of changes in annual results to changes in interest rates or changes in volumes of our interest-earning assets and interest-bearing liabilities. Average balance sheet information is presented because we believe end-of-period balances are not representative of activity throughout the periods presented. For most components of the average balances, a daily weighted average balance was calculated for the period. When daily average balance information was not available, a simple monthly average balance was calculated.

Table 10 Net Interest Income/Yield, Average Balance, and Rate/Volume Analysis

	Year Ended December 31,								
	2012			2011			2010		
	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate
	(dollars in millions)								
Interest-earning assets:									
Cash and cash equivalents	$ 35,476	$ 20	0.06%	$ 45,381	$ 34	0.07%	$ 48,803	$ 77	0.16%
Federal funds sold and securities purchased under agreements to resell	38,944	66	0.17	27,557	33	0.12	46,739	79	0.17
Mortgage-related securities:									
Mortgage-related securities(3)	357,197	15,853	4.44	442,284	20,357	4.60	526,748	25,366	4.82
Extinguishment of PCs held by Freddie Mac	(119,181)	(5,328)	(4.47)	(162,600)	(7,665)	(4.71)	(213,411)	(11,182)	(5.24)
Total mortgage-related securities, net	238,016	10,525	4.42	279,684	12,692	4.54	313,337	14,184	4.53
Non-mortgage-related securities(3)	23,763	58	0.25	24,587	99	0.40	27,995	191	0.68
Mortgage loans held by consolidated trusts(4)(5)	1,529,213	65,089	4.26	1,627,956	77,158	4.74	1,722,387	86,698	5.03
Unsecuritized mortgage loans(4)(6)	237,942	8,960	3.77	244,134	9,124	3.74	206,116	8,727	4.23
Total interest-earning assets	$ 2,103,354	$ 84,718	4.03	$ 2,249,299	$ 99,140	4.41	$ 2,365,377	$ 109,956	4.65
Interest-bearing liabilities:									
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 1,552,207	$ (61,437)	(3.96)	$ 1,643,939	$ (74,784)	(4.55)	$ 1,738,330	$ (86,398)	(4.97)
Extinguishment of PCs held by Freddie Mac	(119,181)	5,328	4.47	(162,600)	7,665	4.71	(213,411)	11,182	5.24
Total debt securities of consolidated trusts held by third parties	1,433,026	(56,109)	(3.92)	1,481,339	(67,119)	(4.53)	1,524,919	(75,216)	(4.93)
Other debt:									
Short-term debt	129,504	(176)	(0.14)	186,304	(331)	(0.18)	219,654	(552)	(0.25)
Long-term debt(7)	463,308	(10,217)	(2.21)	503,842	(12,538)	(2.49)	543,306	(16,363)	(3.01)
Total other debt	592,812	(10,393)	(1.75)	690,146	(12,869)	(1.86)	762,960	(16,915)	(2.22)
Total interest-bearing liabilities	2,025,838	(66,502)	(3.28)	2,171,485	(79,988)	(3.68)	2,287,879	(92,131)	(4.03)
Expense related to derivatives(8)		(605)	(0.03)		(755)	(0.04)		(969)	(0.04)
Impact of net non-interest-bearing funding	77,516		0.12	77,814		0.13	77,498		0.13
Total funding of interest-earning assets	$ 2,103,354	$ (67,107)	(3.19)	$ 2,249,299	$ (80,743)	(3.59)	$ 2,365,377	$ (93,100)	(3.94)
Net interest income/yield		$ 17,611	0.84		$ 18,397	0.82		$ 16,856	0.71

	2012 vs. 2011 Variance Due to			2011 vs. 2010 Variance Due to		
	Rate(9)	Volume(9)	Total Change	Rate(9)	Volume(9)	Total Change
	(in millions)					
Interest-earning assets:						
Cash and cash equivalents	$ (2)	$ (12)	$ (14)	$ (33)	$ (10)	$ (43)
Federal funds sold and securities purchased under agreements to resell	16	17	33	(19)	(27)	(46)
Mortgage-related securities:						
Mortgage-related securities (3)	(706)	(3,798)	(4,504)	(1,082)	(3,927)	(5,009)
Extinguishment of PCs held by Freddie Mac	379	1,958	2,337	1,042	2,475	3,517

Total mortgage-related securities, net	(327)	(1,840)	(2,167)	(40)	(1,452)	(1,492)
Non-mortgage-related securities[3]	(38)	(3)	(41)	(71)	(21)	(92)
Mortgage loans held by consolidated trusts[4][5]	(7,566)	(4,503)	(12,069)	(4,921)	(4,619)	(9,540)
Unsecuritized mortgage loans [4][6]	69	(233)	(164)	(1,097)	1,494	397
Total interest-earning assets	$ (7,848)	$ (6,574)	$ (14,422)	$ (6,181)	$ (4,635)	$ (10,816)
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 9,337	$ 4,010	$ 13,347	$ 7,077	$ 4,537	$ 11,614
Extinguishment of PCs held by Freddie Mac	(379)	(1,958)	(2,337)	(1,042)	(2,475)	(3,517)
Total debt securities of consolidated trusts held by third parties	8,958	2,052	11,010	6,035	2,062	8,097
Other debt:						
Short-term debt	67	88	155	145	76	221
Long-term debt[7]	1,360	961	2,321	2,697	1,128	3,825
Total other debt	1,427	1,049	2,476	2,842	1,204	4,046
Total interest-bearing liabilities	10,385	3,101	13,486	8,877	3,266	12,143
Expense related to derivatives[8]	150		150	214		214
Total funding of interest-earning assets	$ 10,535	$ 3,101	$ 13,636	$ 9,091	$ 3,266	$ 12,357
Net interest income	$ 2,687	$ (3,473)	$ (786)	$ 2,910	$ (1,369)	$ 1,541

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) We calculate average balances based on amortized cost.
(3) Interest income (expense) includes accretion of the portion of impairment charges recognized in earnings where we expect a significant improvement in cash flows.
(4) Non-performing loans, where interest income is generally recognized when collected, are included in average balances.
(5) Loan fees, primarily consisting of delivery fees, included in interest income for mortgage loans held by consolidated trusts were $929 million, $405 million, and $127 million for 2012, 2011, and 2010, respectively.
(6) Loan fees, primarily consisting of delivery fees and multifamily prepayment fees, included in unsecuritized mortgage loan interest income were $446 million, $223 million, and $130 million for 2012, 2011, and 2010, respectively.
(7) Includes current portion of long-term debt.
(8) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt affects earnings.
(9) Rate and volume changes are calculated on the individual financial statement line item level. Combined rate/volume changes were allocated to the individual rate and volume change based on their relative size.

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The table below summarizes components of our net interest income.

Table 11 Net Interest Income

	Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Contractual amounts of net interest income[1]	$ 16,162	$ 18,448	$ 17,743
Amortization income (expense), net:[2]			
Accretion of impairments on available-for-sale securities[3]	214	115	392
Asset-related amortization income (expense), net:			
Mortgage loans held by consolidated trusts	(4,536)	(1,942)	(712)
Unsecuritized mortgage loans	156	182	311
Mortgage-related securities	(59)	(239)	(272)
Other assets	(281)	(122)	(23)
Asset-related amortization expense, net	(4,720)	(2,121)	(696)
Debt-related amortization income (expense), net:			
Debt securities of consolidated trusts	7,112	3,383	1,152
Other long-term debt securities	(552)	(673)	(766)
Debt-related amortization income, net	6,560	2,710	386
Total amortization income, net	2,054	704	82
Expense related to derivatives[4]	(605)	(755)	(969)
Net interest income	$ 17,611	$ 18,397	$ 16,856

(1) Includes the reversal of interest income accrued, net of interest received on a cash basis, related to mortgage loans that are on non-accrual status.
(2) Represents amortization related to premiums, discounts, deferred fees and other adjustments to the carrying value of our financial instruments, and the reclassification of previously deferred balances from AOCI for certain derivatives in closed cash flow hedge relationships related to individual debt issuances and mortgage purchase transactions.
(3) The portion of the impairment charges recognized in earnings where we expect a significant improvement in cash flows is recognized as net interest income.
(4) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt affects earnings.

Net interest income decreased by $786 million to $17.6 billion for 2012 compared to $18.4 billion for 2011. The decrease in net interest income was primarily due to the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations. Net interest yield increased by two basis points to 84 basis points for 2012 compared to 82 basis points for 2011. The increase in net interest yield was primarily due to the benefit of lower funding costs from the replacement of debt at lower rates, partially offset by the negative impact of the reduction in the higher-yielding mortgage-related assets.

Net interest income and net interest yield increased $1.5 billion and 11 basis points, respectively, during 2011, compared to 2010. The primary driver of the increases was lower funding costs from the replacement of debt at lower rates, partially offset by the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations.

We recognize interest income on non-performing loans that have been placed on non-accrual status only when cash payments are received. We refer to the interest income that we do not recognize as foregone interest income (i.e., interest income we would have recorded if the loans had been current in accordance with their original terms). Foregone interest income and reversals of previously recognized interest income, net of cash received, related to non-performing loans was $3.1 billion, $4.0 billion and $4.7 billion during 2012, 2011, and 2010, respectively. These amounts have declined since 2010 primarily because of the reduction in the volume of non-performing loans on non-accrual status.

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

The objectives set for us under our charter and conservatorship, restrictions in the Purchase Agreement and restrictions imposed by FHFA have negatively impacted, and will continue to negatively impact, our net interest income. For example, our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the portfolio reaches $250 billion. This decline in asset balances will cause a reduction in our interest income over time. For more information on the various restrictions and limitations on our investment activity and our mortgage-related investments portfolio, see BUSINESS Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio*. However, we had two across-the-board increases in guarantee fees during 2012, which increased our net interest income in 2012 and will positively affect it in the future. For additional information on these increases in guarantee fees, see BUSINESS Our Business Segments *Single-Family Guarantee Segment*.

Provision for Credit Losses

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

Our provision for credit losses declined to $1.9 billion in 2012 compared to $10.7 billion in 2011. The significant reduction in provision for credit losses in 2012 primarily reflects declines in the volume of newly delinquent loans (largely due to a decline in the portion of our single-family credit guarantee portfolio originated in 2005 through 2008), and lower estimates of incurred loss due to the positive impact of an increase in national home prices. Assuming that all other factors remain the same, an increase in home prices can reduce the likelihood that loans will default and may also reduce the amount of credit loss on the loans that do default. The provision for credit losses declined to $10.7 billion in 2011 compared to $17.2 billion in 2010, and reflected a decline in the rate at which single-family loans were expected to transition into serious delinquency or were expected to be modified, but was partially offset by our lower expectations for mortgage insurance recoveries, reflecting the further deterioration in the financial condition of certain counterparties.

During 2012, our charge-offs, net of recoveries for single-family loans, exceeded the amount of our provision for credit losses. Our charges-offs in 2012 remained elevated, but reflect continued suppression of loan and collateral resolution activity due to the length of the foreclosure process. We believe the level of our charge-offs will continue to remain elevated for 2013.

The total number of single-family seriously delinquent loans declined approximately 15% and 10% during 2012 and 2011, respectively. However, our serious delinquency rates remain high compared to the rates we experienced in years prior to 2009. We also continued to experience a high volume of completed loan modifications classified as TDRs during 2012. As of December 31, 2012 and 2011, the UPB of our single-family non-performing loans was $128.6 billion and $120.5 billion, respectively. These amounts include $65.8 billion and $44.4 billion, respectively, of single-family TDRs that are less than three months past due. However, modified loans that have been classified as TDRs remain categorized as non-performing throughout the remaining life of the loan regardless of the payment status. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* for further information on our single-family credit guarantee portfolio, including credit performance, serious delinquency rates, charge-offs, our loan loss reserves balance, and our non-performing assets.

Since the beginning of 2008, on an aggregate basis, we have recorded provision for credit losses associated with single-family loans of approximately $75.2 billion, and have recorded an additional $3.9 billion in losses on loans purchased from our PCs, net of recoveries. The majority of these losses are associated with loans originated in 2005 through 2008. While loans originated in 2005 through 2008 will give rise to additional credit losses that have not yet been incurred, and thus have not been provisioned for, we believe that, as of December 31, 2012, we have reserved for or charged-off the majority of the total expected credit losses for these loans. Nevertheless, various factors, such as continued high unemployment rates or future declines in home prices, could require us to provide for losses on these loans beyond our current expectations. See Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio for certain quarterly credit statistics for our single-family credit guarantee portfolio.

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

We recognized a benefit for credit losses associated with our multifamily mortgage portfolio of $123 million and $196 million for 2012 and 2011, respectively, compared to a provision for credit losses of $99 million in 2010. Our loan loss reserves associated with our multifamily mortgage portfolio were $382 million, $545 million, and $828 million as of December 31, 2012, 2011, and 2010, respectively. The decline in loan loss reserves for multifamily loans in 2012 and 2011 was primarily driven by an improvement in the expected performance of the underlying loans.

Non-Interest Income (Loss)

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

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish a pro rata portion of the outstanding debt securities of the related consolidated trusts. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to extinguish the debt security differs from its carrying value. For the years ended December 31, 2012 and 2011, we extinguished debt securities of consolidated trusts with a UPB of $13.5 billion and $75.4 billion, respectively (representing our purchase of single-family PCs with a corresponding UPB amount). The decrease in purchases of single-family PCs in 2012 was due to a decrease in the volume of dollar roll transactions to support the market and pricing of our single-family PCs. Losses on extinguishment of these debt securities of consolidated trusts were $58 million and $219 million for the years ended December 31, 2012 and 2011, respectively. The losses during 2012 and 2011 were primarily due to the repurchase of our debt securities of consolidated trusts at higher net purchase premiums driven by a decline in interest rates during the periods. See Table 25 Mortgage-Related Securities Purchase Activity for additional information regarding purchases of mortgage-related securities, including those issued by consolidated PC trusts.

Gains (Losses) on Retirement of Other Debt

We repurchase or call our outstanding other debt securities from time to time when we believe it is economically beneficial and to manage the mix of liabilities funding our assets. When we repurchase or call outstanding debt securities, or holders put outstanding debt securities to us, we recognize a gain or loss to the extent the amount paid to redeem the debt security differs from its carrying value. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for more information regarding our accounting policies related to debt retirements.

Gains (losses) on retirement of other debt were $(77) million, $44 million, and $(219) million during the years ended December 31, 2012, 2011, and 2010, respectively. We recognized losses on the retirement of other debt during 2012 primarily due to write-offs of unamortized deferred issuance costs related to calls of other debt securities. We recognized gains on the retirement of other debt during 2011 primarily due to the repurchase of other debt securities at less than par. We recognized losses on the retirement of other debt during 2010 primarily due to write-offs of unamortized deferred issuance costs related to calls of other debt securities. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity *Other Debt Securities* *Other Debt Retirement Activities*.

Gains (Losses) on Debt Recorded at Fair Value

Gains (losses) on debt recorded at fair value primarily relate to changes in the fair value of our foreign-currency denominated debt. During 2012, 2011, and 2010, we recognized gains on debt recorded at fair value of $16 million, $91 million, and $580 million, respectively, primarily due to a combination of the U.S. dollar strengthening relative to the Euro and changes in interest rates. We mitigate changes in the fair value of our foreign-currency denominated debt by using foreign currency swaps and foreign-currency denominated interest-rate swaps.

Derivative Gains (Losses)

The table below presents derivative gains (losses) reported in our consolidated statements of comprehensive income. See NOTE 10: DERIVATIVES Table 10.2 Gains and Losses on Derivatives for information about gains and losses related to specific categories of derivatives. Changes in fair value and interest accruals on derivatives not in hedge accounting relationships are recorded as derivative gains (losses) in our consolidated statements of comprehensive income. At December 31, 2012, 2011, and 2010, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges. Amounts recorded in AOCI associated with these closed cash flow hedges are reclassified to earnings when the forecasted transactions affect earnings. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the forecasted transaction is reclassified into earnings immediately.

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

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Table 12 Derivative Gains (Losses)

	Derivative Gains (Losses) Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Interest-rate swaps	$ (204)	$ (10,367)	$ (7,679)
Option-based derivatives(1)	1,250	7,176	4,843
Other derivatives(2)	308	(1,529)	(755)
Accrual of periodic settlements(3)	(3,802)	(5,032)	(4,494)
Total	$ (2,448)	$ (9,752)	$ (8,085)

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

Gains (losses) on derivatives are principally driven by changes in: (a) interest rates and implied volatility; and (b) the mix and volume of derivatives in our derivative portfolio.

Our mix and volume of derivatives change from period to period as we respond to changing interest rate environments. We use receive- and pay-fixed interest-rate swaps to adjust the interest-rate characteristics of our debt funding in order to more closely match changes in the interest-rate characteristics of our mortgage-related assets. A receive-fixed swap results in our receipt of a fixed interest-rate payment from our counterparty in exchange for a variable-rate payment. Conversely, a pay-fixed swap requires us to make a fixed interest-rate payment to our counterparty in exchange for a variable-rate payment. Receive-fixed swaps increase in value and pay-fixed swaps decrease in value when interest rates decrease (with the opposite being true when interest rates increase).

We use swaptions and other option-based derivatives to adjust the interest-rate characteristics of our debt in response to changes in the expected lives of our investments in mortgage-related assets. Purchased call and put swaptions, where we make premium payments, are options for us to enter into receive- and pay-fixed swaps, respectively. Conversely, written call and put swaptions, where we receive premium payments, are options for our counterparty to enter into receive and pay-fixed swaps, respectively. The fair values of both purchased and written call and put swaptions are sensitive to changes in interest rates and are also driven by the market s expectation of potential changes in future interest rates (referred to as implied volatility). Purchased swaptions generally become more valuable as implied volatility increases and less valuable as implied volatility decreases. Recognized losses on purchased options in any given period are limited to the premium paid to purchase the option plus any unrealized gains previously recorded. Potential losses on written options are unlimited.

We also use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined period and a pay-fixed interest-rate swap with the same maturity as the last debt issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. Similarly, the combination of non-callable debt and a call swaption with the same maturity as the non-callable debt is the substantive economic equivalent of callable debt. For more information about these and other uses of derivatives, see NOTE 10: DERIVATIVES.

During 2012, we recognized losses on derivatives of $2.4 billion, primarily due to losses related to the accrual of periodic settlements on interest-rate swaps as we were a net payer on our interest-rate swaps based on the coupons of the instruments. We recognized fair value losses on our pay-fixed swaps, which were offset by: (a) fair value gains on our receive-fixed swaps; and (b) fair value gains on our option-based derivatives resulting from gains on our purchased call swaptions due to a decrease in interest rates. In 2012, the effect of the decline in interest rates and a steepening of the yield curve was coupled with a change in the mix of our derivative portfolio, whereby we increased our holdings of receive-fixed swaps relative to pay-fixed swaps to rebalance our portfolio during a period of steadily declining interest rates, and increased our issuances of debt with longer-term maturities.

During 2011, we recognized losses on derivatives of $9.8 billion, primarily due to declines in long-term swap interest rates. Specifically, during 2011, we recognized fair value losses on our pay-fixed swap positions of $23.0 billion, partially offset by fair value gains on our receive-fixed swaps of $12.6 billion. We also recognized fair value gains of $7.2 billion during 2011 on our option-based derivatives, resulting from gains on our purchased call swaptions as interest rates decreased. Additionally, we recognized losses of $5.0 billion related to the accrual of periodic settlements during 2011 due to our net pay-fixed swap position and a declining interest rate environment during the year.

During 2010, declining long-term swap interest rates resulted in a loss on derivatives of $8.1 billion. Specifically, the decrease in long-term swap interest rates resulted in fair value losses on our pay-fixed swaps of $17.5 billion, partially offset by fair value gains on our receive-fixed swaps of $9.7 billion. We recognized fair value gains of $4.8 billion on our option-based derivatives, resulting from gains on our purchased call swaptions primarily due to the declines in interest rates during 2010. Additionally, we recognized losses of $4.5 billion related to the accrual of periodic settlements during 2010 due to our net pay-fixed swap position and a declining interest rate environment during the year.

Investment Securities-Related Activities

Impairments of Available-For-Sale Securities

We recorded net impairments of available-for-sale securities recognized in earnings, which were related to non-agency mortgage-related securities, of $2.2 billion, $2.3 billion and $4.3 billion during 2012, 2011, and 2010, respectively. The decrease in net impairments recognized in earnings during 2012 compared to 2011 was driven by improvements in forecasted home prices over the expected life of our available-for-sale securities and lower interest rates resulting in a benefit from expected structural credit enhancements on the securities. These improvements were offset by the impact of our implementation, in the fourth quarter of 2012, of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities. The decision to transition to a third-party model was made to increase the level of disaggregation for certain assumptions used in projecting cash flow estimates of these securities. For information concerning the estimated impact this enhancement would have had on our net income, as of the beginning of the fourth quarter of 2012, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Change in Estimate *Other-Than-Temporary Impairments of Single-Family Non-Agency Mortgage-Related Securities*. The decrease in net impairments recognized in earnings during 2011 compared to 2010 was primarily due to the impact of lower interest rates in 2011. The impact of lower interest rates during 2011 was partially offset by the impact of declines in forecasted home prices over the expected life of our available-for-sale securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities* and NOTE 7: INVESTMENTS IN SECURITIES for additional information.

Other Gains (Losses) on Investment Securities Recognized in Earnings

Other gains (losses) on investment securities recognized in earnings primarily consist of gains (losses) on trading securities. Trading securities mainly include Treasury securities, agency fixed-rate and variable-rate pass-through mortgage-related securities, and agency REMICs, including inverse floating-rate, interest-only and principal-only securities. With the exception of principal-only securities, our agency securities, classified as trading, were valued at a net premium (i.e., net fair value was higher than UPB) as of December 31, 2012. Gains (losses) on trading securities do not include the interest earned on these assets, which is recorded as part of net interest income.

Our trading securities are managed in the overall context of our interest-rate risk management strategy and framework. However, the impacts of changes in fair value of related derivatives and other debt are not recognized in other gains (losses) on investment securities recognized in earnings on our consolidated statements of comprehensive income. For information about our interest-rate risk management strategy and framework, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

We recognized $(1.7) billion, $(1.0) billion, and $(1.3) billion related to losses on trading securities during 2012, 2011, and 2010, respectively. The losses on trading securities during all periods were primarily due to the movement of securities with unrealized gains towards maturity. These losses were partially offset by the increase in the fair value of our trading securities as a result of the decline in interest rates during 2012 and 2011. The increased losses in 2012 compared to 2011 resulted from lower interest rate-related gains in 2012 as interest rates declined less in 2012 compared to 2011.

Other Income

Other income includes items associated with our guarantee activities on non-consolidated trusts, including management and guarantee income, gains (losses) on guarantee asset, income on guarantee obligation, gains (losses) on sale of mortgage loans, and recoveries on loans impaired upon purchase. The table below summarizes the significant components of other income.

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Table 13 Other Income

	Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Other income:			
Gains (losses) on sale of mortgage loans	$ 275	$ 411	$ 267
Gains (losses) on mortgage loans recorded at fair value	735	418	(249)
Recoveries on loans impaired upon purchase	380	473	806
Guarantee-related income, net[(1)]	343	245	217
All other	441	608	819
Total other income	$ 2,174	$ 2,155	$ 1,860

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

Gains (Losses) on Sale of Mortgage Loans

In 2012, 2011, and 2010, we recognized $275 million, $411 million, and $267 million, respectively, of gains on sale of mortgage loans with associated UPB of $21.2 billion, $13.7 billion, and $6.6 billion, respectively. All such amounts relate to our securitizations of multifamily loans on our consolidated balance sheets, which we elected to carry at fair value. We recognized lower gains on sale of mortgage loans in 2012, compared to 2011, as a significant portion of the improved fair value of the loans was recognized within gains (losses) on mortgage loans recorded at fair value during periods prior to the loans securitization. We recognized higher gains on sale of mortgage loans in 2011, compared to 2010, primarily due to a higher volume of securitizations during 2011.

Gains (Losses) on Mortgage Loans Recorded at Fair Value

In 2012, 2011, and 2010, we recognized $735 million, $418 million, and $(249) million, respectively, of gains (losses) on mortgage loans recorded at fair value. These amounts relate to multifamily loans which we had elected to carry at fair value and were designated for securitization. We recognize changes in fair value of these loans as gains (losses) on mortgage loans recorded at fair value while we hold them on our consolidated balance sheets. In the period we sell these multifamily loans (e.g., through securitization), we recognize a gain or loss on sale of mortgage loans based on proceeds of the sale. Together, these amounts represent the holding period gains or losses associated with the loans. Favorable market spread movements, declines in interest rates, and higher balances of multifamily loans on our consolidated balance sheets during both 2012 and 2011, resulted in higher gains in those years compared to the respective prior year.

Recoveries on Loans Impaired upon Purchase

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

In 2012, 2011, and 2010, we recognized recoveries on loans impaired upon purchase of $380 million, $473 million, and $806 million, respectively. Our recoveries on loans impaired upon purchase declined in both 2012 and 2011, compared to the prior year, due to a lower volume of foreclosure transfers and payoffs associated with loans impaired upon purchase.

Commencing January 1, 2010, we no longer recognize losses on loans purchased from PC pools related to our single-family PC trusts and certain Other Guarantee Transactions due to adoption of the amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs. Beginning in 2010, our recoveries principally relate to impaired loans purchased prior to January 1, 2010, due to the change in accounting guidance effective on that date. Consequently, our recoveries on loans impaired upon purchase will generally continue to decline over time.

All Other

All other income consists primarily of transactional fees, fees assessed to our servicers for technology use and late fees or other penalties, and other miscellaneous income. All other income decreased to $441 million in 2012, compared to $608 million in 2011 and $819 million in 2010. The decline in 2012, compared to 2011, was primarily due to: (a) income recognized in 2011 related to proceeds received from an agreement with Bank of America with respect to repurchase obligations; and (b) income recognized in 2011 related to a settlement with Taylor, Bean & Whitaker (TBW), one of our former seller/servicers. The decline in 2011, compared to 2010, was primarily due to: (a) gains recognized in 2010 due to the recognition of income related to mortgage-servicing rights associated with TBW, and (b) the negative impact in 2011 of the correction of certain prior period accounting errors not material to our financial statements. The largest correction in 2011 related to an error associated with the accrual of interest income for certain impaired mortgage-related securities during 2010 and 2009.

Non-Interest Expense

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

Table 14 Non-Interest Expense

	Year Ended December 31,		
	2012	2011	2010
	(in millions)		
Administrative expenses:			
Salaries and employee benefits	$ 810	$ 832	$ 895
Professional services	361	270	297
Occupancy expense	57	62	64
Other administrative expense	333	342	341
Total administrative expenses	1,561	1,506	1,597
REO operations expense	59	585	673
Other expenses	573	392	662
Total non-interest expense	$ 2,193	$ 2,483	$ 2,932

Administrative Expenses

Administrative expenses increased during 2012 compared to 2011 due to an increase in professional services expense. Professional services expense increased as a result of initiatives we are pursuing under the Conservatorship Scorecard and other FHFA-mandated strategic initiatives.

Administrative expenses decreased in 2011 compared to 2010, largely due to a reduction in the number of employees as part of cost reduction measures.

We believe the various FHFA-mandated strategic initiatives we are pursuing will likely continue to require significant resources and thus continue to affect our level of administrative expenses going forward.

REO Operations Expense

The table below presents the components of our REO operations expense, and information about REO inventory and REO dispositions.

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Table 15 REO Operations Expense, REO Inventory, and REO Dispositions

	Year Ended December 31, 2012	2011	2010
	(dollars in millions)		
REO operations expense:			
Single-family:			
REO property expenses(1)	$ 1,203	$ 1,205	$ 1,163
Disposition (gains) losses, net(2)	(682)	179	102
Change in holding period allowance, dispositions	(108)	(456)	(286)
Change in holding period allowance, inventory(3)	(9)	302	497
Recoveries(4)	(342)	(634)	(800)
Total single-family REO operations expense	62	596	676
Multifamily REO operations (income) expense	(3)	(11)	(3)
Total REO operations expense	$ 59	$ 585	$ 673
REO inventory (in properties), at December 31:			
Single-family	49,071	60,535	72,079
Multifamily	6	20	14
Total	49,077	60,555	72,093
REO property dispositions (in properties):			
Single-family	94,276	110,175	101,206
Multifamily	20	19	9
Total	94,296	110,194	101,215

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

REO operations expense was $59 million in 2012, as compared to $585 million in 2011 and $673 million in 2010. The decline in REO operations expense in 2012, compared to 2011, was primarily due to improving home prices in certain geographical areas with significant REO activity, which resulted in gains on disposition of properties, partially offset by lower recoveries on REO properties during 2012 . Recoveries on REO properties were lower in 2012, compared to 2011, primarily due to reduced recoveries from mortgage insurers and a decline in reimbursements of losses from seller/servicers associated with repurchase requests. The decline in REO operations expense in 2011, compared to 2010, was primarily due to the impact of a less significant decline in home prices in certain geographical areas with significant REO activity resulting in lower write-downs of single-family REO inventory during 2011, partially offset by lower recoveries on REO properties during 2011.

We believe the volume of our single-family REO acquisitions in recent years was less than it otherwise would have been due to several factors, including the length of the foreclosure process and increased volume of foreclosure alternatives. Lower acquisitions, coupled with high disposition levels, led to lower REO property inventory levels in both 2012 and 2011, compared to the respective prior year. We expect that the length of the foreclosure process will continue to remain above historical levels. Additionally, we expect our REO activity to remain at elevated levels, as we have a large inventory of seriously delinquent loans in our single-family credit guarantee portfolio. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* *Non-Performing Assets* for additional information about our REO activity.

Other Expenses

Other expenses were $573 million, $392 million, and $662 million in 2012, 2011, and 2010, respectively. Other expenses include HAMP servicer incentive fees, costs related to terminations and transfers of mortgage servicing, and other miscellaneous expenses. Other expenses in 2012 also included $108 million related to amounts paid and due to Treasury for the legislated 10 basis point increase in guarantee fees, which was implemented in April 2012.

Other expenses were higher in 2012 compared to 2011, primarily due to the expense related to the legislated 10 basis point increase in guarantee fees and expenses recorded in 2012 to establish reserves related to pending litigation. Other expenses were lower in 2011 compared to 2010, primarily due to lower expenses associated with transfers and terminations of mortgage servicing, primarily related to TBW, partially offset by higher servicer incentive fees associated with HAMP during 2011.

Income Tax Benefit

For 2012, 2011, and 2010, we reported an income tax benefit of $1.5 billion, $0.4 billion, and $0.9 billion, respectively. We have had ongoing discussions with the IRS regarding litigation related to various uncertain tax positions, and based on the favorable resolution of the matters in dispute, the previously unrecognized tax benefits were reduced to zero in the fourth quarter of 2012. See NOTE 12: INCOME TAXES Unrecognized Tax Benefits *IRS Examinations and Litigation* for additional information.

Comprehensive Income (Loss)

Our comprehensive income (loss) was $16.0 billion, $(1.2) billion, and $0.3 billion for the years ended December 31, 2012, 2011, and 2010, respectively, consisting of: (a) $11.0 billion, $(5.3) billion, and $(14.0) billion of net income (loss), respectively; and (b) $5.1 billion, $4.0 billion, and $14.3 billion of total other comprehensive income, respectively, primarily related to a reduction in net unrealized losses related to our available-for-sale securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Total Equity (Deficit) for additional information regarding total other comprehensive income.

Segment Earnings

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

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

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

The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase held-for-sale multifamily loans for aggregation and then securitization through multifamily K Certificates, which are considered Other Guarantee Transactions. To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. In addition, we guarantee the payment of principal and interest on tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. Segment Earnings for this segment consist primarily of the interest earned on assets related to multifamily investment activities and management and guarantee fee income, less credit-related expenses, administrative expenses, and allocated funding costs. In addition, the Multifamily segment reflects gains on sale of mortgages and the impact of changes in fair value of our investment securities and held-for-sale loans associated with market factors other than changes in interest rates, such as liquidity and credit.

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

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The All Other category consists of material corporate level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods. The All Other category also includes the deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward and tax settlements, as applicable. Segment Earnings for the All Other category was $788 million, $49 million, and $15 million for 2012, 2011, and 2010, respectively. Segment Earnings for the All Other category for 2012 primarily reflects the results of the ongoing discussions with the IRS regarding litigation related to various uncertain tax positions. Based on the favorable resolution of the matters in dispute, the previously unrecognized tax benefits were reduced to zero in the fourth quarter of 2012. For more information regarding the discussions with the IRS, see NOTE 12: INCOME TAXES Unrecognized Tax Benefits *IRS Examinations and Litigation*.

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

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

See BUSINESS Our Business Segments for further information regarding our segments, including the descriptions and activities of our segments, and NOTE 13: SEGMENT REPORTING for further information regarding the reclassifications and allocations used to present Segment Earnings.

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

Table 16 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios[1]

	December 31, 2012	December 31, 2011
	(in millions)	
Segment mortgage portfolios:		
Investments Mortgage investments portfolio:		
Single-family unsecuritized mortgage loans[2]	$ 91,411	$ 109,190
Freddie Mac mortgage-related securities	184,381	220,659
Non-agency mortgage-related securities	76,457	86,526
Non-Freddie Mac agency securities	23,675	32,898
Total Investments Mortgage investments portfolio	375,924	449,273
Single-family Guarantee Managed loan portfolio:[3]		
Single-family unsecuritized mortgage loans[4]	53,333	62,469
Single-family Freddie Mac mortgage-related securities held by us	184,381	220,659
Single-family Freddie Mac mortgage-related securities held by third parties	1,335,393	1,378,881
Single-family other guarantee commitments[5]	13,798	11,120
Total Single-family Guarantee Managed loan portfolio	1,586,905	1,673,129
Multifamily Guarantee portfolio:		
Multifamily Freddie Mac mortgage related securities held by us	2,382	3,008
Multifamily Freddie Mac mortgage related securities held by third parties	39,884	22,136
Multifamily other guarantee commitments[5]	9,657	9,944
Total Multifamily Guarantee portfolio	51,923	35,088
Multifamily Mortgage investments portfolio:		
Multifamily investment securities portfolio	51,718	59,260
Multifamily loan portfolio	76,569	82,311
Total Multifamily Mortgage investments portfolio	128,287	141,571
Total Multifamily portfolio	180,210	176,659
Less: Freddie Mac single-family and certain multifamily securities[6]	(186,763)	(223,667)
Total mortgage portfolio	$ 1,956,276	$ 2,075,394
Credit risk portfolios:[7]		
Single-family credit guarantee portfolio:[3]		
Single-family mortgage loans, on-balance sheet	$ 1,621,774	$ 1,733,215
Non-consolidated Freddie Mac mortgage-related securities	8,897	10,735
Other guarantee commitments[5]	13,798	11,120
Less: HFA-related guarantees[8]	(6,270)	(8,637)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates[8]	(654)	(779)
Total single-family credit guarantee portfolio	$ 1,637,545	$ 1,745,654
Multifamily mortgage portfolio:		
Multifamily mortgage loans, on-balance sheet	$ 77,017	$ 82,311
Non-consolidated Freddie Mac mortgage-related securities	41,819	25,144

Other guarantee commitments(5)	9,657	9,944
Less: HFA-related guarantees(8)	(1,112)	(1,331)
Total multifamily mortgage portfolio	$ 127,381	$ 116,068

(1) Based on UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(2) Excludes unsecuritized seriously delinquent single-family loans managed by the Single-family Guarantee segment. The Single-family Guarantee segment earns management and guarantee fees associated with unsecuritized single-family loans in the Investments segment s mortgage investments portfolio.

(3) The balances of the mortgage-related securities in the Single-family Guarantee managed loan portfolio are based on the UPB of the security, whereas the balances of our single-family credit guarantee portfolio presented in this report are based on the UPB of the mortgage loans underlying the related security. The differences in the loan and security balances result from the timing of remittances to security holders, which is typically 45 or 75 days after the mortgage payment cycle of fixed-rate and ARM PCs, respectively.

(4) Represents unsecuritized seriously delinquent single-family loans managed by the Single-family Guarantee segment.

(5) Represents the UPB of mortgage-related assets held by third parties for which we provide our guarantee without our securitization of the related assets.

(6) Freddie Mac single-family mortgage-related securities held by us are included in both our Investments segment s mortgage investments portfolio and our Single-family Guarantee segment s managed loan portfolio, and Freddie Mac multifamily mortgage-related securities held by us are included in both the multifamily investment securities portfolio and the multifamily guarantee portfolio. Therefore, these amounts are deducted in order to reconcile to our total mortgage portfolio.

(7) Represents the UPB of loans for which we present characteristics, delinquency data, and certain other statistics in this report. See GLOSSARY for further description.

(8) We exclude HFA-related guarantees and our resecuritizations of Ginnie Mae certificates from our credit risk portfolios and most related statistics because these guarantees do not expose us to meaningful amounts of credit risk due to the credit enhancement provided on them by the U.S. government.

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Segment Earnings — Results

Investments

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

Table 17 — Segment Earnings and Key Metrics — Investments[1]

	Year Ended December 31, 2012	2011	2010
	(dollars in millions)		
Segment Earnings:			
Net interest income	$ 6,110	$ 7,339	$ 6,192
Non-interest income (loss):			
Net impairment of available-for-sale securities recognized in earnings	(1,831)	(1,833)	(3,819)
Derivative gains (losses)	1,970	(3,597)	(1,859)
Gains (losses) on trading securities	(1,755)	(993)	(1,386)
Gains (losses) on sale of mortgage loans	6	28	(76)
Gains (losses) on mortgage loans recorded at fair value	297	501	34
Other non-interest income (loss)	2,357	1,266	1,023
Total non-interest income (loss)	1,044	(4,628)	(6,083)
Non-interest expense:			
Administrative expenses	(430)	(398)	(455)
Other non-interest expense	(1)	(2)	(18)
Total non-interest expense	(431)	(400)	(473)
Segment adjustments[2]	799	661	1,358
Segment Earnings before income tax benefit	7,522	2,972	994
Income tax benefit	690	394	259
Segment Earnings, net of taxes, including noncontrolling interest	8,212	3,366	1,253
Less: Net income — noncontrolling interest			(2)
Segment Earnings attributable to Freddie Mac	8,212	3,366	1,251
Total other comprehensive income, net of taxes	3,185	3,107	10,226
Total comprehensive income attributable to Freddie Mac	$ 11,397	$ 6,473	$ 11,477
Key metrics:			
Portfolio balances:			
Average balances of interest-earning assets:[3][4]			
Mortgage-related securities[5]	$ 308,698	$ 386,115	$ 465,048
Non-mortgage-related investments[6]	98,176	97,519	123,537
Single-family unsecuritized loans[7]	97,951	94,894	59,028
Total average balances of interest-earning assets	$ 504,825	$ 578,528	$ 647,613
Return:			
Net interest yield — Segment Earnings basis	1.21%	1.27%	0.96%

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

2012 vs. 2011

Segment Earnings for our Investments segment increased by $4.8 billion to $8.2 billion in 2012, compared to $3.4 billion in 2011, primarily due to derivative gains during 2012 versus derivative losses during 2011. Comprehensive income for our Investments segment increased by $4.9 billion to $11.4 billion in 2012, compared to $6.5 billion in 2011, primarily due to higher Segment Earnings. Other comprehensive income was relatively unchanged in 2012 compared to 2011, as higher gains on our non-agency mortgage-related securities were largely offset by the impact of a smaller decline in interest rates and less spread tightening on our agency securities.

During 2012, the UPB of the Investments segment mortgage investments portfolio decreased by 16%. We held $208.1 billion and $253.6 billion of agency securities, $76.5 billion and $86.5 billion of non-agency mortgage-related securities, and $91.4 billion and $109.2 billion of single-family unsecuritized mortgage loans at December 31, 2012 and 2011, respectively. The decline in UPB of agency securities is due mainly to liquidations. The decline in UPB of non-agency mortgage-related

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securities is due mainly to the receipt of monthly remittances of principal repayments from both the recoveries from liquidated loans and, to a lesser extent, voluntary repayments of the underlying collateral, representing a partial return of our investments in these securities. The decline in the UPB of single-family unsecuritized mortgage loans is primarily related to our securitization of mortgage loans that we had purchased for cash. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities and Mortgage Loans for additional information regarding our mortgage-related securities and mortgage loans.

Segment Earnings net interest income decreased $1.2 billion, and Segment Earnings net interest yield decreased six basis points during 2012, compared to 2011. The primary driver of the decreases was the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations, partially offset by lower funding costs primarily due to the replacement of debt at lower rates.

Segment Earnings non-interest income (loss) was $1.0 billion in 2012, compared to $(4.6) billion in 2011. This improvement was primarily due to derivative gains during 2012 versus derivative losses during 2011 and an increase in other non-interest income, partially offset by an increase in losses on trading securities.

Impairments recorded in our Investments segment were $1.8 billion during both 2012 and 2011. In the fourth quarter of 2012 we implemented the use of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities. The decision to transition to a third-party model was made to increase the level of disaggregation for certain assumptions used in projecting cash flow estimates of these securities. Absent the adverse impact from the implementation of the third-party model, our 2012 impairments were otherwise positively impacted by improvements in forecasted home prices over the expected life of the available-for-sale securities and lower interest rates, resulting in a benefit from expected structural credit enhancements on the securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* *Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities* and NOTE 7: INVESTMENTS IN SECURITIES for additional information on our impairments.

We recorded gains (losses) on trading securities of $(1.8) billion during 2012 compared to $(1.0) billion during 2011. The losses on trading securities during both periods were primarily due to the movement of securities with unrealized gains towards maturity. These losses were partially offset by the increase in the fair value of our trading securities as a result of the decline in interest rates during 2012 and 2011. The increased losses in 2012 compared to 2011 resulted from lower interest rate-related gains in 2012 as interest rates declined less in 2012 compared to 2011.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they generally increase the volatility of reported Segment Earnings, because while fair value changes in derivatives affect Segment Earnings, fair value changes in several of the types of assets and liabilities being hedged do not affect Segment Earnings. We recorded derivative gains (losses) for this segment of $2.0 billion during 2012 compared to $(3.6) billion during 2011. This improvement was primarily due to the impact of a smaller decline in interest rates coupled with a yield curve steepening in 2012 compared to 2011. In addition, a change in the mix of our derivatives portfolio, whereby we increased our holdings of receive-fixed swaps relative to pay-fixed swaps as we rebalanced our portfolio during a period of steadily declining interest rates in 2012, contributed to the gain. See Non-Interest Income (Loss) *Derivative Gains (Losses)* for additional information on our derivatives.

Other non-interest income (loss) for this segment was $2.4 billion during 2012 compared to $1.3 billion during 2011. The improvement in other non-interest income was primarily due to an increase in amortization income related to premiums on debt securities of consolidated trusts held by third parties. This amortization income increased due to additional prepayments on the debt securities of consolidated trusts held by third parties due in part to the low interest rate environment and an increase in basis adjustments. Basis adjustments related to these debt securities of consolidated trusts held by third parties are generated through the securitization and sale of retained mortgage loans or sales of Freddie Mac mortgage-related securities from our mortgage-related investments portfolio.

Our Investments segment s total other comprehensive income was relatively unchanged at $3.2 billion during 2012 compared to $3.1 billion during 2011, as higher gains on our non-agency mortgage-related securities were largely offset by the impact of a smaller decline in interest rates and less spread tightening on our agency securities. Changes in fair value of the Multifamily segment investment securities, excluding impacts from the changes in interest rates which are included in the Investments segment, are reflected in the Multifamily segment.

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2011 vs. 2010

Segment Earnings for our Investments segment increased by $2.1 billion to $3.4 billion in 2011, compared to $1.3 billion in 2010, primarily due to an increase in net interest income and a decrease in net impairments recognized in earnings, partially offset by larger derivative losses. Comprehensive income for our Investments segment decreased by $5.0 billion to $6.5 billion in 2011, compared to $11.5 billion in 2010, primarily due to a smaller improvement in net unrealized losses on our available-for-sale securities.

During 2011, the UPB of the Investments segment mortgage investments portfolio decreased by 6.7%. We held $253.6 billion of agency securities and $86.5 billion of non-agency mortgage-related securities as of December 31, 2011, compared to $302.9 billion of agency securities and $99.6 billion of non-agency mortgage-related securities as of December 31, 2010. The decline in UPB of agency securities is due mainly to liquidations, including prepayments and selected sales. The decline in UPB of non-agency mortgage-related securities is due mainly to the receipt of monthly remittances of principal repayments from both the recoveries from liquidated loans and, to a lesser extent, voluntary repayments of the underlying collateral, representing a partial return of our investments in these securities.

Segment Earnings net interest income increased $1.1 billion, and Segment Earnings net interest yield increased 31 basis points during 2011, compared to 2010. The primary driver was lower funding costs, primarily due to the replacement of debt at lower rates. These lower funding costs were partially offset by the reduction in the balance of higher-yielding mortgage-related assets due to continued liquidations.

Segment Earnings non-interest income (loss) was $(4.6) billion in 2011, compared to $(6.1) billion in 2010. This improvement in non-interest loss was mainly due to decreased net impairment of available-for-sale securities and decreased losses on trading securities, partially offset by increased derivative losses.

Impairments recorded in our Investments segment decreased by $2.0 billion during 2011, compared to 2010, primarily due to the impact of lower interest rates in 2011 resulting in a benefit from expected structural credit enhancements on the securities. The impact of lower interest rates was partially offset by the impact of declines in forecasted home prices.

We recorded losses on trading securities of $(1.0) billion during 2011, compared to $(1.4) billion during 2010. Losses in both periods are primarily due to the movement of securities with unrealized gains towards maturity. These losses were partially offset by larger fair value gains in 2011, due to a more significant decline in long-term interest rates, compared to 2010.

We recorded derivative gains (losses) for this segment of $(3.6) billion during 2011, compared to $(1.9) billion during 2010. During 2011 and 2010, swap interest rates decreased, resulting in fair value losses on our pay-fixed swaps, partially offset by fair value gains on our receive-fixed swaps and purchased call swaptions.

Our Investments segment s total other comprehensive income declined to $3.1 billion in 2011 compared to $10.2 billion in 2010, primarily due to lower gains on non-agency mortgage-related securities as spreads widened more in 2011 compared to 2010.

For a discussion of items that have affected our Investments segment net interest income over time, and will likely continue to do so, see BUSINESS Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio*.

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Single-Family Guarantee

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

Table 18 Segment Earnings and Key Metrics Single-Family Guarantee[1]

	Year Ended December 31,		
	2012	2011	2010
	(dollars in millions)		
Segment Earnings:			
Net interest income (expense)	$ (147)	$ (23)	$ 72
Provision for credit losses	(3,168)	(12,294)	(18,785)
Non-interest income:			
Management and guarantee income	4,389	3,647	3,635
Other non-interest income	931	1,216	1,351
Total non-interest income	5,320	4,863	4,986
Non-interest expense:			
Administrative expenses	(890)	(888)	(930)
REO operations expense	(62)	(596)	(676)
Other non-interest expense	(393)	(321)	(578)
Total non-interest expense	(1,345)	(1,805)	(2,184)
Segment adjustments[2]	(832)	(699)	(953)
Segment Earnings (loss) before income tax (expense) benefit	(172)	(9,958)	(16,864)
Income tax (expense) benefit	8	(42)	608
Segment Earnings (loss), net of taxes	(164)	(10,000)	(16,256)
Total other comprehensive income (loss), net of taxes	(63)	30	6
Total comprehensive income (loss) attributable to Freddie Mac	$ (227)	$ (9,970)	$ (16,250)
Key metrics:			
Balances and Volume (in billions, except rate):			
Average balance of single-family credit guarantee portfolio and HFA guarantees	$ 1,692	$ 1,801	$ 1,861
Issuance Single-family credit guarantees[3]	$ 446	$ 305	$ 385
Fixed-rate products Percentage of purchases[4]	96%	92%	95%
Liquidation rate Single-family credit guarantees[5]	33%	24%	29%
Management and Guarantee Fee Rate (in bps):			
Contractual management and guarantee fees[6]	14.7	13.7	13.5
Amortization of delivery fees[7]	11.2	6.5	6.0
Segment Earnings management and guarantee income	25.9	20.2	19.5
Credit:			
Serious delinquency rate, at end of period	3.25%	3.58%	3.84%
REO inventory, at end of period (number of properties)	49,071	60,535	72,079
Single-family credit losses, in bps[8]	68.3	72.0	75.8
Market:			
Single-family mortgage debt outstanding (total U.S. market, in billions)[9]	$ 9,926	$ 10,158	$ 10,413
30-year fixed mortgage rate[10]	3.4%	4.0%	4.9%

(1) For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 13: SEGMENT REPORTING Table 13.2 Segment Earnings and Reconciliation to GAAP Results.
(2) For a description of our segment adjustments, see NOTE 13: SEGMENT REPORTING Segment Earnings.
(3) Based on UPB.
(4) Excludes Other Guarantee Transactions.
(5) Represents principal repayments relating to loans underlying Freddie Mac mortgage-related securities and other guarantee commitments, including those related to our removal of seriously delinquent and modified mortgage loans and balloon/reset mortgage loans out of PC pools.
(6) Results for the 2012 periods include the effect of the legislated 10 basis point increase in guarantee fees that became effective April 1, 2012.
(7) Beginning in the fourth quarter of 2012, includes the amortization of buy-down fees.
(8) Calculated as the amount of single-family credit losses divided by the sum of the average carrying value of our single-family credit guarantee portfolio and the average balance of our single-family HFA initiative guarantees.
(9) Source: Federal Reserve Flow of Funds Accounts of the United States of America dated December 6, 2012. The outstanding amount for December 31, 2012 reflects the balance as of September 30, 2012.
(10) Based on Freddie Mac s Primary Mortgage Market Survey rate for the last week in the period, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender. This commitment rate applies only to financing on conforming mortgages with LTV ratios of 80%.

Segment Earnings (loss) for our Single-family Guarantee segment improved to $(0.2) billion in 2012 compared to $(10.0) billion in 2011 and $(16.3) billion in 2010. Segment Earnings (loss) for the Single-family Guarantee segment is largely driven by management and guarantee fee income, offset by the provision for credit losses. The improvement in both 2012 and 2011, compared to the respective prior year, was primarily due to a significant decline in Segment Earnings provision for credit losses.

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The table below provides summary information about the composition of Segment Earnings (loss) for this segment for 2012 and 2011.

Table 19 Segment Earnings Composition Single-Family Guarantee Segment

	Year Ended December 31, 2012				
	Segment Earnings Management and Guarantee Income(1)		Credit Expenses(2)		
	Amount	Average Rate(3)	Amount	Average Rate(3)	Net Amount(4)
	(dollars in millions, rates in bps)				
Year of origination:(5)					
2012	$ 525	27.1	$ (142)	6.7	$ 383
2011	792	29.7	(214)	8.1	578
2010	794	29.7	(292)	10.5	502
2009	738	29.6	(221)	8.9	517
2008	330	27.6	(50)	5.3	280
2007	312	20.2	(1,064)	77.6	(752)
2006	192	19.4	(673)	66.1	(481)
2005	221	19.7	(643)	55.4	(422)
2004 and prior	485	21.1	69	(2.8)	554
Total	$ 4,389	25.9	$ (3,230)	19.0	$ 1,159
Administrative expenses					(890)
Net interest income (expense)					(147)
Other non-interest income and expenses, net					(286)
Segment Earnings (loss), net of taxes					$ (164)

	Year Ended December 31, 2011				
	Segment Earnings Management and Guarantee Income(1)		Credit Expenses(2)		
	Amount	Average Rate(3)	Amount	Average Rate(3)	Net Amount(4)
	(dollars in millions, rates in bps)				
Year of origination:(5)					
2011	$ 362	21.2	$ (93)	6.5	$ 269
2010	763	22.4	(339)	9.6	424
2009	713	20.6	(385)	10.9	328
2008	382	23.4	(1,169)	86.2	(787)
2007	368	18.6	(4,432)	242.8	(4,064)
2006	227	17.7	(3,387)	248.8	(3,160)
2005	257	17.5	(2,116)	135.8	(1,859)
2004 and prior	575	18.7	(969)	28.5	(394)
Total	$ 3,647	20.2	$ (12,890)	71.5	$ (9,243)
Administrative expenses					(888)
Net interest income (expense)					(23)
Other non-interest income and expenses, net					154
Segment Earnings (loss), net of taxes					$ (10,000)

(1) Includes amortization of delivery fees of $1.7 billion and $1.2 billion for 2012 and 2011, respectively. For 2012, includes the effect of the legislated 10 basis point increase in guarantee fees that became effective April 1, 2012, as well as an additional increase in guarantee fees that became effective in the fourth quarter of 2012.
(2) Consists of the aggregate of the Segment Earnings provision for credit losses and Segment Earnings REO operations expense. Historical rates of average credit expenses may not be representative of future results. In 2012, we enhanced our method of allocating credit expenses by loan origination year. Prior period amounts have been revised to conform to the current period presentation.
(3) Calculated as the amount of Segment Earnings management and guarantee income or credit expenses, respectively, divided by the sum of the average carrying values of the single-family credit guarantee portfolio and the average balance of our single-family HFA initiative guarantees.
(4) Calculated as Segment Earnings management and guarantee income less credit expenses.
(5) Segment Earnings management and guarantee income is presented by year of guarantee origination, whereas credit expenses are presented based on year of loan origination.

As of December 31, 2012, loans originated after 2008 have, on a cumulative basis, provided management and guarantee income that has exceeded the credit-related and administrative expenses associated with these loans. Nevertheless, various factors, such as continued high unemployment rates, future declines in home prices, or negative impacts of HARP loans (which may not perform as well as other refinance mortgages, due in part to the high LTV ratios of the loans), could require us to incur expenses on these loans beyond our current expectations.

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Based on our historical experience, the performance of the loans in an individual origination year can vary over time. The aggregate UPB of loans and the corresponding management and guarantee fee income from an origination year will decline over time due to repayments, refinancing, and other liquidation events. In addition, credit-related expenses related to the remaining loans in the origination year will increase over time, as some borrowers experience financial difficulties and default on their loans. As a result, there will likely be periods when an origination year is not profitable, though it may remain profitable on a cumulative basis. We currently believe our management and guarantee fee rates for guarantee issuances after 2008 (excluding the amounts associated with the Temporary Payroll Tax Cut Continuation Act of 2011), when coupled with the higher credit quality of the mortgages within these new guarantee issuances, will provide management and guarantee fee income, over the long term, that exceeds our expected credit-related and administrative expenses associated with the underlying loans.

Our management and guarantee income associated with guarantee issuances in 2005 through 2008 has not been adequate to cover the credit and administrative expenses associated with such loans, on a cumulative basis, primarily due to the high rate of defaults on the loans originated in those years coupled with the high volume of refinancing of these loans that has occurred since 2008. High levels of refinancing and delinquency since 2008 have significantly reduced the balance of performing loans from those years that remain in our portfolio and consequently reduced management and guarantee income associated with loans originated in 2005 through 2008 (we do not recognize Segment Earnings management and guarantee income on non-accrual mortgage loans).

Segment Earnings management and guarantee income increased during 2012 compared to 2011, primarily due to an increase in amortization of delivery fees. The higher volume of delivery fees in recent periods was driven by a lower interest rate environment during 2012, which increased refinance activity. At the direction of FHFA, we also implemented two across-the-board increases in guarantee fees in 2012, as discussed below.

Effective April 1, 2012, we increased the guarantee fee on single-family residential mortgages sold to us by 10 basis points. Under the Temporary Payroll Tax Cut Continuation Act of 2011, the proceeds from this legislated increase are being remitted to Treasury to fund the payroll tax cut that occurred in 2012. We pay these fees to Treasury on a quarterly basis. The receipt of these fees is recognized within Segment Earnings management and guarantee income, and the remittance of these fees to Treasury is reported in Segment Earnings non-interest expense. We recognized $108 million of expense in 2012 (and a similar amount of income) related to these fees. While we expect these fees to become significant over time, the effect of these fees was less than a 1 basis point increase to the average rate of our aggregate Segment Earnings management and guarantee income in 2012. As of December 31, 2012, there were approximately 1.5 million loans totaling $311.9 billion in UPB in our single-family credit guarantee portfolio that are subject to these fees.

In the fourth quarter of 2012, we implemented, at FHFA s direction, a further increase of an average of 10 basis points in our guarantee fees on single-family mortgages sold to us.

Our management and guarantee fee income is also influenced by our PC price performance because we adjust our fees based on the relative price performance of our PCs compared to comparable Fannie Mae securities. A decline in security performance could negatively impact our segment financial results. While security performance and single-family market share improved on average, in the second half of 2012, security performance was volatile and weaker than historical trends near the end of 2012. For more information, see BUSINESS Our Business Segments *Investments Segment PC Support Activities*, and RISK FACTORS Competitive and Market Risks *A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business.*

The UPB of the Single-family Guarantee managed loan portfolio was $1.6 trillion and $1.7 trillion at December 31, 2012 and, 2011, respectively. The liquidation rate on our securitized single-family credit guarantees was approximately 33%, 24%, and 29% for 2012, 2011, and 2010, respectively, and increased in 2012 due to significant refinancing activity caused by historically low interest rates and, to a lesser extent, the impact of the expanded HARP initiative. Our guarantee issuances increased from $305 billion in 2011 to $446 billion in 2012 primarily due to refinance activity. However, we expect the size of our Single-family Guarantee managed loan portfolio will continue to decline during 2013.

Refinance volumes represented 82% of our single-family mortgage purchase volume in 2012, compared to 78% in 2011, based on UPB. We purchased significant volumes of relief refinance mortgages and HARP loans (i.e., relief refinance loans with LTV ratios above 80%) in both 2012 and 2011. Over time, HARP loans may not perform as well as other

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refinance mortgages because of the continued high LTV ratios and reduced underwriting standards of these loans. Based on our historical experience, there is an increased probability of borrower defaults as LTV ratios increase. In addition, HARP loans may not be covered by mortgage insurance for the full excess of their UPB over 80%. Approximately 20% and 12% of our single-family purchase volume in 2012 and 2011, respectively, were HARP loans. For more information about HARP loans and our relief refinance mortgage initiative, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program.*

The credit quality of the single-family loans we acquired beginning in 2009 (excluding HARP loans and other relief refinance mortgages) is significantly better than that of loans we acquired from 2005 through 2008, as measured by original LTV ratios, FICO scores, and the proportion of loans underwritten with fully documented income. HARP loans represented 11% and 6% of the UPB of our single-family credit guarantee portfolio as of December 31, 2012 and 2011, respectively. Mortgages originated after 2008, including HARP loans, represented 63% and 51% of the UPB of our single-family credit guarantee portfolio as of December 31, 2012 and 2011, respectively, and their composition of that portfolio continues to increase.

Provision for credit losses for the Single-family Guarantee segment declined to $3.2 billion in 2012 compared to $12.3 billion in 2011 and $18.8 billion in 2010. The significant reduction in Segment Earnings provision for credit losses for 2012 primarily reflects declines in the volume of newly delinquent loans (largely due to a decline in the portion of our single-family credit guarantee portfolio originated in 2005 through 2008), and lower estimates of incurred loss due to the positive impact of an increase in national home prices. Segment Earnings provision for credit losses in 2011 reflected a decline in the rate at which single-family loans were expected to transition into serious delinquency or were expected to be modified, but was partially offset by our lowered expectations for mortgage insurance recoveries, reflecting the further deterioration in the financial condition of certain counterparties.

The serious delinquency rate on our single-family credit guarantee portfolio was 3.25%, 3.58%, and 3.84% as of December 31, 2012, 2011, and 2010, respectively. Our serious delinquency rate remains high compared to the rates we experienced in years prior to 2009. Charge-offs, net of recoveries, associated with single-family loans were $11.6 billion, $12.4 billion, and $13.4 billion in 2012, 2011, and 2010, respectively. Single-family credit losses as a percentage of the average balance of the single-family credit guarantee portfolio and HFA-related guarantees were 68.3 basis points, 72.0 basis points and 75.8 basis points for 2012, 2011, and 2010, respectively. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk* for further information on our single-family credit guarantee portfolio, including credit performance, serious delinquency rates, charge-offs, and our non-performing assets.

REO operations expense for the Single-family Guarantee segment was $62 million in 2012, compared to $596 million in 2011 and $676 million in 2010. The decline in REO operations expense in 2012, compared to 2011, was primarily due to improving home prices in certain geographical areas with significant REO activity, which resulted in gains on disposition of properties, partially offset by lower recoveries on REO properties during 2012. Recoveries on REO properties were lower in 2012, compared to 2011, primarily due to reduced recoveries from mortgage insurers and a decline in reimbursements of losses from seller/servicers associated with repurchase requests. The decline in REO operations expense in 2011, compared to 2010, was primarily due to the impact of a less significant decline in home prices in certain geographical areas with significant REO activity resulting in lower write-downs of single-family REO inventory during 2011, partially offset by lower recoveries on REO properties during 2011.

Our REO inventory (measured in number of properties) declined 19% and 16% during 2012 and 2011, respectively, as the volume of single-family REO dispositions exceeded the volume of single-family REO acquisitions in both years. Although there was an improvement in REO disposition severity during 2012, the REO disposition severity ratios on sales of our REO inventory remain high as compared to periods before 2008. We believe the volume of our single-family REO acquisitions during 2012, 2011, and 2010 was less than it otherwise would have been due to several factors, including the length of the foreclosure process and increased volume of foreclosure alternatives. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Non-Performing Assets* for additional information about our REO activity.

Net interest income (expense) for the Single-Family guarantee segment was $(147) million in 2012 and $(23) million in 2011, with the change primarily driven by increased amortization expense in 2012 associated with mortgage loans held by consolidated trusts. The increased amortization expense was mainly due to a higher number of single-family loans with premiums and increased liquidations driven by higher refinance activity during 2012 compared to 2011.

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Other non-interest income for the Single-family Guarantee segment was $0.9 billion in 2012, compared to $1.2 billion in 2011 and $1.4 billion in 2010. The decline in income in 2012, compared to 2011, was primarily due to: (a) income recognized in 2011 related to proceeds received from certain repurchase settlements while no such income was recognized in 2012; and (b) lower recoveries related to loans impaired upon purchase. The decline in other non-interest income in 2011, compared to 2010, was primarily due to a decline in the amount of recoveries on loans impaired upon purchase since the volume of foreclosure transfers and payoffs associated with loans impaired upon purchase also declined in 2011.

Other non-interest expense for the Single-family Guarantee segment was $0.4 billion in 2012, compared to $0.3 billion in 2011 and $0.6 billion in 2010. The increase in other non-interest expense in 2012, compared to 2011, was primarily driven by the expense associated with the legislated 10 basis point increase to guarantee fees, which we implemented in April 2012. The decline in other non-interest expense in 2011, compared to 2010, was primarily due to lower expenses associated with transfers and terminations of mortgage servicing.

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Multifamily

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

Table 20 Segment Earnings and Key Metrics Multifamily[1]

	Year Ended December 31,		
	2012	**2011**	**2010**
Segment Earnings:			
Net interest income	$ 1,291	$ 1,200	$ 1,114
(Provision) benefit for credit losses	123	196	(99)
Non-interest income:			
Management and guarantee income	151	127	101
Net impairment of available-for-sale securities recognized in earnings	(123)	(353)	(96)
Gains (losses) on sale of mortgage loans	269	383	343
Gains (losses) on mortgage loans recorded at fair value	438	(83)	(283)
Other non-interest income	363	128	183
Total non-interest income	1,098	202	248
Non-interest expense:			
Administrative expenses	(241)	(220)	(212)
REO operations income (expense)	3	11	3
Other non-interest expense	(129)	(69)	(66)
Total non-interest expense	(367)	(278)	(275)
Segment Earnings before income tax benefit (expense)	2,145	1,320	988
Income tax benefit (expense)	1	(1)	(26)
Segment Earnings, net of taxes, including noncontrolling interest	2,146	1,319	962
Less: Net (income) loss noncontrolling interest			3
Segment Earnings, net of taxes	2,146	1,319	965
Total other comprehensive income, net of taxes	1,935	899	4,075
Total comprehensive income attributable to Freddie Mac	$ 4,081	$ 2,218	$ 5,040
Key metrics:			
Balances and Volume:			
Average balance of Multifamily loan portfolio[2]	$ 80,826	$ 83,593	$ 83,163
Average balance of Multifamily guarantee portfolio	$ 43,247	$ 29,861	$ 21,787
Average balance of Multifamily investment securities portfolio	$ 54,992	$ 61,296	$ 61,332
Multifamily new loan purchase and other guarantee commitment volume[3]	$ 28,774	$ 20,325	$ 14,800
Multifamily units financed from new volume activity[3]	435,653	311,046	231,453
Multifamily K Certificate issuance guaranteed portion	$ 17,922	$ 11,722	$ 5,694
Multifamily K Certificate issuance unguaranteed portion	$ 3,281	$ 1,936	$ 750
Yield and Rate:			
Net interest yield Segment Earnings basis	0.95%	0.83%	0.77%
Average Management and guarantee fee rate, in bps[4]	35.6	42.4	50.1
Credit:			
Delinquency rate:			
Credit-enhanced loans, at period end	0.36%	0.52%	0.85%
Non-credit-enhanced loans, at period end	0.10%	0.11%	0.12%
Total delinquency rate, at period end[5]	0.19%	0.22%	0.26%
Allowance for loan losses and reserve for guarantee losses, at period end	$ 382	$ 545	$ 828
Allowance for loan losses and reserve for guarantee losses, in bps	29.7	46.4	75.3

Credit losses, in bps[6]	2.8	6.3	9.6
REO inventory, at net carrying value	$ 64	$ 133	$ 107
REO inventory, at period end (number of properties)	6	20	14

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

Segment Earnings for our Multifamily segment increased to $2.1 billion in 2012, compared to $1.3 billion in 2011. The improvement in 2012 was primarily due to gains on mortgage loans recorded at fair value in 2012 compared to losses in 2011. Segment Earnings were also higher in 2012 compared to 2011 due to lower impairments of available-for-sale securities and higher other non-interest income during 2012. Segment Earnings for our Multifamily segment increased to $1.3 billion in 2011, compared to $965 million in 2010, primarily due to improvement in provision (benefit) for credit losses and lower losses on mortgage loans recorded at fair value, partially offset by higher security impairments on the CMBS portfolio.

Comprehensive income for our Multifamily segment was $4.1 billion for 2012, consisting of: (a) Segment Earnings of $2.1 billion; and (b) total other comprehensive income, which was mainly attributable to an increase in the fair value of available-for-sale CMBS during 2012. This increase was driven by favorable non-interest rate-related market spread movements in 2012. Comprehensive income for our Multifamily segment was $2.2 billion in 2011, consisting of: (a) Segment Earnings of $1.3 billion; and (b) total other comprehensive income of $0.9 billion, which was mainly attributable to non-interest rate-related increases in the fair value of available-for-sale CMBS in 2011.

Our multifamily loan purchases and other guarantee commitment issuance volume increased 42% to $28.8 billion for 2012 compared to $20.3 billion for 2011 and $14.8 billion for 2010. There was strong demand for multifamily financing in 2012 as historically low interest rates combined with positive multifamily market fundamentals encouraged borrower interest. We issued guarantees on K Certificates of $17.9 billion in UPB in 2012, compared to $11.7 billion in 2011 and $5.7 billion in 2010. The UPB of the total multifamily portfolio increased 2% to $180.2 billion at December 31, 2012 from $176.7 billion at December 31, 2011. During 2012, the increase in new business volume was partially offset by higher liquidations of our multifamily investment securities and multifamily loan portfolios.

Segment Earnings net interest income increased by 8%, to $1.3 billion, in 2012 from $1.2 billion in 2011, and $1.1 billion in 2010. The increase in both 2012 and 2011, compared to the respective prior year, was primarily due to the cumulative effect of new business volumes since 2008, which have higher yields relative to allocated funding costs compared to pre-2008 volumes. Net interest yield was 95, 83, and 77 basis points for 2012, 2011, and 2010, respectively.

Segment Earnings non-interest income was $1.1 billion, $202 million, and $248 million in 2012, 2011, and 2010, respectively. We recognize changes in fair value on multifamily mortgage loans we purchase for securitization as gains (losses) on mortgage loans recorded at fair value while we hold them on our consolidated balance sheets. In the period we sell these loans (e.g., through securitization), we recognize a gain or loss on sale of mortgage loans based on proceeds of the sale. Together, these amounts represent the holding period gains or losses associated with the loans. Favorable market spread movements and higher balances of multifamily loans on our consolidated balance sheets during both 2012 and 2011 resulted in higher total gains in those years compared to the respective prior year. Segment Earnings gains (losses) on mortgage loans recorded at fair value are presented net of changes in fair value due to changes in interest rates. Segment Earnings non-interest income also benefitted in 2012 from improved market pricing and overall improvement in the market for CMBS, which resulted in gains on the disposition of certain previously-impaired available-for-sale securities and lower impairments on available-for-sale securities. The decline in non-interest income in 2011, compared to 2010, was primarily driven by higher security impairments on CMBS.

Multifamily Segment Earnings management and guarantee income increased 19% in 2012, compared to 2011, and increased 26% in 2011, compared to 2010, reflecting an increased issuance of K Certificates in both years. However, the average management and guarantee fee rate on our guarantee portfolio declined to 36 basis points in 2012 from 42 basis points in 2011, and was 50 basis points in 2010. These declines primarily reflect an increased issuance volume of K Certificates, which have lower fees than our other guarantee activities. The lower fees reflect our reduced credit risk exposure due to the use of subordination. The amount of subordination employed in our K Certificates is based on our expectations of potential future credit losses associated with these transactions.

Multifamily Segment Earnings (provision) benefit for credit losses was $123 million, $196 million, and $(99) million in 2012, 2011, and 2010, respectively. Our loan loss reserves associated with our multifamily mortgage portfolio were $382 million, $545 million, and $828 million as of December 31, 2012, 2011, and 2010, respectively. The decline in loan loss reserves for multifamily loans in 2012 and 2011 was primarily driven by an improvement in the expected performance of the underlying loans.

As a result of our underwriting standards and practices, which we believe are prudent, and positive multifamily market fundamentals, the credit quality of the multifamily mortgage portfolio remains strong. Our portfolio performance continued to experience minimal credit losses due to low foreclosure activity and an increase in net operating income of the underlying multifamily properties in most regional areas. Multifamily credit losses as a percentage of the combined average balance of our multifamily loan and guarantee portfolios were 2.8, 6.3, and 9.6 basis points in 2012, 2011, and 2010 respectively. The delinquency rate for loans in the multifamily mortgage portfolio was 0.19%, 0.22%, and 0.26%, as of December 31, 2012, 2011, and 2010, respectively. As of December 31, 2012, more than half of the multifamily loans that were two or more monthly payments past due, measured on a UPB basis, had credit enhancements that we currently believe will mitigate our expected losses on those loans and guarantees. Recent market data, such as improving vacancy rates and effective rents, continues to reflect positive multifamily market fundamentals on a national level. As a result, we expect our multifamily delinquency rate to remain low in 2013. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Multifamily Mortgage Credit Risk* for further information about our reported multifamily delinquency rates and credit enhancements on multifamily loans. For further information on delinquencies, including geographical and other concentrations, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS.

CONSOLIDATED BALANCE SHEETS ANALYSIS

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

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

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

The short-term assets on our consolidated balance sheets also include those related to our consolidated VIEs, which consisted primarily of restricted cash and cash equivalents and securities purchased under agreements to resell at December 31, 2012. These short-term assets related to our consolidated VIEs increased by $5.9 billion from December 31, 2011 to December 31, 2012, primarily due to an increase in the level of refinancing activity.

Excluding amounts related to our consolidated VIEs, we held $8.5 billion and $28.4 billion of cash and cash equivalents, no federal funds sold, and $18.3 billion and $12.0 billion of securities purchased under agreements to resell at December 31, 2012 and 2011, respectively. The aggregate decrease in these assets was primarily driven by a decline in funding needs for debt redemptions. Excluding amounts related to our consolidated VIEs, we held on average $15.0 billion and $20.3 billion of cash and cash equivalents and $25.0 billion and $25.1 billion of federal funds sold and securities purchased under agreements to resell during the three and twelve months ended December 31, 2012, respectively.

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

Investments in Securities

The two tables below provide detail regarding our investments in securities as of December 31, 2012, 2011 and 2010. The tables do not include our holdings of single-family PCs and certain Other Guarantee Transactions. For information on our holdings of such securities, see Table 16 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.

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Table 21 Investments in Available-For-Sale Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
December 31, 2012				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 53,965	$ 4,602	$ (52)	$ 58,515
Fannie Mae	14,183	1,099	(2)	15,280
Ginnie Mae	183	26		209
CMBS	47,606	3,882	(181)	51,307
Subprime	35,503	83	(9,129)	26,457
Option ARM	7,454	48	(1,785)	5,717
Alt-A and other	11,861	244	(1,201)	10,904
Obligations of states and political subdivisions	5,647	154	(3)	5,798
Manufactured housing	716	24	(31)	709
Total investments in available-for-sale mortgage-related securities	$ 177,118	$ 10,162	$ (12,384)	$ 174,896
December 31, 2011				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 74,711	$ 6,429	$ (48)	$ 81,092
Fannie Mae	19,023	1,303	(4)	20,322
Ginnie Mae	219	30		249
CMBS	53,637	2,574	(548)	55,663
Subprime	41,347	60	(13,408)	27,999
Option ARM	9,019	15	(3,169)	5,865
Alt-A and other	13,659	32	(2,812)	10,879
Obligations of states and political subdivisions	7,782	108	(66)	7,824
Manufactured housing	820	6	(60)	766
Total investments in available-for-sale mortgage-related securities	$ 220,217	$ 10,557	$ (20,115)	$ 210,659
December 31, 2010				
Available-for-sale mortgage-related securities:				
Freddie Mac	$ 80,742	$ 5,142	$ (195)	$ 85,689
Fannie Mae	23,025	1,348	(3)	24,370
Ginnie Mae	268	28		296
CMBS	58,455	1,551	(1,919)	58,087
Subprime	47,916	1	(14,056)	33,861
Option ARM	10,726	16	(3,853)	6,889
Alt-A and other	15,561	58	(2,451)	13,168
Obligations of states and political subdivisions	9,885	31	(539)	9,377
Manufactured housing	945	13	(61)	897
Total investments in available-for-sale mortgage-related securities	$ 247,523	$ 8,188	$ (23,077)	$ 232,634

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Table 22 Investments in Trading Securities

	December 31, 2012	2011	2010
	(in millions)		
Trading mortgage-related securities:			
Freddie Mac	$ 10,354	$ 16,047	$ 13,437
Fannie Mae	10,338	15,165	18,726
Ginnie Mae	131	156	172
Other	156	164	31
Total trading mortgage-related securities	20,979	31,532	32,366
Trading non-mortgage-related securities:			
Asset-backed securities	292	302	44
Treasury bills	1,160	100	17,289
Treasury notes	19,061	24,712	10,122
FDIC-guaranteed corporate medium-term notes		2,184	441
Total trading non-mortgage-related securities	20,513	27,298	27,896
Total fair value of investments in trading securities	$ 41,492	$ 58,830	$ 60,262

Non-Mortgage-Related Securities

Our investments in non-mortgage-related securities provide an additional source of liquidity. We held investments in non-mortgage-related securities classified as trading of $20.5 billion and $27.3 billion as of December 31, 2012 and December 31, 2011, respectively.

Mortgage-Related Securities

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

The table below provides the UPB of our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets. The table below does not include our holdings of our own single-family PCs and certain Other Guarantee Transactions. For further information on our holdings of such securities, see Table 16 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.

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Table 23 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	December 31, 2012			December 31, 2011		
	Fixed Rate	Variable Rate (1)	Total	Fixed Rate	Variable Rate (1)	Total
			(in millions)			
Freddie Mac mortgage-related securities:(2)						
Single-family	$ 50,979	$ 7,256	$ 58,235	$ 72,795	$ 9,753	$ 82,548
Multifamily	750	1,632	2,382	1,216	1,792	3,008
Total Freddie Mac mortgage-related securities	51,729	8,888	60,617	74,011	11,545	85,556
Non-Freddie Mac mortgage-related securities:						
Agency securities:(3)						
Fannie Mae:						
Single-family	10,864	12,518	23,382	16,543	15,998	32,541
Multifamily	35	49	84	52	76	128
Ginnie Mae:						
Single-family	202	91	293	253	104	357
Multifamily	15		15	16		16
Total Non-Freddie Mac agency securities	11,116	12,658	23,774	16,864	16,178	33,042
Non-agency mortgage-related securities:						
Single-family:(4)						
Subprime	311	44,086	44,397	336	48,696	49,032
Option ARM		12,012	12,012		13,949	13,949
Alt-A and other	1,774	13,036	14,810	2,128	14,662	16,790
CMBS	17,657	30,300	47,957	19,735	34,375	54,110
Obligations of states and political subdivisions(5)	5,637	19	5,656	7,771	22	7,793
Manufactured housing	741	121	862	831	129	960
Total non-agency mortgage-related securities(6)	26,120	99,574	125,694	30,801	111,833	142,634
Total UPB of mortgage-related securities	$ 88,965	$ 121,120	210,085	$ 121,676	$ 139,556	261,232
Premiums, discounts, deferred fees, impairments of UPB and other basis adjustments			(13,922)			(12,363)
Net unrealized (losses) on mortgage-related securities, pre-tax			(288)			(6,678)
Total carrying value of mortgage-related securities			$ 195,875			$ 242,191

(1) Variable-rate mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral.

(2) When we purchase REMICs and Other Structured Securities and certain Other Guarantee Transactions that we have issued, we account for these securities as investments in debt securities as we are investing in the debt securities of a non-consolidated entity. We do not consolidate our resecuritization trusts unless we are deemed to be the primary beneficiary of such trusts. We are subject to the credit risk associated with the mortgage loans underlying our Freddie Mac mortgage-related securities. Mortgage loans underlying our issued single-family PCs and certain Other Guarantee Transactions are recognized on our consolidated balance sheets as held-for-investment mortgage loans, at amortized cost. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities for further information.

(3) Agency securities are generally not separately rated by nationally recognized statistical rating organizations, but have historically been viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.

(4) For information about how these securities are rated, see Table 29 Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS.
(5) Consists of housing revenue bonds. Approximately 36% and 37% of these securities held at December 31, 2012 and 2011, respectively, were AAA-rated as of those dates, based on the UPB and the lowest rating available.
(6) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 21% of total non-agency mortgage-related securities held at both December 31, 2012 and 2011, were AAA-rated as of those dates, based on the UPB and the lowest rating available.

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

T able 24 Additional Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	December 31, 2012		December 31, 2011	
	UPB	Fair Value	UPB	Fair Value
	(in millions)			
Agency pass-through securities[1]	$ 17,614	$ 19,125	$ 24,283	$ 26,193
Agency REMICs and Other Structured Securities:				
Interest-only securities[2]		2,023		2,863
Principal-only securities[3]	2,291	2,169	3,569	3,344
Inverse floating-rate securities[4]	2,804	4,106	4,839	6,826
Other[5]	61,682	67,404	85,907	93,805
Total agency securities	84,391	94,827	118,598	133,031
Non-agency securities[6]	125,694	101,048	142,634	109,160
Total mortgage-related securities	$ 210,085	$ 195,875	$ 261,232	$ 242,191

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

The total UPB of our investments in mortgage-related securities on our consolidated balance sheets decreased from $261.2 billion at December 31, 2011 to $210.1 billion at December 31, 2012, while the fair value of these investments decreased from $242.2 billion at December 31, 2011 to $195.9 billion at December 31, 2012. The reduction in UPB resulted from liquidations, consistent with our efforts to reduce the size of our mortgage-related investments portfolio, as described in BUSINESS Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio*.

The table below summarizes our mortgage-related securities purchase activity for 2012, 2011, and 2010. This activity primarily consists of purchases of single-family PCs and multifamily Other Guarantee Transactions. Our purchases of single-family PCs and certain Other Guarantee Transactions issued by trusts that we consolidated are recorded as an extinguishment of debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

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Table 25 Mortgage-Related Securities Purchase Activity[1]

	Year Ended December 31, 2012	2011	2010
		(in millions)	
Non-Freddie Mac mortgage-related securities purchased for resecuritization:			
Ginnie Mae Certificates	$ 21	$ 77	$ 69
Non-agency mortgage-related securities purchased for Other Guarantee Transactions [2]	17,908	11,527	9,579
Total non-Freddie Mac mortgage-related securities purchased for resecuritization	17,929	11,604	9,648
Non-Freddie Mac mortgage-related securities purchased as investments in securities:			
Agency securities:			
Fannie Mae:			
Fixed-rate		5,835	
Variable-rate	170	2,297	373
Total agency securities	170	8,132	373
Non-agency mortgage-related securities:			
CMBS:			
Fixed-rate	10	14	
Variable-rate	69	179	40
Total non-agency mortgage-related securities	79	193	40
Total non-Freddie Mac mortgage-related securities purchased as investments in securities	249	8,325	413
Total non-Freddie Mac mortgage-related securities purchased	$ 18,178	$ 19,929	$ 10,061
Freddie Mac mortgage-related securities purchased:			
Single-family:			
Fixed-rate	$ 52,882	$ 94,543	$ 40,462
Variable-rate	4,856	5,057	923
Multifamily:			
Fixed-rate	119	355	271
Variable-rate		117	111
Total Freddie Mac mortgage-related securities purchased	$ 57,857	$ 100,072	$ 41,767

(1) Based on UPB. Excludes mortgage-related securities traded but not yet settled.
(2) Purchases in 2010 include HFA bonds we acquired and resecuritized under the NIBP. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS for further information on this component of the HFA initiative.

The purchases of Freddie Mac mortgage-related securities we made during 2012, as reflected in the table above, primarily related to our securitization of mortgage loans that we had purchased for cash, and our subsequent retention of the PCs created from such securitizations. During 2011, as reflected in the table above, we increased our participation in dollar roll transactions compared to 2010, primarily in an effort to support the liquidity and price performance of our PCs. When these transactions involve our consolidated PC trusts, the purchase and sale represents an extinguishment and issuance of debt securities, respectively, and impacts our net interest income and recognition of gain or loss on the extinguishment of debt on our consolidated statements of comprehensive income. These dollar roll transactions can cause short-term fluctuations in the balance of our mortgage-related investments portfolio. For more information, see BUSINESS Our Business Segments *Investments Segment PC Support Activities* and RISK FACTORS Competitive and Market Risks *A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee* *business.*

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

At December 31, 2012, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were $12.4 billion, compared to $20.1 billion at December 31, 2011. The decrease was primarily due to fair value gains related to: (a) our investments in single-family non-agency mortgage-related securities, primarily due to the movement of these securities with unrealized losses towards maturity; (b) the impact of spread tightening on our CMBS; and (c) the impact of declining interest rates. We believe the unrealized losses related to these securities at December 31, 2012 were mainly attributable to poor underlying collateral performance, limited liquidity and large risk premiums in the market for residential non-agency mortgage-related securities. All available-for-sale securities in an unrealized loss position are evaluated to determine if the impairment is other-than-temporary. See Total Equity (Deficit) and NOTE 7: INVESTMENTS IN SECURITIES for additional information regarding unrealized losses on our available-for-sale securities.

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

As discussed below, we have exposure to subprime, option ARM, interest-only, and Alt-A and other loans as part of our investments in mortgage-related securities as follows:

- *Single-family non-agency mortgage-related securities*: We hold non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans.

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

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

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

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T able 26 Non-Agency Mortgage-Related Securities Backed by Subprime First Lien, Option ARM, and Alt-A Loans and Certain Related Credit Statistics[(1)]

	12/31/2012	9/30/2012	As of 6/30/2012 (dollars in millions)	3/31/2012	12/31/2011
UPB:					
Subprime first lien[(2)]	$ 44,066	$ 45,166	$ 46,306	$ 47,478	$ 48,644
Option ARM	12,012	12,477	12,958	13,508	13,949
Alt-A[(3)]	12,634	13,055	13,471	13,885	14,260
Gross unrealized losses, pre-tax:[(4)]					
Subprime first lien [(2)]	$ 9,128	$ 10,464	$ 12,810	$ 12,661	$ 13,401
Option ARM	1,785	2,502	2,997	2,909	3,169
Alt-A[(3)]	1,093	1,488	2,082	2,094	2,612
Present value of expected future credit losses:[(5)]					
Subprime first lien [(2)]	$ 7,159	$ 7,129	$ 6,571	$ 7,325	$ 6,746
Option ARM	3,542	3,442	3,296	3,908	4,251
Alt-A [(3)]	1,739	1,699	1,956	2,237	2,235
Collateral delinquency rate: [(6)]					
Subprime first lien [(2)]	39%	39%	40%	42%	42%
Option ARM	38	40	42	43	44
Alt-A [(3)]	23	24	24	25	25
Average credit enhancement: [(7)]					
Subprime first lien [(2)]	15%	17%	19%	20%	21%
Option ARM	3	4	5	6	7
Alt-A [(3)]	4	5	5	6	7
Cumulative collateral loss: [(8)]					
Subprime first lien [(2)]	26%	25%	24%	23%	22%
Option ARM	21	20	19	18	17
Alt-A [(3)]	10	10	9	9	8

(1) See *Ratings of Non-Agency Mortgage-Related Securities* for additional information about these securities.
(2) Excludes non-agency mortgage-related securities backed exclusively by subprime second liens. Certain securities identified as subprime first lien may be backed in part by subprime second-lien loans, as the underlying loans of these securities were permitted to include a small percentage of subprime second-lien loans.
(3) Excludes non-agency mortgage-related securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.
(4) Represents the aggregate of the amount by which amortized cost, after other-than-temporary impairments, exceeds fair value measured at the individual lot level.
(5) Represents our estimate of the present value of future contractual cash flows that we do not expect to collect, discounted at the effective interest rate determined based on the security s contractual cash flows and the initial acquisition costs. This discount rate is only utilized to analyze the cumulative credit deterioration for securities since acquisition and may be lower than the discount rate used to measure ongoing other-than-temporary impairment to be recognized in earnings for securities that have experienced a significant improvement in expected cash flows since the last recognition of other-than-temporary impairment recognized in earnings.
(6) Determined based on the number of loans that are two monthly payments or more past due that underlie the securities using information obtained from a third-party data provider.
(7) Reflects the ratio of the current principal amount of the securities issued by a trust that will absorb losses in the trust before any losses are allocated to securities that we own. Percentage generally calculated based on: (a) the total UPB of securities subordinate to the securities we own, divided by (b) the total UPB of all of the securities issued by the trust (excluding notional balances). Only includes credit enhancement provided by subordinated securities; excludes credit enhancement provided by bond insurance.
(8) Based on the actual losses incurred on the collateral underlying these securities. Actual losses incurred on the securities that we hold are significantly less than the losses on the underlying collateral as presented in this table, as non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements.

For purposes of our cumulative credit deterioration analysis, our estimate of the present value of expected future credit losses on our available-for-sale non-agency mortgage-related securities decreased to $13.2 billion at December 31, 2012 from $14.0 billion at December 31, 2011. All of these amounts have been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decrease in the present value of expected future credit losses was primarily driven by: (a) improvements in forecasted home prices over the expected life of our available-for-sale securities; (b) the impact of lower interest rates in 2012 resulting in a benefit from expected structural credit enhancements on the securities; and (c) realized cash shortfalls. This decrease was partially offset by an increase in the present value of expected future credit loss estimates related to the impact of our implementation, in the fourth quarter of 2012, of a third-party model, which enhanced our approach to estimating other-than-temporary impairments of our single-family non-agency mortgage-related securities. For more information regarding our implementation of this model, see NOTE 7: INVESTMENTS IN SECURITIES Impairment Recognition on Investments in Securities.

Since the beginning of 2007, we have incurred actual principal cash shortfalls of $2.8 billion on impaired non-agency mortgage-related securities, including $315 million and $1.3 billion related to the three and twelve months ended December 31, 2012, respectively. Many of the trusts that issued non-agency mortgage-related securities we hold were structured so that realized collateral losses in excess of structural credit enhancements are not passed on to investors until the investment matures. We currently estimate that the future expected principal and interest shortfalls on non-agency mortgage-related securities we hold will be significantly less than the fair value declines experienced on these securities. As noted above, at December 31, 2012, our estimate of the present value of expected future credit losses was $13.2 billion.

The investments in non-agency mortgage-related securities we hold backed by subprime, option ARM, and Alt-A loans were generally structured to include credit enhancements, particularly through subordination and other structural enhancements. Bond insurance is an additional credit enhancement covering some of the non-agency mortgage-related securities. These credit enhancements are the primary reason we expect our actual losses, through principal or interest shortfalls, to be less than the underlying collateral losses in the aggregate. During 2012, we continued to experience the erosion of structural credit enhancements on many securities backed by subprime, option ARM, and Alt-A loans due to poor performance of the underlying collateral. For more information on bond insurance coverage, see RISK MANAGEMENT Credit Risk *Institutional Credit Risk Bond Insurers*.

The table below provides principal repayment and cash shortfall information for our investments in non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans.

Table 27 Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans[1]

	Three Months Ended				
	12/31/2012	**9/30/2012**	**6/30/2012**	**3/31/2012**	**12/31/2011**
			(in millions)		
Principal repayments and cash shortfalls:[2]					
Subprime:					
Principal repayments	$ 1,106	$ 1,149	$ 1,180	$ 1,175	$ 1,159
Principal cash shortfalls	7	4	7	6	7
Option ARM:					
Principal repayments	$ 239	$ 269	$ 300	$ 272	$ 298
Principal cash shortfalls	226	211	234	169	103
Alt-A and other:					
Principal repayments	$ 423	$ 393	$ 405	$ 374	$ 385
Principal cash shortfalls	81	101	106	97	80

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

We and FHFA, as Conservator, are involved in efforts to mitigate our losses as an investor with respect to certain of the non-agency mortgage-related securities we hold. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk Non-Agency Mortgage-Related Security Issuers* for more information.

