FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
May 01, 2018
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2018
or

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

For the transition period from to
Commission File Number: 001-34139
Federal Home Loan Mortgage Corporation
(Exact name of registrant as specified in its charter)

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

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. ý Yes ¨ No

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

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer (Do not check if a smaller reporting company) ¨	Smaller reporting company ¨
Emerging growth company ¨	

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

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

As of April 17, 2018, there were 650,058,775 shares of the registrant's common stock outstanding.

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

This Quarterly Report on Form 10-Q includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in the Forward-Looking Statements sections of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2017, or 2017 Annual Report, and the Business and Risk Factors sections of our 2017 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the Glossary of our 2017 Annual Report.

You should read the following MD&A in conjunction with our 2017 Annual Report and our condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2018 included in Financial Statements. Throughout this Form 10-Q, we refer to the three months ended March 31, 2018, the three months ended December 31, 2017, the three months ended September 30, 2017, the three months ended June 30, 2017 and the three months ended March 31, 2017 as "1Q 2018," "4Q 2017," "3Q 2017," "2Q 2017" and "1Q 2017," respectively.

INTRODUCTION

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability and affordability to the U.S. housing market. We do this primarily by purchasing residential mortgage loans originated by lenders. In most instances, we package these loans into mortgage-related securities, which are guaranteed by us and sold in the global capital markets. We also invest in mortgage loans and mortgage-related securities. We do not originate loans or lend money directly to mortgage borrowers.

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

Business Results
Portfolio Balances

Guarantee Portfolios

Investments Portfolios

Total Guarantee Portfolio

- Our total guarantee portfolio grew $106 billion, or 5%, from March 31, 2017 to March 31, 2018, driven by a 3% increase in our single-family credit guarantee portfolio and a 30% increase in our multifamily guarantee portfolio.
- The growth in our single-family credit guarantee portfolio was driven in part by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation. New business acquisitions had a higher average loan size compared to older vintages that continued to run off.
- The growth in our multifamily guarantee portfolio was primarily driven by an increase in U.S. multifamily mortgage debt outstanding due to strong multifamily market fundamentals and low interest rates, coupled with the growth in our share of new business volume due to our strategic pricing efforts, expansion of our new product offerings and an increase in purchase activity associated with certain targeted loans in underserved markets.

Total Investments Portfolio

- n Our total investments portfolio declined $72 billion, or 19%, from March 31, 2017 to March 31, 2018, primarily due to repayments and the active disposition of less liquid assets.
- l We continue to reduce the mortgage-related investments portfolio as required by the Purchase Agreement and FHFA.

Consolidated Financial Results

Comprehensive income (loss) was $2.2 billion in 1Q 2018, relatively unchanged from 1Q 2017.

Key Drivers:

- n Continued growth in our single-family credit guarantee portfolio was more than offset by the continued reduction in the balance of our mortgage-related investments portfolio and lower amortization of debt securities of consolidated trusts due to lower prepayments driven by higher interest rates, which resulted in lower net interest income.
- n Benefit (provision) for credit losses was relatively unchanged.
- n Market-related items had minimal impact as interest rate-related fair value losses were partially offset by spread-related fair value gains.
- n Reduction in the statutory corporate income tax rate resulted in lower income tax expense.

Our total equity was $2.2 billion at March 31, 2018. Because our net worth was less than the $3.0 billion Capital Reserve Amount, we will not have a dividend obligation to Treasury in June 2018. Because our net worth was positive, we are not requesting a draw from Treasury under the Purchase Agreement for 1Q 2018. Our cumulative senior preferred stock dividend payments totaled $112.4 billion as of March 31, 2018.

At December 31, 2017, we had a net worth deficit of $312 million. As a result, FHFA, as Conservator, submitted a draw request, on our behalf, to Treasury. This draw request was funded in 1Q 2018, which increased the outstanding liquidation preference of the senior preferred stock at March 31, 2018 to $75.6 billion. In addition, the amount of available funding remaining under the Purchase Agreement was reduced to $140.2 billion and will be reduced by any future draws.

Conservatorship and Government Support for Our Business

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

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

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as and if declared by the Conservator, acting as successor to the rights, titles, powers and privileges of our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator.

Under the August 2012 amendment to the Purchase Agreement, our dividend requirement each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. Pursuant to the December 2017 Letter Agreement, the Capital Reserve Amount is $3.0 billion. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement.

KEY ECONOMIC INDICATORS

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

Single-Family Home Prices

National Home Prices

Commentary

- Home prices continued to appreciate, increasing by 2.5% and 2.2% during 1Q 2018 and 1Q 2017, respectively, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.
- We expect the rate of home price growth in 2018 will moderate, driven by a gradual increase in housing supply and higher mortgage interest rates.
- Increases in home prices typically result in lower delinquency rates and lower loss severity. Fewer loan delinquencies, loan workouts and foreclosure sales generally reduce estimated credit losses on our total mortgage portfolio.
- Higher single-family home prices may also contribute to an increase in potential multifamily renters.