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

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

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Table 28 Net Impairment of Available-For-Sale Mortgage-Related Securities Recognized in Earnings

	Net Impairment of Available-For-Sale Securities Recognized in Earnings Three Months Ended				
	12/31/2012	9/30/2012	6/30/2012 (in millions)	3/31/2012	12/31/2011
Subprime:[1]					
2006 & 2007	$ 591	$ 159	$ 51	$ 433	$ 472
Other years	24	1	7	8	8
Total subprime	615	160	58	441	480
Option ARM:					
2006 & 2007	306	62	18	32	40
Other years	122			16	19
Total option ARM	428	62	18	48	59
Alt-A:					
2006 & 2007	37			16	22
Other years	100		1	36	21
Total Alt-A	137		1	52	43
Other loans			1	5	3
Total subprime, option ARM, Alt-A and other loans	1,180	222	78	546	585
CMBS	58	45	19	16	8
Manufactured housing	1		1	2	2
Total available-for-sale mortgage-related securities	$ 1,239	$ 267	$ 98	$ 564	$ 595

(1) Includes all first and second liens.

We recorded net impairment of available-for-sale mortgage-related securities recognized in earnings of $1.2 billion and $2.2 billion during the three and twelve months ended December 31, 2012, respectively, compared to $595 million and $2.3 billion during the three and twelve months ended December 31, 2011, respectively. We recorded these impairments because our estimate of the present value of expected future credit losses on certain individual available-for-sale securities increased during these periods. These impairments include $1.2 billion and $2.0 billion related to securities backed by subprime, option ARM, and Alt-A and other loans during the three and twelve months ended December 31, 2012, respectively, compared to $585 million and $1.9 billion during the three and twelve months ended December 31, 2011, respectively. In addition, during 2011, we recognized the unrealized fair value losses of $181 million related to certain investments in CMBS as a net impairment of available-for-sale securities recognized in earnings because we had the intent to sell these securities prior to the recovery of the unrealized losses. We did not recognize any net impairment of available-for-sale securities in earnings during 2012 as a result of an intent to sell available-for-sale securities prior to the recovery of the unrealized losses. For more information, including information regarding a model change related to impairments implemented in the fourth quarter of 2012, see CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Investment Securities-Related Activities* and NOTE 7: INVESTMENTS IN SECURITIES Other-Than-Temporary Impairments on Available-for-Sale Securities.

While it is reasonably possible that collateral losses on our available-for-sale mortgage-related securities where we have not recorded an impairment charge in earnings could exceed our credit enhancement levels, we do not believe that those conditions were likely at December 31, 2012. Based on our conclusion that we do not intend to sell our remaining available-for-sale mortgage-related securities that are in an unrealized loss position and it is not more likely than not that we will be required to sell these securities before a sufficient time to recover all unrealized losses and our consideration of other available information, we have concluded that the reduction in fair value of these securities was temporary at December 31, 2012 and have recorded these unrealized losses in AOCI.

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

We rely on bond insurance, including secondary coverage, to provide credit protection on some of our investments in non-agency mortgage-related securities. We have determined that there is substantial uncertainty surrounding certain bond insurers ability to pay our future claims on expected credit losses related to our non-agency mortgage-related security investments. This uncertainty contributed to the impairments recognized in earnings during 2012, 2011, and 2010. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk Bond Insurers* and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers for additional information.

Our assessments concerning other-than-temporary impairment require significant judgment and the use of models, and are subject to potentially significant change as conditions evolve. In addition, changes in the performance of the individual securities and in mortgage market conditions may also affect our impairment assessments. Depending on the structure of the individual mortgage-related security and our estimate of collateral losses relative to the amount of credit support expected to be available for the tranches we own, a change in collateral loss estimates can have a disproportionate impact on the loss estimate for the security. Additionally, servicer performance, loan modification programs and backlogs, bankruptcy reform and other forms of government intervention in the housing market can significantly affect the performance of these securities, including the timing of loss recognition of the underlying loans and thus the timing of losses we recognize on our securities. Impacts related to changes in interest rates may also affect our losses due to the structural credit enhancements on our investments in non-agency mortgage-related securities. The lengthening of the foreclosure timelines that has occurred in recent years can also affect our losses. For example, while defaulted loans remain in the trusts prior to completion of the foreclosure process, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments, rather than absorbing default losses. This may reduce the amount of funds available for the tranches we own. Given the uncertainty of the housing and economic environment, it is difficult to estimate the future performance of mortgage loans and mortgage-related securities with high assurance, and actual results could differ materially from our expectations. Furthermore, various market participants could arrive at materially different conclusions regarding estimates of future cash shortfalls.

For more information on risks associated with the use of models, see RISK FACTORS Operational Risks *We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties.*

Ratings of Non-Agency Mortgage-Related Securities

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

Table 29 Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS

Credit Ratings as of December 31, 2012	UPB	Percentage of UPB	Amortized Cost	Gross Unrealized Losses	Bond Insurance Coverage (1)
			(dollars in millions)		
Subprime loans:					
AAA-rated	$ 268	1%	$ 268	$ (21)	$ 18
Other investment grade	1,989	4	1,945	(110)	366
Below investment grade (2)	42,140	95	33,290	(8,998)	1,474
Total	$ 44,397	100%	$ 35,503	$ (9,129)	$ 1,858
Option ARM loans:					
AAA-rated	$	%	$	$	$
Other investment grade	32		32	(2)	32
Below investment grade (2)	11,980	100	7,422	(1,783)	12
Total	$ 12,012	100 %	$ 7,454	$ (1,785)	$ 44
Alt-A and other loans:					
AAA-rated	$ 48	%	$ 48	$ (2)	$ 6
Other investment grade	1,570	11	1,581	(133)	261
Below investment grade (2)	13,192	89	10,234	(1,066)	1,862
Total	$ 14,810	100%	$ 11,863	$ (1,201)	$ 2,129
CMBS:					
AAA-rated	$ 24,401	51%	$ 24,431	$ (4)	$ 41
Other investment grade	20,860	43	20,813	(87)	1,698
Below investment grade (2)	2,696	6	2,490	(90)	1,568
Total	$ 47,957	100%	$ 47,734	$ (181)	$ 3,307
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$ 24,717	21%	$ 24,747	$ (27)	$ 65
Other investment grade	24,451	20	24,371	(332)	2,357
Below investment grade (2)	70,008	59	53,436	(11,937)	4,916
Total	$ 119,176	100%	$ 102,554	$ (12,296)	$ 7,338
Total investments in mortgage-related securities	$ 210,085				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	57%				
Credit Ratings as of December 31, 2011					
Subprime loans:					
AAA-rated	$ 1,000	2%	$ 1,000	$ (115)	$ 23
Other investment grade	2,643	5	2,643	(399)	383
Below investment grade (2)	45,389	93	37,704	(12,894)	1,641
Total	$ 49,032	100%	$ 41,347	$ (13,408)	$ 2,047
Option ARM loans:					
AAA-rated	$	%	$	$	$
Other investment grade	76	1	76	(8)	76
Below investment grade (2)	13,873	99	8,943	(3,161)	39

Total	$ 13,949	100%	$ 9,019	$ (3,169)	$ 115
Alt-A and other loans:					
AAA-rated	$ 350	2%	$ 348	$ (20)	$ 6
Other investment grade	2,237	13	2,260	(371)	310
Below investment grade (2)	14,203	85	11,053	(2,421)	2,139
Total	$ 16,790	100%	$ 13,661	$ (2,812)	$ 2,455
CMBS:					
AAA-rated	$ 25,499	47%	$ 25,540	$ (22)	$ 42
Other investment grade	25,421	47	25,394	(346)	1,585
Below investment grade (2)	3,190	6	2,851	(180)	1,697
Total	$ 54,110	100%	$ 53,785	$ (548)	$ 3,324
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$ 26,849	20%	$ 26,888	$ (157)	$ 71
Other investment grade	30,377	23	30,373	(1,124)	2,354
Below investment grade (2)	76,655	57	60,551	(18,656)	5,516
Total	$ 133,881	100%	$ 117,812	$ (19,937)	$ 7,941
Total investments in mortgage-related securities	$ 261,232				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	51%				

(1) Represents the amount of UPB covered by bond insurance. This amount does not represent the maximum amount of losses we could recover, as the bond insurance also covers interest.
(2) Includes securities with S&P equivalent credit ratings below BBB and certain securities that are no longer rated.

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Mortgage Loans

The UPB of mortgage loans on our consolidated balance sheets declined to $1.7 trillion as of December 31, 2012, from $1.8 trillion as of December 31, 2011. This decline reflects that the amount of single-family loan liquidations during the period exceeded new loan purchase and guarantee activity, which we believe is due, in part, to declines in the amount of single-family mortgage debt outstanding in the market and a decline in our single-family competitive position compared to other market participants (primarily Fannie Mae and Ginnie Mae). See RISK FACTORS Competitive and Market Risks *A significant decline in the price performance of or demand for our PCs could have an adverse effect on the volume and/or profitability of our new single-family guarantee business* for further information on our competitive position in the single-family mortgage market. Most of the loans on our consolidated balance sheets are securitized (e.g., held in PC trusts). The unsecuritized loans on our consolidated balance sheets generally consist of loans held for investment purposes, loans that are awaiting securitization, or delinquent or modified loans that we removed from PC trusts.

The UPB of unsecuritized single-family mortgage loans declined by $27.0 billion to $144.7 billion at December 31, 2012, from $171.7 billion at December 31, 2011, primarily due to: (a) loan prepayments, foreclosure transfers, and foreclosure alternative activities; and (b) securitizations of loans through our PC cash auction process.

Based on the amount of the recorded investment of single-family loans on our consolidated balance sheets, approximately $59.8 billion, or 3.6%, of these loans were seriously delinquent as of December 31, 2012, as compared to $72.4 billion, or 4.2%, as of December 31, 2011. This decline was primarily due to a slowdown in new serious delinquencies (largely due to a decline in the portion of our single-family loans that were originated in 2005 through 2008), and the impact of our loss mitigation efforts, including short sales. The majority of these seriously delinquent loans are unsecuritized, and were removed by us from our PC trusts. As guarantor, we have the right to remove mortgages that back our PCs from the underlying loan pools under certain circumstances. See NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for more information on our removal of single-family loans from PC trusts.

The UPB of unsecuritized multifamily mortgage loans was $76.6 billion at December 31, 2012 and $82.3 billion at December 31, 2011. This decline is primarily the result of principal repayments on our loans held for investment during the period, which were partially offset by an increase in the balance of loans held-for-sale or securitization. Our principal multifamily business activity involves purchasing and aggregating loans for securitization. We expect to continue our securitization activity since it provides liquidity for the multifamily market, supports affordability for multifamily rental housing, and helps us to manage credit risk.

We maintain an allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets. We also maintain a reserve for guarantee losses that is associated with Freddie Mac mortgage-related securities backed by multifamily loans, certain single-family Other Guarantee Transactions, and other guarantee commitments for which we have incremental credit risk. Collectively, we refer to our allowance for loan losses and our reserve for guarantee losses as our loan loss reserves. Our loan loss reserves were $30.9 billion and $39.5 billion at December 31, 2012 and 2011, respectively, including $30.5 billion and $38.9 billion, respectively, related to single-family loans. At December 31, 2012 and 2011, our loan loss reserves, as a percentage of our total mortgage portfolio, excluding non-Freddie Mac securities, were 1.7% and 2.1%, respectively, and as a percentage of the UPB associated with our non-performing loans were 23.5% and 32.0%, respectively. Our loan loss reserves declined during 2012 primarily due to continued high levels of charge-offs that exceeded the amount of our provision for credit losses during the period. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* and NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for further detail about the mortgage loans and associated allowance for loan losses recorded on our consolidated balance sheets.

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

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Table 30 Mortgage Loan Purchases and Other Guarantee Commitment Issuances[(1)]

	Year Ended December 31,					
	2012		2011		2010	
	UPB Amount	% of Total	UPB Amount	% of Total	UPB Amount	% of Total
			(dollars in millions)			
Mortgage loan purchases and guarantee issuances:						
Single-family:						
30-year or more amortizing fixed-rate	$ 275,632	60%	$ 194,746	57%	$ 258,621	64%
20-year amortizing fixed-rate	29,614	7	21,378	6	23,852	6
15-year amortizing fixed-rate	103,141	23	78,543	23	83,025	21
Adjustable-rate [(2)]	18,075	4	25,685	8	16,534	4
Interest-only [(3)]					909	<1
HFA bonds					2,469	1
FHA/VA and other governmental	387	<1	441	<1	968	<1
Total single-family [(4)]	426,849	94	320,793	94	386,378	96
Multifamily	28,774	6	20,325	6	15,372	4
Total mortgage loan purchases and other guarantee commitment issuances[(5)]	$ 455,623	100%	$ 341,118	100%	$ 401,750	100%
Percentage of mortgage purchases and other guarantee commitment issuances with credit enhancements [(6)]	11%		8%		9%	

(1) Based on UPB. Excludes mortgage loans traded but not yet settled. Excludes the removal of seriously delinquent loans and balloon/reset mortgages out of PC trusts. Includes other guarantee commitments associated with mortgage loans. See endnote (5) for further information.
(2) Includes amortizing ARMs with 1-, 3-, 5-, 7-, and 10-year initial fixed-rate periods. We did not purchase any option ARM loans during the years ended December 31, 2012, 2011, or 2010.
(3) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed-rate and variable-rate interest-only loans.
(4) Includes $32.6 billion, $27.7 billion, and $23.9 billion of mortgage loans in excess of $417,000, which we refer to as conforming jumbo mortgages, for the years ended December 31, 2012, 2011, and 2010, respectively.
(5) Includes issuances of other guarantee commitments on single-family loans of $6.8 billion, $4.4 billion, and $5.7 billion and issuances of other guarantee commitments on multifamily loans of $2.4 billion, $1.0 billion, and $1.7 billion during the years ended December 31, 2012, 2011, and 2010, respectively, which include our unsecuritized guarantees of HFA bonds under the TCLFP in 2010.
(6) See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES Credit Protection and Other Forms of Credit Enhancement for further details on credit enhancement of mortgage loans in our multifamily mortgage and single-family credit guarantee portfolios.

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

Derivative Assets and Liabilities, Net

The composition of our derivative portfolio changes from period to period as a result of purchases and terminations of derivatives, assignments of derivatives prior to their contractual maturity, and expiration of derivatives at their contractual maturity. We classify net derivative interest receivable or payable, trade/settle receivable or payable, and cash collateral held or posted on our consolidated balance sheets in derivative assets, net and derivative liabilities, net. Non-cash collateral held is not recognized on our consolidated balance sheets as we do not obtain effective control over the collateral. See NOTE 7: INVESTMENTS IN SECURITIES Collateral Pledged for more information about collateral held and posted and NOTE 10: DERIVATIVES for additional information regarding our derivatives.

The table below shows the fair value for each derivative type, the weighted average fixed rate of our pay-fixed and receive-fixed swaps, and the maturity profile of our derivative positions reconciled to the amounts presented on our consolidated balance sheets as of December 31, 2012. A positive fair value in the table below for each derivative type is the estimated amount, prior to netting by counterparty, that we would be entitled to receive if the derivatives of that type were terminated. A negative fair value for a derivative type is the estimated amount, prior to netting by counterparty, that we would owe if the derivatives of that type were terminated.

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Table 31 Derivative Fair Values and Maturities

	December 31, 2012					
		Fair Value (1)				
	Notional or Contractual Amount (2)	Total Fair Value (3)	Less than 1 Year	1 to 3 Years	Greater than 3 and up to 5 Years	In Excess of 5 Years
	(dollars in millions)					
Interest-rate swaps:						
Receive-fixed:						
Swaps	$ 262,609	$ 12,525	$ 70	$ 941	$ 3,573	$ 7,941
Weighted average fixed rate (4)			1.18%	1.06%	1.75%	2.82%
Forward-starting swaps (5)	12,490	1,160				1,160
Weighted average fixed rate (4)			%	%	%	3.41%
Total receive-fixed	275,099	13,685	70	941	3,573	9,101
Basis (floating to floating)	2,300	6			6	
Pay-fixed:						
Swaps	257,327	(28,443)	(86)	(3,217)	(4,852)	(20,288)
Weighted average fixed rate (4)			1.13%	3.04 %	3.07%	3.58%
Forward-starting swaps (5)	12,765	(1,527)				(1,527)
Weighted average fixed rate (4)			%	%	%	3.25%
Total pay-fixed	270,092	(29,970)	(86)	(3,217)	(4,852)	(21,815)
Total interest-rate swaps	547,491	(16,279)	(16)	(2,276)	(1,273)	(12,714)
Option-based:						
Call swaptions						
Purchased	37,650	7,360	1,432	3,576	906	1,446
Written	6,195	(749)		(749)		
Put swaptions						
Purchased	43,200	288	2	13	25	248
Other option-based derivatives (6)	31,540	2,448				2,448
Total option-based	118,585	9,347	1,434	2,840	931	4,142
Futures	41,123	35	35			
Foreign-currency swaps	1,167	67	49	18		
Commitments	25,530	(27)	(27)			
Swap guarantee derivatives	3,628	(35)		(2)	(1)	(32)
Subtotal	737,524	(6,892)	$ 1,475	$ 580	$ (343)	$ (8,604)
Credit derivatives	8,307	(4)				
Subtotal	745,831	(6,896)				
Derivative interest receivable (payable), net		(830)				
Derivative cash collateral (held) posted, net		8,205				
Total	$ 745,831	$ 479				

(1) Fair value is categorized based on the period from December 31, 2012 until the contractual maturity of the derivative.
(2) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.
(3) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liabilities, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net. Excludes $501 million of non-cash collateral held. See endnote (5) to Table 67 Derivative Counterparty Credit Exposure for information about non-cash collateral held or posted.
(4) Represents the notional weighted average rate for the fixed leg of the swaps.
(5) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to thirteen years as of December 31, 2012.
(6) Primarily includes purchased interest-rate caps and floors.

At December 31, 2012, the net fair value of our total derivative portfolio was $479 million, as compared to $(317) million at December 31, 2011. The increase in the net fair value of derivatives resulted from the effects of non-cash collateral held, which was $501 million and $0 million as of December 31, 2012 and 2011, respectively. As discussed above, non-cash collateral held is not recognized on our consolidated balance sheets. See NOTE 10: DERIVATIVES for the notional or contractual amounts and related fair values of our total derivative portfolio by product type at December 31, 2012 and December 31, 2011, as well as derivative collateral posted and held.

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The table below summarizes the changes in derivative fair values.

Table 32 Changes in Derivative Fair Values

	2012[1]	2011[2]
	(in millions)	
Beginning balance, at January 1 Net asset (liability)	$ (8,662)	$ (6,560)
Net change in:		
Commitments	29	(36)
Credit derivatives		(11)
Swap guarantee derivatives	2	(1)
Other derivatives:[3]		
Changes in fair value	1,051	(3,383)
Fair value of new contracts entered into during the period[4]	2	594
Contracts realized or otherwise settled during the period	682	735
Ending balance, at December 31 Net asset (liability)	$ (6,896)	$ (8,662)

(1) Refer to Table 31 Derivative Fair Values and Maturities for a reconciliation of net fair value to the amounts presented on our consolidated balance sheets as of December 31, 2012.
(2) At December 31, 2011, fair value in this table excludes derivative interest receivable or (payable), net of $(1.1) billion, trade/settle receivable or (payable), net of $1 million, and derivative cash collateral posted, net of $9.4 billion.
(3) Includes fair value changes for interest-rate swaps, option-based derivatives, futures, and foreign-currency swaps.
(4) Consists primarily of cash premiums paid or received on options.

See CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Derivative Gains (Losses)* for a description of gains (losses) on our derivative positions.

REO, Net

We acquire properties, which are recorded as REO assets on our consolidated balance sheets, typically as a result of borrower default (and subsequent foreclosures) on mortgage loans that we own or guarantee. The balance of our REO, net, declined to $4.4 billion at December 31, 2012, from $5.7 billion at December 31, 2011. We believe the volume of our single-family REO acquisitions in recent years was less than it otherwise would have been due to several factors, including the length of the foreclosure process and increased volume of foreclosure alternatives. Lower acquisitions, coupled with high disposition levels, led to a lower REO property inventory level in 2012 compared to 2011. We expect that the length of the foreclosure process will continue to remain above historical levels and may further increase. Additionally, we expect our REO activity to remain at elevated levels, as we have a large inventory of seriously delinquent loans in our single-family credit guarantee portfolio. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Non-Performing Assets* for additional information about our REO activity.

Deferred Tax Assets, Net

After evaluating all available evidence, including our prior years losses, the events and developments related to our conservatorship, volatility in the economy, related difficulty in forecasting future profit levels, and our assertion that we have the intent and ability to hold our available-for-sale securities until any temporary unrealized losses are recovered, we continue to record a valuation allowance on a portion of our net deferred tax assets as of December 31, 2012 and 2011. We will continue to evaluate our conclusion regarding the need for a valuation allowance. It is possible that, in future periods, the uncertainties regarding our future operations and profitability could be resolved such that it could become more likely than not that the deferred tax assets would be realized and that a valuation allowance would no longer be necessary. See NOTE 12: INCOME TAXES for additional information.

Other Assets

Other assets consist of the guarantee asset related to non-consolidated trusts and other guarantee commitments, accounts and other receivables, and other miscellaneous assets. Other assets increased to $13.8 billion as of December 31, 2012 from $10.5 billion as of December 31, 2011 primarily due to an increase in servicer receivables resulting from an increase in mortgage loans paid off by borrowers at the end of the year that had not yet been remitted to us. Other assets also increased as we reduced certain unrecognized tax benefits to zero as a result of a favorable resolution of matters in dispute with the IRS. For more information regarding the discussions with the IRS, see NOTE 12: INCOME TAXES Unrecognized Tax Benefits *IRS Examinations and Litigation*. For more information on other assets, see NOTE 18: SELECTED FINANCIAL STATEMENT LINE ITEMS.

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Total Debt, Net

Total debt, net on our consolidated balance sheets consists of: (a) debt securities of consolidated trusts held by third parties; and (b) other debt.

PCs and Other Guarantee Transactions issued by our consolidated trusts and held by third parties are recognized as debt securities of consolidated trusts held by third parties on our consolidated balance sheets. Debt securities of consolidated trusts held by third parties represent our liability to third parties that hold beneficial interests in our consolidated trusts. The debt securities of our consolidated trusts may be prepaid at any time, as the loans that collateralize the debt may be prepaid without penalty at any time.

Other debt consists of unsecured short-term and long-term debt securities we issue to third parties to fund our business activities. It is classified as either short-term or long-term based on the contractual maturity of the debt instrument. See LIQUIDITY AND CAPITAL RESOURCES for information about our other debt.

The table below reconciles the par value of other debt and the UPB of debt securities of consolidated trusts held by third parties to the amounts shown in our consolidated balance sheets.

Table 33 Reconciliation of the Par Value and UPB to Total Debt, Net

	December 31, 2012	December 31, 2011
	(in millions)	
Total debt:		
Other debt:		
Par value	$ 552,472	$ 674,314
Unamortized balance of discounts and premiums[1]	(5,031)	(13,891)
Hedging-related and other basis adjustments[2]	77	123
Subtotal	547,518	660,546
Debt securities of consolidated trusts held by third parties:		
UPB	1,387,259	1,452,476
Unamortized balance of discounts and premiums	32,265	18,961
Subtotal	1,419,524	1,471,437
Total debt, net	$ 1,967,042	$ 2,131,983

(1) Primarily represents unamortized discounts on zero-coupon debt.
(2) Primarily represents deferrals related to debt instruments that were in hedge accounting relationships, and changes in the fair value attributable to instrument-specific interest-rate and credit risk related to foreign-currency denominated debt.

The table below summarizes our other short-term debt.

Table 34 Other Short-Term Debt

	2012				
	December 31,		Average Outstanding During the Year		Maximum Balance, Net Outstanding at Any Month End
	Balance, Net[(1)]	Weighted Average Effective Rate[(2)]	Balance, Net[(3)]	Weighted Average Effective Rate[(4)]	
	(dollars in millions)				
Reference Bills® securities and discount notes	$ 117,889	0.15%	$ 126,919	0.14%	$ 155,285
Medium-term notes			21	0.44	250
Federal funds purchased and securities sold under agreements to repurchase			12	0.28	
Other short-term debt	$ 117,889	0.15			

	2011				
	December 31,		Average Outstanding During the Year		Maximum Balance, Net Outstanding at Any Month End
	Balance, Net[(1)]	Weighted Average Effective Rate[(2)]	Balance, Net[(3)]	Weighted Average Effective Rate[(4)]	
	(dollars in millions)				
Reference Bills® securities and discount notes	$ 161,149	0.11%	$ 181,209	0.17%	$ 196,126
Medium-term notes	250	0.24	826	0.23	2,564
Federal funds purchased and securities sold under agreements to repurchase			13	0.16	
Other short-term debt	$ 161,399	0.11			

	2010				
	December 31,		Average Outstanding During the Year		Maximum Balance, Net Outstanding at Any Month End
	Balance, Net[(1)]	Weighted Average Effective Rate[(2)]	Balance, Net[(3)]	Weighted Average Effective Rate[(4)]	
	(dollars in millions)				
Reference Bills® securities and discount notes	$ 194,742	0.24%	$ 213,465	0.25%	$ 240,037
Medium-term notes	2,364	0.31	1,955	0.34	3,661
Federal funds purchased and securities sold under agreements to repurchase			72	0.30	
Other short-term debt	$ 197,106	0.25			

(1) Represents par value, net of associated discounts and premiums, of which $0 billion, $0.2 billion, and $0.9 billion of short-term debt represents the fair value of debt securities with the fair value option elected at December 31, 2012, 2011, and 2010, respectively.

(2) Represents the approximate weighted average effective rate for each instrument outstanding at the end of the period, which includes the amortization of discounts or premiums and issuance costs.
(3) Represents par value, net of associated discounts, premiums, and issuance costs. Issuance costs are reported in the other assets caption on our consolidated balance sheets.
(4) Represents the approximate weighted average effective rate during the period, which includes the amortization of discounts or premiums and issuance costs.

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

Table 35 Freddie Mac Mortgage-Related Securities[1]

	December 31, 2012			December 31, 2011		
	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total
	(in millions)					
Single-family:						
30-year or more amortizing fixed-rate	$ 1,039,439	$	$ 1,039,439	$ 1,123,105	$	$ 1,123,105
20-year amortizing fixed-rate	78,122		78,122	68,584		68,584
15-year amortizing fixed-rate	270,032		270,032	252,563		252,563
Adjustable-rate [2]	68,470		68,470	69,402		69,402
Interest-only [3]	41,275		41,275	59,007		59,007
FHA/VA and other governmental	3,084		3,084	3,267		3,267
Total single-family	1,500,422		1,500,422	1,575,928		1,575,928
Multifamily		4,224	4,224		4,496	4,496
Total single-family and multifamily	1,500,422	4,224	1,504,646	1,575,928	4,496	1,580,424
Other Guarantee Transactions:						
Non-HFA bonds:						
Single-family[4]	10,455	3,415	13,870	12,877	3,838	16,715
Multifamily	448	36,732	37,180		19,682	19,682
Total Non-HFA bonds	10,903	40,147	51,050	12,877	23,520	36,397
HFA Bonds: [5]						
Single-family		4,827	4,827		6,118	6,118
Multifamily		863	863		966	966
Total HFA bonds		5,690	5,690		7,084	7,084
Total Other Guarantee Transactions	10,903	45,837	56,740	12,877	30,604	43,481
REMICs and Other Structured Securities backed by Ginnie Mae certificates [6]		654	654		779	779
Total Freddie Mac Mortgage-Related Securities	$ 1,511,325	$ 50,715	$ 1,562,040	$ 1,588,805	$ 35,879	$ 1,624,684
Less: Repurchased Freddie Mac Mortgage-Related Securities[7]	(124,066)			(136,329)		
Total UPB of debt securities of consolidated trusts held by third parties	$ 1,387,259			$ 1,452,476		

(1) Amounts are based on UPB of the securities and exclude mortgage-related securities traded, but not yet settled.
(2)

Includes $1.0 billion and $1.2 billion in UPB of option ARM mortgage loans as of December 31, 2012 and 2011, respectively. See endnote (4) for additional information on option ARM loans that back our Other Guarantee Transactions.

(3) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed- and variable-rate interest-only loans.

(4) Backed by non-agency mortgage-related securities that include prime, FHA/VA, and subprime mortgage loans and also include $6.3 billion and $7.3 billion in UPB of securities backed by option ARM mortgage loans at December 31, 2012 and 2011, respectively.

(5) Consists of bonds we acquired and resecuritized under the NIBP.

(6) Backed by FHA/VA loans.

(7) Represents the UPB of repurchased Freddie Mac mortgage-related securities that are consolidated on our balance sheets and includes certain remittance amounts associated with our security trust administration that are payable to third-party mortgage-related security holders. Our holdings of non-consolidated Freddie Mac mortgage-related securities are presented in Table 23 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets.

Excluding Other Guarantee Transactions, the percentage of amortizing fixed-rate single-family loans underlying our consolidated trust debt securities, based on UPB, was approximately 93% and 92% at December 31, 2012 and 2011, respectively. Freddie Mac single-family mortgage-related securities that we issued during 2012 were backed by a significant proportion of refinance mortgages. During 2012, the total UPB of debt securities of consolidated trusts held by third parties declined approximately 4.5%, as the volume of our new issuances was less than the volume of liquidations of these securities. The UPB of multifamily Other Guarantee Transactions, excluding HFA bonds, increased to $37.2 billion as of December 31, 2012 from $19.7 billion as of December 31, 2011, due to multifamily loan securitization activity.

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The table below presents additional details regarding our issued and guaranteed mortgage-related securities.

Table 36 Freddie Mac Mortgage-Related Securities by Class Type[1]

	December 31, 2012	December 31, 2011
	(in millions)	
Held by Freddie Mac:		
Single-class	$ 111,519	$ 125,271
Multiclass	75,244	98,396
Total held by Freddie Mac	186,763	223,667
Held by third parties:		
Single-class	947,627	949,301
Multiclass	427,650	451,716
Total held by third parties	1,375,277	1,401,017
Total Freddie Mac mortgage-related securities	$ 1,562,040	$ 1,624,684

(1) Based on UPB of the securities and excludes mortgage-related securities traded, but not yet settled.

The table below presents issuances and extinguishments of the debt securities of our consolidated trusts during 2012 and 2011, as well as the UPB of consolidated trusts held by third parties.

Table 37 Issuances and Extinguishments of Debt Securities of Consolidated Trusts[1]

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(in millions)	
Beginning balance of debt securities of consolidated trusts held by third parties	$ 1,452,476	$ 1,517,001
Issuances to third parties of debt securities of consolidated trusts:		
Issuances based on underlying mortgage product type:		
30-year or more amortizing fixed-rate	284,381	177,951
20-year amortizing fixed-rate	31,142	19,250
15-year amortizing fixed-rate	105,603	76,917
Adjustable-rate	18,189	25,675
Interest-only		152
FHA/VA		160
Multifamily	448	
Debt securities of consolidated trusts retained by us at issuance	(36,317)	(10,910)
Net issuances of debt securities of consolidated trusts	403,446	289,195
Reissuances of debt securities of consolidated trusts previously held by us [2]	29,384	80,485
Total issuances to third parties of debt securities of consolidated trusts	432,830	369,680
Extinguishments, net [3]	(498,047)	(434,205)
Ending balance of debt securities of consolidated trusts held by third parties	$ 1,387,259	$ 1,452,476

(1) Based on UPB.
(2) Represents our sales of PCs and certain Other Guarantee Transactions previously held by us.
(3) Represents: (a) UPB of our purchases from third parties of PCs and Other Guarantee Transactions issued by our consolidated trusts; (b) principal repayments related to PCs and Other Guarantee Transactions issued by our consolidated trusts; and (c) certain remittance amounts associated with our trust security administration that are payable to third-party mortgage-related security holders as of December 31, 2012 and 2011.

The UPB of debt securities of consolidated trusts held by third parties was $1.4 trillion and $1.5 trillion at December 31, 2012, and 2011, respectively. Extinguishments, net increased in 2012 compared to 2011 primarily due to significant refinance activity caused by historically low interest rates and the effect of the expanded HARP initiative. Net issuances of debt securities of consolidated trusts increased in 2012 compared to 2011 primarily due to the refinance activity noted above. Debt securities of consolidated trusts retained by us at issuance increased in 2012 compared to 2011 primarily due to mortgage loans that we had purchased for cash, subsequently securitized, and retained in our mortgage-related investments portfolio. Reissuances of debt securities of consolidated trusts previously held by us declined in 2012 compared to 2011 due to a decrease in the volume of dollar roll transactions.

In the third quarter of 2012, we corrected an error associated with the consolidation of certain of our REMIC trusts for which we held substantially all of the beneficial interests issued by the trusts, but did not consolidate the trusts in prior periods. In Table 37 Issuances and Extinguishments of Debt Securities of Consolidated Trusts, extinguishments, net for 2012 include $4.4 billion related to the consolidation of these REMIC trusts related to the correction of the error. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Basis of Presentation for more information.

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Other Liabilities

Other liabilities consist of the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts and other mortgage-related financial guarantees, servicer liabilities, accounts payable and accrued expenses, and other miscellaneous liabilities. Other liabilities increased to $6.1 billion as of December 31, 2012 from $6.0 billion as of December 31, 2011 primarily due to an increase in: (a) accrued estimated losses on unsettled foreclosure alternative transactions at year end primarily related to an increase in short sale activity; and (b) real estate services payable relating to estimated taxes and insurance on REO properties held in inventory at year end, partially offset by a decline in servicer liabilities primarily due to a decrease in the population of seriously delinquent loans. See NOTE 18: SELECTED FINANCIAL STATEMENT LINE ITEMS for additional information.

Total Equity (Deficit)

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

Table 38 Changes in Total Equity (Deficit)

	Three Months Ended					Twelve Months Ended
	12/31/2012	9/30/2012	6/30/2012	3/31/2012	12/31/2011	12/31/2012
	(in millions)					
Beginning balance	$ 4,907	$ 1,086	$ (18)	$ (146)	$ (5,991)	$ (146)
Net income	4,457	2,928	3,020	577	619	10,982
Other comprehensive income (loss), net of taxes:						
Changes in unrealized gains (losses) related to available-for-sale securities	1,261	2,599	(238)	1,147	701	4,769
Changes in unrealized gains (losses) related to cash flow hedge relationships	94	102	107	111	118	414
Changes in defined benefit plans	(84)	1	3	(46)	68	(126)
Comprehensive income	5,728	5,630	2,892	1,789	1,506	16,039
Capital draw funded by Treasury			19	146	5,992	165
Senior preferred stock dividends declared	(1,808)	(1,809)	(1,809)	(1,807)	(1,655)	(7,233)
Other			2		2	2
Total equity (deficit)/Net worth	$ 8,827	$ 4,907	$ 1,086	$ (18)	$ (146)	$ 8,827
Aggregate draws under the Purchase Agreement (as of period end) [1]	$ 71,336	$ 71,336	$ 71,336	$ 71,317	$ 71,171	$ 71,336
Aggregate senior preferred stock dividends paid to Treasury in cash (as of period end)	$ 23,754	$ 21,946	$ 20,137	$ 18,328	$ 16,521	$ 23,754
Percentage of dividends paid to Treasury in cash to aggregate draws (as of period end)	33%	31%	28%	26%	23%	33%

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

We requested a total of $19 million and $7.6 billion in draws from Treasury under the Purchase Agreement to eliminate quarterly deficits in net worth for 2012 and 2011, respectively. At December 31, 2012, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the fourth quarter of 2012. We paid cash dividends to Treasury of $7.2 billion and $6.5 billion during 2012 and 2011, respectively. Based on our Net Worth Amount at December 31, 2012, our dividend obligation to Treasury in March 2013 will be $5.8 billion.

Net unrealized losses on our available-for-sale securities in AOCI decreased by $4.8 billion during 2012. The decrease was primarily due to fair value gains related to: (a) the movement of our single-family non-agency mortgage-related securities with unrealized losses towards maturity;

(b) the impact of spread tightening on our CMBS; and (c) the impact of declining interest rates. Net unrealized losses on our closed cash flow hedge relationships in AOCI decreased by $414 million during 2012, primarily attributable to the reclassification of losses into earnings related to our closed cash flow hedges as the originally forecasted transactions affected earnings.

RISK MANAGEMENT

Our investment and credit guarantee activities expose us to three broad categories of risk: (a) credit risk; (b) interest-rate risk and other market risk; and (c) operational risk. See RISK FACTORS for additional information regarding these and other risks.

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Risk management is a critical aspect of our business. We manage risk through a framework whereby our executive management is responsible for independent risk evaluation. Within this framework, executive management monitors performance against our risk management strategies and established risk limits and reporting thresholds, identifies and assesses potential issues and provides oversight regarding changes in business processes and activities. For information about our Board s role in oversight of risk management, see CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE Board Leadership Structure and Role in Risk Oversight.

We utilize an internal economic capital framework and models to help inform our risk management process. Our economic capital framework provides a risk-based measurement of capital to reflect relevant market, credit, counterparty, and operational risks. We assign economic capital internally to asset classes based on their respective risks. We use economic capital as an input to inform economic decisions, establish risk limits, measure profitability, and estimate fair values.

Overall, the legal, political and regulatory influences on the financial services industry have continued to create significant challenges and, as a result, we believe that our risk profile remained elevated in 2012. Drivers of this continued elevated risk are: (a) continued uncertainty in the mortgage industry, including the future structure of the U.S. housing market; (b) continued pressure on mortgage seller/servicers, including changing practices in underwriting and foreclosure processes as well as on-going litigation by federal agencies related to prior practices; and (c) continued deterioration of the mortgage insurer sector, resulting in further concentration issues.

Internally, our environment has also contributed to an elevated risk profile. Management took actions in 2012 to mitigate these risks. For a discussion of the operational risks we face, see Operational Risks.

We expect legal, political and regulatory influences to continue to be significant factors in 2013, which could further increase uncertainty in the mortgage industry, increase our operational and people risks, or increase the uncertainty associated with the use of our models.

Credit Risk

We are subject primarily to two types of credit risk: mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee. We are exposed to mortgage credit risk on our total mortgage portfolio because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a Freddie Mac mortgage-related security, or other guarantee commitment. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations to us.

Mortgage Credit Risk

We are exposed to mortgage credit risk principally in our single-family credit guarantee and multifamily mortgage portfolios because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a Freddie Mac mortgage-related security, or other guarantee commitment. All mortgages that we purchase or guarantee have an inherent risk of default. We are also exposed to mortgage credit risk related to our investments in non-Freddie Mac mortgage-related securities. For information about our holdings of these securities, see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities.*

Single-Family Mortgage Credit Risk

Single-family mortgage credit risk is primarily influenced by the credit profile of the borrower of the mortgage (e.g., credit score, credit history, and monthly income relative to debt payments), documentation level, the number of borrowers, the features of the mortgage itself, the purpose of the mortgage, occupancy type, property type and value, the LTV ratio, and local and regional economic conditions, including home prices and unemployment rates.

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, our contracts with seller/servicers describe mortgage underwriting standards and the seller/servicers represent and warrant to us that the mortgages sold to us meet these standards. In our contracts with individual seller/servicers, we may waive or modify selected underwriting standards. Through our delegated underwriting process, mortgage loans and the borrowers ability to repay the loans are evaluated using a number of critical risk characteristics, including, but not limited to, the borrower s credit score and credit history, the borrower s monthly income relative to debt payments, the original LTV ratio, the type of mortgage product, the property type and market value, and the occupancy type of the loan. Our single-family

loans are generally underwritten with a requirement for a maximum original LTV ratio of 95% (excluding jumbo conforming, cash-out refinance, and HARP mortgages). We prescribe maximum LTV ratio limits of 80% and 90% for cash-out refinancing and jumbo conforming mortgages, respectively. For more information on the underwriting process, see BUSINESS Our Business Segments Single-Family Guarantee Segment *Underwriting Requirements and Quality Control Standards*.

We were significantly adversely affected by deteriorating conditions in the single-family housing and mortgage markets during 2008 and 2009. During 2005 to 2007, financial institutions substantially increased origination and securitization of certain higher risk mortgage loans, such as subprime, option ARM, interest-only and Alt-A, and these loans comprised a much larger proportion of origination and securitization issuance volumes during 2006 and 2007, and to a lesser extent in 2005, as compared to prior or subsequent years. During this time, we increased our participation in the market for these products through our purchases of non-agency mortgage-related securities and through our loan securitization and guarantee activities. Our expanded participation in these products was driven by a combination of competing objectives and pressures, including meeting our affordable housing goals, competition, the desire to maintain or increase market share, and generating returns for investors. The mortgage market has changed considerably since 2007. Financial institutions have tightened their underwriting standards and the mortgage origination market is predominately comprised of fixed-rate amortizing loans.

During 2012, conditions in the mortgage market improved in most geographical areas, but continued to remain challenging. Many single-family mortgage loans, especially those originated from 2005 through 2008, have been affected by the compounding pressures on household wealth caused by significant declines in home values that began in 2006 and the ongoing weak employment environment in many areas. Our serious delinquency rate remained high in 2012 compared to the rates we experienced in years prior to 2009, as discussed in Credit Performance Delinquencies. The UPB of our single-family non-performing loans also remained at high levels during 2012.

The table below presents certain credit information about loans in our single-family credit guarantee portfolio by year of origination as of December 31, 2012 and for the year then ended.

Table 39 Single-Family Credit Guarantee Portfolio Data by Year of Origination[1]

	At December 31, 2012						Year Ended December 31, 2012
	Percent of Portfolio	Average Credit Score[2]	Original LTV Ratio[3]	Current LTV Ratio[4]	Current LTV Ratio >100%[4][5]	Serious Delinquency Rate[6]	Percent of Credit Losses
Year of Origination							
2012	22%	755	78%	76%	13%	0.05%	<1%
2011	14	753	72	67	4	0.26	<1
2010	15	751	72	68	4	0.53	2
2009	12	750	70	69	4	0.88	2
Combined-2009 to 2012	63	753	74	71	7	0.39	4
2008	6	719	74	88	28	6.80	9
2007	7	700	77	107	55	12.37	36
2006	5	705	75	104	50	11.37	25
2005	6	712	73	89	32	7.20	17
Combined-2005 to 2008	24	708	75	98	42	9.56	87
2004 and prior	13	715	72	56	6	3.20	9
Total	100 %	737	74	75	15	3.25	100%

(1) Based on the loans remaining in the portfolio at December 31, 2012, which totaled $1.6 trillion, rather than all loans originally guaranteed by us and originated in the respective year. Includes loans acquired under our relief refinance initiative, which began in 2009.
(2) Based on FICO score of the borrower as of the date of loan origination and may not be indicative of the borrowers creditworthiness at December 31, 2012. Excludes less than 1% of loans in the portfolio because the FICO scores at origination were not available.
(3) See endnote (2) to Table 40 Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio for information on our calculation of original LTV ratios.
(4) We estimate current market values by adjusting the value of the property at origination based on changes in the market value of homes in the same geographical area since origination.
(5) Calculated as a percentage of the aggregate UPB of loans with LTV ratios greater than 100% in relation to the total UPB of loans in the category.
(6) See *Delinquencies* for further information about our reported serious delinquency rates.

Gains in home prices in many areas of the U.S. during 2012 led to improved current LTV ratios of the loans in our portfolio as of December 31, 2012. We estimate that as of December 31, 2012 and 2011, approximately 42% and 48%, respectively, of the loans originated in 2005 through 2008 that remained in our single-family credit guarantee portfolio as of those dates had current LTV ratios greater than 100%. Loans with current LTV ratios greater than 100% comprised 15% and 20%, of our single-family credit guarantee portfolio, based on UPB at December 31, 2012 and 2011, respectively, and comprised approximately 82% and 83% of our credit losses recognized in 2012 and 2011, respectively. As of December 31, 2012 and 2011, for the loans in our single-family credit guarantee portfolio with greater than 80% estimated current LTV ratios, the borrowers had a weighted average credit score at origination of 722 and 724, respectively.

We believe the replacement of the loans originated in 2005 to 2008 has positively impacted the payment performance, including the serious delinquency rates, of our single-family credit guarantee portfolio. However, the rate at which this replacement is occurring continues to be negatively affected by low demand for new purchase mortgage originations and a lengthy foreclosure process in many states. For the years ended December 31, 2012 and 2011, loans originated in 2005 through 2008 in our single-family credit guarantee portfolio comprised approximately 87% and 90%, respectively, of our credit losses.

Characteristics of the Single-Family Credit Guarantee Portfolio

The average UPB of loans in our single-family credit guarantee portfolio was approximately $151,000 at both December 31, 2012 and 2011, respectively. We purchased or issued other guarantee commitments for approximately 2,036,000 and 1,519,000 single-family loans totaling $426.8 billion and $320.8 billion of UPB during 2012 and 2011, respectively. Our single-family credit guarantee portfolio predominately consists of first-lien, fixed-rate mortgage loans secured by the borrower s primary residence. Our guarantees related to second-lien mortgage loans in the single-family credit guarantee portfolio are insignificant. Approximately 96% of the single-family mortgages we purchased in 2012 were fixed-rate amortizing mortgages, based on UPB. Approximately 82% of the single-family mortgages we purchased in 2012 were refinance mortgages, including approximately 29% that were relief refinance mortgages, based on UPB.

The credit quality of the single-family loans we acquired beginning in 2009 (excluding HARP and other relief refinance mortgages) is significantly better than that of loans we acquired from 2005 through 2008, as measured by original LTV ratios, FICO scores, and the proportion of loans underwritten with fully documented income. Mortgages originated after 2008, including HARP loans, comprised an increasing proportion of the portfolio during 2012, and the proportion of loans originated prior to 2009 within the portfolio continued to decline.

The percentage of home purchase loans in our loan acquisition volume continued to remain at low levels and refinance activity remained high during 2012. During 2012 and 2011, we purchased or guaranteed 1.7 million and 1.2 million, respectively, of single-family loans that were refinance mortgages totaling $351.1 billion and $249.5 billion in UPB, respectively. As of December 31, 2012 and 2011, there were approximately 10.9 million and 11.6 million loans, respectively, in our single-family credit guarantee portfolio, including 1.6 million and 1.1 million, respectively, of these that were relief refinance mortgages.

The tables below provide additional characteristics of single-family mortgage loans purchased during 2012, 2011 and 2010, and of our single-family credit guarantee portfolio at December 31, 2012, 2011, and 2010.

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Table 40 Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio[1]

	Percent of Purchases During the Year ended December 31,								
	2012			2011			2010		
	Relief Refi	All Other	Total	Relief Refi	All Other	Total	Relief Refi	All Other	Total
Original LTV Ratio Range[2]									
60% and below	4%	21%	25%	6%	23%	29%	6%	22%	28%
Above 60% to 70%	2	12	14	3	13	16	4	12	16
Above 70% to 80%	3	29	32	5	32	37	6	33	39
Above 80% to 100%	8	9	17	8	6	14	9	5	14
Above 100% to 125%	7	<1	7	4	<1	4	3	<1	3
Above 125%	5	<1	5						
Total	29%	71%	100%	26%	74%	100%	28%	72%	100%
Weighted average original LTV ratio	97%	68%	76%	77%	67%	70%	77%	67%	70%
Credit Score[3]									
740 and above	17%	55%	72%	16%	55%	71%	18%	53%	71%
700 to 739	6	11	17	5	13	18	5	13	18
660 to 699	4	4	8	3	5	8	3	5	8
620 to 659	1	1	2	1	1	2	1	1	2
Less than 620	1	<1	1	1	<1	1	1	<1	1
Not available	<1	<1	<1	<1	<1	<1	<1	<1	<1
Total	29%	71%	100%	26%	74%	100%	28%	72%	100%
Weighted average credit score:									
Total mortgages	740	762	756	744	759	755	747	758	755

	Percent of Purchases During the Year ended December 31,		
	2012	2011	2010
Loan Purpose			
Purchase	18%	22%	20%
Cash-out refinance	15	18	21
Other refinance[4]	67	60	59
Total	100%	100%	100%
Property Type			
Detached/townhome[5]	94%	94%	94%
Condo/Co-op	6	6	6
Total	100%	100%	100%
Occupancy Type			
Primary residence	91%	92%	93%
Second/vacation home	4	4	4
Investment	5	4	3
Total	100%	100%	100%

(1) Percentages are based on the UPB of the single-family credit guarantee portfolio.
(2) Original LTV ratios are calculated as the amount of the mortgage we guarantee including the credit-enhanced portion, divided by the lesser of the appraised value of the property at the time of mortgage origination or the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation because we generally do not receive data about them. The existence of a second-lien mortgage reduces the borrower s equity in the home and, therefore, can increase the risk of default.
(3) Credit score data is based on FICO scores, which are ranked on a scale of approximately 300 to 850 points. Although we obtain updated credit information on certain borrowers after the origination of a mortgage, such as those borrowers seeking a modification, the scores presented in this table represent the credit score of the borrower at the time of loan origination and may not be indicative of the borrowers creditworthiness at December 31, 2012.
(4) Other refinance loans include: (a) refinance mortgages with no cash out to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction.
(5) Includes manufactured housing and homes within planned unit development communities. The UPB of manufactured housing mortgage loans purchased during 2012, 2011, and 2010, was $676 million, $376 million, and $403 million, respectively.

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Table 41 Characteristics of the Single-Family Credit Guarantee Portfolio(1)

	Portfolio Balance at December 31,(2)		
	2012	**2011**	**2010**
Original LTV Ratio Range(3)			
60% and below	22%	23%	23%
Above 60% to 70%	15	16	16
Above 70% to 80%	40	42	43
Above 80% to 100%	18	17	17
Above 100%	5	2	1
Total	100%	100%	100%
Weighted average original LTV ratio	74%	72%	71%
Estimated Current LTV Ratio Range(4)			
60% and below	28%	25%	27%
Above 60% to 70%	14	12	12
Above 70% to 80%	21	18	17
Above 80% to 90%	13	15	16
Above 90% to 100%	9	10	10
Above 100% to 120%	8	10	10
Above 120%	7	10	8
Total	100%	100%	100%
Weighted average estimated current LTV ratio:			
Relief refinance mortgages(5)	83%	79%	78%
All other mortgages	74%	80%	78%
Total mortgages	75%	80%	78%
Credit Score(6)			
740 and above	56%	55%	53%
700 to 739	21	21	21
660 to 699	14	14	15
620 to 659	6	7	7
Less than 620	3	3	3
Not available	<1	<1	1
Total	100%	100%	100%
Weighted average credit score:			
Relief refinance mortgages(5)	741	744	745
All other mortgages	736	734	732
Total mortgages	737	735	733
Loan Purpose			
Purchase	27%	30%	31%
Cash-out refinance	24	27	29
Other refinance(7)	49	43	40
Total	100%	100%	100%
Property Type			
Detached/townhome(8)	92%	92%	92%
Condo/Co-op	8	8	8
Total	100%	100%	100%
Occupancy Type			
Primary residence	90%	91%	91%

Second/vacation home	5	5	5
Investment	5	4	4
Total	100%	100%	100%

(1) Ending balances are based on the UPB of the single-family credit guarantee portfolio. Other Guarantee Transactions with ending balances of $1 billion at December 31, 2012, and $2 billion at both December 31, 2011, and 2010, respectively, are excluded since these securities are backed by non-Freddie Mac issued securities for which the loan characteristics data was not available.
(2) Includes loans acquired under our relief refinance initiative, which began in 2009.
(3) Original LTV ratios are calculated as the amount of the mortgage we guarantee including the credit-enhanced portion, divided by the lesser of the appraised value of the property at the time of mortgage origination or the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation because we generally do not receive data about them. The existence of a second-lien mortgage reduces the borrower s equity in the home and, therefore, can increase the risk of default.
(4) Current LTV ratios are management estimates, which are updated on a monthly basis. Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographical area since origination.
(5) Relief refinance mortgages of all LTV ratios comprised approximately 18%, 11%, and 7% of our single-family credit guarantee portfolio by UPB as of December 31, 2012, 2011, and 2010, respectively.
(6) Credit score data is based on FICO scores, which are ranked on a scale of approximately 300 to 850 points. Although we obtain updated credit information on certain borrowers after the origination of a mortgage, such as those borrowers seeking a modification, the scores presented in this table represent the credit score of the borrower at the time of loan origination and may not be indicative of the borrowers creditworthiness at December 31, 2012. Excludes less than 1% of loans in the portfolio because the FICO scores at origination were not available at December 31, 2012.
(7) Other refinance loans include: (a) refinance mortgages with no cash out to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction.
(8) Includes manufactured housing and homes within planned unit development communities.

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LTV Ratio

As estimated current LTV ratios increase, the borrower s equity in the home decreases, which negatively affects the borrower s ability to refinance or sell the property for an amount at or above the balance of the outstanding mortgage loan. Based on our historical experience, there is an increase in borrower default risk as LTV ratios increase. Due to our participation in HARP, we purchase a significant number of loans that have LTV ratios over 100%. The proportion of loans we purchased with original LTV ratios over 100% increased from approximately 4% of our single-family mortgage purchases (including HARP loans) in 2011 to 12% of our single-family mortgage purchases in 2012 due to the changes in HARP announced in the fourth quarter of 2011, which allow borrowers (whose loans we already hold in our single-family credit guarantee portfolio) with higher LTV ratios to refinance. The percentage of mortgages in our single-family credit guarantee portfolio with estimated current LTV ratios greater than 100% was 15% and 20% at December 31, 2012 and 2011, respectively, and the serious delinquency rate for these loans was 12.7% and 12.8%, respectively.

Credit Score

Credit scores are a useful measure for assessing the credit quality of a borrower. Credit scores are numbers reported by credit repositories, based on statistical models, that summarize an individual s credit record. FICO scores are the most commonly used credit scores today. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores. Credit scores presented within this Form 10-K are at the time of origination and may not be indicative of the borrowers creditworthiness at December 31, 2012.

Loan Purpose

Loan purpose indicates how the borrower intends to use the funds from a mortgage loan. In a purchase transaction, the funds are used to acquire a property. In a cash-out refinance transaction, in addition to paying off existing mortgage liens, the borrower obtains additional funds that may be used for other purposes, including paying off subordinate mortgage liens and providing unrestricted cash proceeds to the borrower. In other refinance transactions, the funds are used to pay off existing mortgage liens and may be used in limited amounts for certain specified purposes; such refinances are generally referred to as no cash-out or rate and term refinances. The percentage of home purchase loans in our loan acquisition volume remained at low levels during 2012, as low interest rates contributed to high refinance activity in 2012 and 2011. Cash-out refinancings generally have had a higher risk of default than mortgages originated in no cash-out, or rate and term, refinance transactions.

Property Type

Townhomes and detached single-family houses are the predominant type of single-family property. Condominiums are a property type that historically experiences greater volatility in home prices than detached single-family residences. Condominium loans in our single-family credit guarantee portfolio have a higher percentage of first-time homebuyers and homebuyers whose purpose is for investment or for a second home. In practice, investors and second home borrowers often seek to finance the condominium purchase with loans having a higher original LTV ratio than other borrowers. Approximately 36% of the condominium loans within our single-family credit guarantee portfolio are in California, Florida, and Illinois, which are among the states that have been most adversely affected by the recent housing and economic downturn. Condominium loans comprised 15% of our credit losses during both 2012 and 2011, while these loans comprised 8% of our single-family credit guarantee portfolio at both December 31, 2012 and 2011.

Occupancy Type

Borrowers may purchase a home as a primary residence, second home or investment property that is typically a rental property. Mortgage loans on properties occupied by the borrower as a primary residence tend to have a lower credit risk than mortgages on investment properties or secondary residences.

Geographic Concentration

Local economic conditions can affect borrowers ability to repay loans and the value of the collateral underlying the loans. Because our business involves purchasing mortgages from every geographic region in the U.S., we maintain a geographically diverse single-family credit guarantee portfolio. While our single-family credit guarantee portfolio remains broadly diversified across geographic regions, we were negatively impacted by overall home price declines in each region that began in 2006. Our credit losses continue to be greatest in those states that experienced significant cumulative declines

in property values since 2006, such as California, Florida, Nevada and Arizona. See NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for more information concerning the distribution of our single-family credit guarantee portfolio by geographic region.

Mortgages with Second Liens

The presence of a second lien can increase the risk that a borrower will default. A second lien reduces the borrower s equity in the home, and has a 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 mortgage and second lien. As of December 31, 2012 and 2011, approximately 14% and 15%, respectively, of the loans in our single-family credit guarantee portfolio had second-lien financing by third parties at the time of origination of the first mortgage, and we estimate that these loans comprised 17% of our seriously delinquent loans at both dates, based on UPB. Borrowers are free to obtain second-lien financing after origination and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgages.

Attribute Combinations

Certain combinations of loan characteristics often can indicate a higher degree of credit risk. For example, single-family mortgages with both high LTV ratios and borrowers who have lower credit scores typically experience higher rates of serious delinquency and default. We estimate that there were $12.0 billion and $11.1 billion at December 31, 2012 and 2011, respectively, of loans in our single-family credit guarantee portfolio with both original LTV ratios greater than 90% and FICO scores less than 620 at the time of loan origination. Certain mortgage product types, including interest-only or option ARM loans, that have additional higher risk characteristics, such as lower credit scores or higher LTV ratios, will also have a higher risk of default than those same products without these characteristics. See Table 52 Single-Family Credit Guarantee Portfolio by Attribute Combinations for information about certain attribute combinations of our single-family mortgage loans.

Single-Family Mortgage Product Types

Product mix affects the credit risk profile of our total mortgage portfolio. The primary mortgage products in our single-family credit guarantee portfolio are first lien, fixed-rate mortgage loans. In general, 15-year amortizing fixed-rate mortgages exhibit the lowest default rate among the types of mortgage loans we securitize and purchase, due to the accelerated rate of principal amortization on these mortgages and the credit profiles of borrowers who qualify for them. In a rising interest rate environment, balloon/reset and ARM borrowers typically default at a higher rate than fixed-rate borrowers. However, in recent years, during which interest rates have generally remained relatively low, our delinquency and default rates on adjustable-rate and balloon/reset mortgage loans have continued to be as high as, or higher than, those on fixed-rate loans because these borrowers also have been affected by declining housing and economic conditions and/or had other higher-risk characteristics. Effective January 1, 2013, we no longer purchase balloon/reset mortgages. Interest-only and option ARM loans are higher-risk mortgage products based on the features of these types of loans. See *Other Categories of Single-Family Mortgage Loans* below for additional information on higher-risk mortgages in our single-family credit guarantee portfolio.

For purposes of presentation within this Form 10-K and elsewhere in our reporting, we have categorized loans that have been modified under HAMP as fixed-rate loans, notwithstanding the rate adjustment provision of HAMP. Our HAMP loan modifications typically result in an initial below-market interest rate that after five years gradually adjusts to a new rate that is fixed for the remaining life of the loan. While HAMP loans have a rate adjustment provision, the future rates of the loans are determined at the time of modification rather than at a subsequent date.

The following paragraphs provide information on the interest-only, option ARM, adjustable-rate, and conforming jumbo loans in our single-family credit guarantee portfolio. Interest-only and option ARM loans have experienced significantly higher serious delinquency rates than fixed-rate amortizing mortgage products.

Interest-Only Loans

Interest-only loans have an initial period during which the borrower pays only interest, and at a specified date the monthly payment increases to begin reflecting repayment of principal. Interest-only loans represented approximately 3% and 4% of the UPB of our single-family credit guarantee portfolio at December 31, 2012 and 2011, respectively. We discontinued purchasing such loans on September 1, 2010. The balance of these loans has declined significantly in recent

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years since we no longer purchase them and many of these borrowers have completed foreclosure transfers, refinanced or received loan modifications into an amortizing loan product (and thus these loans are no longer classified as interest-only loans).

The table below presents information for single-family mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, at December 31, 2012 that contain interest-only payment terms. The reported balances in the table below are aggregated by interest-only loan product type and categorized by the year in which the loan begins to require payments of principal. At December 31, 2012, approximately 6% of these interest-only loans are scheduled to begin requiring payments of principal in 2013 or 2014. The timing of the actual change in payment terms may differ from those presented due to a number of factors, including refinancing.

Table 42 Single-Family Loans Scheduled Payment Change to Include Principal by Year at December 31, 2012[1]

	2012 and Prior	2013	2014	2015	2016	2017	Thereafter	Total
				(in millions)				
ARM/interest-only	$ 13,113	$ 1,922	$ 978	$ 3,412	$ 5,500	$ 9,184	$ 4,804	$ 38,913
Fixed/interest-only		<1	13	281	1,475	7,544	2,006	11,319
Total	$ 13,113	$ 1,922	$ 991	$ 3,693	$ 6,975	$ 16,728	$ 6,810	$ 50,232

(1) Based on the UPBs of mortgage products that contain interest-only provisions and that begin amortization of principal in each of the years shown. These reported balances are based on the UPB of the underlying mortgage loans and do not reflect the publicly-available security balances we use to report the composition of our PCs and REMICs and Other Structured Securities. Excludes: (a) mortgage loans underlying Other Guarantee Transactions since the payment change information is not available to us for these loans; and (b) any mortgage loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to an amortizing loan product.

The table below presents the trend of serious delinquency information for single-family interest-only mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, categorized by the year in which the loan begins to require payments of principal. Loans where the year of payment change is 2012 or prior have already changed to require payments of principal as of December 31, 2012; loans where the year of payment change is 2013 or later still require only payments of interest as of December 31, 2012 and will not require payments of principal until a future period.

T able 43 Serious Delinquency Rates by Year of Payment Change to Include Principal[1]

	As of December 31,		
Year of payment change:	**2012**	**2011**	**2010**
2010 and prior	7.97%	9.42%	11.53%
2011	14.92	18.96	19.65
2012	19.35	20.98	19.02
2013 and after	17.70	18.43	19.11

(1) Based on loans remaining in the single-family guarantee portfolio as of December 31, 2012, 2011, and 2010, rather than all loans guaranteed by us and originated in the respective year. Excludes mortgage loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to an amortizing loan product.

In recent years, interest-only loans experienced high serious delinquency rates well before reaching the dates at which the loans begin to require amortization of principal. We believe that interest-only loan performance during the last three years was more adversely affected by changes in employment, home prices, and other regional and macro-economic conditions, than by the increase in the borrower s monthly payment (when the loans begin to require payments of principal). In addition, a number of these loans were categorized as Alt-A, due to reduced documentation standards at the time of loan origination. The overall serious delinquency rate for all interest-only loans in our single-family credit guarantee portfolio was 16.3% as of December 31, 2012. Approximately 74% of all interest-only loans in our single-family credit guarantee portfolio had not yet begun amortization of principal and 60% of all interest-only loans in our single-family credit guarantee portfolio had current LTV ratios greater than 100% as of December 31, 2012. Since a substantial portion of these loans were originated in 2005 through 2008 and are located in geographical areas that have been most impacted by declines in home prices since 2006, we believe that the serious delinquency rate for interest-only loans will remain high in 2013.

Option ARM Loans

Most option ARM loans have initial periods during which the borrower has various options as to the amount of each monthly payment, until a specified date, when the terms are recast. At both December 31, 2012 and 2011, option ARM loans represented less than 1% of the UPB of our single-family credit guarantee portfolio. Included in this exposure was $6.3 billion and $7.3 billion of option ARM securities underlying certain of our Other Guarantee Transactions at

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December 31, 2012 and 2011, respectively. While we have not categorized these option ARM securities as either subprime or Alt-A securities for presentation within this Form 10-K and elsewhere in our reporting, they could exhibit similar credit performance to collateral identified as subprime or Alt-A. We have not purchased option ARM loans in our single-family credit guarantee portfolio since 2007. For reporting purposes, loans within the option ARM category continue to be presented in that category following a modification of the loan, even though the modified loan no longer provides for optional payment provisions. As of December 31, 2012 and 2011, approximately 8.1% and 5.5%, respectively, of the option ARM loans within our single-family credit guarantee portfolio had completed a modification. For information on our exposure to option ARM loans through our holdings of non-agency mortgage-related securities, see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

Adjustable-Rate Mortgage Loans

The table below presents information for single-family mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, at December 31, 2012 that contain adjustable payment terms. The reported balances in the table below are aggregated by product type and categorized by year of the next scheduled contractual reset date. At December 31, 2012, approximately 57% of these loans have interest rates that are scheduled to reset in 2013 or 2014. The timing of the actual reset dates may differ from those presented due to a number of factors, including prepayments or exercising provisions within the terms of the mortgage (certain of which could delay or accelerate the timing of the reset date).

Table 44 Single-Family Next Scheduled Adjustable-Rate Resets by Year at December 31, 2012[1]

	2013	2014	2015	2016	2017	Thereafter	Total
				(in millions)			
ARMs/amortizing	$ 26,079	$ 1,371	$ 5,550	$ 10,099	$ 9,013	$ 16,417	$ 68,529
ARMs/interest-only[2]	31,065	2,189	1,850	1,492	1,818	499	38,913
Balloon/resets	126	9	5		<1	1	141
Total	$ 57,270	$ 3,569	$ 7,405	$ 11,591	$ 10,831	$ 16,917	$ 107,583

(1) Based on the UPBs of mortgage products that contain adjustable-rate interest provisions and are scheduled to reset during the periods specified above. These reported balances are based on the UPB of the underlying mortgage loans and do not reflect the publicly-available security balances we use to report the composition of our PCs and REMICs and Other Structured Securities. Excludes: (a) mortgage loans underlying Other Guarantee Transactions since rate reset information is not available to us for these loans; and (b) any amortizing ARM loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to a fixed-rate loan product.
(2) Reflects the UPB of interest-only loans that reset in each of the years shown. We report loans in the interest-only category if their original terms include interest-only provisions for a pre-determined period of time before the monthly payment changes to include amortization of principal. Includes $13.1 billion of loans that were interest-only at origination that have converted to include amortization of principal as of December 31, 2012.

The table below presents serious delinquency information for single-family adjustable-rate mortgage loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, categorized by the year in which the loan first had an interest rate reset. Loans where the year of first interest rate reset is 2012 or prior have already had one or more interest rate resets as of December 31, 2012; loans where the year of first interest rate reset is 2013 or later have not yet had an interest rate reset as of December 31, 2012 and will not have an interest rate reset until a future period.

Table 45 Serious Delinquency Rates by Year of First Rate Reset[1]

	As of December 31,		
Year of payment change:	2012	2011	2010
2010 and prior	4.24%	4.84%	5.78%
2011	13.16	17.50	18.00

2012	19.45	22.70	22.70
2013 and after	4.90	6.61	9.15

(1) Based on loans remaining in the single-family credit guarantee portfolio as of December 31, 2012, 2011, and 2010, rather than all loans guaranteed by us and originated in the respective year. Excludes mortgage loans which completed a modification before the end of the respective period and for which the terms of the loan were changed to a fixed-rate loan product.

As shown in the table above, the trend in serious delinquency rates of adjustable-rate loans that experienced an interest rate reset during the last three years has not been significantly affected by the change in interest rate of the loan. Except for interest-only loans that began to amortize at the reset date, there were not significant increases to the borrowers payments when these loans reached their first reset dates because market interest rates have generally declined in recent years. Interest-only loans are a higher-risk mortgage product, which feature an increase in the monthly payment at the date of first reset which is not solely related to the contractual interest rate (i.e., when the monthly payment begins to include principal). In recent years, ARM loans have experienced high serious delinquency rates well before reaching the dates at which the loans have reached their first rate reset. We believe that ARM loan performance during the last three years has been more adversely affected by changes in employment, home prices, and other regional and macro-economic conditions, than by changes in the interest rates of the loans. See RISK FACTORS Competitive and Market Risks *Changes in interest rates could negatively impact our results of operations, net worth and fair value of net assets* for additional information. Since a substantial portion of ARM loans were originated in 2005 through 2008 and are located in geographical areas that have been most impacted by declines in home prices since 2006, we believe that the serious delinquency rate for ARM loans will continue to remain high in 2013.

Conforming Jumbo Loans

For loans originated after September 30, 2011, conforming jumbo loans on a one-family residence have UPB at origination that is greater than $417,000 and up to $625,500 in certain high-cost areas. We purchased $32.6 billion and $27.7 billion of conforming jumbo loans during the years ended December 31, 2012 and 2011, respectively. The UPB of conforming jumbo loans in our single-family credit guarantee portfolio as of December 31, 2012 and 2011 was $55.5 billion and $49.8 billion, respectively, or 3% of the UPB of our single-family credit guarantee portfolio at both dates. The average size of these loans was approximately $531,000 and $545,000 at December 31, 2012 and 2011, respectively. See BUSINESS Our Business for further information on the conforming loan limits.

Other Categories of Single-Family Mortgage Loans

While we have classified certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-K, there is no universally accepted definition of subprime or Alt-A, and our classification of such loans may differ from those used by other companies. For example, some financial institutions may use FICO scores to delineate certain residential mortgages as subprime. In addition, we do not rely primarily on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio. For a definition of the subprime and Alt-A single-family loans and securities in this Form 10-K, see GLOSSARY.

Subprime Loans

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 do monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk (see *Higher-Risk Loans in the Single-Family Credit Guarantee Portfolio* and Table 52 Single-Family Credit Guarantee Portfolio by Attribute Combinations for further information). In addition, we estimate that approximately $2.0 billion and $2.3 billion of security collateral underlying our Other Guarantee Transactions at December 31, 2012 and 2011, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions. At December 31, 2012 and December 31, 2011, we held $44.4 billion and $49.0 billion, respectively, in UPB of non-agency mortgage-related securities backed by subprime loans. These securities were structured to provide credit enhancements. Approximately 5% and 7% of these securities were investment grade at December 31, 2012 and 2011, respectively. The credit performance of loans underlying these securities has deteriorated significantly since 2008. For more information on our exposure to subprime mortgage loans through our investments in non-agency mortgage-related securities see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

Alt-A Loans

Although there is no universally accepted definition of Alt-A, 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 mortgage loan, or both. The UPB of Alt-A loans in our single-family credit guarantee portfolio declined to $73.7 billion as of December 31, 2012 from $94.3 billion as of December 31, 2011. The UPB of our Alt-A loans declined in 2012 primarily due to refinancing into other mortgage products, foreclosure transfers, and other liquidation events. For reporting purposes, loans within the Alt-A category continue to be reported in that category following a modification of the loan, even though the borrower may have provided full documentation of assets and income before completing the modification. As of December 31, 2012 and 2011, approximately 11.8% and 8.8%, respectively, of the Alt-A loans within our single-family credit guarantee portfolio had completed a modification. As of December 31, 2012, for Alt-A loans in our single-family credit guarantee portfolio, the average FICO score at origination was 714. Although Alt-A mortgage loans comprised approximately 5% of our single-family credit guarantee portfolio as of both December 31, 2012 and 2011, respectively, these loans represented approximately 23% and 28% of our credit losses during 2012 and 2011, respectively.

Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009 (or later, as our customers contracts permitted), we continued to purchase certain amounts of these mortgages in cases where the loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance mortgage initiative; or (c) in another refinance mortgage initiative and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage 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 mortgage in this Form 10-K and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to December 31, 2012, we purchased approximately $22.1 billion of relief refinance mortgages that were previously categorized as Alt-A loans in our portfolio, including $6.8 billion during 2012.

We also hold investments in non-agency mortgage-related securities backed by single-family Alt-A loans. At December 31, 2012 and 2011, we held investments of $14.8 billion and $16.8 billion, respectively, of non-agency mortgage-related securities backed by Alt-A and other mortgage loans. Approximately 11% and 15%, respectively, of these securities were categorized as investment grade. The credit performance of loans underlying these securities has deteriorated significantly since 2008. We categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. For more information on our exposure to Alt-A mortgage loans through our investments in non-agency mortgage-related securities see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

Higher-Risk Loans in the Single-Family Credit Guarantee Portfolio

The table below presents information about certain categories of single-family mortgage loans within our single-family credit guarantee portfolio that we believe have certain higher-risk characteristics. These loans include categories based on product type and borrower characteristics present at origination. The table includes a presentation of each higher risk category in isolation. A single 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 characteristics will have an even higher risk of default than those with an individual characteristic.

Table 46 Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio[1]

	As of December 31, 2012			
	UPB	Estimated Current LTV[2]	Percentage Modified[3]	Serious Delinquency Rate[4]
	(dollars in billions)			
Loans with one or more specified characteristics	$ 355.3	101%	7.6%	7.5%
Categories (individual characteristics):				
Alt-A	73.7	100	11.8	11.4
Interest-only[5]	50.2	110	0.3	16.3
Option ARM[6]	7.3	105	8.1	16.3
Original LTV ratio greater than 90%, non-HARP mortgages[7]	98.5	100	9.4	7.8
Original LTV ratio greater than 90%, HARP mortgages[7]	120.4	108	0.2	1.0
Lower FICO scores at origination (less than 620)[7]	50.9	89	15.3	12.2

	As of December 31, 2011			
	UPB	Estimated Current LTV[2]	Percentage Modified[3]	Serious Delinquency Rate[4]
	(dollars in billions)			
Loans with one or more specified characteristics	$ 342.9	105%	7.2%	9.3%
Categories (individual characteristics):				
Alt-A	94.3	107	8.8	11.9
Interest-only[5]	72.0	120	0.2	17.6
Option ARM[6]	8.4	119	5.5	20.5
Original LTV ratio greater than 90%, non-HARP mortgages[7]	107.9	108	8.1	8.5
Original LTV ratio greater than 90%, HARP mortgages[7]	59.3	104	0.1	1.3
Lower FICO scores at origination (less than 620)[7]	55.6	93	13.4	12.9

(1) Categories are not additive and a single loan may be included in multiple categories if more than one characteristic is associated with the loan.
(2) See endnote (4) to Table 41 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of current LTV ratios.
(3) Represents the percentage of loans based on loan count in our single-family credit guarantee portfolio at period end that have been modified, including those with no changes in the interest rate or maturity date, but where past due amounts are added to the outstanding principal balance of the loan. Excludes loans underlying certain Other Guarantee Transactions for which data was not available.
(4) See *Credit Performance Delinquencies* for further information about our reported serious delinquency rates.
(5) When an interest-only loan is modified to require repayment of principal, the loan is removed from the interest-only category. The percentages of interest-only loans which have been modified at period end reflect loans that have not yet been assigned to their new product category (post-modification), primarily due to delays in processing.
(6) For reporting purposes, loans within the option ARM category continue to be reported in that category following modification, even though the modified loan no longer provides for optional payment provisions.
(7) See endnotes (2) and (3) to Table 40 Characteristics of Purchases for the Single-Family Credit Guarantee Portfolio for information on our calculation of original LTV ratios and our presentation of FICO scores, respectively.

A significant portion of the loans in the higher-risk categories presented in the table above were originated in 2005 through 2008. We have fully discontinued purchases of Alt-A (effective March 1, 2009), interest-only (effective September 1, 2010), and option ARM (since 2007) loans. Excluding HARP loans, the UPB of loans with these higher-risk characteristics in our single-family credit guarantee portfolio continued to decline in 2012 primarily due to repayments (including refinancing) and other liquidations, including completed foreclosure alternatives and foreclosure transfers. While the balance of our non-HARP mortgages with original LTV ratios greater than 90% declined during 2012 because of liquidations, our purchases of these loans increased because: (a) most mortgage insurance companies lowered their premiums in 2011 for certain higher-risk loans; and (b) in both 2011 and 2012, FHA implemented price increases in its mortgage insurance premium. These changes improved the economics for a borrower to obtain private mortgage insurance on a conforming loan as compared to the purchase of FHA insurance.

Loans within one or more of the higher-risk categories presented in the table above comprised approximately 22% and 20% of our single-family credit guarantee portfolio as of December 31, 2012 and 2011, respectively. The total UPB of loans in our single-family credit guarantee portfolio with one or more of these characteristics increased to $355 billion as of December 31, 2012 from $343 billion as of December 31, 2011. This increase was due to increased purchases of loans with original LTV ratios greater than 90% primarily resulting from significant HARP activity in 2012. The serious delinquency rates associated with loans with one or more of the above characteristics declined to 7.5% as of December 31, 2012 from 9.3% as of December 31, 2011.

Credit Enhancements

The portfolio information below excludes our holdings of non-Freddie Mac mortgage-related securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* for credit enhancement and other information about our investments in non-Freddie Mac mortgage-related securities.

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Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests. However, as discussed below, under HARP, we allow eligible borrowers who have mortgages with current LTV ratios over 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what was already in place. As guarantor, we remain responsible for the payment of principal and interest if mortgage insurance or other credit enhancements do not provide full reimbursement for covered losses. Our credit losses could increase if an entity that provides credit enhancement fails to fulfill its obligation, as this would reduce the amount of our credit loss recoveries.

Our ability and desire to expand or reduce the portion of our total mortgage portfolio covered by credit enhancements will depend on: (a) our evaluation of the credit quality of new business purchase opportunities; (b) the risk profile of our portfolio; (c) the credit worthiness of potential counterparties; and (d) the future availability of effective credit enhancements at prices that permit an attractive return.

At December 31, 2012 and 2011, our credit-enhanced mortgages represented 13% and 14%, respectively, of our single-family credit guarantee portfolio, excluding those backing Ginnie Mae Certificates and HFA bonds guaranteed by us under the HFA initiative. Our financial guarantees backed by Ginnie Mae Certificates and HFA bonds under the HFA initiative are excluded because we consider the incremental credit risk to which we are exposed to be insignificant. During 2012 and 2011, the percentage of our single-family loan purchases with credit enhancement coverage was lower than in periods before 2009, primarily as a result of high refinance activity. Refinance loans (other than HARP loans) typically have lower LTV ratios than home purchase loans, and are more likely to have an LTV ratio below 80% and not require credit protection as specified in our charter. Since 2009, we have been purchasing significant amounts of HARP loans. These mortgages allow for the refinance of existing loans guaranteed by us under terms such that we may not have mortgage insurance for some or all of the UPB of the mortgage in excess of 80% of the value of the property.

We recognized recoveries from credit enhancements (excluding reimbursements for our expenses) of $1.6 billion and $1.8 billion that reduced our charge-offs of single-family loans during the years ended December 31, 2012 and 2011, respectively. These amounts included $1.5 billion and $1.7 billion during 2012 and 2011, respectively, in recognized recoveries associated with our primary and pool mortgage insurance policies. REO operations expenses included recoveries from credit enhancements of $0.1 billion and $0.3 billion during 2012 and 2011, respectively, primarily associated with our primary and pool mortgage insurance policies. The declines in our recoveries in 2012 compared to 2011 were primarily due to the effect of the weakened financial condition of several of our mortgage insurance counterparties, some of which have instituted plans of deferred payment obligation on our claims. See Institutional Credit Risk for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio, including information about pool insurance coverage and our mortgage loan insurers.

Certain of our single-family Other Guarantee Transactions utilize subordinated security structures as a form of credit enhancement. At December 31, 2012 and 2011, the UPB of single-family Other Guarantee Transactions with subordination coverage at origination was $3.0 billion and $3.3 billion, and the subordination coverage on these securities was $503 million and $647 million, respectively. At December 31, 2012 and 2011, the serious delinquency rate on single-family Other Guarantee Transactions with subordination coverage was 20.5% and 20.9%, respectively.

See BUSINESS Our Business Segments *Single-Family Guarantee Segment Credit Enhancements* and NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for additional information about credit protection and other forms of credit enhancements covering loans in our single-family credit guarantee portfolio.

Single-Family Loan Workouts and the MHA Program

Loan workout activities are a key component of our loss mitigation strategy for managing and resolving troubled assets and lowering credit losses. Our loan workouts consist of: (a) forbearance agreements; (b) repayment plans; (c) loan modifications; and (d) foreclosure alternatives (e.g., short sales or deed in lieu of foreclosure transactions). Our single-family loss mitigation strategy emphasizes early intervention by servicers in delinquent mortgages and provides alternatives to foreclosure. See BUSINESS Our Business Segments *Single-Family Guarantee Segment Loss Mitigation and Loan Workout Activities* for more information, including a description of our loan workouts (e.g., HAMP) and HARP. During 2012, we helped approximately 169,000 borrowers either stay in their homes or sell their properties and avoid foreclosures through our various workout programs, including HAMP, and we completed approximately 105,000 foreclosures.

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Our seller/servicers have an active role in our loss mitigation efforts. A decline in their performance could impact the overall quality of our credit performance (including through missed opportunities for mortgage modifications), which could have significant effects on our ability to mitigate credit losses. The risk of such a decline in performance remains high. During 2012, we began to permit the transfer of servicing for certain groups of loans that were delinquent or were deemed at risk of default to servicers that we believe have capabilities and resources necessary to improve the loss mitigation associated with the loans. Depending on our experience with the results of these transfers and specific servicer experience and capacity, we may permit additional transfers in the future. For more information, see RISK FACTORS Competitive and Market Risks *Seller/servicers may fail to perform their obligations to service loans in our single-family and multifamily mortgage portfolios or that their servicing performance could decline*.

Home Affordable Modification Program

HAMP commits U.S. government, Freddie Mac and Fannie Mae funds to help eligible homeowners avoid foreclosures and keep their homes through mortgage modifications. Under this program, we offer loan modifications to financially struggling homeowners with mortgages on their primary residences that reduce the monthly principal and interest payments on their mortgages. HAMP requires that each borrower complete a trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. Trial periods are required to be at least three months. After the final trial-period payment is received by our servicer the borrower and servicer will enter into the modification.

Based on information provided by the MHA Program administrator, our servicers had completed more than 217,000 loan modifications under HAMP from the introduction of the initiative in 2009 through December 31, 2012, compared to approximately 181,000 cumulative HAMP completions as of December 31, 2011. The number of our loans in the HAMP trial period declined to 9,440 as of December 31, 2012 from 12,802 as of December 31, 2011. We expect fewer borrowers will initiate HAMP modifications during 2013 than 2012 because a large number of the delinquent borrowers that were eligible for the program have already completed the trial period or attempted to do so, but failed.

Approximately 27% of our loans in the HAMP trial period as of December 31, 2012 have been in the trial period for more than the minimum duration of three months. Based on information provided by the MHA Program administrator, the average length of the trial period for loans in the program as of December 31, 2012 was 5 months. For information about the percentage of completed loan modifications that remained current, see Table 49 Quarterly Percentages of Modified Single-Family Loans Current and Performing.

As of December 31, 2012, the borrower s monthly payment was reduced on average by an estimated $536, which amounts to an average of $6,432 per year, and a total of $1.4 billion in annual reductions for all of our completed HAMP modifications (these amounts are calculated by multiplying the number of completed modifications by the average reduction in monthly payment, and have not been adjusted to reflect the actual performance of the loans following modification).

The costs we incur related to HAMP have been, and will likely continue to be, significant. We incurred $177 million and $214 million of servicer incentive expenses during 2012 and 2011, respectively. We also incurred borrower incentives which are included within our provision for credit losses on our consolidated statements of comprehensive income. We have the potential to incur additional servicer incentives and borrower incentives as long as the borrower remains current on a loan modified under HAMP. Other costs of this program include:

- Under HAMP, we typically provide concessions to borrowers, which generally include interest rate reductions and often also provide for forbearance (but not forgiveness) of principal.

- Some borrowers will fail to complete the HAMP trial period and others will default on their HAMP modified loans. For those borrowers who redefault or who do not complete the trial period and do not qualify for another loan workout, HAMP will have delayed the resolution of the loans through the foreclosure process. If home prices decline while these events take place, such delay in the foreclosure process may increase the losses we recognize on these loans, to the extent the prices we ultimately receive for the foreclosed properties are less than the prices we could have received had we foreclosed upon the properties earlier.

- Non-GSE mortgages modified under HAMP include mortgages backing our investments in non-agency mortgage-related securities. Such modifications reduce the monthly payments due from affected borrowers, and thus reduce the payments we receive on these securities (to the extent the payment reductions have not been absorbed by subordinated investors or by other credit enhancement).

Non-HAMP Standard Modifications

In late 2011, we implemented a new non-HAMP standard loan modification initiative; this replaced our previous non-HAMP modification initiative. During 2012 approximately 29,000 borrowers having loans with aggregate UPB of $6.0 billion had completed this type of modification, and as of December 31, 2012, approximately 15,000 borrowers were in the modification trial period. Our completed modification volume under the new standard modification initiative during 2012 was below what otherwise would be expected, as servicers completed the transition to the new initiative and borrowers completed the trial period.

We expect that the costs we incur related to our new non-HAMP standard loan modifications will likely be significant. These costs will be similar to those described above under Home Affordable Modification Program relating to: (a) bearing the full cost of monthly payment reductions; (b) paying initial incentive fees to servicers; and (c) the potential for delaying the resolution of loans through the foreclosure process.

Relief Refinance Mortgage Initiative and Home Affordable Refinance Program

Our relief refinance mortgage initiative, including HARP (which is the portion of our relief refinance initiative for loans with LTV ratios above 80%), gives eligible homeowners with existing loans that are owned or guaranteed by us an opportunity to refinance into loans with more affordable monthly payments and/or fixed-rate terms. HARP is targeted at borrowers with current LTV ratios above 80%; however, our relief refinance initiative also allows borrowers with LTV ratios of 80% and below to participate.

In October 2011, FHFA, Freddie Mac, and Fannie Mae announced a series of FHFA-directed changes to HARP in an effort to attract more eligible borrowers who can benefit from refinancing their home mortgages. We subsequently made similar changes to the relief refinance mortgage initiative for loans with LTV ratios of 80% and less.

The volume of our purchases of HARP loans more than doubled during 2012, compared to 2011, driven by historically low interest rates and the revisions to the program implemented in 2012 that expanded eligibility and reduced operational complexities for originators.

We believe that relief refinance mortgages (including HARP loans) generally present higher risk to us than other refinance loans we have purchased since 2009 because:

- underwriting procedures for relief refinance mortgages are limited in many cases, and such procedures generally do not include all of the changes in underwriting standards we have implemented since 2008;
- many of these loans have higher LTV ratios (i.e., greater than 90%), which can increase the possibility of default and increase the amount of our loss if the borrower does default;
- HARP loans may not be covered by mortgage insurance for the full excess of their UPB over 80%; and
- beginning with changes announced in the fourth quarter of 2011, we have relieved the lenders of certain representations and warranties on the original mortgage being refinanced, which limits our ability to seek recovery or repurchase from the seller for breach.

We believe that relief refinance mortgages (including HARP loans) generally have lower risk to us than loans remaining in our single-family credit guarantee portfolio that were originated prior to 2009 with similar characteristics because:

- under the relief refinance initiative, borrowers must meet eligibility requirements, such as having no more than one late payment within the previous 12 months and no late payments within the six months prior to refinancing; and the refinanced loan generally has lower required total payments, reflecting a lower interest rate than the original loan. In addition, many relief refinance loans may have shorter terms compared to the original loan or have fixed (rather than adjustable) rates.

The substantial majority of relief refinance mortgages we purchased in 2012 (including approximately $74 billion in UPB of HARP loans) have reduced representations and warranties. However, our seller/servicers remain obligated to follow the underwriting standards for the relief refinance initiative and to service these loans in accordance with our mortgage servicing standards. We continue to bear the credit risk for refinanced loans under this program, to the extent that such risk is not covered by existing mortgage insurance or other existing credit enhancements. The following table provides information about the volume of our relief refinance purchases during 2012 and 2011 as well as information about the balance and serious delinquency rates of these loans as of December 31, 2012 and 2011.

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Table 47 Single-Family Relief Refinance Loans[1]

	Year Ended December 31, 2012			Year Ended December 31, 2011		
	UPB	Number of Loans	Average Loan Balance[2]	UPB	Number of Loans	Average loan Balance[2]
	(dollars in millions, except for average loan balances)					
Purchases of relief refinance mortgages:						
HARP:						
Above 125% LTV ratio	$ 20,364	98,559	$ 207,000	$		$
Above 100% to 125% LTV ratio	29,648	144,529	205,000	13,263	59,330	224,000
Above 80% to 100% LTV ratio	36,886	191,208	193,000	26,477	125,619	211,000
Other (80% and below LTV ratio)	35,870	252,569	142,000	42,304	267,636	158,000
Total relief refinance mortgages	$ 122,768	686,865	179,000	$ 82,044	452,585	181,000

	As of December 31, 2012			As of December 31, 2011		
	UPB	Number of Loans	Serious Delinquency Rate	UPB	Number of Loans	Serious Delinquency Rate
	(dollars in millions)					
Balance of relief refinance mortgages:						
HARP:						
Above 125% LTV ratio	$ 20,163	98,371	0.29%	$		%
Above 100% to 125% LTV ratio	52,761	251,497	1.20	25,538	113,760	1.46
Above 80% to 100% LTV ratio	100,122	499,125	1.00	74,132	345,865	0.92
Other (80% and below LTV ratio)	114,164	774,212	0.32	100,861	621,720	0.23
Total relief refinance mortgages	$ 287,210	1,623,205	0.66%	$ 200,531	1,081,345	0.58%

(1) Consists of all single-family relief refinance mortgage loans that we either purchased or guaranteed during the period, including those associated with other guarantee commitments and Other Guarantee Transactions. Prior period amounts have been revised to conform to current period presentation.
(2) Rounded to the nearest thousand.