Interest Rates
Key Market Interest Rates

Commentary

- The quarterly ending and quarterly average 30-year Primary Mortgage Market Survey ("PMMS") interest rates were higher at March 31, 2018 than March 31, 2017. Increases in the PMMS rate typically result in decreases in refinance activity and U.S. single-family loan originations.
- The 10-year LIBOR and 2-year LIBOR quarterly ending interest rates increased more during 1Q 2018 than during 1Q 2017. Changes in the 10-year and 2-year LIBOR interest rates affect the fair value of certain of our assets and liabilities, including derivatives, measured at fair value. A larger interest rate fluctuation from period to period generally results in larger fair value gains and losses, while a smaller fluctuation from period to period generally results in smaller fair value gains and losses. However, the majority of these fair value changes are offset by our hedge accounting programs.

- The quarterly ending and quarterly average short-term interest rates, as indicated by the 3-month LIBOR rate, were higher at March 31, 2018 than March 31, 2017. An increase in short-term interest rates generally increases the interest earned on our short-term investments and interest expense on our short-term funding.
- For additional information on the effect of LIBOR rates on our financial results, see Our Business Segments - Capital Markets - Market Conditions.

Unemployment Rate

Unemployment Rate and Job Creation(1)

Source: U.S. Bureau of Labor Statistics
(1) Excludes Puerto Rico and the U.S. Virgin Islands.

Commentary

- Average monthly net new jobs (non-farm) were higher in 1Q 2018 than 1Q 2017.
- The national unemployment rate was lower in 1Q 2018 than 1Q 2017.
- Changes in monthly net new jobs and the national unemployment rate can affect several market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.
- Decreases in the national unemployment rate typically result in lower levels of delinquencies, which generally result in a decrease in estimated credit losses on our total mortgage portfolio.

CONSOLIDATED RESULTS OF OPERATIONS

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

The table below compares our summarized consolidated results of operations.

(Dollars in millions)	1Q 2018	1Q 2017	Change $	Change %
Net interest income	$3,018	$3,795	($777)	(20)%
Benefit (provision) for credit losses	(63)	116	(179)	(154)
Net interest income after benefit (provision) for credit losses	2,955	3,911	(956)	(24)
Non-interest income (loss):				
Gains (losses) on extinguishment of debt	110	218	(108)	(50)
Derivative gains (losses)	1,830	(302)	2,132	706
Net impairment of available-for-sale securities recognized in earnings	—	(13)	13	100
Other gains (losses) on investment securities recognized in earnings	(232)	56	(288)	(514)
Other income (loss)	121	415	(294)	(71)
Total non-interest income (loss)	1,829	374	1,455	389
Non-interest expense:				
Administrative expense	(520)	(511)	(9)	(2)
REO operations expense	(34)	(56)	22	39
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(359)	(321)	(38)	(12)
Other expense	(197)	(76)	(121)	(159)
Total non-interest expense	(1,110)	(964)	(146)	(15)
Income (loss) before income tax (expense) benefit	3,674	3,321	353	11
Income tax (expense) benefit	(748)	(1,110)	362	33
Net income (loss)	2,926	2,211	715	32
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(776)	23	(799)	(3,474)
Comprehensive income (loss)	$2,150	$2,234	($84)	(4)%

Net Interest Income
Net Interest Yield Analysis

The table below presents an analysis of interest-earning assets and interest-bearing liabilities.

	1Q 2018			1Q 2017		
(Dollars in millions)	Average Balance	Interest Income (Expense)[1]	Average Rate	Average Balance	Interest Income (Expense)[1]	Average Rate
Interest-earning assets:						
Cash and cash equivalents	$7,015	$11	0.60 %	$12,053	$9	0.29 %
Securities purchased under agreements to resell	51,732	197	1.52	54,406	88	0.66
Advances to lenders and other secured lending	990	6	2.59	617	4	2.40
Mortgage-related securities:						
Mortgage-related securities	150,267	1,580	4.21	175,955	1,663	3.78
Extinguishment of PCs held by Freddie Mac	(90,814)	(843)	(3.71)	(88,539)	(820)	(3.71)
Total mortgage-related securities, net	59,453	737	4.96	87,416	843	3.85
Non-mortgage-related securities	14,775	73	1.97	21,061	71	1.36
Loans held by consolidated trusts[1]	1,776,708	14,859	3.35	1,708,039	14,599	3.42
Loans held by Freddie Mac[1]	103,451	1,092	4.22	124,217	1,366	4.40
Total interest-earning assets	2,014,124	16,975	3.37	2,007,809	16,980	3.38
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	1,803,122	(13,356)	(2.96)	1,730,728	(12,541)	(2.90)
Extinguishment of PCs held by Freddie Mac	(90,814)	842	3.71	(88,539)	820	3.71
Total debt securities of consolidated trusts held by third parties	1,712,308	(12,514)	(2.92)	1,642,189	(11,721)	(2.86)
Other debt:						
Short-term debt	67,970	(229)	(1.35)	73,467	(96)	(0.52)
Long-term debt	228,981	(1,214)	(2.12)	279,519	(1,368)	(1.96)
Total other debt	296,951	(1,443)	(1.94)	352,986	(1,464)	(1.66)
Total interest-bearing liabilities	2,009,259	(13,957)	(2.78)	1,995,175	(13,185)	(2.64)
Impact of net non-interest-bearing funding	4,865	—	0.01	12,634	—	0.02
Total funding of interest-earning assets	$2,014,124	($13,957)	(2.77)%	$2,007,809	($13,185)	(2.62)%
Net interest income/yield		$3,018	0.60 %		$3,795	0.76 %

(1) Loan fees, primarily consisting of amortization of upfront fees, included in interest income were $574 million and $506 million for loans held by consolidated trusts and $22 million and $62 million for loans held by Freddie Mac during 1Q 2018 and 1Q 2017, respectively.

Components of Net Interest Income

The table below presents the components of net interest income.

(Dollars in millions)	1Q 2018	1Q 2017	Change $	Change %
Contractual net interest income:				
Guarantee fee income	$834	$792	$42	5 %
Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	347	316	31	10
Other contractual net interest income	1,457	1,759	(302)	(17)
Total contractual net interest income	2,638	2,867	(229)	(8)
Net amortization - loans and debt securities of consolidated trusts	748	953	(205)	(22)
Net amortization - other assets and debt	5	18	(13)	(72)
Hedge accounting impact	(373)	(43)	(330)	(767)
Net interest income	$3,018	$3,795	($777)	(20)%

Key Drivers:

- Guarantee fee income
  - 1Q 2018 vs. 1Q 2017 - increased during 1Q 2018 primarily due to higher average guarantee fee rates, as well as the continued growth in the size of the Core single-family loan portfolio. Average guarantee fee rates are generally higher on mortgage loans in our Core single-family loan portfolio compared to those in our Legacy and relief refinance single-family loan portfolio.
- Other contractual net interest income
  - 1Q 2018 vs. 1Q 2017 - decreased during 1Q 2018 due to the continued reduction in the balance of our mortgage-related investments portfolio pursuant to the portfolio limits established by the Purchase Agreement and FHFA. See Conservatorship and Related Matters - Reducing Our Mortgage-Related Investments Portfolio Over Time for a discussion of the key drivers of the decline in our mortgage-related investments portfolio.
- Net amortization of loans and debt securities of consolidated trusts
  - 1Q 2018 vs. 1Q 2017 - decreased during 1Q 2018 primarily due to a decrease in amortization of debt securities of consolidated trusts driven by a decrease in prepayments as a result of higher interest rates, partially offset by an increase in amortization from higher upfront fees on mortgage loans.
- Hedge Accounting Impact
  - 1Q 2018 vs. 1Q 2017 - losses increased primarily due to the inclusion of fair value hedge accounting results within net interest income in 1Q 2018 but not in 1Q 2017, due to our adoption of amended hedge accounting guidance in 4Q 2017. In 1Q 2017, this activity was included in other income and derivative gains (losses).

Benefit (Provision) for Credit Losses

Components of Benefit (Provision) for Credit Losses

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

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

(Dollars in billions)	1Q 2018	1Q 2017	Change $	Change %
Benefit (provision) for newly impaired loans	($0.1)	($0.2)	$0.1	50 %
Amortization of interest rate concessions	0.1	0.2	(0.1)	(50)
Reclassifications between held-for-investment loans and held-for-sale loans	(0.1)	—	(0.1)	N/A
Other, including changes in estimated default probability and loss severity	—	0.1	(0.1)	(100)
Benefit (provision) for credit losses	($0.1)	$0.1	($0.2)	(200)%

Key Drivers:

- 1Q 2018 vs. 1Q 2017 - remained relatively unchanged.

Derivative Gains (Losses)

Components of Derivative Gains (Losses)

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

Derivative gains (losses) includes the fair value changes and the accrual of periodic cash settlements for derivatives while not designated in qualifying hedge relationships. In addition, prior to our adoption of amended hedge accounting guidance in 4Q 2017, we included the accrual of periodic cash settlements on derivatives in qualifying hedge relationships in derivatives gains (losses).