Relief refinance mortgages comprised approximately 35% and 33% of our total refinance volume during 2012 and 2011, respectively, based on UPB. Relief refinance mortgages with LTV ratios above 80% (i.e., HARP loans) represented approximately 20% and 12% of our total single-family credit guarantee portfolio purchases during 2012 and 2011, respectively. Relief refinance mortgages of all LTV ratios comprised approximately 18% and 11% of the UPB in our total single-family credit guarantee portfolio at December 31, 2012 and 2011, respectively.

Home Affordable Foreclosure Alternatives Program

HAFA is designed to permit borrowers who meet basic HAMP eligibility requirements to sell their homes in short sales, if such borrowers did not qualify for or participate in a HAMP trial period, failed to complete their HAMP trial period, or defaulted on their HAMP modification. HAFA also provides a process for borrowers to convey title to their homes through a deed in lieu of foreclosure. We completed a small number of HAFA transactions on our single-family mortgage loans during 2012 and 2011.

Hardest Hit Fund

In 2010, the federal government created the Hardest Hit Fund, which provides funding for state HFAs to create unemployment assistance initiatives to help homeowners in those states that have been hit hardest by the housing crisis and economic downturn. To the extent our borrowers participate in the HFA unemployment assistance programs and the full contractual payment is made by an HFA, a borrower s mortgage delinquency status will remain static and will not fall into further delinquency. Based on information provided to us by our seller/servicers, we believe participation in these programs by our borrowers was limited in 2012 and 2011.

Loan Workout Volumes and Modification Performance

The table below presents single-family loan workout volumes, serious delinquency rates, and foreclosure volumes for the years ended December 31, 2012, 2011, and 2010.

Table 48 Single-Family Loan Workouts, Serious Delinquency, and Foreclosures Volumes[1]

	Years Ended December 31,					
	2012		2011		2010	
	Number of Loans	Loan Balances	Number of Loans	Loan Balances	Number of Loans	Loan Balances
	(dollars in millions)					
Home retention actions:						
Loan modifications						
with no change in terms[2]	533	$ 95	4,371	$ 778	4,639	$ 799
with term extension	3,894	313	16,354	3,011	20,664	3,602
with reduction of contractual interest rate and, in certain cases, term extension	38,871	6,246	68,584	15,231	114,686	25,277
with rate reduction, term extension and principal forbearance	26,283	8,483	19,865	5,319	30,288	7,915
Total loan modifications[3]	69,581	15,137	109,174	24,339	170,277	37,593
Repayment plans[4]	33,350	4,746	33,421	4,787	31,210	4,523
Forbearance agreements[5]	13,026	2,557	19,516	3,821	34,594	7,156
Total home retention actions	115,957	22,440	162,111	32,947	236,081	49,272
Foreclosure alternatives:						
Short sale	51,972	11,626	45,623	10,524	38,773	9,109
Deed in lieu of foreclosure transactions	1,036	179	540	94	402	63
Total foreclosure alternatives	53,008	11,805	46,163	10,618	39,175	9,172
Total single-family loan workouts	168,965	$ 34,245	208,274	$ 43,565	275,256	$ 58,444
Seriously delinquent loan additions	305,449		374,970		502,710	
Single-family foreclosures[6]	105,060		121,751		142,877	
Seriously delinquent loans, at period end	352,860		414,134		462,439	

(1) Based on completed actions with borrowers for loans within our single-family credit guarantee portfolio. Excludes those modification, repayment and forbearance activities for which the borrower has started the required process, but the actions have not been made permanent or effective, such as loans in modification trial periods. Also excludes certain loan workouts where our single-family seller/servicers have executed agreements in the current or prior periods, but these have not been incorporated into certain of our operational systems, due to delays in processing. These categories are not mutually exclusive and a loan in one category may also be included within another category in the same period (see endnote 5).
(2) Under this modification type, past due amounts are added to the principal balance and reamortized based on the original contractual loan terms.
(3) Includes completed loan modifications under HAMP; however, the number of such completions differs from that reported by the MHA Program administrator in part due to differences in the timing of recognizing the completions by us and the administrator.
(4) Represents the number of borrowers as reported by our seller/servicers that have completed the full term of a repayment plan for past due amounts. Excludes the number of borrowers that are actively repaying past due amounts under a repayment plan, which totaled 15,467 and 21,382 borrowers as of December 31, 2012 and 2011, respectively.
(5) Excludes loans with long-term forbearance under a completed loan modification. Many borrowers complete a short-term forbearance agreement before another loan workout is pursued or completed. We only report forbearance activity for a single loan once during each quarter; however, a single loan may be included under separate forbearance agreements in separate periods.
(6) Represents the number of our single-family loans that complete foreclosure transfers, including third-party sales at foreclosure auction in which ownership of the property is transferred directly to a third-party rather than to us.

We experienced a decline in home retention actions, particularly loan modifications, in 2012 compared to 2011; however, the volume of our modifications that include forbearance of principal and the portion of our modification volume that was non-HAMP-related both increased in 2012 compared to 2011. We attribute the increase in the portion of our modification volume that was non-HAMP-related to the introduction of our non-HAMP standard modification in late 2011. The decline in the total volume of completed loan modifications was primarily due to improved loan performance, which resulted in a reduction in the volume of loans transitioning to serious delinquency, as well as the fact that a large number of troubled borrowers have already completed loan modifications or foreclosure alternatives. While our overall loan workout volume declined more than 18% in 2012, our foreclosure alternative volume increased 15%, compared to 2011. We expect the volume of foreclosure alternatives will remain high in 2013 primarily because we offer incentives to servicers to complete short sales instead of foreclosures. See BUSINESS Our Business Segments *Single-Family Guarantee Segment Servicing Alignment Initiative*.

The UPB of loans in our single-family credit guarantee portfolio for which we have completed a loan modification increased to $75 billion as of December 31, 2012 from $69 billion as of December 31, 2011. The number of modified loans in our single-family credit guarantee portfolio continued to increase and such loans comprised approximately 3.4% and 2.9% of our single-family credit guarantee portfolio as of December 31, 2012 and December 31, 2011, respectively. For the year ended December 31, 2012, approximately 55% of our loan modifications related to loans which were 180 days or more delinquent prior to the modification effective date. The estimated current LTV ratio for all modified loans in our single-family credit guarantee portfolio was 115% at December 31, 2012. The serious delinquency rate on these loans was 16.6% as of December 31, 2012.

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The table below presents the percentage of modified single-family loans that were current and performing in each of the last eight quarterly periods.

Table 49 Quarterly Percentages of Modified Single-Family Loans Current and Performing[1]

	Quarter of Loan Modification Completion[2]							
HAMP loan modifications:	**3Q 2012**	**2Q 2012**	**1Q 2012**	**4Q 2011**	**3Q 2011**	**2Q 2011**	**1Q 2011**	**4Q 2010**
Time since modification-								
3 to 5 months	87%	89%	89%	89%	86%	87%	86%	85%
6 to 8 months		85	84	85	84	82	83	82
9 to 11 months			81	81	81	82	79	78
12 to 14 months				79	78	79	80	76
15 to 17 months					76	75	77	76
18 to 20 months						74	74	74
21 to 23 months							73	71
24 to 26 months								71

	Quarter of Loan Modification Completion[2]							
Non-HAMP loan modifications:	**3Q 2012**	**2Q 2012**	**1Q 2012**	**4Q 2011**	**3Q 2011**	**2Q 2011**	**1Q 2011**	**4Q 2010**
Time since modification-								
3 to 5 months	82%	84%	72%	78%	73%	76%	78%	80%
6 to 8 months		79	64	69	70	67	69	71
9 to 11 months			60	62	64	67	63	66
12 to 14 months				58	59	62	64	61
15 to 17 months					56	57	60	63
18 to 20 months						56	57	60
21 to 23 months							55	56
24 to 26 months								56

	Quarter of Loan Modification Completion[2]							
Total (HAMP and Non-HAMP):	**3Q 2012**	**2Q 2012**	**1Q 2012**	**4Q 2011**	**3Q 2011**	**2Q 2011**	**1Q 2011**	**4Q 2010**
Time since modification-								
3 to 5 months	84%	87%	85%	86%	81%	83%	83%	82%
6 to 8 months		83	80	80	79	77	77	76
9 to 11 months			77	75	75	76	73	72
12 to 14 months				73	71	73	73	68
15 to 17 months					69	69	70	69
18 to 20 months						68	67	67
21 to 23 months							66	64
24 to 26 months								63

(1) Represents the percentage of loans that are current and performing (no payment is 30 days or more past due) or have been paid in full. Excludes loans in modification trial periods.
(2) Loan modifications are recognized as completed in the quarterly period in which the servicer has reported the modification as effective and the agreement has been accepted by us. For loans that have been remodified (e.g., where a borrower has received a new modification after defaulting on the prior modification) the rates reflect the status of each modification separately. For example, in the case of a remodified loan where the borrower is performing, the previous modification would be presented as being in default in the applicable period.

As of December 31, 2012, the percentage of our modified loans that have become seriously delinquent (i.e., three months or more delinquent or in foreclosure), transitioned to REO, or completed a loss-producing foreclosure alternative, for all of our single-family loan modifications (including those under HAMP) completed during the first nine months of 2012, and full years of 2011, 2010 and 2009, was 7%, 20%, 27%, and 54%, respectively. Many of the borrowers that received modifications in 2009 were negatively affected by worsening economic conditions after their modification, including high unemployment rates during the last several years. As of December 31, 2012, the percentage of our HAMP modifications that have become seriously delinquent (i.e., three months or more delinquent or in foreclosure), transitioned to REO, or completed a loss-producing foreclosure alternative, during the first nine months of 2012, and full years of 2011, 2010, and 2009, was approximately 5%, 14%, 22%, and 25%, respectively.

Approximately $45 billion in UPB of our completed HAMP loan modifications at December 31, 2012 had provisions for reduced interest rates that remain fixed for the first five years of the modification and then increase at a rate of one percent per year (or such lesser amount as may be needed) until the interest rate has been adjusted to the market rate that was in effect at the time of the modification. As a result, the risk of redefault may increase for these borrowers due to the increase in monthly payments resulting from these scheduled increases in the contractual interest rate of the modified loan. A significant number of HAMP loan modifications were completed in 2010 and these loans will begin to experience their scheduled rate increases in 2015.

Credit Performance

Delinquencies

We report single-family serious delinquency rate information based on the number of loans that are three monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Mortgage loans that have been modified are not counted as seriously delinquent as long as the borrower is less than three monthly payments past due under the modified terms. Single-family loans for which the borrower is subject to a forbearance agreement or a repayment plan will continue to reflect the past due status of the borrower. To the extent our borrowers participate in the HFA unemployment assistance initiatives and the full contractual payment is made by an HFA, a borrower s mortgage delinquency status will remain static and will not fall into further delinquency.

Our single-family delinquency rates include all single-family loans that we own, that back Freddie Mac securities, and that are covered by our other guarantee commitments, except Freddie Mac financial guarantees that are backed by either Ginnie Mae Certificates or HFA bonds due to the credit enhancements provided on them by the U.S. government.

Some of our workout and other loss mitigation activities create fluctuations in our delinquency statistics. For example, single-family loans that we report as seriously delinquent before they enter a modification trial period continue to be reported as seriously delinquent for purposes of our delinquency reporting until the modifications become effective and the loans are removed from delinquent status by our servicers. Consequently, the volume and timing of loan modifications impact our reported serious delinquency rate. In addition, there may be temporary timing differences, or lags, in the reporting of payment status and modification completion due to differing practices of our servicers that can affect our delinquency reporting.

Our serious delinquency rates have been affected by delays, including those due to increases in foreclosure process timeframes, general constraints on servicer capacity (which affects the rate at which servicers modify or foreclose upon loans), and court backlogs (in states that require a judicial foreclosure process). These delays lengthen the period of time in which loans remain in seriously delinquent status, as the delays extend the time it takes for seriously delinquent loans to be modified, foreclosed upon or otherwise resolved and thus transition out of seriously delinquent status. As a result, we believe our single-family serious delinquency rates were higher in 2012 and 2011 than they otherwise would have been.

Many of the seriously delinquent loans that remained in our single-family credit guarantee portfolio at December 31, 2012 have been delinquent for a considerable period of time, particularly in states with a judicial foreclosure process. Loans that have been delinquent for more than six months are more challenging to resolve as many of these borrowers are not eligible for modifications and are in geographic areas where the foreclosure process is subject to judicial review or has lengthened. As of December 31, 2012 and 2011, the percentage of seriously delinquent loans that have been delinquent for more than six months was 73% and 70%, respectively. As of December 31, 2012 and 2011, the percentage of seriously delinquent loans located in states with a judicial foreclosure process that have been delinquent for more than one year was 61% and 57%, respectively, and the percentage delinquent for more than two years was 37% and 27%, respectively. As of December 31, 2012 and 2011, the percentage of seriously delinquent loans located in states with a non-judicial foreclosure process that have been delinquent for more than one year was 36% and 35%, respectively, and the percentage delinquent for more than two years was 15% and 11%, respectively.

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The table below presents serious delinquency rates for our single-family credit guarantee portfolio.

Table 50 Single-Family Serious Delinquency Rates

	As of December 31,					
	2012		2011		2010	
	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate
Single-family:						
Non-credit-enhanced	87%	2.66%	86%	2.84%	85%	3.01%
Credit-enhanced(1)	13	7.34	14	8.03	15	8.27
Total single-family credit guarantee portfolio(2)	100%	3.25	100%	3.58	100%	3.84

(1) See Institutional Credit Risk for information about our counterparties that provide credit enhancement on loans in our single-family credit guarantee portfolio.
(2) As of December 31, 2012, 2011, and 2010, approximately 68%, 68%, and 61%, respectively, of the single-family loans reported as seriously delinquent were in the process of foreclosure.

Serious delinquency rates of our single-family credit guarantee portfolio declined to 3.25% as of December 31, 2012, from 3.58% as of December 31, 2011 continuing the trend of improvement that began in 2010. Our serious delinquency rate remains high compared to the rates in years prior to 2009 due to weakness in home prices in the last several years, persistently high unemployment in many areas, extended foreclosure timelines, and continued challenges faced by servicers in processing large volumes of problem loans, including adjusting their processes to accommodate changes in servicing standards, such as those dictated by legislative or regulatory authorities. In addition, our serious delinquency rate at December 31, 2012 was higher than it otherwise would have been due to the decline in the size of our single-family credit guarantee portfolio during 2012, as this rate is calculated on a smaller number of loans at the end of the period.

Serious delinquency rates for interest-only and option ARM products, which together represented approximately 3% of our total single-family credit guarantee portfolio at December 31, 2012, were both 16.3% as compared with 17.6% and 20.5%, respectively, at December 31, 2011. Serious delinquency rates of single-family fixed rate, amortizing loans with a term of 20 years or more, a more traditional mortgage product, were approximately 3.7% and 3.9% at December 31, 2012 and 2011, respectively.

The tables below present serious delinquency rates categorized by borrower and loan characteristics, including geographic region and origination year, which indicate that certain concentrations of loans have been more adversely affected by declines in home prices and weak economic conditions since 2006. In certain states, our single-family serious delinquency rates have remained persistently high. As of December 31, 2012, single-family loans in Arizona, California, Florida, and Nevada comprised 25% of our single-family credit guarantee portfolio, and the serious delinquency rate of loans in these states was 5.0%. As of December 31, 2012, seriously delinquent loans in the states of Florida, California, New York, New Jersey, and Illinois collectively comprised approximately 47% of the seriously delinquent loans in our single-family credit guarantee portfolio. During 2012, we also continued to experience high serious delinquency rates on single-family loans originated between 2005 and 2008. We purchased significant amounts of loans with higher-risk characteristics in those years and those borrowers have been more susceptible to the declines in home prices and weak economic conditions since 2006.

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The table below presents credit concentrations for certain loan groups in our single-family credit guarantee portfolio.

Table 51 Credit Concentrations in the Single-Family Credit Guarantee Portfolio

	As of December 31, 2012					
	Alt-A UPB	Non Alt-A UPB (dollars in billions)	Total UPB	Estimated Current LTV Ratio[1]	Percentage Modified[2]	Serious Delinquency Rate
Geographical distribution:						
Arizona, California, Florida, and Nevada[3]	$ 30	$ 386	$ 416	82%	5.4%	5.0%
All other states	44	1,178	1,222	73	2.9	2.8
Year of origination:						
2012		364	364	76		0.1
2011		226	226	67	<0.1	0.3
2010		237	237	68	0.1	0.5
2009	<1	205	205	69	0.3	0.9
2008	6	73	79	88	7.4	6.8
2007	22	97	119	107	14.9	12.4
2006	20	69	89	104	13.4	11.4
2005	14	87	101	89	7.5	7.2
2004 and prior	12	206	218	56	3.3	3.2

	As of December 31, 2011					
	Alt-A UPB	Non Alt-A UPB (dollars in billions)	Total UPB	Estimated Current LTV Ratio[1]	Percentage Modified[2]	Serious Delinquency Rate
Geographical distribution:						
Arizona, California, Florida, and Nevada[3]	$ 38	$ 406	$ 444	93%	4.6%	6.2%
All other states	56	1,246	1,302	75	2.5	2.9
Year of origination:						
2011		250	250	70		0.1
2010		324	324	71	<0.1	0.3
2009	<1	315	315	72	0.1	0.5
2008	7	113	120	92	4.4	5.7
2007	29	138	167	113	10.2	11.6
2006	25	99	124	112	9.3	10.8
2005	18	124	142	96	5.1	6.5
2004 and prior	15	289	304	61	2.5	2.8

	2012			2011		
	Alt-A	Non Alt-A (in millions)	Total	Alt-A	Non Alt-A (in millions)	Total
Credit Losses						
Geographical distribution:						
Arizona, California, Florida, and Nevada[3]	$ 1,816	$ 4,526	$ 6,342	$ 2,641	$ 5,081	$ 7,722
All other states	886	4,397	5,283	1,050	4,209	5,259
Year of origination:						
2012		4	4	N/A	N/A	N/A
2011		44	44		2	2
2010		155	155		62	62
2009	<1	219	219	<1	177	177
2008	97	949	1,046	102	903	1,005
2007	1,015	3,127	4,142	1,455	3,245	4,700
2006	952	2,009	2,961	1,314	2,328	3,642
2005	537	1,460	1,997	713	1,566	2,279
2004 and prior	101	956	1,057	107	1,007	1,114

(1) See endnote (4) to Table 41 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of estimated current LTV ratios.
(2) Represents the percentage of loans, based on loan count, in our single-family credit guarantee portfolio at period end that have been modified, including those with no changes in interest rate or maturity date, but where past due amounts are added to the outstanding principal balance of the loan.
(3) Represents the four states with the largest cumulative declines in home prices since 2006 as measured using Freddie Mac s home price index.

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The table below presents statistics for combinations of certain characteristics of the mortgages in our single-family credit guarantee portfolio as of December 31, 2012 and 2011.

Table 52 Single-Family Credit Guarantee Portfolio by Attribute Combinations

	December 31, 2012								
	Current LTV Ratio £ 80(1)		Current LTV Ratio of > 80 to 100(1)		Current LTV > 100(1)		Current LTV Ratio All Loans(1)		
	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Percentage Modified(3)	Serious Delinquency Rate
By Product Type									
FICO scores < 620:									
20 and 30- year or more amortizing fixed-rate	1.0%	8.3%	0.8%	13.4%	0.9%	22.9%	2.7%	18.8%	13.4%
15- year amortizing fixed-rate	0.2	4.2	<0.1	8.0	<0.1	9.5	0.2	1.2	4.5
ARMs/adjustable rate(4)	0.1	10.0	<0.1	16.5	<0.1	26.7	0.1	11.4	14.1
Interest-only(5)	<0.1	15.0	<0.1	20.8	0.1	33.6	0.1	0.6	27.6
Other(6)	<0.1	4.0	<0.1	8.4	<0.1	14.9	<0.1	4.9	5.7
Total FICO scores < 620	1.3	7.2	0.8	13.4	1.0	23.2	3.1	15.3	12.2
FICO scores of 620 to 659:									
20 and 30- year or more amortizing fixed-rate	2.2	5.5	1.3	9.7	1.7	18.8	5.2	13.8	9.8
15- year amortizing fixed-rate	0.6	2.5	<0.1	5.1	<0.1	8.4	0.6	0.6	2.7
ARMs/adjustable rate(4)	0.1	5.1	0.1	11.7	0.1	23.7	0.3	2.6	10.9
Interest-only(5)	<0.1	10.7	0.1	17.2	0.2	30.0	0.3	0.5	24.4
Other(6)	<0.1	2.8	<0.1	4.6	<0.1	7.0	<0.1	1.9	4.7
Total FICO scores of 620 to 659	2.9	4.7	1.5	9.7	2.0	19.5	6.4	10.7	9.0
FICO scores of >=660:									
20 and 30- year or more amortizing fixed-rate	40.1	1.1	17.0	2.9	9.8	9.4	66.9	3.3	2.6
15- year amortizing fixed-rate	14.7	0.4	1.0	0.9	0.3	2.3	16.0	0.1	0.5
ARMs/adjustable rate(4)	3.0	1.0	0.7	4.6	0.5	15.4	4.2	0.6	3.4
Interest-only(5)	0.4	4.2	0.7	9.7	1.6	20.6	2.7	0.2	15.0
Other(6)	<0.1	1.9	0.1	1.5	0.1	2.5	0.2	0.7	1.9
Total FICO scores >= 660	58.2	0.9	19.5	3.0	12.3	10.6	90.0	2.3	2.3
Total FICO scores not available	0.3	5.4	0.1	11.6	0.1	23.0	0.5	6.5	8.9
All FICO scores:									
20 and 30- year or more amortizing fixed-rate	43.4	1.7	19.1	4.0	12.6	11.8	75.1	4.9	3.7
15- year amortizing fixed-rate	15.4	0.6	1.1	1.2	0.3	2.8	16.8	0.1	0.6
ARMs/adjustable rate(4)	3.3	1.6	0.8	5.8	0.6	17.1	4.7	1.2	4.3
Interest-only(5)	0.5	4.9	0.8	10.7	1.8	22.0	3.1	0.2	16.3
Other(6)	0.1	9.6	0.1	6.8	0.1	10.2	0.3	7.9	8.9
Total single-family credit guarantee portfolio(7)	62.7%	1.4%	21.9%	4.1%	15.4%	12.7%	100.0%	3.4%	3.3%

By Region[8]									
FICO scores < 620:									
North Central	0.2%	5.9%	0.2%	10.4%	0.2%	18.1%	0.6%	14.8%	10.5%
Northeast	0.5	10.4	0.2	19.7	0.2	30.6	0.9	16.6	16.1
Southeast	0.2	7.9	0.2	13.5	0.3	27.7	0.7	16.0	14.5
Southwest	0.2	5.2	0.1	11.2	<0.1	19.5	0.3	10.6	7.4
West	0.2	4.9	0.1	10.2	0.3	17.3	0.6	18.0	10.1
Total FICO scores < 620	1.3	7.2	0.8	13.4	1.0	23.2	3.1	15.3	12.2
FICO scores of 620 to 659:									
North Central	0.5	3.9	0.3	7.7	0.4	14.5	1.2	10.2	7.5
Northeast	0.9	6.6	0.4	14.4	0.4	25.8	1.7	11.1	11.5
Southeast	0.5	5.4	0.3	10.2	0.5	23.9	1.3	11.0	11.3
Southwest	0.5	3.3	0.2	7.6	0.1	14.5	0.8	6.8	4.8
West	0.5	3.4	0.3	8.0	0.6	16.1	1.4	14.2	8.3
Total FICO scores of 620 to 659	2.9	4.7	1.5	9.7	2.0	19.5	6.4	10.7	9.0
FICO scores >=660:									
North Central	9.4	0.7	4.4	2.2	2.3	7.0	16.1	1.9	1.7
Northeast	15.9	1.2	5.2	4.6	1.9	14.2	23.0	2.0	2.6
Southeast	8.3	1.3	3.5	3.3	3.0	14.2	14.8	2.5	3.7
Southwest	8.0	0.7	2.1	2.0	0.3	5.9	10.4	1.1	1.0
West	16.6	0.6	4.3	2.8	4.8	9.1	25.7	3.4	2.3
Total FICO scores >= 660	58.2	0.9	19.5	3.0	12.3	10.6	90.0	2.3	2.3
Total FICO scores not available	0.3	5.4	0.1	11.6	0.1	23.0	0.5	6.5	8.9
All FICO scores:									
North Central	10.1	1.0	4.8	3.0	3.0	9.0	17.9	3.0	2.5
Northeast	17.1	1.9	5.9	6.1	2.5	17.6	25.5	3.3	3.8
Southeast	9.1	1.9	4.0	4.5	3.8	16.7	16.9	4.0	5.0
Southwest	8.9	1.1	2.5	3.2	0.4	9.3	11.8	2.1	1.7
West	17.5	0.8	4.7	3.3	5.7	10.2	27.9	4.4	2.8
Total single-family credit guarantee portfolio[7]	62.7%	1.4%	21.9%	4.1%	15.4%	12.7%	100.0%	3.4%	3.3%

	As of December 31, 2011								
	Current LTV Ratio £ 80[(1)]		Current LTV Ratio of > 80 to 100[(1)]		Current LTV > 100[(1)]		Current LTV Ratio All Loans[(1)]		
	Percentage of Portfolio[(2)]	Serious Delinquency Rate	Percentage of Portfolio[(2)]	Serious Delinquency Rate	Percentage of Portfolio[(2)]	Serious Delinquency Rate	Percentage of Portfolio[(2)]	Percentage Modified[(3)]	Serious Delinquency Rate
By Product Type									
FICO scores < 620:									
20 and 30- year or more amortizing fixed-rate	0.9%	8.1%	0.8%	13.4%	1.0%	23.7%	2.7%	16.6%	14.2%
15- year amortizing fixed-rate	0.2	4.2	<0.1	10.1	<0.1	17.6	0.2	1.2	4.7
ARMs/adjustable rate[(4)]	0.1	10.8	<0.1	17.2	<0.1	25.4	0.1	9.8	15.4
Interest only[(5)]	<0.1	16.0	<0.1	22.4	0.1	34.9	0.1	0.4	30.3
Other[(6)]	<0.1	3.6	<0.1	7.4	0.1	14.1	0.1	4.2	5.6
Total FICO scores < 620	1.2	7.0	0.8	13.5	1.2	24.1	3.2	13.4	12.9
FICO scores of 620 to 659:									
20 and 30- year or more amortizing fixed-rate	2.0	5.2	1.5	8.9	2.0	18.4	5.5	11.5	10.1
15- year amortizing fixed-rate	0.6	2.5	<0.1	6.1	<0.1	15.1	0.6	0.6	2.8
ARMs/adjustable rate[(4)]	0.1	5.5	0.1	11.7	0.1	23.6	0.3	2.0	12.6
Interest only[(5)]	<0.1	10.4	0.1	18.6	0.3	31.7	0.4	0.3	27.2
Other[(6)]	<0.1	2.8	<0.1	4.8	<0.1	5.5	<0.1	1.4	4.5
Total FICO scores of 620 to 659	2.7	4.4	1.7	9.1	2.4	19.4	6.8	8.9	9.4
FICO scores of >=660:									
20 and 30- year or more amortizing fixed-rate	34.6	1.0	20.3	2.4	12.4	9.2	67.3	2.7	2.8
15- year amortizing fixed-rate	13.1	0.4	1.0	1.1	0.2	6.0	14.3	0.1	0.5
ARMs/adjustable rate[(4)]	2.5	1.1	0.8	4.3	0.8	14.8	4.1	0.5	4.5
Interest only[(5)]	0.4	3.7	0.7	9.2	2.5	20.7	3.6	0.2	16.2
Other[(6)]	<0.1	2.0	<0.1	2.0	0.1	2.0	0.1	0.5	2.0
Total FICO scores >= 660	50.6	0.8	22.8	2.6	16.0	10.8	89.4	1.9	2.6
Total FICO scores not available	0.3	4.8	0.2	11.9	0.1	21.4	0.6	5.5	8.9
All FICO scores:									
20 and 30- year or more amortizing fixed-rate	37.7	1.6	22.5	3.4	15.6	11.5	75.8	4.1	3.9
15- year amortizing fixed-rate	13.8	0.6	1.1	1.5	0.2	7.3	15.1	0.1	0.7
ARMs/adjustable rate[(4)]	2.7	1.8	1.0	5.5	0.9	16.4	4.6	1.0	5.5
Interest only[(5)]	0.5	4.4	0.8	10.5	2.8	22.2	4.1	0.2	17.6
Other[(6)]	0.1	8.9	0.1	8.4	0.2	8.4	0.4	6.8	8.6
Total single-family credit guarantee portfolio[(7)]	54.8%	1.3%	25.5%	3.6%	19.7%	12.8%	100.0%	2.9%	3.6%
By Region[(8)]									
FICO scores < 620:									
North Central	0.2%	6.3%	0.2%	11.7%	0.2%	20.1%	0.6%	13.4%	12.0%
Northeast	0.4	9.3	0.2	19.0	0.3	28.9	0.9	14.3	14.9
Southeast	0.2	7.9	0.2	13.9	0.3	29.5	0.7	13.9	15.9
Southwest	0.2	5.1	0.1	11.0	0.1	19.5	0.4	9.4	8.0
West	0.2	4.6	0.1	9.1	0.3	19.5	0.6	16.2	11.8
Total FICO scores < 620	1.2	7.0	0.8	13.5	1.2	24.1	3.2	13.4	12.9
FICO scores of 620 to 659:									

North Central	0.5	4.0	0.3	8.2	0.5	15.1	1.3	8.7	8.4
Northeast	0.8	5.8	0.5	12.9	0.4	23.3	1.7	9.1	10.3
Southeast	0.5	5.2	0.3	9.5	0.6	24.1	1.4	9.1	12.2
Southwest	0.5	3.1	0.3	7.0	0.1	13.6	0.9	5.9	5.1
West	0.4	3.1	0.3	6.8	0.8	17.6	1.5	12.0	10.0
Total FICO scores of 620 to 659	2.7	4.4	1.7	9.1	2.4	19.4	6.8	8.9	9.4
FICO scores of >=660:									
North Central	8.5	0.7	4.7	2.3	2.8	7.4	16.0	1.6	2.0
Northeast	14.9	1.0	5.7	3.9	2.0	12.6	22.6	1.6	2.3
Southeast	7.1	1.2	3.9	2.8	3.8	14.4	14.8	2.1	4.2
Southwest	7.4	0.6	2.7	2.0	0.4	6.2	10.5	0.9	1.1
West	12.7	0.5	5.8	1.7	7.0	10.1	25.5	2.9	3.0
Total FICO scores >= 660	50.6	0.8	22.8	2.6	16.0	10.8	89.4	1.9	2.6
Total FICO scores not available	0.3	4.8	0.2	11.9	0.1	21.4	0.6	5.5	8.9
All FICO scores:									
North Central	9.1	1.0	5.3	3.2	3.6	9.5	18.0	2.6	2.9
Northeast	16.1	1.6	6.4	5.3	2.7	15.8	25.2	2.7	3.4
Southeast	7.9	1.8	4.4	4.0	4.7	16.8	17.0	3.4	5.5
Southwest	8.2	1.1	3.2	3.1	0.6	9.4	12.0	1.8	1.8
West	13.5	0.7	6.2	2.1	8.1	11.3	27.8	3.8	3.6
Total single-family credit guarantee portfolio[7]	54.8%	1.3%	25.5%	3.6%	19.7%	12.8%	100.0%	2.9%	3.6%

(1) The current LTV ratios are our estimates. See endnote (4) to Table 41 Characteristics of the Single-Family Credit Guarantee Portfolio for further information.
(2) Based on UPB of the single-family credit guarantee portfolio.
(3) See endnote (2) to Table 51 Credit Concentrations in the Single-Family Credit Guarantee Portfolio.
(4) Includes balloon/resets and option ARM mortgage loans.
(5) Includes both fixed rate and adjustable rate loans. The percentages of interest-only loans which have been modified at period end reflect that a number of these loans have not yet been assigned to their new product category (post-modification), primarily due to delays in processing.
(6) Consist of FHA/VA and other government guaranteed mortgages.
(7) The total of all FICO scores categories may not sum due to the inclusion of loans where FICO scores are not available in the respective totals for all loans. See endnote (6) to Table 41 Characteristics of the Single-Family Credit Guarantee Portfolio for further information about our presentation of FICO scores.
(8) Presentation with the following regional 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); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

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The table below presents foreclosure and short sale rate information for loans in our single-family credit guarantee portfolio based on year of origination.

T able 53 Single-Family Credit Guarantee Portfolio Foreclosure and Short Sale Rates

		As of December 31,		
		2012	2011	2010
Year of Loan Origination	Percentage of Portfolio	Foreclosure and Short Sale Rate(1)	Foreclosure and Short Sale Rate(1)	Foreclosure and Short Sale Rate(1)
2012	22%	<0.01%	N/A	N/A
2011	14	0.06	%	N/A
2010	15	0.20	0.05	%
2009	12	0.34	0.17	0.04
Combined 2009 to 2012	63	0.17	0.08	0.02
2008	6	3.26	2.23	1.26
2007	7	9.74	7.49	4.92
2006	5	8.66	6.95	5.00
2005	6	5.11	4.07	2.95
Combined 2005 to 2008	24	6.87	5.35	3.66
2004 and prior(2)	13	1.20	1.04	0.88
Total	100%			

(1) Calculated for each year of origination as the number of loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries, during the period from origination to December 31, 2012, 2011, and 2010, respectively, divided by the number of loans originated in that year that were acquired in our single-family credit guarantee portfolio.

(2) The foreclosure and short sale rate presented for loans originated in 2004 and prior represents the rate associated with loans originated in 2000 through 2004.

Loans originated from 2005 through 2008 have experienced higher foreclosure and short sale rates as compared to our historical experience. We attribute this performance to a number of factors, including: (a) the expansion of credit terms under which loans were underwritten during these years; (b) an increase in the origination and our purchase of interest-only and Alt-A mortgage products in these years; and (c) an environment of persistently high unemployment, decreasing home sales, and broadly declining home prices in the period following the loans origination.

Multifamily Mortgage Credit Risk

To manage our multifamily mortgage portfolio credit risk, we focus on several key areas: (a) underwriting standards and processes we believe to be prudent; (b) selling significant portions of the expected credit risk through subordination by issuance of our multifamily K Certificates; (c) portfolio diversification, particularly by product and geographical area; and (d) portfolio management activities, including loss mitigation and use of credit enhancements. We monitor the loan performance, the underlying properties and a variety of mortgage loan characteristics that may affect the default experience on our multifamily mortgage portfolio, such as DSCR, LTV ratio, geographic location, payment type, and loan maturity. See BUSINESS Our Business Segments *Multifamily Segment* for information on our multifamily underwriting standards. See NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for more information about the loans in our multifamily mortgage portfolio.

The table below provides certain attributes of our multifamily mortgage portfolio at December 31, 2012 and 2011.

Table 54 Multifamily Mortgage Portfolio by Attribute

	UPB at		Delinquency Rate[1] at	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(dollars in billions)			
Original LTV ratio[2]				
Below 75%	$ 87.6	$ 78.8	0.04%	0.10%
75% to 80%	34.0	30.9	0.22	0.08
Above 80%	5.8	6.4	2.31	2.34
Total	$ 127.4	$ 116.1	0.19%	0.22%
Weighted average LTV ratio at origination	70%	70%		
Maturity Dates				
2012	N/A	$ 3.0	N/A	1.35%
2013	$ 3.3	5.6	0.90%	
2014	5.8	7.6		0.03
2015	9.8	11.0	0.53	0.17
2016	13.0	13.5	0.05	0.06
Beyond 2016	95.5	75.4	0.17	0.25
Total	$ 127.4	$ 116.1	0.19%	0.22%
Year of Acquisition or Guarantee[3]				
2004 and prior	$ 9.2	$ 12.4	0.35%	0.40%
2005	6.5	7.2	0.17	0.20
2006	9.5	10.8		0.25
2007	17.8	19.8	0.86	0.74
2008	16.6	20.6	0.30	0.09
2009	12.2	13.8		
2010	12.0	12.7		
2011	17.0	18.8		
2012	26.6	N/A		N/A
Total	$ 127.4	$ 116.1	0.19%	0.22%
Current Loan Size				
Above $25 million	$ 48.5	$ 42.8	0.06%	0.06%
Above $5 million to $25 million	70.0	64.0	0.26	0.31
$5 million and below	8.9	9.3	0.37	0.31
Total	$ 127.4	$ 116.1	0.19%	0.22%
Legal Structure				
Unsecuritized loans	$ 76.6	$ 82.3	0.08%	0.10%
Freddie Mac mortgage-related securities	41.4	24.2	0.41	0.64
Other guarantee commitments	9.4	9.6	0.13	0.18
Total	$ 127.4	$ 116.1	0.19%	0.22%
Credit Enhancement				
Credit-enhanced	$ 47.8	$ 31.6	0.36%	0.52%
Non-credit-enhanced	79.6	84.5	0.10	0.11

Total	$ 127.4	$ 116.1	0.19%	0.22%
Payment Type				
Interest-only	$ 22.8	$ 24.2	0.05%	0.16%
Partial interest-only[4]	29.8	21.4	0.05	0.22
Amortizing	74.8	70.5	0.30	0.25
Total	$ 127.4	$ 116.1	0.19%	0.22%

(1) See Delinquencies below for more information about our multifamily delinquency rates.

(2) Original LTV ratios are calculated as the UPB of the mortgage, divided by the lesser of the appraised value of the property at the time of mortgage origination or, except for refinance loans, the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded in the LTV ratio calculation. We do not permit second lien financing with third parties on our multifamily loans without our prior consent.

(3) Based on either: (a) the year of acquisition, for loans recorded on our consolidated balance sheets; or (b) the year that we issued our guarantee, for the remaining loans in our multifamily mortgage portfolio.

(4) Represent loans that have an interest-only period and where the borrower s payments were interest-only at the respective reporting date. Loans which have reached the end of their interest-only period by the respective reporting date have converted to, and are classified as, amortizing loans.

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Multifamily Product Types

Our multifamily mortgage portfolio consists of product types that are categorized based on loan terms. Multifamily loans may: (a) be amortizing or interest-only (on a full or partial basis); and (b) have a fixed or variable rate of interest. Our multifamily loans generally have balloon maturities ranging from five to ten years. At December 31, 2012 and 2011, approximately 59% and 61%, respectively, of our multifamily mortgage portfolio consisted of amortizing loans, which reduce our credit exposure over time since the UPB of the loan declines with each mortgage payment. In addition, as of December 31, 2012 and 2011, approximately 23% and 18%, respectively, of our multifamily mortgage portfolio consisted of partial interest-only loans, which after a defined period of time will begin to include amortization of principal.

Because most multifamily loans require a significant lump sum (i.e., balloon) payment of unpaid principal at maturity, the borrower s potential inability to refinance or pay off the loan at maturity is a primary concern for us. Borrowers may be less able to refinance their obligations during periods of rising interest rates, which could lead to default if the borrower is unable to find affordable refinancing. Of the $127.4 billion in UPB of our multifamily mortgage portfolio as of December 31, 2012, only 3% and 5% will mature during 2013 and 2014, respectively, and the remaining 92% will mature in 2015 and beyond.

Multifamily Credit Enhancements

Our primary business model in the multifamily segment is to purchase multifamily mortgage loans for aggregation and then securitization through issuance of multifamily K Certificates, which we categorize as Other Guarantee Transactions. Substantially all of our multifamily K Certificates use subordination in order to provide credit enhancement to the most senior classes of these securities, which we guarantee. Subordinated classes are allocated credit losses prior to the senior classes. As a result, a significant portion of our expected credit risk associated with these loans is sold in subordinated tranches to third-party investors, thereby substantially reducing our credit risk. At December 31, 2012 and 2011, the UPB of guaranteed multifamily K Certificates with subordination coverage was $36.7 billion and $19.7 billion, and the average subordination coverage on these securities was 17% and 15%, respectively. See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for additional information about credit protections and other forms of credit enhancements covering loans in our multifamily mortgage portfolio as of December 31, 2012 and 2011.

Delinquencies and Loss Mitigation Activities

Our multifamily delinquency rates include all multifamily loans that we own, that are collateral for Freddie Mac securities, and that are covered by our other guarantee commitments, except financial guarantees that are backed by HFA bonds due to the credit enhancement provided by the U.S. government. We report multifamily delinquency rates based on UPB of mortgage loans that are two monthly payments or more past due or in the process of foreclosure, as reported by our servicers. Mortgage loans that have been modified are not counted as delinquent as long as the borrower is less than two monthly payments past due under the modified terms.

Our multifamily mortgage portfolio delinquency rate was 0.19% at December 31, 2012 and 0.22% at December 31, 2011. Our delinquency rate for credit-enhanced loans was 0.36% and 0.52% at December 31, 2012 and 2011, respectively, and for non-credit-enhanced loans was 0.10% and 0.11% at December 31, 2012 and 2011, respectively. As of December 31, 2012, more than one-half of our multifamily loans that were two or more monthly payments past due, measured on a UPB basis, had credit enhancements that we currently believe will mitigate our expected losses on those loans and guarantees.

Our delinquency rates have remained low compared to other industry participants, which we believe to be, in part, the result of our prudent underwriting standards and practices versus those used by others in the industry. Our delinquency rates for multifamily loans are positively affected to the extent we have been successful in working with troubled borrowers to modify their loans prior to becoming delinquent or by providing temporary relief through loan modifications or entering into a forbearance agreement. For loans for which we are the master servicer, if a borrower is in distress, we may offer a workout option to the borrower. For example, we may modify the terms of a multifamily mortgage loan (e.g., short-term loan extension of up to 12 months), which gives the borrower an opportunity to bring the loan current and retain ownership of the property. These arrangements are made with the expectation that we will recover our initial investment or minimize our losses. We do not enter into these arrangements in situations where we believe we would experience a loss in the future that is greater than or equal to the loss we would experience if we foreclosed on the property at the time of the agreement. See NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for information about loss mitigation

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activities that we have classified as TDRs and subsequent performance information of these loans. As a result of the positive market fundamentals and continued strong portfolio performance, we expect our multifamily credit losses and delinquency rate to remain relatively low in 2013.

Non-Performing Assets

Non-performing assets consist of single-family and multifamily loans that have undergone a TDR, single-family seriously delinquent loans, multifamily loans that are three or more payments past due or in the process of foreclosure, and REO assets, net. Non-performing assets also include multifamily loans that are deemed impaired based on management judgment. We place non-performing loans on non-accrual status when we believe the collectability of interest and principal on a loan is not reasonably assured, unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, any interest income accrued but uncollected is reversed. Thereafter, interest income is recognized only upon receipt of cash payments. We did not accrue interest on any loans three monthly payments or more past due in 2012 and 2011.

We classify TDRs as those loans where we have granted a concession to a borrower that is experiencing financial difficulties. Modified loans that have been classified as TDRs remain categorized as non-performing throughout the remaining life of the loan regardless of whether the borrower makes payments which return the loan to a current payment status. See NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for further information about our TDRs.

The table below provides detail on non-performing loans and REO assets on our consolidated balance sheets and non-performing loans underlying our financial guarantees.

Table 55 Non-Performing Assets[1]

	December 31,				
	2012	2011	2010	2009	2008
	(dollars in millions)				
Non-performing mortgage loans on balance sheet:					
Single-family TDRs:[2]					
Less than three monthly payments past due	$ 65,784	$ 44,440	$ 26,612	$ 711	$ 484
Seriously delinquent	22,008	11,639	3,144	477	163
Multifamily TDRs[3]	815	893	911	229	150
Total TDRs	88,607	56,972	30,667	1,417	797
Other seriously delinquent single-family loans[4]	39,711	63,205	84,272	12,106	5,590
Other multifamily loans[5]	1,411	1,819	1,750	1,196	197
Total non-performing mortgage loans on balance sheet	129,729	121,996	116,689	14,719	6,584
Non-performing mortgage loans off-balance sheet:					
Single-family loans	1,096	1,230	1,450	85,395	36,718
Multifamily loans	474	246	198	178	63
Total non-performing mortgage loans off-balance sheet	1,570	1,476	1,648	85,573	36,781
Real estate owned, net	4,378	5,680	7,068	4,692	3,255
Total non-performing assets	$ 135,677	$ 129,152	$ 125,405	$ 104,984	$ 46,620
Loan loss reserves as a percentage of our non-performing mortgage loans	23.5%	32.0%	33.7%	33.8%	36.0%
Total non-performing assets as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities	7.5%	6.8%	6.4%	5.2%	2.4%

(1) Mortgage loan amounts are based on UPB and REO, net is based on carrying values.
(2) In the third quarter of 2012, we changed the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs (unless they were already classified as TDRs for other reasons), regardless of the borrowers payment status. The majority of these loans were not seriously delinquent at the time of reclassification. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Basis of Presentation for further information about our TDR classification of loans discharged in Chapter 7 bankruptcy.
(3) As of December 31, 2012, approximately $806 million in UPB of these loans were current.
(4) Represents loans recognized by us on our consolidated balance sheets, including loans removed from PC trusts due to the borrower s serious delinquency.
(5) Of this amount, $1.4 billion, $1.8 billion, $1.6 billion, and $1.1 billion of UPB were current at December 31, 2012, 2011, 2010, and 2009, respectively.

Our loan loss reserves as a percentage of our non-performing mortgage loans declined at December 31, 2012 compared to December 31, 2011 primarily due to the increase in non-performing assets combined with an improvement in borrower payment performance within our single-family credit guarantee portfolio, which led to a decline in the level of our loan loss reserves in 2012. The amount of non-performing assets increased to $135.7 billion as of December 31, 2012, from $129.2

billion as of December 31, 2011, and the UPB of loans categorized as TDRs also increased at December 31, 2012 as compared to December 31, 2011. These increases were primarily due to a change in the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs (unless they were already classified as a TDR for other reasons), regardless of the borrowers payment status. Except for this change in classification, which resulted in approximately $19.5 billion in UPB of loans being newly classified as TDRs in the third quarter of 2012, the balance of our non-performing loans would have declined in 2012 due to a combination of improved borrower payment performance and the continued high levels of foreclosure transfers, short sales, and REO dispositions during 2012. TDRs include HAMP and non-HAMP loan modifications, as well as loans in modification trial periods and certain other loss mitigation actions. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for information about TDRs, including our implementation of an amendment to the accounting guidance on classification of loans as TDRs in 2011. We expect our non-performing assets, including loans deemed to be TDRs, to remain at elevated levels for 2013.

The table below provides detail by region for REO activity. Our REO activity consists almost entirely of single-family residential properties. See Table 52 Single-Family Credit Guarantee Portfolio by Attribute Combinations for information about regional serious delinquency rates.

Table 56 REO Activity by Region[1]

	December 31,		
	2012	**2011**	**2010**
	(number of properties)		
REO Inventory			
Beginning property inventory	60,555	72,093	45,052
Adjustment to beginning balance[2]			1,340
Properties acquired by region:			
Northeast	7,353	6,970	11,022
Southeast	23,907	23,195	35,409
North Central	27,586	26,259	29,550
Southwest	10,199	12,861	14,092
West	13,773	29,371	36,843
Total properties acquired	82,818	98,656	126,916
Properties disposed by region:			
Northeast	(7,545)	(8,883)	(8,490)
Southeast	(25,813)	(28,310)	(26,082)
North Central	(28,140)	(25,971)	(22,349)
Southwest	(12,138)	(13,099)	(11,044)
West	(20,660)	(33,931)	(33,250)
Total properties disposed	(94,296)	(110,194)	(101,215)
Ending property inventory	49,077	60,555	72,093

(1) See endnote (8) to Table 52 Single-Family Credit Guarantee Portfolio by Attribute Combinations for a description of these regions.
(2) Represents REO assets associated with previously non-consolidated mortgage trusts recognized upon adoption of the amendment to the accounting guidance for consolidation of VIEs on January 1, 2010.

Our REO inventory (measured in number of properties) declined 19% and 16% in 2012 and 2011 as compared to the inventory balance in the preceding year, respectively, as the volume of our single-family REO dispositions exceeded the volume of single-family REO acquisitions in both 2012 and 2011. We believe our single-family REO acquisition volume during 2012 and 2011 was less than it otherwise would have been due to the length of the single-family foreclosure timeline, particularly in states that require a judicial foreclosure process. Foreclosures generally take longer to complete in states where judicial foreclosures (those conducted under the supervision of a court) are required than in states where non-judicial foreclosures are permitted. We also believe that resource constraints on foreclosure activities for five larger servicers involved in a February 2012 settlement with a coalition of state attorneys general and federal agencies further limited our REO acquisition volume in 2012. In addition, our expanded loss mitigation efforts, including short sales, are providing borrowers with viable alternatives to foreclosure. As a result of increasing short sales and a declining amount of problem loans during 2012, fewer of our loans proceeded to foreclosure and subsequent REO sale.

The average length of time for foreclosure of a Freddie Mac loan has significantly increased in recent years, and may further increase, due to temporary suspensions, delays, legislative and regulatory developments, changes in servicing practices, and other factors. During 2012 and 2011, respectively, the nationwide average for completion of a foreclosure (as measured from the date of the last scheduled payment made by the borrower) on our single-family delinquent loans, excluding those underlying our Other Guarantee Transactions, was 611 days and 506 days, respectively, which included: (a) an average of 769 days and 633 days, respectively, for foreclosures completed in states that require a judicial foreclosure process; and (b) an average of 467 days and 449 days, respectively, for foreclosures completed in states that do not require a judicial foreclosure process. We continue to experience significant variability in the average time for foreclosure by state. For example, during 2012, the average time for completion of foreclosures associated with loans in our single-family credit guarantee portfolio, excluding Other Guarantee Transactions, ranged from 390 days in Michigan to 1,026 days in Florida. As of December 31, 2012, our serious delinquency rate for the aggregate of those states that require a judicial foreclosure and all other states was 4.25% and 2.24%, respectively, compared to 4.47% and 2.74%, respectively, as of December 31, 2011.

We expect the pace of our REO acquisitions will continue to be negatively affected in 2013 by the length of the foreclosure process, particularly in states with a judicial foreclosure process. However, we expect the volume of our REO acquisitions will likely remain elevated, as we have a large inventory of seriously delinquent loans in our single-family credit guarantee portfolio. This large inventory of seriously delinquent loans arose due to various factors and events that have lengthened the problem loan resolution process and delayed the transition of such loans to a workout or foreclosure transfer (and then, to REO).

Our single-family REO acquisitions during 2012 were most significant in the states of Florida, Illinois, Michigan, California and Ohio, which collectively represented 42% of total REO acquisitions based on the number of properties. The North Central region comprised 42% and 35% of our REO property inventory, based on the number of properties, as of December 31, 2012 and 2011, respectively. The states with the most properties in our REO inventory as of December 31, 2012 were Michigan and Illinois, which are states in this region that have experienced the greatest cumulative decline in home prices since 2006. As of December 31, 2012, Michigan and Illinois each comprised 12% of total REO property inventory, based on the number of properties, compared to 12% and 8%, respectively, of the inventory at December 31, 2011. During 2012, our REO property inventory declined most in the West region, which comprised 13% and 22% of our total REO property inventory as of December 31, 2012 and 2011, respectively. California experienced an approximately 13% increase in home prices during 2012, based on our own home price index, and comprised approximately 6% and 10% of our REO property inventory as of December 31, 2012 and 2011, respectively.

The percentage of interest-only and Alt-A loans in our single-family credit guarantee portfolio, based on UPB, was approximately 3% and 5%, respectively, at December 31, 2012 and was 6% on a combined basis. The percentage of our REO acquisitions in 2012 that had been financed by either of these loan types represented approximately 24% of our total REO acquisitions, based on loan amount prior to acquisition.

We have a variety of alternative methods and tools for REO dispositions that we may employ, as appropriate, including auction sales, bulk sales, and financing options. Our aggregate REO dispositions through these methods represented an insignificant portion of our REO dispositions during 2012. In June 2012, we implemented a streamlined bulk sale process and expect to see increased sales of our REO properties through this channel in 2013; however, the volume of our bulk sales is likely to remain modest relative to individual property sales. We also developed and implemented a new financing option during the third quarter of 2012 for both owner-occupied and investor purchases of REO properties in a few states. Although this initiative did not significantly impact our results in 2012, we expect to expand this initiative nationally in 2013 and we believe that it may help reduce our REO inventory in the future.

A significant portion of our REO property inventory is unmarketable at any given time, which can increase the aging of our inventory. For example, some jurisdictions require a period of time after foreclosure during which the borrower may reclaim the property. During this period, we are not able to sell the property. As of December 31, 2012 and 2011, the percentage of our single-family REO property inventory that had been held for sale longer than one year was 5.8% and 7.1%, respectively. Though it varied significantly in different states, the average holding period of our single-family REO properties was little changed during 2012. Excluding any post-foreclosure period during which borrowers may reclaim a foreclosed property, the average holding period associated with our single-family REO dispositions during the years ended December 31, 2012 and 2011 was 200 days and 197 days, respectively.

The table below provides information about the status of the REO properties on our consolidated balance sheets.

Table 57 Single-Family REO Property Status

	As of December 31,	
	2012	2011
	(Percent of properties)	
Available for sale	27%	29%
Pending settlement for sale[1]	14	15
Pre-listing [2]	23	18
Unable to market:		
Redemption status[3]	15	15
Occupied (waiting for eviction)	18	19
Other[4]	3	4
Subtotal unable to market	36	38
Total	100%	100%

(1) Consists of properties where we have an executed sales contract and settlement has not yet occurred.
(2) Consists of properties that are not being actively marketed because we are evaluating the property condition and preparing the property for sale.
(3) Consists of properties located in jurisdictions that require a period of time after foreclosure during which the borrower may reclaim the property.
(4) Includes properties where marketing is on hold, including where we are involved in litigation or other legal and regulatory issues concerning the property.

As shown in the table above, the composition of our REO inventory that is not yet listed on the market, primarily because many of these properties are under repair or are otherwise being prepared for sale, increased in 2012. We continue to have a significant number of properties in our REO inventory that are occupied or in states with a redemption period, particularly in the states of Illinois, Michigan, and Minnesota.

Credit Loss Performance

Many loans that are seriously delinquent, or in foreclosure, result in credit losses. The table below provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and underlying our non-consolidated mortgage-related financial guarantees.

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Table 58 Credit Loss Performance

	December 31,		
	2012	2011	2010
	(dollars in millions)		
REO			
REO balances, net:			
Single-family	$ 4,314	$ 5,548	$ 6,961
Multifamily	64	132	107
Total	$ 4,378	$ 5,680	$ 7,068
REO operations (income) expense:			
Single-family	$ 62	$ 596	$ 676
Multifamily	(3)	(11)	(3)
Total	$ 59	$ 585	$ 673
Charge-offs			
Single-family:			
Charge-offs, gross(1) (including $13.5 billion, $14.7 billion, and $16.2 billion relating to loan loss reserves, respectively)	$ 13,825	$ 15,149	$ 16,746
Recoveries(2)	(2,262)	(2,764)	(3,362)
Single-family, net	$ 11,563	$ 12,385	$ 13,384
Multifamily:			
Charge-offs, gross(1) (including $36 million, $75 million, and $104 million relating to loan loss reserves, respectively)	$ 39	$ 83	$ 104
Recoveries(2)	(2)	(1)	(1)
Multifamily, net	$ 37	$ 82	$ 103
Total Charge-offs:			
Charge-offs, gross(1) (including $13.6 billion, $14.8 billion, and $16.3 billion relating to loan loss reserves, respectively)	$ 13,864	$ 15,232	$ 16,850
Recoveries(2)	(2,264)	(2,765)	(3,363)
Total Charge-offs, net	$ 11,600	$ 12,467	$ 13,487
Credit Losses(3)			
Single-family	$ 11,625	$ 12,981	$ 14,060
Multifamily	34	71	100
Total	$ 11,659	$ 13,052	$ 14,160
Total (in bps)(4)	63.8	68.1	72.2

(1) Represent the carrying amount of a loan that has been discharged in order to remove the loan from our consolidated balance sheet at the time of resolution, regardless of when the impact of the credit loss was recorded on our consolidated statements of comprehensive income through the provision for credit losses or losses on loans purchased. Charge-offs primarily result from foreclosure transfers and short sales and are generally calculated as the recorded investment of a loan at the date it is discharged less the estimated value in final disposition or actual net sales in a short sale.

(2) Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where: (a) a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements; or (b) we received a reimbursement of our losses from a seller/servicer associated with a repurchase request on a loan that experienced a foreclosure transfer or a foreclosure alternative. Includes $0.7 billion, $1.0 billion, and $1.3

billion in 2012, 2011, and 2010, respectively, related to repurchase requests from our seller/servicers.

(3) Excludes foregone interest on non-performing loans, which reduces our net interest income but is not reflected in our total credit losses. In addition, excludes other market-based credit losses: (a) incurred on our investments in mortgage loans and mortgage-related securities; and (b) recognized in our consolidated statements of comprehensive income.

(4) Calculated as credit losses divided by the average carrying value of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of REMICs and Other Structured Securities that are backed by Ginnie Mae Certificates.

Our credit loss performance metric generally measures losses at the conclusion of the loan and related collateral resolution process. There is a significant lag in time from the start of loan workout activities by our servicers on problem loans (e.g., seriously delinquent loans) to the final resolution of those loans by the completion of foreclosures (and subsequent REO sales) and foreclosure alternatives. Most of our expenses associated with home retention actions (e.g., loan modifications) are not reflected in our credit loss metric. Our credit loss performance is based on our charge-offs, REO expenses, and recoveries of loss from credit enhancement and seller/servicer repurchases. We primarily record charge-offs at the time we take ownership of a property through foreclosure and at the time of settlement of foreclosure alternatives (e.g., short sales). Single-family charge-offs, gross, for 2012 and 2011 were $13.8 billion and $15.1 billion, respectively, and were associated with approximately $28.1 billion and $31.5 billion in UPB of loans for 2012 and 2011, respectively. Our charge-offs and credit losses in 2012 and 2011 remained elevated, but were less than they otherwise would have been because of the suppression of loan and collateral resolution activity due to the length of the foreclosure timeline, particularly in states that require a judicial foreclosure process. Our recoveries have declined in recent years primarily due to: (a) declining volumes of foreclosures on which we may recover losses; and (b) declines in repurchase recoveries due to negotiated agreements and counterparties that

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are insolvent or for which we otherwise have limited or no recourse. We expect our charge-offs and credit losses to continue to remain elevated in 2013 due to the large number of single-family non-performing loans that will likely be resolved and because of the cumulative declines in home prices that occurred since 2006 in many areas.

Our credit losses during 2012 continued to be disproportionately high in those states that experienced significant declines in property values since 2006, such as California, Florida, Nevada, and Arizona, which collectively comprised approximately 54% of our total credit losses in 2012. Loans originated in 2005 through 2008 comprised approximately 24% of our single-family credit guarantee portfolio, based on UPB at December 31, 2012, however, these loans accounted for approximately 87% of our credit losses during 2012. Due to declines in property values since 2006, we continued to experience high REO disposition severity ratios on sales of our REO inventory and similarly high rates of loss associated with short sale transactions. In addition, although Alt-A loans comprised approximately 5% of our single-family credit guarantee portfolio at both December 31, 2012 and 2011, respectively, these loans accounted for approximately 23% and 28% of our credit losses during 2012 and 2011, respectively. As of both December 31, 2012 and 2011, loans in states with a judicial foreclosure process comprised 47% of our single-family credit guarantee portfolio, based on UPB, while loans in these states contributed to approximately 41% and 29% of our credit losses recognized in 2012 and 2011, respectively. See Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio for information on REO disposition severity ratios, and see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for additional information about our credit losses.

The table below provides detail by region for charge-offs.

Table 59 Single-Family Charge-offs and Recoveries by Region[1]

	Year Ended December 31,								
	2012			2011			2010		
	Charge-offs, gross	Recoveries[2]	Charge-offs, net	Charge-offs, gross	Recoveries[2]	Charge-offs, net	Charge-offs, gross	Recoveries[2]	Charge-offs, net
	(in millions)								
Northeast	$ 1,180	$ (249)	$ 931	$ 1,033	$ (226)	$ 807	$ 1,367	$ (318)	$ 1,049
Southeast	3,530	(694)	2,836	3,210	(693)	2,517	4,311	(1,005)	3,306
North Central	2,726	(526)	2,200	2,502	(615)	1,887	2,638	(694)	1,944
Southwest	647	(160)	487	777	(243)	534	761	(288)	473
West	5,742	(633)	5,109	7,627	(987)	6,640	7,669	(1,057)	6,612
Total	$ 13,825	$ (2,262)	$ 11,563	$ 15,149	$ (2,764)	$ 12,385	$ 16,746	$ (3,362)	$ 13,384

(1) See endnote (8) to Table 52 Single-Family Credit Guarantee Portfolio by Attribute Combinations for a description of these regions.
(2) Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements.

As shown in the table above, our charge-offs improved during 2012 compared to 2011 in the West and Southwest regions of the U.S., but our charge-offs increased in all other regions. Our foreclosure activity in the North Central region has remained high relative to historical experience and some of the states in this region have experienced significant cumulative declines in home prices since 2006, including Illinois, Michigan, and Minnesota.

Loan Loss Reserves

We maintain mortgage-related loan loss reserves at levels we believe appropriate to absorb probable incurred losses on mortgage loans held-for-investment on our consolidated balance sheets and those underlying Freddie Mac mortgage-related securities and other guarantee commitments. Determining the loan loss reserves is complex and requires significant management judgment about matters that involve a high degree of subjectivity. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for additional information on our accounting policies for loan loss reserves and impaired loans.

The table below summarizes our loan loss reserves activity for held-for-investment mortgage loans recognized on our consolidated balance sheets and underlying Freddie Mac mortgage-related securities and other guarantee commitments, in total.

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Table 60 Loan Loss Reserves Activity[1]

	Year ended December 31,				
	2012	2011	2010	2009	2008
	(dollars in millions)				
Total loan loss reserves:					
Beginning balance	$ 39,461	$ 39,926	$ 33,857	$ 15,618	$ 2,822
Adjustments to beginning balance[2]			(186)		
Provision for credit losses	1,890	10,702	17,218	29,530	16,432
Charge-offs, gross[3]	(13,556)	(14,810)	(16,322)	(9,402)	(3,072)
Recoveries[4]	2,264	2,765	3,363	2,088	779
Transfers, net[5]	831	878	1,996	(3,977)	(1,343)
Ending balance	$ 30,890	$ 39,461	$ 39,926	$ 33,857	$ 15,618
Components of loan loss reserves:					
Single-family	$ 30,508	$ 38,916	$ 39,098	$ 33,026	$ 15,341
Multifamily	$ 382	$ 545	$ 828	$ 831	$ 277
Total loan loss reserve, as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities	1.71%	2.08%	2.03%	1.69%	0.81%

(1) Consists of reserves for loans held-for-investment and those underlying Freddie Mac mortgage-related securities and other guarantee commitments.

(2) Adjustments relate to the adoption of amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs. See NOTE 1: SUMMARY OF SIGNFICANT ACCOUNTING POLICIES Recently Adopted Accounting Guidance for further information.

(3) Charge-offs related to loan loss reserves represent the amount of a loan that has been discharged to remove the loan from our consolidated balance sheet due to either foreclosure transfer or a short sale or deed in lieu of foreclosure transaction. Charge-offs exclude $307 million, $422 million, $528 million, $280 million, and $377 million for the years ended December 31, 2012, 2011, 2010, 2009, and 2008, respectively, related to certain loans purchased under financial guarantees and reflected within losses on loans purchased on our consolidated statements of comprehensive income.

(4) Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where: (a) a share of default risk has been assumed by mortgage insurers, servicers or other third parties through credit enhancements; or (b) we received a reimbursement of our losses from a seller/servicer associated with a repurchase request on a loan that experienced a foreclosure transfer or a foreclosure alternative.

(5) Consist primarily of: (a) amounts related to agreements with seller/servicers where the transfer relates to recoveries received under these agreements to compensate us for previously incurred and recognized losses; (b) the transfer of a proportional amount of the recognized reserves for guarantee losses associated with loans purchased from non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments; and (c) net amounts attributable to recapitalization of past due interest on modified mortgage loans.

Our loan loss reserves declined in 2012, which reflects improvement in both borrower payment performance and lower severity ratios for both REO dispositions and short sale transactions due to the improvements in home prices in most areas during the year. In 2012, the portion of our loan loss reserves attributable to individually impaired loans has increased while the portion of our loan loss reserves determined on a collective basis has declined. As of December 31, 2012 and 2011, the recorded investment of individually impaired single-family mortgage loans was $89.3 billion and $60.0 billion, respectively, and the loan loss reserves associated with these loans were $17.9 billion and $15.1 billion, respectively. See NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for additional information about our impaired loans. See CONSOLIDATED RESULTS OF OPERATIONS Provision for Credit Losses, for a discussion of our provision for credit losses and charge-off activity.

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

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Table 61 Single-Family Impaired Loans with Specific Reserve Recorded

	2012		2011	
	# of Loans	Amount (in millions)	# of Loans	Amount (in millions)
TDRs (recorded investment):				
TDRs, at beginning of year	252,749	$ 53,494	128,241	$ 28,440
New additions(1)	227,576	36,074	136,316	27,791
Repayments	(10,442)	(2,070)	(4,655)	(1,243)
Loss events(2)	(19,376)	(3,756)	(7,607)	(1,537)
Other	(1,362)	(258)	454	43
TDRs, at end of year	449,145	83,484	252,749	53,494
Other (recorded investment)(3)	18,416	1,672	25,565	2,433
Total impaired loans with specific reserve	467,561	85,156	278,314	55,927
Allowance for loan losses of individually impaired single-family loans		(17,935)		(15,100)
Net investment, at December 31		$ 67,221		$ 40,827

(1) In the third quarter of 2012, we changed the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs, regardless of the borrowers payment status. As a result, we newly classified approximately $19.5 billion in UPB of loans discharged in Chapter 7 bankruptcy as TDRs in the third quarter of 2012. The majority of these loans were not seriously delinquent at the time of reclassification.
(2) Consists of foreclosure transfers or foreclosure alternatives, such as a deed in lieu of foreclosure or short sale transaction.
(3) Consists of loans impaired upon purchase, which experienced further deterioration in borrower credit.

Credit Risk Sensitivity

Under a 2005 agreement with FHFA, then OFHEO, we are required to disclose the estimated increase in the NPV of future expected credit losses for our single-family credit guarantee portfolio over a ten year period as the result of an immediate 5% decline in home prices nationwide, followed by a stabilization period and return to the base case. This sensitivity analysis is hypothetical and may not be indicative of our actual results. We do not use this analysis for determination of our reported results under GAAP.

The table below presents the estimated credit loss sensitivity of our single-family credit guarantee portfolio, based on assumptions required by FHFA, both before and after consideration of credit enhancements, measured at the end of the last five quarterly periods.

Table 62 Single-Family Credit Loss Sensitivity

	Before Receipt of Credit Enhancements(1)		After Receipt of Credit Enhancements(2)	
	NPV(3)	NPV Ratio(4)	NPV(3)	NPV Ratio(4)
	(dollars in millions)			
At:				
December 31, 2012	$ 6,356	38.8 bps	$ 5,908	36.1 bps
September 30, 2012	$ 6,479	39.2 bps	$ 6,085	36.8 bps
June 30, 2012	$ 7,131	42.2 bps	$ 6,713	39.7 bps
March 31, 2012	$ 8,568	49.6 bps	$ 8,095	46.8 bps
December 31, 2011	$ 8,328	47.7 bps	$ 7,842	44.9 bps

(1) Assumes that none of the credit enhancements currently covering our mortgage loans has any mitigating effect on our credit losses.
(2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates.
(3) Based on the single-family credit guarantee portfolio, excluding REMICs and Other Structured Securities backed by Ginnie Mae Certificates.
(4) Calculated as the ratio of NPV of increase in credit losses to the single-family credit guarantee portfolio, defined in note (3) above.

Institutional Credit Risk

The concentration of our exposure to our counterparties increased beginning in 2008 due to industry consolidation and counterparty failures. Many of our remaining counterparties were adversely affected in recent years by challenging market and economic conditions as well as the stress on their resources to meet increased regulatory requirements and oversight.

Our exposure to single-family mortgage seller/servicers remained high during 2012 with respect to their repurchase obligations arising from breaches of representations and warranties made to us for loans they underwrote and sold to us, or service for us. We rely on our single-family seller/servicers to perform loan workout activities as well as foreclosures on loans that they service for us. Our credit losses could increase to the extent that our seller/servicers do not fully perform these obligations in a timely manner. The financial condition of the mortgage insurance industry remained weak during 2012, and the substantial majority of our mortgage insurance exposure is concentrated with four counterparties, certain of which are under significant financial stress. In addition, our exposure to derivatives counterparties remains highly concentrated as compared to historical levels.

We continue to face challenges in reducing our risk concentrations with counterparties. Efforts we make to reduce exposure to financially weakened counterparties could further increase our exposure to other individual counterparties or increase concentration risk overall. The failure of any of our significant counterparties to meet their obligations to us could have a material adverse effect on our results of operations, financial condition, and our ability to conduct future business. For more information, see RISK FACTORS Competitive and Market Risks *We depend on our institutional counterparties to provide services that are critical to our business, and our results of operations or financial condition may be adversely affected if one or more of our institutional counterparties do not meet their obligations to us.*

Non-Agency Mortgage-Related Security Issuers

Our investments in securities expose us to institutional credit risk to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform their obligations. Our investments in non-Freddie Mac mortgage-related securities include both agency and non-agency securities. Agency securities have historically presented minimal institutional credit risk due to the guarantee provided by those institutions, and the U.S. government s support of those institutions. However, we recognized impairment charges in 2012 and 2011 related to certain of our investments in non-agency mortgage-related securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities for further information, including a discussion of the higher-risk components of these investments.

At the direction of our Conservator, we are working to enforce our rights as an investor with respect to the non-agency mortgage-related securities we hold, and are engaged in efforts to mitigate losses on our investments in these securities, in some cases in conjunction with other investors. The effectiveness of our efforts is highly uncertain and any potential recoveries may take significant time to realize. For more information, see RISK FACTORS Competitive and Market Risks *Certain strategies to mitigate our losses as an investor in non-agency mortgage-related securities may adversely affect our relationships with some of our largest seller/servicers and counterparties* and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Non-Agency Mortgage-Related Security Issuers.

For information about institutional credit risk associated with our investments in non-mortgage-related securities, see NOTE 7: INVESTMENTS IN SECURITIES Table 7.9 Trading Securities as well as Cash and Other Investments Counterparties below.

Single-family Mortgage Seller/Servicers

We acquire a significant portion of our single-family mortgage purchase volume from several large lenders, or seller/servicers. Our top 10 single-family seller/servicers provided approximately 73% of our single-family purchase volume during 2012. Wells Fargo Bank, N.A., U.S. Bank, N.A., and JPMorgan Chase Bank, N.A. accounted for 27%, 12%, and 10%, respectively, of our single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of our purchase volume during 2012.

We are exposed to institutional credit risk arising from the potential insolvency of or non-performance by our mortgage seller/servicers, including non-performance of their repurchase obligations arising from breaches of the representations and warranties made to us for loans they underwrote and sold to us or failure to honor their recourse and indemnification obligations to us. We have contractual arrangements with our seller/servicers under which they agree to sell us mortgage loans, and represent and warrant that those loans have been originated under specified underwriting standards. In addition, our servicers represent and warrant to us that those loans will be serviced in accordance with our servicing contract. If we subsequently discover that the representations and warranties were breached (i.e., that contractual standards were not followed), we can exercise certain contractual remedies to mitigate our actual or potential credit losses. These contractual remedies include the ability to require the seller/servicer to repurchase the loan at its current UPB and/or make us whole for losses realized with respect to the loan after consideration of other recoveries, if any. For loans that have proceeded through foreclosure and REO sale or other workouts (e.g. short sales) and that we have determined were ineligible to be delivered to us, we will accept reimbursement for realized credit losses in lieu of repurchase. For all other loans that we determine were ineligible to be delivered to us, we issue a repurchase request for the loan s UPB, plus interest and fees. In limited circumstances, we may choose to accept alternative remedies to those stated above, such as allowing a seller/servicer to indemnify us against losses realized on such mortgages or otherwise compensate us for the risk of continuing to hold the mortgages. Our decision on whether to accept an alternative remedy is based on a number of factors, including: (a) the

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payment history of the loan; (b) the current status and outstanding UPB of the loan; (c) the estimated loss; (d) the type of deficiency that led to the repurchase request; and (e) the customer s current status and eligibility for an alternative remedy. As part of our expansion of our relief refinance initiative (including HARP), we may face greater exposure to credit and other losses on these loans because we are relieving lenders of certain representations and warranties on the original mortgage being refinanced. For more information on HARP, see *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts and the MHA Program Relief Refinance Mortgage Initiative and the Home Affordable Refinance Program.*

We launched a new representation and warranty framework for conventional loans purchased on or after January 1, 2013. We may face greater exposure to credit and other losses under this new framework since it relieves lenders of certain repurchase obligations in specific cases (such as for loans that perform for 36 consecutive months, with certain exclusions). The new framework does not affect seller/servicers obligations under their contracts with us with respect to loans sold to us prior to January 1, 2013. The new framework also does not affect their obligation to service these loans in accordance with our servicing standards. For additional information, see BUSINESS Our Business Segments *Single-Family Guarantee Segment New Representation and Warranty Framework.*

Our contracts require that a seller/servicer repurchase a mortgage after we issue a repurchase request, unless the seller/servicer avails itself of an appeals process provided for in our contracts, in which case the deadline for repurchase is extended until we decide the appeal. The table below provides a summary of our repurchase request activity for 2012, 2011, and 2010.

Table 63 Repurchase Request Activity and Counterparty Balances[1]

	Year Ended December 31, 2012	2011	2010
	(in millions)		
Beginning balance	$ 2,716	$ 3,807	$ 4,201
New requests issued	9,246	9,172	16,498
Requests collected[2]	(3,487)	(4,490)	(7,467)
Requests cancelled[3]	(5,417)	(5,707)	(9,298)
Other[4]	(30)	(66)	(127)
Ending balance	$ 3,028	$ 2,716	$ 3,807

	As of December 31, 2012	2011
	(in millions)	
Seller/servicer counterparty:		
Bank of America, N.A.	$ 1,029	$ 627
Wells Fargo Bank, N.A.	662	756
JPMorgan Chase Bank, N.A.	279	270
U.S. Bank, N.A.	112	94
CitiMortgage, N.A.	100	159
Other counterparties	846	810
Total	$ 3,028	$ 2,716

(1) Amounts are based on the UPB of the loans associated with the repurchase requests.
(2) Requests collected are based on the UPB of the loans associated with the repurchase requests, which in many cases is more than the amount of payments received for reimbursement of losses for requests associated with foreclosed mortgage loans, negotiated settlements, and other alternative remedies. For the three years ended December 31, 2012, 2011, and 2010, approximately 35%, 31%, and 32%, respectively, of the requests collected in each period were satisfied by reimbursement of losses associated with the request.
(3) Consists primarily of those requests that were resolved by the servicer providing missing documentation or rescinded through a successful appeal of the request.
(4)

Other includes items that affect the UPB of the loan while the repurchase request is outstanding, such as changes in UPB due to payments made on the loan. Also includes requests deemed uncollectible due to the insolvency or other failure of the counterparty.

Historically, we have used a process of reviewing a sample of the loans we purchase to validate compliance with our standards. In addition, we review many delinquent loans and loans that have resulted in credit losses, such as through foreclosure or short sale. Beginning in 2012, we made revisions to our selection approach for these loans that expanded the coverage of our loan reviews. Certain of these changes are designed to increase our loss recoveries. We expect that the changes made to our loan review process will increase our repurchase request volumes with our seller/servicers in the future. In addition, our new representation and warranty framework may further change the way we approach our review process in the future.

During 2012, our increased reviews of defaulted loans that were originated prior to 2009 resulted in a slightly higher amount of new repurchase requests in 2012 compared to 2011. The amount of new repurchase requests declined significantly in 2011 compared to 2010, primarily as a result of: (a) a lower volume of loan reviews performed in 2011 relating to loans

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originated in 2008 and prior years; and (b) the increase in the number of loans covered by negotiated agreements (as discussed below) or originated by counterparties that had defaulted.

The UPB of loans subject to open repurchase requests increased to $3.0 billion at December 31, 2012 from $2.7 billion at December 31, 2011 because the volume of new request issuances exceeded the combined volume of requests collected and cancelled. As measured by UPB, approximately 41% and 39% of the repurchase requests outstanding at December 31, 2012 and December 31, 2011, respectively, were outstanding for four months or more since issuance of the initial request (these figures include repurchase requests for which appeals were pending). As of December 31, 2012, two of our largest seller/servicers (Bank of America, N.A. and Wells Fargo Bank, N.A.) had aggregate repurchase requests outstanding, based on UPB, of $1.7 billion, and approximately 53% of these requests were outstanding for four months or more since issuance of the initial request. The amount we expect to collect on the outstanding requests is significantly less than the UPB of the loans subject to the repurchase requests primarily because many of these requests will likely be satisfied by reimbursement of our realized credit losses by seller/servicers, instead of repurchase of loans at their UPB. Some of these requests also may be rescinded in the course of the contractual appeal process. Based on our historical loss experience and the fact that many of these loans are covered by credit enhancements (e.g., mortgage insurance), we expect the actual credit losses experienced by us should we fail to collect on these repurchase requests will also be less than the UPB of the loans. In order to resolve outstanding repurchase requests on a more timely basis with our single-family seller/servicers, we have required certain of our larger seller/servicers to commit to plans for completing repurchases, with financial consequences or with stated remedies for non-compliance, as part of the annual renewals of our contracts with them. As of December 31, 2012, our 14 largest seller/servicers, which held more than 80% of all outstanding repurchase requests, are subject to the revised contract terms. For mortgages we purchase beginning in 2013, under our new representation and warranty framework, all of our seller/servicers will be subject to the same process for repurchase requests, including remedies for non-compliance, and we will no longer include such provisions in individual seller/servicer contracts.

Repurchase requests related to mortgage insurance rescission and claim denial tend to be outstanding longer than other repurchase requests for a number of reasons, including: (a) lenders may not agree with the basis used by the mortgage insurers to rescind coverage; (b) the mortgage insurers appeals process for rescissions can be lengthy (as long as one year or more); (c) lenders expect us to suspend repurchase enforcement until after the appeal decision by the mortgage insurer is made (although this is not our practice); and (d) in certain cases, we have agreed to consider a repurchase alternative that would allow certain of our seller/servicers to provide us a commitment for the amount of lost mortgage insurance coverage in lieu of a full repurchase. Of the total amount of repurchase requests outstanding at December 31, 2012, approximately $1.2 billion were issued due to mortgage insurance rescission or mortgage insurance claim denial.

During 2010 and 2009, we entered into agreements with certain of our seller/servicers to release specified loans from certain repurchase obligations in exchange for one-time cash payments. As of December 31, 2012, loans totaling $120.9 billion in UPB, representing 7.4% of our single-family credit guarantee portfolio, were subject to such negotiated agreements. In a memorandum to the FHFA Office of Inspector General dated September 19, 2011, FHFA stated that it had suspended certain future repurchase agreements with seller/servicers concerning their repurchase obligations pending the outcome of a review by Freddie Mac of its loan sampling methodology. Since the issuance of this memorandum, FHFA conducted its evaluation of our loan review process and provided us with guidelines for future repurchase-related agreements, under which larger agreements will generally need to be reviewed and approved by FHFA. We did not enter into any negotiated agreements with seller/servicers concerning release of their repurchase obligations during 2012 or 2011. However, in the ordinary course of business we sometimes rescind certain repurchase requests through the contractual appeals process.

Our estimate of recoveries from seller/servicer repurchase obligations is considered in our allowance for loan losses; however, our actual recoveries may be different than our estimates. Such differences are reflected in our allowance for loan losses and impact the amount of the provision for credit losses that we record during a given period. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guarantee Losses for further information. We believe we have appropriately provided for these exposures, based upon our estimates of incurred losses, in our loan loss reserves at December 31, 2012 and 2011; however, our actual losses may exceed our estimates.

The table below summarizes the percentage of our single-family credit guarantee portfolio by year of loan origination that is subject to agreements releasing loans from certain repurchase obligations, including defaulted counterparties. Since

January 1, 2009, we have entered into three negotiated agreements and have released repurchase obligations with 70 other seller/servicers who were either no longer in business or no longer approved as our seller/servicers, at December 31, 2012.

Table 64 Loans Released from Repurchase Obligations(1)

	As of December 31, 2012	
Year of origination:	**UPB**	**Percentage of Single-family Credit Guarantee Portfolio**
	(in billions)	
Negotiated agreements:		
2008	$ 14.8	0.9%
2007	35.4	2.2
2006	27.6	1.7
2005	25.3	1.5
2004 and prior	17.8	1.1
Subtotal	120.9	7.4
Other released loans:(2)		
2010 through 2012	0.6	<0.1
2009	8.4	0.5
2008	8.0	0.5
2007	13.4	0.8
2006	7.6	0.5
2005 and prior	8.7	0.5
Total	$ 167.6	10.2%

(1) Consists of all loans, excluding relief refinance mortgages, released from certain repurchase obligations since January 1, 2009. See Mortgage Credit Risk Single-Family Mortgage Credit Risk *Single-Family Loan Workouts and the MHA Program Relief Refinance Mortgage and the Home Affordable Refinance Program* for further information.

(2) Consists of loans associated with seller/servicers who were either no longer in business or no longer approved as our seller/servicers at, December 31, 2012.

A significant portion of our single-family mortgage loans are serviced by several large seller/servicers. Our top two single-family loan servicers, Wells Fargo Bank, N.A. and JPMorgan Chase Bank, N.A., serviced approximately 26% and 12%, respectively, of our single-family mortgage loans as of December 31, 2012, and together serviced approximately 38% of our single-family mortgage loans. Because we are the master servicer and delegate the primary servicing function to our servicers, if our servicers lack appropriate process controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans, our business and financial results could be adversely affected. We also continue to be adversely affected by the length of the foreclosure timeline, particularly in states that require a judicial foreclosure process, which has provided challenges to our seller/servicers because they have had to change their processes for compliance with regulations in each jurisdiction. See RISK FACTORS Operational Risks *We have incurred, and will continue to incur, expenses and we may otherwise be adversely affected by delays and deficiencies in the foreclosure process* and BUSINESS Regulation and Supervision *Legislative and Regulatory Developments Developments Concerning Single-Family Servicing Practices.*

We also are exposed to the risk that seller/servicers might fail to service mortgages in accordance with our contractual requirements, resulting in increased credit losses. For example, our seller/servicers have an active role in our loss mitigation efforts, including under the servicing alignment initiative and the MHA Program, and therefore, we also have exposure to them to the extent a decline in their performance results in a failure to realize the anticipated benefits of our loss mitigation plans. During 2012, we made changes to our monitoring program under which we pay incentives to servicers that exceed certain performance standards with respect to servicing delinquent loans and also allow for the assessment of certain fees to compensate us for deficiencies in servicer performance. These fees are recorded in other expenses, and other income, respectively, within our consolidated statements of comprehensive income. These fees were not significant to our consolidated financial results for 2012.

Residential Capital LLC (ResCap) and a number of its subsidiaries, including GMAC Mortgage, LLC and Residential Funding Company, LLC (with GMAC Mortgage, LLC, collectively, GMAC), filed for bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York on May 14, 2012. ResCap and GMAC are direct or indirect subsidiaries of Ally Financial Inc. GMAC serviced (either as a servicer or a subservicer) approximately 3% of our single-family mortgage loans as of December 31, 2012. In March 2010, we entered into an agreement with GMAC, under which GMAC made a one-time payment to us for the partial release of repurchase obligations relating to loans sold to us prior to January 1, 2009. We continued to purchase loans from GMAC after January 1, 2009; Ally Bank (a subsidiary of Ally Financial Inc.) is liable for breaches of representations and warranties with respect to these loans. See NOTE 17: LEGAL CONTINGENCIES for additional information on our legal claims against certain of our former single-family seller/servicers.

Multifamily Mortgage Seller/Servicers

A significant portion of our multifamily mortgage portfolio is serviced by several large multifamily servicers. We are exposed to certain institutional credit risks arising from the potential non-performance by our multifamily mortgage servicers and our multifamily sellers. As of December 31, 2012, our top three multifamily servicers, Berkadia Commercial Mortgage LLC, Wells Fargo Bank, N.A., and CBRE Capital Markets, Inc., each serviced more than 10% of our multifamily mortgage portfolio, excluding Other Guarantee Transactions, and together serviced approximately 40% of this portfolio. We also acquire a significant portion of our multifamily purchase volume from several large sellers. For 2012, our top two multifamily sellers, CBRE Capital Markets, Inc. and Berkadia Commercial Mortgage LLC , accounted for 21% and 12%, respectively, of our multifamily purchase and guarantee issuance volume. Our top 10 multifamily sellers represented an aggregate of approximately 80% of our multifamily purchase and guarantee issuance volume for 2012.

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

Mortgage Insurers

We have institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family mortgages we purchase or guarantee. As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. If any of our mortgage insurers that provide credit enhancement fail to fulfill their obligation, we could experience increased credit losses.

We attempt to manage this risk by establishing eligibility standards for mortgage insurers and by monitoring our exposure to individual mortgage insurers. Our monitoring includes performing regular analysis of the estimated financial capacity of mortgage insurers under different adverse economic conditions. In addition, state insurance authorities regulate mortgage insurers and we periodically meet with certain state authorities to discuss their views. We also monitor the mortgage insurers credit ratings, as provided by nationally recognized statistical rating organizations, and we periodically review the methods used by such organizations. None of our mortgage insurers had a rating higher than BBB as of February 15, 2013. In evaluating the likelihood that an insurer will have the ability to pay our expected claims, we consider our own analysis of the insurer s financial capacity, any downgrades in the insurer s credit rating, and various other factors.

As part of the estimate of our loan loss reserves, we evaluate the recovery and collectability related to mortgage insurance policies for mortgage loans that we hold on our consolidated balance sheets as well as loans underlying our non-consolidated Freddie Mac mortgage-related securities or covered by other guarantee commitments. We also evaluate the collectability of outstanding receivables from these counterparties related to outstanding and unpaid claims. We believe that certain of our mortgage insurers, who provide the substantial majority of our coverage, are not sufficiently capitalized to withstand the stress of the current economic environment. Additionally, a number of our mortgage insurers have exceeded risk to capital ratios required by their state insurance regulators. In some cases, such states have issued waivers to allow the companies to continue writing new business in their states. Most waivers are temporary in duration or contain other conditions that the companies may be unable to continue to meet due to their weakened condition or other factors. Given the difficulties in the mortgage insurance industry, we believe it is likely that other mortgage insurers may exceed their regulatory capital limit in the future. As a result of these and other factors, we reduced our estimates of recovery associated with the expected amount of our claims for several insurers in determining our allowance for loan losses associated with our single-family loans or receivables from these mortgage insurers on our consolidated balance sheets at both December 31, 2012 and 2011.

The table below summarizes our exposure to mortgage insurers as of December 31, 2012. In the event that a mortgage insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses resulting from such failure. Our most significant exposure to these insurers is through primary mortgage insurance. As of December 31, 2012, we

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had primary mortgage insurance coverage on loans that represented approximately 12% of the UPB of our single-family credit guarantee portfolio.

Table 65 Mortgage Insurance by Counterparty

			As of December 31, 2012			
			UPB of Covered Loans		Coverage Outstanding	
Counterparty Name	Credit Rating(1)	Credit Rating Outlook(1)	Primary Insurance(2)	Pool Insurance(2)	Primary Insurance(3)	Pool Insurance(3)
			(in billions)			
Mortgage Guaranty Insurance Corporation (MGIC)	B	Negative	$ 44.1	$ 1.9	$ 11.0	$ <0.1
Radian Guaranty Inc.	B	Negative	37.8	5.5	9.3	1.1
United Guaranty Residential Insurance Company	BBB	Stable	32.3	0.2	8.0	<0.1
Genworth Mortgage Insurance Corporation	B	Negative	27.1	0.7	6.8	0.1
PMI Mortgage Insurance Co. (PMI)(4)	CCC	Negative	18.4	0.7	4.5	0.1
Republic Mortgage Insurance Company (RMIC)(5)	Not Rated	N/A	15.1	1.3	3.8	0.1
Triad Guaranty Insurance Corporation (Triad)(6)	Not Rated	N/A	6.6	0.3	1.6	<0.1
Essent Guaranty, Inc.	Not Rated	N/A	4.3		1.0	
CMG Mortgage Insurance Company	BBB	Negative	2.7	<0.1	0.7	
Total			$ 188.4	$ 10.6	$ 46.7	$ 1.4

(1) Represents the rating and exposure for the corporate entity to which we have the greatest exposure. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest rating available as of February 15, 2013. Represents the lower of S&P and Moody s credit ratings and outlooks stated in terms of the S&P equivalent.
(2) These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance. See Table 4.5 Recourse and Other Forms of Credit Protection in NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for further information.
(3) Represents the remaining aggregate contractual limit for reimbursement of losses under the respective policy type. These amounts are based on gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance.
(4) In October 2011, PMI began paying valid claims 50% in cash and 50% in deferred payment obligations under order of its state regulator.
(5) In January 2012, RMIC began paying valid claims 50% in cash and 50% in deferred payment obligations under order of its state regulator. In November 2012, RMIC announced that its state regulator had approved a corrective plan. Under the plan, RMIC is paying all valid claims settled on or after January 19, 2012, 60% in cash and 40% in deferred payment obligations.
(6) In June 2009, Triad began paying valid claims 60% in cash and 40% in deferred payment obligations under order of its state regulator.