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

(Dollars in millions)	1Q 2018	1Q 2017	Change $	Change %
Fair value change in interest-rate swaps	$1,514	$673	$841	125 %
Fair value change in option-based derivatives	(455)	(430)	(25)	(6)
Fair value change in other derivatives	916	(78)	994	1,274
Accrual of periodic cash settlements	(145)	(467)	322	69
Derivative gains (losses)	$1,830	($302)	$2,132	706 %

Key Drivers:

- 1Q 2018 vs. 1Q 2017 - Derivative fair value gains increased as long-term interest rates increased more during 1Q 2018. The 10-year par swap rate increased 39 basis points during 1Q 2018 and 7 basis points during 1Q 2017. The larger interest rate increase in 1Q 2018 resulted in larger fair value gains in our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures, partially offset by larger fair value losses in our receive-fixed swaps.

Other Income (Loss)

Components of Other Income (Loss)

The table below presents the components of other income (loss).

(Dollars in millions)	1Q 2018	1Q 2017	Change $	Change %
Other income (loss)				
Gains (losses) on loans[1]	($320)	$14	($334)	(2,386)%
Gains (losses) on held-for-sale loan purchase commitments[1]	105	224	(119)	(53)
Gains (losses) on debt[1]	11	(89)	100	112
All other	325	227	98	43
Fair value hedge accounting				
Change in fair value of derivatives in qualifying hedge relationships	N/A	65	(65)	N/A
Change in fair value of hedged items in qualifying hedge relationships	N/A	(26)	26	N/A
Total other income (loss)	$121	$415	($294)	(71)%

(1) Includes fair value gains (losses) on loans, held-for-sale loan purchase commitments and debt for which we have elected the fair value option.

Key Drivers:

n 1Q 2018 vs. 1Q 2017 - Other income (loss) declined in 1Q 2018 compared to 1Q 2017 primarily driven by:

l Greater interest rate-related fair value losses on multifamily mortgage loans and commitments for which we have elected the fair value option due to a larger increase in long-term interest rates, coupled with spread widening on certain K Certificate products that are issued with less frequency.

l An accounting policy change effective beginning in 4Q 2017 resulted in fair value changes for derivatives and hedged items in qualifying hedge relationships no longer being recognized in other income (loss). See Note 9 for more information.

This decrease was partially offset by:

l Decreased fair value losses on STACR debt notes as market spreads between STACR yields and LIBOR remained relatively unchanged in 1Q 2018, while spreads tightened in 1Q 2017.

Other Comprehensive Income (Loss)

Explanation of Key Drivers of Other Comprehensive Income (Loss)

The following table presents the attribution of total other comprehensive income (loss), net of taxes and reclassification adjustments reported in our condensed consolidated statements of comprehensive income.

			Change	
(Dollars in millions)	1Q 2018	1Q 2017	$	%
Other comprehensive income (loss), excluding certain items	($402)	$163	($565)	(347)%
Excluded items:				
Accretion due to significant increases in expected cash flows on previously impaired available-for-sale securities	(88)	(54)	(34)	(63)
Realized (gains) losses reclassified from AOCI	(286)	(86)	(200)	(233)
Total excluded items	(374)	(140)	(234)	(167)
Total other comprehensive income (loss)	($776)	$23	($799)	(3,474)%

Key Drivers:

- Other comprehensive income, excluding certain items
  - 1Q 2018 vs. 1Q 2017 - decreased primarily due to higher fair value losses on agency and non-agency mortgage-related securities classified as available-for-sale as long-term interest rates increased more in 1Q 2018, coupled with smaller fair value gains from less market spread tightening on our agency mortgage-related securities.

Excluded items:

- Realized (gains) losses reclassified from AOCI
  - 1Q 2018 vs. 1Q 2017 - reflected larger amounts of reclassified gains during 1Q 2018 due to spread tightening on sales of non-agency mortgage-related securities classified as available-for-sale.

Other Key Drivers

Explanation of Other Key Drivers

Key Drivers:

n Gains (losses) on extinguishment of debt

l 1Q 2018 vs. 1Q 2017 - declined primarily due to a decrease in the amount of debt securities of consolidated trusts (i.e., PCs) repurchased.

n Other gains (losses) on investment securities recognized in earnings

l 1Q 2018 vs. 1Q 2017 - decreased primarily driven by larger fair value losses on our mortgage and non-mortgage-related securities classified as trading as interest rates increased more during 1Q 2018, partially offset by larger fair value gains driven by spread tightening on our sales of non-agency mortgage-related securities classified as available-for-sale.

n Other expense

l 1Q 2018 vs. 1Q 2017 - increased primarily due to the recovery in 1Q 2017 of amounts previously recognized in other expense. This activity did not repeat in 1Q 2018.

n Income tax (expense) benefit

l 1Q 2018 vs. 1Q 2017 - decreased due to a reduction in the statutory corporate income tax rate.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

(Dollars in millions)	3/31/2018	12/31/2017	Change $	Change %
Assets:				
Cash and cash equivalents[1]	$8,617	$9,811	($1,194)	(12)%
Securities purchased under agreements to resell	41,828	55,903	(14,075)	(25)
Subtotal	50,445	65,714	(15,269)	(23)
Investments in securities, at fair value	75,501	84,318	(8,817)	(10)
Mortgage loans, net	1,868,351	1,871,217	(2,866)	—
Accrued interest receivable	6,381	6,355	26	—
Derivative assets, net	454	375	79	21
Deferred tax assets, net	8,313	8,107	206	3
Other assets	13,038	13,690	(652)	(5)
Total assets	$2,022,483	$2,049,776	($27,293)	(1)%
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	$6,058	$6,221	($163)	(3)%
Debt, net	2,004,807	2,034,630	(29,823)	(1)
Derivative liabilities, net	345	269	76	28
Other liabilities	9,123	8,968	155	2
Total liabilities	2,020,333	2,050,088	(29,755)	(1)
Total equity	2,150	(312)	2,462	(789)
Total liabilities and equity	$2,022,483	$2,049,776	($27,293)	(1)%

(1) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.

Key Drivers:

As of March 31, 2018 compared to December 31, 2017:

- Cash and cash equivalents and securities purchased under agreements to resell affect one another and changes in the balances should be viewed together (e.g., cash and cash equivalents can be invested in securities purchased under agreements to resell or other investments). The decrease in the combined balance was primarily due to lower near term cash needs for fewer upcoming maturities and anticipated calls of other debt.
- Investments in securities, at fair value decreased as we continued to reduce the mortgage-related investments portfolio during 2018 as required by the Purchase Agreement and FHFA.
- Total equity increased primarily as a result of higher comprehensive income in 1Q 2018 compared to 4Q 2017, combined with our ability to retain equity as a result of an increase in the applicable Capital Reserve Amount, which is $3.0 billion as of January 1, 2018.

OUR BUSINESS SEGMENTS

We have three reportable segments, which are based on the way we manage our business.

- Single-family Guarantee - reflects results from our purchase, securitization and guarantee of single-family loans and the management of single-family mortgage credit risk.
- Multifamily - reflects results from our purchase, sale, securitization and guarantee of multifamily loans and securities, our investments in those loans and securities and the management of multifamily mortgage credit risk and market spread risk.
- Capital Markets - reflects results from managing our mortgage-related investments portfolio (excluding Multifamily segment investments, single-family seriously delinquent loans and the credit risk of single-family performing and reperforming loans), treasury function, single-family securitization activities and interest-rate risk.

Certain activities that are not part of a reportable segment, such as material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments, are included in the All Other category.

Segment Earnings

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP condensed consolidated statements of comprehensive income and allocating certain revenues and expenses to our three reportable segments. For more information on our segment reclassifications, see Note 13.

Segment Comprehensive Income

The graph below shows our comprehensive income by segment.

Single-Family Guarantee

Market Conditions

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

U.S. Single-Family Originations

Source: Inside Mortgage Finance dated April 27, 2018 (latest available IMF purchase/refinance information).

Single-Family Serious Delinquency Rates

Source: National Delinquency Survey from the Mortgage Bankers Association. Data as of February 8, 2018 (latest available NDS information).

Commentary

- U.S. single-family loan origination volumes decreased to $375 billion in 1Q 2018 from $385 billion in 1Q 2017, driven by lower refinance volume as a result of higher mortgage interest rates in 1Q 2018. Mortgage origination data is from Inside Mortgage Finance as of April 27, 2018.
- We expect continued growth in U.S. single-family home purchase volume due to a gradual increase in housing supply, while a moderate increase in mortgage interest rates is expected to result in a lower refinance volume. Freddie Mac's single-family loan purchase volumes typically follow a similar trend.
- The single-family serious delinquency rate in the U.S. increased during 4Q 2017 due to the impact of the hurricanes in 3Q 2017. Freddie Mac's serious delinquency rate followed a similar trend resulting

in higher loan workout activities, which increased our expected credit losses on our total single-family credit guarantee portfolio.

Business Results

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

New Business Activity

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

(In billions)

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

Commentary

- Our loan purchase and guarantee activity decreased in 1Q 2018 compared to 1Q 2017 primarily due to lower refinance volume driven by higher average mortgage interest rates.

Single-Family Credit Guarantee Portfolio

Single-Family Credit Guarantee Portfolio Commentary

- The single-family credit guarantee portfolio increased from December 31, 2017 to March 31, 2018, driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation. New business acquisitions had a higher average loan size compared to older vintages that continued to run off.
- The Core single-family loan portfolio grew to 79% of the single-family credit guarantee portfolio at March 31, 2018, compared to 78% at December 31, 2017.
- The Legacy and relief refinance single-family loan portfolio declined to 21% of the single-family credit guarantee portfolio at March 31, 2018, compared to 22% at December 31, 2017, driven primarily by liquidations.