We received proceeds of $2.0 billion and $2.5 billion during the years ended December 31, 2012 and 2011, 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, net of associated reserves, of $0.8 billion and $1.0 billion as of December 31, 2012 and 2011, respectively.

The UPB of single-family loans covered by pool insurance declined approximately 73% during 2012, primarily due to a settlement with MGIC concerning our current and future claims under certain of MGIC s pool insurance policies, as discussed below, as well as prepayments and other liquidation events. We have not purchased pool insurance on single-family loans since March 2008 and have reached the maximum limit of recovery on certain pool insurance policies. Our pool insurance policies generally have original coverage periods that range from 10 to 12 years. In many cases, we entered into these agreements to cover higher-risk mortgage product types delivered to us through bulk transactions. As of December 31, 2012, pool insurance policies that will expire: (a) during 2013 covered approximately $1.7 billion in UPB of loans, and the remaining contractual limit for reimbursement of losses on such loans was approximately $0.2 billion; (b) between 2014 and 2018 covered approximately $6.4 billion in UPB of loans, and the remaining contractual limit for reimbursement of losses on such loans was approximately $0.4 billion; and (c) after 2018 covered approximately $2.5 billion in UPB of loans, and the remaining contractual limit for reimbursement of losses was approximately $0.8 billion. Any losses in excess of the contractual limit will be borne by us. These figures include coverage under our pool insurance policies based on the stated coverage amounts under such policies and we may exhaust such coverage before these policies expire. As noted below, we do not expect to receive full payment of our claims from several of these counterparties.

During 2012, we and MGIC were involved in litigation concerning our current and future claims under certain of MGIC s pool insurance policies. In the litigation, we contended that the policies had approximately $0.5 billion more in coverage than MGIC contended was provided for under the policies. In December 2012, we entered into a settlement agreement with MGIC concerning this dispute. Under the terms of the settlement, MGIC paid us $100 million in December 2012, and will pay us an additional $167.5 million in monthly installments over four years beginning on January 2, 2013. For more information, see NOTE 17: LEGAL CONTINGENCIES Mortgage Guaranty Insurance Corporation.

PMI, RMIC, and Triad are all under regulatory or court ordered supervision, and a substantial portion of their claims are being paid in the form of deferred payment obligations. The state regulators of these companies have generally not allowed

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them to pay their respective deferred payment obligations in cash, and it is uncertain when or if they will be permitted to do so. If PMI, RMIC, and Triad do not pay the full amount of their deferred payment obligations, we would lose a portion of the coverage from these counterparties shown in the table above. For more information, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Mortgage Insurers.

In addition to PMI, RMIC, and Triad, we believe that certain other of our mortgage insurance counterparties lack sufficient ability to meet all their expected lifetime claims paying obligations to us as those claims emerge. In January 2013, we approved National Mortgage Insurance Corporation as an eligible mortgage insurer. In the future, we believe our mortgage insurance exposure will likely be concentrated among a smaller number of counterparties.

Bond Insurers

Bond insurance, which may be either primary or secondary policies, is a credit enhancement covering certain of the non-agency mortgage-related securities we hold. Primary policies are acquired by the securitization trust issuing the securities we purchase, while secondary policies are acquired by us. Bond insurance exposes us to the risk that the bond insurer will be unable to satisfy claims.

The table below presents our coverage amounts of bond insurance, including secondary coverage, for the non-agency mortgage-related securities we hold. In the event a bond insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses related to such a failure.

Table 66 Bond Insurance by Counterparty

			As of December 31, 2012		
Counterparty Name	**Credit Rating(1)**	**Credit Rating Outlook(1)**	**Gross Unrealized Losses(2)**	**Coverage Outstanding(3)**	**Percent of Total Coverage Outstanding(3)**
			(dollars in millions)		
Ambac Assurance Corporation (Ambac)(4)	Not Rated	N/A	$ 177	$ 3,958	46%
Financial Guaranty Insurance Company (FGIC)(4)	Not Rated	N/A	202	1,608	18
MBIA Insurance Corp.	CCC	Negative	18	1,062	12
National Public Finance Guarantee Corp.	BBB	Negative	24	1,097	13
Assured Guaranty Municipal Corp.	A	Stable	101	865	10
Syncora Guarantee Inc. (Syncora)(4)	Not Rated	N/A	1	56	1
CIFG Assurance Corporation	Not Rated	N/A	5	30	<1
Total			$ 528	$ 8,676	100%

(1) Represents the rating and outlook of the corporate entity to which we have the greatest exposure, which in some cases is a holding company. Coverage amounts may include coverage provided by consolidated affiliates and subsidiaries of the counterparty. Latest ratings available as of February 15, 2013. Represents the lower of S&P and Moody s credit ratings stated in terms of the S&P equivalent.
(2) Represents the amount of gross unrealized losses on the non-agency mortgage-related securities with insurance.
(3) Represents the remaining contractual limit for reimbursement of losses, including lost interest and other expenses, on non-agency mortgage-related securities.
(4) Ambac, FGIC, and Syncora are currently operating under regulatory or court ordered supervision.

We monitor the financial strength of our bond insurers in accordance with our risk management policies. Some of our larger bond insurers are in runoff mode where no new business is being written. We expect to receive substantially less than full payment of our claims from Ambac and FGIC as these companies are insolvent. FGIC is currently not paying any of its claims. Ambac, which had not paid claims since March 2010, began paying a portion of its claims in cash in the fall of 2012. For information about developments concerning Ambac and FGIC, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers. We believe that we will likely receive substantially less than full payment of our claims from some of our other bond insurers, because we believe they also lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge. In the event one or more of our other bond insurers were to become subject to a regulatory order or insolvency proceeding, our ability to recover certain unrealized losses on our non-agency mortgage-related securities would be negatively affected. We considered our expectations regarding our bond insurers ability to meet their obligations in making our impairment determinations on our non-agency mortgage-related securities at December 31, 2012 and 2011. See NOTE 7: INVESTMENTS IN SECURITIES Other-Than-Temporary Impairments on Available-For-Sale Securities for additional information regarding impairment losses on securities covered by bond insurers.

Cash and Other Investments Counterparties

We are exposed to institutional credit risk arising from the potential insolvency or non-performance of counterparties of non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts. These financial instruments are investment grade at the time of purchase and primarily short-term in nature, which mitigates institutional credit risk for these instruments.

Our cash and other investment counterparties are primarily major financial institutions and the Federal Reserve Bank. As of December 31, 2012 and 2011, including amounts related to our consolidated VIEs, there were $60.7 billion and $68.5 billion, respectively, of: (a) cash and securities purchased under agreements to resell invested with institutional counterparties; or (b) cash deposited with the Federal Reserve Bank. See NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for further information on counterparty credit ratings and concentrations within our cash and other investments.

Document Custodians

We use third-party document custodians to provide loan document certification and custody services for the loans that we purchase and securitize. In many cases, our seller/servicer customers or their affiliates also serve as document custodians for us. Our ownership rights to the mortgage loans that we own or that back our PCs and REMICs and Other Structured Securities could be challenged if a seller/servicer intentionally or negligently pledges or sells the loans that we purchased or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us. When a seller/servicer or one of its affiliates acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely affected is increased, particularly in the event the seller/servicer were to become insolvent. We seek to mitigate these risks through legal and contractual arrangements with these custodians that identify our ownership interest, as well as by establishing qualifying standards for document custodians and requiring transfer of the documents to our possession or to an independent third-party document custodian if we have concerns about the solvency or competency of the document custodian.

Derivative Counterparties

We use exchange-traded derivatives and OTC derivatives, and are exposed to institutional credit risk with respect to both types of derivatives. We are an active user of exchange-traded derivatives, such as Treasury and Eurodollar futures, and are required to post initial and maintenance margin with our clearing firm in connection with such transactions. The posting of this margin exposes us to institutional credit risk in the event that our clearing firm or the exchange s clearinghouse fail to meet their obligations. However, the use of exchange-traded derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded contracts are settled daily via payments made through the financial clearinghouse established by each exchange. OTC derivatives that are not subject to regulatory clearing requirements under the Dodd-Frank Act expose us to institutional credit risk to individual counterparties, because these transactions are executed and settled directly between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its contractual obligations. When our net position with a counterparty in OTC derivatives subject to a master netting agreement has a market value above zero (i.e., it would be an asset reported as derivative assets, net on our consolidated balance sheets), the counterparty is obligated to deliver collateral in the form of cash, securities, or a combination of both, in an amount equal to that market value (less a small unsecured threshold amount in most cases) as necessary to satisfy its net obligation to us under the master agreement.

The Dodd-Frank Act requires central clearing and trading on exchanges or comparable trading facilities of many types of derivatives. Pursuant to the Dodd-Frank Act, the CFTC has determined that many of the types of interest rate derivatives that we use will become subject to the central clearing requirement in 2013. See BUSINESS Regulation and Supervision *Legislative and Regulatory Developments Dodd-Frank Act* for more information. We will be exposed to institutional credit risk with respect to the exchanges or trading facilities we use in the future to clear and trade such interest rate derivatives, and to the members of such clearing organizations that execute and submit our transactions for clearing.

We seek to manage our exposure to institutional credit risk related to our derivative counterparties using several tools, including:

- review of external rating analyses;

- strict standards for approving new derivative counterparties, clearing organizations, and clearing firms;
- ongoing monitoring and internal analysis of our positions with, and credit rating of, each counterparty, clearing organization, and clearing firm;
- managing diversification mix among counterparties;
- master netting agreements and collateral agreements; and
- stress-testing to evaluate potential exposure under possible adverse market scenarios.

On an ongoing basis, we review the credit fundamentals of all of our OTC derivative counterparties, clearing organizations, and clearing firms to confirm that they continue to meet our internal standards. We assign internal ratings, credit capital, and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or certain events affecting an individual counterparty occur.

All of our OTC derivative counterparties are major financial institutions and are experienced participants in the OTC derivatives market. On June 21, 2012, Moody s downgraded the credit ratings of several banks, which resulted in changes to their collateral posting thresholds with us and a reduction of certain activities we undertake with these counterparties. In order to mitigate the credit risk we face from lower rated derivative counterparties, we are enhancing our collateral management process to require such counterparties to post additional collateral to us in an amount that exceeds our credit exposure to the counterparty. Additionally, the CFTC and other regulatory agencies, including FHFA, have issued proposed margin rules that generally would require counterparties to OTC swaps to post collateral as initial margin for all trades even where there are no counterparty credit exposures. See NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for additional information.

The relative concentration of our derivative exposure among our primary derivative counterparties remains high as compared to historical levels. This concentration has increased significantly since 2008 primarily due to industry consolidation and the failure or weakening of certain counterparties, and could further increase.

The table below summarizes our exposure to our derivative counterparties, which represents the net positive fair value of derivative contracts, related accrued interest and collateral held by us from our counterparties, after netting by counterparty as applicable (i.e., net amounts due to us under derivative contracts which are recorded as derivative assets). In addition, we have derivative liabilities where we post collateral to counterparties. Pursuant to certain collateral agreements we have with derivative counterparties, the amount of collateral that we are required to post is based on the credit rating of our long-term senior unsecured debt securities from S&P or Moody s. The lowering or withdrawal of our credit rating by S&P or Moody s may increase our obligation to post collateral, depending on the amount of the counterparty s exposure to Freddie Mac with respect to the derivative transactions. At December 31, 2012, our collateral posted exceeded our collateral held. See CONSOLIDATED BALANCE SHEETS ANALYSIS Derivative Assets and Liabilities, Net and Table 31 Derivative Fair Values and Maturities for a reconciliation of fair value to the amounts presented on our consolidated balance sheets as of December 31, 2012, which includes both cash collateral held and posted by us, net.

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Table 67 Derivative Counterparty Credit Exposure

	As of December 31, 2012					
Rating (1)	Number of Counterparties(2)	Notional or Contractual Amount(3)	Total Exposure at Fair Value(4)	Exposure, Net of Collateral(5)	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold(6)
			(dollars in millions)			
AA	4	$ 41,169	$	$	5.6	$ 10 million or less
A+	4	86,717	1,220	15	6.0	$ 1 million or less
A	5	343,353	734	32	5.8	$ 1 million or less
A	4	148,271	6	22	5.7	$ 1 million or less
BBB+	1	42,643			6.0	$
Subtotal(7)	18	662,153	1,960	69	5.8	
Futures and clearinghouse-settled derivatives		42,673	66	66		
Commitments		25,530	20	20		
Swap guarantee derivatives		3,628				
Other derivatives(8)		11,847	1	1		
Total derivatives		$ 745,831	$ 2,047	$ 156		

	As of December 31, 2011					
Rating (1)	Number of Counterparties(2)	Notional or Contractual Amount(3)	Total Exposure at Fair Value(4)	Exposure, Net of Collateral(5)	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold(6)
			(dollars in millions)			
AA	5	$ 73,277	$ 536	$ 19	5.0	$ 10 million or less
A+	6	337,013	2,538	1	5.8	$ 1 million or less
A	5	208,416	12	51	6.2	$ 1 million or less
A	2	89,284			5.5	$ 1 million or less
Subtotal(7)	18	707,990	3,086	71	5.8	
Futures and clearinghouse-settled derivatives		43,831	8	8		
Commitments		14,318	38	38		
Swap guarantee derivatives		3,621				
Other derivatives(8)		18,489	1	1		
Total derivatives		$ 788,249	$ 3,133	$ 118		

(1) We use the lower of S&P and Moody s ratings to manage collateral requirements. In this table, the Moody s rating of the legal entity is stated in terms of the S&P equivalent.
(2) Based on legal entities.
(3) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged.
(4) For each counterparty, this amount includes derivatives with a positive fair value (recorded as derivative assets, net), including the related accrued interest receivable/payable, when applicable. For counterparties included in the subtotal, positions are shown netted at the counterparty level including accrued interest receivable/payable and trade/settle fees.
(5) Calculated as Total Exposure at Fair Value less both cash and non-cash collateral held as determined at the counterparty level. At December 31, 2012 and 2011, $501 million and $0 million, respectively, of non-cash collateral had been posted to us. We regularly review the market values of the securities pledged to us to minimize our exposure to loss. When non-cash collateral is posted to us, we require collateral in excess of our exposure to satisfy the net obligation to us in accordance with the counterparty agreement. Includes amounts related to our posting of cash collateral in excess of our derivative liability as determined

at the counterparty level. For derivatives settled through an exchange or clearinghouse, excludes consideration of maintenance margin posted by our counterparty.

(6) Counterparties are required to post collateral when their exposure exceeds agreed-upon collateral posting thresholds. These thresholds are typically based on the counterparty s credit rating and are individually negotiated.

(7) Consists of OTC derivative agreements for interest-rate swaps, option-based derivatives (excluding certain written options), foreign-currency swaps, and purchased interest-rate caps.

(8) Consists primarily of certain written options, and certain credit derivatives. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.

Over time, our exposure to individual counterparties for OTC interest-rate swaps, option-based derivatives, foreign-currency swaps, and purchased interest rate caps varies depending on changes in fair values, which are affected by changes in period-end interest rates, the implied volatility of interest rates, foreign-currency exchange rates, and the amount of derivatives held. If all of our counterparties for these derivatives had defaulted simultaneously on December 31, 2012, the combined amount of our uncollateralized and overcollateralized exposure to these counterparties, or our maximum loss for accounting purposes after applying netting agreements and collateral, would have been approximately $69 million. Our similar exposure as of December 31, 2011 was $71 million. At December 31, 2012, five counterparties each accounted for greater than 10% and collectively accounted for 83% of our net uncollateralized exposure to derivative counterparties set forth in the table above, excluding futures and clearinghouse-settled derivatives, commitments, swap guarantee derivatives, certain written options and certain credit derivatives. These counterparties were Credit Suisse International, Deutsche Bank, A.G., UBS A.G., Citibank, N.A. and Royal Bank of Scotland, all of which were rated A or above using the lower of S&P s or Moody s rating stated in terms of the S&P equivalent as of February 15, 2013.

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Nearly all of our counterparty credit exposure for OTC interest-rate swaps, option-based derivatives, foreign-currency swaps, and purchased interest rate caps was collateralized at December 31, 2012 (excluding amounts related to our posting of cash collateral in excess of our derivative liability as determined at the counterparty level). The remaining exposure was primarily due to exposure amounts below the applicable counterparty collateral posting threshold, as well as market movements during the time period between when a derivative was marked to fair value and the date we received the related collateral. In some instances, these market movements result in us having provided collateral that has fair value in excess of our obligation, which represents our overcollateralization exposure. Collateral is typically transferred within one business day based on the values of the related derivatives.

For futures and clearinghouse-settled derivatives in the table above, exposure, net of collateral does not include the maintenance margin held by clearing firms or clearinghouses which mitigates our exposure to loss from individual counterparties. However, maintenance margin held by clearing firms or clearinghouses exposes us to institutional credit risk in the event that our clearing firm or the exchange s clearinghouse fail to meet their obligations. The use of exchange-traded derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded contracts are settled daily via payments made through the financial clearinghouse established by each exchange.

In the event a derivative counterparty defaults, our economic loss may be higher than the uncollateralized exposure of our derivatives if we are not able to replace the defaulted derivatives in a timely and cost-effective fashion. We could also incur economic loss if the collateral held by us cannot be liquidated at prices that are sufficient to recover the amount of such exposure. We monitor the risk that our uncollateralized exposure to each of our OTC counterparties for interest-rate swaps, option-based derivatives, foreign-currency swaps, and purchased interest rate caps will increase under certain adverse market conditions by performing daily market stress tests. These tests, which involve significant management judgment, evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties on OTC derivatives contracts assuming certain changes in the level and implied volatility of interest rates and certain changes in foreign currency exchange rates over a brief time period. Our actual exposure could vary significantly from amounts forecasted by these tests.

The total exposure on our OTC forward purchase and sale commitments, which are treated as derivatives for accounting purposes, was $20 million and $38 million at December 31, 2012 and 2011, respectively. We do not require master netting and collateral agreements for the counterparties of these commitments. However, the typical maturity of our forward purchase and sale commitments is less than 60 days, and we monitor the credit fundamentals of the counterparties to these commitments on an ongoing basis in an effort to ensure that they continue to meet our internal risk-management standards.

Selected European Sovereign and Non-Sovereign Exposures

The sovereign debt of Spain, Italy, Ireland, Portugal, and Greece (which we refer to herein as the troubled European countries) and the credit status of financial institutions with significant exposure to the troubled European countries has been adversely affected due to ongoing weaknesses in the economic and fiscal situations of those countries. In recent periods, Moody s and S&P downgraded a number of European countries. We are monitoring our exposures to European countries and institutions.

As of December 31, 2012, we did not hold any debt issued by the governments of the troubled European countries and did not hold any financial instruments entered into with sovereign governments in those countries. As of that date, we also did not hold any debt issued by corporations or financial institutions domiciled in the troubled European countries and did not hold any other financial instruments entered into with corporations or financial institutions domiciled in those countries. For purposes of this discussion, we consider an entity to be domiciled in a country if its parent entity is headquartered in that country.

Our derivative portfolio and cash and other investments portfolio counterparties include a number of major European and non-European financial institutions. Many of these institutions operate in Europe, and we believe that all of these financial institutions have direct or indirect exposure to the troubled European countries. For many of these institutions, their direct and indirect exposures to the troubled European countries change on a daily basis. We monitor our major counterparties exposures to the troubled European countries, and adjust our exposures and risk limits to individual counterparties accordingly. Our exposures to derivative portfolio and cash and other investments portfolio counterparties are described in Derivative Counterparties, Cash and Other Investments Counterparties and NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS.

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We took a number of actions in 2011 designed to reduce our exposures to certain derivative portfolio and cash and other investments portfolio counterparties due to their exposure to the troubled European countries, including substantially reducing our derivative exposure limits, our limits on the amount of unsecured overnight deposits, and our limits for asset-backed commercial paper. For certain repurchase counterparties, we reduced the credit limit and restricted the term of such transactions to overnight. We also ceased investing in prime money funds that could hold substantial amounts of non-U.S. sovereign debt.

It is possible that continued adverse developments in Europe could significantly affect our counterparties that have direct or indirect exposure to the troubled European countries. In turn, this could adversely affect their ability to meet their obligations to us. For more information, see RISK FACTORS Competitive and Market Risks *We depend on our institutional counterparties to provide services that are critical to our business, and our results of operations or financial condition may be adversely affected if one or more of our institutional counterparties do not meet their obligations to us.*

Interest Rate and Other Market Risks

For a discussion of our interest rate and other market risks, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Operational Risks

Risk types have become increasingly inter-related such that an operational breakdown can result in a credit- or market- related event or loss. Operational risks are inherent in all of our business activities and can become apparent in various ways, including accounting or operational errors, business interruptions, fraud, and failures of the technology used to support our business activities. Our risk of operational failure may be increased by vacancies or turnover in executive and key business unit positions and failed or inadequate internal controls. These operational risks may expose us to financial loss, interfere with our ability to sustain timely and reliable financial reporting, or result in other adverse consequences. We face a variety of operational risks, including those described below and in RISK FACTORS Operational Risks.

We have faced challenges with respect to managing servicers and credit loss mitigation due to a number of factors, including high volumes of seriously delinquent loans and inadequate systems. We may face increased operational risk due to the servicing alignment initiative and other new FHFA-mandated activities, such as the initiatives we are pursuing under the Conservatorship Scorecard. While the servicing alignment initiative is a top priority for the company, it may pose significant short-term operational challenges in data management and place additional strain on existing systems, processes, and key resources. See BUSINESS Our Business Segments *Single-Family Guarantee Segment Servicing Alignment Initiative* for more information. There also have been a number of legislative and regulatory developments in recent periods impacting single-family mortgage servicing and foreclosure practices, including top servicers entering into settlements with state attorneys general and consent orders with federal banking regulators. The servicing model for single-family mortgages may face further significant changes in the future. As a result, we may be required to make additional significant changes to our practices, which could further increase our operational risk. See BUSINESS Regulation and Supervision *Legislative and Regulatory Developments Developments Concerning Single-Family Servicing Practices* for more information.

Our business decision-making, risk management, and financial reporting are highly dependent on our use of models. In recent periods, external market factors have continued to create difficulties in maintaining the performance of these models. Certain economic events or the implementation of government policies could create increased model uncertainty as models may not fully capture these events, which could make it more difficult to assess model performance and requires a higher degree of management judgment. We have taken certain actions to mitigate the risk to the extent possible, including additional efforts in the area of model oversight and governance, adding modeling and review resources where appropriate, and providing more transparency to management over model issues and changes.

Our primary business processing and financial accounting systems lack sufficient flexibility to handle all the complexities of, and changes in, our business transactions and related accounting policies and methods. This requires us to rely more extensively on spreadsheets and other end-user computing systems. These systems could have a higher risk of operational failure and error than our primary systems which are subject to our information technology general controls. We believe we are mitigating this risk through active monitoring of, and improvements to, controls over the development and use of end-user computing systems.

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In order to manage the risk of inaccurate or unreliable valuations of our financial instruments, we engage in an ongoing internal review of our valuations. We perform analysis of valuations on a monthly basis to confirm the reasonableness of the valuations. For more information on the controls in our valuation process, see FAIR VALUE MEASUREMENTS AND ANALYSIS Fair Value Measurements *Valuation Processes and Controls over Fair Value Measurement*.

In the first half of 2012, we introduced a new compensation program for employees to help mitigate the uncertainty surrounding compensation. Under the program, the majority of employees have a more predictable income, as the program either reduces or eliminates the amount of compensation that is subject to variability. In the last three quarters of 2012, employee turnover was lower than in the corresponding quarters of 2011. While employee turnover moderated in 2012 compared to 2011, we are exploring options to enter into various strategic arrangements with outside firms to provide operational capability and staffing for key functions, if needed. Should we experience significant turnover in key areas, we may need to exercise strategic arrangements and significantly increase the number of outside firms and consultants used in our business operations, limit certain business activities, and/or increase our operational costs. The use of outside firms and consultants could increase our operational risk in the near term until they become accustomed to our business systems and practices and their new roles and responsibilities.

We have, at times, found it challenging to fill executive positions given the restrictions around compensation. We operate in an environment in which many of our business decisions are closely scrutinized and subject to public criticism and review by various government authorities. Some executives are unwilling to work in such an environment for potentially significantly less than what they could earn elsewhere. Accordingly, we may not be able to retain or replace executives or other employees with the requisite institutional knowledge and the technical, operational, risk management, and other key skills needed to conduct our business effectively.

Disruptive levels of turnover at both the executive and employee levels could lead to breakdowns in many of our operations that impact our ability to: (a) serve our mission and meet our objectives; (b) manage credit and other risks related to our mortgage portfolio; (c) reduce the need to draw funds from Treasury; and (d) issue timely financial statements. Our ability to attract and retain executives and other employees is also adversely affected by the ongoing debate in Congress regarding our: (a) current primary business objectives and whether we should be doing more to help distressed homeowners; and (b) future business structure following conservatorship, including whether we will continue to exist. Moreover, the Administration has called for a wind down of the GSEs, an ongoing development our employees follow closely.

A recovering economy may put additional pressures on turnover in 2013, as other attractive opportunities could become available to people who we want to retain. For more information on these matters, including the potential impacts of the risks related to employee retention, see RISK FACTORS Conservatorship and Related Matters *The conservatorship, uncertainty concerning our future, and restrictions on our ability to compensate employees have had, and may continue to have, an adverse effect on the retention and recruitment of executives and other employees, which could have a material adverse effect on our ability to operate our business,* Operational Risks *Weaknesses in internal control over financial reporting and in disclosure controls could result in errors and inadequate disclosures, affect operating results, and cause investors to lose confidence in our reported results* and *Management changes and turnover of key staff could increase our operational and control risks and have a material adverse effect on our ability to do business and our results of operations.*

Freddie Mac management has determined that current business recovery capabilities may not be effective in the event of a catastrophic regional business event (e.g., a disaster that affects our Northern Virginia facilities) and could result in a significant business disruption and inability to process transactions through normal business processes. While management has developed a remediation plan to address the current capability gaps, any measures we take to mitigate this risk may not be sufficient to respond to the full range of catastrophic events that may occur. The remediation plan is designed to improve Freddie Mac s ability to recover an acceptable level of critical business functionality within predetermined time frames to address regional business disruptions, such as a terrorist event, natural disaster, loss of infrastructure services, denial of access, and/or a pandemic. For more information, see RISK FACTORS Operational Risks *A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation, and cause losses.*

Management, including the company s Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting and our disclosure controls and procedures as of December 31, 2012. As of December 31, 2012, we had one material weakness, related to conservatorship, which remained unremediated, causing us to conclude that our internal control over financial reporting and our disclosure controls and procedures were not effective as of December 31, 2012, at a reasonable level of assurance. In view of the mitigating actions we have undertaken related to the material weakness, we believe that our consolidated financial statements for the year ended December 31, 2012 have been prepared in conformity with GAAP. For additional information, see CONTROLS AND PROCEDURES.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to fund our operations, which may include the need to make payments of principal and interest on our debt securities, including securities issued by our consolidated trusts, and otherwise make payments related to our guarantees of mortgage assets; make payments upon the maturity, redemption or repurchase of our other debt securities; make net payments on derivative instruments; pay dividends on our senior preferred stock; purchase mortgage-related securities and other investments; purchase mortgage loans; and remove modified or seriously delinquent loans from PC trusts.

We fund our cash requirements primarily by issuing short-term and long-term debt. Other sources of cash include:

- receipts of principal and interest payments on securities or mortgage loans we hold;
- other cash flows from operating activities, including the management and guarantee fees we receive in connection with our guarantee activities (excluding those fees we remit to Treasury pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011);
- borrowings against mortgage-related securities and other investment securities we hold; and
- sales of securities we hold.

We have also received substantial amounts of cash from Treasury pursuant to draws under the Purchase Agreement, which are made to address quarterly deficits in our net worth. We received $165 million in cash from Treasury during 2012 (related to net worth deficits at December 31, 2011 and March 31, 2012), pursuant to draws under the Purchase Agreement.

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.

The costs of our debt funding could increase and its availability could decrease in the event of any future downgrades in our credit ratings or the credit ratings of the U.S. government. For more information, see *Other Debt Securities Credit Ratings* and RISK FACTORS Competitive and Market Risks *Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business.*

We may require cash in order to fulfill our mortgage purchase commitments. Historically, we fulfilled our purchase commitments related to our mortgage purchase flow business primarily by swap transactions, whereby our customers exchanged mortgage loans for PCs, rather than using cash. However, we also provide liquidity to our seller/servicers through our cash purchase program and it is at the discretion of the customer, subject to limitations imposed by the contract governing the commitment, whether the purchase commitment is fulfilled through a swap transaction or with cash. Loans purchased through the cash purchase program can be sold to investors through a cash auction of PCs, and, in the interim, are carried as mortgage loans on our consolidated balance sheets. See OFF-BALANCE SHEET ARRANGEMENTS for additional information regarding our mortgage purchase commitments.

We make extensive use of the Fedwire system in our business activities. The Federal Reserve requires that we fully fund our account in the Fedwire system to the extent necessary to cover cash payments on our debt and mortgage-related securities each day, before the Federal Reserve Bank of New York, acting as our fiscal agent, will initiate such payments. We routinely use an open line of credit with a third party, which provides intraday liquidity to fund our activities through the Fedwire system. This line of credit is an uncommitted intraday loan facility. As a result, while we expect to continue to use the facility, we may not be able to draw on it, if and when needed. This line of credit requires that we post collateral that, in certain circumstances, the secured party has the right to repledge to other third parties, including the Federal Reserve

Bank. As of December 31, 2012, we pledged approximately $10.5 billion of securities to this secured party. See NOTE 7: INVESTMENTS IN SECURITIES Collateral Pledged for further information.

Depending on market conditions and the mix of derivatives we employ in connection with our ongoing risk management activities, our derivative portfolio can be either a net source or a net use of cash. For example, depending on the prevailing interest-rate environment, interest-rate swap agreements could cause us either to make interest payments to counterparties or to receive interest payments from counterparties. Purchased options require us to pay a premium while written options allow us to receive a premium.

We are required to pledge collateral to third parties in connection with secured financing and daily trade activities. In accordance with contracts with certain derivative counterparties, we post collateral to those counterparties for derivatives in a net loss position, after netting by counterparty, above agreed-upon posting thresholds. See NOTE 7: INVESTMENTS IN SECURITIES Collateral Pledged for information about assets we pledge as collateral.

We are involved in various legal proceedings, including those discussed in LEGAL PROCEEDINGS, which may result in a use of cash in order to settle claims or pay certain costs.

For more information on our short- and long-term liquidity needs, see CONTRACTUAL OBLIGATIONS.

Our securities and other obligations are not guaranteed by the U.S. government and do not constitute a debt or obligation of the U.S. government or any agency or instrumentality thereof, other than Freddie Mac.

Liquidity Management

Maintaining sufficient liquidity is of primary importance and we continually strive to enhance our liquidity management practices and policies. Under these practices and policies, we maintain an amount of cash and cash equivalent reserves in the form of liquid, high quality short-term investments that is intended to enable us to meet ongoing cash obligations for an extended period, in the event we do not have access to the short- or long-term unsecured debt markets. We also actively manage the concentration of debt maturities and closely monitor our monthly maturity profile.

Our liquidity management policies generally provide for us to:

- maintain funds sufficient to cover our maximum cash liquidity needs for at least the following 35 calendar days, assuming no access to the short- or long-term unsecured debt markets;

- limit the proportion of debt maturing within the next year. We actively manage the composition of short- and long- term debt, as well as our patterns of redemption of callable debt, to manage the proportion of effective short-term debt to reduce the risk that we will be unable to refinance our debt as it comes due; and

- maintain unencumbered collateral with a value greater than or equal to the largest projected cash shortfall on any one day over the following 365 calendar days, assuming no access to the short- and long-term unsecured debt markets. This is based on a daily forecast of all existing contractual cash obligations over the following 365 calendar days.

On February 7, 2013, FHFA provided updated liquidity guidance which generally requires that our liquidity-related investments be comprised of short-maturity U.S. Treasury or government guaranteed securities, overnight and term repurchase agreements, unsecured Federal Funds, bank certificates of deposit, and cash. Throughout 2012, we complied with all requirements under our liquidity management policies or FHFA guidance, as applicable. Furthermore, during 2012 the majority of the funds used to cover our short-term cash liquidity needs was invested in short-term assets with a rating of A-1/P-1 or AAA or was issued by a counterparty with that rating. In the event of a downgrade of a position or counterparty, as applicable, below minimum rating requirements, our credit governance policies require us to exit from the position within a specified period.

We also continue to manage our debt issuances to remain in compliance with the aggregate indebtedness limits set forth in the Purchase Agreement.

We continue to monitor events related to the troubled European countries and took a number of actions in 2011 designed to reduce our exposures, including exposures related to certain derivative portfolio and cash and other investments portfolio counterparties. For more information, see RISK MANAGEMENT Credit Risk *Institutional Credit Risk* *Selected European Sovereign and Non-Sovereign Exposures*.

To facilitate cash management, we forecast cash outflows. These forecasts help us to manage our liabilities with respect to asset purchases and runoff, when financial markets are not in crisis. For further information on our management of interest-rate risk associated with asset and liability management, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Notwithstanding these practices and policies, our ability to maintain sufficient liquidity, including by pledging mortgage-related and other securities as collateral to other financial institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market confidence and other factors. For more information, see RISK FACTORS Competitive and Market Risks *Our investment activities may be adversely affected by limited availability of financing and increased funding costs.*

Actions of Treasury and FHFA

Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements. The conservatorship, and the resulting support we have received from Treasury, has enabled us to access debt funding on terms sufficient for our needs.

Beginning January 1, 2013, the amount of available funding remaining under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws. The provisions of the Purchase Agreement whereby Treasury s funding commitment would increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011, and 2012 no longer apply.

While 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, the costs of our debt funding could vary due to the uncertainty about the future of the GSEs. At December 31, 2012, our aggregate funding received from Treasury under the Purchase Agreement was $71.3 billion. This aggregate funding amount does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received.

The GSE Act requires us to set aside or allocate monies each year to certain funds managed by HUD and Treasury. However, FHFA has suspended this requirement. For more information, see BUSINESS Regulation and Supervision *Federal Housing Finance Agency Affordable Housing Allocations*.

For more information on these matters, see BUSINESS Conservatorship and Related Matters and Regulation and Supervision.

Dividend Obligation on the Senior Preferred Stock

On August 17, 2012, Freddie Mac, acting through FHFA, as Conservator, and Treasury entered into an amendment to the Purchase Agreement, that, among other items, replaced the 10% fixed rate dividend rate on the senior preferred stock with a net worth sweep dividend beginning in the first quarter of 2013. This amendment effectively ends the circular practice of taking draws from Treasury to pay dividends to Treasury, thereby helping to preserve remaining funding available to us under the Purchase Agreement. Based on our Net Worth Amount at December 31, 2012, our dividend obligation to Treasury in March 2013 will be $5.8 billion.

We paid dividends of $7.2 billion in cash on the senior preferred stock in 2012, based upon the previous senior preferred stock dividend rate of 10%, at the direction of our Conservator. Through December 31, 2012, we have paid aggregate cash dividends to Treasury of $23.8 billion, an amount equal to 33% of our aggregate draws received under the Purchase Agreement. In addition, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. However, Treasury waived the fee for all quarters of 2012, and the amendment to the Purchase Agreement noted above suspends this fee for each quarter commencing January 1, 2013 for as long as the net worth sweep dividend provisions are applicable.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all.

For more information on the Purchase Agreement, see BUSINESS Treasury Agreements.

Other Debt Securities

We fund our business activities primarily through the issuance of short- and long-term debt. The investor base for our debt is predominantly institutional. Competition for funding can vary with economic, financial market, and regulatory

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environments. Historically, we have mainly competed for funds in the debt issuance markets with Fannie Mae and the FHLBs. We repurchase or call our outstanding debt securities from time to time to help support the liquidity and predictability of the market for our debt securities and to manage our mix of liabilities funding our assets.

To fund our business activities, we depend on the continuing willingness of investors to purchase our debt securities. The required reduction in our mortgage-related investments portfolio has reduced our funding needs. We expect that this trend will continue over time as the mortgage-related investments portfolio shrinks. Changes or perceived changes in the government s support of us could have a severe negative effect on our access to the debt markets and on our debt funding costs. In addition, any change in applicable legislative or regulatory exemptions, including those described in BUSINESS Regulation and Supervision, could adversely affect our access to some debt investors, thereby potentially increasing our debt funding costs.

Spreads on our debt and our access to the debt markets remained favorable relative to historical levels during the three months and year ended December 31, 2012, which, we believe, is due largely to support from the U.S. government. As a result, we were able to replace certain higher cost debt with lower cost debt. Our short-term debt was 22% of outstanding other debt at December 31, 2012 as compared to 24% at December 31, 2011. Beginning in the fourth quarter of 2011, we started issuing a higher percentage of debt with longer-term maturities. This allows us to take advantage of attractive long-term rates while decreasing our reliance on interest-rate swaps.

Because of the debt limit under the Purchase Agreement, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Our debt cap under the Purchase Agreement was $874.8 billion in 2012 and declined to $780.0 billion on January 1, 2013. As of December 31, 2012, we estimate that the par value of our aggregate indebtedness totaled $552.5 billion, which was approximately $322.3 billion below the applicable debt cap. Our aggregate indebtedness is calculated as the par value of other debt. We disclose the amount of our indebtedness on this basis monthly under the caption Other Debt Activities Total Debt Outstanding in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com and in current reports on Form 8-K we file with the SEC.

Other Debt Issuance Activities

The table below summarizes the par value of other debt securities we issued, based on settlement dates, during 2012 and 2011.

Table 68 Other Debt Security Issuances by Product, at Par Value[1]

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(in millions)	
Other short-term debt:		
Reference Bills® securities and discount notes	$ 290,501	$ 412,165
Medium-term notes non-callable[2]		450
Total other short-term debt	290,501	412,615
Other long-term debt:		
Medium-term notes callable	88,504	172,464
Medium-term notes non-callable	25,242	77,810
U.S. dollar Reference Notes® securities non-callable	51,000	47,500
Total other long-term debt	164,746	297,774
Total other debt issued	$ 455,247	$ 710,389

(1) Excludes federal funds purchased and securities sold under agreements to repurchase, and lines of credit. Also excludes debt securities of consolidated trusts held by third parties.

(2)

Includes $0 billion and $0.5 billion of medium-term notes non-callable issued for the years ended December 31, 2012 and 2011, respectively, which were related to debt exchanges.

Other Short-Term Debt

We fund our operating cash needs, in part, by issuing Reference Bills® securities and other discount notes, which are short-term instruments with maturities of one year or less that are sold on a discounted basis, paying only principal at maturity. Our Reference Bills® securities program consists of large issues of short-term debt that we auction to dealers on a regular schedule. We issue discount notes with maturities ranging from one day to one year in response to investor demand and our cash needs. For purposes of presentation in this report, short-term debt also includes certain medium-term notes that have original maturities of one year or less.

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See CONSOLIDATED BALANCE SHEETS ANALYSIS Total Debt, Net for more information about our other short-term debt.

Other Long-Term Debt

We issue debt with maturities greater than one year primarily through our medium-term notes program and our Reference Notes® securities program.

Medium-term Notes

We issue a variety of fixed- and variable-rate medium-term notes, including callable and non-callable fixed-rate securities, zero-coupon securities and variable-rate securities, with various maturities ranging up to 30 years. For purposes of presentation in this report, medium-term notes with original maturities of one year or less are classified as short-term debt. Medium-term notes typically contain call provisions, effective as early as three months or as long as ten years after the securities are issued.

Reference Notes® Securities

Reference Notes® securities are regularly issued, U.S. dollar denominated, non-callable fixed-rate securities, which we generally issue with original maturities ranging from two through ten years. Prior to 2005, we issued Reference Notes® securities denominated in Euros, which remain outstanding. We hedge our exposure to changes in foreign-currency exchange rates by entering into swap transactions that convert foreign-currency denominated obligations to U.S. dollar-denominated obligations. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks *Sources of Interest-Rate Risk and Other Market Risks* for more information.

Subordinated Debt

During 2012 and 2011, we did not call or issue any Freddie SUBS® securities. At both December 31, 2012 and 2011, the balance of our subordinated debt outstanding was $0.4 billion. Our subordinated debt in the form of Freddie SUBS® securities is a component of our risk management and disclosure commitments with FHFA. See BUSINESS Regulation and Supervision *Subordinated Debt* for a discussion of changes affecting our subordinated debt as a result of our placement in conservatorship and the Purchase Agreement, and the Conservator s suspension of certain requirements relating to our subordinated debt. Under the Purchase Agreement, we may not issue subordinated debt without Treasury s consent.

Other Debt Retirement Activities

We repurchase, call, or exchange our outstanding medium- and long-term debt securities from time to time to help support the liquidity and predictability of the market for our other debt securities and to manage our mix of liabilities funding our assets. When our debt securities become seasoned or one-time call options on our debt securities expire, they may become less liquid, which could cause their price to decline. By repurchasing debt securities, we help preserve the liquidity of our debt securities and improve their price performance, which helps to reduce our funding costs over the long-term. Our repurchase activities also help us manage the funding mismatch, or duration gap, created by changes in interest rates. For example, when interest rates decline, the expected lives of our investments in mortgage-related securities decrease which reduces the need for long-term debt. We use a number of different means to shorten the effective weighted average lives of our outstanding debt securities and thereby manage the duration gap, including retiring long-term debt through repurchases or calls; changing our debt funding mix between short- and long-term debt; or using derivative instruments, such as entering into receive-fixed swaps or terminating or assigning pay-fixed swaps. From time to time, we may also enter into transactions in which we exchange newly issued debt securities for similar outstanding debt securities held by investors.

The table below provides the par value, based on settlement dates, of other debt securities we repurchased, called, and exchanged during 2012 and 2011.

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Table 69 Other Debt Security Repurchases, Calls, and Exchanges[1]

	Year Ended December 31,	
	2012	2011
Repurchases of outstanding Reference Notes® securities	$	$ 258
Repurchases of outstanding medium-term notes	1,839	12,064
Calls of callable medium-term notes	114,884	185,489
Exchanges of medium-term notes		450

(1) Excludes debt securities of consolidated trusts held by third parties.

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent upon our credit ratings. The table below indicates our credit ratings as of February 15, 2013.

Table 70 Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	Moody s	Fitch
Senior long-term debt [1]	AA+	Aaa	AAA
Short-term debt[2]	A-1+	P-1	F1+
Subordinated debt[3]	A	Aa2	AA
Preferred stock[4]	C	Ca	C/RR6
Outlook	Negative (for senior long-term debt and subordinated debt)	Negative (for senior long-term debt and subordinated debt)	Negative (for AAA-rated long-term Issuer Default Rating)

(1) Consists of medium-term notes, U.S. dollar Reference Notes® securities and Reference Notes® securities.
(2) Consists of Reference Bills® securities and discount notes.
(3) Consists of Freddie SUBS® securities.
(4) Does not include senior preferred stock issued to Treasury.

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

For information about factors that could lead to future ratings actions, and the potential impact of a downgrade in our credit ratings, see RISK FACTORS Competitive and Market Risks *Any downgrade in the credit ratings of the U.S. government would likely be followed by a downgrade in our credit ratings. A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business.*

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

Cash and Cash Equivalents, Federal Funds Sold, Securities Purchased Under Agreements to Resell, and Non-Mortgage-Related Securities

Excluding amounts related to our consolidated VIEs, we held $47.3 billion in the aggregate of cash and cash equivalents, securities purchased under agreements to resell, and non-mortgage-related securities at December 31, 2012. These investments are important to our cash flow and asset and liability management and our ability to provide liquidity and stability to the mortgage market. At December 31, 2012, our non-mortgage-related securities consisted of Treasury bills, Treasury notes, and asset-backed securities that we could sell to provide us with an additional source of liquidity to fund our business operations. For additional information on these assets, see CONSOLIDATED BALANCE SHEETS ANALYSIS Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell and Investments in Securities *Non-Mortgage-Related Securities*.

Mortgage Loans and Mortgage-Related Securities

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and highly liquid. Our primary source of liquidity among these mortgage assets is our holdings of agency securities. In addition, our unsecuritized performing single-family mortgage loans are also a potential source of liquidity. Our holdings of CMBS are less liquid than agency securities. Our holdings of non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans are illiquid due to market conditions and the continued poor credit quality

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of the underlying assets. Our holdings of unsecuritized seriously delinquent and modified single-family mortgage loans are also illiquid.

We are subject to limits on the amount of mortgage assets we can sell in any calendar month without review and approval by FHFA and, if FHFA so determines, Treasury. See BUSINESS Conservatorship and Related Matters *Limits on Investment Activity and Our Mortgage-Related Investments Portfolio* for more information on the relative liquidity of our mortgage assets.

Cash Flows

Our cash and cash equivalents decreased $19.9 billion to $8.5 billion during 2012, as compared to a decrease of $8.6 billion to $28.4 billion during 2011 and a decrease of $27.7 billion to $37.0 billion during 2010. Cash flows provided by operating activities during 2012, 2011, and 2010 were $8.5 billion, $10.3 billion, and $10.8 billion, respectively, primarily driven by cash proceeds from net interest income. Cash flows provided by investing activities during 2012, 2011, and 2010 were $494.4 billion, $373.7 billion, and $385.6 billion, respectively, primarily resulting from net proceeds received as a result of repayments of single-family held-for-investment mortgage loans. Cash flows used for financing activities during 2012, 2011, and 2010 were $522.8 billion, $392.6 billion, and $424.1 billion, respectively, largely attributable to funds used to repay debt securities of consolidated trusts held by third parties. In addition, during 2012, our net repayments of other debt were $113.1 billion.

Capital Resources

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. On October 9, 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 submissions to FHFA on minimum capital. See NOTE 14: REGULATORY CAPITAL for our minimum capital requirement, core capital, and GAAP net worth results as of December 31, 2012 and 2011. In addition, notwithstanding our failure to maintain required capital levels, FHFA directed us to continue to make interest and principal payments on our subordinated debt. For more information, see BUSINESS Regulation and Supervision *Federal Housing Finance Agency Subordinated Debt*.

Under the Purchase Agreement, Treasury made a commitment to provide us with funding, under certain conditions, to eliminate deficits in our net worth. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets; a higher amount may be drawn if Treasury and Freddie Mac mutually agree that the draw should be increased beyond the level by which liabilities exceed assets under GAAP. In each case, the amount of the draw cannot exceed the maximum aggregate amount that may be funded under the Purchase Agreement.

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are and have been less than our obligations for a period of 60 days. Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA. At December 31, 2012, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. See BUSINESS Regulation and Supervision *Federal Housing Finance Agency Receivership* for additional information on mandatory receivership.

Pursuant to the August 2012 amendment to the Purchase Agreement, the fixed dividend rate on the senior preferred stock has been replaced with a net worth sweep dividend. The amendment effectively ends the circular practice of taking draws from Treasury to pay dividends to Treasury, thereby helping to preserve remaining funding available to us under the Purchase Agreement. For more information, see Liquidity *Dividend Obligation on the Senior Preferred Stock*.

In future periods, we may continue to experience variability in our net income and/or comprehensive income due to changes in factors such as interest rates, mortgage spreads, and home prices. Such changes could adversely affect our net worth and result in additional draws under the Purchase Agreement. For more information, see RISK FACTORS Conservatorship and Related Matters *We may request additional draws under the Purchase Agreement in future periods.*

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For more information on the effect of the Purchase Agreement on our business and capital management activities, and the potential impact of making additional draws, see BUSINESS Conservatorship and Government Support for Our Business.

FAIR VALUE MEASUREMENTS AND ANALYSIS

Fair Value Measurements

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

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. 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 three levels of the fair value hierarchy under the accounting guidance for fair value measurements and disclosures are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

- Level 2: Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities; and

- Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

We categorize assets and liabilities recorded or disclosed at fair value within the fair value hierarchy based on the valuation processes used to derive their fair values and our judgment regarding the observability of the related inputs. Those judgments are based on our knowledge and observations of the markets relevant to the individual assets and liabilities and may vary based on current market conditions. In applying our judgments, we review ranges of third-party prices and transaction volumes, and hold discussions with dealers and pricing service vendors to understand and assess the extent of market benchmarks available and the judgments or modeling required in their processes. Based on these factors, we determine whether the inputs are observable and whether the principal markets are active or inactive. For additional information regarding our classification of assets, liabilities, and equity within the fair value hierarchy and the valuation techniques used to measure fair value, see NOTE 16: FAIR VALUE DISCLOSURES.

The table below summarizes our assets and liabilities measured at fair value on a recurring basis on our consolidated balance sheets at December 31, 2012 and 2011.

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Table 71 Summary of Assets and Liabilities Measured at Fair Value on a Recurring Basis on Our Consolidated Balance Sheets

	December 31, 2012		2011	
	Total GAAP Recurring Fair Value	Percentage in Level 3	Total GAAP Recurring Fair Value	Percentage in Level 3
	(dollars in millions)			
Assets:				
Investments in securities:				
Available-for-sale, at fair value	$ 174,896	31%	$ 210,659	28%
Trading, at fair value	41,492	4	58,830	4
Mortgage loans:				
Held-for-sale, at fair value	14,238	100	9,710	100
Derivative assets, net[1]	657		118	
Other assets:				
Guarantee asset, at fair value	1,029	100	752	100
All other, at fair value	114	100	151	100
Total assets carried at fair value on a recurring basis[1]	$ 232,426	28	$ 280,220	23
Liabilities:				
Debt securities of consolidated trusts held by third parties, at fair value	$ 70	%	$	%
Other debt, at fair value	2,187	100	3,015	
Derivative liabilities, net[1]	178		435	
Total liabilities carried at fair value on a recurring basis[1]	$ 2,435	7	$ 3,450	

(1) Percentages by level are based on gross fair value of derivative assets and derivative liabilities before counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

Level 3 Recurring Fair Value Measurements

At December 31, 2012 and 2011, we measured and recorded at fair value on a recurring basis, assets of $72.0 billion and $72.5 billion, respectively, or approximately 28% and 23% of total assets carried at fair value on a recurring basis, using significant unobservable inputs (Level 3), before the impact of counterparty and cash collateral netting. Our Level 3 assets at December 31, 2012 primarily consisted of non-agency mortgage-related securities and multifamily held-for-sale loans. At December 31, 2012 and 2011, we also measured and recorded at fair value on a recurring basis, Level 3 liabilities of $2.3 billion and $0.1 billion, or 7% and less than 1%, respectively, of total liabilities carried at fair value on a recurring basis, before the impact of counterparty and cash collateral netting. Our Level 3 liabilities at December 31, 2012 primarily consisted of foreign-currency denominated debt recorded at fair value.

The non-agency mortgage-related securities market continued to be illiquid during 2012, with low transaction volumes, wide credit spreads, and limited transparency. We continue to utilize the prices on such securities provided to us by various pricing services and dealers and believe that the procedures executed by the pricing services and dealers, combined with our internal verification and analytical processes, help ensure that the prices used to develop our financial statements are in accordance with the accounting guidance for fair value measurements and disclosures.

See NOTE 16: FAIR VALUE DISCLOSURES Changes in Fair Value Levels for a discussion of changes in our Level 3 assets and liabilities and Table 16.2 Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs for the Level 3 reconciliation. For discussion of types and characteristics of mortgage loans underlying our mortgage-related securities, see Table 23 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets and RISK MANAGEMENT *Credit Risk Mortgage Credit Risk Single-Family Mortgage Credit Risk.*

Consideration of Credit Risk in Our Valuation

We consider credit risk in the valuation of our assets and liabilities through consideration of credit risk of the counterparty in asset valuations and through consideration of our own institutional credit risk in liability valuations on our GAAP consolidated balance sheets.

We consider credit risk in our valuation of investments in securities based on fair value measurements that are largely the result of price quotes received from multiple dealers or pricing services. Some of the key valuation drivers of such fair value measurements include the collateral type, collateral performance, credit quality of the issuer, tranche type, weighted average life, vintage, coupon, and interest rates. We also make adjustments for items such as credit enhancements or other types of subordination and liquidity, where applicable. In cases where internally developed models are used, we maximize the use of market-based inputs or calibrate such inputs to market data.

We also consider credit risk when we evaluate the valuation of our derivative positions. The fair value of derivative assets considers the impact of institutional credit risk in the event that the counterparty does not honor its payment obligation. For derivatives that are in an asset position, we hold collateral against those positions in accordance with agreed upon thresholds. The amount of collateral held depends on the credit rating of the counterparty and is based on our credit risk policies. Similarly, for derivatives that are in a liability position, we post collateral to counterparties in accordance with agreed upon thresholds. Based on this evaluation, our fair value of derivatives is not adjusted for credit risk because we obtain collateral from, or post collateral to, most counterparties, typically within one business day of the daily market value calculation. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk* *Derivative Counterparties* for a discussion of our counterparty credit risk.

See NOTE 16: FAIR VALUE DISCLOSURES Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets for additional information regarding the valuation of our assets and liabilities.

Valuation Processes and Controls over Fair Value Measurement

We have control processes designed to ensure 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 that ensures a segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

See NOTE 16: FAIR VALUE DISCLOSURES Valuation Processes and Controls Over Fair Value Measurement for additional information.

Consolidated Fair Value Balance Sheets Analysis

Our consolidated fair value balance sheets present our estimates of the fair value of our financial assets and liabilities. See NOTE 16: FAIR VALUE DISCLOSURES Table 16.6 Consolidated Fair Value Balance Sheets for our fair value balance sheets. In conjunction with the preparation of our consolidated fair value balance sheets, we use a number of financial models. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks, and RISK FACTORS and RISK MANAGEMENT Operational Risks for information concerning the risks associated with these models.

During 2012 and 2011, our fair value results were affected by several improvements in our approach for estimating the fair value of certain financial instruments. See CRITICAL ACCOUNTING POLICIES AND ESTIMATES, NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, and NOTE 16: FAIR VALUE DISCLOSURES for more information on fair values.

Key Components of Changes in the Fair Value of Net Assets

Our attribution of changes in the fair value of net assets relies on models, assumptions, and other measurement techniques that evolve over time. The following are the key components of the attribution analysis:

Core Spread Income

Core spread income on our investments in mortgage loans and mortgage-related securities is a fair value estimate of the net current period accrual of income from the spread between our mortgage-related investments and our debt, calculated on an option-adjusted basis. OAS is an estimate of the yield spread between a given financial instrument and a benchmark (LIBOR, agency or Treasury) yield curve, after consideration of potential variability in the instrument s cash flows resulting from any options embedded in the instrument, such as prepayment options.

Changes in Mortgage-To-Debt OAS

The fair value of our net assets can be significantly affected from period to period by changes in the net OAS between the mortgage and agency debt sectors. The fair value impact of changes in OAS for a given period represents an estimate of the net unrealized increase or decrease in fair value of net assets arising from net fluctuations in OAS during that period. We do not attempt to hedge or actively manage the basis risk represented by the impact of changes in mortgage-to-debt OAS

because we generally hold a substantial portion of our mortgage assets for the long-term and we do not believe that periodic increases or decreases in the fair value of net assets arising from fluctuations in OAS will significantly affect the long-term value of our investments in mortgage loans and mortgage-related securities.

Asset-Liability Management Return

Asset-liability management return represents the estimated net increase or decrease in the fair value of net assets resulting from net exposures related to the market risks we actively manage. We do not hedge all of the interest-rate risk that exists at the time a mortgage is purchased or that arises over its life. The market risks to which we are exposed as a result of our investment activities that we actively manage include duration and convexity risks, yield curve risk and volatility risk.

We seek to manage these risk exposures within prescribed limits as part of our overall investment strategy. Taking these risk positions and managing them within prudent limits is an integral part of our investment activity. We expect that the net exposures related to market risks we actively manage will generate fair value returns, although those positions may result in a net increase or decrease in fair value for a given period. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks for more information.

Core Management and Guarantee Fees, Net

Core management and guarantee fees, net represents a fair value estimate of the annual income of our credit guarantee activities, based on current credit guarantee characteristics and market conditions. This estimate considers both contractual management and guarantee fees collected over the life of the credit guarantees and credit-related delivery fees collected up front when pools are formed, and associated costs and obligations, which include default costs.

Change in the Fair Value of Credit Guarantee Activities

Change in the fair value of credit guarantee activities represents the estimated impact on the fair value of the credit guarantee business resulting from changes in the amount of such business we conduct plus the effect of changes in interest rates, projections of the future credit outlook and other market factors (e.g., impact of the passage of time on cash flow discounting). Our estimated fair value of credit guarantee activities will change as credit conditions change.

Discussion of Fair Value Results

The table below summarizes the change in the fair value of net assets for 2012 and 2011.

Table 72 Summary of Change in the Fair Value of Net Assets

	2012	2011
	(in billions)	
Beginning balance	$ (78.4)	$ (58.6)
Changes in fair value of net assets, before capital transactions	27.2	(21.3)
Capital transactions:		
Dividends and share issuances, net(1)	(7.1)	1.5
Ending balance	$ (58.3)	$ (78.4)

(1) Includes the funds received from Treasury of $0.2 billion and $8.0 billion for 2012 and 2011, respectively, under the Purchase Agreement, which increased the liquidation preference of our senior preferred stock.

During 2012, the fair value of net assets, before capital transactions, increased by $27.2 billion, compared to a $21.3 billion decrease during 2011. The increase in the fair value of net assets, before capital transactions, during 2012 was primarily due to an increase in the fair value of our single-family mortgage loans as the result of continued improvement in realized and expected home prices and improvement in the overall credit environment coupled with high estimated core spread income on our mortgage-related securities and a tightening of OAS levels on our agency securities, multifamily securities, and unsecuritized loans. These benefits were offset by a decrease of $13.8 billion in the fair value of our single-family mortgage loans as the result of the adoption of an amendment to the guidance pertaining to fair value measurements and disclosures in the first quarter of 2012. See NOTE 16: FAIR VALUE DISCLOSURES Consolidated Fair Value Balance Sheets for additional details.

For loans that have been refinanced under HARP, we value our guarantee obligation using the delivery and guarantee fees currently charged by us under that initiative. 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 as a part of a troubled debt restructuring), the fair value of the guarantee obligation is then measured using our internal credit models or third-party market pricing. See NOTE 16: FAIR VALUE DISCLOSURES Valuation Techniques for Assets and Liabilities Not Measured at Fair Value in Our Consolidated Balance Sheets, but for Which the Fair Value is Disclosed *Mortgage Loans* *Single-Family Loans* for additional details.

The decrease in the fair value of net assets, before capital transactions, during 2011, was primarily due to: (a) a decrease in the fair value of our single-family loans due to our fourth quarter 2011 change in estimate discussed below, coupled with a decline in seasonally adjusted home prices; and (b) unrealized losses from the widening of OAS levels on our single-family non-agency mortgage-related securities. The decrease in fair value was partially offset by a tightening of OAS levels on our agency securities and high estimated core spread income.

During the fourth quarter of 2011, our fair value results were affected by a change in estimate which increased the implied capital costs included in our valuation of single-family mortgage loans due to a change in the estimation of a risk premium assumption embedded in our modeled valuation of such loans. This change in estimate led to a $14.2 billion decrease in our fair value measurement of mortgage loans.

When the OAS on a given asset widens, the fair value of that asset will typically decline, all other market factors being equal. However, we believe such OAS widening has the effect of increasing the likelihood that, in future periods, we will recognize income at a higher spread on this existing asset. The reverse is true when the OAS on a given asset tightens current period fair values for that asset typically increase due to the tightening in OAS, while future income recognized on the asset is more likely to be earned at a reduced spread. However, as market conditions change, our estimate of expected fair value gains and losses from OAS may also change, and the actual core spread income recognized in future periods could be significantly different from current estimates.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or 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.

Securitization Activities and Other Guarantee Commitments

We have certain off-balance sheet arrangements related to our securitization activities involving guaranteed mortgages 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: (a) Freddie Mac mortgage-related securities backed by multifamily loans; and (b) certain single-family Other Guarantee Transactions. We also have off-balance sheet arrangements related to other guarantee commitments, including long-term standby commitments and liquidity guarantees.

We guarantee the payment of principal and interest on non-consolidated Freddie Mac mortgage-related securities we issue and on mortgage loans covered by our other guarantee commitments. Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and the other guarantee commitments is primarily represented by the UPB of the underlying loans and securities, which was $74.2 billion and $56.9 billion at December 31, 2012 and 2011, respectively. The UPB of non-consolidated mortgage-related securities backed by multifamily loans grew significantly during 2012 and we expect that the balance of these off-balance sheet obligations will continue to increase in 2013 since this form of securitization is the primary business activity for our Multifamily segment.

As part of the guarantee arrangements pertaining to certain multifamily housing revenue bonds and securities backed by multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as liquidity guarantees, which were $10.2 billion and $12.0 billion at December 31, 2012 and 2011, respectively. These guarantees require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. Any repurchased securities are pledged to us to secure funding until the securities are remarketed. We hold cash and cash equivalents in excess of the amount of these commitments. At December 31, 2012 and 2011, there were no liquidity guarantee advances outstanding. In addition, as part of the HFA initiative, we, together with Fannie Mae, provide liquidity guarantees for certain variable-rate single-family and multifamily housing revenue bonds, under which Freddie Mac generally is obligated to purchase 50% of any tendered bonds that cannot be remarketed within five business days.

Our exposure to losses on the transactions described above would be partially mitigated by the recovery we would receive through exercising our rights to the collateral backing the underlying loans and the available credit enhancements, which may include recourse and primary insurance with third parties. In addition, we provide for incurred losses each period on these guarantees within our provision for credit losses. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Guidance, NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Housing Finance Agency Initiative, and NOTE 9: FINANCIAL GUARANTEES for more information on our off-balance sheet securitization activities and other guarantee commitments.

Other Agreements

We own interests in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets and non-mortgage assets, and include LIHTC partnerships, certain Other Guarantee Transactions, and certain asset-backed investment trusts. Our consolidated balance sheets reflect only our investment in the VIEs, rather than the full amount of the VIEs assets and liabilities. See NOTE 3: VARIABLE INTEREST ENTITIES for additional information related to our variable interests in these VIEs.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. For more information, see RISK MANAGEMENT Credit Risk *Institutional Credit Risk Derivative Counterparties*. We also enter into purchase commitments primarily related to future guarantor swap transactions for single-family loans, and, to a lesser extent, commitments to purchase or guarantee multifamily mortgage loans. These non-derivative commitments totaled $291.5 billion and $271.8 billion, in notional value at December 31, 2012 and 2011, respectively.

In connection with the execution of the Purchase Agreement, we, through FHFA, in its capacity as Conservator, issued a warrant to Treasury to purchase 79.9% of our common stock outstanding on a fully diluted basis on the date of exercise. See NOTE 11: STOCKHOLDERS EQUITY (DEFICIT) for further information.

CONTRACTUAL OBLIGATIONS

The table below provides aggregated information about the listed categories of our contractual obligations as of December 31, 2012. These contractual obligations affect our short- and long-term liquidity and capital resource needs. The table includes information about undiscounted future cash payments due under these contractual obligations, aggregated by type of contractual obligation, including the contractual maturity profile of our debt securities (other than debt securities of consolidated trusts held by third parties). The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases. Our contractual obligations include other purchase obligations that are enforceable and legally binding, and exclude contracts that we may cancel at will without penalty. For purposes of this table, purchase obligations are included through the termination date specified in the respective agreement, even if the contract is renewable.

In the table below, the amounts of future interest payments on debt securities outstanding at December 31, 2012 are based on the contractual terms of our debt securities at that date. These amounts were determined using certain assumptions including, that: (a) variable-rate debt continues to accrue interest at the contractual rates in effect at December 31, 2012 until maturity; and (b) callable debt continues to accrue interest until its contractual maturity. The amounts of future interest payments on debt securities presented do not reflect certain factors that will change the amounts of interest payments on our debt securities after December 31, 2012, such as: (a) changes in interest rates; (b) the call or retirement of any debt securities; and (c) the issuance of new debt securities. Accordingly, the amounts presented in the table do not represent a forecast of our future cash interest payments or interest expense.

The table below excludes certain obligations that could significantly affect our short- and long-term liquidity and capital resource needs. These items, which are listed below, have generally been excluded because the amount and timing of the related future cash payments are uncertain:

- future payments related to debt securities of consolidated trusts held by third parties, because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain. These payments generally include payments of principal and interest we make to the holders of our guaranteed mortgage-

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related securities in the event a loan underlying a security becomes delinquent. We also remove mortgages from pools underlying our PCs in certain circumstances, including when loans are 120 days or more delinquent, and retire the associated PC debt;

any future cash payments associated with the liquidation preference of the senior preferred stock, as well as the quarterly commitment fee (which has been suspended) and the dividends on the senior preferred stock because the timing and amount of any such future cash payments are uncertain. As of December 31, 2012, the aggregate liquidation preference of the senior preferred stock was $72.3 billion. See BUSINESS Conservatorship and Related Matters *Treasury Agreements* for additional information including changes to the quarterly commitment fee and dividends on the senior preferred stock beginning in 2013;

future cash settlements on derivative agreements not yet accrued, because the amount and timing of such payments are dependent upon changes in the underlying financial instruments in response to items such as changes in interest rates and foreign exchange rates and are therefore uncertain;

future dividends on the preferred stock we have issued (other than the senior preferred stock), because dividends on these securities are non-cumulative;

the guarantee arrangements pertaining to multifamily housing revenue bonds, where we provided commitments to advance funds, commonly referred to as liquidity guarantees, because the amount and timing of such payments are generally contingent upon the occurrence of future events and are therefore uncertain; and

future cash contributions to our Pension Plan, as we have not yet determined whether to make a cash contribution in 2013.

Table 73 Contractual Obligations by Year at December 31, 2012

	Total	2013	2014	2015	2016	2017	Thereafter
				(in millions)			
Long-term debt(1)	$ 434,542	$ 115,577	$ 85,798	$ 52,968	$ 38,882	$ 57,664	$ 83,653
Short-term debt(1)	117,930	117,930					
Interest payable(2)	48,230	14,363	6,614	5,352	4,266	3,089	14,546
Other liabilities reflected on our consolidated balance sheet:							
Other contractual liabilities(3)(4)	900	623	16	13	14	14	220
Purchase obligations:							
Purchase commitments(5)	13,985	13,985					
Other purchase obligations(6)	281	232	26	12	8	1	2
Operating lease obligations	32	12	11	4	3	1	1
Total specified contractual obligations	$ 615,900	$ 262,722	$ 92,465	$ 58,349	$ 43,173	$ 60,769	$ 98,422

(1) Represents par value. Callable debt is included in this table at its contractual maturity. Excludes debt securities of consolidated trusts held by third parties. For additional information about our debt, see NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS.

(2) Includes estimated future interest payments on our short-term and long-term debt securities as well as the accrual of periodic cash settlements of derivatives, netted by counterparty. Also includes accrued interest payable recorded on our consolidated balance sheet, which consists primarily of the accrual of interest for our PCs and certain Other Guarantee Transactions, and the accrual of interest on short-term and long-term debt.

(3) Includes obligations related to our non-qualified defined benefit plan, qualified and non-qualified defined contribution plans, retiree medical plan, and other benefit plans.

(4)

Other contractual liabilities include future cash payments due under our contractual obligations to make delayed equity contributions to LIHTC partnerships and payables to the consolidated trusts established for the administration of cash remittances received related to the underlying assets of Freddie Mac mortgage-related securities.

(5) Purchase commitments represent our obligations to purchase mortgage loans and mortgage-related securities from third parties. The majority of purchase commitments included in this caption are accounted for as derivatives in accordance with the accounting guidance for derivatives and hedging.

(6) Primarily includes unconditional purchase obligations that are legally binding and that are subject to a cancellation penalty. Does not include contracts that we may cancel at will without penalty.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make a number of judgments, estimates, and assumptions that affect the reported amounts within our consolidated financial statements. Certain of our accounting policies, as well as estimates we make, are critical, as they are both important to the presentation of our financial condition and results of operations and require management to make difficult, complex, or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) the allowance for loan losses and the reserve for guarantee losses; (b) fair value measurements; (c) impairment recognition on investments in securities; and (d) realizability of net deferred tax assets. For additional information about our critical accounting policies and estimates and other significant accounting policies, as well as recently issued accounting guidance, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Allowance for Loan Losses and Reserve for Guarantee Losses

The allowance for loan losses and the reserve for guarantee losses represent estimates of incurred credit losses. The allowance for loan losses pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets, whereas the reserve for guarantee losses relates to single-family and multifamily loans underlying our non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments. We use the same methodology to determine our allowance for loan losses and reserve for guarantee losses, as the relevant factors affecting credit risk are the same. Determining the appropriateness of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant management judgment about matters that involve a high degree of subjectivity. The process we currently use involves a greater degree of management judgment than the process we used prior to the onset of the recent housing and economic downturn.

We estimate incurred credit losses related to homogeneous pools of loans in accordance with the accounting guidance for contingencies. Loans that we evaluate for individual impairment are measured in accordance with the subsequent measurement requirements of the accounting guidance for receivables.

We believe the level of our loan loss reserves is appropriate based on internal reviews of the factors and methodologies used. No single statistic or measurement determines the appropriateness of the loan loss reserves. Changes in one or more of the estimates or assumptions used to calculate the loan loss reserves could have a material impact on the loan loss reserves and provision for credit losses.

Single-Family Loan Loss Reserves

Most single-family loans are aggregated into pools based on similar risk characteristics and measured collectively using a statistically based model that evaluates a variety of factors affecting collectability, including but not limited to: current LTV ratios, a loan s product type, delinquency/default status and history, and geographic location. Inputs used by the model are regularly updated for changes in the underlying data, assumptions, and market conditions. We consider the output of this model, together with other information such as expected future levels of loan modifications and expected repurchases by seller/servicers of loans, the adequacy of third-party credit enhancements, the effects of changes in government policies and programs, the effects of macroeconomic variables such as rates of unemployment, and the effects of home price changes on borrower behavior. The inability to realize the benefits of our loss mitigation plans, a lower realized rate of seller/servicer repurchases, further declines in home prices, further deterioration in the financial condition of our mortgage insurance counterparties, or delinquency rates that exceed our current projections would cause our losses to be significantly higher than those currently estimated.

There is significant risk and uncertainty associated with our estimate of credit losses incurred on our single-family loans. The process for determining the estimate is complex. It uses models and requires us to make judgments about matters that are difficult to predict, the most significant of which are the probability of default and loss severity. We regularly evaluate the underlying estimates and models we use when determining loan loss reserves and update our assumptions to reflect our historical experience and current view of economic factors. See RISK FACTORS Operational Risks *We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions, and to manage risks. Market conditions have raised these risks and uncertainties*.

Individually impaired single-family loans include loans that have undergone a TDR and are measured for impairment as the excess of our recorded investment in the loan over the present value of the expected future cash flows. Our expectation of future cash flows incorporates many of the judgments indicated above.

Multifamily Loan Loss Reserves

To determine loan loss reserves for the multifamily loan portfolio, including determining which loans are individually impaired, we consider all available evidence including, but not limited to, operating cash flows from the underlying property as represented by its current DSCR, the fair value of collateral underlying the loans, evaluation of the repayment prospects, the adequacy of third-party credit enhancements, year of origination, certain macroeconomic data, and available economic data related to multifamily real estate, including apartment vacancy and rental rates.

Multifamily loans evaluated collectively for impairment are aggregated into book year vintages and measured by benchmarking published historical commercial mortgage data to those vintages based upon some of the factors listed above.

Individually impaired multifamily loans are measured for impairment based on the fair value of the underlying collateral, as reduced by estimated disposition costs, as multifamily loans are generally collateral-dependent and most multifamily loans are non-recourse to the borrower. As a result, the cash flows of the underlying property (including any associated credit enhancements) serve as the source of funds for repayment of the loan.

Fair Value Measurements

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or non-recurring basis. Assets and liabilities within our consolidated financial statements measured at fair value include: (a) mortgage-related and non-mortgage related securities; (b) mortgage loans held-for-sale; (c) derivative instruments; (d) debt securities denominated in foreign currencies and certain other debt; and (e) REO. 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 accounting guidance also establishes a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the assumptions a market participant would use at the measurement date. Fair value measurements under this hierarchy are distinguished among quoted market prices, observable inputs, and unobservable inputs. The measurement of fair value requires management to make judgments and assumptions. The process for determining fair value using unobservable inputs is generally more subjective and involves a higher degree of management judgment and assumptions than the measurement of fair value using observable inputs. These judgments and assumptions may have a significant effect on our measurements of fair value, and the use of different judgments and assumptions, as well as changes in market conditions, could have a material effect on our consolidated statements of comprehensive income as well as our consolidated fair value balance sheets. See NOTE 16: FAIR VALUE DISCLOSURES and FAIR VALUE MEASUREMENTS AND ANALYSIS for additional information regarding fair value hierarchy and measurements.

Impairment Recognition on Investments in Securities

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. As discussed further below, certain other-than-temporary impairment losses are recognized in earnings. These losses are recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings.

We recognize other-than-temporary impairment in earnings if one of the following conditions exists: (a) we have the intent to sell the security; (b) it is more likely than not that we will be required to sell the security before recovery of its unrealized loss; or (c) we do not expect to recover the amortized cost basis of the security. If we do not intend to sell the security and we believe it is not more likely than not that we will be required to sell prior to recovery of the security s unrealized loss, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recognized, net of tax, in AOCI. The credit component represents the amount by which the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. For information regarding important factors, judgments and assumptions, see NOTE 7: INVESTMENTS IN SECURITIES Impairment Recognition on Investments in Securities.

For our available-for-sale securities in an unrealized loss position at December 31, 2012, we have asserted that we have no intent to sell and that we believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis. In cases where such an assertion cannot be made, the security s entire decline in fair value is deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings.

See NOTE 7: INVESTMENTS IN SECURITIES Table 7.2 Available-For-Sale Securities in a Gross Unrealized Loss Position for the length of time our available-for-sale securities have been in an unrealized loss position. Also see NOTE 7: INVESTMENTS IN SECURITIES Table 7.3 Significant Modeled Attributes for Certain Non-Agency Mortgage-Related Securities for the modeled default rates and severities that were used to determine whether our senior interests in certain non-agency mortgage-related securities would experience a cash shortfall. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities for more information on impairment recognition on securities.

We believe our judgments and assumptions used in our evaluation of other-than-temporary impairment are reasonable. However, different judgments or assumptions could have resulted in materially different recognition of other-than-temporary impairment. It is possible that the losses we ultimately realize could be significantly higher or lower than the losses we have recognized in our financial results to date.

Realizability of Deferred Tax Assets, Net

We use the asset and liability method to account for income taxes pursuant to the accounting guidance for income taxes. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of these net deferred tax assets is dependent upon the generation of sufficient taxable income in available carryback years, from current operations and from unrecognized tax benefits, and upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses.

On a quarterly basis, we determine whether a valuation allowance is necessary. In doing so, we consider all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, it is more likely than not that the net deferred tax assets will be realized. Evidence that we consider includes, but is not limited to: (a) our cumulative loss position for the past three years; (b) our current taxable loss position; (c) the amount and estimated time required to realize our estimated cumulative tax net operating loss carryforward; (d) difficulty in predicting unsettled circumstances related to the conservatorship; (e) our access to capital under the agreements associated with the conservatorship; (f) management s intent and ability to hold our available-for-sale securities until losses can be recovered; and (g) the improving trend of our financial results.

The consideration of this evidence requires significant estimates, assumptions, and judgments, particularly about our future financial condition and results of operations and our intent and ability to hold available-for-sale debt securities with temporary unrealized losses until recovery. As discussed in RISK FACTORS, the conservatorship and related matters fundamentally affecting our control, management, and operations are likely to affect our future financial condition and results of operations. These events have resulted in a variety of uncertainties regarding our future operations, our business objectives and strategies, and our future profitability, the impact of which cannot be reliably forecasted at this time. As such, any changes in these estimates, assumptions or judgments may have a material effect on our financial position and results of operations.

We determined that, as of September 30, 2008, it was more likely than not that we would not realize the portion of our net deferred tax assets that is dependent upon the generation of future taxable income. This determination was driven by the events and the resulting uncertainties as of that date. Those conditions continued to exist as of December 31, 2012. As a result, we continue to maintain a valuation allowance against these net deferred tax assets at December 31, 2012. It is possible that, in future periods, the uncertainties regarding our future operations and profitability could be resolved such that it could become more likely than not that these net deferred tax assets would be realized due to the generation of sufficient taxable income. If that were to occur, we would assess the need for a reduction of the valuation allowance, which could have a material effect on our financial position and results of operations in the period of the reduction.

Also, we determined that a valuation allowance is not necessary for the portion of our net deferred tax assets that is dependent upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. These temporary unrealized losses have only impacted AOCI, not income from continuing operations or our taxable income, nor will they impact income from continuing operations or taxable income if they are held to maturity. As such, the realization of this deferred tax asset is not dependent upon the generation of sufficient taxable income but rather on our intent and ability to hold these securities until recovery of these unrealized losses, which may be at maturity. Our conclusion that these unrealized losses are temporary and that we have the intent and ability to hold these securities until recovery requires significant estimates, assumptions, and judgments, as described above in Impairment Recognition on Investments in Securities. Any changes in these estimates, assumptions, or judgments in future periods may result in the recognition of an other-than-temporary impairment, which would result in some of this deferred tax asset not being realized and may have a material effect on our financial position and results of operations. For more information see NOTE 12: INCOME TAXES.

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we announced our adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with FHFA, then OFHEO, that updated these commitments and set forth a process for implementing them. A copy of the letters between us and OFHEO dated September 1, 2005 constituting the written agreement has been filed as an exhibit to our Registration Statement on Form 10, filed with the SEC on July 18, 2008, and is available on the Investor Relations page of our web site at www.freddiemac.com/investors/sec_filings/index.html.

In November 2008, FHFA suspended our periodic issuance of subordinated debt disclosure commitment during the term of conservatorship and thereafter until directed otherwise. In March 2009, FHFA suspended the remaining disclosure commitments under the September 1, 2005 agreement until further notice, except that: (a) FHFA will continue to monitor our adherence to the substance of the liquidity management and contingency planning commitment through normal supervision activities; and (b) we will continue to provide interest-rate risk and credit risk disclosures in our periodic public reports.

For disclosures concerning our PMVS and duration gap, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate and Other Market Risks *PMVS and Duration Gap*. Our 2012 monthly average PMVS results, duration gap, and related disclosures are provided in our Monthly Volume Summary reports, which are available on our web site, www.freddiemac.com and in current reports on Form 8-K we file with the SEC. For disclosures concerning credit risk sensitivity, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Credit Risk Sensitivity*.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest-Rate Risk and Other Market Risks

Sources of Interest-Rate Risk and Other Market Risks

Our investments in mortgage loans and mortgage-related securities expose us to interest-rate risk and other market risks arising primarily from the uncertainty as to when borrowers will pay the outstanding principal balance of mortgage loans and mortgage-related securities, known as prepayment risk, and the resulting potential mismatch between the timing of: (a) our receipt of cash flows related to our assets; and (b) payment of cash flows related to the liabilities we use to fund those assets. For the vast majority of our mortgage-related investments, the mortgage borrower has the option to make unscheduled payments of additional principal or to completely pay off a mortgage loan at any time before its scheduled maturity date (without having to pay a prepayment penalty) or make principal payments in accordance with their contractual obligation. We use derivatives as an important part of our strategy to manage interest-rate and prepayment risk. When determining to use derivatives to mitigate our exposures, we consider a number of factors, including cost, efficiency, exposure to counterparty risks, and our overall risk management strategy. See MD&A RISK MANAGEMENT and RISK FACTORS for a discussion of our market risk exposures, including those related to derivatives, institutional counterparties, and other market risks.

Our credit guarantee activities also expose us to interest-rate risk because changes in interest rates can cause fluctuations in the fair value of our existing credit guarantees. We generally do not hedge these changes in fair value except for interest-rate exposure related to buy-ups and float. Float, which arises from timing differences between when the borrower makes principal payments on the loan and the reduction of the PC balance, can lead to significant interest expense if the interest rate paid to a PC investor is higher than the reinvestment rate earned by the securitization trusts on payments received from mortgage borrowers and paid to us as trust management income.

The principal types of interest-rate risk and other market risks to which we are exposed are described below.

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Duration Risk and Convexity Risk

Duration is a measure of a financial instrument s price sensitivity to changes in interest rates along the yield curve (expressed in percentage terms). We compute each instrument s duration by applying an interest-rate shock, both upward and downward, to the LIBOR curve and evaluating the impact on the instrument s fair value. As interest rates reached historically low levels in 2011, the methodology then used by management to calculate duration and convexity began to produce risk sensitivities that were increasingly unstable and not representative of expected price movements. In order to alleviate the instability, we changed the shift size required to calculate duration and convexity from 50 basis points to 25 basis points beginning on November 14, 2011. The effect of this change on our duration and convexity measures was not material. Convexity is a measure of how much a financial instrument s duration changes as interest rates change. Similar to the duration calculation, we compute each instrument s convexity by applying the shock, both upward and downward, to the LIBOR curve and evaluating the impact on the duration. Currently, short-term interest rates are at historically low levels and, at some points, the LIBOR curve is less than 25 basis points (and less than 50 basis points that was the threshold before the November 14, 2011 change). As a result, the basis point shock to the LIBOR curve described above is bounded by zero. Our convexity risk primarily results from prepayment risk.

We seek to manage duration risk and convexity risk through asset selection and structuring (that is, by acquiring or structuring mortgage-related securities with attractive prepayment and other characteristics), by issuing a broad range of both callable and non-callable debt instruments, and by using interest-rate derivatives and written options. Managing the impact of duration risk and convexity risk is the principal focus of our daily market risk management activities. These risks are encompassed in our PMVS and duration gap risk measures, discussed in greater detail below. We use prepayment models to determine the estimated duration and convexity of mortgage assets for our PMVS and duration gap measures. When interest rates decline, mortgage asset prices tend to rise, but the rise is limited by the increased likelihood of prepayments, which exposes us to negative convexity. Through the use of our models, we estimate on a weekly basis the negative convexity profile of our portfolio over a wide range of interest rates. This process is designed to help us to identify the particular interest rate scenarios where the convexity of our portfolio appears to be most negative, and therefore the particular interest rate scenario where the interest rate price sensitivity of our financial instruments appears to be most acute. We use this information to develop hedging strategies that are customized to provide interest-rate risk protection for the specific interest rate environment where we believe we are most exposed to negative convexity risk. This strategy allows us to select hedging instruments that are expected to be most efficient for our portfolio, thereby reducing the overall cost of interest rate hedging activities.

By managing our convexity profile over a wide range of interest rates, we are able to hedge prepayment risk for particular interest rate scenarios. As a result, the intensity and frequency of our ongoing risk management actions is relatively constant over a wide range of interest rate environments. Our approach to convexity risk management focuses our portfolio rebalancing activities for the specific interest rate scenario where market and interest rate volatility appear to be most pronounced. This approach to convexity risk reduces our ongoing rebalancing activity to a relatively low level compared to the overall daily trading volume of interest-rate swaps and Treasury futures.

PMVS (i.e., the expected loss in portfolio market value) is an estimate of the sensitivity to changes in interest rates of the fair value of all interest-earning assets, interest-bearing liabilities, and derivatives on a pre-tax basis. When we calculate the expected loss in portfolio market value and duration gap, we also take into account the cash flows related to certain credit guarantee-related items, including net buy-ups and expected gains or losses due to net interest from float. In making these calculations, we do not consider the sensitivity to interest-rate changes of the following assets and liabilities:

Credit guarantee activities. We do not consider the sensitivity of the fair value of credit guarantee activities to changes in interest rates except for the guarantee-related items mentioned above (i.e., buy-ups and float), because we do not actively manage the change in the fair value of our guarantee business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates are the best indication of the long-term value of our guarantee business because these changes do not take into account the potential for new future guarantee business activity.

Other assets with minimal interest-rate sensitivity. We do not include other assets, primarily non-financial instruments such as fixed assets and REO, because we estimate their impact on PMVS and duration gap to be minimal.

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Yield Curve Risk

Yield curve risk is the risk that non-parallel shifts in the yield curve (such as a flattening or steepening) will adversely affect the fair value of net assets and ultimately adversely affect our net worth. Because changes in the shape, or slope, of the yield curve often arise due to changes in the market s expectation of future interest rates at different points along the yield curve, we evaluate our exposure to yield curve risk by examining potential reshaping scenarios at various points along the yield curve. We manage yield curve risk with the use of derivatives. Our yield curve risk under a specified yield curve scenario is reflected in our PMVS-YC disclosure.

Volatility Risk

Volatility risk is the risk that changes in the market s expectation of the magnitude of future variations in interest rates will adversely affect the fair value of net assets and ultimately adversely affect our net worth. Volatility risk arises from the prepayment risk that is inherent in mortgages or mortgage-related securities. Volatility risk is the risk that the homeowner s prepayment option will gain or lose value as the expected volatility of future interest rates changes. In general, as expected future interest rate volatility increases, the homeowner s prepayment option increases in value, thus negatively impacting the value of the mortgage security backed by the underlying mortgages. We manage volatility risk by maintaining a portfolio of callable debt and option-based interest rate derivatives that have relatively long option terms. We actively manage and monitor our volatility risk exposure over a range of changing interest rate scenarios; however, we do not eliminate our volatility risk exposure completely.

Basis Risk

Basis risk is the risk that interest rates in different market sectors will not move in tandem and will adversely affect the fair value of net assets and ultimately adversely affect our net worth. This risk arises principally because we generally hedge mortgage-related investments with debt securities. As principally a buy-and-hold investor, we do not actively manage overall basis risk, also referred to as mortgage-to-debt OAS risk or spread risk, arising from funding mortgage-related investments with debt securities. See MD&A FAIR VALUE MEASUREMENTS AND ANALYSIS Key Components of Changes in Fair Value of Net Assets *Changes in Mortgage-To-Debt OAS* for additional information. We also incur basis risk when we use LIBOR- or Treasury-based instruments in our risk management activities.

Model Risk

Proprietary models, including mortgage prepayment models, interest rate models, and mortgage default models, are an integral part of our investment framework. As market conditions change rapidly, as they have on a number of occasions since 2007, the assumptions that we use in our models for our sensitivity analyses (including PMVS and duration gap measures) may not keep pace with these market changes. As such, these analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair values of our assets. We actively manage our model risk by reviewing the performance of our models. To improve the accuracy of our models, changes to the underlying assumptions or modeling techniques are made on a periodic basis. Model development and model testing are reviewed and approved independently by our Enterprise Risk Management division. Model performance is also reported regularly through a series of internal management committees. See MD&A RISK MANAGEMENT Operational Risks and RISK FACTORS Operational Risks *We face risks and uncertainties associated with the models that we use for financial accounting and reporting purposes, to make business decisions and to manage risks. Market conditions have raised these risks and uncertainties* for a discussion of the risks associated with our use of models. Given the importance of models to our investment management practices, model changes undergo a rigorous review process. As a result, it is common for model changes to take several months to complete. Given the time consuming nature of the model change review process, it is sometimes necessary for risk management purposes for management to make adjustments to our interest-rate risk statistics that reflect the expected impact of the pending model change. These adjustments are included in our PMVS and duration gap disclosures.

Foreign-Currency Risk

Foreign-currency risk is the risk that fluctuations in currency exchange rates (e.g., Euros to the U.S. dollar) will adversely affect the fair value of net assets and ultimately adversely affect our net worth. We are exposed to foreign-currency risk because we have debt denominated in currencies other than the U.S. dollar, our functional currency. We mitigate virtually all of our foreign-currency risk by entering into swap transactions that effectively convert foreign-currency denominated obligations into U.S. dollar-denominated obligations.

Interest-Rate Risk Management Strategy and Framework

Although we cannot hedge all of our exposure to changes in interest rates, this exposure is subject to established limits and is monitored through our risk management process. We employ a risk management strategy that seeks to substantially match the duration characteristics of our assets and liabilities. Through our asset and liability management process, we seek to mitigate interest-rate risk by issuing a wide variety of callable and non-callable debt products. The prepayment option held by mortgage borrowers drives the fair value of our mortgage assets such that the combined fair value of our mortgage assets and non-callable debt will decline if interest rates move significantly in either direction. We seek to mitigate much of our exposure to changes in interest rates by funding a significant portion of our mortgage portfolio with callable debt. When interest rates change, our option to redeem this debt offsets a large portion of the fair value change driven by the mortgage prepayment option. However, because the mortgage prepayment option is not fully hedged by callable debt, the combined fair value of our mortgage assets and debt will be affected by changes in interest rates.

To further reduce our exposure to changes in interest rates, we hedge a significant portion of the remaining prepayment risk with option-based derivatives. These derivatives primarily consist of call swaptions, which tend to increase in value as interest rates decline, and put swaptions, which tend to increase in value as interest rates increase. We also seek to manage interest-rate risk by changing the effective interest terms of the portfolio, primarily using interest-rate swaps, which we refer to as rebalancing. For further discussion of why we use derivatives and the types of derivatives we use, see NOTE 10: DERIVATIVES.