Guarantee Fees

We receive fees for guaranteeing the payment of principal and interest to investors in our mortgage-related securities. These fees consist primarily of a combination of base contractual guarantee fees paid on a monthly basis and initial upfront payments. The average portfolio Segment Earnings guarantee fee rate recognizes upfront fee income over the contractual life of the related loans (usually 30 years). If the related loans prepay, the remaining upfront fee income is recognized immediately. In contrast, the average guarantee fee rate charged on new acquisitions recognizes upfront fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations. See MD&A - Our Business Segments - Single-family Guarantee - Business Overview - Guarantee Fees in our 2017 Annual Report for more information on our guarantee fees.

Average Portfolio Segment Earnings Guarantee Fee Rate[(1)(2)]

Average Guarantee Fee Rate[(1)] Charged on New Acquisitions

(1) Excludes the legislated 10 basis point increase in guarantee fees.
(2) Reflects an average rate for our total single-family credit guarantee portfolio and is not limited to purchases in the applicable period.

Commentary

- The average portfolio Segment Earnings guarantee fee rate increased slightly in 1Q 2018 compared to 1Q 2017 primarily due to older vintages being replaced by new loan acquisitions with higher guarantee fees.
- The average guarantee fee rate charged on new acquisitions decreased in 1Q 2018 compared to 1Q 2017 due to competitive pricing.

Credit Risk Transfer (CRT) Activities

We transfer credit risk on a portion of our single-family credit guarantee portfolio to the private market, which reduces the risk of future losses to us and taxpayers when borrowers go into default. In our STACR debt note and ACIS transactions, we pay interest to investors or premiums to insurers in exchange for their taking on a portion of the credit risk on the mortgage loans in the related reference pool. These payments effectively reduce our guarantee fee income from the PCs backed by the mortgage loans in the related reference pools. See MD&A - Our Business Segments - Single-Family Guarantee - Business Overview - Credit Risk Transfer Transactions in our 2017 Annual Report for more information on our CRT transactions.

The following charts present the issuance amounts for the STACR debt note and ACIS transactions that occurred during 1Q 2018 and the cumulative issuance amounts for all STACR debt note, ACIS and Deep MI CRT transactions as of March 31, 2018 by loss position and the party holding each loss position.

New STACR Debt Note and ACIS Transactions during 1Q 2018[1]

	(In billions) Freddie Mac			
Senior	$73.3			
Mezzanine	Freddie Mac $0.2	ACIS[3] $0.4	STACR Debt Notes	Reference Pool[3] $76.3
First Loss	Freddie Mac $0.4	ACIS[3] $0.1	STACR Debt Notes $0.3	

Cumulative STACR Debt Note, ACIS and Deep MI CRT Transactions as of March 31, 2018[1][2]

	(In billions) Freddie Mac				
Senior	$900.1				
Mezzanine	Freddie Mac $2.3	ACIS $7.9	STACR Debt Notes $23.6	Deep MI CRT $0.2	Reference Pool $942.4
First Loss	Freddie Mac $5.1	ACIS $1.0	STACR Debt Notes $2.2		

(1) The amounts represent the UPB upon issuance of STACR debt notes and execution of ACIS and Deep MI CRT transactions. There were no Deep MI CRT transactions in 1Q 2018.

(2) For the current outstanding coverage provided by our STACR debt note and ACIS transactions, see Credit Enhancements.

(3) Excludes additional ACIS transactions of $1.0 billion related to reference pools in transactions executed in prior periods.

Commentary

- During 1Q 2018, we transferred a portion of credit risk associated with $81.6 billion in UPB of loans in our single-family credit guarantee portfolio through STACR debt note, ACIS and senior subordinate securitization structure transactions.
- As of March 31, 2018, we had transferred a significant portion of credit risk on 39% of our single-family credit guarantee portfolio.

- Calculated as the current balance of single-family CRT reference pool UPB divided by the single-family credit guarantee portfolio UPB.
- We expect to reduce by approximately 60% the modeled capital required for credit risk on the quarter's $66 billion of new originations.
- Calculated as modeled credit capital expected to be released from the underlying single-family CRT reference pool divided by total modeled credit capital on quarterly new originations.
- The modeled capital requirement is per FHFA's Conservatorship Capital Framework (CCF) and internal methods that use stress scenarios which are generally consistent with the 2017 Dodd-Frank Act Stress Test (DFAST) "severely adverse" scenario.
- Our expected guarantee fee income on the PCs related to the STACR debt note and ACIS reference pools has been effectively reduced by approximately 29%, on average, for all transactions executed through March 31, 2018.
- As of March 31, 2018, we had experienced minimal write-downs on our STACR debt notes and have filed minimal claims for reimbursement of losses under our ACIS transactions. We expect losses may increase on loans in the reference pools in our existing CRT transactions as a result of the hurricanes in 3Q 2017.

We continue to evaluate our credit risk transfer strategy and to make changes depending on market conditions and our business strategy. The aggregate cost of our credit risk transfer activity will continue to increase as we continue to transfer risk on new originations.

Credit Enhancements

The table below provides information on the total current and protected UPB and maximum coverage associated with credit enhanced loans in our single-family credit guarantee portfolio as of March 31, 2018 and December 31, 2017, respectively. The table includes all types of single-family credit enhancements. See Note 6 for additional information about our single-family credit enhancements.

(In millions)	March 31, 2018 Total Current and Protected UPB(1)	March 31, 2018 Maximum Coverage(2)	December 31, 2017 Total Current and Protected UPB(1)	December 31, 2017 Maximum Coverage(2)
Primary mortgage insurance	$338,457	$86,622	$334,189	$85,429
STACR debt note(3)	661,399	19,183	604,356	17,788
ACIS transactions(4)	650,420	7,148	617,730	6,736
Senior subordinate securitization structures	16,986	2,211	12,283	1,913
Other(5)	15,641	6,362	15,975	6,479
Less: UPB with more than one type of credit enhancement	(842,161)	—	(775,751)	—
Single-family credit guarantee portfolio with credit enhancement	840,742	121,526	808,782	118,345
Single-family credit guarantee portfolio without credit enhancement	995,217	—	1,020,098	—
Total	$1,835,959	$121,526	$1,828,880	$118,345

(1) Except for the majority of our STACR debt notes and ACIS transactions, our credit enhancements generally provide protection for the first, or initial, credit losses associated with the related loans. For subordination, total current and protected UPB represents the UPB of the guaranteed securities. For STACR debt notes and ACIS transactions, total current and protected UPB represents the UPB of the assets included in the reference pool.

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

(3) Maximum coverage amounts represent the outstanding balance of STACR debt notes held by third parties.

(4) Maximum coverage amounts represent the remaining aggregate limit of insurance purchased from third parties in ACIS transactions.

(5) Includes seller indemnification, Deep MI CRT, lender recourse and indemnification agreements, pool insurance, HFA indemnification and other credit enhancements.

Commentary

n We had coverage remaining of $121.5 billion and $118.3 billion on our single-family credit guarantee portfolio as of March 31, 2018 and December 31, 2017, respectively. Credit risk transfer transactions provided 23.5% and 22.4% of the coverage remaining at those dates, respectively.

Mortgage Loan Credit Risk

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

	March 31, 2018								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(Credit score)	% Portfolio	SDQ Rate[1]	% Portfolio	SDQ Rate[1]	% Portfolio	SDQ Rate[1]	% Portfolio	SDQ Rate[1]	% Modified
Core single-family loan portfolio:									
< 620	0.2 %	2.62 %	— %	NM	— %	NM	0.2 %	2.85 %	3.3 %
620 to 659	1.9	1.45	0.3	1.74 %	—	NM	2.2	1.48	1.5
≥ 660	67.4	0.25	8.9	0.43	—	NM	76.3	0.27	0.2
Not available	0.1	1.87	—	NM	—	NM	0.1	3.49	3.6
Total	69.6 %	0.29 %	9.2 %	0.50 %	— %	NM	78.8 %	0.32 %	0.3 %
Legacy and relief refinance single-family loan portfolio:									
< 620	1.2 %	5.12 %	0.3 %	9.63 %	0.1 %	15.55 %	1.6 %	6.10 %	23.5 %
620 to 659	1.9	3.83	0.4	7.71	0.2	12.99	2.5	4.59	20.3
≥ 660	14.6	1.38	1.8	4.15	0.6	6.62	17.0	1.69	7.3
Not available	0.1	5.40	—	NM	—	NM	0.1	5.80	18.2
Total	17.8 %	1.97 %	2.5 %	5.34 %	0.9 %	8.95 %	21.2 %	2.41 %	10.1 %

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

Alt-A and Subprime Loans

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

Participants in the mortgage market have characterized single-family loans based upon their overall credit quality at the time of origination, including as prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately $1.0 billion and $1.1 billion of security collateral underlying our other securitization products at March 31, 2018 and December 31, 2017, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between the prime and subprime categories, if they are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continue to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, as part of our relief refinance initiative, or as part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-Q and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to March 31, 2018, we have purchased approximately $36.1 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including $0.2 billion in 1Q 2018.

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

	March 31, 2018				December 31, 2017			
(Dollars in billions)	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate
Alt-A	$26.3	65 %	24.2 %	5.40%	$27.1	67 %	24.1 %	5.62%

The UPB of Alt-A loans in our single-family credit guarantee portfolio declined during 1Q 2018 primarily due to borrowers refinancing into other mortgage products, foreclosure sales and other liquidation events. Significant portions of the Alt-A loans in our portfolio are concentrated in Arizona, California, Florida and Nevada.