Our approach to managing interest-rate risk is designed to be disciplined and comprehensive. Our objective is to minimize our interest-rate risk exposure across a range of interest-rate scenarios. To do this, we analyze the interest-rate sensitivity of financial assets and liabilities at the instrument level on a daily basis and across a variety of interest rate scenarios. For risk management purposes, the interest-rate characteristics of each instrument are determined daily based on market prices and models. The fair values of our assets, liabilities and derivatives are primarily based on either third party prices, or observable market-based inputs. These fair values, whether direct from third parties or derived from observable inputs, are reviewed and validated by groups that are separate from our trading and investing function. See NOTE 16: FAIR VALUE DISCLOSURES Valuation Processes and Controls over Fair Value Measurement.

Annually, the Business and Risk Committee of our Board of Directors establishes certain Board limits for interest-rate risk measures, and if we exceed these limits we are required to notify the Business and Risk Committee and address the limit overage. These limits encompass a range of interest-rate risks that include duration risk, convexity risk, volatility risk, and yield curve risk associated with our use of various financial instruments, including derivatives. Also on an annual basis, our Enterprise Risk Management division establishes management limits and makes recommendations with respect to the limits to be established at the Board level. These limits are reviewed by our Enterprise Risk Management Committee, which is responsible for reviewing performance as compared to the established limits. The management limits are set at values below those set at the Board level, which is intended to allow us to follow a series of predetermined actions in the event of a breach of the management limits and helps ensure proper oversight to reduce the possibility of exceeding the Board limits. We also establish management limits that do not have corresponding Board limits.

Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk

PMVS and Duration Gap

Our primary interest-rate risk measures are PMVS and duration gap. PMVS is an estimate of the change in the fair value of all interest-earning assets, interest-bearing liabilities, and derivatives on a pre-tax basis from an instantaneous 50 basis point shock to interest rates, assuming no rebalancing actions are undertaken and assuming the mortgage-to-LIBOR basis does not change. (The shock used for calculating PMVS is not the same as the shock used for calculating duration and convexity, described above under *Duration Risk and Convexity Risk.*) PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to parallel movements in interest rates (PMVS-Level or PMVS-L) and the other to nonparallel movements (PMVS-YC).

We calculate our exposure to changes in interest rates using effective duration. Effective duration measures the percentage change in the price of financial instruments from a 1% change in interest rates. Financial instruments with positive duration increase in value as interest rates decline. Conversely, financial instruments with negative duration increase in value as interest rates rise.

Together, duration and convexity provide a measure of an instrument s overall price sensitivity to changes in interest rates. We utilize the aggregate duration and convexity risk of all interest-rate sensitive instruments on a daily basis to

estimate the two PMVS metrics. The duration and convexity measures are used to estimate PMVS under the following formula:

PMVS = [Duration] multiplied by [rate shock] plus [0.5 multiplied by Convexity] multiplied by [rate shock^2]

In the equation, [rate shock] represents the interest-rate change expressed in fair value terms. For example, a 50 basis point adverse change will be expressed as 0.5%. The result of this formula is the fair value of sensitivity to the change in rate, which is expressed as: PMVS = (0.5 absolute value of duration) + (0.125 convexity), assuming convexity is negative.

To estimate PMVS-L, an instantaneous parallel 50 basis point shock is applied to the yield curve, as represented by the US swap curve, holding all spreads to the swap curve constant. This shock is applied to the duration and convexity of all interest-rate sensitive financial instruments. The resulting change in market value for the aggregate portfolio is computed for both the up rate and down rate shock and the change in market value in the more adverse scenario of the up and down rate shocks is the PMVS. In cases where both the up rate and down rate shock results in a positive impact, the PMVS is zero. Because this process uses a parallel, or level, shock to interest rates, we refer to this measure as PMVS-L.

To estimate sensitivity related to the shape of the yield curve, a yield curve steepening and flattening of 25 basis points is applied to the duration of all interest-rate sensitive instruments. The resulting change in market value for the aggregate portfolio is computed for both the steepening and flattening yield curve scenarios. The more adverse yield curve scenario is then used to determine the PMVS-yield curve. Because this process uses a non-parallel shock to interest rates, we refer to this measure as PMVS-YC.

The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures reflect reasonably possible near-term changes that we believe provide a meaningful measure of our interest-rate risk sensitivity. Our PMVS measures assume instantaneous shocks. Therefore, these PMVS measures do not consider the effects on fair value of any rebalancing actions that we would typically expect to take to reduce our risk exposure.

Duration gap measures the difference in price sensitivity to interest rate changes between our assets and liabilities, and is expressed in months relative to the market value of assets. For example, assets with a six month duration and liabilities with a five month duration would result in a positive duration gap of one month. A duration gap of zero implies that the duration of our assets equals the duration of our liabilities. As a result, the change in the value of assets from an instantaneous move in interest rates, either up or down, would be expected to be accompanied by an equal and offsetting change in the value of liabilities, thus leaving the fair value of net assets unchanged. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities which, from a net perspective, implies that the fair value of net assets will increase in value when interest rates fall and decrease in value when interest rates rise. A negative duration gap indicates that the duration of our liabilities exceeds the duration of our assets which, from a net perspective, implies that the fair value of net assets will increase in value when interest rates rise and decrease in value when interest rates fall.

Limitations of Market Risk Measures

Our PMVS and duration gap estimates are determined using models that involve our best judgment of interest-rate and prepayment assumptions. Accordingly, while we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements. While PMVS and duration gap estimate our exposure to changes in interest rates, they do not capture the potential impact of certain other market risks, such as changes in volatility, basis, and foreign-currency risk. The impact of these other market risks can be significant.

There are inherent limitations in any methodology used to estimate exposure to changes in market interest rates. Our sensitivity analyses for PMVS and duration gap contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio. These sensitivity analyses do not consider other factors that may have a significant effect on our financial instruments, most notably business activities and strategic actions that management may take in the future to manage interest-rate risk. As such, these analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair value of our net assets.

In addition, it has been more difficult in recent years to measure and manage the interest-rate risk related to mortgage assets as risk for prepayment model error remains high due to the low interest rate environment and uncertainty regarding default rates, unemployment rates, the effect of widespread loan modification programs, and the volatility and impact of home price movements on mortgage durations. Misestimation of prepayments could result in hedging-related losses.

PMVS Results

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 for the years ended December 31, 2012 and 2011. The table below also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. We do not hedge the entire prepayment risk exposure embedded in our mortgage assets. The interest-rate sensitivity of a mortgage portfolio varies across a wide range of interest rates. Therefore, the difference between PMVS at 50 basis points and 100 basis points is non-linear. Our PMVS-L (50 basis points) exposure at December 31, 2012 was $209 million, primarily driven by our convexity exposure. The PMVS-L at December 31, 2012 declined compared to December 31, 2011 primarily due to a decline in our duration exposure. On an average basis for the year ended December 31, 2012, our PMVS-L (50 basis points) was $212 million which was primarily driven by our net duration exposure on our mortgage assets.

To improve the accuracy of our models, we make changes to the underlying assumptions or modeling techniques on a periodic basis. During the third and fourth quarters of 2012, we made assumption changes related to our prepayment model for non-HARP eligible loans underlying our securities. In addition, we enhanced our process used to estimate duration and convexity of our unsecuritized single-family loans by incorporating additional loan characteristics. The impact of incorporating additional loan characteristics increased our duration and produced an estimated $560 million impact on PMVS-L and a two month impact on duration gap at implementation. We believe that this change would not have had a materially different impact on either item at December 31, 2011 if implemented at that time. As these changes extended the duration of our assets, we increased the use of derivatives to hedge our overall exposure.

Table 74 PMVS and Duration Gap Results

	PMVS-YC 25 bps	PMVS-L 50 bps	PMVS-L 100 bps
		(in millions)	
Assuming shifts of the LIBOR yield curve:			
December 31, 2012	$ 61	$ 209	$ 737
December 31, 2011	$ 7	$ 465	$ 1,349

	Year Ended December 31, 2012			2011		
	Duration Gap (in months)	PMVS-YC 25 bps	PMVS-L 50 bps	Duration Gap (in months)	PMVS-YC 25 bps	PMVS-L 50 bps
		(dollars in millions)			(dollars in millions)	
Average	(0.2)	$ 36	$ 212	(0.0)	$ 21	$ 359
Minimum	(2.4)	$ 1	$	(1.0)	$	$
Maximum	1.1	$ 117	$ 661	1.2	$ 94	$ 721
Standard deviation	0.6	$ 32	$ 109	0.3	$ 15	$ 126

Derivatives have historically enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. The table below shows that the PMVS-L risk levels for the periods presented would have been higher if we had not used derivatives. The derivative impact on our PMVS-L (50 basis points) was $(0.9) billion at December 31, 2012, a decline of $1.1 billion from December 31, 2011. The decline was primarily driven by an increase in our issuance of longer-term debt beginning in the fourth quarter of 2011, which decreased our reliance on derivatives. In addition, the decline in interest rates during 2012 decreased the duration of our hedged assets, which resulted in requiring fewer derivatives to hedge our portfolio.

Table 75 Derivative Impact on PMVS-L (50 bps)

	Before Derivatives	After Derivatives	Effect of Derivatives
		(in millions)	
At:			
December 31, 2012	$ 1,102	$ 209	$ (893)

December 31, 2011	$ 2,470	$ 465	$ (2,005)

Duration Gap Results

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

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rate yield curve scenarios. Our average duration gap, rounded to the nearest month, for the months of December 2012 and 2011 was zero months in both periods. Our average duration gap, rounded to the nearest month, during the years ended December 31, 2012 and 2011 was zero months in both periods.

The disclosure in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com and in current reports on Form 8-K we file with the SEC, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year).

Derivative-Related Risks

Our use of derivatives exposes us to credit risk with respect to our counterparties to derivative transactions. Through counterparty selection, all derivative transactions are executed in a manner that seeks to control and reduce counterparty credit exposure. In order to attempt to minimize the potential replacement cost should a derivative counterparty fail, we utilize derivative counterparty limits. Board-level counterparty limits are approved by the Board s Business and Risk Committee. Management and Board counterparty limits, which include current exposure and potential exposure in a stress scenario, are monitored by members of our Enterprise Risk Management division, which is responsible for establishing and monitoring credit and counterparty risk tolerances for our business activities and reporting to the Business and Risk Committee as appropriate. See MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk* *Derivative Counterparties* for information on derivative counterparty credit risk.

Our use of derivatives also exposes us to derivative market liquidity risk, which is the risk that we may not be able to enter into or exit out of derivative transactions at a reasonable cost. A lack of sufficient capacity or liquidity in the derivatives market could limit our risk management activities, increasing our exposure to interest-rate risk. To help maintain continuous access to derivative markets, we use a variety of products and transact with a number of different derivative counterparties. In addition to OTC derivatives, we also use exchange-traded derivatives, asset securitization activities, callable debt, and short-term debt to rebalance our portfolio.

The Dodd-Frank Act requires that many types of derivatives be centrally cleared and traded on exchanges or comparable trading facilities. See MD&A RISK MANAGEMENT Credit Risk *Institutional Credit Risk* *Derivative Counterparties* for additional information on this requirement.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Freddie Mac

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of comprehensive income, of equity (deficit), and of cash flows present fairly, in all material respects, the financial position of Freddie Mac, a stockholder-owned government-sponsored enterprise, and its subsidiaries, (the Company), at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to disclosure controls and procedures that do not provide adequate mechanisms for information known to the Federal Housing Finance Agency (FHFA) that may have financial statement disclosure ramifications to be communicated to management existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2012 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management s report referred to above. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) the supplemental consolidated fair value balance sheets of the Company as of December 31, 2012 and 2011. As described in Note 16: Fair Value Disclosures , the supplemental consolidated fair value balance sheets have been prepared by management to present relevant financial information that is not provided by the historical-cost consolidated balance sheets and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. In addition, the supplemental consolidated fair value balance sheets do not purport to present the net realizable, liquidation, or market value of the Company as a whole. Furthermore, amounts ultimately realized by the Company from the disposal of assets or amounts required to settle obligations may vary significantly from the fair values presented. In our opinion, the supplemental consolidated fair value balance sheets referred to above present fairly, in all material respects, the information set forth therein as described in Note 16: Fair Value Disclosures .

As discussed in Note 2: Conservatorship and Related Matters , in September 2008, the Company was placed into conservatorship by the FHFA. The U.S. Department of Treasury (Treasury) has committed financial support to the Company and management continues to conduct business operations pursuant to the delegated authorities from FHFA during conservatorship. The Company is dependent upon the continued support of Treasury and FHFA.

As discussed in Note 1: Summary of Significant Accounting Policies , the Company adopted as of January 1, 2010, amendments to the accounting guidance for transfers of financial assets and the consolidation of variable interest entities, which changed, among other things, how it evaluates securitization trusts for purposes of consolidation.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia

February 28, 2013

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FREDDIE MAC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2012	2011	2010
	(in millions, except share-related amounts)		
Interest income			
Mortgage loans:			
Held by consolidated trusts	$ 65,089	$ 77,158	$ 86,698
Unsecuritized	8,960	9,124	8,727
Total mortgage loans	74,049	86,282	95,425
Investments in securities	10,583	12,791	14,375
Other	86	67	156
Total interest income	84,718	99,140	109,956
Interest expense			
Debt securities of consolidated trusts	(56,109)	(67,119)	(75,216)
Other debt	(10,393)	(12,869)	(16,915)
Total interest expense	(66,502)	(79,988)	(92,131)
Expense related to derivatives	(605)	(755)	(969)
Net interest income	17,611	18,397	16,856
Provision for credit losses	(1,890)	(10,702)	(17,218)
Net interest income (loss) after provision for credit losses	15,721	7,695	(362)
Non-interest income (loss)			
Gains (losses) on extinguishment of debt securities of consolidated trusts	(58)	(219)	(164)
Gains (losses) on retirement of other debt	(77)	44	(219)
Gains (losses) on debt recorded at fair value	16	91	580
Derivative gains (losses)	(2,448)	(9,752)	(8,085)
Impairment of available-for-sale securities:			
Total other-than-temporary impairment of available-for-sale securities	(1,236)	(2,101)	(1,778)
Portion of other-than-temporary impairment recognized in AOCI	(932)	(200)	(2,530)
Net impairment of available-for-sale securities recognized in earnings	(2,168)	(2,301)	(4,308)
Other gains (losses) on investment securities recognized in earnings	(1,522)	(896)	(1,252)
Other income	2,174	2,155	1,860
Non-interest income (loss)	(4,083)	(10,878)	(11,588)
Non-interest expense			
Salaries and employee benefits	(810)	(832)	(895)
Professional services	(361)	(270)	(297)
Occupancy expense	(57)	(62)	(64)
Other administrative expenses	(333)	(342)	(341)
Total administrative expenses	(1,561)	(1,506)	(1,597)
Real estate owned operations expense	(59)	(585)	(673)
Other expenses	(573)	(392)	(662)
Non-interest expense	(2,193)	(2,483)	(2,932)

Income (loss) before income tax benefit	9,445	(5,666)	(14,882)
Income tax benefit	1,537	400	856
Net income (loss)	10,982	(5,266)	(14,026)
Other comprehensive income (loss), net of taxes and reclassification adjustments:			
Changes in unrealized gains (losses) related to available-for-sale securities	4,769	3,465	13,621
Changes in unrealized gains (losses) related to cash flow hedge relationships	414	509	673
Changes in defined benefit plans	(126)	62	13
Total other comprehensive income (loss), net of taxes and reclassification adjustments	5,057	4,036	14,307
Comprehensive income (loss)	16,039	(1,230)	281
Less: Comprehensive loss attributable to noncontrolling interest			1
Total comprehensive income (loss) attributable to Freddie Mac	$ 16,039	$ (1,230)	$ 282
Net income (loss)	$ 10,982	$ (5,266)	$ (14,026)
Less: Net loss attributable to noncontrolling interest			1
Net income (loss) attributable to Freddie Mac	10,982	(5,266)	(14,025)
Preferred stock dividends	(7,229)	(6,498)	(5,749)
Preferred stock dividends undistributed net worth sweep	(5,827)		
Net loss attributable to common stockholders	$ (2,074)	$ (11,764)	$ (19,774)
Net loss per common share basic and diluted	$ (0.64)	$ (3.63)	$ (6.09)
Weighted average common shares outstanding (in thousands) basic and diluted	3,240,028	3,244,896	3,249,369

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

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FREDDIE MAC

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents (includes $1 and $2, respectively, related to our consolidated VIEs)	$ 8,513	$ 28,442
Restricted cash and cash equivalents (includes $14,289 and $27,675, respectively, related to our consolidated VIEs)	14,592	28,063
Federal funds sold and securities purchased under agreements to resell (includes $19,250 and $0, respectively, related to our consolidated VIEs)	37,563	12,044
Investments in securities:		
Available-for-sale, at fair value (includes $132 and $204, respectively, pledged as collateral that may be repledged)	174,896	210,659
Trading, at fair value	41,492	58,830
Total investments in securities	216,388	269,489
Mortgage loans:		
Held-for-investment, at amortized cost:		
By consolidated trusts (net of allowances for loan losses of $4,919 and $8,351, respectively)	1,495,932	1,564,131
Unsecuritized (net of allowances for loan losses of $25,788 and $30,912, respectively)	176,177	207,418
Total held-for-investment mortgage loans, net	1,672,109	1,771,549
Held-for-sale, at fair value	14,238	9,710
Total mortgage loans, net	1,686,347	1,781,259
Accrued interest receivable (includes $5,426 and $6,242, respectively, related to our consolidated VIEs)	6,875	8,062
Derivative assets, net	657	118
Real estate owned, net (includes $45 and $60, respectively, related to our consolidated VIEs)	4,378	5,680
Deferred tax assets, net	778	3,546
Other assets (Note 18) (includes $7,986 and $6,083, respectively, related to our consolidated VIEs)	13,765	10,513
Total assets	$ 1,989,856	$ 2,147,216
Liabilities and equity (deficit)		
Liabilities		
Accrued interest payable (includes $5,142 and $5,943, respectively, related to our consolidated VIEs)	$ 7,710	$ 8,898
Debt, net:		
Debt securities of consolidated trusts held by third parties (includes $70 and $0 at fair value, respectively)	1,419,524	1,471,437
Other debt (includes $2,187 and $3,015 at fair value, respectively)	547,518	660,546
Total debt, net	1,967,042	2,131,983
Derivative liabilities, net	178	435
Other liabilities (Note 18) (includes $1 and $3, respectively, related to our consolidated VIEs)	6,099	6,046
Total liabilities	1,981,029	2,147,362
Commitments and contingencies (Notes 9, 10, and 17)		
Equity (deficit)		
Senior preferred stock, at redemption value	72,336	72,171
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 650,033,623 shares and 649,725,302 shares outstanding, respectively		
Additional paid-in capital	1	3
Retained earnings (accumulated deficit)	(70,796)	(74,525)

AOCI, net of taxes, related to:		
Available-for-sale securities (includes $6,606 and $10,334, respectively, related to net unrealized losses on securities for which other-than-temporary impairment has been recognized in earnings)	(1,444)	(6,213)
Cash flow hedge relationships	(1,316)	(1,730)
Defined benefit plans	(178)	(52)
Total AOCI, net of taxes	(2,938)	(7,995)
Treasury stock, at cost, 75,830,263 shares and 76,138,584 shares, respectively	(3,885)	(3,909)
Total equity (deficit)	8,827	(146)
Total liabilities and equity (deficit)	$ 1,989,856	$ 2,147,216

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

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FREDDIE MAC

CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)

	Freddie Mac Stockholders Equity (Deficit)											
	Shares Outstanding											
	Senior Preferred Stock	Preferred Stock	Common Stock	Senior Preferred Stock, at Redemption Value	Preferred Stock, at Redemption Value	Common Stock, at Par Value	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	AOCI, Net of Tax	Treasury Stock, at Cost	Noncontrolling Interest	Total Equity (Deficit)
	(in millions)											
Balance as of December 31, 2009	1	464	649	$ 51,700	$ 14,109	$	$ 57	$ (33,921)	$ (23,648)	$ (4,019)	$ 94	$ 4,372
Cumulative effect of change in accounting principle								(9,011)	(2,690)		(2)	(11,703)
Balance as of January 1, 2010	1	464	649	51,700	14,109		57	(42,932)	(26,338)	(4,019)	92	(7,331)
Comprehensive income (loss):												
Net loss								(14,025)			(1)	(14,026)
Other comprehensive income, net of taxes									14,307			14,307
Comprehensive income (loss)								(14,025)	14,307		(1)	281
Increase in liquidation preference				12,500								12,500
Stock-based compensation							24					24
Income tax benefit from stock-based compensation							1					1
Common stock issuances							(67)			66		(1)
Noncontrolling interest purchase							(31)				(89)	(120)
Transfer from retained earnings (accumulated deficit) to additional paid-in capital							23	(23)				
Senior preferred stock dividends declared								(5,749)				(5,749)
Dividend equivalent payments on expired stock options								(4)				(4)
Dividends and other											(2)	(2)
Ending balance at December 31, 2010	1	464	649	$ 64,200	$ 14,109	$	$ 7	$ (62,733)	$ (12,031)	$ (3,953)	$	$ (401)
Balance as of December 31, 2010	1	464	649	$ 64,200	$ 14,109	$	$ 7	$ (62,733)	$ (12,031)	$ (3,953)	$	$ (401)
Comprehensive income (loss):												
Net loss								(5,266)				(5,266)
Other comprehensive income, net of taxes									4,036			4,036
Comprehensive income (loss)								(5,266)	4,036			(1,230)
Increase in liquidation preference				7,971								7,971
Stock-based compensation							11					11
Income tax benefit from stock-based compensation							1					1
Common stock issuances			1				(44)			44		
Transfer from retained earnings (accumulated deficit) to additional paid-in capital							28	(28)				
Senior preferred stock dividends declared								(6,495)				(6,495)
Dividend equivalent payments on expired stock options								(3)				(3)
Ending balance at December 31, 2011	1	464	650	$ 72,171	$ 14,109	$	$ 3	$ (74,525)	$ (7,995)	$ (3,909)	$	$ (146)
Balance as of December 31, 2011	1	464	650	$ 72,171	$ 14,109	$	$ 3	$ (74,525)	$ (7,995)	$ (3,909)	$	$ (146)

Comprehensive income:												
Net income								10,982				10,982
Other comprehensive income, net of taxes									5,057			5,057
Comprehensive income								10,982	5,057			16,039
Increase in liquidation preference				165								165
Stock-based compensation							2					2
Income tax benefit from stock-based compensation							1					1
Common stock issuances							(24)			24		
Transfer from retained earnings (accumulated deficit) to additional paid-in capital							19	(19)				
Senior preferred stock dividends declared								(7,233)				(7,233)
Dividend equivalent payments on expired stock options								(1)				(1)
Ending balance at December 31, 2012	1	464	650	$ 72,336	$ 14,109	$	$ 1	$ (70,796)	$ (2,938)	$ (3,885)	$	$ 8,827

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

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FREDDIE MAC

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Cash flows from operating activities			
Net income (loss)	$ 10,982	$ (5,266)	$ (14,026)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Derivative (gains) losses	(1,350)	4,721	3,591
Asset related amortization premiums, discounts, and basis adjustments	4,624	2,063	326
Debt related amortization premiums and discounts on certain debt securities and basis adjustments	(5,782)	(1,629)	1,127
Net discounts paid on retirements of other debt	(680)	(713)	(1,959)
Net premiums received from issuance of debt securities of consolidated trusts	3,897	4,091	3,888
Losses on extinguishment of debt securities of consolidated trusts and other debt	135	175	383
Provision for credit losses	1,890	10,702	17,218
Losses on investment activity	2,680	2,368	5,542
Gains on debt recorded at fair value	(16)	(91)	(580)
Deferred income tax expense (benefit)	3	(117)	(670)
Purchases of held-for-sale mortgage loans	(25,340)	(16,550)	(10,330)
Sales of mortgage loans acquired as held-for-sale	21,769	14,027	6,728
Repayments of mortgage loans acquired as held-for-sale	59	54	21
Payments to servicers for pre-foreclosure expense and servicer incentive fees	(1,269)	(1,169)	(1,010)
Change in:			
Accrued interest receivable	1,187	651	832
Accrued interest payable	(1,094)	(1,080)	(1,700)
Income taxes payable	(1,523)	(281)	662
Other, net	(1,706)	(1,636)	777
Net cash provided by operating activities	8,466	10,320	10,820
Cash flows from investing activities			
Purchases of trading securities	(33,880)	(47,977)	(55,509)
Proceeds from sales of trading securities	17,641	33,734	17,771
Proceeds from maturities of trading securities	31,106	14,545	40,389
Purchases of available-for-sale securities	(3,252)	(12,171)	(6,542)
Proceeds from sales of available-for-sale securities	1,729	2,643	2,645
Proceeds from maturities of available-for-sale securities	38,517	34,316	44,398
Purchases of held-for-investment mortgage loans	(79,492)	(44,129)	(68,180)
Repayments of mortgage loans acquired as held-for-investment	522,242	369,981	425,298
Decrease (increase) in restricted cash	13,471	(19,952)	7,399
Net proceeds from mortgage insurance and acquisitions and dispositions of real estate owned	11,265	12,665	13,093
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	(25,519)	34,480	(32,023)
Derivative premiums and terminations and swap collateral, net	569	(4,447)	(3,075)
Purchase of noncontrolling interest			(23)
Net cash provided by investing activities	494,397	373,688	385,641
Cash flows from financing activities			
Proceeds from issuance of debt securities of consolidated trusts held by third parties	91,544	96,042	96,253
Repayments of debt securities of consolidated trusts held by third parties	(494,115)	(436,320)	(461,084)
Proceeds from issuance of other debt	718,252	1,024,323	1,115,097
Repayments of other debt	(831,393)	(1,078,050)	(1,180,935)
Increase in liquidation preference of senior preferred stock	165	7,971	12,500
Repurchase of REIT preferred stock			(100)
Payment of cash dividends on senior preferred stock	(7,233)	(6,495)	(5,749)
Excess tax benefits associated with stock-based awards	1	1	1
Payments of low-income housing tax credit partnerships notes payable	(13)	(50)	(115)

Net cash used in financing activities	(522,792)	(392,578)	(424,132)
Net decrease in cash and cash equivalents	(19,929)	(8,570)	(27,671)
Cash and cash equivalents at beginning of year	28,442	37,012	64,683
Cash and cash equivalents at end of year	$ 8,513	$ 28,442	$ 37,012
Supplemental cash flow information			
Cash paid (received) for:			
Debt interest	$ 75,328	$ 84,370	$ 95,468
Net derivative interest carry	4,044	4,791	4,305
Income taxes	(18)	(1)	(848)
Non-cash investing and financing activities:			
Underlying mortgage loans related to guarantor swap transactions	358,074	280,621	324,004
Debt securities of consolidated trusts held by third parties established for guarantor swap transactions	358,074	280,621	324,004
Elimination of investments in securities and debt securities of consolidated trusts held by third parties related to consolidation of variable interest entities for which we are the primary beneficiary	(4,590)		
Transfers from held-for-investment mortgage loans to held-for-sale mortgage loans	6		196

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac was chartered by Congress in 1970 to stabilize the nation s residential mortgage market and expand opportunities for home ownership and affordable rental housing. Our statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. We are a GSE regulated by FHFA, the SEC, HUD, and the Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and the Treasury, see NOTE 2: CONSERVATORSHIP AND RELATED MATTERS.

We are involved in the U.S. housing market by participating in the secondary mortgage market. We do not participate directly in the primary mortgage market. Our participation in the secondary mortgage market includes providing our credit guarantee for mortgages originated by mortgage lenders in the primary mortgage market and investing in mortgage loans and mortgage-related securities.

Our operations consist of three reportable segments, which are based on the type of business activities each performs Single-family Guarantee, Investments, and Multifamily. Our Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the purchased mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Our Investments segment reflects results from our investment, funding, and hedging activities. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans, which are funded by debt issuances and hedged using derivatives. Our Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. In our Multifamily segment, our primary business strategy is to purchase multifamily mortgage loans for aggregation and then securitization. See NOTE 13: SEGMENT REPORTING for additional information.

We are focused on the following primary business objectives: (a) providing credit availability for mortgages and maintaining foreclosure prevention activities; (b) minimizing our credit losses; (c) developing mortgage market enhancements in support of a new infrastructure for the secondary mortgage market; (d) maintaining sound credit quality on the loans we purchase or guarantee; (e) contracting the dominant presence of the GSEs in the marketplace; and (f) strengthening our infrastructure and improving overall efficiency while also focusing on retention of key employees. Our business objectives reflect direction we have received from the Conservator. In March 2012, FHFA instituted the 2012 conservatorship scorecard, or the Conservatorship Scorecard, for use by both us and Fannie Mae that established business objectives and performance targets and measures, and provided the implementation roadmap for FHFA s strategic plan for Freddie Mac and Fannie Mae. We continue to align our resources and internal business plans to meet the goals and objectives in FHFA s directives. For information regarding these objectives, see NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Business Objectives.

Throughout our consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the GLOSSARY.

Basis of Presentation

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

Our current accounting policies are described below. 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.

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 (loss) includes certain adjustments to correct immaterial errors related to previously reported periods.

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We recorded the cumulative effect of the correction of certain miscellaneous errors related to previously reported periods in the year ended December 31, 2012. We concluded that these errors are not material individually or in the aggregate to our previously issued consolidated financial statements for any of the periods affected, or to our earnings for the full year ended December 31, 2012, or to the trend of earnings. The impact to earnings, net of taxes, of the errors corrected during the year ended December 31, 2012 was $0.6 billion. The most significant corrections relate to: (a) classification of loans discharged in Chapter 7 bankruptcy; and (b) consolidation of certain REMIC trusts, and are described further below.

As of September 30, 2012, we classified loans discharged in Chapter 7 bankruptcy as TDRs. Prior to the third quarter of 2012, these loans were not classified as TDRs (unless they were already classified as such for other reasons) and we measured those loans collectively for impairment. As a result, loans representing $19.5 billion in UPB as of September 30, 2012 were newly classified as TDRs and have been individually measured for impairment regardless of the loan s payment status. The cumulative effect of correcting this error on our loan loss reserves was an increase of $0.3 billion, reflecting the additional provision for credit losses recorded in 2012 related to these loans. See NOTE 5: INDIVIDUALLY IMPAIRED AND NONPERFORMING LOANS for additional information on loans where the borrowers debts have been discharged in Chapter 7 bankruptcy.

During the third quarter of 2012, we corrected an error associated with the consolidation of certain of our REMIC trusts for which we held substantially all of the beneficial interests issued by the trusts, but did not consolidate the trusts in prior periods. We consolidated these trusts during the third quarter of 2012 by derecognizing our investments in these entities, which totaled $4.4 billion, and recognizing the assets and liabilities of the consolidated entities at their fair values. This correction also reduced other income by $0.1 billion during the third quarter of 2012.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect: (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (b) the reported amounts of revenues and expenses and gains and losses during the reporting period. Management has made significant estimates in preparing the financial statements, including, but not limited to, establishing the allowance for loan losses and reserve for guarantee losses, valuing financial instruments and other assets and liabilities, assessing impairments on investments, and assessing the realizability of net deferred tax assets. Actual results could be different from these estimates.

Change in Estimate

Other-Than-Temporary Impairments of Single-Family Non-Agency Mortgage-Related Securities

During the fourth quarter of 2012, we enhanced our approach to estimating other-than-temporary-impairments of our single-family non-agency mortgage-related securities by implementing a third-party model, which increases the level of disaggregation for certain assumptions used in projecting cash flow estimates for these securities. We estimate that, as of the beginning of the fourth quarter of 2012, these enhancements would have increased net impairment of available-for-sale securities recognized in earnings and therefore decreased net income by $1.3 billion. See NOTE 7: INVESTMENTS IN SECURITIES for more information.

Single-Family Loan Loss Reserve Severity

During the second quarter of 2012, we updated our method of estimating loss severity rates for single-family loan loss reserves to change from the most recent three months of sales experience on our distressed property dispositions to the most recent six months of sales experience on our distressed property dispositions. This change did not have a material impact on our consolidated financial statements.

Consolidation and Equity Method of Accounting

The consolidated financial statements include our accounts and those of our subsidiaries. The net earnings attributable to the noncontrolling interests in our consolidated subsidiaries are reported separately in the consolidated statements of comprehensive income as comprehensive (income) loss attributable to noncontrolling interest. All intercompany transactions have been eliminated in consolidation.

For each entity with which we are involved, we determine whether the entity should be consolidated in our financial statements. We consolidate entities in which we have a controlling financial interest. The method for determining whether a

controlling financial interest exists varies depending on whether the entity is a VIE or non-VIE. A VIE is an entity: (a) that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by another party; or (b) where the group of equity holders does not have: (i) the power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity s economic performance; (ii) the obligation to absorb the entity s expected losses; or (iii) the right to receive the entity s expected residual returns.

Our policy is to consolidate VIEs in which we hold a controlling financial interest and are therefore deemed to be the primary beneficiary. An enterprise has a controlling financial interest in, and thus is deemed to be the primary beneficiary of, a VIE if it has both: (a) the power to direct the activities of the VIE that most significantly impact its economic performance; and (b) exposure to losses or benefits of the VIE that could potentially be significant to the VIE. We perform ongoing assessments to determine if we are the primary beneficiary of the VIEs with which we are involved and, as such, conclusions may change over time as the nature and extent of our involvement changes.

We use securitization trusts in our securities issuance process that are VIEs. We are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions. See NOTE 3: VARIABLE INTEREST ENTITIES for more information. When we transfer assets into a VIE that we consolidate at the time of the transfer (or shortly thereafter), we recognize the assets and liabilities of the VIE at the amounts that they would have been recognized if they had not been transferred, and no gain or loss is recognized on these transfers. For all other VIEs that we consolidate, we recognize the assets and liabilities of the VIE at fair value, and we recognize a gain or loss for the difference between: (a) the fair value of the consideration paid and the fair value of any noncontrolling interests held by third parties; and (b) the net amount, as measured on a fair value basis, of the assets and liabilities consolidated.

For entities that are not VIEs, the usual condition of a controlling financial interest is ownership of a majority voting interest in an entity. We use the equity method of accounting for entities over which we have the ability to exercise significant influence, but not control.

Fair Value Measurements

Consistent with the accounting guidance for fair value measurements and disclosures, we use a three-level fair value hierarchy to measure the fair value of assets and liabilities. 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 measurements under this hierarchy are distinguished among quoted market prices, observable inputs, and unobservable inputs. 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. See NOTE 16: FAIR VALUE DISCLOSURES for additional information regarding the fair value measurements and the hierarchy.

Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities

Overview

When we securitize single-family mortgages that we purchase, we issue mortgage-related securities called PCs that can be sold to investors or held by us. Guarantor swaps are transactions where financial institutions exchange mortgage loans for PCs backed by these mortgage loans. Multilender swaps are similar to guarantor swaps, except that formed PC pools include loans that are contributed by more than one party. We issue PCs through various swap-based exchanges significantly more often than through cash-based transfers. We issue REMICs and Other Structured Securities in transactions in which securities dealers or investors sell us mortgage-related assets in exchange for REMICs and Other Structured Securities. We also issue Other Guarantee Transactions to third parties in exchange for non-Freddie Mac mortgage-related securities.

PCs

Our PCs are pass-through debt securities that represent undivided beneficial interests in a pool of mortgages held by a securitization trust. For our fixed-rate PCs, we guarantee the timely payment of interest and principal. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans. We do not guarantee the timely payment of principal for ARM PCs; however, we do guarantee the full and final payment of principal.

Various types of fixed income investors purchase our PCs, including pension funds, insurance companies, securities dealers, money managers, REITs, and commercial banks. PCs differ from most other fixed-income securities in several ways.

For example, and most significantly, single-family PCs can be partially or fully prepaid at any time. Homeowners have the right to prepay their mortgage at any time (known as the prepayment option), and homeowner mortgage payments are passed through to the PC holder. Consequently, mortgage-related securities implicitly have a call option that significantly reduces the average life of the security from the contractual loan maturity. As a result, our PCs generally provide a higher nominal yield than certain other fixed-income products. In contrast to U.S. Treasury securities, PCs are not backed by the full faith and credit of the United States and are instead backed by interests in real estate, in addition to our own guarantee.

In return for providing our guarantee of the payment of principal and interest, we earn a management and guarantee fee that is paid to us over the life of an issued PC, representing a portion of the interest collected on the underlying loans.

PC Trusts

We are the primary beneficiary of VIE securitization trusts that issue our single-family PCs and therefore consolidate the assets and liabilities of these trusts at either their: (a) carrying value, if the underlying assets are contributed by us to the trust; or (b) fair value, for those securitization trusts established for our guarantor swap program. Mortgage loans underlying our issued single-family PCs are recognized on our consolidated balance sheets as mortgage loans held-for-investment by consolidated trusts, at amortized cost. The corresponding single-family PCs held by third parties are recognized on our consolidated balance sheets as debt securities of consolidated trusts held by third parties. Refer to Mortgage Loans and Debt Securities Issued below for further information on the subsequent accounting treatment of these assets and liabilities, respectively.

REMICs and Other Structured Securities

Our REMICs and Other Structured Securities use resecuritization trusts that meet the definition of a VIE. REMICs and Other Structured Securities represent beneficial interests in groups of PCs and other types of mortgage-related assets. We create these securities primarily by using PCs or previously issued mortgage-related securities as collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of the tranches of our REMICs and Other Structured Securities. However, for REMICs and Other Structured Securities where we have already guaranteed the underlying assets, there is no incremental exposure to credit loss assumed by us.

With respect to the resecuritization trusts used for REMICs and Other Structured Securities whose underlying assets are PCs, we do not have rights to receive benefits or obligations to absorb losses that could potentially be significant to the trusts because we have already provided a guarantee on the underlying assets. Additionally, our involvement with these trusts does not provide us with any power that would enable us to direct the significant economic activities of these entities. Although we may be exposed to prepayment risk through our ownership of the securities issued by these trusts, we do not have the ability through our involvement with the trust to impact the economic risks to which we are exposed. As a result, we are not the primary beneficiary of, and therefore do not consolidate, the resecuritization trusts used for REMICs and Other Structured Securities whose underlying assets are PCs unless we hold substantially all of the outstanding beneficial interests that have been issued by the trust.

We receive a transaction fee from third parties for issuing REMICs and Other Structured Securities in exchange for PCs or other mortgage-related assets. We defer the portion of the transaction fee that is equal to the estimated value of our future administrative responsibilities for issued REMICs and Other Structured Securities. These responsibilities include ongoing trustee services, administration of pass-through amounts, paying agent services, tax reporting, and other required services. We estimate the value of these future responsibilities based on quotes from third-party vendors who perform each type of service and, where quotes are not available, based on our estimates of what those vendors would charge. The remaining portion of the transaction fee relates to compensation earned in connection with structuring-related services we rendered to third parties and is allocated between REMICs and Other Structured Securities we retain, if any, and the REMICs and Other Structured Securities acquired by third parties, based on the relative fair value of the securities. The portion of the fee allocated to any REMICs and Other Structured Securities we retain is deferred as a carrying value adjustment and is amortized into interest income using the effective interest method over the contractual lives of these securities. The fee allocated to REMICs and Other Structured Securities acquired by third parties is recognized immediately in earnings as other income.

Other Guarantee Transactions

Other Guarantee Transactions are mortgage-related securities that we issue to third parties in exchange for non-Freddie Mac mortgage-related securities. Other Guarantee Transactions typically involve us purchasing either the senior tranches

from a non-Freddie Mac senior-subordinated securitization or single-class pass-through securities, placing the acquired assets into a securitization trust, providing a guarantee of the principal and interest of the acquired assets and issuing securities backed by these assets. To the extent that we are deemed to be the primary beneficiary of such a securitization trust, we recognize the mortgage loans underlying the Other Guarantee Transaction as mortgage loans held-for-investment, at amortized cost. Correspondingly, we recognize the issued securities held by third parties as debt securities of consolidated trusts. However, to the extent we are not deemed to be the primary beneficiary of such a securitization trust, we recognize a guarantee asset, to the extent a management and guarantee fee is charged, and we recognize a guarantee obligation at fair value. We do not receive transaction fees, apart from our management and guarantee fee, for these transactions.

Purchases and Sales of Freddie Mac Mortgage-Related Securities

PCs

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish the outstanding debt securities of the related consolidated trust. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to redeem the debt differs from its carrying value, adjusted for any related purchase commitments accounted for as derivatives.

When we sell PCs that have been issued by consolidated PC trusts, we recognize a liability to the third-party beneficial interest holders of the related consolidated trust as debt securities of consolidated trusts held by third parties. That is, our sale of PCs issued by consolidated PC trusts is accounted for as the issuance of debt.

Single-Class REMICs and Other Structured Securities

Our mortgage-related securities that we classify as REMICs and Other Structured Securities may be single-class or multiclass resecuritization transactions. In REMICs and Other Structured Securities that are single-class securities, the collateral includes PCs and single-class REMICs and Other Structured Securities. We do not consolidate these resecuritization trusts as we are not deemed to be the primary beneficiary of such trusts. Our single-class REMICs and Other Structured Securities pass through all of the cash flows of the underlying PCs directly to the holders of the securities and are deemed to be substantially the same as the underlying PCs. As a result, when we purchase single-class REMICs and Other Structured Securities, we extinguish a pro rata portion of the outstanding debt securities of the related PC trust on our consolidated balance sheets.

When we sell single-class REMICs and Other Structured Securities, we recognize a liability to the third-party beneficial interest holders of the related consolidated PC trust as debt securities of consolidated trusts held by third parties. That is, our sale of single-class REMICs and Other Structured Securities is accounted for as the issuance of debt.

Multiclass REMICs and Other Structured Securities

In multiclass REMICs and Other Structured Securities, the collateral includes PCs and REMICs and Other Structured Securities. Generally, PCs serve as the primary type of collateral for these resecuritizations. We do not consolidate most of these resecuritization trusts as we are not deemed to be the primary beneficiary of such trusts unless we hold substantially all of the outstanding beneficial interests that have been issued by the trust. In our multiclass REMICs and Other Structured Securities, the cash flows of the underlying PCs are divided (e.g., stripped and/or time tranched). Due primarily to this division of cash flows, these securities are not deemed to be substantially the same as the underlying PCs. As a result, when we purchase multiclass REMICs and Other Structured Securities, we record these securities as investments in debt securities rather than as the extinguishment of debt since we are investing in the debt securities of a non-consolidated entity. See Investments in Securities for further information regarding our accounting for investments in multiclass REMICs and Other Structured Securities.

We recognize, as assets, both the investment in the multiclass REMICs and Other Structured Securities and the mortgage loans backing the PCs held by the trusts which underlie the multiclass REMICs and Other Structured Securities. Additionally, we recognize, as liabilities, the unsecured debt issued to third parties to fund the purchase of the multiclass REMICs and Other Structured Securities as well as the debt issued to third parties of the PC trusts we consolidate which underlie the multiclass REMICs and Other Structured Securities. This results in recognition of interest income from both assets and interest expense from both liabilities.

When we sell multiclass REMICs and Other Structured Securities in which we are not the primary beneficiary of the resecuritization trust, we account for the transfer in accordance with the accounting guidance for transfers of financial assets. To the extent the transfer of multiclass REMICs and Other Structured Securities qualifies as a sale, we de-recognize all assets sold and recognize all assets obtained and liabilities incurred. Any gain (loss) on the sale of multiclass REMICs and Other Structured Securities is reflected in our consolidated statements of comprehensive income as a component of other gains (losses) on investment securities. To the extent the transfer of multiclass REMICs and Other Structured Securities does not qualify as a sale, we account for the transfer as a financing transaction and recognize a liability for the proceeds received from third parties in the transfer.

Other Guarantee Commitments

In certain circumstances, we also provide our guarantee of mortgage-related assets held by third parties, in exchange for a guarantee fee, without our securitization of the related assets. For example, we provide long-term standby commitments to certain of our single-family customers, which obligate us to purchase seriously delinquent loans that are covered by those agreements. In addition, during 2010 and 2009, we issued guarantees under the TCLFP on securities backed by HFA bonds as part of the HFA Initiative.

Cash and Cash Equivalents

Highly liquid investment securities that have an original maturity of three months or less are accounted for as cash equivalents. In addition, cash collateral that we have the right to use for general corporate purposes and that we obtain from counterparties to derivative contracts is recorded as cash and cash equivalents.

Restricted Cash and Cash Equivalents

Cash collateral accepted from counterparties that we do not have the right to use for general corporate purposes is recorded as restricted cash in our consolidated balance sheets. Restricted cash includes cash remittances received on the underlying assets of our consolidated trusts, which are deposited into a separate custodial account. These cash remittances include both scheduled and unscheduled principal and interest payments. The cash remittances are segregated in the separate custodial account until they are remitted to the PC, REMIC and Other Structured Securities holders on their respective security payment dates, and are not commingled with our general operating funds. As securities administrator, we invest the cash held in the custodial account, pending distribution to our PC, REMIC, and Other Structured Securities holders, in short-term investments and are entitled to the interest income earned on these short-term investments, which is recorded as interest income, other on our consolidated statements of comprehensive income.

Mortgage Loans

Upon acquisition, we classify a loan as either held-for-sale or held-for-investment. Mortgage loans that we have the ability and intent to hold for the foreseeable future are classified as held-for-investment. Loans we acquire and which we intend to securitize using an entity we will consolidate will generally be classified as held-for-investment both prior to and subsequent to their securitization, in accordance with our intent and ability to hold such loans for the foreseeable future.

Held-for-investment mortgage loans are reported in our consolidated balance sheets at their outstanding UPB, net of deferred fees and other cost basis adjustments (including unamortized premiums and discounts, delivery fees and other pricing adjustments). These deferred items are amortized into interest income over the contractual lives of the loans using the effective interest method. We recognize interest income on an accrual basis except when we believe the collection of principal and interest in full is not reasonably assured. If the collection of principal and interest in full is not reasonably assured, we cease the accrual of interest income and any interest income accrued but uncollected is reversed.

Mortgage loans not classified as held-for-investment are classified as held-for-sale. Held-for-sale loans are reported at lower-of-cost-or-fair-value on our consolidated balance sheets. Any excess of a held-for-sale loan s cost over its fair value is recognized as a valuation allowance in other income on our consolidated statements of comprehensive income, with changes in this valuation allowance also being recorded in other income. Premiums, discounts, and other cost basis adjustments recognized upon acquisition on single-family loans classified as held-for-sale are deferred and not amortized. We elected the fair value option for multifamily mortgage loans held for sale that we intend to securitize and sell to investors. See NOTE 16: FAIR VALUE DISCLOSURES Fair Value Option *Multifamily Held-For-Sale Mortgage Loans* and NOTE 16: FAIR VALUE DISCLOSURES Fair Value Option *Changes in Fair Value under the Fair Value Option Election.* Thus, these multifamily mortgage loans are measured at fair value on a recurring basis, with subsequent gains or

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losses related to sales or changes in fair value reported in other income in our consolidated statements of comprehensive income. We do not have any held-for-sale loans reported at the lower-of-cost-or-fair-value on our consolidated balance sheets as of December 31, 2012 or 2011.

Cash flows related to mortgage loans held by our consolidated trusts are classified as either investing activities (e.g., principal repayments) or operating activities (e.g., interest payments received from borrowers included within net income (loss)). In addition, cash flows related to purchases of mortgage loans held-for-sale are classified in operating activities. When mortgage loans held-for-sale are sold or securitized, proceeds from the sale or securitization and any related gain or loss are classified in operating activities.

Allowance for Loan Losses and Reserve for Guarantee Losses

The allowance for loan losses and the reserve for guarantee losses represent estimates of incurred credit losses. The allowance for loan losses pertains to all single-family and multifamily loans classified as held-for-investment on our consolidated balance sheets whereas the reserve for guarantee losses relates to single-family and multifamily loans underlying our non-consolidated Freddie Mac mortgage-related securities and other guarantee commitments. Total held-for-investment mortgage loans, net are shown net of the allowance for loan losses on our consolidated balance sheets. The reserve for guarantee losses is included within other liabilities on our consolidated balance sheets. We recognize incurred losses by recording a charge to the provision for credit losses in our consolidated statements of comprehensive income. Determining the appropriateness of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant judgment about matters that involve a high degree of subjectivity.

We estimate credit losses related to homogeneous pools of loans in accordance with the accounting guidance for contingencies. Accordingly, we maintain an allowance for loan losses on mortgage loans held-for-investment when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Loans that we evaluate for individual impairment are measured in accordance with the subsequent measurement requirements of the accounting guidance for receivables.

For both the single-family and multifamily portfolios, we charge off (in full or in part) our recorded investment in a loan in the period it is determined that the loan (or a portion thereof) is uncollectible, which generally occurs at final disposition of the loan through foreclosure or other loss event. However, if losses are evident prior to final disposition, earlier recognition of a charge-off is required by our policies. We also consider charge-offs for certain very small balance loans and upon the occurrence of certain events such as natural disasters. A charge-off is also recorded if we realize a specific credit loss upon the modification of a loan in a TDR. We do not have any established threshold in terms of days past due beyond which we partially or fully charge-off loans.

Single-Family Loans

We determine single-family loan loss reserves both on a collective and individual basis. For further discussion on individually impaired single-family loans, refer to Impaired Loans below.

We estimate loan loss reserves on homogeneous pools of single-family loans using a statistically based model that evaluates a variety of factors affecting collectability. The homogeneous pools of single-family mortgage loans are determined based on common underlying characteristics, including estimated current LTV ratios and trends in home prices, loan product type and geographic region. In determining the loan loss reserves for single-family loans at the balance sheet date, we evaluate key inputs and factors including, but not limited to:

- estimated current LTV ratios and historical trends in home prices;
- loan product type;
- delinquency/default status and history;
- actual and estimated rates of collateral loss severity for similar loans;

geographic location;

loan age;

sourcing channel;

occupancy type;

- UPB at origination;
- expected ability to partially mitigate losses through loan modification or other alternatives to foreclosure;
- expected proceeds from mortgage insurance contracts that are contractually attached to a loan or other credit enhancements that were entered into contemporaneous with and in contemplation of a guarantee or loan purchase transaction;
- expected repurchases of mortgage loans by seller/servicers;
- counterparty credit of mortgage insurers and seller/servicers;
- pre-foreclosure real estate taxes and insurance;
- estimated selling costs should the underlying property ultimately be sold; and
- trends in the timing of foreclosures.

For additional information on estimated current LTV ratios and single-family loan loss reserves, see NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES Credit Quality of Mortgage Loans.

Freddie Mac relies upon third-parties to provide primary servicing for the performing and non-performing loan portfolio. At loan delivery, the seller provides us with the loan data, which includes loan characteristics and underwriting information. Each month, the servicers provide us with monthly loan level servicing data, including delinquency and loss information.

Certain loan servicing data is reported to us on a real-time basis, such as loan pay-offs and foreclosure events. However, certain monthly servicing data, including delinquency status, is delivered on a one-month delay. For example, December loan delinquency data delivered to Freddie Mac at the end of December or beginning of January reflects the loan delinquency status related to the December 1 payment cycle. We incorporate the delinquency status data into our allowance for loan loss calculation generally without adjustment for the one month delay.

Our single-family loan loss reserve default models are estimated based on the most recent 12 months of actual loan performance data, including loan status and delinquency data reported by our servicers. The loan performance data provides a loan level history of delinquency, foreclosures, foreclosure alternatives, modifications, and seller/servicer repurchases. Our single-family loan loss reserve severity is estimated from the most recent six months of: (a) sales experience realized on our distressed property dispositions; (b) mortgage insurance recoveries and pre-foreclosure expenses on our distressed properties including REO, short sales, and third-party sales; and (c) recoveries due to seller/servicer repurchases. We use historical trends in home prices in our single-family loan loss reserve process, primarily through the use of estimated current total LTV ratios in our default models and through the use of recent home price sales experience in our severity estimate. However, we do not use a forecast of trends in home prices in our single-family loan loss reserve process.

Our loan loss reserves reflect our best current estimates of incurred losses. Our loan loss reserve estimate includes projections related to strategic loss mitigation activities, including loan modifications for troubled borrowers, and projections of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at the time of the loan origination. These projections are based on our recent historical experience and current business practices and require significant management judgment. We monitor our projections of recoveries through seller/servicer repurchases to ensure that these projections are reasonable and consistent with our assessment of the credit capacity of our seller/servicer counterparties. For loans where foreclosure is probable, impairment is measured on an aggregate basis based upon an estimate of the underlying collateral value. At an individual loan level, our estimate also considers the effect of historical home price changes on borrower behavior and the impact of our loss mitigation actions, including our loan modification efforts.

Our reserve estimate also reflects our best projection of delinquencies we believe are likely to occur as a result of loss events that have occurred through December 31, 2012 and 2011, respectively. However, the continued weakness in the national housing market, the uncertainty in other macroeconomic factors, and uncertainty of the success of modification efforts under HAMP and other loan workout programs, make forecasting of delinquency rates inherently imprecise.

We validate and update our models and factors to capture changes in actual loss experience, as well as the effects of changes in underwriting practices and in our loss mitigation strategies. We also consider macroeconomic and other factors that impact the quality of the loans underlying our portfolio including regional housing trends, applicable home price indices,

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unemployment and employment dislocation trends, the effects of changes in government policies and programs, consumer credit statistics and the extent of third party insurance. We consider our assessment of these factors in determining our loan loss reserves.

We apply proceeds from primary mortgage insurance that is contractually attached to a loan and other credit enhancements, including repurchase recoveries, entered into contemporaneously with and in contemplation of a guarantee or loan purchase transaction, as a recovery of our recorded investment in a charged-off loan, up to the amount of loss recognized as a charge-off. Proceeds from credit enhancements received in excess of our recorded investment in charged-off loans are recorded as a decrease to REO operations expense in our consolidated statements of comprehensive income when received. We record receivables for proceeds from primary mortgage insurance and other credit enhancements, including repurchase recoveries, when the proceeds are estimable and collectability is reasonably assured. We generally accrue receivables for primary mortgage insurance, pool insurance, and most other types of credit enhancements as we have a history of collection of these types of recoveries and the amounts are estimable based on the contractual terms of the agreements. However, due to the uncertainty of the timing and amount of collections of repurchase recoveries, we generally do not accrue receivables for repurchase recoveries and instead record repurchase recoveries received on a cash basis.

Multifamily Loans

For multifamily loans identified as impaired, we individually determine the specific loan loss reserves. Refer to Impaired Loans below for further discussion on individually impaired multifamily loans. Multifamily loans evaluated collectively for impairment are aggregated into book year vintages and measured by benchmarking published historical commercial mortgage data to those vintages based upon available economic data related to multifamily real estate, including apartment vacancy and rental rates.

Non-Performing Loans

Non-performing loans consist of single-family and multifamily loans that have undergone a TDR, single-family seriously delinquent loans, multifamily loans that are three or more payments past due or in the process of foreclosure, and multifamily loans that are deemed impaired based upon management judgment. We place mortgage loans on non-accrual status when we believe collectability of principal and interest in full is not reasonably assured, which generally occurs when a loan is three monthly payments past due, unless the loan is well secured and in the process of collection based upon an individual loan assessment. A loan is considered past due if a full payment of principal and interest is not received within one month of its due date. When a loan is placed on non-accrual status, any interest income accrued but uncollected is reversed. Thereafter, interest income is recognized only upon receipt of cash payments.

A non-accrual mortgage loan may be returned to accrual status when the collectability of principal and interest in full is reasonably assured. For single-family loans, we determine that collectability is reasonably assured when we have received payment of principal and interest such that the loan becomes less than three monthly payments past due. For multifamily loans, the collectability of principal and interest is considered reasonably assured based on a quantitative and qualitative analysis of the factors specific to the loan being assessed. Upon a loan s return to accrual status, all previously reversed interest income is recognized and amortization of any basis adjustments into interest income is resumed.

Impaired Loans

We consider a loan to be impaired when it is probable, based on current information, that we will not receive all amounts due (including both principal and interest) in accordance with the contractual terms of the original loan agreement. Delays in the timing of our expected receipt of these amounts that are more than insignificant are considered in making this assessment.

Single-Family

Individually impaired single-family loans include loans that have undergone a TDR. Impairment and interest income recognition are discussed separately in the paragraphs that follow. All other single-family loans are aggregated and measured collectively for impairment based on similar risk characteristics. Collective impairment is measured as described above in the Allowance for Loan Losses and Reserve for Guarantee Losses Single-Family Loans section of this note. If we determine that foreclosure on the underlying collateral is probable, we measure impairment based upon the fair value of the collateral, as reduced by estimated disposition costs and adjusted for estimated proceeds from insurance and similar sources.

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Multifamily

Multifamily impaired loans include TDRs, loans three monthly payments or more past due, and loans that are deemed impaired based on management judgment. Factors considered by management in determining whether a loan is impaired include, but are not limited to, the underlying property s operating performance as represented by its current DSCR, available credit enhancements, current LTV ratio, management of the underlying property, and the property s geographic location. Multifamily loans are measured individually for impairment based on the fair value of the underlying collateral, as reduced by estimated disposition costs, as the repayment of these loans is generally provided from the cash flows of the underlying collateral and any associated credit-enhancement. Except for cases of fraud and certain other types of borrower defaults, most multifamily loans are non-recourse to the borrower. As a result, the cash flows of the underlying property (including any associated credit enhancements) serve as the source of funds for repayment of the loan. Interest income recognition on non-TDR multifamily impaired loans is subject to our non-accrual policy as discussed in Non-Performing Loans.

Troubled Debt Restructurings

Both single-family and multifamily loans which experience a modification to their contractual terms which results in a concession being granted to a borrower experiencing financial difficulties are considered TDRs. A concession is deemed granted when, as a result of the restructuring, we do not expect to collect all amounts due, including interest accrued, at the original contractual interest rate. As appropriate, we also consider other qualitative factors in determining whether a concession is deemed granted, including whether the borrower s modified interest rate is consistent with that of a non-troubled borrower. We do not consider restructurings that result in a delay in payment that is insignificant to be a concession. We generally consider a delay in monthly amortizing payments of three months or less to be insignificant. We generally consider all other delays to be more than insignificant. A concession typically includes one or more of the following being granted to the borrower: (a) a trial period where the expected permanent modification will change our expectation of collecting all amounts due at the original contract rate; (b) a delay in payment that is more than insignificant; (c) a reduction in the contractual interest rate; (d) interest forbearance for a period of time that is not insignificant or forgiveness of accrued but uncollected interest amounts; (e) a reduction in the principal amount of the loan; and (f) discharge of the borrower s obligation in Chapter 7 bankruptcy.

On July 1, 2011, we adopted an amendment to the accounting guidance related to the classification of loans as TDRs. This amendment clarified when a restructuring such as a loan modification is considered a TDR. For additional information, see Recently Adopted Accounting Guidance *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring,* below.

Impairment of a loan having undergone a TDR is measured as the excess of our recorded investment in the loan over the present value of the expected future cash flows, discounted at the loan s original effective interest rate for fixed-rate loans or at the loan s effective interest rate prior to modification for ARM loans. Our expectation of future cash flows incorporates, among other items, an estimated probability of default which is based on a number of market factors as well as the characteristics of the loan, such as past due status. Subsequent to the modification date, interest income is recognized at the modified interest rate, subject to our non-accrual policy as discussed in Non-Performing Loans above, with all other changes in the present value of expected future cash flows being recognized as a component of the provision for credit losses in our consolidated statements of comprehensive income.

Investments in Securities

Investments in securities consist primarily of mortgage-related securities. We classify securities as available-for-sale or trading. We currently do not classify any securities as held-to-maturity, although we may elect to do so in the future. In addition, we elected the fair value option for certain available-for-sale mortgage-related securities, including investments in securities that: (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our initial recorded investment; or (b) are not of high credit quality at the acquisition date and are identified as within the scope of the accounting guidance for investments in beneficial interests in securitized financial assets. Subsequent to our election, these securities were classified as trading securities. Securities classified as available-for-sale and trading are reported at fair value with changes in fair value included in AOCI and other gains (losses) on investment securities, respectively. See NOTE 16: FAIR VALUE DISCLOSURES for more information on how we determine the fair value of securities.

We record purchases and sales of securities that are exempt from the requirements of derivatives and hedge accounting on a trade date basis. Securities underlying forward purchases and sales contracts that are not exempt from the requirements of derivatives and hedge accounting are recorded on the expected settlement date with a corresponding commitment recorded on the trade date.

When we purchase REMICs and Other Structured Securities and certain Other Guarantee Transactions that we have issued, we account for these securities as investments in debt securities, as we are investing in the debt securities of a non-consolidated entity. We consolidate the trusts that issue these securities when we hold substantially all of the outstanding beneficial interests issued by the trusts. We recognize interest income on the securities and interest expense on the debt we issued. See Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities *Purchases and Sales of Freddie Mac Mortgage-Related Securities* for additional information on accounting for purchases of PCs and beneficial interests issued by resecuritization trusts.

For most of our investments in securities, interest income is recognized using the effective interest method. Deferred items, including premiums, discounts, and other basis adjustments, are amortized into interest income over the contractual lives of the securities.

For certain investments in securities, interest income is recognized using the prospective effective interest method. We specifically apply this accounting to beneficial interests in securitized financial assets that: (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment; (b) are not of high credit quality at the acquisition date; or (c) have been determined to be other-than-temporarily impaired. We recognize as interest income (over the life of these securities) the excess of all estimated cash flows attributable to these interests over their book value using the effective interest method. We update our estimates of expected cash flows periodically and recognize changes in the calculated effective interest rate on a prospective basis.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. As discussed further below, certain other-than-temporary impairment losses are recognized in earnings. These losses are recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings.

We recognize other-than-temporary impairment in earnings if one of the following conditions exists: (a) we have the intent to sell the security; (b) it is more likely than not that we will be required to sell the security before recovery of its unrealized loss; or (c) we do not expect to recover the amortized cost basis of the security. If we do not intend to sell the security and we believe it is not more likely than not that we will be required to sell prior to recovery of the security s unrealized loss, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recognized, net of tax, in AOCI. The credit component represents the amount by which the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. For information regarding important factors, judgments and assumptions, see NOTE 7: INVESTMENTS IN SECURITIES Impairment Recognition on Investments in Securities.

For our available-for-sale securities in an unrealized loss position at December 31, 2012, we have asserted that we have no intent to sell and that we believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis. In cases where such an assertion cannot be made, the security s entire decline in fair value is deemed to be other than temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings.

We elected the fair value option for available-for-sale securities identified as within the scope of the accounting guidance for investments in beneficial interests in securitized financial assets to better reflect the valuation changes that occur subsequent to impairment write-downs recorded on these instruments. By electing the fair value option for these instruments, we reflect valuation changes through our consolidated statements of comprehensive income in the period they occur, including increases in value. For additional information on our election of the fair value option, see NOTE 16: FAIR VALUE DISCLOSURES.

Gains and losses on the sale of securities are included in other gains (losses) on investment securities recognized in earnings, including those gains (losses) reclassified into earnings from AOCI. We use the specific identification method for determining the cost basis of a security in computing the gain or loss.

For securities classified as trading or available-for-sale and those securities where we elected the fair value option, we classify the cash flows as investing activities because we hold these securities for investment purposes. In cases where the transfer of available-for-sale securities represents a secured borrowing, we classify the related cash flows as financing activities.

Repurchase and Resale Agreements and Dollar Roll Transactions

We enter into repurchase and resale agreements primarily as an investor or to finance certain of our security positions. Such transactions are accounted for as secured financings because the transferor does not relinquish control over the transferred assets.

We also engage in dollar roll transactions whereby we enter into an agreement to sell and subsequently repurchase (or purchase and subsequently resell) agency securities. When these transactions involve securities issued by consolidated entities, they are treated as issuances and extinguishments of debt. When these transactions involve securities issued by entities we do not consolidate, they are treated as purchases and sales as the security initially transferred is not required to be the same or substantially the same as the security subsequently returned.

Debt Securities Issued

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. The debt securities of our consolidated trusts are prepayable without penalty at any time. Other debt represents short-term and long-term debt securities that we issue to third parties to fund our general business activities.

Both debt of our consolidated trusts and other debt, except for certain debt for which we elected the fair value option, are reported at amortized cost. Deferred items, including premiums, discounts, and hedging-related basis adjustments are reported as a component of total debt, net. Issuance costs are reported as a component of other assets. These items are amortized and reported through interest expense using the effective interest method over the contractual life of the related indebtedness. Amortization of premiums, discounts, and issuance costs begins at the time of debt issuance. Amortization of hedging-related basis adjustments begins upon the discontinuation of the related hedge relationship.

We elected the fair value option on foreign-currency denominated debt and certain other debt securities. The change in fair value for debt recorded at fair value is reported as gains (losses) on debt recorded at fair value in our consolidated statements of comprehensive income. Upfront costs and fees on foreign-currency denominated debt and certain other debt securities are recognized in earnings as incurred and not deferred. For additional information on our election of the fair value option, see NOTE 16: FAIR VALUE DISCLOSURES.

When we purchase a PC or a REMIC and Other Structured Security that is a single-class security from a third party, we extinguish the debt of the related PC trusts and recognize a gain or loss related to the difference between the amount paid to redeem the debt security and its carrying value, adjusted for any related purchase commitments accounted for as derivatives, in earnings as a component of gains (losses) on extinguishment of debt securities of consolidated trusts. Cash flows related to debt securities issued by our consolidated trusts are classified as either financing activities (e.g., repayment of principal to PC holders) or operating activities (e.g., interest payments to PC holders included within net income (loss)). Other than interest paid, cash flows related to other debt are classified as financing activities. Interest paid on other debt is classified as operating activities.

When we repurchase or call outstanding other debt, we recognize a gain or loss related to the difference between the amount paid to redeem the debt security and the carrying value in earnings as a component of gains (losses) on retirement of other debt. Contemporaneous transfers of cash between us and a creditor in connection with the issuance of a new debt security and satisfaction of an existing debt security are accounted for as either an extinguishment or a modification of an existing debt security. If the debt securities have substantially different terms, the transaction is accounted for as an extinguishment of the existing debt security. The issuance of a new debt security is recorded at fair value, fees paid to the creditor are expensed and fees paid to third parties are deferred and amortized into interest expense over the life of the new debt security using the effective interest method. If the terms of the existing debt security and the new debt security are not substantially different, the transaction is accounted for as a modification of the existing debt. Fees paid to the creditor are deferred and amortized over the life of the modified unsecured debt security using the effective interest method and fees paid to third parties are expensed as incurred.

Derivatives

Derivatives are reported at their fair value on our consolidated balance sheets. Derivatives in a net asset position, including net derivative interest receivable or payable, are reported as derivative assets, net. Similarly, derivatives in a net liability position, including net derivative interest receivable or payable, are reported as derivative liabilities, net. We offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. Changes in fair value and interest accruals on derivatives are recorded as derivative gains (losses) in our consolidated statements of comprehensive income.

We evaluate whether financial instruments that we purchase or issue contain embedded derivatives. In accordance with an amendment to derivatives and hedging accounting guidance regarding certain hybrid financial instruments, we elected to measure newly acquired or issued financial instruments that contain embedded derivatives at fair value, with changes in fair value recorded in our consolidated statements of comprehensive income. At December 31, 2012 and 2011, we did not have any embedded derivatives that were bifurcated and accounted for as freestanding derivatives.

At December 31, 2012 and 2011, 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. If it becomes probable the originally forecasted transaction will not occur, the associated deferred gain or loss in AOCI would be reclassified to earnings immediately.

In the consolidated statements of cash flows, cash flows related to the acquisition and termination of derivatives, other than forward commitments, are generally classified in investing activities. Cash flows related to forward commitments are classified within the section of the consolidated statements of cash flows in accordance with the cash flows of the financial instruments to which they relate.

REO

REO is initially recorded at fair value less costs to sell and is subsequently carried at the lower of cost or fair value less costs to sell. When we acquire REO, losses arise when the carrying value of the loan (including accrued interest) exceeds the fair value of the foreclosed property, net of estimated costs to sell and expected recoveries through credit enhancements. Losses are charged off against the allowance for loan losses at the time of REO acquisition. REO gains arise and are recognized immediately in earnings when the fair value of the foreclosed property less costs to sell plus expected recoveries through credit enhancements exceeds the recorded investment in the loan (including all amounts due from the borrower).

Amounts we expect to receive from third-party insurance (primary mortgage insurance and pool insurance) and most other credit enhancements are recorded as receivables when REO is acquired. The receivable is adjusted when the actual claim is filed and is reported as a component of other assets on our consolidated balance sheets. We do not record receivables for repurchase recoveries. We record these on a cash basis due to uncertainty of the timing and amount of collections.

Material development and improvement costs relating to REO are capitalized. Operating expenses specifically identifiable with an REO property are included in REO operations income (expense) in our consolidated statements of comprehensive income; all other expenses are recognized within other administrative expenses in our consolidated statements of comprehensive income. Estimated declines in REO fair value that result from ongoing valuation of the properties are provided for and charged to REO operations income (expense) when identified. Any gains and losses from REO dispositions are included in REO operations income (expense).

Income Taxes

We use the asset and liability method of accounting for income taxes under GAAP. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates as well as tax net operating loss and tax credit carryforwards. To the extent tax laws change, deferred tax assets and liabilities are adjusted, when necessary, in the period that the tax change is enacted. Valuation allowances are recorded to reduce net

deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of these net deferred tax assets is dependent upon the generation of sufficient taxable income in available carryback years, from current operations and from unrecognized tax benefits, and upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. On a quarterly basis, we determine whether a valuation allowance is necessary. In so doing, we consider all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, it is more likely than not that the net deferred tax assets will be realized. We determined that, as of December 31, 2012 and 2011, it was more likely than not that we would not realize the portion of our net deferred tax assets that is dependent upon the generation of future taxable income. This determination was driven by events and the resulting uncertainties that existed as of December 31, 2012 and 2011. We will continue to evaluate our conclusion regarding the need for a valuation allowance. It is possible that, in future periods, the uncertainties regarding our future operations and profitability could be resolved such that it could become more likely than not that the deferred tax assets would be realized and that a valuation allowance would no longer be necessary. For more information about the evidence that management considers and our determination of the need for a valuation allowance, see NOTE 12: INCOME TAXES.

Income tax benefit (expense) includes: (a) deferred tax benefit (expense), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance; and (b) current tax benefit (expense), which represents the amount of tax currently payable to or receivable from a tax authority including any related interest and penalties plus amounts accrued for unrecognized tax benefits (also including any related interest and penalties). Income tax benefit (expense) excludes the tax effects related to adjustments recorded to equity, such as unrealized gains and losses related to available-for-sale securities.

Regarding tax positions taken or expected to be taken (and any associated interest and penalties), we recognize a tax position so long as it is more likely than not that it will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We measure the tax position at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. See NOTE 12: INCOME TAXES for additional information.

Earnings Per Common Share

In 2012, an amendment to the Purchase Agreement changed the manner in which the dividend on the senior preferred stock is determined. For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable capital reserve amount, exceeds zero. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter exceeds zero. The dividend is presented in each period as a reduction to net income (loss) available to common stockholders and net income (loss) per common 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: (a) vested and unvested options to purchase common stock; and (b) 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. This warrant is included since it is unconditionally exercisable by the holder at a minimal cost. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS for further information.

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 equivalent shares outstanding: (a) the weighted average shares related to stock options if the average market price during the period exceeds the exercise price; and (b) the weighted average of unvested 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. See NOTE 11: STOCKHOLDER S EQUITY (DEFICIT) Stock-Based Compensation for additional information on our earnings-per-share calculation.

Comprehensive Income

Comprehensive income is the change in equity, on a net of tax basis, resulting from transactions and other events and circumstances from non-owner sources during a period. It includes all changes in equity during a period, except those resulting from investments by stockholders. We define comprehensive income as consisting of net income (loss) plus changes in: (a) the unrealized gains and losses on available-for-sale securities; (b) the effective portion of derivatives accounted for as cash flow hedge relationships; and (c) defined benefit plans.

Recently Adopted Accounting Guidance

Fair Value Measurement

On January 1, 2012, we adopted an amendment to the accounting guidance pertaining to fair value measurement and disclosure. This amendment provided: (a) clarification about the application of existing fair value measurement and disclosure requirements; and (b) changes to the guidance for measuring fair value and disclosing information about fair value measurements. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Reconsideration of Effective Control for Repurchase Agreements

On January 1, 2012, we adopted an amendment to the accounting guidance for transfers and servicing with regard to repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This amendment removed the criterion related to collateral maintenance from the transferor s assessment of effective control. It focuses the assessment of effective control on the transferor s rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations. The adoption of this amendment did not have a material impact on our consolidated financial statements.

A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring

On July 1, 2011, we adopted an amendment to the accounting guidance related to the classification of loans as TDRs, which clarifies when a restructuring such as a loan modification is considered a TDR. This amendment clarifies the guidance regarding a creditor s evaluation of whether a debtor is experiencing financial difficulty and whether a creditor has granted a concession to a debtor for purposes of determining if a restructuring constitutes a TDR.

Both single-family and multifamily loans that experience restructurings resulting in a concession being granted to a borrower experiencing financial difficulties are considered TDRs. The amendment provides guidance to determine whether a borrower is experiencing financial difficulties, which is largely consistent with the guidance for debtors. As we had previously analogized to the guidance for debtors, this change does not have a significant impact on our determination of whether a borrower is experiencing financial difficulties. Pursuant to this amendment, a concession is deemed to have been granted when, as a result of the restructuring, we do not expect to collect all amounts due, including interest accrued, at the original contractual interest rate. The amendment also specifies that a concession shall not be determined by comparing the borrower s pre-restructuring effective interest rate to the post-restructuring effective interest rate. These changes result in a significant impact on our determination of whether a concession has been granted.

The amendment was effective for interim and annual periods beginning on or after June 15, 2011 and applied as of July 1, 2011 to restructurings occurring on or after January 1, 2011. As of September 30, 2011, the total recorded investment in loans identified as TDRs during the third quarter of 2011 which relate to modifications or agreements entered into between January 1, 2011 and June 30, 2011 was $7.5 billion, and the allowance for credit losses related to those loans was $1.7 billion. We recognized additional provision for credit losses of $0.2 billion during the third quarter of 2011 due to the population of restructurings occurring in the first half of 2011 that are now considered TDRs.

Please refer to NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for further disclosures regarding our loan restructurings accounted for and disclosed as TDRs and for discussion regarding how modifications and other loss mitigation activities are factored into our allowance for loan losses.

Accounting for Transfers of Financial Assets and Consolidation of VIEs

On January 1, 2010, we prospectively adopted amendments to the accounting guidance applicable to the accounting for transfers of financial assets and the consolidation of VIEs. The amendment for transfers of financial assets was applicable on a prospective basis to new transfers, while the amendment relating to consolidation of VIEs was applied prospectively to all entities within its scope as of the date of adoption.

We use securitization trusts in our securities issuance process. Prior to January 1, 2010, these trusts met the definition of QSPEs and were not subject to consolidation. Effective January 1, 2010, the concept of a QSPE was removed from GAAP and entities previously considered QSPEs were required to be evaluated for consolidation. Based on our consolidation evaluation, we determined that we are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions. Effective January 1, 2010, we consolidated these trusts and recognized the assets and liabilities at their UPB, with accrued interest, allowance for credit losses or other-than-temporary impairments recognized as appropriate, using the practical expedient permitted upon adoption since we determined that calculation of historical carrying values was not practical. Other newly consolidated assets and liabilities that either do not have a UPB or are required to be carried at fair value were measured at fair value. See Consolidation and Equity Method of Accounting above for a discussion of our assessment to determine whether we are considered the primary beneficiary of a trust and thus need to consolidate it.

In light of the consolidation of our single-family PC trusts and certain Other Guarantee Transactions as discussed above, effective January 1, 2010 we elected to change the amortization method for deferred items (e.g., premiums, discounts, and other basis adjustments) related to mortgage loans and investments in securities. We made this change to align the amortization method for these assets with the amortization method for deferred items associated with the related liabilities. As a result of this change, deferred items are amortized into interest income using an effective interest method over the contractual lives of these assets instead of the estimated life that was used for periods prior to 2010. It was impracticable to retrospectively apply this change to prior periods, so we recognized this change as a cumulative effect adjustment to the opening balance of retained earnings (accumulated deficit), and future amortization of these deferred items will be recognized using this new method. The effect of the change in the amortization method for deferred items was immaterial to our consolidated financial statements in 2010.

The cumulative effect of these changes in accounting principles was a net decrease of $11.7 billion to total equity (deficit) as of January 1, 2010, which includes changes to the opening balances of retained earnings (accumulated deficit) and AOCI. This net decrease was driven principally by: (a) the elimination of unrealized gains resulting from the extinguishment of PCs held as investment securities upon consolidation of the PC trusts, representing the difference between the UPB of the loans underlying the PC trusts and the fair value of the PCs, including premiums, discounts, and other basis adjustments; (b) the elimination of the guarantee asset and guarantee obligation established for guarantees issued to securitization trusts we consolidated; and (c) the application of our non-accrual policy to single-family seriously delinquent mortgage loans consolidated as of January 1, 2010.

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

Entry Into Conservatorship

On September 6, 2008, the Director of FHFA placed us into conservatorship. On September 7, 2008, Treasury and FHFA announced several actions regarding Freddie Mac and Fannie Mae. These actions included the execution of the Purchase Agreement, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock.

Business Objectives

We continue to operate under the direction of FHFA, as our Conservator. The conservatorship and related matters have had a wide-ranging impact on us, including our regulatory supervision, management, business, financial condition and results of operations. 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. During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

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We are also subject to certain constraints on our business activities by Treasury due to the terms of, and Treasury s rights under, the Purchase Agreement. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent.

The Conservator continues to determine, and direct the efforts of the Board of Directors and management to address, the strategic direction for the company. While the Conservator has delegated certain authority to management to conduct day-to-day operations, many management decisions are subject to review and approval by FHFA and Treasury. In addition, management frequently receives directions from FHFA on various matters involving day-to-day operations.

Our current business objectives reflect direction we have received from the Conservator (including the Conservatorship Scorecard), and have changed considerably since we entered into conservatorship. At the direction of the Conservator, we have made changes to certain business practices that are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives but may not contribute to our profitability.

Certain of these objectives are intended to help homeowners and the mortgage market and may help to mitigate future credit losses. However, some of our initiatives are expected to have an adverse impact on our near- and long-term financial results. Given the important role the Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions and our public mission, we may be required to take additional actions that could have a negative impact on our business, operating results or financial condition.

The Conservator stated that it is taking actions in support of the objectives of gradual transition to greater private capital participation in housing finance and greater distribution of risk to participants other than the government. The Conservator also stated that it is focusing on retaining value in the business operations of Freddie Mac and Fannie Mae, overseeing remediation of identified weaknesses in corporate operations and risk management, and ensuring that sound corporate governance principles are followed.

On February 21, 2012, FHFA sent to Congress a strategic plan for the next phase of the conservatorships of Freddie Mac and Fannie Mae. The plan sets forth objectives and steps FHFA is taking or will take to meet FHFA s obligations as Conservator. FHFA stated that the steps envisioned in the plan are consistent with each of the housing finance reform frameworks set forth in the report delivered by the Administration to Congress in February 2011, which is described below, as well as with the leading congressional proposals previously introduced. FHFA indicated that the plan leaves open all options for Congress and the Administration regarding the resolution of the conservatorships and the degree of government involvement in supporting the secondary mortgage market in the future.

FHFA s plan provides lawmakers and the public with an outline of how FHFA, as Conservator, intends to guide Freddie Mac and Fannie Mae over the next few years, and identifies three strategic goals:

- **Build.** Build a new infrastructure for the secondary mortgage market;
- **Contract**. Gradually contract Freddie Mac and Fannie Mae s dominant presence in the marketplace while simplifying and shrinking their operations; and
- **Maintain**. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

The Conservatorship Scorecard, instituted by FHFA, established objectives, performance targets and measures, and provided the implementation roadmap for FHFA s strategic plan. We continue to align our resources and internal business plans to meet the goals and objectives in FHFA s directives.

We regularly receive direction from our Conservator on how to pursue our objectives under conservatorship, including direction to focus our efforts on assisting homeowners in the housing and mortgage markets. The Conservator and Treasury have also not authorized us to engage in certain business activities and transactions, including the purchase or sale of certain assets, which we believe might have had a beneficial impact on our results of operations or financial condition, if executed. Our inability to execute such transactions may adversely affect our profitability, and thus contribute to our need to draw additional funds in the future 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.

The Acting Director of FHFA stated that FHFA does not expect we will be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio. We are also subject to limits on the amount of assets we can sell from our

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mortgage-related investments portfolio in any calendar month without review and approval by FHFA and, if FHFA determines, Treasury.

Certain changes to our business objectives and strategies are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives, but may not contribute to our profitability. Some of these changes increase our expenses, while others require us to forego revenue opportunities. There is significant uncertainty as to the ultimate impact that our efforts to aid the housing and mortgage markets, including our efforts in connection with the MHA Program, will have on our future capital or liquidity needs. We are allocating significant internal resources to the implementation of the various initiatives under the MHA Program and to the servicing alignment initiative, which has increased, and will continue to increase, our expenses. We cannot currently estimate whether, or the extent to which, costs incurred in the near term from HAMP, HARP, or other MHA Program efforts may be offset, if at all, by the prevention or reduction of potential future costs of serious delinquencies and foreclosures due to these initiatives.

There is significant uncertainty as to whether or when we will emerge from conservatorship, as it has no specified termination date, and as to what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. The Acting Director of FHFA stated on September 19, 2011 that it ought to be clear to everyone at this point, given [Freddie Mac and Fannie Mae s] losses since being placed into conservatorship and the terms of the Treasury s financial support agreements, that [Freddie Mac and Fannie Mae] will not be able to earn their way back to a condition that allows them to emerge from conservatorship. The Acting Director of FHFA stated on November 15, 2011 that the long-term outlook is that neither [Freddie Mac nor Fannie Mae] will continue to exist, at least in its current form, in the future. We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term. Our future structure and role will be determined by the Administration and Congress, and there are likely to be significant changes beyond the near-term. We have no ability to predict the outcome of these deliberations.

On February 11, 2011, the Administration delivered a report to Congress that lays out the Administration s plan to reform the U.S. housing finance market, including options for structuring the government s long-term role in a housing finance system in which the private sector is the dominant provider of mortgage credit. The report recommends winding down Freddie Mac and Fannie Mae, and states that the Administration will work with FHFA to determine the best way to responsibly reduce the role of Freddie Mac and Fannie Mae in the market and ultimately wind down both institutions. The report states that these efforts must be undertaken at a deliberate pace, which takes into account the impact that these changes will have on borrowers and the housing market.

The report states that the government is committed to ensuring that Freddie Mac and Fannie Mae have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, and further states that the Administration will not pursue policies or reforms in a way that would impair the ability of Freddie Mac and Fannie Mae to honor their obligations. The report states the Administration s belief that under the companies senior preferred stock purchase agreements with Treasury, there is sufficient funding to ensure the orderly and deliberate wind down of Freddie Mac and Fannie Mae, as described in the Administration s plan.

The report identifies a number of policy levers that could be used to wind down Freddie Mac and Fannie Mae, shrink the government s footprint in housing finance, and help bring private capital back to the mortgage market, including increasing guarantee fees, phasing in a 10% down payment requirement, reducing conforming loan limits, and winding down Freddie Mac and Fannie Mae s investment portfolios, consistent with the senior preferred stock purchase agreements. These recommendations, if implemented, would have a material impact on our business volumes, market share, results of operations, and financial condition.

Since the report was delivered, temporary high-cost area limits that had been in place since 2008 expired (effectively reducing the conforming loan limits in certain high-cost areas). In addition, as discussed below, we implemented two across-the-board increases in guarantee fees in 2012, and the required reduction in our mortgage-related investments portfolio was accelerated. We cannot predict the extent to which the other recommendations in the report will be implemented or when any actions to implement them may be taken.

On December 23, 2011, President Obama signed into law the Temporary Payroll Tax Cut Continuation Act of 2011. Among its provisions, this law directed FHFA to require Freddie Mac and Fannie Mae to increase guarantee fees by no less than 10 basis points above the average guarantee fees charged in 2011 on single-family mortgage-backed securities. Effective April 1, 2012, at the direction of FHFA, the guarantee fee on single-family residential mortgages sold to Freddie Mac and

Fannie Mae was increased by 10 basis points. Under the law, the proceeds we receive from this increase are being remitted to Treasury to fund the payroll tax cut, rather than retained by us.

On August 31, 2012, FHFA announced that it had directed Freddie Mac and Fannie Mae to further increase guarantee fees on single-family mortgages by an average of 10 basis points, which was implemented in 2012. The announcement stated that the changes to the guarantee fee pricing represent a step toward encouraging greater participation in the mortgage market by private firms. The announcement stated that the increase in guarantee fees will:

- Make more uniform the guarantee fees that Freddie Mac and Fannie Mae charge lenders who deliver large volumes of loans as compared to those who deliver smaller volumes; and

- Reduce cross-subsidies between higher-risk and lower-risk mortgages by increasing guarantee fees on loans with maturities longer than fifteen years more than on shorter-maturity loans.

On October 24, 2011, FHFA, Freddie Mac, and Fannie Mae announced a series of FHFA-directed changes to HARP in an effort to attract more eligible borrowers who can benefit from refinancing their home mortgages. The revisions to HARP are available to borrowers with loans that were sold to Freddie Mac and Fannie Mae on or before May 31, 2009 and who meet program criteria.

Purchase Agreement

Overview

On September 7, 2008, we, through FHFA, in its capacity as Conservator, and Treasury entered into the Purchase Agreement. The Purchase Agreement was subsequently amended and restated on September 26, 2008, and further amended on May 6, 2009, December 24, 2009, and August 17, 2012. Under the Purchase Agreement, the $200 billion maximum amount of the commitment from Treasury was increased to accommodate the cumulative reduction in our net worth during 2010, 2011 and 2012. Beginning January 1, 2013, the amount of available funding remaining under the Purchase Agreement is $140.5 billion. This amount will be reduced by any future draws. The provisions of the Purchase Agreement whereby Treasury s funding commitment would increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011, and 2012 no longer apply.

The Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us after any quarter in which we have a negative net worth (that is, our total liabilities exceed our total assets, as reflected on our GAAP balance sheet). In addition, the Purchase Agreement requires Treasury, upon the request of the Conservator, to provide funds to us if the Conservator determines, at any time, that it will be mandated by law to appoint a receiver for us unless we receive these funds from Treasury. In exchange for Treasury s funding commitment, we issued to Treasury, as an aggregate initial commitment fee: (a) one million shares of Variable Liquidation Preference Senior Preferred Stock (with an initial liquidation preference of $1 billion), which we refer to as the senior preferred stock; and (b) a warrant to purchase, for a nominal price, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the warrant. We received no other consideration from Treasury for issuing the senior preferred stock or the warrant.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013. This amendment effectively ends the circular practice of taking draws from Treasury to pay dividends to Treasury, thereby helping to preserve remaining funding available to us under the Purchase Agreement.

For each quarter from January 1, 2013 through and including December 31, 2017, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable capital reserve amount, exceeds zero. The term Net Worth Amount is defined as: (a) the total assets of Freddie Mac (excluding Treasury s commitment and any unfunded amounts thereof), less; (b) our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our consolidated balance sheets prepared in accordance with GAAP. If the calculation of the dividend payment for a quarter does not exceed zero, then no dividend will accrue or be payable for that quarter. The applicable capital reserve amount will be $3 billion for 2013 and will be reduced by $600 million each year thereafter until it reaches zero on January 1, 2018. For each quarter beginning January 1, 2018, the dividend payment will be the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal

quarter exceeds zero. The amounts payable for dividends on the senior preferred stock could be substantial and will have an adverse impact on our financial position and net worth. To the extent we draw on Treasury s funding commitment, the liquidation preference of the senior preferred stock is increased by the amount of funds we receive. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock.

In addition to the issuance of the senior preferred stock and warrant, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury. Under the Purchase Agreement, the fee is to be determined in an amount mutually agreed to by us and Treasury with reference to the market value of Treasury s funding commitment as then in effect. However, pursuant to the August 2012 amendment to the Purchase Agreement, for each quarter commencing January 1, 2013, and for as long as the net worth sweep dividend provisions remain in form and content substantially the same, no periodic commitment fee under the Purchase Agreement will be set, accrue or be payable. Treasury had waived the fee for all applicable quarters prior to that date.

Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all. The aggregate liquidation preference of the senior preferred stock will increase further if we receive additional draws under the Purchase Agreement or if any dividends or quarterly commitment fees payable under the Purchase Agreement are not paid in cash (this quarterly commitment fee has been suspended). We may need to make additional draws in future periods due to a variety of factors that could adversely affect our net worth.

The Purchase Agreement includes significant restrictions on our ability to manage our business, including limiting the amount of indebtedness we can incur and capping the size of our mortgage-related investments portfolio. While the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury s consent.

The Purchase Agreement has an indefinite term and can terminate only in limited circumstances, which do not include the end of the conservatorship. The Purchase Agreement therefore could continue after the conservatorship ends. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028.

Purchase Agreement Covenants

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);

- redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);

- sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);

- terminate the conservatorship (other than in connection with a receivership);

- sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) of assets and properties having fair market value individually or in aggregate less than $250 million in one transaction or a series of related transactions; (d) in connection with our liquidation by a receiver; (e) of cash or cash equivalents for cash or cash equivalents; or (f) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio;

issue any subordinated debt;

enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or

engage in transactions with affiliates unless the transaction is: (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant; (b) upon arm s length terms; or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The covenants also apply to our subsidiaries.

The Purchase Agreement also requires us to reduce the amount of mortgage assets we own. The Purchase Agreement, as revised in the August 2012 amendment, provides that we could not own mortgage assets with UPB in excess of $650 billion on December 31, 2012 and on December 31 of each year thereafter, may not own mortgage assets with UPB in excess of 85% of the aggregate amount of mortgage assets we are permitted to own as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. Under the Purchase Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. The mortgage asset and indebtedness limitations are determined without giving effect to the changes to the accounting guidance for transfers of financial assets and consolidation of VIEs, under which we consolidated our single-family PC trusts and certain of our Other Guarantee Transactions in our financial statements as of January 1, 2010.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

The Purchase Agreement also provides that, on an annual basis, we are required to deliver a risk management plan to Treasury setting out our strategy for reducing our enterprise-wide risk profile and the actions we will take to reduce the financial and operational risk associated with each of our reportable business segments.

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants: (a) our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder; (b) we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights; (c) we may not take any action that will result in an increase in the par value of our common stock; (d) we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury s rights against impairment or dilution; and (e) we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

Termination Provisions

The Purchase Agreement provides that the Treasury s funding commitment will terminate under any of the following circumstances: (a) the completion of our liquidation and fulfillment of Treasury s obligations under its funding commitment at that time; (b) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (c) the funding by Treasury of the maximum amount of the commitment under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the Conservator or otherwise curtails the Conservator s powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

Waivers and Amendments

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury s aggregate funding commitment or add conditions to Treasury s funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations.

Third-party Enforcement Rights

In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are

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not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (a) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (b) the lesser of: (i) the deficiency amount; and (ii) the maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

Impact of the Purchase Agreement and FHFA Regulation on the Mortgage-Related Investments Portfolio

The UPB of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement, as amended on August 17, 2012, and FHFA regulation, may not exceed $650 billion at December 31, 2012 and was $558 billion at December 31, 2012. The annual 15% reduction in the size of our mortgage-related investments portfolio until it reaches $250 billion 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. The limitation is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs. FHFA has stated that we will not be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio.

Government Support for our Business

We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. Significant recent developments with respect to the support we received from the government during 2012 included receiving $165 million in funding from Treasury under the Purchase Agreement related to quarterly deficits in our net worth at December 31, 2011 and March 31, 2012. Since conservatorship began through December 31, 2012, we have paid cash dividends of $23.8 billion to Treasury at the direction of the Conservator.

At December 31, 2012, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement for the fourth quarter of 2012.

See NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS and NOTE 11: STOCKHOLDERS EQUITY (DEFICIT) for more information on the terms of the conservatorship and the Purchase Agreement.

Housing Finance Agency Initiative

In 2009, we entered into a Memorandum of Understanding with Treasury, FHFA, and Fannie Mae, which sets forth the terms under which Treasury and, as directed by FHFA, we and Fannie Mae, would provide assistance, through three separate initiatives, to state and local HFAs so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. FHFA directed us and Fannie Mae to participate in the HFA initiative on a basis that is consistent with the goals of being commercially reasonable and safe and sound. Treasury s participation in these assistance initiatives does not affect the amount of funding that Treasury can provide to Freddie Mac under the terms of the Purchase Agreement.

The initiatives are as follows:

TCLFP In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to provide $8.2 billion of credit and liquidity support, including outstanding interest at the date of the guarantee, for variable rate demand obligations, or VRDOs, previously issued by HFAs. This support was provided through the issuance of guarantees, which provide credit enhancement to the holders of such VRDOs and also create an obligation to provide funds to purchase any VRDOs that are put by their holders and are not remarketed. Treasury provided a credit and liquidity backstop on the TCLFP. These guarantees replaced existing liquidity facilities from other providers. The guarantees were scheduled to expire on December 31, 2012. However, Treasury gave TCLFP participants the option to extend their individual TCLFP facilities to December 31, 2015. Certain participants elected to extend their TCLFP facilities to December 2015.

NIBP In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to issue in total $15.3 billion of partially guaranteed pass-through securities backed by new single-family and certain new multifamily housing bonds issued by HFAs. Treasury purchased all of the pass-through securities issued by Freddie Mac and Fannie Mae. This initiative provides financing for HFAs to issue new housing bonds.

Treasury will bear the initial losses of principal up to 35% of total principal for these two initiatives combined, and thereafter Freddie Mac and Fannie Mae each will be responsible only for losses of principal on the securities that it issues to the extent that such losses are in excess of 35% of all losses under both initiatives. Treasury will bear all losses of unpaid interest. Under both initiatives, we and Fannie Mae were paid fees at the time bonds were securitized and are also paid ongoing fees for as long as the bonds remain outstanding.

The third initiative under the HFA initiative is described below:

Multifamily Credit Enhancement Initiative. Using existing housing bond credit enhancement products, Freddie Mac is providing a guarantee of new housing bonds issued by HFAs, which Treasury purchased from the HFAs. Treasury will not be responsible for a share of any losses incurred by us in this initiative.

Related Parties as a Result of Conservatorship

As a result of our issuance to Treasury of the warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis, we are deemed a related party to the U.S. government. Except for the transactions with Treasury discussed above in Business Objectives, Government Support for our Business and Housing Finance Agency Initiative as well as in NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS, and NOTE 11: STOCKHOLDERS EQUITY (DEFICIT), no transactions outside of normal business activities have occurred between us and the U.S. government (or any of its related parties) during the years ended December 31, 2012, 2011 and 2010. In addition, we are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. All transactions between us and Fannie Mae have occurred in the normal course of business.

NOTE 3: VARIABLE INTEREST ENTITIES

We use securitization trusts in our securities issuance process, and are required to evaluate the trusts for consolidation on an ongoing basis. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Consolidation and Equity Method of Accounting for further information regarding the consolidation of certain VIEs.

Based on our evaluation of whether we hold a controlling financial interest in these VIEs, we determined that we are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions. Therefore, we consolidate on our balance sheet the assets and liabilities of these trusts. In addition to our PC trusts, we are involved with numerous other entities that meet the definition of a VIE, as discussed below.

VIEs for which We are the Primary Beneficiary

See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities for information on the nature of single-family PC trusts, REMICs and Other Structured Securities, and Other Guarantee Transactions.

Single-family PC Trusts

Our single-family PC trusts issue pass-through securities that represent undivided beneficial interests in pools of mortgages held by these trusts. PCs are designed so that we bear the credit risk inherent in the loans underlying the PCs through our guarantee of principal and interest payments on the PCs. The PC holders bear the interest rate or prepayment risk on the mortgage loans and the risk that we will not perform on our obligation as guarantor. For purposes of our consolidation assessments, our evaluation of power and economic exposure with regard to PC trusts focuses on credit risk because the credit performance of the underlying mortgage loans was identified as the activity that most significantly impacts the economic performance of these entities. We have the power to impact the activities related to this risk in our role as guarantor and master servicer.

Specifically, in our role as master servicer, we establish requirements for how mortgage loans are serviced and what steps are to be taken to mitigate credit losses (e.g., modification, foreclosure). Additionally, in our capacity as guarantor, we have the ability to remove defaulted mortgage loans out of the PC trust to help mitigate credit losses. See NOTE 5:

INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for further information regarding our removal of mortgage loans out of PC trusts. These powers allow us to direct the activities of the VIE (i.e., the PC trust) that most significantly impact its economic performance. In addition, we determined that our guarantee to each PC trust to provide principal and interest payments obligates us to absorb losses that could potentially be significant to the PC trusts. Accordingly, we concluded that we are the primary beneficiary of our single-family PC trusts.

At December 31, 2012 and 2011, we were the primary beneficiary of, and therefore consolidated, single-family PC trusts with assets totaling $1.5 trillion and $1.6 trillion, respectively, as measured using the UPB of issued PCs. The assets of each PC trust can be used only to settle obligations of that trust. In connection with our PC trusts, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, and other forms of credit enhancement. We also have credit protection for certain of our PC trusts that issue PCs backed by loans or certificates of federal agencies (such as FHA, VA, and USDA). See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES Credit Protection and Other Forms of Credit Enhancement for additional information regarding third-party credit enhancements related to our PC trusts.

REMICs and Other Structured Securities

REMICs and Other Structured Securities are mortgage-related securities that we issue to third parties. We do not consolidate these securities unless we hold substantially all of the beneficial interests in the trust and are therefore considered to be the primary beneficiary. We have investments in certain REMIC trusts where we held substantially all the outstanding beneficial interests in the trusts in prior periods, but did not consolidate the trusts in those periods. We began consolidating these trusts during the third quarter of 2012 by derecognizing our investments in these entities, which totaled approximately $4.4 billion, and recognizing the assets and liabilities of the consolidated entities at their fair values. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Basis of Presentation for more information on the correction of this prior period error that was not material to our consolidated financial statements.

Other Guarantee Transactions

Other Guarantee Transactions are mortgage-related securities that we issue to third parties in exchange for non-Freddie Mac mortgage-related securities. The degree to which our involvement with securitization trusts that issue Other Guarantee Transactions provides us with power to direct the activities that most significantly impact the economic performance of these VIEs (e.g., the ability to direct the servicing of the underlying assets of these entities) and our obligation to absorb losses that could potentially be significant to the VIEs (e.g., the existence of third-party credit enhancements) varies by transaction. For all Other Guarantee Transactions, our variable interest in these VIEs represents some form of credit guarantee, whether covering all the issued beneficial interests or only the most senior ones. The nature of our credit guarantee typically determines whether we have power to direct the activities that most significantly impact the economic performance of the VIE.

We consolidate Other Guarantee Transactions when our credit guarantee is in a first loss position to absorb credit losses on the underlying assets of these entities as of the reporting date and we also have the ability to direct the servicing of the underlying assets, which is the power to direct the activities that most significantly impact the economic performance of these VIEs. For those Other Guarantee Transactions in which our credit guarantee is not in a first loss position to absorb credit losses on the underlying assets of these entities as of the reporting date (i.e., our credit guarantee is in a secondary loss position), or we do not have the ability to direct the servicing of the underlying assets, then we are not the primary beneficiary, and we do not consolidate the VIE. Our consolidation determination took into consideration the specific facts and circumstances of our involvement with each of these entities. As a result, we have concluded that we are the primary beneficiary of Other Guarantee Transactions with underlying assets totaling $11.0 billion and $12.9 billion at December 31, 2012 and 2011, respectively.

Consolidated VIEs

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

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Table 3.1 Assets and Liabilities of Consolidated VIEs

Consolidated Balance Sheets Line Item	December 31, 2012	December 31, 2011
	(in millions)	
Cash and cash equivalents	$ 1	$ 2
Restricted cash and cash equivalents	14,289	27,675
Federal funds sold and securities purchased under agreements to resell	19,250	
Mortgage loans held-for-investment by consolidated trusts	1,495,932	1,564,131
Accrued interest receivable	5,426	6,242
Real estate owned, net	45	60
Other assets	7,986	6,083
Total assets of consolidated VIEs	$ 1,542,929	$ 1,604,193
Accrued interest payable	$ 5,142	$ 5,943
Debt securities of consolidated trusts held by third parties	1,419,524	1,471,437
Other liabilities	1	3
Total liabilities of consolidated VIEs	$ 1,424,667	$ 1,477,383

VIEs for which We are not the Primary Beneficiary

The table below represents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs. Our involvement with VIEs for which we are not the primary beneficiary generally takes one of two forms: (a) purchasing an investment in these entities; or (b) providing a guarantee to these entities. Our maximum exposure to loss for those VIEs in which we have purchased an investment is calculated as the maximum potential charge that we would recognize in earnings if that investment were to become worthless. This amount does not include other-than-temporary impairments or other write-downs that we previously recognized through earnings. Our maximum exposure to loss for those VIEs for which we have provided a guarantee represents the contractual amounts that could be lost under the guarantees if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements. We do not believe the maximum exposure to loss disclosed in the table below is representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancement arrangements.

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Table 3.2 Variable Interests in VIEs for which We are not the Primary Beneficiary

	December 31, 2012				
		Mortgage-Related Security Trusts			
	Asset-Backed Investment Trusts[1]	Freddie Mac Securities[2]	Non-Freddie Mac Securities[1]	Unsecuritized Multifamily Loans[3]	Other[1]
	(in millions)				
Assets and Liabilities Recorded on our Consolidated Balance Sheets					
Assets:					
Cash and cash equivalents	$	$	$	$	$
Restricted cash and cash equivalents		24		22	119
Investments in securities:					
Available-for-sale, at fair value		58,515	110,583		
Trading, at fair value	292	10,354	10,617		
Mortgage loans:					
Held-for-investment, unsecuritized				62,245	
Held-for-sale				14,238	
Accrued interest receivable		324	350	326	7
Derivative assets, net					1
Other assets		558	2	381	482
Liabilities:					
Derivative liabilities, net		(1)			(40)
Other liabilities		(667)	(2)	(29)	(635)
Maximum Exposure to Loss	$ 292	$ 51,045	$ 128,475	$ 77,213	$ 10,871
Total Assets of Non-Consolidated VIEs[4]	$ 10,901	$ 59,302	$ 768,704	$ 130,512	$ 25,004

	December 31, 2011				
		Mortgage-Related Security Trusts			
	Asset-Backed Investment Trusts[1]	Freddie Mac Securities[2]	Non-Freddie Mac Securities[1]	Unsecuritized Multifamily Loans[3]	Other[1]
	(in millions)				
Assets and Liabilities Recorded on our Consolidated Balance Sheets					
Assets:					
Cash and cash equivalents	$ 447	$	$	$	$
Restricted cash and cash equivalents		53		33	167
Investments in securities:					
Available-for-sale, at fair value		81,092	121,743		
Trading, at fair value	302	16,047	15,473		
Mortgage loans:					
Held-for-investment, unsecuritized				72,295	
Held-for-sale				9,710	
Accrued interest receivable		471	420	353	6
Derivative assets, net					1
Other assets		432	1	375	434
Liabilities:					
Derivative liabilities, net		(1)			(42)
Other liabilities		(585)		(39)	(675)
Maximum Exposure to Loss	$ 749	$ 36,438	$ 153,620	$ 82,766	$ 11,198
Total Assets of Non-Consolidated VIEs[4]	$ 16,748	$ 41,740	$ 921,219	$ 134,145	$ 25,616

(1) For our involvement with non-consolidated asset-backed investment trusts, non-Freddie Mac security trusts and certain other VIEs where we do not provide a guarantee, our maximum exposure to loss is computed as the carrying amount if the security is classified as trading or the amortized cost if the security is classified as available-for-sale for our investments and related assets recorded on our consolidated balance sheets, including any unrealized amounts recorded in AOCI for securities classified as available-for-sale.

(2) Freddie Mac securities include our variable interests in single-family multiclass REMICs and Other Structured Securities, multifamily PCs, multifamily Other Structured Securities, and Other Guarantee Transactions that we do not consolidate. Our investments in single-family REMICs and Other Structured Securities that are not consolidated do not give rise to any additional exposure to credit loss as we already consolidate the underlying collateral.
(3) For unsecuritized multifamily loans, our maximum exposure to loss includes accrued interest receivable associated with these loans.
(4) Except for unsecuritized multifamily loans, this represents the remaining UPB of assets held by non-consolidated VIEs using the most current information available, where our continuing involvement is significant. For unsecuritized multifamily loans, this represents the fair value of the property serving as collateral for the loan. We do not include the assets of our non-consolidated trusts related to single-family REMICs and Other Structured Securities in this amount as we already consolidate the underlying collateral of these trusts on our consolidated balance sheets.

Asset-Backed Investment Trusts

We invest in a variety of short-term non-mortgage-related, asset-backed investment trusts. These short-term investments represent interests in trusts consisting of a pool of receivables or other financial assets, typically auto and equipment loans. These trusts act as vehicles to allow originators to securitize assets. Securities are structured from the underlying pool of assets to provide for varying degrees of risk. Primary risks include potential loss from the credit risk and interest-rate risk of the underlying pool. The originators of the financial assets or the underwriters of the securities offering create the trusts and typically own the residual interest in the trust assets.

At both December 31, 2012 and 2011, we had investments in 11 asset-backed investment trusts in which we had a variable interest but were not considered the primary beneficiary. Our investments in these asset-backed investment trusts as of December 31, 2012 were made during 2012. At both December 31, 2012 and 2011, we were not the primary beneficiary of any such trusts because our investments are passive in nature and do not provide us with the power to direct the activities of the trusts that most significantly impact their economic performance. As such, our investments in these asset-backed investment trusts are accounted for as investment securities as described in NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Our investments in these trusts totaled $0.3 billion and $0.7 billion at December 31, 2012 and 2011, respectively, and are included as cash and cash equivalents, available-for-sale securities, or trading securities on our consolidated balance sheets. At both December 31, 2012 and 2011, we did not guarantee any obligations of these investment trusts and our exposure was limited to the amount of our investment. See NOTE 7: INVESTMENTS IN SECURITIES for additional information regarding our asset-backed investments.

Mortgage-Related Security Trusts

Freddie Mac Securities

Freddie Mac securities related to our variable interests in non-consolidated VIEs primarily consist of our REMICs and Other Structured Securities and Other Guarantee Transactions. REMICs and Other Structured Securities are created by using PCs or previously issued REMICs and Other Structured Securities as collateral. Other Guarantee Transactions are created by using non-Freddie Mac mortgage-related securities as collateral.

At both December 31, 2012 and 2011, our involvement with most of our REMICS and Other Structured Securities as well as certain Other Guarantee Transactions does not provide us with the power to direct the activities that most significantly impact the economic performance of these VIEs. As a result, we hold a variable interest in, but are not the primary beneficiary of those securitization trusts. For non-consolidated REMICs and Other Structured Securities and Other Guarantee Transactions, our investments are primarily included in either available-for-sale securities or trading securities on our consolidated balance sheets. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities for additional information on accounting for purchases of PCs and beneficial interests issued by resecuritization trusts. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Non-Freddie Mac Securities

We invest in a variety of mortgage-related securities issued by third-parties, including non-Freddie Mac agency securities, CMBS, other private-label securities backed by various mortgage-related assets, and obligations of states and political subdivisions. These investments typically represent interests in trusts that consist of a pool of mortgage-related assets and act as vehicles to allow originators to securitize those assets. Securities are structured from the underlying pool of assets to provide for varying degrees of risk, including potential loss from the credit risk and interest-rate risk of the underlying pool of mortgages. The originators of the financial assets or the underwriters of the securities offering create the trusts and typically own the residual interest in the trust assets. See NOTE 7: INVESTMENTS IN SECURITIES for additional information regarding our non-Freddie Mac securities.

Our investments in these non-Freddie Mac securities at December 31, 2012 were made between 1994 and 2012. We are not generally the primary beneficiary of non-Freddie Mac securities trusts because our investments are passive in nature and do not provide us with the power to direct the activities of the trusts that most significantly impact their economic performance. We were not the primary beneficiary of any significant non-Freddie Mac securities trusts as of December 31, 2012 or 2011. At both December 31, 2012 and 2011, we did not guarantee any obligations of these investment trusts and our exposure was limited to the amount of our investment. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Unsecuritized Multifamily Loans

We purchase loans made to various multifamily real estate entities. We primarily purchase such loans for securitization. The loans we acquire usually are, at origination, equal to 80% or less of the value of the related underlying property. The remaining 20% of value is typically funded through equity contributions by the partners or members of the borrower entity. In a few cases, the 20% not funded through the loan we acquire also includes subordinate loans or mezzanine financing from third-party lenders.

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We held more than 6,000 and 7,000 unsecuritized multifamily loans at December 31, 2012 and 2011, respectively. The UPB of our investments in these loans was $76.6 billion and $82.3 billion as of December 31, 2012 and 2011, respectively, and was included in unsecuritized held-for-investment mortgage loans, at amortized cost, and held-for-sale mortgage loans at fair value on our consolidated balance sheets. We are not generally the primary beneficiary of the multifamily real estate borrowing entities because the loans we acquire are passive in nature and do not provide us with the power to direct the activities of these entities that most significantly impact their economic performance. However, when a multifamily loan becomes delinquent, we may become the primary beneficiary of the borrowing entity depending upon the structure of this entity and the rights granted to us under the governing legal documents. At both December 31, 2012 and 2011, the amount of unsecuritized multifamily loans for which we could be considered the primary beneficiary of the underlying borrowing entity was not material. See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for more information.

Other

Our involvement with other VIEs primarily includes certain of our other mortgage-related guarantees, investments in LIHTC partnerships, and other guarantee commitments that we account for as derivatives.

We hold equity investments in various LIHTC partnerships that invest in lower-tier or project partnerships that are single asset entities. In early 2010, the Acting Director of FHFA informed us that we may not sell or transfer our investments in LIHTC assets and that he sees no other disposition options. As a result, we wrote down the carrying value of our LIHTC investments to zero as we determined we could not realize any value from these investments.

At December 31, 2012 and 2011, we were the primary beneficiary of two and one, respectively, real estate entities that invest in multifamily property, related to credit-enhanced multifamily housing revenue bonds that were not deemed to be material. We were not the primary beneficiary of the remainder of other VIEs because our involvement in these VIEs is passive in nature and does not provide us with the power to direct the activities of the VIEs that most significantly impact their economic performance. See Table 3.2 Variable Interests in VIEs for which We are not the Primary Beneficiary for the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our other variable interests in non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs.

NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

We own both single-family mortgage loans, which are secured by one to four unit residential properties, and multifamily mortgage loans, which are secured by properties with five or more residential rental units. Our single-family loans are predominately first lien, fixed-rate mortgages secured by the borrower s primary residence. For a discussion of our significant accounting policies regarding our mortgage loans and loan loss reserves, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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The table below summarizes the types of loans on our consolidated balance sheets as of December 31, 2012 and 2011.

Table 4.1 Mortgage Loans

	December 31, 2012			December 31, 2011		
	Unsecuritized	Held by Consolidated Trusts	Total	Unsecuritized	Held by Consolidated Trusts	Total
			(in millions)			
Single-family:(1)						
Fixed-rate						
Amortizing	$ 131,061	$ 1,356,030	$ 1,487,091	$ 153,177	$ 1,418,751	$ 1,571,928
Interest-only	2,445	8,874	11,319	3,184	14,758	17,942
Total fixed-rate	133,506	1,364,904	1,498,410	156,361	1,433,509	1,589,870
Adjustable-rate						
Amortizing	2,630	67,067	69,697	3,428	68,362	71,790
Interest-only	7,323	31,590	38,913	10,376	43,655	54,031
Total adjustable-rate	9,953	98,657	108,610	13,804	112,017	125,821
Other Guarantee Transactions		10,407	10,407		12,776	12,776
FHA/VA and other governmental	1,285	3,062	4,347	1,494	3,254	4,748
Total single-family	144,744	1,477,030	1,621,774	171,659	1,561,556	1,733,215
Multifamily:(1)						
Fixed-rate	66,384	448	66,832	69,647		69,647
Adjustable-rate	10,182		10,182	12,661		12,661
Other governmental	3		3	3		3
Total multifamily	76,569	448	77,017	82,311		82,311
Total UPB of mortgage loans	221,313	1,477,478	1,698,791	253,970	1,561,556	1,815,526
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(5,376)	23,373	17,997	(6,125)	10,926	4,801
Fair value adjustments on loans held-for-sale(2)	266		266	195		195
Allowance for loan losses on mortgage loans held-for-investment	(25,788)	(4,919)	(30,707)	(30,912)	(8,351)	(39,263)
Total mortgage loans, net	$ 190,415	$ 1,495,932	$ 1,686,347	$ 217,128	$ 1,564,131	$ 1,781,259
Mortgage loans, net:						
Held-for-investment	$ 176,177	$ 1,495,932	$ 1,672,109	$ 207,418	$ 1,564,131	$ 1,771,549
Held-for-sale	14,238		14,238	9,710		9,710
Total mortgage loans, net	$ 190,415	$ 1,495,932	$ 1,686,347	$ 217,128	$ 1,564,131	$ 1,781,259

(1) Based on UPB and excluding mortgage loans traded, but not yet settled.

(2) Consists of fair value adjustments associated with multifamily mortgage loans for which we have made a fair value election.

During 2012 and 2011, we purchased $420.0 billion and $316.3 billion, respectively, in UPB of single-family mortgage loans and $1.1 billion and $2.7 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment at purchase. Our sales of multifamily mortgage loans occur primarily through the issuance of multifamily K Certificates, which we categorize as Other Guarantee Transactions. See NOTE 9: FINANCIAL GUARANTEES for more information on our issuances of Other Guarantee Transactions. We did not have significant reclassifications of mortgage loans into held-for-sale from held-for-investment during 2012. We did not sell any held-for-investment loans during 2012.

Credit Quality of Mortgage Loans

We evaluate the credit quality of single-family loans using different criteria than the criteria we use to evaluate multifamily loans. The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As estimated current LTV ratios increase, the borrower s equity in the home decreases, which negatively affects the borrower s ability to refinance or to sell the property for an amount at or above the balance of the outstanding mortgage loan. A second-lien mortgage 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 mortgages. As of December 31, 2012 and 2011, approximately 14% and 15%, respectively, of loans in our single-family credit guarantee portfolio had second-lien financing by third parties at the time of origination of the first mortgage. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second-lien mortgages. For further information about concentrations of risk associated with our single-family and multifamily mortgage loans, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS.

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The table below presents information on the estimated current LTV ratios of single-family loans on our consolidated balance sheets, all of which are held-for-investment. Our current LTV ratio estimates are based on available data through the end of each respective period presented.

Table 4.2 Recorded Investment of Held-For-Investment Mortgage Loans, by LTV Ratio

	As of December 31, 2012 Estimated Current LTV Ratio(1)				As of December 31, 2011 Estimated Current LTV Ratio(1)			
	<= 80	>80 to 100	> 100(2)	Total	<= 80	>80 to 100	> 100(2)	Total
				(in millions)				
Single-family loans:								
20 and 30-year or more, amortizing fixed-rate(3)	$ 699,386	$ 309,099	$ 188,048	$ 1,196,533	$ 641,698	$ 383,320	$ 247,468	$ 1,272,486
15-year amortizing fixed-rate(3)	249,666	18,473	5,433	273,572	238,287	18,280	2,966	259,533
Adjustable-rate(4)	50,764	10,341	4,845	65,950	43,728	13,826	9,180	66,734
Alt-A, interest-only, and option ARM(5)	27,642	24,030	52,057	103,729	30,589	29,251	79,418	139,258
Total single-family loans	$ 1,027,458	$ 361,943	$ 250,383	1,639,784	$ 954,302	$ 444,677	$ 339,032	1,738,011
Multifamily loans				63,032				72,801
Total recorded investment of held-for-investment loans				$ 1,702,816				$ 1,810,812

(1) The current LTV ratios are management estimates, which are updated on a monthly basis. Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes in the same geographical area since that time. The value of a property at origination is based on: (a) for purchase mortgages, either the lesser of the appraised value of the property at the time of mortgage origination or the mortgage borrower s purchase price; or (b) for refinance mortgages, a third-party appraisal. Changes in market value are derived from our internal index which measures price changes for repeat sales and refinancing activity on the same properties using Freddie Mac and Fannie Mae single-family mortgage acquisitions, including foreclosure sales. Estimates of the current LTV ratio include the credit-enhanced portion of the loan and exclude any secondary financing by third parties. The existence of a second lien reduces the borrower s equity in the property and, therefore, can increase the risk of default.

(2) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with estimated current LTV ratios in excess of 100% was 12.7% and 12.8% as of December 31, 2012 and 2011, respectively.

(3) The majority of our loan modifications result in new terms that include fixed interest rates after modification. However, our HAMP loan modifications result in an initial interest rate that subsequently adjusts gradually after five years to a new rate that is fixed for the remaining life of the loan. We have classified these loans as fixed-rate for purposes of this presentation even though they have a rate adjustment provision, because the future rates are determined at the time of the modification rather than at a subsequent date.

(4) Includes balloon/reset mortgage loans and excludes option ARMs.

(5) We have discontinued our purchases of Alt-A, interest-only, and option ARM loans. 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. For reporting purposes, loans within the option ARM category continue to be presented in that category following modification, even though the modified loan no longer provides for optional payment provisions.

For information about the payment status of single-family and multifamily mortgage loans, including the amount of such loans we deem impaired, see NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS. For a discussion of certain indicators of credit quality for the multifamily loans on our consolidated balance sheets, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Multifamily Mortgage Portfolio.

Allowance for Loan Losses and Reserve for Guarantee Losses, or Loan Loss Reserve

We maintain an allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets. Our reserve for guarantee losses is associated with Freddie Mac mortgage-related securities backed by multifamily loans, certain single-family Other Guarantee Transactions, and other guarantee commitments, for which we have incremental credit risk. A significant portion of the unsecuritized single-family loans on our consolidated balance sheets are seriously delinquent and/or TDR loans that we previously removed from our PC pools. As a result, these seriously delinquent and TDR loans typically have a higher associated allowance for loan loss than loans that remain in consolidated trusts. Single-family loans that remain in consolidated trusts are generally aggregated and measured collectively for impairment based on similar risk characteristics of the loans.

The table below summarizes loan loss reserve activity.

Table 4.3 Detail of Loan Loss Reserves

	Year Ended December 31,							
	2012				2011			
	Allowance for Loan Losses				Allowance for Loan Losses			
	Unsecuritized	Held By Consolidated Trusts	Reserve for Guarantee Losses[1]	Total	Unsecuritized	Held By Consolidated Trusts	Reserve for Guarantee Losses[1]	Total
	(in millions)							
Single-family:								
Beginning balance	$ 30,406	$ 8,351	$ 159	$ 38,916	$ 27,317	$ 11,644	$ 137	$ 39,098
Provision (benefit) for credit losses	(3,186)	5,199		2,013	2,796	8,059	43	10,898
Charge-offs[2]	(12,559)	(950)	(11)	(13,520)	(13,756)	(970)	(9)	(14,735)
Recoveries[2]	2,136	126		2,262	2,618	146	-	2,764
Transfers, net[3]	8,652	(7,808)	(7)	837	11,431	(10,528)	(12)	891
Ending balance	$ 25,449	$ 4,918	$ 141	$ 30,508	$ 30,406	$ 8,351	$ 159	$ 38,916
Multifamily:								
Beginning balance	$ 506	$	$ 39	$ 545	$ 730	$	$ 98	$ 828
Provision (benefit) for credit losses	(132)		9	(123)	(152)		(44)	(196)
Charge-offs[2]	(34)		(2)	(36)	(73)		(2)	(75)
Recoveries[2]			2	2	1			1
Transfers, net	(1)	1	(6)	(6)			(13)	(13)
Ending balance	$ 339	$ 1	$ 42	$ 382	$ 506	$	$ 39	$ 545
Total:								
Beginning balance	$ 30,912	$ 8,351	$ 198	$ 39,461	$ 28,047	$ 11,644	$ 235	$ 39,926
Provision (benefit) for credit losses	(3,318)	5,199	9	1,890	2,644	8,059	(1)	10,702
Charge-offs[2]	(12,593)	(950)	(13)	(13,556)	(13,829)	(970)	(11)	(14,810)
Recoveries[2]	2,136	126	2	2,264	2,619	146		2,765
Transfers, net[3]	8,651	(7,807)	(13)	831	11,431	(10,528)	(25)	878
Ending balance	$ 25,788	$ 4,919	$ 183	$ 30,890	$ 30,912	$ 8,351	$ 198	$ 39,461
Total loan loss reserve as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities				1.71%				2.08%

(1) Loans associated with our reserve for guarantee losses are those loans that underlie our non-consolidated securitization trusts and other guarantee commitments and are evaluated for impairment on a collective basis. Our reserve for guarantee losses is included in other liabilities on our consolidated balance sheets.

(2) Charge-offs represent the amount of a loan that has been discharged to remove the loan from our consolidated balance sheet principally due to either foreclosure transfers or short sales. Charge-offs exclude $308 million and $422 million for the years ended December 31, 2012 and 2011, respectively, recorded as losses on loans purchased within other expenses on our consolidated statements of comprehensive income, which relate to certain loans purchased under financial guarantees. We record charge-offs and recoveries on loans held by consolidated trusts when a loss event (such as a foreclosure transfer or foreclosure alternative) occurs on a loan while it remains in a consolidated trust. Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where: (a) a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements; or (b) we received a reimbursement of our losses from a seller/servicer associated with a repurchase request on a loan that experienced a

foreclosure transfer or a foreclosure alternative.

(3) For the years ended December 31, 2012 and 2011, consists of: (a) approximately $7.8 billion and $10.5 billion, respectively, of reclassified single-family reserves related to our removal of loans previously held by consolidated trusts; (b) approximately $0.8 billion and $1.1 billion, respectively, attributable to recapitalization of past due interest on modified mortgage loans; (c) $0 million and $(258) million, respectively, related to agreements with seller/servicers where the transfer relates to recoveries received under these agreements to compensate us for estimated credit losses; and (d) $1 million and $48 million respectively, of other transfers.

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

Table 4.4 Net Investment in Mortgage Loans

	December 31, 2012			December 31, 2011		
	Single-family	Multifamily	Total	Single-family	Multifamily	Total
	(in millions)					
Recorded investment:						
Collectively evaluated	$ 1,550,493	$ 60,836	$ 1,611,329	$ 1,677,974	$ 70,131	$ 1,748,105
Individually evaluated	89,291	2,196	91,487	60,037	2,670	62,707
Total recorded investment	1,639,784	63,032	1,702,816	1,738,011	72,801	1,810,812
Ending balance of the allowance for loan losses:						
Collectively evaluated	(12,432)	(135)	(12,567)	(23,657)	(260)	(23,917)
Individually evaluated	(17,935)	(205)	(18,140)	(15,100)	(246)	(15,346)
Total ending balance of the allowance	(30,367)	(340)	(30,707)	(38,757)	(506)	(39,263)
Net investment in mortgage loans	$ 1,609,417	$ 62,692	$ 1,672,109	$ 1,699,254	$ 72,295	$ 1,771,549

A significant number of unsecuritized single-family mortgage loans on our consolidated balance sheets are individually evaluated for impairment and substantially all single-family mortgage loans held by our consolidated trusts are collectively evaluated for impairment. The ending balance of the allowance for loan losses associated with our held-for-investment unsecuritized mortgage loans represented approximately 12.8% and 13.0% of the recorded investment in such loans at December 31, 2012 and 2011, respectively. The ending balance of the allowance for loan losses associated with mortgage loans held by our consolidated trusts represented approximately 0.3% and 0.5% of the recorded investment in such loans as of December 31, 2012 and 2011, respectively.

Credit Protection and Other Forms of Credit Enhancement

In connection with many of our mortgage loans held-for-investment and other mortgage-related guarantees, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, and other forms of credit enhancements.

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

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Table 4.5 Recourse and Other Forms of Credit Protection[1]

	UPB at		Maximum Coverage[2] at	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(in millions)			
Single-family:				
Primary mortgage insurance	$ 188,419	$ 198,007	$ 46,685	$ 48,741
Lender recourse and indemnifications	7,875	8,798	7,718	8,453
Pool insurance[3]	7,307	26,754	1,355	2,210
HFA indemnification[4]	6,270	8,637	3,323	3,323
Subordination[5]	2,960	3,281	503	647
Other credit enhancements	62	133	62	99
Total	$ 212,893	$ 245,610	$ 59,646	$ 63,473
Multifamily:				
HFA indemnification[4]	$ 1,112	$ 1,331	$ 699	$ 466
Subordination[5]	40,549	23,637	6,698	3,439
Other credit enhancements	7,235	7,934	2,263	2,474
Total	$ 48,896	$ 32,902	$ 9,660	$ 6,379

(1) Includes the credit protection associated with unsecuritized mortgage loans, loans held by our consolidated trusts as well as our non-consolidated mortgage guarantees and excludes FHA/VA and other governmental loans. Except for subordination coverage, these amounts exclude credit protection associated with $13.8 billion and $16.6 billion in UPB of single-family loans underlying Other Guarantee Transactions as of December 31, 2012 and December 31, 2011, respectively, for which the information was not available.
(2) Except for subordination, this represents the remaining amount of loss recovery that is available subject to terms of counterparty agreements.
(3) Maximum coverage amounts presented have been limited to the remaining UPB at period end. Prior period amounts have been revised to conform to current period presentation. Excludes approximately $3.3 billion and $13.5 billion in UPB at December 31, 2012 and December 31, 2011, respectively, where the related loans are also covered by primary mortgage insurance.
(4) Represents the amount of potential reimbursement of losses on securities we have guaranteed that are backed by state and local HFA bonds, under which Treasury bears initial losses on these securities up to 35% of the original UPB issued under the HFA initiative on a combined program-wide basis. Treasury will also bear losses of unpaid interest.
(5) Represents Freddie Mac issued mortgage-related securities with subordination protection, excluding those backed by HFA bonds. Excludes mortgage-related securities where subordination coverage was exhausted or maximum coverage amounts were limited to the remaining UPB at that date.

Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is typically provided on a loan-level basis. Pool insurance contracts provide insurance on a group of mortgage loans up to a stated aggregate loss limit. We have not purchased pool insurance on single-family loans since March 2008. We also reached the maximum limit of recovery on certain pool insurance contracts. For information about counterparty risk associated with mortgage insurers, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Mortgage Insurers.

We also have credit enhancements protecting our multifamily mortgage portfolio. Subordination, primarily through our K Certificates, is the most prevalent type, whereby we mitigate our credit risk exposure by structuring our securities to shift a significant portion of expected credit losses to third party investors through the sale of subordinate tranches.

We also have credit protection for certain of the mortgage loans on our consolidated balance sheets that are covered by insurance or partial guarantees issued by federal agencies (such as FHA, VA, and USDA). The total UPB of these loans was $4.3 billion and $4.7 billion as of December 31, 2012 and 2011, respectively.

NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS

Individually Impaired Loans

Individually impaired single-family loans include performing and non-performing TDRs, as well as loans acquired under our financial guarantees with deteriorated credit quality. Individually impaired multifamily loans include TDRs, loans three monthly payments or more past due, and loans that are impaired based on management judgment. For a discussion of our significant accounting policies regarding impaired and non-performing loans, which are applied consistently for multifamily loans and single-family loan classes, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

Total loan loss reserves consist of a specific valuation allowance related to individually impaired mortgage loans, and a general reserve for other probable incurred losses. Our recorded investment in individually impaired mortgage loans and the related specific valuation allowance are summarized in the table below by product class (for single-family loans).

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Table 5.1 Individually Impaired Loans

	Balance at December 31, 2012				For The Year Ended December 31, 2012		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis
				(in millions)			
Single-family							
With no specific allowance recorded[1]:							
20 and 30-year or more, amortizing fixed-rate[2]	$ 6,582	$ 3,236	$	$ 3,236	$ 3,136	$ 339	$ 46
15-year amortizing fixed-rate[2]	64	30		30	25	6	1
Adjustable rate[3]	19	12		12	7		
Alt-A, interest-only, and option ARM[4]	1,799	857		857	847	63	11
Total with no specific allowance recorded	8,464	4,135		4,135	4,015	408	58
With specific allowance recorded:[5]							
20 and 30-year or more, amortizing fixed-rate[2]	67,473	66,501	(13,522)	52,979	55,431	1,632	279
15-year amortizing fixed-rate[2]	1,134	1,125	(55)	1,070	714	31	8
Adjustable rate[3]	883	874	(107)	767	558	14	5
Alt-A, interest-only, and option ARM[4]	16,946	16,656	(4,251)	12,405	14,278	326	82
Total with specific allowance recorded	86,436	85,156	(17,935)	67,221	70,981	2,003	374
Combined single-family:							
20 and 30-year or more, amortizing fixed-rate[2]	74,055	69,737	(13,522)	56,215	58,567	1,971	325
15-year amortizing fixed-rate[2]	1,198	1,155	(55)	1,100	739	37	9
Adjustable rate[3]	902	886	(107)	779	565	14	5
Alt-A, interest-only, and option ARM[4]	18,745	17,513	(4,251)	13,262	15,125	389	93
Total single-family[6]	$ 94,900	$ 89,291	$ (17,935)	$ 71,356	$ 74,996	$ 2,411	$ 432
Multifamily							
With no specific allowance recorded [7]	$ 978	$ 966	$	$ 966	$ 1,420	$ 61	$ 37
With specific allowance recorded	1,248	1,230	(205)	1,025	1,470	68	51
Total multifamily	$ 2,226	$ 2,196	$ (205)	$ 1,991	$ 2,890	$ 129	$ 88
Total single-family and multifamily	$ 97,126	$ 91,487	$ (18,140)	$ 73,347	$ 77,886	$ 2,540	$ 520

	Balance at December 31, 2011				For The Year Ended December 31, 2011		
	UPB	Recorded Investment	Associated Allowance	Net Investment	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized On Cash Basis
				(in millions)			
Single-family							
With no specific allowance recorded[1]:							
20 and 30-year or more, amortizing fixed-rate[2]	$ 7,073	$ 3,200	$	$ 3,200	$ 3,352	$ 336	$ 48
15-year amortizing fixed-rate[2]	57	23		23	26	7	1
Adjustable rate[3]	13	6		6	7	1	
Alt-A, interest-only, and option ARM[4]	1,987	881		881	940	72	9

Total with no specific allowance recorded	9,130	4,110		4,110	4,325	416	58
With specific allowance recorded:[5]							
20 and 30-year or more, amortizing fixed-rate[2]	44,672	43,533	(11,253)	32,280	35,707	889	129
15-year amortizing fixed-rate[2]	367	347	(43)	304	230	12	4
Adjustable rate[3]	280	268	(59)	209	155	5	2
Alt-A, interest-only, and option ARM[4]	12,103	11,779	(3,745)	8,034	9,391	173	34
Total with specific allowance recorded	57,422	55,927	(15,100)	40,827	45,483	1,079	169
Combined single-family:							
20 and 30-year or more, amortizing fixed-rate[2]	51,745	46,733	(11,253)	35,480	39,059	1,225	177
15-year amortizing fixed-rate[2]	424	370	(43)	327	256	19	5
Adjustable rate[3]	293	274	(59)	215	162	6	2
Alt-A, interest-only, and option ARM[4]	14,090	12,660	(3,745)	8,915	10,331	245	43
Total single-family[6]	$ 66,552	$ 60,037	$ (15,100)	$ 44,937	$ 49,808	$ 1,495	$ 227
Multifamily							
With no specific allowance recorded[7]	$ 1,049	$ 1,044	$	$ 1,044	$ 1,427	$ 65	$ 34
With specific allowance recorded	1,644	1,626	(246)	1,380	1,920	81	67
Total multifamily	$ 2,693	$ 2,670	$ (246)	$ 2,424	$ 3,347	$ 146	$ 101
Total single-family and multifamily	$ 69,245	$ 62,707	$ (15,346)	$ 47,361	$ 53,155	$ 1,641	$ 328

(1) Individually impaired loans with no specific related valuation allowance primarily represent mortgage loans purchased out of PC pools and accounted for in accordance with the accounting guidance for loans and debt securities acquired with deteriorated credit quality that have not experienced further deterioration.
(2) See endnote (3) of Table 4.2 Recorded Investment of Held-for-Investment Mortgage Loans, by LTV Ratio.
(3) Includes balloon/reset mortgage loans and excludes option ARMs.
(4) See endnote (5) of Table 4.2 Recorded Investment of Held-for-Investment Mortgage Loans, by LTV Ratio.
(5) Consists primarily of mortgage loans classified as TDRs.
(6) As of December 31, 2012 and 2011 includes $86.4 billion and $57.4 billion, respectively, of UPB associated with loans for which we have recorded a specific allowance, and $8.5 billion and $9.1 billion, respectively, of UPB associated with loans that have no specific allowance recorded. See endnote (1) for additional information.
(7) Individually impaired multifamily 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.

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The average recorded investment in individually impaired loans for the year ended December 31, 2010, was approximately $27.5 billion.

We recognized interest income on individually impaired loans of $1.4 billion for the year ended December 31, 2010. Interest income recognized on a cash basis on individually impaired loans was $0.2 billion for the year ended December 31, 2010. Interest income foregone on individually impaired loans was $2.3 billion, $1.6 billion, and $0.8 billion for the years ended December 31, 2012, 2011, and 2010, respectively.

Mortgage Loan Performance

We do not accrue interest on loans three months or more past due.

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

Table 5.2 Payment Status of Mortgage Loans[1]

	December 31, 2012					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure	Total	Non-accrual
	(in millions)					
Single-family						
20 and 30-year or more, amortizing fixed-rate[2]	$ 1,125,996	$ 21,509	$ 8,051	$ 40,977	$ 1,196,533	$ 40,833
15-year amortizing fixed-rate[2]	270,730	1,320	338	1,184	273,572	1,177
Adjustable-rate[3]	63,736	614	212	1,388	65,950	1,383
Alt-A, interest-only, and option ARM[4]	82,438	3,439	1,582	16,270	103,729	16,237
Total single-family	1,542,900	26,882	10,183	59,819	1,639,784	59,630
Total multifamily	63,000		2	30	63,032	1,457
Total single-family and multifamily	$ 1,605,900	$ 26,882	$ 10,185	$ 59,849	$ 1,702,816	$ 61,087

	December 31, 2011					
	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure	Total	Non-accrual
	(in millions)					
Single-family						
20 and 30-year or more, amortizing fixed-rate[2]	$ 1,191,809	$ 24,964	$ 9,006	$ 46,707	$ 1,272,486	$ 46,600
15-year amortizing fixed-rate[2]	256,306	1,499	361	1,367	259,533	1,361
Adjustable-rate[3]	63,929	724	239	1,842	66,734	1,838
Alt-A, interest-only, and option ARM[4]	109,967	4,617	2,172	22,502	139,258	22,473
Total single-family	1,622,011	31,804	11,778	72,418	1,738,011	72,272
Total multifamily	72,715	2	15	69	72,801	1,882
Total single-family and multifamily	$ 1,694,726	$ 31,806	$ 11,793	$ 72,487	$ 1,810,812	$ 74,154

(1) Based on recorded investment in the loan. Mortgage loans that have been modified are not counted as past due as long as the borrower is current under the modified terms. The payment status of a loan may be affected by temporary timing differences, or lags, in the reporting of this information to us by our servicers.
(2) See endnote (3) of Table 4.2 Recorded Investment of Held-for-Investment Mortgage Loans, by LTV Ratio.
(3) Includes balloon/reset mortgage loans and excludes option ARMs.
(4) See endnote (5) of Table 4.2 Recorded Investment of Held-for-Investment Mortgage Loans, by LTV Ratio.

We have the option under our PC agreements to remove mortgage loans that underlie our PCs under certain circumstances to resolve an existing or impending delinquency or default. Our practice generally has been to remove loans from PC trusts when the loans have been delinquent for 120 days or more. As of December 31, 2012, there were $2.2 billion in UPB of loans underlying our PCs that were 120 days or more delinquent, and that met our criteria for removing the loan from the PC trust. Generally, we remove these delinquent loans from the PC trust, and thereby extinguish the related PC debt, at the next scheduled PC payment date, unless the loans proceed to foreclosure transfer, complete a foreclosure alternative or are paid in full by the borrower before such date.

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When we remove mortgage loans from PC trusts, we reclassify the loans from mortgage loans held-for-investment by consolidated trusts to unsecuritized mortgage loans held-for-investment and record an extinguishment of the corresponding portion of the debt securities of the consolidated trusts. We removed $29.6 billion and $44.1 billion in UPB of loans from PC trusts (or purchased delinquent loans associated with other guarantee commitments) during the years ended December 31, 2012 and 2011, respectively.

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

Table 5.3 Delinquency Rates(1)

	December 31, 2012	December 31, 2011
Single-family:		
Non-credit-enhanced portfolio (excluding Other Guarantee Transactions):		
Serious delinquency rate	2.62%	2.80%
Total number of seriously delinquent loans	244,533	273,184
Credit-enhanced portfolio (excluding Other Guarantee Transactions):		
Serious delinquency rate	6.83%	7.56%
Total number of seriously delinquent loans	90,747	120,622
Other Guarantee Transactions:(2)		
Serious delinquency rate	10.60%	10.54%
Total number of seriously delinquent loans	17,580	20,328
Total single-family:		
Serious delinquency rate	3.25%	3.58%
Total number of seriously delinquent loans	352,860	414,134
Multifamily:(3)		
Non-credit-enhanced portfolio:		
Delinquency rate	0.10%	0.11%
UPB of delinquent loans (in millions)	$ 76	$ 93
Credit-enhanced portfolio:		
Delinquency rate	0.36%	0.52%
UPB of delinquent loans (in millions)	$ 172	$ 166
Total Multifamily:		
Delinquency rate	0.19%	0.22%
UPB of delinquent loans (in millions)	$ 248	$ 259

(1) Single-family mortgage loans that have been modified are not counted as seriously delinquent if the borrower is less than three monthly payments past due under the modified terms. Serious delinquencies on single-family mortgage loans underlying certain REMICs and Other Structured Securities, Other Guarantee Transactions, and other guarantee commitments may be reported on a different schedule due to variances in industry practice.
(2) Other Guarantee Transactions generally have underlying mortgage loans with higher risk characteristics, but some Other Guarantee Transactions may provide inherent credit protections from losses due to underlying subordination, excess interest, overcollateralization and other features.
(3) Multifamily delinquency performance is based on UPB of mortgage loans that are two monthly payments or more past due or those in the process of foreclosure and includes multifamily Other Guarantee Transactions. Excludes mortgage loans that have been modified as long as the borrower is less than two monthly payments past due under the modified contractual terms.

We continue to implement a number of initiatives to modify and restructure loans, including the MHA Program. Our implementation of the MHA Program, for our loans, includes the following: (a) an initiative to allow mortgages currently owned or guaranteed by us to be refinanced without obtaining additional credit enhancement beyond that already in place for the loan (i.e., our relief refinance mortgage, which is our implementation of HARP); (b) an initiative to modify mortgages for both homeowners who are in default and those who are at risk of imminent default (i.e., HAMP); and (c) an initiative designed to permit borrowers who meet basic HAMP eligibility requirements to sell their homes in short sales or to complete a deed in lieu transaction (i.e., HAFA). As part of accomplishing certain of these initiatives, we pay various incentives to servicers and borrowers. We bear the full costs associated with these loan workout and foreclosure alternatives on mortgages that we own or guarantee, including the cost of any monthly payment reductions, and do not receive any reimbursement from Treasury.

Troubled Debt Restructurings

On July 1, 2011, we adopted an amendment to the accounting guidance for receivables, which clarifies the guidance regarding a creditor s evaluation of when a restructuring is considered a TDR. While our adoption of this amendment did not have an effect on how we account for TDRs, it did significantly expand the population of loans that we account for as TDRs. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Guidance for further information on our implementation of this guidance.

In the third quarter of 2012, we changed the treatment of single-family loans discharged in Chapter 7 bankruptcy to classify these loans as TDRs (unless they were already classified as such for other reasons), regardless of the borrowers

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payment status. The majority of these TDR loans were not seriously delinquent at the time of this reclassification and, in many cases, the borrowers were continuing to make timely payments.

Single-Family TDRs

We require our single-family servicers to contact borrowers who are in default and to evaluate loan workout options in accordance with our requirements. We establish guidelines for our servicers to follow and provide them default management tools to use, in part, in determining which type of loan workout would be expected to provide the best opportunity for minimizing our credit losses. We require our single-family servicers to first evaluate problem loans for a repayment or forbearance plan before considering modification. If a borrower is not eligible for a modification, our seller/servicers pursue other workout options before considering foreclosure. We receive information related to loan workouts, such as completed modifications and loans in a modification trial period, and other alternatives to foreclosure from our servicers at the loan level on at least a monthly basis. For loans in a modification trial period, we do not receive the terms of the expected completed modification until the modification is completed. For these loans, we only receive notification that they are in a modification trial period. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guarantee Losses for more detail.

Repayment plans are agreements with the borrower that give the borrower a defined period of time to reinstate the mortgage by paying regular payments plus an additional agreed upon amount in repayment of the past due amount. These agreements are considered TDRs if they result in a delay in payment that is considered to be more than insignificant.

Forbearance agreements are agreements between the servicer and the borrower where reduced payments or no payments are required during a defined period. These agreements are considered TDRs if they result in a delay in payment that is considered to be more than insignificant.

In the case of borrowers considered for modifications, our servicers typically obtain information on income, assets, and other borrower obligations to determine modified loan terms. Under HAMP, the goal of a single-family loan modification is to reduce the borrower s monthly mortgage payments to a specified percentage of the borrower s gross monthly income, which may be achieved through a combination of methods, including: (a) interest rate reduction; (b) term extension; and (c) principal forbearance. Principal forbearance is when a portion of the principal is made non-interest-bearing and non-amortizing, but this does not represent principal forgiveness. Although HAMP contemplates that some servicers will also make use of principal forgiveness to achieve reduced payments for borrowers, we have only used forbearance of principal and have not used principal forgiveness in modifying our loans.

We implemented a non-HAMP standard loan modification initiative in late 2011, which replaced our previous non-HAMP modification initiative beginning January 1, 2012. Our HAMP and non-HAMP modification initiatives are available for borrowers experiencing what is generally expected to be a longer-term financial hardship. Both HAMP and our non-HAMP standard modification require a three month trial period during which the borrower will make monthly payments based on the estimated amount of the modification payments. After the final trial-period payment is received by our servicer, the borrower and servicer enter into the modification. We consider restructurings under these initiatives as TDRs at the inception of the trial period if the expected modification will result in a change in our expectation to collect all amounts due at the original contract rate. Since we do not receive the terms of the modification until completion of the trial period, we estimate the impairment for loans in a modification trial period that are considered TDRs using the average impairment recorded for completed modifications and the estimated likelihood of completion of the trial period. If the borrower fails to successfully complete the trial period, the impairment for the loan is then based on the original terms of the loan. If the borrower successfully completes the trial period, the impairment for the loan is then based on the modified terms of the loan. These subsequent adjustments to impairment are based on the success or failure of the borrower to complete the trial period and are recorded through the provision for credit losses.

During 2012, approximately 57%, of completed modifications that were classified as TDRs involved interest rate reductions and term extensions and approximately 37% involved principal forbearance in addition to interest rate reductions and term extensions. During 2012, the average term extension was 130 months and the average interest rate reduction was 2.4% on completed modifications classified as TDRs. The aggregate recorded investment of single-family loans classified as TDRs during 2012 and 2011 was higher post-modification than the aggregate recorded investment of the pre-modified loans since past due amounts are added to the principal balance at the time of restructuring.

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Multifamily TDRs

The assessment as to whether a multifamily loan restructuring is considered a TDR contemplates the unique facts and circumstances of each loan. This assessment considers qualitative factors such as whether the borrower s modified interest rate is consistent with that of a borrower having a similar credit profile at the time of modification. In certain cases, for maturing loans we may provide short-term loan extensions of up to one year with no changes to the effective borrowing rate. In other cases, we may make more significant modifications of terms for borrowers experiencing financial difficulty, such as reducing the interest rate or extending the maturity for longer than one year. In cases where we do modify the contractual terms of the loan, the changes in terms may be similar to those of single-family loans, such as an extension of the term, reduction of contractual rate, principal forbearance, or some combination of these features.

TDR Activity and Performance

The table below presents the volume of single-family and multifamily loans that were newly classified as TDRs during 2012 and 2011, 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.

Table 5.4 TDR Activity, by Segment

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	# of Loans	Post-TDR Recorded Investment	# of Loans	Post-TDR Recorded Investment
	(dollars in millions)			
Single-family[1]				
20 and 30-year or more, amortizing fixed-rate	177,930	$ 27,076	100,948	$ 19,263
15-year amortizing fixed-rate	17,549	1,176	6,529	651
Adjustable-rate[2]	6,496	977	3,287	657
Alt-A, interest-only, and option ARM	35,012	7,834	31,094	8,355
Total Single-family	236,987	37,063	141,858	28,926
Multifamily	20	202	23	254
Total	237,007	$ 37,265	141,881	$ 29,180

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during the years ended December 31, 2012 and 2011, was $37.0 billion and $28.1 billion, respectively.
(2) Includes balloon/reset mortgage loans.

The measurement of impairment for single-family TDRs is based on the excess of our recorded investment in the loan over the present value of the loan s expected future cash flows. For multifamily loans, we use an estimate of the fair value of the loan s collateral rather than the present value of expected future cash flows to determine the amount of impairment. Generally, restructurings of single-family loans that are TDRs have a higher allowance for loan losses than restructurings that are not considered TDRs because TDRs involve a concession being granted to the borrower. Our process for determining the appropriate allowance for loan losses for both single-family and multifamily loans considers the impact that our loss mitigation activities, such as loan restructurings, have on probabilities of default. For single-family loans evaluated individually and collectively for impairment that have been modified, the probability of default is affected by the incidence of redefault that we have experienced on similar loans that have completed a modification. For multifamily loans, the incidence of redefault on loans that have been modified does not directly affect the allowance for loan losses as our multifamily loans are generally evaluated individually for impairment based on the fair value of the underlying collateral. The process for determining the appropriate allowance for loan losses for multifamily loans evaluated collectively for impairment considers the incidence of redefault on loans that have completed a modification.

The table below presents the volume of payment defaults of our TDR modifications based on the original category of the loan before modification and excludes loans subject to other loss mitigation activity that were classified as TDRs during the period. 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 before completing the modification. For reporting purposes, loans within the option ARM category continue to be presented in that category following modification, even though the modified loan no longer provides for optional payment provisions. Substantially all of our completed single-family loan modifications classified as a TDR during 2012 resulted in a modified loan with a fixed interest rate. Approximately $45.0 billion in UPB of our completed HAMP loan modifications at December 31, 2012 had provisions for reduced interest rates that remain fixed for the first five years of the modification and then increase at a rate of one percent per year (or such lesser amount as may be needed) until the interest rate has been adjusted to the market rate that was in effect at the time of the modification.

Table 5.5 Payment Defaults of Completed TDR Modifications, by Segment[1]

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	# of Loans	Post-TDR Recorded Investment[2]	# of Loans	Post-TDR Recorded Investment[2]
	(dollars in millions)			
Single-family				
20 and 30-year or more, amortizing fixed-rate	15,718	$ 2,905	23,592	$ 4,417
15-year amortizing fixed-rate	716	73	890	91
Adjustable-rate	331	71	519	111
Alt-A, interest-only, and option ARM	3,042	805	5,794	1,529
Total single-family	19,807	$ 3,854	30,795	$ 6,148
Multifamily	6	$ 82	8	$ 31

(1) Represents TDR loans that experienced a payment default during the period and had completed a modification during the year preceding the payment default. A payment default occurs when a borrower either: (a) became two or more months delinquent; or (b) completed a loss event, such as a short sale or foreclosure transfer. We only include payment defaults for a single loan once during each quarterly period within a year; however, a single loan will be reflected more than once if the borrower experienced another payment default in a subsequent quarterly period.

(2) Represents the recorded investment at the end of the period in which the loan was modified and does not represent the recorded investment as of December 31.

There were 3,845 loans where we engaged in other loss mitigation activities (i.e., repayment plan, forbearance agreement, or trial period modifications) initially classified as TDRs, with a post-TDR recorded investment of $576 million, that returned to a current payment status, and then subsequently became two months delinquent during 2012. In addition, there were 5,220 loans with other loss mitigation activities initially classified as TDRs, with a post-TDR recorded investment of $876 million, that subsequently completed a loss event, such as a short sale or a foreclosure transfer during 2012. There were also 9,390 loans with a recorded investment of $ 1.5 billion that were initially classified as TDRs because the borrowers debts were discharged in Chapter 7 bankruptcy (and the loan was not already classified as TDR for other reasons) and the loan subsequently experienced a loss event in 2012.

NOTE 6: REAL ESTATE OWNED

We obtain REO properties: (a) when we are the highest bidder at foreclosure sales of properties that collateralize non-performing single-family and multifamily mortgage loans owned by us; or (b) when a delinquent borrower chooses to transfer the mortgaged property to us in lieu of going through the foreclosure process. Upon acquiring single-family properties, we establish a marketing plan to sell the property as soon as practicable by determining an estimated market value and listing it for sale with a real estate broker. Upon acquiring multifamily properties, we may operate them using third-party property-management firms for a period to stabilize value and then sell the properties through commercial real estate brokers. However, certain jurisdictions require a period of time after foreclosure during which the borrower may reclaim the property. During the period when the borrower may reclaim the property, or we are completing the eviction process, we are not able to market the property and this extends our holding period for these properties. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for a discussion of our significant accounting policies for REO.

The table below provides a summary of the change in the carrying value of our combined single-family and multifamily REO balances. For the periods presented in the table below, the weighted average holding period for our disposed properties was less than one year.

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Table 6.1 REO[1]

	Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Beginning balance REO	$ 5,827	$ 7,368	$ 4,787
Adjustment to beginning balance[2]			147
Additions	7,029	8,970	12,304
Dispositions	(8,449)	(10,511)	(9,870)
Ending balance REO	4,407	5,827	7,368
Beginning balance, valuation allowance	(147)	(300)	(95)
Change in valuation allowance	118	153	(205)
Ending balance, valuation allowance	(29)	(147)	(300)
Ending balance REO, net	$ 4,378	$ 5,680	$ 7,068

(1) In the fourth quarter of 2012, we revised our presentation of REO activity to include the initial estimated costs to sell within REO activities rather than within the change in valuation allowance. Prior period amounts have been revised to conform to current period presentation.
(2) Adjustment to the beginning balance related to the adoption of new accounting guidance for transfers of financial assets and consolidation of VIEs. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for further information.

The REO balance, net at December 31, 2012 and 2011 associated with single-family properties was $4.3 billion and $5.5 billion, respectively, and the balance associated with multifamily properties was $64 million and $133 million, respectively. The North Central region represented approximately 33% and 27% of our single-family REO additions during 2012 and 2011, respectively, based on the number of properties, and the Southeast region represented approximately 29% and 24% of our single-family REO additions during 2012 and 2011. Our single-family REO inventory consisted of 49,071 properties and 60,535 properties at December 31, 2012 and 2011, respectively. In recent years, the foreclosure process has been significantly slowed in many geographical areas due to lengthening of the foreclosure process, particularly in states that require a judicial foreclosure process. See NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for additional information about regional concentrations in our portfolio.

Our REO operations expenses include: (a) REO property expenses; (b) net gains or losses incurred on disposition of REO properties; (c) adjustments to the holding period allowance associated with REO properties to record them at the lower of their carrying amount or fair value less the estimated costs to sell; and (d) recoveries from insurance and other credit enhancements. An allowance for estimated declines in the REO fair value during the period properties are held reduces the carrying value of REO property. Excluding holding period valuation adjustments, we recognized gains (losses) of $693 million, $(165) million, and $(93) million on REO dispositions during 2012, 2011, and 2010, respectively. We increased (decreased) our valuation allowance for properties in our REO inventory by $(7) million, $304 million, and $498 million in 2012, 2011, and 2010, respectively.

REO property acquisitions that result from extinguishment of our mortgage loans held on our consolidated balance sheets are treated as non-cash transfers. The amount of non-cash acquisitions of REO properties during the years ended December 31, 2012, 2011, and 2010 was $6.8 billion, $8.7 billion, and $12.3 billion respectively.

NOTE 7: INVESTMENTS IN SECURITIES

The table below summarizes amortized cost, estimated fair values, and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities by major security type. At December 31, 2012 and 2011, all available-for-sale securities are mortgage-related securities.

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Table 7.1 Available-For-Sale Securities

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)		
Available-for-sale securities:				
Freddie Mac	$ 53,965	$ 4,602	$ (52)	$ 58,515
Fannie Mae	14,183	1,099	(2)	15,280
Ginnie Mae	183	26		209
CMBS	47,606	3,882	(181)	51,307
Subprime	35,503	83	(9,129)	26,457
Option ARM	7,454	48	(1,785)	5,717
Alt-A and other	11,861	244	(1,201)	10,904
Obligations of states and political subdivisions	5,647	154	(3)	5,798
Manufactured housing	716	24	(31)	709
Total available-for-sale securities	$ 177,118	$ 10,162	$ (12,384)	$ 174,896
December 31, 2011				
Available-for-sale securities:				
Freddie Mac	$ 74,711	$ 6,429	$ (48)	$ 81,092
Fannie Mae	19,023	1,303	(4)	20,322
Ginnie Mae	219	30		249
CMBS	53,637	2,574	(548)	55,663
Subprime	41,347	60	(13,408)	27,999
Option ARM	9,019	15	(3,169)	5,865
Alt-A and other	13,659	32	(2,812)	10,879
Obligations of states and political subdivisions	7,782	108	(66)	7,824
Manufactured housing	820	6	(60)	766
Total available-for-sale securities	$ 220,217	$ 10,557	$ (20,115)	$ 210,659

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

The table below shows the fair value of available-for-sale securities in a gross unrealized loss position, and whether they have been in that position less than 12 months, or 12 months or greater, including the non-credit-related portion of other-than-temporary impairments, which have been recognized in AOCI.

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Table 7.2 Available-For-Sale Securities in a Gross Unrealized Loss Position

	Less than 12 Months	Gross Unrealized Losses			12 Months or Greater	Gross Unrealized Losses			Total	Gross Unrealized Losses		
December 31, 2012	**Fair Value**	**Other-Than-Temporary Impairment (1)**	**Temporary Impairment (2)**	**Total**	**Fair Value**	**Other-Than-Temporary Impairment (1)**	**Temporary Impairment (2)**	**Total**	**Fair Value**	**Other-Than-Temporary Impairment (1)**	**Temporary Impairment (2)**	**Total**
							(in millions)					
Available-for-sale securities:												
Freddie Mac	$ 1,811	$	$ (25)	$ (25)	$ 1,872	$	$ (27)	$ (27)	$ 3,683	$	$ (52)	$ (52)
Fannie Mae	170				55		(2)	(2)	225		(2)	(2)
CMBS	340		(3)	(3)	3,425	(22)	(156)	(178)	3,765	(22)	(159)	(181)
Subprime	298	(23)		(23)	25,676	(7,189)	(1,917)	(9,106)	25,974	(7,212)	(1,917)	(9,129)
Option ARM	82	(3)		(3)	5,182	(1,729)	(53)	(1,782)	5,264	(1,732)	(53)	(1,785)
Alt-A and other	50	(4)		(4)	7,938	(961)	(236)	(1,197)	7,988	(965)	(236)	(1,201)
Obligations of states and political subdivisions	37		(1)	(1)	45		(2)	(2)	82		(3)	(3)
Manufactured housing	46				222	(26)	(5)	(31)	268	(26)	(5)	(31)
Total available-for-sale securities in a gross unrealized loss position	$ 2,834	$ (30)	$ (29)	$ (59)	$ 44,415	$ (9,927)	$ (2,398)	$ (12,325)	$ 47,249	$ (9,957)	$ (2,427)	$ (12,384)

	Less than 12 Months	Gross Unrealized Losses			12 Months or Greater	Gross Unrealized Losses			Total	Gross Unrealized Losses		
December 31, 2011	**Fair Value**	**Other-Than-Temporary Impairment (1)**	**Temporary Impairment (2)**	**Total**	**Fair Value**	**Other-Than-Temporary Impairment (1)**	**Temporary Impairment (2)**	**Total**	**Fair Value**	**Other-Than-Temporary Impairment (1)**	**Temporary Impairment (2)**	**Total**
							(in millions)					
Available-for-sale securities:												
Freddie Mac	$ 2,196	$	$ (4)	$ (4)	$ 1,884	$	$ (44)	$ (44)	$ 4,080	$	$ (48)	$ (48)
Fannie Mae	1,144		(2)	(2)	14		(2)	(2)	1,158		(4)	(4)
CMBS	997	(20)	(41)	(61)	3,573	(9)	(478)	(487)	4,570	(29)	(519)	(548)
Subprime	8	(1)		(1)	27,742	(10,785)	(2,622)	(13,407)	27,750	(10,786)	(2,622)	(13,408)
Option ARM	95	(13)		(13)	5,743	(3,067)	(89)	(3,156)	5,838	(3,080)	(89)	(3,169)
Alt-A and other	1,197	(114)	(4)	(118)	9,070	(2,088)	(606)	(2,694)	10,267	(2,202)	(610)	(2,812)
Obligations of states and political subdivisions	292		(6)	(6)	2,157		(60)	(60)	2,449		(66)	(66)
Manufactured housing	197	(5)		(5)	345	(44)	(11)	(55)	542	(49)	(11)	(60)
Total available-for-sale securities in a gross unrealized loss position	$ 6,126	$ (153)	$ (57)	$ (210)	$ 50,528	$ (15,993)	$ (3,912)	$ (19,905)	$ 56,654	$ (16,146)	$ (3,969)	$ (20,115)

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

At December 31, 2012, total gross unrealized losses on available-for-sale securities were $12.4 billion. The gross unrealized losses relate to 1,134 individual lots representing 1,084 separate securities, including securities with non-credit-related other-than-temporary impairments recognized in AOCI. We purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically evaluating investment positions at the lot level; therefore, some of the lots we hold for a single security may be in an unrealized gain position while other lots for that security may be in an unrealized loss position, depending upon the amortized cost of the specific lot.

Impairment Recognition on Investments in Securities

We recognize impairment losses on available-for-sale securities within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings when we conclude that a decrease in the fair value of a security is other-than-temporary.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. We recognize other-than-temporary impairment in earnings if one of the following conditions exists: (a) we have the intent to sell the security; (b) it is more likely than not that we will be required to sell the security before recovery of its unrealized loss; or (c) we do not expect to recover the amortized cost basis of the security. If we do not intend to sell the security and we believe it is not more likely than not that we will be required to sell prior to recovery of the security s unrealized loss, we recognize only the credit component of other-than-temporary impairment in earnings and the amounts attributable to all other factors are recognized, net of tax, in AOCI. The credit component represents the amount by which the present value of expected future cash flows to be collected from the security is less than the amortized cost basis of the security. The present value of expected future cash flows represents our estimate of future contractual cash flows that we expect to collect, discounted at the effective interest rate determined based on the security s contractual cash flows and the initial acquisition costs or the effective interest rate determined based on significantly improved cash flows subsequent to initial impairment.

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Our net impairment of available-for-sale securities recognized in earnings on our consolidated statements of comprehensive income for the years ended December 31, 2012, 2011, and 2010, includes amounts related to certain securities where we have previously recognized non-credit other-than-temporary impairments through AOCI, but upon the recognition of additional credit losses, these amounts were reclassified out of AOCI and charged to earnings. In certain instances, we recognized credit losses in excess of unrealized losses in AOCI.

The evaluation of whether unrealized losses on available-for-sale securities are other-than-temporary requires significant management judgments and assumptions and consideration of numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. Important factors include, but are not limited to:

- whether we intend to sell the security or it is more likely than not that we will be required to sell the security before sufficient time elapses to recover all unrealized losses;

- the use of a third-party model for single-family non-agency mortgage-related securities that considers the credit performance of the underlying collateral, including current LTV ratio, delinquency status, servicer performance, and borrower credit information. The model also incorporates assumptions about the economic environment, including future home prices, unemployment, and interest rates to project underlying collateral prepayment speeds, default rates, loss severities, and delinquency rates. Our estimation approach for CMBS includes the use of a separate third-party model that utilizes underlying collateral performance, current and expected credit enhancements, and incorporates assumptions about the underlying collateral cash flows; and

- the incorporation of security-level subordination information and the priority of cash flow payments by the models to project and estimate cash flows expected to be collected for each security.

For our available-for-sale securities in an unrealized loss position at December 31, 2012, we have asserted that we have no intent to sell and that we believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis. In cases where such an assertion cannot be made, the security s entire decline in fair value would be deemed to be other-than-temporary and is recorded within our consolidated statements of comprehensive income as net impairment of available-for-sale securities recognized in earnings.

See Table 7.2 Available-For-Sale Securities in a Gross Unrealized Loss Position for the length of time our available-for-sale securities have been in an unrealized loss position. Also see Table 7.3 Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities for the modeled default rates and severities that were used to determine whether our senior interests in certain non-agency mortgage-related securities would experience a cash shortfall.

Freddie Mac and Fannie Mae Securities

We record the purchase of mortgage-related securities issued by Fannie Mae as investments in securities in accordance with the accounting guidance for investments in debt and equity securities. In contrast, our purchase of mortgage-related securities that we issued (e.g., PCs, REMICs and Other Structured Securities, and Other Guarantee Transactions) is recorded as either investments in securities or extinguishment of debt securities of consolidated trusts depending on the nature of the mortgage-related security that we purchase. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities for additional information.

We hold these investments in securities that are in an unrealized loss position at least to recovery and typically to maturity. As the principal and interest on these securities are guaranteed and we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before a recovery of the unrealized losses, we consider these unrealized losses to be temporary.

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

We believe the unrealized losses on the non-agency mortgage-related securities we hold are a result of poor underlying collateral performance, limited liquidity, and large risk premiums. Our review of the securities backed by subprime, option ARM, and Alt-A and other loans includes the third-party loan level default modeling and analyses of the individual securities based on underlying collateral performance, including the collectability of amounts from bond insurers. In the case of bond insurers, we consider factors that affect both the bond insurers financial performance and ability to pay their obligations. We

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consider loan level information including estimated current LTV ratios, FICO scores, and other loan level characteristics. For additional information regarding bond insurers, see NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers.

The table below presents the modeled attributes, including default rates, prepayment rates, and severities, without regard to subordination, that are used to determine whether our interests in certain available-for-sale non-agency mortgage-related securities will experience a cash shortfall.

Table 7.3 Significant Modeled Attributes for Certain Available-For-Sale Non-Agency Mortgage-Related Securities

	December 31, 2012				
			Alt-A[1]		
	Subprime First Lien[2]	Option ARM	Fixed Rate	Variable Rate	Hybrid Rate
			(dollars in millions)		
Issuance Date					
2004 and prior:					
UPB	$ 1,112	$ 106	$ 715	$ 446	$ 2,008
Weighted average collateral defaults[3]	45%	41%	17%	40%	23%
Weighted average collateral severities[4]	68%	57%	46%	55%	47%
Weighted average voluntary prepayment rates[5]	6%	6%	12%	5%	7%
Average credit enhancement[6]	40%	9%	14%	17%	14%
2005:					
UPB	$ 5,033	$ 2,511	$ 1,028	$ 740	$ 3,614
Weighted average collateral defaults[3]	58%	52%	30%	56%	27%
Weighted average collateral severities[4]	73%	65%	58%	66%	53%
Weighted average voluntary prepayment rates[5]	3%	5%	9%	4%	6%
Average credit enhancement[6]	49%	6%	1%	23%	3%
2006:					
UPB	$ 18,137	$ 5,655	$ 468	$ 955	$ 1,041
Weighted average collateral defaults[3]	67%	64%	41%	59%	34%
Weighted average collateral severities[4]	75%	66%	59%	67%	57%
Weighted average voluntary prepayment rates[5]	2%	4%	7%	4%	6%
Average credit enhancement[6]	9%	(2)%	3%	(5)%	(2)%
2007:					
UPB	$ 19,784	$ 3,740	$ 148	$ 1,207	$ 264
Weighted average collateral defaults[3]	66%	63%	59%	56%	52%
Weighted average collateral severities[4]	73%	64%	58%	62%	65%
Weighted average voluntary prepayment rates[5]	2%	4%	4%	4%	5%
Average credit enhancement[6]	10%	8%	5%	(14)%	%
Total:					
UPB	$ 44,066	$ 12,012	$ 2,359	$ 3,348	$ 6,927
Weighted average collateral defaults[3]	65%	61%	30%	54%	28%
Weighted average collateral severities[4]	74%	65%	54%	64%	53%
Weighted average voluntary prepayment rates[5]	3%	4%	9%	4%	6%
Average credit enhancement[6]	15%	3%	6%	1%	5%

(1) Excludes non-agency mortgage-related securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.
(2) Excludes non-agency mortgage-related securities backed exclusively by subprime second liens. Certain securities identified as subprime first lien may be backed in part by subprime second-lien loans, as the underlying loans of these securities were permitted to include a small percentage of subprime second-lien loans.
(3) The expected cumulative default rate is expressed as a percentage of the current collateral UPB.
(4) The expected average loss given default is calculated as the ratio of cumulative loss over cumulative default for each security.
(5) The security s voluntary prepayment rate represents the average of the monthly voluntary prepayment rate weighted by the security s outstanding UPB.
(6) Reflects 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: (a) the total UPB of securities subordinate to the securities we own; divided by (b) the total UPB of all of the securities issued by the trust (excluding notional balances). Negative values are shown when collateral losses that have yet to be applied to the tranches exceed the remaining credit enhancement, if any. The level of credit enhancement, including those securities with negative values, has been considered in our assessment of other-than temporary impairment.

In evaluating the non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans for other-than-temporary impairment, we noted that the percentage of securities that were AAA-rated and the percentage that were investment grade declined significantly since acquisition. While these ratings have declined, the ratings themselves are not determinative that a loss is more or less likely. While we consider credit ratings in our analysis, we believe that our detailed security-by-security analyses provide a more consistent view of the ultimate collectability of contractual amounts due to us.

Our analysis is subject to change as new information regarding delinquencies, severities, loss timing, prepayments, and other factors becomes available. While it is reasonably possible that, under certain conditions, collateral losses on our remaining available-for-sale securities for which we have not recorded an impairment charge could exceed our credit

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enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were likely as of December 31, 2012.

Commercial Mortgage-Backed Securities

CMBS are exposed to stresses in the commercial real estate market. We use an external model to identify securities that may have an increased risk of failing to make their contractual payments. We then perform an analysis of the underlying collateral on a security-by-security basis to determine whether we will receive all of the contractual payments due to us. While it is reasonably possible that, under certain conditions, collateral losses on our CMBS for which we have not recorded an impairment charge could exceed our credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were likely as of December 31, 2012. We do not intend to sell our CMBS and it is not more likely than not that we will be required to sell such securities before recovery of the unrealized losses.

Obligations of States and Political Subdivisions

These investments consist of housing revenue bonds. We believe the unrealized losses on obligations of states and political subdivisions are primarily a result of movements in interest rates and liquidity and risk premiums. We have determined that the impairment of these securities is temporary based on our conclusion that we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before a recovery of the unrealized losses. We believe that any credit risk related to these securities is minimal because of the issuer guarantees provided on these securities.

Bond Insurance

We rely on bond insurance to provide credit protection on some of our non-agency mortgage-related securities. Circumstances in which: (a) it is likely a principal and interest shortfall will occur; and (b) there is substantial uncertainty surrounding a bond insurer s ability to pay all future claims can give rise to recognition of other-than-temporary impairment recognized in earnings. See NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers for additional information.

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

The table below summarizes our net impairment of available-for-sale securities recognized in earnings by security type. The net impairment of available-for-sale securities recognized in earnings includes the impact of our implementation of a third-party model, which enhanced our approach to estimating other-than-temporary impairment of our single-family non-agency mortgage-related securities. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Change in Estimate for additional information.

Table 7.4 Net Impairment of Available-For-Sale Securities Recognized in Earnings

	Net Impairment of Available-For-Sale Securities Recognized in Earnings For the Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Available-for-sale securities:			
CMBS[1]	$ (138)	$ (353)	$ (97)
Subprime	(1,274)	(1,315)	(1,769)
Option ARM	(556)	(424)	(1,395)
Alt-A and other	(196)	(198)	(1,020)
Manufactured housing	(4)	(11)	(27)
Total other-than-temporary impairments on available-for-sale securities	$ (2,168)	$ (2,301)	$ (4,308)

(1)

Includes $181 million of other-than-temporary impairments recognized in earnings for the year ended December 31, 2011, as we had the intent to sell the related securities before recovery of their amortized cost basis.

The table below presents the changes in the unrealized credit-related other-than-temporary impairment component of the amortized cost related to available-for-sale securities: (a) that we have written down for other-than-temporary impairment; and (b) for which the credit component of the loss has been recognized in earnings. The credit-related other-than-temporary impairment component of the amortized cost represents the difference between the present value of expected future cash flows, including the estimated proceeds from bond insurance, and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the other-than-temporary impairment credit loss component

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related to available-for-sale securities for which other-than-temporary impairment occurred prior to January 1, 2012, but will not be realized until the securities are sold, written off, or mature. Net impairment of available-for-sale securities recognized in earnings is presented as additions in two components based upon whether the current period is: (a) the first time the debt security was credit-impaired; or (b) not the first time the debt security was credit-impaired. The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired available-for-sale securities. Additionally, the credit loss component is reduced by the amortization resulting from significant increases in cash flows expected to be collected that are recognized over the remaining life of the security.

Table 7.5 Other-Than-Temporary Impairments Related to Credit Losses on Available-For-Sale Securities

	Year Ended December 31, 2012 (in millions)
Credit-related other-than-temporary impairments on available-for-sale securities recognized in earnings:	
Beginning balance remaining credit losses on available-for-sale securities held at the beginning of the period where other-than-temporary impairments were recognized in earnings	$ 15,988
Additions:	
Amounts related to credit losses for which an other-than-temporary impairment was not previously recognized	141
Amounts related to credit losses for which an other-than-temporary impairment was previously recognized	2,027
Reductions:	
Amounts related to securities which were sold, written off or matured	(1,289)
Amounts previously recognized in other comprehensive income that were recognized in earnings because we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis	(15)
Amounts related to amortization resulting from significant increases in cash flows expected to be collected that are recognized over the remaining life of the security	(266)
Ending balance remaining credit losses on available-for-sale securities held at period end where other-than-temporary impairments were recognized in earnings	$ 16,586

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

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

Table 7.6 Gross Realized Gains and Gross Realized Losses on Sales of Available-For-Sale Securities

	Year Ended December 31,		
	2012	2011	2010
	(in millions)		
Gross realized gains			
Mortgage-related securities:			
Freddie Mac	$ 34	$ 77	$ 27
Fannie Mae	14	14	54
CMBS	82	37	
Option ARM	3		
Obligations of states and political subdivisions	19	11	3
Total mortgage-related securities gross realized gains	152	139	84
Non-mortgage-related securities:			
Asset-backed securities			10
Total non-mortgage-related securities gross realized gains			10
Gross realized gains	152	139	94

Gross realized losses			
Mortgage related securities:[1]			
Freddie Mac			(1)
CMBS		(81)	
Option ARM			(6)
Total mortgage-related securities gross realized losses		(81)	(7)
Gross realized losses		(81)	(7)
Net realized gains (losses)	$ 152	$ 58	$ 87

(1) These individual sales do not change our conclusion that we do not intend to sell the majority of our remaining mortgage-related securities and it is not more likely than not that we will be required to sell such securities before a recovery of the unrealized losses.

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Maturities of Available-For-Sale Securities

The table below summarizes the remaining contractual maturities of available-for-sale securities.

Table 7.7 Maturities of Available-For-Sale Securities(1)

December 31, 2012	Amortized Cost	Fair Value	Weighted Average Yield(2)
	(dollars in millions)		
Available-for-sale securities:			
Due within 1 year or less	$ 87	$ 89	4.53%
Due after 1 through 5 years	1,899	2,042	5.42
Due after 5 through 10 years	1,985	2,094	4.89
Due after 10 years	173,147	170,671	3.41
Total available-for-sale securities	$ 177,118	$ 174,896	3.45

(1) Maturity information provided is based on contractual maturities, which may not represent the expected life as obligations underlying these securities may be prepaid at any time without penalty.
(2) The weighted average yield is calculated based on a yield for each individual lot held at December 31, 2012 excluding any fully taxable-equivalent adjustments related to tax exempt sources of interest income. The numerator for the individual lot yield consists of the sum of: (a) the year-end interest coupon rate multiplied by the year-end UPB; and (b) the annualized amortization income or expense calculated for December 2012 (excluding the accretion of non-credit-related other-than-temporary impairments and any adjustments recorded for changes in the effective rate). The denominator for the individual lot yield consists of the year-end amortized cost of the lot excluding effects of other-than-temporary impairments on the UPB of impaired lots.

AOCI Related to Available-For-Sale Securities

The table below presents the changes in AOCI related to available-for-sale securities. The net unrealized holding gains represent the net fair value adjustments recorded on available-for-sale securities throughout the periods presented, after the effects of our federal statutory tax rate of 35%. The net reclassification adjustment for net realized losses represents the amount of those fair value adjustments, after the effects of our federal statutory tax rate of 35%, that have been recognized in earnings due to a sale of an available-for-sale security or the recognition of an impairment loss.

Table 7.8 AOCI Related to Available-For-Sale Securities

	Year Ended December 31,		
	2012	2011	2010
	(in millions)		
Beginning balance	$ (6,213)	$ (9,678)	$ (20,616)
Adjustment to initially apply the adoption of amendments to accounting guidance for transfers of financial assets and the consolidation of VIEs(1)			(2,683)
Net unrealized holding gains(2)	3,458	2,007	10,876
Net reclassification adjustment for net realized losses(3)(4)	1,311	1,458	2,745
Ending balance	$ (1,444)	$ (6,213)	$ (9,678)

(1) Net of tax benefit of $1.4 billion for the year ended December 31, 2010.
(2) Net of tax expense of $1.9 billion, $1.1 billion, and $5.9 billion for the years ended December 31, 2012, 2011, and 2010, respectively.
(3) Net of tax benefit of $706 million, $785 million, and $1.5 billion for the years ended December 31, 2012, 2011, and 2010, respectively.
(4) Includes the reversal of previously recorded unrealized losses that have been recognized on our consolidated statements of comprehensive income as impairment losses on available-for-sale securities of $1.4 billion, $1.5 billion, and $2.8 billion, net of taxes, for the years ended December 31, 2012, 2011, and 2010, respectively.

Trading Securities

The table below summarizes the estimated fair values by major security type for trading securities.

Table 7.9 Trading Securities

	December 31, 2012	December 31, 2011
	(in millions)	
Mortgage-related securities:		
Freddie Mac	$ 10,354	$ 16,047
Fannie Mae	10,338	15,165
Ginnie Mae	131	156
Other	156	164
Total mortgage-related securities	20,979	31,532
Non-mortgage-related securities:		
Asset-backed securities	292	302
Treasury bills	1,160	100
Treasury notes	19,061	24,712
FDIC-guaranteed corporate medium-term notes		2,184
Total non-mortgage-related securities	20,513	27,298
Total fair value of trading securities	$ 41,492	$ 58,830

Trading securities mainly consist of Treasury securities, agency fixed-rate and variable-rate pass-through mortgage-related securities, and agency REMICs, including inverse floating rate, interest-only and principal-only securities. With the exception of principal-only securities, our agency securities, classified as trading, were valued at a net premium (i.e., net fair value was higher than UPB) as of December 31, 2012.

For the years ended December 31, 2012, 2011, and 2010, we recorded net unrealized gains (losses) on trading securities held at those dates of $(1.7) billion, $(1.0) billion, and $(1.4) billion, respectively.

Total trading securities include $1.2 billion and $1.9 billion, respectively, of hybrid financial assets as defined by the derivative and hedging accounting guidance regarding certain hybrid financial instruments as of December 31, 2012 and 2011. Gains (losses) on trading securities on our consolidated statements of comprehensive income include gains (losses) of $(167) million and $(109) million, respectively, related to these hybrid financial securities for the years ended December 31, 2012 and 2011.

Collateral Pledged

Collateral Pledged to Freddie Mac

Our counterparties are required to pledge collateral for securities purchased under agreements to resell transactions, and most derivative instruments are subject to collateral posting thresholds generally related to a counterparty s credit rating. We consider the types of securities being pledged to us as collateral when determining how much we lend related to securities purchased under agreements to resell transactions. Additionally, we subsequently and regularly review the market values of these securities compared to amounts loaned and derivative counterparty collateral posting thresholds in an effort to minimize our exposure to losses. We had cash and cash equivalents pledged to us under master netting agreements related to derivative instruments of $1.5 billion and $3.2 billion at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, we had $501 million and $0 million, respectively, of collateral in the form of securities pledged to and held by us under these master netting agreements. 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 December 31, 2012 and 2011, we had $1.5 billion and $0 billion, respectively, of securities pledged to us for securities purchased under agreements to resell transactions 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 mortgages 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.

In addition, we hold cash and cash equivalents as collateral in connection with certain of our multifamily guarantees and mortgage loans as credit enhancements. The cash and cash equivalents held as collateral related to these transactions at December 31, 2012 and 2011 was $158 million and $246 million, respectively.

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We consider federal funds sold to be overnight unsecured trades executed with commercial banks that are members of the Federal Reserve System. We did not hold any federal funds sold at December 31, 2012 or 2011.

Collateral Pledged by Freddie Mac

We are required to pledge collateral for margin requirements with third-party custodians in connection with secured financings and derivative transactions with some counterparties. The amount of collateral pledged related to our derivative instruments is determined after giving consideration to our credit rating. As of December 31, 2012, we had one secured, uncommitted intraday line of credit with a third party in connection with the Federal Reserve s payments system risk policy, which restricts or eliminates daylight overdrafts by the GSEs, in connection with our use of the Fedwire system. In certain circumstances, the line of credit agreement gives the secured party the right to repledge the securities underlying our financing to other third parties, including the Federal Reserve Bank. We pledge collateral to meet our collateral requirements under the line of credit agreement upon demand by the counterparty.

The table below summarizes all securities pledged as collateral by us, including assets that the secured party may repledge and those that may not be repledged.

Table 7.10 Collateral in the Form of Securities Pledged

	December 31, 2012	December 31, 2011
	(in millions)	
Securities pledged with the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties[1]	$ 10,390	$ 10,293
Available-for-sale securities	132	204
Securities pledged without the ability for the secured party to repledge:		
Debt securities of consolidated trusts held by third parties[1]	148	88
Total securities pledged	$ 10,670	$ 10,585

(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.

Securities Pledged with the Ability of the Secured Party to Repledge

At December 31, 2012, we pledged securities with the ability of the secured party to repledge of $10.5 billion, of which $10.5 billion was collateral posted in connection with our secured uncommitted intraday line of credit with a third party as discussed above.

At December 31, 2011, we pledged securities with the ability of the secured party to repledge of $10.5 billion, of which $10.5 billion was collateral posted in connection with our secured uncommitted intraday line of credit with a third party as discussed above.

The remaining $65 million and $25 million of collateral posted with the ability of the secured party to repledge at December 31, 2012 and 2011, respectively, was posted in connection with our margin account related to futures transactions.

Securities Pledged without the Ability of the Secured Party to Repledge

At December 31, 2012 and 2011, we pledged securities, without the ability of the secured party to repledge, of $148 million and $88 million, respectively, at a clearinghouse in connection with the trading and settlement of securities.

Collateral in the Form of Cash Pledged

At December 31, 2012, we pledged $9.8 billion of collateral in the form of cash and cash equivalents, of which $9.7 billion related to our derivative agreements as we had $9.7 billion of such derivatives in a net loss position. At December 31, 2011, we pledged $12.7 billion of collateral in the form of cash and cash equivalents, of which $12.6 billion related to our derivative agreements as we had $12.7 billion of such derivatives in a net loss position. The remaining $110 million and $133 million was posted at clearinghouses in connection with our securities transactions at December 31, 2012 and 2011, respectively.

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NOTE 8: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities that we issue are classified on our consolidated balance sheets as either debt securities of consolidated trusts held by third parties or other debt. We issue other debt to fund our operations.

Under the Purchase Agreement, without the prior written consent of Treasury, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. Because of this debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Under the Purchase Agreement, the amount of our indebtedness is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs. Therefore, indebtedness does not include debt securities of consolidated trusts held by third parties. We also cannot become liable for any subordinated indebtedness without the prior consent of Treasury. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS for information regarding changes to the restrictions on the amount of mortgage-related securities that we may own.

Our debt cap under the Purchase Agreement was $874.8 billion in 2012 and declined to $780.0 billion on January 1, 2013. As of December 31, 2012, we estimate that the par value of our aggregate indebtedness totaled $552.5 billion, which was approximately $322.3 billion below the applicable debt cap. Our aggregate indebtedness is calculated as the par value of other debt.

In the tables below, the categories of short-term debt (due within one year) and long-term debt (due after one year) are based on the original contractual maturity of the debt instruments classified as other debt.

The table below summarizes the interest expense and the balances of total debt, net.

Table 8.1 Total Debt, Net

	Interest Expense For The Year Ended December 31,			Balance, Net [(1)]	
	2012	2011	2010	December 31, 2012	December 31, 2011
	(in millions)			(in millions)	
Other debt:					
Short-term debt	$ 176	$ 331	$ 552	$ 117,889	$ 161,399
Long-term debt:					
Senior debt	10,187	12,505	16,317	429,245	498,779
Subordinated debt	30	33	46	384	368
Total long-term debt	10,217	12,538	16,363	429,629	499,147
Total other debt	10,393	12,869	16,915	547,518	660,546
Debt securities of consolidated trusts held by third parties	56,109	67,119	75,216	1,419,524	1,471,437
Total debt, net	$ 66,502	$ 79,988	$ 92,131	$ 1,967,042	$ 2,131,983

(1) Represents par value, net of associated discounts, premiums, and hedge-related basis adjustments, with $0 billion and $0.2 billion, respectively, of other short-term debt, and $2.2 billion and $2.8 billion, respectively, of other long-term debt that represents the fair value of debt securities with the fair value option elected at December 31, 2012 and 2011.

During 2012, 2011, and 2010, we recognized fair value gains (losses) of $16 million, $91 million, and $581 million, respectively, on our foreign-currency denominated debt, of which $(7) million, $40 million, and $461 million, respectively, are gains (losses) related to foreign-currency translation.

Other Short-Term Debt

As indicated in Table 8.2 Other Short-Term Debt , a majority of other short-term debt consisted of Reference Bills® securities and discount notes, paying only principal at maturity. Reference Bills® securities, discount notes, and medium-term notes are unsecured general corporate obligations. Certain medium-term notes that have original maturities of one year or less are classified as other short-term debt for purposes of this presentation.

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The table below summarizes the balances and effective interest rates for other short-term debt.

Table 8.2 Other Short-Term Debt

	December 31, 2012			December 31, 2011		
	Par Value	Balance, Net(1)	Weighted Average Effective Rate(2)	Par Value	Balance, Net(1)	Weighted Average Effective Rate(2)
	(dollars in millions)					
Other short-term debt:						
Reference Bills® securities and discount notes	$ 117,930	$ 117,889	0.15%	$ 161,193	$ 161,149	0.11%
Medium-term notes				250	250	0.24
Total other short-term debt	$ 117,930	$ 117,889	0.15	$ 161,443	$ 161,399	0.11

(1) Represents par value, net of associated discounts or premiums.
(2) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums, and issuance costs.

Federal Funds Purchased and Securities Sold Under Agreements to Repurchase

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 dealers who are the counterparties to the transactions. Federal funds purchased are unsecuritized borrowings from commercial banks that are members of the Federal Reserve System. At both December 31, 2012 and 2011, we had no balances in federal funds purchased and securities sold under agreements to repurchase.

Other Long-Term Debt

The table below summarizes our other long-term debt.

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Table 8.3 Other Long-Term Debt

	Contractual Maturity(1)	December 31, 2012 Par Value	Balance, Net(2)	Weighted Average Effective Rate(3)	December 31, 2011 Par Value	Balance, Net(2)	Weighted Average Effective Rate(3)
				(dollars in millions)			
Other long-term debt:							
Other senior debt:(4)							
Fixed-rate:							
Medium-term notes callable(5)	2013 2037	$ 94,655	94,842	1.62%	$ 96,958	$ 96,938	1.78%
Medium-term notes non-callable	2013 2028	42,623	42,877	1.08	41,303	41,470	1.33
U.S. dollar Reference Notes® securities non-callable	2013 2032	225,857	225,885	2.82	238,145	238,244	3.17
Reference Notes® securities non-callable	2013 2014	1,167	1,187	4.58	1,722	1,766	4.76
Variable-rate:							
Medium-term notes callable(6)	2013 2032	6,953	6,953	2.57	21,230	21,229	2.40
Medium-term notes non-callable	2013 2026	46,194	46,197	0.27	86,010	86,019	0.26
Zero-coupon:							
Medium-term notes callable	2037 2040	1,300	324	5.71	12,475	3,281	5.39
Medium-term notes non-callable	2013 2039	15,240	10,923	4.03	14,475	9,753	4.67
Hedging-related basis adjustments		N/A	57		N/A	79	
Total other senior debt		433,989	429,245		512,318	498,779	
Other subordinated debt:							
Fixed-rate	2016 2018	221	218	6.59	221	218	6.59
Zero-coupon	2019	332	166	10.51	332	150	10.51
Total other subordinated debt		553	384		553	368	
Total other long-term debt		$ 434,542	$ 429,629	2.15	$ 512,871	$ 499,147	2.27

(1) Represents contractual maturities at December 31, 2012.
(2) Represents par value of long-term debt securities and subordinated borrowings, net of associated discounts or premiums and hedge-related basis adjustments.
(3) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums, issuance costs, and hedging-related basis adjustments.
(4) For debt denominated in a currency other than the U.S. dollar, the outstanding balance is based on the exchange rate at December 31, 2012 and 2011, respectively.
(5) Includes callable FreddieNotes® securities of $1.2 billion and $2.9 billion at December 31, 2012 and 2011, respectively.
(6) Includes callable FreddieNotes® securities of $0 billion and $1.3 billion at December 31, 2012 and 2011, respectively.

A portion of our other long-term debt is callable. Callable debt gives us the option to redeem the debt security at par on one or more specified call dates or at any time on or after a specified call date.

Debt Securities of Consolidated Trusts Held by Third Parties

Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated securitization trusts (i.e., single-family PC trusts and certain single-family and multifamily Other Guarantee Transactions).

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

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Table 8.4 Debt Securities of Consolidated Trusts Held by Third Parties

	December 31, 2012					December 31, 2011				
	Contractual Maturity(1)		UPB (dollars in millions)	Balance, Net(2)	Weighted Average Coupon(1)	Contractual Maturity(1)		UPB (dollars in millions)	Balance, Net(2)	Weighted Average Coupon(1)
Single-family:(3)										
30-year or more, fixed-rate	2013	2048	$ 960,176	$ 982,718	4.53%	2012	2048	$ 1,034,680	$ 1,047,556	4.92%
20-year fixed-rate	2013	2033	73,902	76,079	4.09	2012	2032	67,323	68,502	4.53
15-year fixed-rate	2013	2028	257,083	263,244	3.59	2012	2027	242,077	246,023	4.09
Adjustable-rate	2013	2047	62,424	63,649	2.88	2012	2047	60,544	61,395	3.18
Interest-only(4)	2026	2041	31,588	31,642	4.37	2026	2041	45,807	45,884	4.91
FHA/VA	2013	2041	1,638	1,663	5.67	2012	2041	2,045	2,077	5.67
Total single-family			1,386,811	1,418,995				1,452,476	1,471,437	
Multifamily(5)	2019		448	529	4.96					
Total debt securities of consolidated trusts held by third parties(6)			$ 1,387,259	$ 1,419,524				$ 1,452,476	$ 1,471,437	

(1) Based on the contractual maturity and interest rate of debt securities of our consolidated trusts held by third parties.
(2) Represents par value, net of associated discounts, premiums, and other basis adjustments.
(3) Debt securities of consolidated trusts held by third parties are prepayable as the loans that collateralize the debt may prepay without penalty at any time.
(4) Includes interest-only securities and interest-only mortgage loans that allow the borrowers to pay only interest for a fixed period of time before the loans begin to amortize.
(5) Balance, Net includes interest-only securities recorded at fair value.
(6) The effective rate for debt securities of consolidated trusts held by third parties was 3.49% and 4.22% as of December 31, 2012 and 2011, respectively.

The table below summarizes the contractual maturities of other long-term debt securities and debt securities of consolidated trusts held by third parties at December 31, 2012.

Table 8.5 Contractual Maturity of Other Long-Term Debt and Debt Securities of Consolidated Trusts Held by Third Parties

Annual Maturities	Par Value(1)(2) (in millions)
Other debt:	
2013	$ 115,577
2014	85,798
2015	52,968
2016	38,882
2017	57,664
Thereafter	83,653
Debt securities of consolidated trusts held by third parties(3)	1,387,259
Total	1,821,801
Net discounts, premiums, hedge-related and other basis adjustments(4)	27,352
Total debt securities of consolidated trusts held by third parties and other long-term debt	$ 1,849,153

(1) Represents par value of long-term debt securities and subordinated borrowings and UPB of debt securities of our consolidated trusts held by third parties.
(2) For other debt denominated in a currency other than the U.S. dollar, the par value is based on the exchange rate at December 31, 2012.
(3) Contractual maturities of debt securities of consolidated trusts held by third parties may not represent expected maturity as they are prepayable at any time without penalty.
(4) Other basis adjustments primarily represent changes in fair value attributable to instrument-specific credit risk and interest-rate risk related to other foreign-currency denominated debt.

Lines of Credit

At both December 31, 2012 and 2011, we had one secured, uncommitted intraday line of credit with a third party totaling $10 billion. We use this line of credit regularly to provide us with additional liquidity to fund our intraday payment activities through the Fedwire system in connection with the Federal Reserve s payments system risk policy, which restricts or eliminates daylight overdrafts by the GSEs. No amounts were drawn on this line of credit at December 31, 2012 or 2011. We expect to continue to use the current facility to satisfy our intraday financing needs; however, as the line is uncommitted, we may not be able to draw on it if and when needed.

Subordinated Debt Interest and Principal Payments

The terms of certain of our subordinated debt securities provide for us to defer payments of interest in the event we fail to maintain specified capital levels. However, in a September 23, 2008 statement concerning the conservatorship, the

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Director of FHFA stated that we would continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels.

NOTE 9: FINANCIAL GUARANTEES

When we securitize single-family mortgages that we purchase, we issue mortgage-related securities that can be sold to investors or held by us. During the years ended December 31, 2012, and 2011, we issued approximately $439.3 billion and $300.2 billion respectively, in UPB of Freddie Mac mortgage-related securities backed by single-family mortgage loans (excluding those backed by HFA bonds). Beginning January 1, 2010, we no longer recognize a financial guarantee for such arrangements as we instead recognize both the mortgage loans and the debt securities of these securitization trusts on our consolidated balance sheets.

For securities issued by non-consolidated securitization trusts and other guarantee commitments for which we are exposed to incremental credit risk, we recognize a guarantee asset, guarantee obligation and a reserve for guarantee losses, as necessary. Our guarantee obligation represents the recognized liability, net of cumulative amortization, associated with our guarantee.

The table below presents our maximum potential exposure, our recognized liability, and the maximum remaining term of our financial guarantees that are not consolidated on our balance sheets.

Table 9.1 Financial Guarantees

	December 31, 2012			December 31, 2011		
	Maximum Exposure[1]	Recognized Liability	Maximum Remaining Term	Maximum Exposure[1]	Recognized Liability	Maximum Remaining Term
	(dollars in millions, terms in years)					
Non-consolidated Freddie Mac securities	$ 50,715	$ 430	41	$ 35,879	$ 300	42
Other guarantee commitments	23,455	575	37	21,064	487	37
Derivative instruments	10,306	789	33	37,737	2,977	34
Servicing-related premium guarantees	210		5	151		5

(1) Maximum exposure represents the contractual amounts that could be lost under the non-consolidated guarantees if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements, such as recourse provisions, third-party insurance contracts, or from collateral held or pledged. The maximum exposure disclosed above is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation. The maximum exposure for our liquidity guarantees is not mutually exclusive of our default guarantees on the same securities; therefore, these amounts are included within the maximum exposure of non-consolidated Freddie Mac securities and other guarantee commitments.

Non-Consolidated Freddie Mac Securities

We issue three types of mortgage-related securities: (a) PCs; (b) REMICs and Other Structured Securities; and (c) Other Guarantee Transactions. We guarantee the payment of principal and interest on these securities, which are backed by pools of mortgage loans, irrespective of the cash flows received from the borrowers.

Our single-family securities issued in resecuritizations of our PCs and other previously issued REMICs and Other Structured Securities are not consolidated unless we hold substantially all of the beneficial interests of the trust and are therefore considered the primary beneficiary of the trust. Our resecuritizations of PCs and other previously issued REMICs and Structured Securities do not give rise to any additional exposure to credit loss as we already consolidate the underlying collateral. The securities issued in these resecuritizations consist of single-class and multiclass securities backed by PCs, REMICs, interest-only strips, and principal-only strips. Since these resecuritizations do not increase our credit-risk, no guarantee asset or guarantee obligation is recognized for these transactions and they are excluded from the table above.

During 2012 we issued approximately $17.5 billion, compared to $11.8 billion in 2011, in UPB of non-consolidated Freddie Mac securities primarily backed by multifamily mortgage loans, for which a guarantee asset and guarantee obligation were recognized.

We recognize a reserve for guarantee losses, which is included within other liabilities on our consolidated balance sheets, which totaled $183 million and $198 million at December 31, 2012 and 2011, respectively. For many of the loans underlying our non-consolidated guarantees, there are credit protections from third parties, including subordination, covering a portion of our exposure. See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for information about credit protections on loans we guarantee.

Other Guarantee Commitments

We provide long-term standby commitments to certain of our customers, which obligate us to purchase seriously delinquent loans that are covered by those agreements. During 2012 and 2011, we issued and guaranteed $6.8 billion and $4.4 billion, respectively, in UPB of long-term standby commitments. These long-term standby commitments totaled $12.4 billion and $8.6 billion of UPB at December 31, 2012 and 2011, respectively. We also had other guarantee commitments on multifamily housing revenue bonds that were issued by HFAs of $9.4 billion and $9.6 billion in UPB at December 31, 2012 and 2011, respectively. In addition, as of December 31, 2012, and 2011, we had issued guarantees under the TCLFP on securities backed by HFA bonds with UPB of $1.7 billion, and $2.9 billion, respectively.

Derivative Instruments

Derivative instruments include written options, written swaptions, interest-rate swap guarantees, and short-term default guarantee commitments accounted for as credit derivatives. See NOTE 10: DERIVATIVES for further discussion of these derivative guarantees.

We guarantee the performance of interest-rate swap contracts in two circumstances. First, in connection with certain other guarantee commitments, we guarantee that a multifamily borrower will perform under an interest-rate swap contract linked to the borrower s ARM. And second, in connection with our issuance of certain REMICs and Other Structured Securities, which are backed by tax-exempt bonds, we guarantee that the sponsor of the transaction will perform under the interest-rate swap contract linked to the senior variable-rate certificates that we issued.

We also have issued certain REMICs and Other Structured Securities with stated final maturities that are shorter than the stated maturity of the underlying mortgage loans. If the underlying mortgage loans to these securities have not been purchased by a third party or fully matured as of the stated final maturity date of such securities, we will sponsor an auction of the underlying assets. To the extent that purchase or auction proceeds are insufficient to cover unpaid principal amounts due to investors in such REMICs and Other Structured Securities, we are obligated to fund such principal. Our maximum exposure on these derivative guarantees represents the outstanding UPB of the REMICs and Other Structured Securities subject to stated final maturities.

Servicing-Related Premium Guarantees

We provide guarantees to reimburse servicers for premiums paid to acquire servicing in situations where the original seller is unable to perform under its separate servicing agreement. The liability associated with these agreements was not significant at December 31, 2012 and 2011.

Other Indemnifications

In connection with certain business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (e.g., those arising from representations and warranties) in contracts entered into in the normal course of business. Our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no significant probable and estimable losses associated with these contracts. In addition, we provided indemnification for litigation defense costs to certain former officers who are subject to ongoing litigation. See NOTE 17: LEGAL CONTINGENCIES for further information on ongoing litigation. The recognized liabilities on our consolidated balance sheets related to indemnifications were not significant at December 31, 2012 and 2011.

As part of the guarantee arrangements pertaining to multifamily housing revenue bonds, we provided commitments to advance funds, commonly referred to as liquidity guarantees. These guarantees require us to advance funds to enable others to repurchase any tendered tax-exempt and related taxable bonds that are unable to be remarketed. Any such advances are treated as loans and are secured by a pledge to us of the repurchased securities until the securities are remarketed. We hold cash and cash equivalents on our consolidated balance sheets for the amount of these commitments. No advances under these liquidity guarantees were outstanding at December 31, 2012 and 2011.

NOTE 10: DERIVATIVES

Use of Derivatives

We use derivatives primarily to:

hedge forecasted issuances of debt;

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- synthetically create callable and non-callable funding;
- adjust or rebalance our funding mix in response to changes in the interest-rate characteristics of our mortgage-related assets; and
- hedge foreign-currency exposure.

Hedge Forecasted Debt Issuances

When we commit to purchase mortgages and mortgage-related investments, such commitments are typically for a future settlement ranging from two weeks to three months after the date of the commitment. To facilitate larger and more predictable debt issuances that contribute to lower funding costs, we use interest-rate derivatives to economically hedge the interest-rate risk exposure from the time we commit to purchase a mortgage to the time the related debt is issued.

Create Synthetic Funding

We also use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined period and a pay-fixed interest rate swap with the same maturity as the last debt issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. Similarly, the combination of non-callable debt and a call swaption, or option to enter into a receive-fixed interest rate swap, with the same maturity as the non-callable debt, is the substantive economic equivalent of callable debt. These derivatives strategies increase our funding flexibility and allow us to better match asset and liability cash flows, often reducing overall funding costs.

Adjust Funding Mix

We generally use interest-rate swaps to mitigate contractual funding mismatches between our assets and liabilities. We also use swaptions and other option-based derivatives to adjust the economic terms of our overall mix of debt funding in response to changes in the expected lives of our investments in mortgage-related assets. As market conditions dictate, we take rebalancing actions to keep our interest-rate risk exposure within management-set limits. In a declining interest-rate environment, we typically enter into receive-fixed interest rate swaps or purchase Treasury-based derivatives to shorten the duration of our funding to offset the declining duration of our mortgage assets. In a rising interest-rate environment, we typically enter into pay-fixed interest rate swaps or sell Treasury-based derivatives in order to lengthen the duration of our funding to offset the increasing duration of our mortgage assets.

Foreign-Currency Exposure

We use foreign-currency swaps to eliminate virtually all of our exposure to fluctuations in exchange rates related to our foreign-currency denominated debt by entering into swap transactions that effectively convert foreign-currency denominated obligations into U.S. dollar-denominated obligations. Foreign-currency swaps are defined as swaps in which one leg is calculated in a foreign-currency and the other leg is calculated in U.S. dollars.

Types of Derivatives

We principally use the following types of derivatives:

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

Foreign-currency swaps.

In addition to swaps, futures, and purchased options, our derivative positions include the following:

Written Options and Swaptions

Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed interest rate swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We use these written options and swaptions to manage convexity risk over a wide range of interest rates. Written options lower our overall hedging costs, allow us to hedge the same economic risk we assume when selling guaranteed final maturity REMICs with a

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more liquid instrument, and allow us to rebalance the options in our callable debt and REMICs portfolios. We may, from time to time, write other derivative contracts such as interest-rate futures.

Commitments

We routinely enter into commitments that include our: (a) commitments to purchase and sell investments in securities; (b) commitments to purchase mortgage loans; and (c) commitments to purchase and extinguish or issue debt securities of our consolidated trusts. Most of these commitments are considered derivatives and therefore are subject to the accounting guidance for derivatives and hedging.

Swap Guarantee Derivatives

In connection with some of the guarantee arrangements pertaining to multifamily housing revenue bonds and multifamily pass-through certificates, we may also guarantee the sponsor s or the borrower s obligations as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk, which are accounted for as swap guarantee derivatives.

Credit Derivatives

We entered into credit-risk sharing agreements for certain credit enhanced multifamily housing revenue bonds held by third parties in exchange for a monthly fee. In addition, we have purchased mortgage loans containing debt cancellation contracts, which provide for mortgage debt or payment cancellation for borrowers who experience unanticipated losses of income dependent on a covered event. The rights and obligations under these agreements have been assigned to the servicers. However, in the event the servicer does not perform as required by contract we would be obligated under our guarantee to make the required contractual payments.

For a discussion of our significant accounting policies related to derivatives, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Derivatives.

Derivative Assets and Liabilities at Fair Value

The table below presents the location and fair value of derivatives reported on our consolidated balance sheets.

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Table 10.1 Derivative Assets and Liabilities at Fair Value

	At December 31, 2012			At December 31, 2011		
	Notional or Contractual Amount	Derivatives at Fair Value Assets(1)	Derivatives at Fair Value Liabilities(1)	Notional or Contractual Amount	Derivatives at Fair Value Assets(1)	Derivatives at Fair Value Liabilities(1)
	(in millions)					
Total derivative portfolio						
Derivatives not designated as hedging instruments under the accounting guidance for derivatives and hedging(2)						
Interest-rate swaps:						
Receive-fixed	$ 275,099	$ 13,782	$ (97)	$ 211,808	$ 12,998	$ (108)
Pay-fixed	270,092	177	(30,147)	289,335	19	(34,507)
Basis (floating to floating)	2,300	6		2,750	5	(7)
Total interest-rate swaps	547,491	13,965	(30,244)	503,893	13,022	(34,622)
Option-based:						
Call swaptions						
Purchased	37,650	7,360		76,275	12,975	
Written	6,195		(749)	27,525		(2,932)
Put Swaptions						
Purchased	43,200	288		70,375	638	
Written				500		(2)
Other option-based derivatives(3)	31,540	2,449	(1)	38,549	2,256	(2)
Total option-based	118,585	10,097	(750)	213,224	15,869	(2,936)
Futures	41,123	37	(2)	41,281	5	
Foreign-currency swaps	1,167	73	(6)	1,722	106	(9)
Commitments	25,530	20	(47)	14,318	38	(94)
Credit derivatives	8,307	1	(5)	10,190	1	(5)
Swap guarantee derivatives	3,628		(35)	3,621		(37)
Total derivatives not designated as hedging instruments	745,831	24,193	(31,089)	788,249	29,041	(37,703)
Netting adjustments(4)		(23,536)	30,911		(28,923)	37,268
Total derivative portfolio, net	$ 745,831	$ 657	$ (178)	$ 788,249	$ 118	$ (435)

(1) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liabilities, net. Excludes $501 million and $0 million of non-cash collateral held at December 31, 2012 and 2011, respectively.
(2) See Use of Derivatives for additional information about the purpose of entering into derivatives not designated as hedging instruments and our overall risk management strategies.
(3) Primarily includes purchased interest-rate caps and floors.
(4) Represents counterparty netting, cash collateral netting, net trade/settle receivable or payable, and net derivative interest receivable or payable. The net cash collateral posted and net trade/settle receivable were $8.2 billion and $0 million, respectively, at December 31, 2012. The net cash collateral posted and net trade/settle receivable were $9.4 billion and $1 million, respectively, at December 31, 2011. The net interest receivable (payable) of derivative assets and derivative liabilities was approximately $(0.8) billion and $(1.1) billion at December 31, 2012 and 2011, respectively, which was mainly related to interest-rate swaps.

The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable and net trade/settle receivable or payable and is net of cash collateral held or posted, where allowable by a master netting agreement. Derivatives in a net asset position are reported as derivative assets, net. Similarly, derivatives in a net liability position are reported as derivative liabilities, net. Cash collateral we obtained from counterparties to derivative contracts that has been offset against derivative assets at December 31, 2012 and 2011 was $1.5 billion and $3.2 billion, respectively. Cash collateral we posted to counterparties to derivative contracts that has been offset against derivative liabilities at December 31, 2012 and 2011 was $9.7 billion and $12.6 billion, respectively. Non-cash collateral held is not recognized on our consolidated balance sheets as we do not obtain effective control over the collateral, and non-cash collateral posted is not de-recognized from our consolidated balance sheets as we do not relinquish effective control over the collateral. Therefore, non-cash collateral held or posted is not presented as an offset against derivative assets or derivative liabilities, even where a master netting agreement is in effect. See NOTE 7: INVESTMENTS IN SECURITIES Collateral Pledged for more information about collateral held and posted. We are subject to collateral posting thresholds based on the credit rating of our long-term senior unsecured debt securities from S&P or Moody s. The lowering or withdrawal of our credit rating by S&P or Moody s may increase our obligation to post collateral, depending on the amount of the counterparty s exposure to Freddie Mac with respect to the derivative transactions.

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on December 31, 2012, was $9.7 billion for which we posted collateral of $9.7 billion in the normal course of business. Since we were fully collateralized as of December 31, 2012, we would not have had to post additional collateral on that day if credit-risk-related contingent features underlying these agreements were triggered.

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At December 31, 2012 and 2011, there were no amounts of cash collateral that were not offset against derivative assets, net or derivative liabilities, net, as applicable. See NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS for further information related to our derivative counterparties.

Gains and Losses on Derivatives

The table below presents the gains and losses on derivatives reported in our consolidated statements of comprehensive income.

Table 10.2 Gains and Losses on Derivatives

Derivatives in Cash Flow Hedging Relationships[1][2]	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Closed cash flow hedges[3]	$ (612)	$ (758)	$ (1,010)
Derivatives not designated as hedging instruments under the accounting guidance for derivatives and hedging[5]	**Derivative Gains (Losses)[4] Year Ended December 31,**		
	2012	2011	2010
		(in millions)	
Interest-rate swaps:			
Receive-fixed			
Foreign-currency denominated	$ (33)	$ (49)	$ (119)
U.S. dollar denominated	2,686	12,686	9,825
Total receive-fixed swaps	2,653	12,637	9,706
Pay-fixed	(2,865)	(22,999)	(17,450)
Basis (floating to floating)	8	(5)	65
Total interest-rate swaps	(204)	(10,367)	(7,679)
Option based:			
Call swaptions			
Purchased	1,365	10,234	6,548
Written	(38)	(2,337)	(199)
Put swaptions			
Purchased	(273)	(1,614)	(1,621)
Written	6	14	82
Other option-based derivatives[6]	190	879	33
Total option-based	1,250	7,176	4,843
Futures	11	(154)	(210)
Foreign-currency swaps	(8)	(41)	(468)
Commitments	298	(1,340)	(85)
Credit derivatives			5
Swap guarantee derivatives	7	3	3
Other[7]		3	
Subtotal	1,354	(4,720)	(3,591)
Accrual of periodic settlements:[8]			
Receive-fixed interest-rate swaps[9]	3,511	4,173	6,381
Pay-fixed interest-rate swaps	(7,318)	(9,241)	(10,909)
Foreign-currency swaps	4	22	19

Other	1	14	15
Total accrual of periodic settlements	(3,802)	(5,032)	(4,494)
Total	$ (2,448)	$ (9,752)	$ (8,085)

(1) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Net deferred gains and losses on closed cash flow hedges (i.e., where the derivative is either terminated or redesignated) are included in AOCI until the related forecasted transaction affects earnings or is determined to be probable of not occurring.
(2) No amounts of gains or (losses) were recognized in AOCI on derivatives (effective portion) and in other income (ineffective portion and amount excluded from effectiveness testing).
(3) Amounts reported in AOCI linked to interest payments on long-term debt are recorded in other debt interest expense and amounts not linked to interest payments on long-term debt are recorded in expense related to derivatives.
(4) Gains (losses) are reported as derivative gains (losses) on our consolidated statements of comprehensive income.
(5) See Use of Derivatives for additional information about the purpose of entering into derivatives not designated as hedging instruments and our overall risk management strategies.
(6) Primarily includes purchased interest-rate caps and floors.
(7) Related to the bankruptcy of Lehman Brothers Holdings, Inc.
(8) For derivatives not in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in derivative gains (losses) on our consolidated statements of comprehensive income.
(9) Includes imputed interest on zero-coupon swaps.

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Hedge Designation of Derivatives

At December 31, 2012 and 2011, we did not have any derivatives in hedge accounting relationships; however, there are deferred net losses recorded in AOCI related to closed cash flow hedges. As shown in Table 10.3 AOCI Related to Cash Flow Hedge Relationships, the total AOCI related to derivatives designated as cash flow hedges was a loss of $1.3 billion and $1.7 billion at December 31, 2012 and 2011, 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 previous 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. Over the next 12 months, we estimate that approximately $316 million, net of taxes, of the $1.3 billion of cash flow hedge losses in AOCI at December 31, 2012 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 21 years. However, over 70% and 90% of AOCI relating to closed cash flow hedges at December 31, 2012 will be reclassified to earnings over the next five and ten years, respectively.

The table below presents the changes in AOCI related to derivatives designated as cash flow hedges. Net reclassifications of losses to earnings represents the AOCI amount that was recognized in earnings as the originally hedged forecasted transactions affected earnings, unless it was deemed probable that the forecasted transaction would not occur. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the hedge related to the forecasted transaction would be reclassified into earnings immediately.

Table 10.3 AOCI Related to Cash Flow Hedge Relationships

	Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Beginning balance[1]	$ (1,730)	$ (2,239)	$ (2,905)
Cumulative effect of change in accounting principle[2]			(7)
Net reclassifications of losses to earnings[3]	414	509	673
Ending balance[1]	$ (1,316)	$ (1,730)	$ (2,239)

(1) Represents net deferred gains and losses on closed (i.e., terminated or redesignated) cash flow hedges.
(2) Represents adjustment to initially apply the accounting guidance for accounting for transfers of financial assets and consolidation of VIEs, as well as a change in the amortization method for certain related deferred items. Net of tax benefit of $4 million for the year ended December 31, 2010.
(3) Net of tax benefit of $198 million, $249 million, and $337 million for the years ended December 31, 2012, 2011, and 2010, respectively.

NOTE 11: STOCKHOLDERS EQUITY (DEFICIT)

Issuance of Senior Preferred Stock

Pursuant to the Purchase Agreement described in NOTE 2: CONSERVATORSHIP AND RELATED MATTERS, we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury s commitment to provide funds to us under the Purchase Agreement.

Shares of the senior preferred stock have a par value of $1, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances. As discussed in NOTE 2: CONSERVATORSHIP AND RELATED

MATTERS Purchase Agreement, the quarterly commitment fee has been suspended.

Treasury, as the holder of the senior preferred stock, is entitled to receive quarterly cash dividends, when, as and if declared by our Board of Directors. Through December 31, 2012, the senior preferred stock accrued quarterly cumulative dividends at a rate of 10% per year. However, under the August 2012 amendment to the Purchase Agreement, the fixed dividend rate was replaced with a net worth sweep dividend beginning in the first quarter of 2013. Total dividends paid in cash during 2012, 2011, and 2010 at the direction of the Conservator were $7.2 billion, $6.5 billion, and $5.7 billion, respectively. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS for a discussion of our net worth sweep dividend.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any Freddie Mac common stock or other securities ranking junior to the senior preferred stock unless: (a) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (b) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury s funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of: (a) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (b) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury s funding commitment. Following the termination of Treasury s funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury s funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

The table below provides a summary of our senior preferred stock outstanding at December 31, 2012.

Table 11.1 Senior Preferred Stock

	Draw Date	Shares Authorized	Shares Outstanding	Total Par Value	Initial Liquidation Preference Price per Share	Total Liquidation Preference[1]
		(in millions, except initial liquidation preference price per share)				
Senior preferred stock:						
10%	September 8, 2008[2]	1.00	1.00	$ 1.00	$ 1,000	$ 1,000
10%[3]	November 24, 2008				N/A	13,800
10%[3]	March 31, 2009				N/A	30,800
10%[3]	June 30, 2009				N/A	6,100
10%[3]	June 30, 2010				N/A	10,600
10%[3]	September 30, 2010				N/A	1,800
10%[3]	December 30, 2010				N/A	100
10%[3]	March 31, 2011				N/A	500
10%[3]	September 30, 2011				N/A	1,479
10%[3]	December 30, 2011				N/A	5,992
10%[3]	March 30, 2012				N/A	146
10%[3]	June 29, 2012				N/A	19
Total, senior preferred stock		1.00	1.00	$ 1.00		$ 72,336

(1) Amounts stated at redemption value.
(2) We did not receive any cash proceeds from Treasury as a result of issuing these shares.
(3) Represents an increase in the liquidation preference of our senior preferred stock due to the receipt of funds from Treasury.

We received $146 million in March 2012 and $19 million in June 2012 pursuant to draw requests that FHFA submitted to Treasury on our behalf to address the deficits in our net worth as of December 31, 2011 and March 31, 2012, respectively. At December 31, 2012, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. See NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Government Support for our Business for additional information. The aggregate liquidation preference on the senior preferred stock owned by Treasury was $72.3 billion and $72.2 billion as of December 31, 2012 and 2011, respectively. See NOTE 14: REGULATORY CAPITAL for additional information.

Common Stock Warrant

Pursuant to the Purchase Agreement described in NOTE 2: CONSERVATORSHIP AND RELATED MATTERS, on September 7, 2008, we, through FHFA, in its capacity as Conservator, issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial consideration of Treasury s commitment to provide funds to us under the terms set forth in the Purchase Agreement.

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person.

We account for the warrant in permanent equity. At issuance on September 7, 2008, we recognized the warrant at fair value, and we do not recognize subsequent changes in fair value while the warrant remains classified in equity. We recorded an aggregate fair value of $2.3 billion for the warrant as a component of additional paid-in-capital. We derived the fair value of the warrant using a modified Black-Scholes model. If the warrant is exercised, the stated value of the common stock issued will be reclassified to common stock in our consolidated balance sheets. The warrant was determined to be in-substance non-voting common stock, because the warrant s exercise price of $0.00001 per share is considered non-substantive (compared to the market price of our common stock). As a result, the warrant is included in the computation of basic and diluted earnings (loss) per share. The weighted average shares of common stock outstanding for the years ended December 31, 2012, 2011, and 2010, respectively, included shares of common stock that would be issuable upon full exercise of the warrant issued to Treasury.

Preferred Stock

The table below provides a summary of our preferred stock outstanding at December 31, 2012. We have the option to redeem our preferred stock on specified dates, at their redemption price plus dividends accrued through the redemption date. However, without the consent of Treasury, we are restricted from making payments to purchase or redeem preferred stock as well as paying any preferred dividends, other than dividends on the senior preferred stock. In addition, all 24 classes of preferred stock are perpetual and non-cumulative, and carry no significant voting rights or rights to purchase additional Freddie Mac stock or securities. Costs incurred in connection with the issuance of preferred stock are charged to additional paid-in capital.

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Table 11.2 Preferred Stock

	Issue Date	Shares Authorized	Shares Outstanding	Total Par Value	Redemption Price per Share	Total Outstanding Balance[1]	Redeemable On or After[2]	OTCQB Symbol[3]
Preferred stock:		(in millions except redemption price per share)						
1996 Variable-rate[4]	April 26, 1996	5.00	5.00	$ 5.00	$ 50.00	$ 250	June 30, 2001	FMCCI
5.81%	October 27, 1997	3.00	3.00	3.00	50.00	150	October 27, 1998	(5)
5%	March 23, 1998	8.00	8.00	8.00	50.00	400	March 31, 2003	FMCKK
1998 Variable-rate[6]	September 23 and 29, 1998	4.40	4.40	4.40	50.00	220	September 30, 2003	FMCCG
5.10%	September 23, 1998	8.00	8.00	8.00	50.00	400	September 30, 2003	FMCCH
5.30%	October 28, 1998	4.00	4.00	4.00	50.00	200	October 30, 2000	(5)
5.10%	March 19, 1999	3.00	3.00	3.00	50.00	150	March 31, 2004	(5)
5.79%	July 21, 1999	5.00	5.00	5.00	50.00	250	June 30, 2009	FMCCK
1999 Variable-rate[7]	November 5, 1999	5.75	5.75	5.75	50.00	287	December 31, 2004	FMCCL
2001 Variable-rate[8]	January 26, 2001	6.50	6.50	6.50	50.00	325	March 31, 2003	FMCCM
2001 Variable-rate[9]	March 23, 2001	4.60	4.60	4.60	50.00	230	March 31, 2003	FMCCN
5.81%	March 23, 2001	3.45	3.45	3.45	50.00	173	March 31, 2011	FMCCO
6%	May 30, 2001	3.45	3.45	3.45	50.00	173	June 30, 2006	FMCCP
2001 Variable-rate[10]	May 30, 2001	4.02	4.02	4.02	50.00	201	June 30, 2003	FMCCJ
5.70%	October 30, 2001	6.00	6.00	6.00	50.00	300	December 31, 2006	FMCKP
5.81%	January 29, 2002	6.00	6.00	6.00	50.00	300	March 31, 2007	(5)
2006 Variable-rate[11]	July 17, 2006	15.00	15.00	15.00	50.00	750	June 30, 2011	FMCCS
6.42%	July 17, 2006	5.00	5.00	5.00	50.00	250	June 30, 2011	FMCCT
5.90%	October 16, 2006	20.00	20.00	20.00	25.00	500	September 30, 2011	FMCKO
5.57%	January 16, 2007	44.00	44.00	44.00	25.00	1,100	December 31, 2011	FMCKM
5.66%	April 16, 2007	20.00	20.00	20.00	25.00	500	March 31, 2012	FMCKN
6.02%	July 24, 2007	20.00	20.00	20.00	25.00	500	June 30, 2012	FMCKL
6.55%	September 28, 2007	20.00	20.00	20.00	25.00	500	September 30, 2017	FMCKI
2007 Fixed-to-floating rate[12]	December 4, 2007	240.00	240.00	240.00	25.00	6,000	December 31, 2012	FMCKJ
Total, preferred stock		464.17	464.17	$ 464.17		$ 14,109		

(1) Amounts stated at redemption value.
(2) In accordance with the Purchase Agreement, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury, redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant).
(3) Preferred stock trades exclusively through the OTCQB Marketplace unless otherwise noted.
(4) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 9.00%.
(5) Issued through private placement.
(6) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 7.50%.
(7) Dividend rate resets on January 1 every five years after January 1, 2005 based on a five-year Constant Maturity Treasury rate, and is capped at 11.00%. Optional redemption on December 31, 2004 and on December 31 every five years thereafter.
(8) Dividend rate resets on April 1 every two years after April 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.10%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every two years thereafter.
(9) Dividend rate resets on April 1 every year based on 12-month LIBOR minus 0.20%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every year thereafter.
(10) Dividend rate resets on July 1 every two years after July 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.20%, and is capped at 11.00%. Optional redemption on June 30, 2003 and on June 30 every two years thereafter.
(11) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 0.50% but not less than 4.00%.
(12) Dividend rate is set at an annual fixed rate of 8.375% from December 4, 2007 through December 31, 2012. For the period beginning on or after January 1, 2013, dividend rate resets quarterly and is equal to the higher of: (a) the sum of three-month LIBOR plus 4.16% per annum; or (b) 7.875% per annum. Optional redemption on December 31, 2012, and on December 31 every five years thereafter.

Stock-Based Compensation

Following the implementation of the conservatorship in September 2008, we suspended the operation of our ESPP, and are no longer making grants under our 2004 Employee Plan or our Directors Plan. We collectively refer to the 2004 Employee Plan and the 1995 Employee Plan as the Employee Plans. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations or other equity interests without Treasury s prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms.

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2012 and 2011, except for issuances of treasury stock as reported on our consolidated statements of equity (deficit) relating to stock-based compensation granted prior to conservatorship. Common stock delivered under these stock-based compensation plans consists of treasury stock or shares acquired in market transactions on behalf of the participants. During 2012, restrictions lapsed on 460,846 restricted stock units and 2,200 restricted stock units were forfeited. At December 31, 2012, 28,317 restricted stock units remained outstanding. There are no remaining restrictions on outstanding restricted stock units. In addition, there were 41,160 shares of restricted stock outstanding at both December 31, 2012 and 2011. During 2012, no stock options were exercised and 712,336 stock options were forfeited or expired. At December 31, 2012, 1,309,296 stock options were outstanding.

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For purposes of the earnings-per-share calculation, antidilutive potential common shares excluded from the computation of dilutive potential common shares were 1,606,097, 3,383,185, and 5,290,347 at December 31, 2012, 2011, and 2010, respectively.

Dividends Declared During 2012

No common dividends were declared in 2012. In 2012, we paid dividends of $7.2 billion 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 2012.

REIT Dividends

On March 30, 2010, our REIT subsidiaries paid preferred stock dividends for one quarter, consistent with approval from Treasury and direction from FHFA. During 2010, each of our two REIT subsidiaries was eliminated via a merger transaction and no other preferred or common stock dividends were paid by the REITs during the year ended December 31, 2010.

Delisting of Common Stock and Preferred Stock from NYSE

On July 8, 2010, we delisted our common and 20 previously listed classes of preferred stock from the NYSE pursuant to a directive by our Conservator.

Our common stock and the classes of preferred stock that were previously listed on the NYSE are traded exclusively in the OTCQB Marketplace. Shares of our common stock now trade under the ticker symbol FMCC. We expect that our common stock and the previously listed classes of preferred stock will continue to trade in the OTCQB Marketplace so long as market makers demonstrate an interest in trading the common and preferred stock.

NOTE 12: INCOME TAXES

Income Tax Benefit

The table below presents the components of our federal income tax benefit for 2012, 2011, and 2010. We are exempt from state and local income taxes.

Table 12.1 Federal Income Tax Benefit

	Year Ended December 31,		
	2012	2011	2010
	(in millions)		
Current income tax benefit	$ 1,540	$ 283	$ 186
Deferred income tax (expense) benefit	(3)	117	670
Total income tax benefit	$ 1,537	$ 400	$ 856

Our income tax benefit for 2012 primarily relates to the favorable resolution of various uncertain tax positions which allowed for the release of the associated tax reserves.

The table below presents a reconciliation between our federal statutory income tax rate and our effective tax rate for 2012, 2011, and 2010.

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Table 12.2 Reconciliation of Statutory to Effective Tax Rate

	Year Ended December 31,					
	2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in millions)					
Statutory corporate tax rate	$ (3,306)	35.0%	$ 1,983	35.0%	$ 5,209	35.0%
Tax-exempt interest	133	(1.4)	179	3.2	213	1.4
Tax credits	536	(5.7)	566	10.0	585	3.9
Valuation allowance						
Current year activity	2,637	(27.9)	(2,728)	(48.2)	(6,007)	(40.4)
Unrecognized tax benefits(1)	1,205	(12.8)	(21)	(0.4)	(12)	(0.1)
Other	45	(0.5)	403	7.2	852	5.8
Total valuation allowance	3,887	(41.2)	(2,346)	(41.4)	(5,167)	(34.7)
Other	287	(3.0)	18	0.3	16	0.1
Effective tax rate	$ 1,537	(16.3)%	$ 400	7.1%	$ 856	5.7%

(1) See Unrecognized Tax Benefits for more information on the change in unrecognized tax benefits in 2012.

In 2012, 2011, and 2010, our effective tax rate differs from the statutory tax rate of 35% primarily due to the valuation allowance on a portion of our net deferred tax assets and the recognition of uncertain tax positions.

Deferred Tax Assets, Net

The table below presents the balances of significant deferred tax assets, liabilities, and the valuation allowance for the years ended December 31, 2012 and 2011.

Table 12.3 Deferred Tax Assets, Net

	2012	2011
	(in millions)	
Deferred tax assets:		
Deferred fees	$ 4,330	$ 3,957
Basis differences related to derivative instruments(1)	10,294	4,903
Credit related items and allowance for loan losses	6,785	12,398
Unrealized (gains) losses related to available-for-sale securities	778	3,345
LIHTC and AMT credit carryforward	3,408	2,885
Net operating loss carryforward, net of unrecognized tax benefits(1)	11,479	18,053
Other items, net	146	172
Total deferred tax assets	37,220	45,713
Deferred tax liabilities:		
Basis differences related to assets held for investment(2)	(4,609)	(6,367)
Basis differences related to debt	(149)	(140)
Total deferred tax liability	(4,758)	(6,507)
Valuation allowance	(31,684)	(35,660)

Deferred tax assets, net	$ 778	$ 3,546

(1) In 2012, we changed our tax accounting method for certain hedging transactions and, as a result, the deferred tax asset related to the net operating loss carryforward was reduced by approximately $6.7 billion. A corresponding adjustment is reflected in basis differences related to derivative instruments. See *Unrecognized Tax Benefits IRS Examinations and Litigation* below for more information.

(2) The deferred tax liability balance for basis differences related to assets held for investment includes a basis adjustment on seriously delinquent loans. This deferred tax liability offsets a portion of the deferred tax asset for credit related items and the allowance for loan losses.

On a quarterly basis, we determine whether a valuation allowance is necessary. In doing so, we consider all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, it is more likely than not that the net deferred tax assets will be realized. Evidence that we considered in making our assessments as of December 31, 2012 and 2011 included: (a) our cumulative loss position for the past three years; (b) our current taxable loss position; (c) the amount and estimated time required to realize our estimated cumulative tax net operating loss carryforward; (d) difficulty in predicting unsettled circumstances related to the conservatorship; (e) our access to capital under the agreements associated with the conservatorship; (f) management s intent and ability to hold our available-for-sale securities until losses can be recovered; and (g) the improving trend of our financial results.

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After evaluating all available evidence, including our prior years losses, the events and developments related to our conservatorship, volatility in the economy, related difficulty in forecasting future profit levels, and our assertion that we have the intent and ability to hold our available-for-sale securities until any temporary unrealized losses are recovered, we continue to record a valuation allowance on a portion of our net deferred tax assets as of December 31, 2012 and 2011. As of December 31, 2012, after consideration of the valuation allowance, our net deferred tax asset is the tax effect of unrealized losses on our available-for-sale securities.

As of December 31, 2012, we had a net operating loss carryforward of $32.8 billion and a LIHTC carryforward of $3.4 billion that will expire over multiple years beginning in 2030 and 2027, respectively.

Unrecognized Tax Benefits

Table 12.4 Unrecognized Tax Benefits

	2012	2011	2010
		(in millions)	
Balance at January 1	$ 1,355	$ 1,220	$ 805
Changes based on tax positions in prior years	(41)	130	372
Changes based on tax positions in current years	(28)	6	48
Decreases in unrecognized tax benefits due to settlements with taxing authorities	(1,286)	(1)	(5)
Balance at December 31	$	$ 1,355	$ 1,220

At December 31, 2012, we have assessed all income tax uncertainties and have determined that no reserves currently are needed. As a result, the balance of unrecognized tax benefits was reduced to zero. See *IRS Examinations and Litigation* below for more information.

We have accrued gross interest receivable of $523 million and $520 million as of December 31, 2012 and December 31, 2011, respectively, related to payments on account with the IRS. Previously recorded accrued interest payable of $266 million associated with certain unrecognized tax benefits was reversed in 2012. We anticipate refunds of accrued interest receivable upon final settlement of the Statutory Notices for the 1998 to 2005 tax years. See *IRS Examinations and Litigation* below.

IRS Examinations and Litigation

In 2010 and 2011, we received Statutory Notices from the IRS assessing $3.0 billion of additional income taxes and penalties for the 1998 to 2007 tax years, primarily related to our tax accounting method for certain hedging transactions. We filed a petition with the U.S. Tax Court on October 22, 2010 in response to the Statutory Notices for the 1998 to 2005 tax years. A Tax Court trial date was originally scheduled for November 13, 2012; however, on June 7, 2012 the Tax Court granted a joint motion for continuance in order for both parties to explore settlement options. We have had ongoing discussions with the IRS regarding the litigation, and based on the favorable resolution of the matters in dispute, the previously unrecognized tax benefits were reduced to zero in the fourth quarter of 2012.

In addition, the IRS is currently auditing our income tax returns for tax years 2008 through 2011. Although the audit has not concluded, on July 25, 2012 the IRS advised us that they would not challenge certain deductions in 2008 and 2009, and the associated unrecognized tax benefits were reduced to zero in the third quarter of 2012.

For a discussion of our significant accounting policies related to income taxes, please see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Income Taxes.

NOTE 13: SEGMENT REPORTING

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: CONSERVATORSHIP AND RELATED MATTERS for additional information about the conservatorship.

We present Segment Earnings by: (a) reclassifying certain investment-related activities and credit guarantee-related activities between various line items on our GAAP consolidated statements of comprehensive income; and (b) allocating certain revenues and expenses, including certain returns on assets and funding costs, and all administrative expenses to our three reportable segments. These reclassifications and allocations are described in Segment Earnings.

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We do not consider our assets by segment when evaluating segment performance or allocating resources. We conduct our operations solely in the U.S. and its territories. Therefore, we do not generate any revenue from geographic locations outside of the U.S. and its territories.

Segments

Our operations consist of three reportable segments, which are based on the type of business activities each performs Investments, Single-family Guarantee, and Multifamily. The chart below provides a summary of our three reportable segments and the All Other category as of December 31, 2012. Certain immaterial changes were made to our Segment Earnings definitions in 2012. As reflected in the chart, certain activities that are not part of a reportable segment are included in the All Other category. The All Other category consists of material corporate level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods.

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Segment	Description	Activities/Items
Investments	The Investments segment reflects results from our investment, funding and hedging activities. In our Investments segment, we invest principally in mortgage-related securities and single-family performing mortgage loans, which are funded by other debt issuances and hedged using derivatives. In our Investments segment, we also provide funding and hedging management services to the Single-family Guarantee and Multifamily segments. The Investments segment reflects changes in the fair value of the Multifamily segment securities, primarily CMBS, and held-for-sale loans that are associated with changes in interest rates. Segment Earnings for this segment consist primarily of the returns on these investments, less the related funding, hedging, and administrative expenses.	Investments in mortgage-related securities and single-family performing mortgage loans Investments in short-term asset-backed securities All other traded instruments / securities, excluding CMBS and multifamily housing revenue bonds Debt issuances All asset / liability management returns Guarantee buy-ups, net of execution gains / losses Cash and liquidity management Deferred tax asset valuation allowance Allocated administrative expenses and taxes
Single-Family Guarantee	The Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we purchase single-family mortgage loans originated by our seller/servicers in the primary mortgage market. In most instances, we use the mortgage securitization process to package the purchased mortgage loans into guaranteed mortgage-related securities. We guarantee the payment of principal and interest on the mortgage-related securities in exchange for management and guarantee fees. Segment Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront fees, less credit-related expenses, administrative expenses, allocated funding costs, and amounts related to net float benefits or expenses.	Management and guarantee fees on PCs, including those retained by us, and single-family mortgage loans in the mortgage investments portfolio, inclusive of up-front credit delivery fees Recognition and remittance to Treasury of guarantee fees resulting from the 10 basis point legislated increase Adjustments for security performance

		Credit losses on all single-family assets Guarantee buy-downs Expected net float income or expense on the single-family credit guarantee portfolio Deferred tax asset valuation allowance Allocated debt costs, administrative expenses and taxes
Multifamily	The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Our primary business model is to purchase held-for-sale multifamily loans for aggregation and then securitization through multifamily K Certificates, which are considered Other Guarantee Transactions. To a lesser extent, we provide guarantees of the payment of principal and interest on tax-exempt multifamily pass-through certificates backed by multifamily housing revenue bonds. In addition, we guarantee the payment of principal and interest on tax-exempt multifamily housing revenue bonds secured by low- and moderate-income multifamily mortgage loans. Segment Earnings for this segment consist primarily of the interest earned on assets related to multifamily investment activities and management and guarantee fee income, less credit-related expenses, administrative expenses, and allocated funding costs. In addition, the Multifamily segment reflects gains on sale of mortgages and the impact of changes in fair value of our investment securities and held-for-sale loans associated with market factors other than changes in interest rates, such as liquidity and credit.	Multifamily mortgage loans held-for-sale and associated securitization activities Investments in CMBS, multifamily housing revenue bonds, and multifamily mortgage loans held-for-investment Allocated debt costs, administrative expenses and taxes Other guarantee commitments on multifamily housing revenue bonds LIHTC and valuation allowance Deferred tax asset valuation allowance
All Other	The All Other category consists of material corporate-level activities that are: (a) infrequent in nature; and (b) based on decisions outside the control of the management of our reportable segments.	Tax settlements, as applicable Legal settlements, as applicable The deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward.

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Segment Earnings

The financial performance of our Single-family Guarantee segment and Multifamily segment are measured based on each segment s contribution to GAAP net income (loss). Our Investments segment is measured on its contribution to GAAP comprehensive income (loss), which consists of the sum of its contribution to: (a) GAAP net income (loss); and (b) GAAP total other comprehensive income (loss), net of taxes.

The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss). Likewise, the sum of comprehensive income (loss) for each segment and the All Other category equals GAAP comprehensive income (loss). However, the accounting principles we apply to present certain financial statement line items in Segment Earnings for our reportable segments, in particular Segment Earnings net interest income and management and guarantee income, differ significantly from those applied in preparing the comparable line items in our consolidated financial statements prepared in accordance with GAAP. Accordingly, the results of such line items differ significantly from, and should not be used as a substitute for, the comparable line items as determined in accordance with GAAP. For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see Table 13.2 Segment Earnings and Reconciliation to GAAP Results.

Many of the reclassifications, adjustments and allocations described below relate to the amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs, which we adopted effective January 1, 2010. These amendments require us to consolidate our single-family PC trusts and certain Other Guarantee Transactions, which makes it difficult to view the results of the three operating segments from a GAAP perspective. For example, as a result of the amendments, the net guarantee fee earned on mortgage loans held by our consolidated trusts is included in net interest income on our GAAP consolidated statements of comprehensive income. Through the reclassifications described below, we move the net guarantee fees earned on mortgage loans into Segment Earnings management and guarantee income.

Investment Activity-Related Reclassifications

In preparing certain line items within Segment Earnings, we make various reclassifications to earnings determined under GAAP related to our investment activities, including those described below. Through these reclassifications, we move certain items into or out of net interest income so that, on a Segment Earnings basis, net interest income reflects how we measure the effective yield earned on securities held in our mortgage investments portfolio and our cash and other investments portfolio.

We use derivatives extensively in our investment activity. The reclassifications described below allow us to reflect, in Segment Earnings net interest income, the costs associated with this use of derivatives.

- The accrual of periodic cash settlements of all derivatives is reclassified in Segment Earnings from derivative gains (losses) into net interest income to fully reflect the periodic cost associated with the protection provided by these contracts.

- Up-front cash paid or received upon the purchase or writing of swaptions and other option contracts is reclassified in Segment Earnings prospectively on a straight-line basis from derivative gains (losses) into net interest income over the contractual life of the instrument to fully reflect the periodic cost associated with the protection provided by these contracts.

Amortization related to certain items is not relevant to how we measure the effective yield earned on the securities held in our investments portfolios. Therefore, as described below, we reclassify these items in Segment Earnings from net interest income to non-interest income.

- Amortization related to derivative commitment basis adjustments associated with mortgage-related and non-mortgage-related securities.

- Amortization related to accretion of other-than-temporary impairments on non-mortgage-related securities held in our cash and other investments portfolio.

Amortization related to premiums and discounts associated with PCs and Other Guarantee Transactions issued by our consolidated trusts that we previously held and subsequently transferred to third parties. The amortization is related to deferred gains (losses) on transfers of these securities.

Credit Guarantee Activity-Related Reclassifications

In preparing certain line items within Segment Earnings, we make various reclassifications to earnings determined under GAAP related to our credit-guarantee activities, including those described below. All credit guarantee-related income and costs are included in Segment Earnings management and guarantee income.

Net guarantee fee is reclassified in Segment Earnings from net interest income to management and guarantee income.

Implied management and guarantee fee related to unsecuritized mortgage loans held in the mortgage investments portfolio is reclassified in Segment Earnings from net interest income to management and guarantee income.

The portion of the amount reversed for accrued but uncollected interest upon placing loans on a non-accrual status that relates to guarantee fees is reclassified in Segment Earnings from net interest income to management and guarantee income. The remaining portion of the allowance for lost interest is reclassified in Segment Earnings from net interest income to provision for credit losses.

Segment Adjustments

In presenting Segment Earnings net interest income and management and guarantee income, we make adjustments to better reflect how management measures and assesses the performance of each segment and the company as a whole. These adjustments relate to amounts that are not reflected in net income (loss) as determined in accordance with GAAP. These adjustments are reversed through the segment adjustments line item within Segment Earnings, so that Segment Earnings (loss) for each segment equals GAAP net income (loss) for each segment. Segment adjustments consist of the following:

We adjust our Segment Earnings net interest income for the Investments segment to include the amortization of cash premiums and discounts, as well as buy-up fees, on the consolidated Freddie Mac mortgage-related securities we purchase as investments. As of December 31, 2012, the unamortized balance of such premiums and discounts, net was $3.2 billion and the unamortized balance of buy-up fees was $0.8 billion. These adjustments are necessary to reflect the effective yield realized on investments in consolidated Freddie Mac mortgage-related securities purchased at a premium or discount or with buy-up fees.

We adjust our Segment Earnings management and guarantee income for the Single-family Guarantee segment to include the amortization of buy-down fees and credit delivery fees recorded in periods prior to the January 1, 2010 adoption of accounting guidance for the transfers of financial assets and the consolidation of VIEs. As of December 31, 2012, the unamortized balance of buy-down fees was $0.6 billion and the unamortized balance of credit delivery fees was $1.4 billion. We consider such fees to be part of the effective rate of the guarantee fee on guaranteed mortgage loans. These adjustments are necessary in order to better reflect the realization of revenue associated with guarantee contracts over the life of the underlying loans.

Segment Allocations

The results of each reportable segment include directly attributable revenues and expenses. Administrative expenses that are not directly attributable to a segment are allocated to our segments using various methodologies, depending on the nature of the expense (i.e., semi-direct versus indirect). Net interest income for each segment includes allocated debt funding costs related to certain assets of each segment. These allocations, however, do not include the effects of dividends paid on our senior preferred stock. The tax credits generated by the LIHTC partnerships and any valuation allowance on these tax credits are allocated to the Multifamily segment. The deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward and tax settlements, as applicable, are allocated to the All Other category. All remaining taxes are calculated based on a 35% federal statutory rate as applied to pre-tax Segment Earnings.

The table below presents Segment Earnings by segment.

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Table 13.1 Summary of Segment Earnings and Comprehensive Income (Loss)

	Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Segment Earnings (loss), net of taxes:			
Investments	$ 8,212	$ 3,366	$ 1,251
Single-family Guarantee	(164)	(10,000)	(16,256)
Multifamily	2,146	1,319	965
All Other	788	49	15
Total Segment Earnings (loss), net of taxes	10,982	(5,266)	(14,025)
Net income (loss) attributable to Freddie Mac	$ 10,982	$ (5,266)	$ (14,025)
Comprehensive income (loss) of segments:			
Investments	$ 11,397	$ 6,473	$ 11,477
Single-family Guarantee	(227)	(9,970)	(16,250)
Multifamily	4,081	2,218	5,040
All Other	788	49	15
Comprehensive income (loss) of segments	16,039	(1,230)	282
Total comprehensive income (loss) attributable to Freddie Mac	$ 16,039	$ (1,230)	$ 282

The table below presents detailed reconciliations between our GAAP financial statements and Segment Earnings by financial statement line item for our reportable segments and All Other.

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Table 13.2 Segment Earnings and Reconciliation to GAAP Results

	Year Ended December 31, 2012								
						Reconciliation to Consolidated Statements of Comprehensive Income			
	Investments	Single-family Guarantee	Multifamily	All Other	Total Segment Earnings (Loss), Net of Taxes	Reclassifications (1)	Segment Adjustments (2)	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$ 6,110	$ (147)	$ 1,291	$	$ 7,254	$ 9,558	$ 799	$ 10,357	$ 17,611
(Provision) benefit for credit losses		(3,168)	123		(3,045)	1,155		1,155	(1,890)
Non-interest income (loss):									
Management and guarantee income(3)		4,389	151		4,540	(3,507)	(832)	(4,339)	201
Net impairment of available-for-sale securities recognized in earnings	(1,831)		(123)		(1,954)	(214)		(214)	(2,168)
Derivative gains (losses)	1,970		7		1,977	(4,425)		(4,425)	(2,448)
Gains (losses) on trading securities	(1,755)		81		(1,674)				(1,674)
Gains (losses) on sale of mortgage loans	6		269		275				275
Gains (losses) on mortgage loans recorded at fair value	297		438		735				735
Other non-interest income (loss)	2,357	931	275		3,563	(2,567)		(2,567)	996
Non-interest expense:									
Administrative expenses	(430)	(890)	(241)		(1,561)				(1,561)
REO operations income (expense)		(62)	3		(59)				(59)
Other non-interest expense	(1)	(393)	(129)	(50)	(573)				(573)
Segment adjustments(2)	799	(832)			(33)		33	33	
Income tax benefit	690	8	1	838	1,537				1,537
Net income (loss) attributable to Freddie Mac	8,212	(164)	2,146	788	10,982				10,982
Total other comprehensive income (loss), net of taxes	3,185	(63)	1,935		5,057				5,057
Total comprehensive income (loss) attributable to Freddie Mac	$ 11,397	$ (227)	$ 4,081	$ 788	$ 16,039	$	$	$	$ 16,039

	Year Ended December 31, 2011								
						Reconciliation to Consolidated Statements of Comprehensive Income			
	Investments	Single-family Guarantee	Multifamily	All Other	Total Segment Earnings (Loss), Net of Taxes	Reclassifications (1)	Segment Adjustments (2)	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$ 7,339	$ (23)	$ 1,200	$	$ 8,516	$ 9,220	$ 661	$ 9,881	$ 18,397
(Provision) benefit for credit losses		(12,294)	196		(12,098)	1,396		1,396	(10,702)
Non-interest income (loss):									
Management and guarantee income(3)		3,647	127		3,774	(2,905)	(699)	(3,604)	170
Net impairment of available-for-sale securities	(1,833)		(353)		(2,186)	(115)		(115)	(2,301)

recognized in earnings									
Derivative gains (losses)	(3,597)		3		(3,594)	(6,158)		(6,158)	(9,752)
Gains (losses) on trading securities	(993)		39		(954)				(954)
Gains (losses) on sale of mortgage loans	28		383		411				411
Gains (losses) on mortgage loans recorded at fair value	501		(83)		418				418
Other non-interest income (loss)	1,266	1,216	86		2,568	(1,438)		(1,438)	1,130
Non-interest expense:									
Administrative expenses	(398)	(888)	(220)		(1,506)				(1,506)
REO operations income (expense)		(596)	11		(585)				(585)
Other non-interest expense	(2)	(321)	(69)		(392)				(392)
Segment adjustments[(2)]	661	(699)			(38)		38	38	
Income tax (expense) benefit	394	(42)	(1)	49	400				400
Net income (loss) attributable to Freddie Mac	3,366	(10,000)	1,319	49	(5,266)				(5,266)
Total other comprehensive income, net of taxes	3,107	30	899		4,036				4,036
Total comprehensive income (loss) attributable to Freddie Mac	$ 6,473	$ (9,970)	$ 2,218	$ 49	$ (1,230)	$	$	$	$ (1,230)

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Year Ended December 31, 2010									
						Reconciliation to Consolidated Statements of Comprehensive Income			
	Investments	Single-family Guarantee	Multifamily	All Other	Total Segment Earnings (Loss), Net of Taxes	Reclassifications (1)	Segment Adjustments (2)	Total Reconciling Items	Total per Consolidated Statements of Comprehensive Income
	(in millions)								
Net interest income	$ 6,192	$ 72	$ 1,114	$	$ 7,378	$ 8,120	$ 1,358	$ 9,478	$ 16,856
Provision for credit losses		(18,785)	(99)		(18,884)	1,666		1,666	(17,218)
Non-interest income (loss):									
Management and guarantee income(3)		3,635	101		3,736	(2,640)	(953)	(3,593)	143
Net impairment of available-for-sale securities recognized in earnings	(3,819)		(96)		(3,915)	(393)		(393)	(4,308)
Derivative gains (losses)	(1,859)		6		(1,853)	(6,232)		(6,232)	(8,085)
Gains (losses) on trading securities	(1,386)		47		(1,339)				(1,339)
Gains (losses) on sale of mortgage loans	(76)		343		267				267
Gains (losses) on mortgage loans recorded at fair value	34		(283)		(249)				(249)
Other non-interest income (loss)	1,023	1,351	130		2,504	(521)		(521)	1,983
Non-interest expense:									
Administrative expenses	(455)	(930)	(212)		(1,597)				(1,597)
REO operations income (expense)		(676)	3		(673)				(673)
Other non-interest expense	(18)	(578)	(66)		(662)				(662)
Segment adjustments(2)	1,358	(953)			405		(405)	(405)	
Income tax (expense) benefit	259	608	(26)	15	856				856
Net income (loss)	1,253	(16,256)	962	15	(14,026)				(14,026)
Less: net (income) loss noncontrolling interests	(2)		3		1				1
Net income (loss) attributable to Freddie Mac	1,251	(16,256)	965	15	(14,025)				(14,025)
Total other comprehensive income, net of taxes	10,226	6	4,075		14,307				14,307
Total comprehensive income (loss) attributable to Freddie Mac	$ 11,477	$ (16,250)	$ 5,040	$ 15	$ 282	$	$	$	$ 282

(1) See Segment Earnings *Investment Activity-Related Reclassifications* and *Credit Guarantee Activity-Related Reclassifications* for information regarding these reclassifications.
(2) See Segment Earnings *Segment Adjustments* for information regarding these adjustments.
(3) Management and guarantee income total per consolidated statements of comprehensive income is included in other income on our GAAP consolidated statements of comprehensive income.

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The table below presents comprehensive income (loss) by segment.

Table 13.3 Comprehensive Income (Loss) of Segments

	Year Ended December 31, 2012					
		Other Comprehensive Income (Loss), Net of Taxes				
	Net Income (Loss) Freddie Mac	Changes in Unrealized Gains (Losses) Related to Available-For-Sale Securities	Changes in Unrealized Gains (Losses) Related to Cash Flow Hedge Relationships	Changes in Defined Benefit Plans	Total Other Comprehensive Income (Loss), Net of Taxes	Total Comprehensive Income (Loss) Freddie Mac
	(in millions)					
Total comprehensive income (loss) of segments:						
Investments	$ 8,212	$ 2,821	$ 414	$ (50)	$ 3,185	$ 11,397
Single-family Guarantee	(164)			(63)	(63)	(227)
Multifamily	2,146	1,948		(13)	1,935	4,081
All Other	788					788
Total per consolidated statements of comprehensive income	$ 10,982	$ 4,769	$ 414	$ (126)	$ 5,057	$ 16,039

	Year Ended December 31, 2011					
		Other Comprehensive Income (Loss), Net of Taxes				
	Net Income (Loss) Freddie Mac	Changes in Unrealized Gains (Losses) Related to Available-For-Sale Securities	Changes in Unrealized Gains (Losses) Related to Cash Flow Hedge Relationships	Changes in Defined Benefit Plans	Total Other Comprehensive Income (Loss), Net of Taxes	Total Comprehensive Income (Loss) Freddie Mac
	(in millions)					
Total comprehensive income (loss) of segments:						
Investments	$ 3,366	$ 2,573	$ 508	$ 26	$ 3,107	$ 6,473
Single-family Guarantee	(10,000)			30	30	(9,970)
Multifamily	1,319	892	1	6	899	2,218
All Other	49					49
Total per consolidated statements of comprehensive income	$ (5,266)	$ 3,465	$ 509	$ 62	$ 4,036	$ (1,230)

	Year Ended December 31, 2010					
		Other Comprehensive Income (Loss), Net of Taxes				
	Net Income (Loss) Freddie Mac	Changes in Unrealized Gains (Losses) Related	Changes in Unrealized Gains (Losses) Related to Cash Flow	Changes in Defined Benefit Plans	Total Other Comprehensive Income (Loss), Net of Taxes	Total Comprehensive Income (Loss) Freddie Mac

		to Available-For-Sale Securities	Hedge Relationships			
				(in millions)		
Total comprehensive income (loss) of segments:						
Investments	$ 1,251	$ 9,547	$ 673	$ 6	$ 10,226	$ 11,477
Single-family Guarantee	(16,256)			6	6	(16,250)
Multifamily	965	4,074		1	4,075	5,040
All Other	15					15
Total per consolidated statements of comprehensive income	$ (14,025)	$ 13,621	$ 673	$ 13	$ 14,307	$ 282

NOTE 14: REGULATORY CAPITAL

On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. FHFA continues to closely monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. We continue to provide our submission to FHFA on minimum capital, however we no longer provide our submission of risk-based capital to FHFA.

Our regulatory minimum capital is a leverage-based measure that is generally calculated based on GAAP and reflects a 2.50% capital requirement for on-balance sheet assets and 0.45% capital requirement for off-balance sheet obligations. Based upon our adoption of amendments to the accounting guidance for transfers of financial assets and consolidation of VIEs, we determined that, under the new consolidation guidance, we are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions and, therefore, effective January 1, 2010, we consolidated on our balance sheet the assets and liabilities of these trusts. Pursuant to regulatory guidance from FHFA, our minimum capital requirement was not automatically affected by adoption of these amendments. Specifically, upon adoption of these amendments, FHFA directed us, for purposes of minimum capital, to continue reporting single-family PCs and certain Other Guarantee Transactions held by third parties using a 0.45% capital requirement. FHFA reserves the authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

Regulatory Capital Standards

The GSE Act established minimum, critical, and risk-based capital standards for us, however per guidance received from FHFA we no longer are required to submit risk-based capital reports to FHFA.

Prior to our entry into conservatorship, those standards determined the amounts of core capital that we were to maintain to meet regulatory capital requirements. Core capital consisted of the par value of outstanding common stock (common stock issued less common stock held in treasury), the par value of outstanding non-cumulative, perpetual preferred stock, additional paid-in capital and retained earnings (accumulated deficit), as determined in accordance with GAAP.

Minimum Capital

The minimum capital standard required us to hold an amount of core capital that was generally equal to the sum of 2.50% of aggregate on-balance sheet assets and approximately 0.45% of the sum of our PCs held by third parties and other aggregate off-balance sheet obligations.

Critical Capital

The critical capital standard required us to hold an amount of core capital that was generally equal to the sum of 1.25% of aggregate on-balance sheet assets and approximately 0.25% of the sum of our PCs held by third parties and other aggregate off-balance sheet obligations.

Performance Against Regulatory Capital Standards

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

Table 14.1 Net Worth and Minimum Capital

	December 31, 2012	December 31, 2011
	(in millions)	
GAAP net worth[1]	$ 8,827	$ (146)
Core capital (deficit)[2][3]	$ (60,571)	$ (64,322)
Less: Minimum capital requirement[2]	22,063	24,405
Minimum capital surplus (deficit)[2]	$ (82,634)	$ (88,727)

(1) Net worth (deficit) represents the difference between our assets and liabilities under GAAP.
(2) Core capital and minimum capital figures for December 31, 2012 are estimates. FHFA is the authoritative source for our regulatory capital.
(3) Core capital excludes certain components of GAAP total equity (deficit) (i.e., AOCI and the liquidation preference of the senior preferred stock) as these items do not meet the statutory definition of core capital.

Following our entry into conservatorship and consistent with the objectives of conservatorship, we have focused our risk and capital management on, among other things, maintaining a positive balance of GAAP equity in order to reduce the likelihood that we will need to make additional draws on the Purchase Agreement with Treasury. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount at least equal to the difference between such liabilities and assets.

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are and have been less than our obligations for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA has advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination. If funding has been requested under the Purchase Agreement to address a deficit in our net worth, and Treasury is unable to provide us with such funding within the 60-day period specified by FHFA, FHFA would be required to place us into receivership if our assets remain less than our obligations during that 60-day period.

At December 31, 2012, our assets exceeded our liabilities under GAAP; therefore no draw is being requested from Treasury under the Purchase Agreement. As of December 31, 2012, our aggregate funding received from Treasury under the Purchase Agreement was $71.3 billion. This aggregate funding amount does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received. We paid quarterly dividends of $1.8 billion on the senior preferred stock in cash in March 2012, June 2012, September 2012, and December 2012 at the direction of the Conservator.

Subordinated Debt Commitment

In October 2000, we announced our adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with FHFA that updated those commitments and set forth a process for implementing them. FHFA, as Conservator of Freddie Mac, has suspended the requirements in the September 2005 agreement with respect to issuance, maintenance and reporting and disclosure of Freddie Mac subordinated debt during the term of conservatorship and thereafter until directed otherwise.

NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS

Single-Family Credit Guarantee Portfolio

Our business activity is to participate in and support the residential mortgage market in the United States, which we pursue by both issuing guaranteed mortgage securities and investing in mortgage loans and mortgage-related securities.

The table below summarizes the concentration by year of origination and geographical area of the approximately $1.6 trillion UPB and $1.7 trillion UPB of our single-family credit guarantee portfolio at December 31, 2012 and 2011, respectively. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES and NOTE 7: INVESTMENTS IN SECURITIES for more information about credit risk associated with loans and mortgage-related securities that we hold.

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Table 15.1 Concentration of Credit Risk Single-Family Credit Guarantee Portfolio

	December 31, 2012		December 31, 2011		Percent of Credit Losses(1) Year Ended	
	Percentage of Portfolio (2)	Serious Delinquency Rate	Percentage of Portfolio (2)	Serious Delinquency Rate	December 31, 2012	December 31, 2011
Year of Origination						
2012	22%	0.1%	N/A	N/A	<1%	N/A
2011	14	0.3	14%	0.1%	<1	%
2010	15	0.5	19	0.3	2	<1
2009	12	0.9	18	0.5	2	1
2008	6	6.8	7	5.7	9	8
2007	7	12.4	10	11.6	36	36
2006	5	11.4	7	10.8	25	28
2005	6	7.2	8	6.5	17	18
2004 and prior	13	3.2	17	2.8	9	9
Total	100%	3.3%	100%	3.6%	100%	100%
Region (3)						
West	28%	2.8%	28%	3.6%	44%	53%
Northeast	25	3.8	25	3.4	8	7
North Central	18	2.5	18	2.9	20	16
Southeast	17	5.0	17	5.5	24	20
Southwest	12	1.7	12	1.8	4	4
Total	100%	3.3%	100%	3.6%	100%	100%
State (4)						
California	16%	2.3%	16%	3.4%	24%	29%
Florida	6	9.9	6	10.9	17	13
Illinois	5	4.1	5	4.7	9	5
Arizona	2	2.5	2	4.3	7	11
Nevada	1	8.1	1	9.8	6	7
Michigan	3	1.9	3	2.3	4	4
Georgia	3	2.8	3	3.3	4	4
All other	64	2.8	64	2.8	29	27
Total	100%	3.3%	100%	3.6%	100%	100%

(1) Credit losses consist of the aggregate amount of charge-offs, net of recoveries, and REO operations expense in each of the respective periods and exclude foregone interest on non-performing loans and other market-based losses recognized on our consolidated statements of comprehensive income.
(2) Based on the UPB of our single-family credit guarantee portfolio, which includes unsecuritized single-family mortgage loans held by us on our consolidated balance sheets and those underlying Freddie Mac mortgage-related securities, or covered by our other guarantee commitments.
(3) 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).
(4) States presented are those with the highest percentage of credit losses during the year ended December 31, 2012. Our top seven states based on the highest percentage of UPB as of December 31, 2012 are: California (16%), Florida (6%), Illinois (5%), New York (5%), Texas (4%), New Jersey (4%), and Virginia (4%), which collectively comprised 44% of our single-family credit guarantee portfolio as of December 31, 2012.

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 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 mortgage loan, or both. However, there is no universally accepted definition of subprime or Alt-A. Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009 (or later, as our customers contracts permitted), we continued to purchase certain amounts of these mortgages in cases where the loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance mortgage initiative; or (c) in another refinance mortgage initiative and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. In the event we purchase a refinance mortgage 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.

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Although we do not categorize single-family mortgage loans we purchase or guarantee as prime or subprime, we recognize that there are a number of mortgage 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 single-family 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.

Table 15.2 Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio[1]

	Percentage of Portfolio [1]		Serious Delinquency Rate	
	December 31, 2012	**December 31, 2011**	**December 31, 2012**	**December 31, 2011**
Interest-only	3%	4%	16.3%	17.6%
Option ARM[2]	<1	<1	16.3	20.5
Alt-A[3]	5	5	11.4	11.9
Original LTV ratio greater than 90%[4]	13	10	4.8	6.7
Lower FICO scores at origination (less than 620)	3	3	12.2	12.9

(1) Based on UPB.
(2) For reporting purposes, loans within the option ARM category continue to be reported in that category following modification, even though the modified loan no longer provides for optional payment provisions.
(3) Alt-A loans may not include those loans that were previously classified as Alt-A and that have been refinanced as either a relief refinance mortgage or in another refinance mortgage initiative.
(4) Based on our first lien exposure on the property. The LTV ratio considers the credit-enhanced portion of the loan and excludes any secondary financing by third parties. The existence of a second lien reduces the borrower s equity in the property and, therefore, increases the risk of default. Includes HARP loans, which we are required to purchase as part of our participation in the MHA Program.

The percentage of borrowers in our single-family credit guarantee portfolio, based on UPB, with estimated current LTV ratios greater than 100% was 15% and 20% at December 31, 2012 and 2011, respectively. As estimated current LTV ratios increase, the borrower s equity in the home decreases, which negatively affects the borrower s ability to refinance or to sell the property for an amount at or above the balance of the outstanding mortgage loan. The serious delinquency rate for single-family loans with estimated current LTV ratios greater than 100% was 12.7% and 12.8% as of December 31, 2012 and 2011, respectively. Loans originated in 2005 through 2008 have been more affected by declines in home prices since 2006 than loans originated in other years. Loans originated in 2005 through 2008 comprised approximately 24% of our single-family credit guarantee portfolio, based on UPB at December 31, 2012, and these loans accounted for approximately 87% and 90% of our credit losses during 2012 and 2011, respectively.

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. See NOTE 7: INVESTMENTS IN SECURITIES for further information on these categories and other concentrations in our investments in securities.

Multifamily Mortgage Portfolio

The table below summarizes the concentration of multifamily mortgages in our multifamily mortgage portfolio by certain attributes. Information presented for multifamily mortgage loans includes certain categories based on loan or borrower characteristics present at origination. The table includes a presentation of each category in isolation. A single loan may fall within more than one category (for example, a non-credit enhanced loan may also have an original DSCR below 1.10).

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Table 15.3 Concentration of Credit Risk Multifamily Mortgage Portfolio

	December 31, 2012		December 31, 2011	
	UPB	Delinquency Rate[1]	UPB	Delinquency Rate[1]
State[2]		(in billions)		
California	$ 21.1	0.12%	$ 20.2	0.02%
Texas	15.9	0.13	14.0	0.46
New York	10.7	0.09	9.6	
Florida	8.4	0.12	7.1	0.05
Maryland	6.9		5.7	
Virginia	6.6		6.3	
All other states	57.8	0.32	53.2	0.35
Total	$ 127.4	0.19%	$ 116.1	0.22%
Region[3]				
Northeast	$ 36.1	0.04%	$ 33.1	0.01%
West	31.8	0.09	29.9	0.07
Southwest	25.4	0.22	22.4	0.44
Southeast	23.4	0.54	20.7	0.65
North Central	10.7	0.19	10.0	0.01
Total	$ 127.4	0.19%	$ 116.1	0.22%
Category[4]				
Original LTV ratio greater than 80%	$ 5.8	2.31%	$ 6.4	2.34%
Original DSCR below 1.10	2.3	2.97	2.8	2.58

(1) Based on the UPB of multifamily mortgages two monthly payments or more delinquent or in foreclosure.
(2) Represents the six states with the highest UPB at December 31, 2012.
(3) See endnote (3) to Table 15.1 Concentration of Credit Risk Single-family Credit Guarantee Portfolio for a description of these regions.
(4) These categories are not mutually exclusive and a loan in one category may also be included within another category.

One indicator of risk for mortgage loans in our multifamily mortgage portfolio is the amount of a borrower s equity in the underlying property. A borrower s equity in a property decreases as the LTV ratio increases. Higher LTV ratios negatively affect a borrower s ability to refinance or sell a property for an amount at or above the balance of the outstanding mortgage. The DSCR is another indicator of future credit performance. The DSCR estimates a multifamily borrower s ability to service its mortgage obligation using the secured property s cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely it is that a multifamily borrower will be able to continue servicing its mortgage obligation.

We estimate that the percentage of loans in our multifamily mortgage portfolio with a current LTV ratio of greater than 100% was approximately 3% and 5% at December 31, 2012 and 2011, respectively, and our estimate of the current average DSCR for these loans was 1.0 and 1.1, at December 31, 2012 and 2011 respectively. We estimate that the percentage of loans in our multifamily mortgage portfolio with a current DSCR less than 1.0 was 3% and 5% at December 31, 2012 and 2011, respectively, and the average current LTV ratio of these loans was 111% and 107%, respectively. Our estimates of current DSCRs are based on the latest available income information for these properties and our assessments of market conditions. Our estimates of the current LTV ratios for multifamily loans are based on values we receive from a third-party service provider as well as our internal estimates of property value, for which we may use changes in tax assessments, market vacancy rates, rent growth and comparable property sales in local areas as well as third-party appraisals for a portion of the portfolio. We periodically perform our own valuations or obtain third-party appraisals in cases where a significant deterioration in a borrower s financial condition has occurred, the borrower has applied for refinancing, or in certain other circumstances where we deem it appropriate to reassess the property value. Although we use the most recently available financial results of our multifamily borrowers to estimate a property s value, there may be a significant lag in reporting, which could be six months or more, as they complete their financial results in the normal course of business. Our internal estimates of property valuation are derived using techniques that include income capitalization, discounted cash flows, sales comparables, or replacement costs.

Non-Agency Mortgage-Related Security Issuers

As discussed below, we are engaged in various loss mitigation efforts concerning certain investments in non-agency mortgage-related securities. The effectiveness of these various loss mitigation efforts is highly uncertain, in part because our rights as an investor are limited, and any potential recoveries may take significant time to realize.

In 2011, FHFA, as Conservator for Freddie Mac and Fannie Mae, filed lawsuits against 18 corporate families of financial institutions and related defendants seeking to recover losses and damages sustained by Freddie Mac and Fannie Mae as a result of their investments in certain residential non-agency mortgage-related securities issued or sold by, or backed by mortgages originated by, these financial institutions or control persons thereof. These institutions include some of our largest seller/servicers and counterparties, including counterparties to debt funding and derivatives transactions. Recent developments include:

Ally Financial Inc. is one of the financial institutions. Certain of the Ally entities that are defendants in the Ally lawsuit (with respect to the securities owned by Freddie Mac) filed for bankruptcy protection in the U.S. Bankruptcy Court for the Southern District of New York on May 14, 2012. This creates additional uncertainty as to the likelihood, timing, and nature of potential recoveries from the Ally lawsuit.

On January 16, 2013, Freddie Mac and FHFA entered into a settlement agreement with General Electric Company and affiliates in connection with FHFA s lawsuit against the GE companies.

At the direction of our Conservator, we are also working to enforce contractual rights of certain trusts with respect to the non-agency mortgage-related securities we hold, and are engaged in other efforts to mitigate losses on our investments in these securities, in some cases in conjunction with other investors. We have directed certain trustees to initiate litigation on behalf of certificate holders against several financial institutions (many of whom are Freddie Mac counterparties) for breach of contract claims.

In June 2011, Bank of America Corporation announced that it, 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 first-lien and second-lien residential mortgage-related securitization trusts. We have investments in certain of these Countrywide securitization trusts and would expect to benefit from this settlement, if final court approval is obtained. Bank of America indicated that the settlement is subject to final court approval and certain other conditions. There can be no assurance that final court approval of the settlement will be obtained or that all conditions will be satisfied. Bank of America noted that, given the number of investors and the complexity of the settlement, it is not possible to predict the timing or ultimate outcome of the court approval process, which could take a substantial period of time.

Seller/Servicers

We acquire a significant portion of our single-family mortgage purchase volume from several large seller/servicers with whom we have entered into mortgage purchase volume commitments that provide for the lenders to deliver us up to a certain volume of mortgages during a specified period of time. Our top 10 single-family seller/servicers provided approximately 73% of our single-family purchase volume during the year ended December 31, 2012. Wells Fargo Bank, N.A., U.S. Bank, N.A., and JPMorgan Chase Bank, N.A., accounted for 27%, 12%, and 10%, respectively, of our single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of our purchase volume during the year ended December 31, 2012. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated without replacement from other lenders.

We are exposed to institutional credit risk arising from the potential insolvency or non-performance by our seller/servicers of their obligations to repurchase mortgages or (at our option) indemnify us in the event of: (a) breaches of the representations and warranties they made when they sold the mortgages to us; or (b) failure to comply with our servicing requirements. Our contracts require that a seller/servicer repurchase a mortgage after we issue a repurchase request, unless the seller/servicer avails itself of an appeals process provided for in our contracts, in which case the deadline for repurchase is extended until we decide the appeal. As of December 31 2012 and 2011 the UPB of loans subject to our repurchase requests issued to our single-family seller/servicers was approximately $3.0 billion and $2.7 billion, and approximately 41% and 39% of these requests, respectively, were outstanding for four months or more since issuance of our initial repurchase request as measured by the UPB of the loans subject to the requests (these figures include repurchase requests for which appeals were pending). As of December 31, 2012, two of our largest seller/servicers (Bank of America, N.A. and Wells

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Fargo Bank, N.A.) had aggregate repurchase requests outstanding, based on UPB, of $ 1.7 billion, and approximately 53% of these requests were outstanding for four months or more since issuance of the initial request. During 2012 and 2011, we recovered amounts that covered losses with respect to $3.5 billion and $4.4 billion, respectively, of UPB on loans subject to our repurchase requests.

Residential Capital LLC (ResCap) and a number of its subsidiaries, including GMAC Mortgage, LLC and Residential Funding Company, LLC (with GMAC Mortgage, LLC, collectively, GMAC), filed for bankruptcy in the U.S. Bankruptcy Court for the Southern District of New York on May 14, 2012. ResCap and GMAC are direct or indirect subsidiaries of Ally Financial Inc. GMAC serviced (either as a servicer or a subservicer) approximately 3% of our single-family mortgage loans as of December 31, 2012. In connection with the bankruptcy filing, the bankruptcy court approved a package of servicing assurances designed to provide comfort that GMAC will continue to maintain the existing quality of its servicing during the bankruptcy case, and that we will have the right to transfer our loans to another servicer in the event that GMAC fails to meet certain servicing quality criteria. The primary purpose of the bankruptcy was to effect the sale and transfer of the GMAC origination and servicing platform, including servicing rights with respect to Freddie Mac loans, free and clear of liens and claims in an auction sale supervised by the bankruptcy court. Ocwen Loan Servicing, LLC was the successful bidder for the servicing rights with respect to Freddie Mac loans in an auction held on October 23, 2012. On November 21, 2012, the bankruptcy court approved the sale to Ocwen, and the sale was completed on February 15, 2013.

At the direction of FHFA, Freddie Mac and Fannie Mae have launched a new representation and warranty framework for conventional loans purchased by the GSEs on or after January 1, 2013. The objective of the new framework is to clarify lenders repurchase exposures and liability on future sales of mortgage loans to Freddie Mac and Fannie Mae. The new framework does not affect seller/servicers obligations under their contracts with us with respect to loans sold to us prior to January 1, 2013. The new framework also does not affect their obligation to service these loans in accordance with our servicing standards. Under this new framework, lenders will be relieved of certain repurchase obligations for loans that meet specific payment requirements. Examples, subject to certain exclusions, include:

- Loans with 36 months of consecutive, on-time payments after we purchase them; and

- Relief refinance mortgages with 12 months of consecutive, on-time payments after we purchase them.

The ultimate amounts of recovery payments we receive from seller/servicers related to their repurchase obligations may be significantly less than the amount of our estimates of potential exposure to losses. Our estimate of probable incurred losses for exposure to seller/servicers for their repurchase obligations is considered in our allowance for loan losses as of December 31, 2012 and 2011. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guarantee Losses for further information. We believe we have appropriately provided for these exposures, based upon our estimates of incurred losses, in our loan loss reserves at December 31, 2012 and 2011; however, our actual losses may exceed our estimates.

We are also exposed to the risk that seller/servicers might fail to service mortgages in accordance with our contractual requirements, resulting in increased credit losses. For example, our seller/servicers have an active role in our loss mitigation efforts, including under the servicing alignment initiative and the MHA Program, and therefore, we have exposure to them to the extent a decline in their performance results in a failure to realize the anticipated benefits of our loss mitigation plans.

A significant portion of our single-family mortgage loans are serviced by several large seller/servicers. Our top two single-family loan servicers, Wells Fargo Bank N.A. and JP Morgan Chase Bank, N.A., serviced approximately 26% and 12%, respectively, of our single-family mortgage loans, as of December 31, 2012 and together serviced approximately 38% of our single-family mortgage loans. Since we do not have our own servicing operation, if our servicers lack appropriate process controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans, it could have an adverse impact on our business and financial results.

As of December 31, 2012 our top three multifamily servicers, Berkadia Commercial Mortgage, LLC, Wells Fargo Bank, N.A., and CBRE Capital Markets, Inc., each serviced more than 10% of our multifamily mortgage portfolio, excluding Other Guarantee Transactions, and together serviced approximately 40% of this portfolio.

In our multifamily business, we are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of the servicing they provide us, including their monitoring of each property s financial performance and physical condition. This could also, in certain cases, reduce the likelihood that we could recover losses through lender repurchases, recourse agreements, or other credit enhancements, where applicable.

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This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk. We monitor the status of all our multifamily seller/servicers in accordance with our counterparty credit risk management framework.

Mortgage Insurers

We have institutional credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family mortgages we purchase or guarantee. We evaluate the recovery and collectability from insurance policies for mortgage loans that we hold for investment as well as loans underlying our non-consolidated Freddie Mac mortgage-related securities or covered by other guarantee commitments as part of the estimate of our loan loss reserves. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guarantee Losses for additional information. As of December 31, 2012, these insurers provided coverage, with maximum loss limits of $48.1 billion, for $199.0 billion of UPB, in connection with our single-family credit guarantee portfolio. Our top four mortgage insurer counterparties, Mortgage Guaranty Insurance Corporation (or MGIC), Radian Guaranty Inc., United Guaranty Residential Insurance Company, and Genworth Mortgage Insurance Corporation each accounted for more than 10% and collectively represented approximately 75% of our overall mortgage insurance coverage at December 31, 2012. Certain of our mortgage insurance counterparties are no longer rated by either S&P or Moody s. The remaining counterparties, including the top four counterparties, are rated BBB or below as of February 15, 2013, based on the lower of the S&P or Moody s rating scales and stated in terms of the S&P equivalent.

We and MGIC were involved in litigation concerning our current and future claims under certain of MGIC s pool insurance policies. In the litigation, we contended that the policies had approximately $0.5 billion more in coverage than MGIC contended was provided for under the policies. In December 2012, we entered into a settlement agreement with MGIC concerning this dispute. Under the terms of the settlement, MGIC paid us $100 million in December 2012, and will pay us an additional $167.5 million in monthly installments over four years beginning on January 2, 2013. The effect of this settlement was immaterial to our consolidated financial statements in 2012. See NOTE 17: LEGAL CONTINGENCIES Mortgage Guaranty Insurance Corporation for further information.

We received proceeds of $2.0 billion and $2.5 billion during 2012 and 2011, 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 $1.3 billion and $1.8 billion as of December 31, 2012 and 2011, respectively. The balance of our outstanding accounts receivable from mortgage insurers, net of associated reserves, was approximately $0.8 billion and $1.0 billion as of December 31, 2012, and 2011, respectively.

In August 2011, we suspended RMIC and its affiliates, and PMI and its affiliates, as approved mortgage insurers for Freddie Mac loans, making loans insured by either company ineligible for sale to Freddie Mac (except relief refinance loans with pre-existing insurance). Both of these companies ceased writing new business during the third quarter of 2011, and have been put under state supervision. PMI instituted a partial claim payment plan in October 2011, under which claim payments will be made 50% in cash, with the remaining amount deferred as a policyholder claim. RMIC instituted a partial claim payment plan in January 2012, under which claim payments will be made 50% in cash and 50% in deferred payment obligations for an initial period not to exceed one year. In November 2012, RMIC announced that its state regulator had approved its corrective plan, which provides for the run-off of its existing business. Under the plan, RMIC is paying valid claims, settled on or after January 19, 2012, 60% in cash and a deferred payment obligation for the remaining 40% which will be retained in claim reserves until a future pay-out date. We and FHFA are in discussions with the state regulators of PMI and RMIC concerning future payments of our claims. It is not yet clear how the state regulators of PMI and RMIC will administer their respective deferred payment plans, and neither company has begun to pay its deferred payment obligations in cash. In the future, our mortgage insurance exposure will likely be concentrated among a smaller number of mortgage insurer counterparties.

Triad Guaranty Insurance Corporation, or Triad, is continuing to pay claims 60% in cash and 40% in deferred payment obligations under orders of its state regulator. To date, the state regulator has not allowed Triad to begin paying its deferred payment obligations in cash and it is uncertain when or if Triad will be permitted to do so.

Bond Insurers

Bond insurance, which may be either primary or secondary policies, is a credit enhancement covering some of the non-agency mortgage-related securities we hold. Primary policies are acquired by the securitization trust issuing the securities we purchase, while secondary policies are acquired by us. At December 31, 2012, the remaining contractual limit for reimbursement of losses under such policies was $8.7 billion. At December 31, 2012, our top five bond insurers, Ambac Assurance Corporation (or Ambac), Financial Guaranty Insurance Company (or FGIC), MBIA Insurance Corp., National Public Finance Guarantee Corp., and Assured Guaranty Municipal Corp., each accounted for more than 10% of our overall bond insurance coverage and collectively represented approximately 99% of our total coverage.

We evaluate the expected recovery from primary bond insurance policies as part of our impairment analysis for our investments in securities. If a bond insurer fails to meet its obligations on our investments in securities, then the fair values of our securities may further decline, which could have a material adverse effect on our results and financial condition. We recognized other-than-temporary impairment losses during 2012 and 2011 related to investments in mortgage-related securities covered by bond insurance as a result of our uncertainty over whether or not certain insurers would be able to pay our future claims on expected credit losses on the securities. See NOTE 7: INVESTMENTS IN SECURITIES for further information on our evaluation of impairment on securities covered by bond insurance.

FGIC is currently not paying any of its claims. On June 28, 2012, a rehabilitation order was signed granting the Superintendent of Financial Services of the State of New York the authority to take possession and/or control of FGIC s property and assets and to conduct FGIC s business. On September 27, 2012, the Superintendent of Financial Services filed a proposed plan of rehabilitation for FGIC. Certain trustees objected to the proposed plan, and a revised plan was filed on December 12, 2012.

Ambac, which had not paid claims since March 2010, began paying a portion of its claims in cash in late 2012. In March 2010, Ambac established a segregated account for certain Ambac-insured securities, including some of those held by Freddie Mac. Upon the request of the Wisconsin Office of the Commissioner of Insurance, the Wisconsin circuit court put the segregated account into rehabilitation (i.e., a state insolvency proceeding). The Office of the Commissioner of Insurance subsequently filed a plan of rehabilitation with the court. The plan was approved by the court in January 2011, but has not yet been implemented due to various disputes among interested parties. In November 2010, Ambac Financial Group Inc., the parent company of Ambac, filed for bankruptcy. We continue to monitor these developments and assess the impact to our investments.

Cash and Other Investments Counterparties

We are exposed to institutional credit risk arising from the potential insolvency or non-performance of counterparties of non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts. These financial instruments are investment grade at the time of purchase and primarily short-term in nature, which mitigates institutional credit risk for these instruments.

Our cash and other investment counterparties are primarily major financial institutions and the Federal Reserve Bank. As of December 31, 2012 and 2011, including amounts related to our consolidated VIEs, there were $60.7 billion and $68.5 billion, respectively, of: (a) cash and securities purchased under agreements to resell invested with institutional counterparties; or (b) cash deposited with the Federal Reserve Bank. As of December 31, 2012, these included:

- $1.2 billion of cash equivalents invested in one counterparty that had a short-term credit rating of A-1 or above on the S&P or equivalent scale;
- $34.4 billion of securities purchased under agreements to resell with nine counterparties that had short-term S&P ratings of A-1;
- $3.2 billion of securities purchased under agreements to resell with two counterparties that had short-term S&P ratings of A-2; and
- $21.6 billion of cash deposited with the Federal Reserve Bank (as a non-interest-bearing deposit).

Derivative Portfolio

Derivative Counterparties

Our use of exchange-traded derivatives and OTC derivatives exposes us to institutional credit risk. The requirement that we post initial and maintenance margin with our clearing firm in connection with exchange-traded derivatives such as futures contracts and cleared OTC derivatives exposes us to institutional credit risk in the event that our clearing firm or the exchange s clearinghouse fail to meet their obligations. However, the use of exchange-traded derivatives and cleared OTC derivatives mitigates our institutional credit risk exposure to individual counterparties because a central counterparty is substituted for individual counterparties, and changes in the value of open exchange-traded contracts and cleared OTC derivatives are settled daily via payments made through the financial clearinghouse established by each exchange. OTC derivatives that are not cleared, however, expose us to institutional credit risk to individual counterparties because transactions are executed and settled between us and each counterparty, exposing us to potential losses if a counterparty fails to meet its contractual obligations.

Our use of OTC interest-rate swaps, option-based derivatives, and foreign-currency swaps is subject to internal credit and legal reviews. All of our OTC derivative counterparties are major financial institutions and are experienced participants in the OTC derivatives market.

On an ongoing basis, we review the credit fundamentals of all of our OTC derivative counterparties, clearing organizations, and clearing firms to confirm that they continue to meet our internal standards. We assign internal ratings, credit capital, and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or certain events affecting an individual counterparty occur.

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our active OTC derivative counterparties for interest-rate swaps, option-based derivatives, and foreign-currency swaps. Master netting agreements provide for the netting of amounts receivable and payable from an individual counterparty, which reduces our exposure to a single counterparty in the event of default. On a daily basis, the market value of each counterparty s derivatives outstanding is calculated to determine the amount of our net credit exposure, which is equal to derivatives in a net gain position by counterparty after giving consideration to collateral posted. Our collateral agreements require most counterparties to post collateral to us for the amount of our net exposure to them above the applicable threshold. Bilateral collateral agreements are in place for all of our active OTC derivative counterparties. Collateral posting thresholds are tied to a counterparty s credit rating. Derivative exposures and collateral amounts are monitored on a daily basis using both internal pricing models and dealer price quotes. Collateral is typically transferred within one business day based on the values of the related derivatives. This time lag in posting collateral can affect our net uncollateralized exposure to derivative counterparties.

Collateral posted by a derivative counterparty is typically in the form of cash, although U.S. Treasury securities and Freddie Mac mortgage-related securities may also be posted. In the event a counterparty defaults on its obligations under the derivatives agreement and the default is not remedied in the manner prescribed in the agreement, we have the right under the agreement to direct the custodian bank to transfer the collateral to us or, in the case of non-cash collateral, to sell the collateral and transfer the proceeds to us.

Our uncollateralized exposure to counterparties for OTC interest-rate swaps, option-based derivatives, foreign-currency swaps, and purchased interest-rate caps, after applying netting agreements and collateral, was $69 million and $71 million at December 31, 2012 and 2011, respectively. In the event that all of our counterparties for these derivatives were to have defaulted simultaneously on December 31, 2012, our maximum loss for accounting purposes after applying netting agreements and collateral, would have been approximately $69 million. Five counterparties each accounted for greater than 10% and collectively accounted for 83% of our net uncollateralized exposure to derivative counterparties, excluding futures and clearinghouse-settled derivatives, commitments, swap guarantee derivatives, certain written options, and certain credit derivatives at December 31, 2012. These counterparties were Credit Suisse International, Deutsche Bank, A.G., UBS A.G., Citibank, N.A. and Royal Bank of Scotland, all of which were rated A or above using the lower of S&P s or Moody s rating stated in terms of the S&P equivalent as of February 15, 2013.

The total exposure on our OTC forward purchase and sale commitments, which are treated as derivatives, was $20 million and $38 million at December 31, 2012 and 2011, respectively. We do not require master netting and collateral agreements for the counterparties of these commitments. However, the typical maturity of our forward purchase and sale commitments is less than 60 days, and we monitor the credit fundamentals of the counterparties to these commitments on an ongoing basis to ensure that they continue to meet our internal risk-management standards.

NOTE 16: FAIR VALUE DISCLOSURES

The accounting guidance for fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and sets forth disclosure requirements regarding fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. Fair value 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 fair value hierarchy gives the highest priority, Level 1, to measurements based on quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements based on observable inputs other than quoted prices in active markets for identical assets or liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs. 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.

During the first quarter of 2012, we adopted an amendment to the guidance pertaining to fair value measurements and disclosure. The amendment changed the definition of the principal market to the perspective of the overall market for the particular asset or liability being valued, with less emphasis on the perspective of the reporting entity. As a result of adopting this guidance, we made a change to our principal market assessment for certain single-family mortgage loans, primarily for loans that have not been modified and are delinquent four months or more or are in foreclosure. For these loans, we changed our principal market assessment to the whole loan market. The resulting impact was a decrease of $13.8 billion to our fair value of net assets in our consolidated fair value balance sheets.

During the fourth quarter of 2011, our fair value results as presented in our consolidated fair value balance sheets were affected by a change in estimate which increased the implied capital costs included in our valuation of single-family mortgage loans due to a change in the estimation of a risk premium assumption embedded in our modeled valuation of such loans. This change in estimate led to a $14.2 billion decrease in our fair value measurement of mortgage loans as of December 31, 2011.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The table below presents our assets and liabilities measured in 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, as of December 31, 2012 and 2011.

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Table 16.1 Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Fair Value at December 31, 2012				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (in millions)	Netting Adjustment[1]	Total
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	$	$ 56,713	$ 1,802	$	$ 58,515
Fannie Mae		15,117	163		15,280
Ginnie Mae		193	16		209
CMBS		47,878	3,429		51,307
Subprime			26,457		26,457
Option ARM			5,717		5,717
Alt-A and other			10,904		10,904
Obligations of states and political subdivisions			5,798		5,798
Manufactured housing			709		709
Total available-for-sale securities, at fair value		119,901	54,995		174,896
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac		9,189	1,165		10,354
Fannie Mae		10,026	312		10,338
Ginnie Mae		39	92		131
Other		135	21		156
Total mortgage-related securities		19,389	1,590		20,979
Non-mortgage-related securities:					
Asset-backed securities		292			292
Treasury bills	1,160				1,160
Treasury notes	19,061				19,061
FDIC-guaranteed corporate medium-term notes					
Total non-mortgage-related securities	20,221	292			20,513
Total trading securities, at fair value	20,221	19,681	1,590		41,492
Total investments in securities	20,221	139,582	56,585		216,388
Mortgage loans:					
Held-for-sale, at fair value			14,238		14,238
Derivative assets, net:					
Interest-rate swaps	27	13,920	18		13,965
Option-based derivatives		10,097			10,097
Other	37	92	2		131
Subtotal, before netting adjustments	64	24,109	20		24,193
Netting adjustments[1]				(23,536)	(23,536)
Total derivative assets, net	64	24,109	20	(23,536)	657
Other assets:					
Guarantee asset, at fair value			1,029		1,029
All other, at fair value			114		114

Total other assets						1,143			1,143
Total assets carried at fair value on a recurring basis	$ 20,285	$	163,691	$	71,986	$	(23,536)		$ 232,426
Liabilities:									
Debt securities of consolidated trusts held by third parties, at fair value	$	$	70	$		$		$	70
Other debt, at fair value					2,187				2,187
Derivative liabilities, net:									
Interest-rate swaps	5		30,213		26				30,244
Option-based derivatives			749		1				750
Other	3		52		40				95
Subtotal, before netting adjustments	8		31,014		67				31,089
Netting adjustments[1]							(30,911)		(30,911)
Total derivative liabilities, net	8		31,014		67		(30,911)		178
Total liabilities carried at fair value on a recurring basis	$ 8	$	31,084	$	2,254	$	(30,911)	$	2,435

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	Fair Value at December 31, 2011				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (in millions)	Netting Adjustment(1)	Total
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	$	$ 79,044	$ 2,048	$	$ 81,092
Fannie Mae		20,150	172		20,322
Ginnie Mae		237	12		249
CMBS		51,907	3,756		55,663
Subprime			27,999		27,999
Option ARM			5,865		5,865
Alt-A and other		11	10,868		10,879
Obligations of states and political subdivisions			7,824		7,824
Manufactured housing			766		766
Total available-for-sale securities, at fair value		151,349	59,310		210,659
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac		14,181	1,866		16,047
Fannie Mae		14,627	538		15,165
Ginnie Mae		134	22		156
Other		74	90		164
Total mortgage-related securities		29,016	2,516		31,532
Non-mortgage-related securities:					
Asset-backed securities		302			302
Treasury bills	100				100
Treasury notes	24,712				24,712
FDIC-guaranteed corporate medium-term notes		2,184			2,184
Total non-mortgage-related securities	24,812	2,486			27,298
Total trading securities, at fair value	24,812	31,502	2,516		58,830
Total investments in securities	24,812	182,851	61,826		269,489
Mortgage loans:					
Held-for-sale, at fair value			9,710		9,710
Derivative assets, net:					
Interest-rate swaps		12,976	46		13,022
Option-based derivatives	1	15,868			15,869
Other	5	110	35		150
Subtotal, before netting adjustments	6	28,954	81		29,041
Netting adjustments(1)				(28,923)	(28,923)
Total derivative assets, net	6	28,954	81	(28,923)	118
Other assets:					
Guarantee asset, at fair value			752		752
All other, at fair value			151		151
Total other assets			903		903
Total assets carried at fair value on a recurring basis	$ 24,818	$ 211,805	$ 72,520	$ (28,923)	$ 280,220

Liabilities:										
Other debt, at fair value	$		$	3,015	$		$		$	3,015
Derivative liabilities, net:										
Interest-rate swaps				34,601		21				34,622
Option-based derivatives		1		2,934		1				2,936
Other				103		42				145
Subtotal, before netting adjustments		1		37,638		64				37,703
Netting adjustments[1]								(37,268)		(37,268)
Total derivative liabilities, net		1		37,638		64		(37,268)		435
Total liabilities carried at fair value on a recurring basis	$	1	$	40,653	$	64	$	(37,268)	$	3,450

(1) Represents counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable. The net cash collateral posted and net trade/settle receivable were $8.2 billion and $0 million, respectively, at December 31, 2012. The net cash collateral posted and net trade/settle receivable were $9.4 billion and $1 million, respectively, at December 31, 2011. The net interest receivable (payable) of derivative assets and derivative liabilities was approximately $(0.8) billion and $(1.1) billion at December 31, 2012 and 2011, respectively, which was mainly related to interest rate swaps that we have entered into.

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Changes in Fair Value Levels

We monitor the availability of observable market data to: (a) assess the appropriate classification of financial instruments within the fair value hierarchy; and (b) transfer assets and liabilities between Level 1, Level 2, and Level 3 accordingly. Observable market data includes, but is not limited to, quoted prices and market transactions. Changes in economic conditions or the volume and level of activity in a market generally will drive changes in availability of observable market data. Changes in availability of observable market data, which also may result in changing the valuation technique used, are generally the cause of transfers between Level 1, 2, or 3.

For the year ended December 31, 2012, our transfers between Level 1 and Level 2 assets and liabilities were less than $1 million.

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2012 and 2011. 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 for the years ended December 31, 2012 and 2011. When assets and liabilities are transferred between levels, we recognize the transfer as of the beginning of the period.

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Table 16.2 Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs

	For The Year Ended December 31, 2012											
		Realized and unrealized gains (losses)										
	Balance, January 1, 2012	Included in earnings(1)(2)(3)(4)	Included in other comprehensive income (1)	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3 (5)	Transfers out of Level 3 (5)	Balance, December 31, 2012	Unrealized gains (losses) still held (6)
	(in millions)											
Assets												
Investments in securities:												
Available-for-sale, at fair value:												
Mortgage-related securities:												
Freddie Mac	$ 2,048	$	$ 18	$ 18	$	$	$	$ (144)	$	$ (120)	$ 1,802	$
Fannie Mae	172		1	1				(31)	21		163	
Ginnie Mae	12							(4)	8		16	
CMBS	3,756	76	(38)	38			(331)	(34)			3,429	
Subprime	27,999	(1,274)	4,301	3,027				(4,569)			26,457	(1,274)
Option ARM	5,865	(552)	1,417	865			(15)	(998)			5,717	(556)
Alt-A and other	10,868	(196)	1,822	1,626				(1,601)	11		10,904	(196)
Obligations of states and political subdivisions	7,824	19	108	127			(482)	(1,671)			5,798	
Manufactured housing	766	(4)	47	43				(100)			709	(4)
Total available-for-sale mortgage-related securities	59,310	(1,931)	7,676	5,745			(828)	(9,152)	40	(120)	54,995	(2,030)
Trading, at fair value:												
Mortgage-related securities:												
Freddie Mac	1,866	(389)		(389)	25	95	(76)	(206)	92	(242)	1,165	(390)
Fannie Mae	538	(131)		(131)	(5)		5	(35)		(60)	312	(131)
Ginnie Mae	22	1		1				(16)	98	(13)	92	1
Other	90					18	(10)	(3)		(74)	21	(1)
Total trading mortgage- related securities	2,516	(519)		(519)	20	113	(81)	(260)	190	(389)	1,590	(521)
Mortgage loans:												
Held-for-sale, at fair value	9,710	1,011		1,011	25,340		(21,764)	(59)			14,238	263
Other assets:												
Guarantee asset(7)	752	(23)		(23)		382		(82)			1,029	(23)
All other	151	(37)		(37)							114	(37)
Total other assets	903	(60)		(60)		382		(82)			1,143	(60)

		Realized and unrealized (gains) losses										
	Balance, January 1,	Included in earnings(1)(2)(3)(4)	Included in other	Total	Purchases	Issues	Sales	Settlements, net	Transfers into Level 3	Transfers out of Level 3	Balance, December 31, 2012	Unrealized (gains) losses

	2012		comprehensive income (1)						(5)	(5)		still held (6)
	(in millions)											
Liabilities												
Other debt, at fair value	$	$ (16)	$	$ (16)	$	$	$	$ (812)	$ 3,015	$	$ 2,187	$ (6)
Net derivatives[8]	(17)	30		30		3		(2)		33	47	15

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	For The Year Ended December 31, 2011										
		Realized and unrealized gains (losses)									
	Balance, January 1, 2011	Included in earnings(1)(2)(3)(4)	Included in other comprehensive income (1)	Total	Purchases	Issues	Sales	Settlements, net	Net transfers in and/or out of Level 3	Balance, December 31, 2011	Unrealized gains (losses) still held (6)
					(in millions)						
Assets											
Investments in securities:											
Available-for-sale, at fair value:											
Mortgage-related securities:											
Freddie Mac	$ 2,037	$	$ 83	$ 83	$ 119	$	$	$ (92)	$ (99)	$ 2,048	$
Fannie Mae	212		2	2				(37)	(5)	172	
Ginnie Mae	16		(1)	(1)				(3)		12	
CMBS	3,115	(152)	802	650			(67)	(115)	173	3,756	(162)
Subprime	33,861	(1,315)	707	(608)				(5,254)		27,999	(1,315)
Option ARM	6,889	(424)	684	260				(1,284)		5,865	(424)
Alt-A and other	13,155	(198)	(387)	(585)				(1,702)		10,868	(198)
Obligations of states and political subdivisions	9,377	13	550	563			(609)	(1,507)		7,824	
Manufactured housing	897	(11)	(6)	(17)				(114)		766	(11)
Total available-for-sale mortgage-related securities	69,559	(2,087)	2,434	347	119		(676)	(10,108)	69	59,310	(2,110)
Trading, at fair value:											
Mortgage-related securities:											
Freddie Mac	2,299	(832)		(832)	492	25	(92)	(213)	187	1,866	(834)
Fannie Mae	854	(340)		(340)	137		(81)	(43)	11	538	(340)
Ginnie Mae	27	(1)		(1)				(4)		22	(1)
Other	20					91	(18)	(3)		90	
Total trading mortgage-related securities	3,200	(1,173)		(1,173)	629	116	(191)	(263)	198	2,516	(1,175)
Mortgage loans:											
Held-for-sale, at fair value	6,413	828		828	16,550		(14,027)	(54)		9,710	214
Net derivatives(8)	(691)	907		907		(46)		(155)	2	17	165
Other assets:											
Guarantee asset(7)	541	(25)		(25)		288		(52)		752	(25)
All other	235	(84)		(84)						151	(84)
Total other assets	776	(109)		(109)		288		(52)		903	(109)

(1) Changes in fair value for available-for-sale investment securities are recorded in AOCI, while gains and losses from sales are recorded in other gains (losses) on investment securities recognized in earnings on our consolidated statements of comprehensive income. For mortgage-related securities classified as trading, the realized and unrealized gains (losses) are recorded in other gains (losses) on investment securities recognized in earnings on our consolidated statements of comprehensive income.

(2) Changes in fair value of derivatives not designated as accounting hedges are recorded in derivative gains (losses) on our consolidated statements of comprehensive income.

(3) Changes in fair value of the guarantee asset are recorded in other income on our consolidated statements of comprehensive income.

(4) For held-for-sale mortgage loans with fair value option elected, gains (losses) on fair value changes and from sales of mortgage loans are recorded in other income on our consolidated statements of comprehensive income.

(5) Transfers out of Level 3 during the year ended December 31, 2012 consist 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. Transfers into Level 3 during the year ended

December 31, 2012 consist primarily of foreign-currency denominated debt due to a decline in observable market activity.

(6) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains and losses related to assets and liabilities classified as Level 3 that were still held at December 31, 2012 and 2011, respectively. Included in these amounts are credit-related other-than-temporary impairments recorded on available-for-sale securities.

(7) We estimate that all amounts recorded for unrealized gains and losses on our guarantee asset relate to those guarantee asset amounts still recorded on our balance sheet. The amounts reflected as included in earnings represent the periodic fair value changes of our guarantee asset.

(8) Net derivatives include derivative assets and derivative liabilities prior to counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

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Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These adjustments usually result from application of lower-of-cost-or-fair-value accounting or write-downs of individual assets. These assets include impaired held-for-investment multifamily mortgage loans and REO, net.

The table below presents assets measured in our consolidated balance sheets at fair value on a non-recurring basis at December 31, 2012 and 2011, respectively.

Table 16.3 Assets Measured at Fair Value on a Non-Recurring Basis

	Fair Value at December 31, 2012				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (in millions)	Total	Total Gains (Losses)[3]
Assets measured at fair value on a non-recurring basis:					
Mortgage loans:[1]					
Held-for-investment	$	$	$ 1,025	$ 1,025	$ (49)
REO, net[2]			776	776	(22)
Total assets measured at fair value on a non-recurring basis	$	$	$ 1,801	$ 1,801	$ (71)

	Fair Value at December 31, 2011				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (in millions)	Total	Total Gains (Losses)[3]
Assets measured at fair value on a non-recurring basis:					
Mortgage loans:[1]					
Held-for-investment	$	$	$ 1,380	$ 1,380	$ (16)
REO, net[2]			3,146	3,146	(118)
Total assets measured at fair value on a non-recurring basis	$	$	$ 4,526	$ 4,526	$ (134)

(1) Represents carrying value and related write-downs of loans for which adjustments are based on the fair value amounts. These loans consist of impaired multifamily mortgage loans that are classified as held-for-investment and have a related valuation allowance.
(2) Represents the fair value and related losses of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was written down to fair value of $0.8 billion, less estimated costs to sell of $50 million (or approximately $0.7 billion) at December 31, 2012. The carrying amount of REO, net was written down to fair value of $3.1 billion, less estimated costs to sell of $221 million (or approximately $2.9 billion) at December 31, 2011.
(3) Represents the total net gains (losses) recorded on items measured at fair value on a non-recurring basis as of December 31, 2012 and 2011, respectively.

Valuation Processes and Controls Over Fair Value Measurement

We have control processes designed to ensure 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 that ensures a segregation of duties and oversight of our fair value methodologies, techniques, validation procedures, and results.

Groups within our Finance division, independent of our trading and investing function, execute and validate the valuation processes and are responsible for determining the fair values of the majority of our financial assets and liabilities. In determining fair value, we consider the credit risk of our counterparties in estimating the fair values of our assets and our own credit risk in estimating the fair values of our liabilities. The fair values determined by our Finance division are further verified by an independent group within our Enterprise Risk Management (ERM) division.

The validation procedures performed by ERM are intended to ensure that the prices we receive from third parties are consistent with our observations of market activity, and that fair value measurements developed using internal data reflect the assumptions that a market participant would use in pricing our assets and liabilities. These validation procedures include performing a monthly independent verification of fair value measurements through independent modeling, analytics, and comparisons to other market source data, if available. Where applicable, prices are back-tested by comparing actual settlement prices to our fair value measurements. Analytical procedures include automated checks consisting of prior-period variance analysis, comparisons of actual prices to internally calculated expected prices based on observable market changes, analysis of changes in pricing ranges, and relative value and yield comparisons using our proprietary models. Thresholds are set for each product category by ERM to identify exceptions that require further analysis. If a price is outside of our established thresholds, we perform additional validation procedures, including supplemental analytics and/or follow up discussions with the third-party provider. If we are unable to validate the reasonableness of a given price, we ultimately do not use that price for fair value measurements in our consolidated financial statements. These reviews are risk-based and cover all product categories, and are executed before we finalize the prices used in preparing our fair value measurements for our financial statements.

In addition to performing the validation procedures noted above, ERM provides independent risk governance over all valuation processes by establishing and maintaining corporate-wide valuation control policies. ERM also independently reviews key judgments, methodologies, and valuation techniques to ensure compliance with its established policies.

Our Valuation & Finance Model Committee (Valuation Committee), which includes representation from our business areas, ERM, and Finance divisions, provides senior management s governance over valuation processes, methodologies, controls and fair value measurements. Identified exceptions are reviewed and resolved through the verification process and the fair value measurements used in the financial statements are approved at the Valuation Committee.

Where models are employed to assist in the measurement and verification of fair values, changes made to those models during the period are reviewed and approved according to the corporate model change governance process, which specifies that all material changes be reviewed at the Valuation Committee. Inputs used by models are regularly updated for changes in the underlying data, assumptions, valuation inputs, and market conditions, and are subject to the valuation controls noted above.

Use of Third-Party Pricing Data in Fair Value Measurement

As discussed in the sections that follow, many of our valuation techniques use, either directly or indirectly, data provided by third-party pricing services or dealers. The techniques used by these pricing services and dealers to develop the prices generally are either: (a) a comparison to transactions involving instruments with similar collateral and risk profiles, adjusted as necessary based on specific characteristics of the asset or liability being valued; or (b) industry-standard modeling, such as a discounted cash flow model. The prices provided by the pricing services and dealers reflect their observations and assumptions related to market activity, including risk premiums and liquidity adjustments. The models and related assumptions used by the pricing services and dealers are owned and managed by them and, in many cases, the significant inputs used in the valuation techniques are not reasonably available to us. However, we have an understanding of the processes and assumptions used to develop the prices based on our ongoing due diligence, which includes discussions with our vendors at least annually and often more frequently. We believe that the procedures executed by the pricing services and dealers, combined with our internal verification and analytical procedures, provide assurance that the prices used in our financial statements comply with the accounting guidance for fair value measurements and disclosures and reflect the assumptions that a market participant would use in pricing our assets and liabilities. The price quotes we receive are non-binding both to us and to our counterparties.

In many cases, we receive prices from third-party pricing services or dealers and use those prices without adjustment, and the significant inputs used to develop the prices are not reasonably available to us. For a large majority of the assets and liabilities we value using pricing services and dealers, we obtain prices from multiple external sources and use the median of the prices to measure fair value. This technique is referred to below as median of external sources. The significant inputs used in the fair value measurement of assets and liabilities that are valued using the median of external sources pricing technique are the third-party prices. Significant increases (decreases) in any of the third-party prices in isolation may result in a significantly higher (lower) fair value measurement. In limited circumstances, we may be able to receive pricing information from only a single external source. This technique is referred to below as single external source.

In limited circumstances, we receive prices or pricing-related data that we adjust or use as an input to our models or other valuation techniques to measure fair value, as described in Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets *Derivative Assets, Net and Derivative Liabilities, Net*. In other limited circumstances, we receive prices from a third-party provider and use those prices without adjustment, but the inputs used by the third-party provider to develop the prices are reasonably available to us, as described in Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets *Mortgage Loans, Held-for-Sale* and *Other Assets and Other Liabilities*.

Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets

We categorize assets and liabilities that we measure and report at fair value in our consolidated balance sheets within the fair value hierarchy based on the valuation techniques used to derive the fair value and our judgment regarding the observability of the related inputs. The following is a description of the valuation techniques we use for fair value measurement and disclosure; the significant inputs used in those techniques (if applicable); our basis for classifying the measurements as Level 1, Level 2, or Level 3 of the fair value hierarchy; and, for those measurements classified as Level 3 of the hierarchy, a narrative description of the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of any interrelationships between those unobservable inputs. Although the sensitivities of the unobservable inputs are generally discussed below in isolation, interrelationships exist among the inputs such that a change in one unobservable input typically results in a change to one or more of the other inputs. For example, the most common interrelationship that impacts the majority of our fair value measurements is between future interest rates, prepayment speeds, and probabilities of default. Generally, a change in the assumption used for future interest rates results in a directionally opposite change in the assumption used for prepayment speeds and a directionally similar change in the assumption used for probabilities of default.

Each technique discussed below may not be used in a given reporting period, depending on the composition of our assets and liabilities measured at fair value and relevant market activity during that period.

Investments in Securities

Mortgage-Related Securities

Agency Securities

Agency securities, both trading and available-for-sale, consist of mortgage-related securities issued and guaranteed by Freddie Mac, Fannie Mae, and Ginnie Mae. The valuation techniques for agency securities vary depending on the type of security.

Fixed-rate single-class securities are valued using observable prices for similar securities in the TBA market. The observable TBA prices vary based on agency, term, coupon, and settlement date. In addition, we may adjust the TBA price accordingly based on matrices we receive from external dealers for securities with specific collateral characteristics if we observe those collateral characteristics to be trading at a premium or discount to the TBA price. Significant inputs used in this technique are the TBA prices and the security characteristics mentioned above. These securities have observable market pricing and are classified as Level 2.

Adjustable-rate single-class securities and the majority of multiclass securities are valued using the median of external sources. For certain multiclass securities, we are able to receive prices from only a single external source. Adjustable-rate single-class securities and the multiclass securities valued using these techniques generally have observable market prices and are classified as Level 2. However, certain multiclass securities valued using these techniques are classified as Level 3 when there is a low volume or level of activity in the market for those securities.

Certain multiclass securities for which we are not able to obtain external prices due to limited relevant market activity are valued using a discounted cash flow technique. Under this technique, securities are valued by starting with a third-party market price for a similar security within our portfolio. We then use our proprietary prepayment and interest rate models to calculate an OAS for the similar security, which is used to determine the net present value of the projected cash flows for the security to be valued. The significant unobservable input used in the fair value measurement of these securities is the OAS. Significant increases (decreases) in the OAS in isolation would result in a significantly lower (higher) fair value measurement. These securities are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Certain complex multiclass securities for which current cash flow information is not readily available are valued using a risk-metric pricing technique. Under this technique, securities are valued by starting with a prior period price and adjusting that price for market changes in certain key risk metrics such as key rate durations. If necessary, our judgment is applied to adjust the price based on specific security characteristics. The significant unobservable inputs used in the fair value measurement of these securities are the key risk metrics. Significant increases (decreases) in key rate durations in isolation would result in a significantly lower (higher) fair value measurement. These securities are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Commercial Mortgage-Backed Securities

The majority of our CMBS are valued using the median of external sources. For a small number of CMBS, we are able to receive prices from only a single external source. CMBS valued using these techniques generally have observable market

pricing and are classified as Level 2. However, certain CMBS valued using these techniques are classified as Level 3 when there is a low volume or level of activity in the market for those securities.

Certain CMBS, primarily military housing revenue bonds, are valued using a risk-metric pricing technique, similar to that described above for agency securities. The significant unobservable inputs used in the fair value measurement of these CMBS securities are the key risk metrics. Significant increases (decreases) in key rate durations in isolation would result in a significantly lower (higher) fair value measurement. These securities are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Subprime, Option ARM, and Alt-A and Other (Mortgage-Related); Obligations of States and Political Subdivisions; and Manufactured Housing

Subprime, option ARM, and Alt-A and other securities consist of non-agency mortgage-related securities backed by subprime, option ARM, and/or Alt-A and other collateral. Obligations of states and political subdivisions consist primarily of housing revenue bonds. Manufactured housing securities consist of non-agency mortgage-related securities backed by loans on manufactured housing properties. These types of securities are all valued based on the median of external sources and are classified as Level 3 due to the low volume and level of activity in the markets for these securities.

Non-Mortgage-Related Securities

Asset-Backed Securities

Asset-backed securities consist primarily of private-label non-mortgage-related securities. These securities are valued using the median of external sources. These securities have observable market pricing and are classified as Level 2.

Treasury Bills and Treasury Notes

Treasury bills and Treasury notes are valued using quoted prices in active markets for identical assets and are classified as Level 1.

FDIC-Guaranteed Corporate Medium-Term Notes

FDIC-guaranteed corporate medium-term notes are securities that are guaranteed by the FDIC and therefore are considered to have the credit risk of a U.S. federal agency. These securities are valued using the median of external sources. These securities have observable market pricing and are classified as Level 2.

Mortgage Loans, Held-for-Sale

Mortgage loans, held-for-sale consist of multifamily mortgage loans with the fair value option elected and are measured at fair value on a recurring basis. Mortgage loans, held-for-sale are primarily valued using market prices from a third-party pricing service that uses a discounted cash flow technique. Under this technique, the pricing service forecasts cash flows for the various mortgage loans and discounts them at a market rate, including a spread that is based on pricing data obtained from purchases and sales of similar mortgage loans, adjusted based on the mortgage loan s current LTV ratio and DSCR. The significant unobservable inputs used in the fair value measurement of these loans are the current LTV ratio and DSCR. Significant increases (decreases) in the current LTV ratio in isolation would result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in the DSCR in isolation would result in a significantly higher (lower) fair value measurement. These loans are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Mortgage Loans, Held-for-Investment

Mortgage loans, held-for-investment are measured at fair value on a non-recurring basis and represent multifamily mortgage loans that have been written down to the fair value of the underlying collateral due to impairment. The underlying collateral is primarily valued using either an income capitalization technique or third-party appraisals.

Under the income capitalization technique, the collateral is valued by discounting the present value of future cash flows by applying an overall capitalization rate to the forecasted net operating income. The significant unobservable input used in the fair value measurement of these loans is the capitalization rate, which is determined through analysis of the DSCR. Significant increases (decreases) in the capitalization rate in isolation would result in a significantly lower (higher) fair value measurement.

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Under the third-party appraisal technique, we use the prices provided by third-party appraisers without adjustment. The third-party appraisers consider the physical condition of the property and use comparable sales and other market data in determining the appraised value.

Impaired multifamily mortgage loans held-for-investment are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Derivative Assets, Net and Derivative Liabilities, Net

Derivative assets and derivative liabilities consist of interest-rate swaps, option-based derivatives, and other derivatives, such as exchange-traded futures, foreign-currency swaps, and certain forward purchase and sale commitments.

Interest-Rate Swaps

Interest-rate swaps consist of receive-fixed, pay-fixed, and basis swaps. The majority of our interest-rate swaps are valued using a discounted cash flow technique. Under this technique, interest-rate swaps are valued by using the appropriate yield curves to discount the expected cash flows of both the fixed and variable rate components of the swap contracts. The significant inputs used in the fair value measurement of these derivatives are market-based interest rates. These derivatives are classified as Level 2 as the significant inputs used in the fair value measurement are observable in active markets. Certain interest rate swaps that are exchange traded are classified in Level 1.

Option-Based Derivatives

Option-based derivatives consist of interest rate caps, interest rate floors, call swaptions, and put swaptions. We value the majority of our option-based derivatives using option-pricing models. Dealer-supplied interest rate volatility matrices are a key input into these models. Within each matrix, prices are provided for a range of option terms, swap terms, and strikes. Our models then interpolate to determine the volatility for each instrument and use that volatility as an input to the option-pricing model. These derivatives are classified as Level 2 as the significant inputs used are observable in active markets.

Other Derivatives

Other derivatives consist of exchange-traded futures, foreign-currency swaps, and certain forward purchase and sale commitments.

Exchange-traded futures are valued using quoted prices in active markets for identical assets or liabilities and are classified as Level 1.

Foreign-currency swaps are valued using a discounted cash flow technique. Under this technique, foreign-currency swaps are valued using yield curves derived from observable market data to calculate and discount the expected cash flows for the swap contracts. The significant inputs used in the fair value measurement of these derivatives are market-based interest rates and foreign currency exchange rates. These derivatives are classified as Level 2 as the significant inputs used in the fair value measurement are observable in active markets.

Certain purchase and sale commitments are also considered to be derivatives and are valued using the same techniques we use to value the underlying instruments we are committing to purchase or sell. These instruments generally have observable market pricing and are classified as Level 2. Valuation techniques for commitments to purchase or sell investment securities and to extinguish or issue debt securities of consolidated trusts are further discussed in Investments in Securities. Valuation techniques for commitments to purchase single-family mortgage loans are further discussed in Valuation Techniques for Assets and Liabilities Not Measured at Fair Value in Our Consolidated Balance Sheets, but for Which the Fair Value is Disclosed *Mortgage Loans*.

Other Assets and Other Liabilities

Other assets consist of our guarantee asset related to guarantees issued to unconsolidated securitization trusts and mortgage servicing rights. Other liabilities, from time to time, consist of mortgage servicing rights.

Guarantee Asset

Our guarantee asset is primarily related to our multifamily guarantees. The multifamily guarantee asset is valued using a discounted cash flow technique. Under this technique, the present value of future cash flows related to our management and

guarantee fee is discounted based on the current OAS-to-benchmark interest rates for new guarantees, which are driven by changes in our estimates of credit risk and changes in the credit profile of the multifamily guarantee portfolio. The significant unobservable input used in the fair value measurement of the guarantee asset is the OAS-to-benchmark rates. Significant increases (decreases) in the OAS in isolation would result in a significantly lower (higher) fair value measurement. The guarantee asset is classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

All Other Assets and Liabilities

All other assets and, from time to time, other liabilities consist primarily of mortgage servicing rights. Mortgage servicing rights are valued using a discounted cash flow technique by a third-party vendor that specializes in valuing and brokering sales of mortgage servicing rights. Under this technique, the cash flows from the mortgage servicing rights are discounted based on estimated prepayment rates, estimated costs to service both performing and non-performing loans, and estimated servicing income per loan (including ancillary income). The significant unobservable inputs used in the fair value measurement of mortgage servicing rights are the estimates of prepayment rates, costs to service per loan, and servicing income per loan. Significant increases (decreases) in cost to service per loan, and prepayment rate in isolation would result in a significantly lower (higher) fair value measurement. Significant increases (decreases) in servicing income per loan in isolation would result in a significantly higher (lower) fair value measurement. Mortgage servicing rights are classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

REO, Net

REO, net consists primarily of single-family REO. REO, net is initially measured at its fair value less costs to sell, and is subsequently measured at the lower of cost or fair value less costs to sell. REO, net is valued using an internal model. Under this technique, our internal model uses actual disposition prices on REO for the past three months to determine the average sales proceeds per property at the state level expressed as a fixed percentage based on the ratio of the disposition price to the UPB of the associated loan immediately prior to our acquisition of the property. This fixed percentage is then applied to the individual property to determine its fair value. Certain adjustments, such as state-level adjustments, are made to the estimated fair value, as applicable. The significant unobservable input used in the fair value measurement of REO, net is the historical average sales proceeds per property by state. Significant increases (decreases) in the historical average sales proceeds per property by state in isolation would result in a significantly higher (lower) fair value measurement. REO, net is classified as Level 3 as significant inputs used in the fair value measurement are unobservable.

Debt Securities of Consolidated Trusts Held by Third Parties, at Fair Value

We elected the fair value option for certain debt securities of consolidated trusts held by third parties. These consist of certain multifamily K certificates. These are valued using either the median of external sources or a single external source (which may be the counterparty to the transaction) and are classified as Level 2 due to market pricing that is observable. See Fair Value Option *Debt Securities of Consolidated Trusts Held by Third Parties* for additional information.

Other Debt, at Fair Value

We elected the fair value option for foreign-currency denominated debt instruments and certain other debt securities. These are valued using either the median of external sources or a single external source (which may be the counterparty to the transaction) and are classified as Level 3 due to the low volume and level of activity in the market for these types of debt instruments. See Fair Value Option *Other Debt* for additional information.

Quantitative Information about Level 3 Fair Value Measurements for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets

The table below provides valuation techniques, the range, and the weighted average of significant unobservable inputs for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) as of December 31, 2012.

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Table 16.4 Quantitative Information about Recurring Level 3 Fair Value Measurements

	December 31, 2012					
				Unobservable Inputs(1)		
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
	(dollars in millions)					
Recurring fair value measurements						
Assets						
Investments in securities						
Available-for-sale, at fair value						
Mortgage-related securities						
Agency securities:						
Freddie Mac		$1,477	Risk metric	Effective duration(2)	0.89 -1.98 years	0.89 years
		325	Other			
Total Freddie Mac	$58,515	1,802				
Fannie Mae		78	Median of external sources	External pricing sources	$103.9 - $106.0	$105.2
		65	Single external source	External pricing source	$116.0 - $116.0	$116.0
		20	Other			
Total Fannie Mae	15,280	163				
Ginnie Mae		8	Discounted cash flows			
		8	Median of external sources			
Total Ginnie Mae	209	16				
CMBS		2,462	Single external source	External pricing source	$99.4 - $99.4	$99.4
		432	Risk metric	Effective duration(2)	9.3 - 14.8 years	12.0 years
		535	Other			
Total CMBS	51,307	3,429				
Subprime, option ARM, and Alt-A:						
Subprime		24,890	Median of external sources	External pricing sources	$54.4 - $64.4	$59.2
		1,567	Other			
Total subprime	26,457	26,457				
Option ARM		5,631	Median of external sources	External pricing sources	$43.8 - $52.6	$47.9
		86	Other			
Total option ARM	5,717	5,717				
Alt-A and other		8,562	Median of external sources	External pricing sources	$69.6 - $77.9	$73.8
		1,901	Single external source	External pricing source	$71.8 - $71.8	$71.8
		441	Other			
Total Alt-A and other	10,904	10,904				
Obligations of states and political subdivisions		5,533	Median of external sources	External pricing sources	$102.3 - $103.2	$102.7
		265	Other			
Total obligations of states and political subdivisions	5,798	5,798				
Manufactured housing		693	Median of external sources	External pricing sources	$80.0 - $85.5	$82.8
		16	Other			
Total manufactured housing	709	709				
	174,896	54,995				

Total available-for-sale mortgage- related securities						
Trading, at fair value						
Mortgage-related securities						
Agency securities:						
Freddie Mac		1,112	Discounted cash flows	OAS	(33,702) -3,251 bps	502 bps
		53	Other			
Total Freddie Mac	10,354	1,165				
Fannie Mae		312	Discounted cash flows	OAS	(1,263) - 3,251 bps	810 bps
Total Fannie Mae	10,338	312				
Ginnie Mae		87	Median of external sources			
		5	Other			
Total Ginnie Mae	131	92				
Other		12	Discounted cash flows			
		9	Median of external sources			
	156	21				
Total trading mortgage-related securities	20,979	1,590				
Total investments in securities	$195,875	$56,585				
Mortgage loans:						
Held-for-sale, at fair value	$14,238	$14,238	Discounted cash flows	DSCR	1.25 - 6.88	1.97
				Current LTV	19% - 80%	69%
Other assets:						
Guarantee asset, at fair value		870	Discounted cash flows	OAS	0 - 368 bps	55 bps
		159	Other			
Total guarantee asset, at fair value	1,029	1,029				
All other, at fair value		112	Discounted cash flows	Prepayment rate	7.73% - 39.87%	21.23%
				Servicing income per loan	0.19% - 0.52%	0.25%
				Cost to service per loan	$78 - $354	$141
		2	Other			
Total all other, at fair value	114	114				
Total other assets	1,143	1,143				
Liabilities						
Other debt, at fair value		1,188	Median of external sources	External pricing sources	$101.7 - $102.0	$101.7
		999	Single external source	External pricing source	$99.9 - $99.9	$99.9
Total other debt recorded at fair value	2,187	2,187				
Net derivatives	(479)	47	Other			

(1) Certain unobservable input types, range, and weighted average data are not disclosed in this table if they are associated with a class: (a) that has a Level 3 fair value measurement that is not considered material; or (b) where we have disclosed the predominant valuation technique with related unobservable inputs for the most significant portion of that class.
(2) Effective duration is used as a proxy to represent the aggregate impact of key rate durations.

The table below provides valuation techniques, the range, and the weighted average of significant unobservable inputs for assets and liabilities measured at fair value on a non-recurring basis using unobservable inputs (Level 3) as of December 31, 2012.

Table 16.5 Quantitative Information about Non-Recurring Level 3 Fair Value Measurements

	December 31, 2012					
				Unobservable Inputs[1]		
	Total Fair Value	Level 3 Fair Value	Predominant Valuation Technique(s)	Type	Range	Weighted Average
	(dollars in millions)					
Non-recurring fair value measurements						
Mortgage loans						
Held-for-investment		$711	Income capitalization	Capitalization rates[2]	5% 9%	7%
		314	Third-party appraisal	Property value	$2 million - $43 million	$21 million
Total held-for-investment	$1,025	1,025				
REO, net		771	Internal model[3]	Historical average sale proceeds per property by state[4]	$32,186 - $356,397	$102,697
		5	Other			
Total REO, net	776	776				

(1) Certain unobservable input types, range, and weighted average data are not disclosed in this table if they are associated with a class: (a) that has a Level 3 fair value measurement that is not considered material; or (b) where we have disclosed the predominant valuation technique with related unobservable inputs for the most significant portion of that class.
(2) The capitalization rate Range and Weighted Average represent those loans that are valued using the Income Capitalization approach, which is the predominant valuation technique used for this population. 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.
(3) Represents internal models that use distressed property sales proceeds by state based on a three month average to measure the initial value of REO and the subsequent write-down to measure the current fair value for REO properties.
(4) Represents the average of three months of REO sales proceeds by state.

Consolidated Fair Value Balance Sheets

The supplemental consolidated fair value balance sheets in the table below present our estimates of the fair value of our financial assets and liabilities at December 31, 2012 and 2011. The valuations of financial instruments on our consolidated fair value balance sheets are in accordance with the accounting guidance for fair value measurements and disclosures and the accounting guidance for financial instruments. The consolidated fair value balance sheets do not purport to present our net realizable, liquidation, or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.

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Table 16.6 Consolidated Fair Value Balance Sheets

	December 31,							
	2012						2011	
		Fair Value						
	Carrying Amount[1]	Level 1	Level 2	Level 3	Netting Adjustments	Total	Carrying Amount[1]	Fair Value
	(in billions)							
Assets								
Cash and cash equivalents	$ 8.5	$ 8.5	$	$	$	$ 8.5	$ 28.4	$ 28.4
Restricted cash and cash equivalents	14.6	14.6				14.6	28.1	28.1
Federal funds sold and securities purchased under agreements to resell	37.6		37.6			37.6	12.0	12.0
Investments in securities:								
Available-for-sale, at fair value	174.9		119.9	55.0		174.9	210.7	210.7
Trading, at fair value	41.5	20.2	19.7	1.6		41.5	58.8	58.8
Total investments in securities	216.4	20.2	139.6	56.6		216.4	269.5	269.5
Mortgage loans:								
Mortgage loans held by consolidated trusts	1,495.9		1,130.4	409.7		1,540.1	1,564.2	1,598.2
Unsecuritized mortgage loans	190.4		16.4	151.2		167.6	217.1	205.9
Total mortgage loans	1,686.3		1,146.8	560.9		1,707.7	1,781.3	1,804.1
Derivative assets, net	0.7		24.2		(23.5)	0.7	0.1	0.1
Other assets	25.8		0.8	25.0		25.8	27.8	28.5
Total assets	$ 1,989.9	$ 43.3	$ 1,349.0	$ 642.5	$ (23.5)	$ 2,011.3	$ 2,147.2	$ 2,170.7
Liabilities								
Debt, net:								
Debt securities of consolidated trusts held by third parties	$ 1,419.5	$	$ 1,484.2	$ 2.9	$	$ 1,487.1	$ 1,471.4	$ 1,552.5
Other debt	547.5		547.0	18.6		565.6	660.6	681.2
Total debt, net	1,967.0		2,031.2	21.5		2,052.7	2,132.0	2,233.7
Derivative liabilities, net	0.2		31.1		(30.9)	0.2	0.4	0.4
Other liabilities	13.8	0.2	7.6	8.9		16.7	14.9	15.0
Total liabilities	1,981.0	0.2	2,069.9	30.4	(30.9)	2,069.6	2,147.3	2,249.1
Net assets								
Senior preferred stockholders	72.3			72.3		72.3	72.2	72.2
Preferred stockholders	14.1		0.9			0.9	14.1	0.6
Common stockholders	(77.5)			(131.5)		(131.5)	(86.4)	(151.2)
Total net assets	8.9		0.9	(59.2)		(58.3)	(0.1)	(78.4)
Total liabilities and net assets	$ 1,989.9	$ 0.2	$ 2,070.8	$ (28.8)	$ (30.9)	$ 2,011.3	$ 2,147.2	$ 2,170.7

(1) Equals the amount reported on our GAAP consolidated balance sheets.

Limitations

Our consolidated fair value balance sheets do not capture all elements of value that are implicit in our operations as a going concern because our consolidated fair value balance sheets only capture the values of the current investment and securitization portfolios as of the dates presented. For example, our consolidated fair value balance sheets do not capture the value of new investment and securitization business that would likely replace prepayments as they occur, nor do they include any estimation of intangible or goodwill values. Thus, the fair value of net assets presented on our consolidated fair value balance sheets does not represent an estimate of our net realizable, liquidation, or market value as a whole.

The fair value of certain financial instruments is based on our current principal market as of the dates presented. As new markets evolve, our principal market may change. The use of different assumptions and methodologies to determine the fair values of certain financial instruments, including the use of different principal markets, could have a material impact on the fair value of net assets presented on our consolidated fair value balance sheets.

We report certain assets and liabilities that are not financial instruments, such as property and equipment and REO, as well as certain financial instruments that are not covered by the disclosure requirements in the accounting guidance for financial instruments, such as pension liabilities, at their carrying amounts in accordance with GAAP on our consolidated fair value balance sheets. We believe these items do not have a significant impact on our overall fair value results. Other non-financial assets and liabilities on our GAAP consolidated balance sheets represent deferrals of costs and revenues that are amortized in accordance with GAAP, such as deferred debt issuance costs and deferred fees. Cash receipts and payments related to these items are generally recognized in the fair value of net assets when received or paid, with no basis reflected on our fair value balance sheets.

Valuation Techniques for Assets and Liabilities Not Measured at Fair Value in Our Consolidated Balance Sheets, but for Which the Fair Value is Disclosed

The following is a description of the valuation techniques we use for items measured at fair value either only at inception or only on our fair value balance sheet, the significant inputs used in those techniques (if applicable), and our basis for classifying the measurements as Level 1, Level 2, or Level 3 of the valuation hierarchy. Each technique discussed below may not be used in a given reporting period, depending on the composition of our assets and liabilities measured at fair value and relevant market activity during that period.

Cash and Cash Equivalents (including Restricted Cash and Cash Equivalents)

Cash and cash equivalents (including restricted cash and cash equivalents) largely consist of highly liquid investment securities with an original maturity of three months or less used for cash management purposes, as well as cash held at financial institutions and cash collateral posted by our derivative counterparties. Given that these assets are short-term in nature with limited market value volatility, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value. Cash and restricted cash are classified as Level 1. Cash equivalents (including restricted cash equivalents) are primarily classified as Level 2 because we use observable inputs other than quoted prices in active markets for identical assets to determine the fair value measurement. However, cash equivalents (including restricted cash equivalents) for which we can obtain quoted prices in active markets for identical assets are classified as Level 1.

Federal Funds Sold and Securities Purchased Under Agreements to Resell

Federal funds sold and securities purchased under agreements to resell principally consist of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities and federal funds sold. Given that these assets are short-term in nature, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value. Federal funds sold and securities purchased under agreements to resell are classified as Level 2 because these assets have observable market pricing, but quoted prices for identical assets are not available.

Mortgage Loans

Single-family and certain multifamily mortgage loans are classified as held-for-investment and recorded at amortized cost. Other multifamily mortgage loans that are held for investment are recorded at the fair value of the underlying collateral upon impairment. Multifamily held-for-sale mortgage loans are recorded at fair value due to the election of the fair value option.

Single-Family Loans

Determination of Principal Market

In determining the fair value of single-family mortgage loans, valuation outcomes can vary widely based on management judgments and decisions used in determining: (a) the principal market; (b) modeling assumptions, including default, severity, home prices, and risk premiums; and (c) inputs used to determine variables including risk premiums, credit costs, security pricing, and implied management and guarantee fees. Our principal markets include the GSE securitization market and the whole loan market. To determine the principal market, we considered the market with the greatest volume and level of activity and our ability to access that market. In the absence of a market with active trading, we determined the market that would maximize the amount we would receive upon sale. During 2012, we determined that the principal market is the whole loan market for loans that are four or more months delinquent, loans that are in foreclosure, loans that have completed a HAMP loan modification, and loans that have completed a non-HAMP loan modification but have not been current for at least 12 consecutive months. The total UPB of loans where the whole loan market is the principal market was approximately $110.0 billion as of December 31, 2012. We determined that the principal market for all other loans, regardless of whether the loan is currently securitized or whether the loan is eligible for purchase under current underwriting standards, is the GSE securitization market. The total UPB of loans where the GSE securitization market is the principal market was approximately $1.5 trillion as of December 31, 2012.

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Whole Loan Market as Principal Market

Loans where we determine that the principal market is the whole loan market are valued using the median of external sources. Under the median of external sources technique, prices for single-family loans are obtained from multiple dealers. These dealers reference market activity for deeply delinquent and modified loans, where available, and use internal models and their judgment to determine default rates, severity rates, home prices, and risk premiums. Single-family mortgage loans valued using this technique are classified as Level 3 due to the low volume and level of activity in this market.

GSE Securitization Market as Principal Market

Loans where we determine that the principal market is the GSE securitization market are valued using the build-up technique. Under the build-up technique, the fair value of single-family mortgage loans is based on the estimate of the price we would receive if we were to securitize the loans. These loans are valued by starting with benchmark security pricing for actively traded mortgage-related securities with similar characteristics; adding in the value of our management and guarantee fee, which is the compensation we receive for performing our management and guarantee activities; and subtracting the value of the credit obligation related to performing our guarantee.

The security price is based on benchmark security pricing for similar actively traded mortgage-related securities, adjusted as necessary based on security characteristics. This security pricing process is consistent with our approach for valuing similar securities retained in our investment portfolio or issued as debt to third parties. See Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets *Investments in Securities*.

The management and guarantee fee is valued by estimating the present value of the additional cash flows related to our management and guarantee fee. The management and guarantee fees for the majority of our loans are valued using third-party dealer prices on hypothetical interest-only securities based on collateral characteristics from our single-family credit guarantee portfolio. For loans where third-party market data is not readily available, we use a discounted cash flow approach, leveraging the dealer prices received for the majority of our loans and including only those cash flows related to our management and guarantee fee.

The credit obligation related to performing our guarantee is valued by estimating the fair value of the related credit and other costs (such as general and administrative expenses) and benefits (such as credit enhancements) inherent in our guarantee obligation. For loans that qualify for purchase under current underwriting standards, we use the delivery and guarantee fees that we charge under our current market pricing as a market observation. For loans that do not qualify for purchase based on current underwriting standards, we use our internal credit models, which incorporate factors such as loan characteristics, loan performance status information, expected losses, and risk premiums without further adjustment.

Single-family mortgage loans that qualify for purchase under current underwriting standards are classified as Level 2 as the significant inputs used for the valuation of these loans, such as security pricing, our externally published credit pricing matrices, and third-party prices used in valuing the management and guarantee fee, are observable, while the unobservable inputs, such as general and administrative expenses and credit enhancements, are not significant to the fair value measurement. Single-family mortgage loans that do not qualify for purchase under current underwriting standards are classified as Level 3 as the credit cost is based on our internal credit models which use unobservable inputs that are significant to the fair value measurement.

HARP Loans

For loans that have been refinanced under HARP, we value our guarantee obligation using the delivery and 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. 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: (a) our internal credit models; or (b) 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 majority of our HARP loans are classified as Level 2.

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, the beneficial pricing afforded to HARP loans will no longer be reflected in our delivery and guarantee fee pricing structure. If these benefits were not reflected in the pricing for these loans, the fair value of our

mortgage loans would have decreased by $11.2 billion as of December 31, 2012. The total fair value of the loans in our portfolio that reflects the pricing afforded to HARP loans as of December 31, 2012 as presented in our consolidated fair value balance sheets is $153.1 billion.

Multifamily Loans

For a discussion of the techniques used to determine the fair value of held-for-sale and impaired held-for-investment multifamily mortgage loans, see Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets *Mortgage Loans, Held-for-Sale* and *Mortgage Loans, Held-for-Investment*, respectively. Non-impaired multifamily mortgage loans are valued using the same technique as held-for-sale multifamily mortgage loans.

Other Assets

Most of our other assets, such as property and equipment, are not financial instruments required to be valued at fair value under the accounting guidance for disclosures about the fair value of financial instruments. For most of these non-financial instruments in other assets, we use the carrying amounts from our GAAP consolidated balance sheets as the reported values on our consolidated fair value balance sheets, without any adjustment. These assets represent an insignificant portion of our GAAP consolidated balance sheets.

We adjust the GAAP-basis deferred taxes reflected on our consolidated fair value balance sheets to include estimated income taxes on the difference between our consolidated fair value balance sheets net assets, including deferred taxes from our GAAP consolidated balance sheets, and our GAAP consolidated balance sheets total equity (deficit). To the extent the adjusted deferred taxes are a net asset, this amount is included in other assets. In addition, if our net deferred tax assets on our consolidated fair value balance sheets, calculated as described above, exceed our net deferred tax assets on our GAAP consolidated balance sheets that have been reduced by a valuation allowance, our net deferred tax assets on our consolidated fair value balance sheets are limited to the amount of our net deferred tax assets on our GAAP consolidated balance sheets. If the adjusted deferred taxes are a net liability, this amount is included in other liabilities.

Accrued interest receivable is one of the components included within other assets on our consolidated fair value balance sheets. On our GAAP consolidated balance sheets, we reverse accrued but uncollected interest income when a loan is placed on non-accrual status. There is no such reversal performed for the fair value of accrued interest receivable disclosed on our consolidated fair value balance sheets. Rather, we include in our fair value disclosure the amount we deem to be collectible. As a result, there is a difference between the accrued interest receivable GAAP-basis carrying amount and its fair value disclosed on our consolidated fair value balance sheets.

Other assets are classified primarily as Level 2 or Level 3 depending on whether the valuation technique uses unobservable inputs that are significant to the fair value measurement.

Total Debt, Net

Total debt, net represents debt securities of consolidated trusts held by third parties and other debt that we issued to finance our assets. On our consolidated GAAP balance sheets, total debt, net, excluding debt securities for which the fair value option has been elected, is reported at amortized cost, which is net of deferred items, including premiums, discounts, and hedging-related basis adjustments.

For debt securities of consolidated trusts, the valuation techniques we use are similar to the techniques we use to value our investments in agency securities for GAAP purposes. See Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets *Investments in Securities* *Mortgage-Related Securities* *Agency Securities* for additional information regarding the valuation techniques we use.

Other debt includes short-term zero-coupon discount notes, callable debt, and non-callable debt. Short-term zero-coupon discount notes are valued using a yield analysis technique. Under this technique, the debt instruments are valued using published yield matrices which are based on the days to maturity of the debt and converted into a price. Significant inputs used in this technique are the published yield matrices. Short-term zero-coupon discount notes are classified as Level 2 as the significant inputs used are observable in active markets. Other debt securities, including both callable and non-callable debt, are valued using a single external source or median of external sources. These debt securities generally have observable

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market pricing and are classified as Level 2. However, certain other debt securities are classified as Level 3 when there is a low volume or level of activity in the market for those types of debt securities.

Total debt, net for which we have elected the fair value option includes certain debt securities of consolidated trusts held by third parties, foreign-currency denominated debt and certain other debt. We report these items at fair value on our GAAP consolidated balance sheets. See Valuation Techniques for Assets and Liabilities Measured at Fair Value in Our Consolidated Balance Sheets *Debt Securities of Consolidated Trusts Held by Third Parties, at Fair Value* and *Other Debt, at Fair Value* for additional information.

Other Liabilities

Other liabilities consist of accrued interest payable on debt securities, the guarantee obligation for guarantees issued to unconsolidated entities, the reserve for guarantee losses for guarantees issued to unconsolidated entities, servicer advanced interest payable and certain other servicer liabilities, accounts payable and accrued expenses, payables related to securities, and other miscellaneous liabilities. We believe the carrying amount of these liabilities is a reasonable approximation of their fair value, except for the guarantee obligation for guarantees issued to unconsolidated entities. The technique for estimating the fair value of our guarantee obligation is described in the *Mortgage Loans Single-Family Loans* section above.

As discussed in Other Assets, other liabilities may include a deferred tax liability adjusted for fair value balance sheet purposes.

Other liabilities are classified primarily as Level 2 or Level 3 depending on whether the valuation technique uses unobservable inputs that are significant to the fair value measurement.

Net Assets Attributable to Senior Preferred Stockholders

Our senior preferred stock held by Treasury in connection with the Purchase Agreement is recorded at the stated liquidation preference for purposes of the consolidated fair value balance sheets, which is the same as the carrying value in our GAAP consolidated balance sheets, and does not reflect fair value. As the senior preferred stock is restricted as to its redemption, we consider the liquidation preference to be the most appropriate measure for purposes of the consolidated fair value balance sheets. Our senior preferred stock is classified as Level 3 because the valuation is based on unobservable inputs.

Net Assets Attributable to Preferred Stockholders

Preferred stock is valued using a market-based approach incorporating quoted dealer prices. These securities have observable market pricing and are classified as Level 2.

Net Assets Attributable to Common Stockholders

Net assets attributable to common stockholders is equal to the difference between the fair value of total assets and total liabilities reported on our consolidated fair value balance sheets, less the value of net assets attributable to senior preferred stockholders and the fair value attributable to preferred stockholders. Our net assets attributable to common stockholders is classified as Level 3 because the valuation is based on unobservable inputs.

Fair Value Option

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

Investments in Securities

We elected the fair value option for certain mortgage-related securities to better reflect the natural offset these securities provide to fair value changes recorded historically on our guarantee asset at the time of our election. In addition, upon adoption of the accounting guidance for the fair value option, we elected this option for securities within the scope of the accounting guidance for investments in beneficial interests in securitized financial assets to better reflect any valuation changes that would occur subsequent to impairment write-downs previously recorded on these instruments. Related interest income continues to be reported as interest income in our consolidated statements of comprehensive income. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities for additional information about the measurement and recognition of interest income on investments in securities. See NOTE 7: INVESTMENTS IN

SECURITIES for additional information regarding the net unrealized gains (losses) on trading securities, which include gains (losses) for other items that are not selected for the fair value option.

Multifamily Held-For-Sale Mortgage Loans

We elected the fair value option for multifamily mortgage loans that were purchased for securitization. These multifamily mortgage loans are classified as held-for-sale mortgage loans in our consolidated balance sheets to reflect our intent to sell in the future. Related interest income continues to be reported as interest income in our consolidated statements of comprehensive income. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Mortgage Loans for additional information about the measurement and recognition of interest income on our mortgage loans.

Debt Securities of Consolidated Trusts Held by Third Parties

We elected the fair value option for certain debt securities of consolidated trusts held by third parties. These consist of certain multifamily K certificates. We elected the fair value option on these debt instruments as they contain embedded derivatives that require bifurcation. Fair value changes for debt securities of consolidated trusts held by third parties are recorded in gains (losses) on debt recorded at fair value in our consolidated statements of comprehensive income. Related interest expense continues to be reported as interest expense in our consolidated statements of comprehensive income. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Debt Securities Issued for additional information about the measurement and recognition of interest expense on debt securities issued.

Other Debt

We elected the fair value option for foreign-currency denominated debt and certain other debt securities. In the case of foreign-currency denominated debt, we have entered into derivative transactions that effectively convert these instruments to U.S. dollar denominated floating rate instruments. We elected the fair value option on these debt instruments to better reflect the economic offset that naturally results from the debt due to changes in interest rates. We also elected the fair value option for certain other debt securities containing potential embedded derivatives that required bifurcation. Fair value changes for debt for which we have elected the fair value option are recorded in gains (losses) on debt recorded at fair value in our consolidated statements of comprehensive income. Related interest expense continues to be reported as interest expense in our consolidated statements of comprehensive income. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Debt Securities Issued for additional information about the measurement and recognition of interest expense on debt securities issued.

The table below presents the fair value and UPB related to certain items for which we have elected the fair value option at December 31, 2012 and 2011.

Table 16.7 Difference between Fair Value and Unpaid Principal Balance for Certain Financial Instruments with Fair Value Option Elected

	As of December 31,			
	2012		2011	
	Multifamily Held-For-Sale Mortgage Loans	Other Debt - Long Term	Multifamily Held-For-Sale Mortgage Loans	Other Debt - Long Term
	(in millions)			
Fair value	$ 14,238	$ 2,187	$ 9,710	$ 2,765
Unpaid principal balance	13,972	2,167	9,515	2,722
Difference	$ 266	$ 20	$ 195	$ 43

Changes in Fair Value under the Fair Value Option Election

The table below presents fair value gains and losses, including changes attributable to instrument-specific credit risk, for debt securities for which we have elected the fair value option for the years ended December 31, 2012, 2011, and 2010.

For multifamily held-for-sale mortgage loans, we recorded $1.0 billion, $0.8 billion, and $0 billion from the change in fair value in other income in our consolidated statements of comprehensive income for the years ended 2012, 2011, and 2010, respectively. Multifamily held-for-sale mortgage loans are not included in the table below because we determined that the changes in fair value attributable to instrument-specific credit risk were not material given that these loans were generally originated within the past 12 months and have not seen a change in their credit characteristics.

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Table 16.8 Composition of Changes in Fair Value for Debt Securities with Fair Value Option Elected

	Other Debt Gains (Losses)[1] For The Year Ended December 31,		
	2012	2011	2010
		(in millions)	
Changes in instrument-specific credit risk	$ (24)	$ 2	$ (3)
Other changes in fair value	40	89	583
Fair value gains (losses), net	$ 16	$ 91	$ 580

(1) Fair value changes for debt securities with the fair value option elected are recorded in gains (losses) on debt recorded at fair value in our consolidated statements of comprehensive income.

For other debt recorded at fair value, the change in fair value attributable to changes in credit risk was primarily determined by comparing the total change in fair value of the debt to the total change in fair value of the interest-rate and foreign-currency derivatives used to hedge the debt. Any difference in the fair value change of the debt compared to the fair value change in the derivatives is attributed to credit risk.

NOTE 17: 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 mortgages to, and/or service mortgages 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 mortgages. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification against liability arising from their wrongful actions with respect to mortgages 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.

During 2012, we paid approximately $6 million for the advancement of legal fees and expenses of former officers and directors pursuant to our indemnification obligations to them. These fees and expenses related to certain of the matters described below. This figure does not include certain administrative support costs and certain costs related to document production and storage.

Putative Securities Class Action Lawsuits

Ohio Public Employees Retirement System (OPERS) 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. The plaintiff alleges 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. On April 10, 2008, the Court appointed OPERS as lead plaintiff and approved its choice of counsel. On September 2, 2008, defendants filed motions to dismiss plaintiff s amended complaint. On November 7, 2008, the plaintiff filed a second amended complaint. On November 19, 2008, the Court granted FHFA s motion to intervene in its capacity as Conservator. On April 6, 2009, defendants moved to dismiss the second amended complaint. On January 23, 2012, the Court denied defendants motions to dismiss. On March 28, 2012, the plaintiff filed its third amended complaint, which included allegations based on a non-prosecution agreement entered into between Freddie Mac and the SEC on December 15, 2011. On April 26, 2012, defendants filed motions to dismiss the third amended complaint. The Court denied the motions on May 25, 2012. On August 17, 2012, plaintiff filed a motion to certify a class of plaintiffs comprised of purchasers of Freddie Mac stock from August 1, 2006 through November 20, 2007, which Freddie Mac has opposed. Discovery is ongoing.

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 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.

Kuriakose vs. Freddie Mac, Syron, Piszel and Cook. Another putative class action lawsuit was filed against Freddie Mac and certain former officers on August 15, 2008 in the U.S. District Court for the Southern District of New York for alleged violations of federal securities laws purportedly on behalf of a class of purchasers of Freddie Mac stock from November 21, 2007 through August 5, 2008. The plaintiffs claimed that defendants made false and misleading statements about Freddie Mac s business that artificially inflated the price of Freddie Mac s common stock, and sought unspecified damages, costs, and attorneys fees. On February 6, 2009, the Court granted FHFA s motion to intervene in its capacity as Conservator. On May 19, 2009, plaintiffs filed an amended consolidated complaint, purportedly on behalf of a class of purchasers of Freddie Mac stock from November 20, 2007 through September 7, 2008. Defendants filed motions to dismiss the complaint on February 24, 2010. On March 30, 2011, the Court granted without prejudice the defendants motions to dismiss all claims, and allowed the plaintiffs the option to file a new complaint, which they did on July 18, 2011. On October 13, 2011, the defendants filed motions to dismiss the second amended consolidated complaint. On February 17, 2012, the plaintiffs served a motion seeking leave to file a third amended consolidated complaint based on the non-prosecution agreement entered into between Freddie Mac and the SEC on December 15, 2011. On September 24, 2012, the Court granted with prejudice defendants motions to dismiss plaintiffs second amended complaint in its entirety, denied plaintiffs motion to file a third amended complaint, and directed that the case be closed. Judgment was entered in favor of the defendants on September 27, 2012. On October 26, 2012, plaintiffs filed a notice of appeal in the U.S. Court of Appeals for the Second Circuit.

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 in the event plaintiffs appeal is granted and the case is remanded to the District Court; and the fact that the parties have not briefed and 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.

Energy Lien Litigation

On July 14, 2010, the State of California filed a lawsuit against Freddie Mac, Fannie Mae, FHFA, and others in the U.S. District Court for the Northern District of California, alleging that Freddie Mac and Fannie Mae committed unfair business practices in violation of California law by advising seller/servicers that property liens arising from government-sponsored energy initiatives such as California s Property Assessed Clean Energy, or PACE, program cannot take priority over a mortgage to be sold to Freddie Mac or Fannie Mae. The lawsuit contends that the PACE programs create liens superior to such mortgages and that FHFA was engaged in rulemaking when it issued a directive to Freddie Mac and Fannie Mae affirming that they could not purchase mortgages involving properties subject to PACE liens where those liens purported to have priority over the mortgage lien. The lawsuit further alleges that, in doing so, FHFA violated the National Environmental Policy Act, or NEPA, and the Administrative Procedure Act, or APA, by not following required rulemaking procedures. The complaint seeks declaratory and injunctive relief, costs and such other relief as the court deems proper.

The County of Placer intervened in the lawsuit and, in addition, the lawsuit has been consolidated with two similar complaints filed in the U.S. District Court for the Northern District of California against Freddie Mac, Fannie Mae, FHFA, and others by the County of Sonoma and the City of Palm Desert. Freddie Mac, Fannie Mae, FHFA, and others were also named as defendants in two other similar cases, one filed in the U.S. District Court for the Northern District of Florida by Leon County and the Leon County Energy Improvement District, and the other filed in the U.S. District Court for the Eastern District of New York by the Town of Babylon.

The cases filed in Florida and New York were dismissed, and appeals of these decisions have been denied by the U.S. Courts of Appeals for the Eleventh and Second Circuits, respectively. The U.S. District Court for the Northern District of California dismissed the claims against Freddie Mac on August 26, 2011, but allowed the NEPA and APA claims against

FHFA to go forward. During the course of the litigation, the U.S. District Court for the Northern District of California entered a preliminary injunction requiring FHFA to provide a notice and comment period with regard to its directives to Freddie Mac and Fannie Mae concerning energy liens. Accordingly, on January 26, 2012, FHFA issued an advance notice of proposed rulemaking seeking comment on whether the restriction on purchasing mortgage loans secured by properties with outstanding first-lien PACE obligations should be maintained. On August 9, 2012, the U.S. District Court for the Northern District of California granted summary judgment against FHFA and found that FHFA had failed to comply with required notice and comment procedures set forth in the APA in directing Freddie Mac and Fannie Mae concerning energy liens. On October 16, 2012, the U.S. District Court for the Northern District of California entered judgment and directed that FHFA complete the notice and comment process, and publish a Final Rule, no later than May 14, 2013. FHFA has appealed the entry of summary judgment against it. While its appeal is pending, FHFA has undertaken the notice and comment process and stated it will apprise the Court on February 27, 2013 whether it will be able to complete its review by the current May 14, 2013 deadline.

At present, it is not possible for us to predict the probable outcome of this litigation 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 this litigation due to the following factors, among others: the inherent uncertainty of pre-trial litigation; and the fact that additional appeals may follow.

Related Third Party Litigation and Indemnification Requests

On December 16, 2011, the SEC announced that it had charged three former executives of Freddie Mac with securities laws violations. These executives are former Chairman of the Board and Chief Executive Officer Richard F. Syron, former Executive Vice President and Chief Business Officer Patricia L. Cook, and former Executive Vice President for the single-family guarantee business Donald J. Bisenius.

By letter dated October 17, 2008, Freddie Mac received formal notification of a putative class action securities lawsuit, *Mark vs. Goldman, Sachs & Co., J.P. Morgan Chase & Co., and Citigroup Global Markets Inc.,* filed on September 23, 2008, in the U.S. District Court for the Southern District of New York, regarding the company s November 29, 2007 public offering of $6 billion of 8.375% Fixed to Floating Rate Non-Cumulative Perpetual Preferred Stock.

On January 29, 2009, a plaintiff filed a putative class action lawsuit in the U.S. District Court for the Southern District of New York styled *Kreysar vs. Syron, et al.* On April 30, 2009, the Court consolidated the Mark case with the Kreysar case, and the plaintiffs filed a consolidated class action complaint on July 2, 2009. The consolidated complaint alleged that three former Freddie Mac officers, certain underwriters and Freddie Mac s auditor violated federal securities laws by making material false and misleading statements in connection with the company s November 29, 2007 public offering of $6 billion of 8.375% Fixed to Floating Rate Non-Cumulative Perpetual Preferred Stock. The complaint further alleged that certain defendants and others made additional false statements following the offering. The complaint named as defendants Syron, former Executive Vice President and Chief Financial Officer Anthony S. Piszel, Cook, Goldman, Sachs & Co., JPMorgan Securities Inc., Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated, UBS Securities LLC and PricewaterhouseCoopers LLP.

After the Court dismissed, without prejudice, the plaintiffs consolidated complaint, amended consolidated complaint, and second consolidated complaint, the plaintiffs filed a third amended consolidated complaint against PricewaterhouseCoopers LLP, Syron and Piszel, omitting Cook and the underwriter defendants, on November 14, 2010. On January 11, 2011, the Court granted the remaining defendants motion to dismiss the complaint with respect to PricewaterhouseCoopers LLP, but denied the motion with respect to Syron and Piszel. On April 4, 2011, Piszel filed a motion for partial judgment on the pleadings. The Court granted that motion on April 28, 2011. The plaintiffs moved for class certification, which motion was ultimately denied by the Court. On May 31, 2012, the U.S. Court of Appeals for the Second Circuit denied plaintiffs motion for leave to appeal the denial of class certification. In August 2012, plaintiffs sought leave to file another motion for class certification, which request the Court denied on September 25, 2012.

Freddie Mac is not named as a defendant in the consolidated lawsuit, but the underwriters previously gave notice to Freddie Mac of their intention to seek full indemnity and contribution under the underwriting agreement in this case, including reimbursement of fees and disbursements of their legal counsel. At present, it is not possible for us to predict the probable outcome of the 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 inherent uncertainty of litigation and the fact that plaintiffs may appeal the denial of class certification. Absent the certification of a specified 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.

On July 6, 2011, plaintiffs filed a lawsuit in the U.S. District Court for Massachusetts styled *Liberty Mutual Insurance Company, Peerless Insurance Company, Employers Insurance Company of Wausau, Safeco Corporation and Liberty Life Assurance Company of Boston vs. Goldman, Sachs & Co*. The complaint alleges that Goldman, Sachs & Co. made materially misleading statements and omissions in connection with Freddie Mac s November 29, 2007 public offering of $6 billion of 8.375% Fixed to Floating Rate Non-Cumulative Perpetual Preferred Stock. Freddie Mac is not named as a defendant in this lawsuit.

In an amended complaint dated February 17, 2012, Western and Southern Life Insurance Company and others asserted claims against GS Mortgage Securities Corp., Goldman Sachs Mortgage Company and Goldman Sachs & Co. in the Court of Common Pleas, Hamilton County, Ohio. The amended complaint asserts, among other things, that Goldman Sachs is liable to plaintiffs under the Ohio Securities Act for alleged misstatements and omissions in connection with $6 billion of preferred stock issued by Freddie Mac on December 4, 2007. Freddie Mac is not named as a defendant in this lawsuit.

Lehman Bankruptcy

On September 15, 2008, Lehman filed a chapter 11 bankruptcy petition in the U.S. Bankruptcy Court for the Southern District of New York. Thereafter, many of Lehman s U.S. subsidiaries and affiliates also filed bankruptcy petitions (collectively, the Lehman Entities). Freddie Mac had numerous relationships with the Lehman Entities which gave rise to several claims. On September 22, 2009, Freddie Mac filed proofs of claim in the Lehman bankruptcies aggregating approximately $2.1 billion. On December 6, 2011, the Court confirmed Lehman s chapter 11 plan of liquidation, which provides for the liquidation of the bankruptcy estate s assets over the next three years. The plan leaves open for subsequent determination whether our claim relating to losses incurred on short-term lending transactions with certain Lehman Entities will be accorded priority status. The Lehman estate has set aside $1.2 billion to be available for payment of our claim in full if, after litigation or settlement, this claim is allowed as a priority claim. In the event that this claim is not ultimately accorded priority status, it will be treated as a senior unsecured claim under the plan, pursuant to which Freddie Mac would be entitled to receive an estimated distribution of approximately 21% (or approximately $250 million) over the next three years. Freddie Mac s total $2.1 billion in claims also includes an $868 million claim relating to Lehman s repurchase obligations. The plan does not adjudge or allow this claim, and instead permits claims allowance proceedings to continue. To the extent this claim is allowed, it will be treated as a general unsecured claim, for which Freddie Mac would ultimately receive a distribution of approximately 19.9% of the allowed amount. Finally, the plan entitles Freddie Mac to a distribution of approximately 39% (or about $6.4 million) payable over the next three years on our allowed claim exceeding $16 million relating to losses on derivative transactions.

Taylor, Bean & Whitaker and Ocala Funding, LLC Bankruptcies

On August 24, 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. In 2011, with the approval of FHFA, as Conservator, we entered into a settlement with TBW and the creditors committee appointed in the TBW bankruptcy proceeding to represent the interests of the unsecured trade creditors of TBW. The settlement was subsequently approved by the Court.

On July 10, 2012, Ocala Funding, LLC, or Ocala, which is a wholly owned subsidiary of TBW, filed for bankruptcy in the U.S. Bankruptcy Court for the Middle District of Florida. In connection with the bankruptcy filing, Ocala also filed a motion seeking an examination of and subsequent document discovery from Freddie Mac and FHFA, asserting that it has viable, legitimate and valuable causes of action against Freddie Mac to recover approximately $805 million of funds that were allegedly transferred from Ocala to Freddie Mac custodial accounts maintained by TBW, prior to the TBW bankruptcy. In its filings, Ocala also indicated that it wishes to use the examination to obtain information relating to whether it may have other claims against Freddie Mac relating to TBW s fraudulent conduct prior to the TBW bankruptcy. Ocala intends to distribute any monies recovered from Freddie Mac among its creditors, including various banks and the FDIC. The Court has authorized discovery to proceed, subject to subsequent rulings or objections filed by Freddie Mac and FHFA to specific document requests.

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 has filed a proof of loss under the bonds, but we are unable at this time to estimate our potential recovery, if any, thereunder. Discovery is proceeding.

IRS Litigation

In 2010 and 2011, we received Statutory Notices from the IRS assessing a total of $3.0 billion of additional income taxes and penalties for the 1998 to 2007 tax years. We filed a petition with the U.S. Tax Court on October 22, 2010 in response to the Statutory Notices for the 1998 to 2005 tax years. We paid the tax assessed in the Statutory Notices for the years 2006 to 2007 of $36 million in 2012 and will seek a refund through the administrative process, which could include filing suit in District Court. A Tax Court trial date was scheduled for November 13, 2012; however, on June 7, 2012, the Tax Court granted a joint motion for continuance in order for both parties to explore settlement options, suspending the trial date until further notice. We have had ongoing discussions with the IRS regarding the litigation, and favorably resolved the matters in dispute. As a result, the previously unrecognized tax benefits were reduced to zero in the fourth quarter of 2012. For information on this matter, see NOTE 12: INCOME TAXES Unrecognized Tax Benefits *IRS Examinations and Litigation*.

Lawsuits Involving Real Estate Transfer Taxes

Several lawsuits have been filed against Freddie Mac, Fannie Mae, and FHFA (as Conservator) in Michigan challenging Freddie Mac and Fannie Mae s statutory exemption from real estate transfer taxes imposed on the transfer of real property for which Freddie Mac or Fannie Mae was the grantor or grantee. Similar lawsuits were filed in 20 other states and the District of Columbia after we received the unfavorable ruling in Michigan on March 23, 2012, which is discussed below. Plaintiffs in these cases are generally seeking a declaration that Freddie Mac and Fannie Mae are not exempt from transfer taxes, damages for unpaid transfer taxes, as well as other items, which may include penalties, interest, liquidated penalties, pre-judgment interest, costs and attorneys fees. (Several of these lawsuits were recently resolved in our favor.) We are also a defendant in a second similar lawsuit in the District of Columbia. This lawsuit was dismissed with prejudice in August 2012, but that ruling has been appealed to the U.S. Court of Appeals.

On June 20, 2011, Oakland County (Michigan) and the Oakland County Treasurer filed a lawsuit against Freddie Mac and Fannie Mae in the U.S. District Court for the Eastern District of Michigan alleging that the enterprises failed to pay real estate transfer taxes on transfers of real property in Oakland County where the enterprises were the grantors. FHFA later intervened as Conservator for Freddie Mac and Fannie Mae. On November 10, 2011, Genesee County (Michigan) and the Genesee County Treasurer filed a class action lawsuit in the same court on behalf of itself and the other 82 Michigan counties raising similar claims against FHFA (as Conservator), Freddie Mac, and Fannie Mae. The Court later certified the class, with two Michigan counties opting out. The Michigan Department of Attorney General and the Michigan Department of Treasury intervened in both actions against the defendants. In both actions, FHFA, Freddie Mac and Fannie Mae asserted that they were not liable for the transfer taxes based on federal statutory tax exemptions applicable to each. On March 23, 2012, the Court granted summary judgment against FHFA (as Conservator), Freddie Mac, and Fannie Mae in both actions, determining that the statutory exemptions did not exempt them from Michigan s state and county transfer tax. The plaintiffs in both cases subsequently filed amended complaints to cover purportedly taxable transactions where Freddie Mac and Fannie Mae received property as grantees through a Michigan Sheriff s deed or a deed in lieu of foreclosure. FHFA (as Conservator), Freddie Mac, and Fannie Mae filed an appeal to the U.S. Court of Appeals for the Sixth Circuit, and the District Court has stayed the actions pending resolution of the appeal. The District Court has not yet addressed the amount of damages the plaintiffs contend are owed in either case.

On or about June 22, 2011, Curtis Hertel (individually and as Register of Deeds of Ingham County, Michigan) filed suit in Michigan s