Single-Family Loan Performance

Serious Delinquency Rates

Delinquency Rates for Loans One Month and Two Months Past Due

Commentary

- Serious delinquency rates on our single-family credit guarantee portfolio were higher as of March 31, 2018 compared to March 31, 2017 due to the impact of the hurricanes in 3Q 2017. As a result, we expect an increase in our loan workout activities as well as our expected credit losses. Outside of the areas affected by the hurricanes, our single-family serious delinquency rates declined due to our continued loss mitigation efforts and sales of certain seriously delinquent loans, as well as home price appreciation and a low unemployment rate. This improvement was also driven by the continued shift in the single-family credit guarantee portfolio mix, as the Legacy and relief refinance loan portfolio runs off and we add high credit quality loans to our Core single-family loan portfolio.
- Delinquency rates increased for both loans one month past due and loans two months past due as of March 31, 2018 compared to March 31, 2017. These increases were due to the impact of the hurricanes in 3Q 2017.

Credit Performance

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

(Dollars in millions)	1Q 2018	1Q 2017
Charge-offs, gross	$372	$740
Recoveries	(96)	(97)
Charge-offs, net	276	643
REO operations expense	34	56
Total credit losses	$310	$699
Total credit losses (in bps)	6.7	15.6

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

	March 31, 2018		March 31, 2017	
(Dollars in millions)	Loan Count	Amount	Loan Count	Amount
TDRs, at January 1	364,704	$54,415	485,709	$78,869
New additions	23,699	3,800	10,838	1,486
Repayments and reclassifications to held-for-sale	(8,908)	(1,522)	(15,881)	(3,290)
Foreclosure sales and foreclosure alternatives	(2,083)	(282)	(2,774)	(373)
TDRs, at March 31	377,412	56,411	477,892	76,692
Loans impaired upon purchase	4,364	290	7,165	485
Total impaired loans with an allowance recorded	381,776	56,701	485,057	77,177
Allowance for loan losses		(6,968)		(11,268)
Net investment, at March 31		$49,733		$65,909

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

(In millions)	March 31, 2018	December 31, 2017
TDRs on accrual status	$53,271	$51,644
Non-accrual loans	15,962	17,748
Total TDRs and non-accrual loans	$69,233	$69,392
Allowance for loan losses associated with:		
TDRs on accrual status	$5,457	$5,257
Non-accrual loans	1,933	1,883
Total	$7,390	$7,140

(In millions)	1Q 2018	1Q 2017
Foregone interest income on TDRs and non-accrual loans[1]	$446	$554

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

Commentary

- As of March 31, 2018, 50% of the allowance for loan losses for single-family mortgage loans related to interest rate concessions provided to borrowers as part of loan modifications.
- Most of our modified single-family loans, including TDRs, were current and performing at March 31, 2018.
- We expect our allowance for loan losses associated with existing single-family TDRs to decline over time as we continue to sell reperforming loans. In addition, the allowance for loan losses will decline as borrowers continue to make monthly payments under the modified terms and interest rate concessions are amortized into earnings.
- See Note 4 for information on our single-family allowance for loan losses.

Loss Mitigation Activities

Loan Workout Activity[1]
(UPB in billions, number of loan workouts in thousands)

(1) Foreclosure alternatives consist of short sales and deeds in lieu of foreclosure. Home retention actions consist of forbearance agreements, repayment plans and loan modifications.

Commentary

- Our loan workout activity increased in 1Q 2018 compared to 1Q 2017, consistent with the increase in the number of delinquent loans in the single-family credit guarantee portfolio due to the impact of the hurricanes in 3Q 2017.
- We continue our loss mitigation efforts through our relief refinance, modification and other initiatives.

REO Activity

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

(Dollars in millions)	1Q 2018 Number of Properties	1Q 2018 Amount	1Q 2017 Number of Properties	1Q 2017 Amount
Beginning balance — REO	8,299	$900	11,418	$1,215
Additions	2,620	246	3,545	346
Dispositions	(3,201)	(306)	(4,025)	(399)
Ending balance — REO	7,718	840	10,938	1,162
Beginning balance, valuation allowance		(14)		(17)
Change in valuation allowance		5		(2)
Ending balance, valuation allowance		(9)		(19)
Ending balance — REO, net		$831		$1,143

Commentary

- Our REO ending inventory declined in 1Q 2018 primarily due to a decrease in REO acquisitions driven by fewer loans in foreclosure and a large proportion of property sales to third parties at foreclosure.

Financial Results

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

(Dollars in millions)	1Q 2018	1Q 2017	Change $	Change %
Guarantee fee income	$1,513	$1,418	$95	7 %
Benefit (provision) for credit losses	28	39	(11)	(28)
Other non-interest income (loss)	94	319	(225)	(71)
Administrative expense	(336)	(333)	(3)	(1)
REO operations expense	(39)	(59)	20	34
Other non-interest expense	(379)	(318)	(61)	(19)
Segment Earnings before income tax expense	881	1,066	(185)	(17)
Income tax expense	(179)	(356)	177	50
Segment Earnings, net of taxes	702	710	(8)	(1)
Total other comprehensive income (loss), net of tax	(4)	(2)	(2)	(100)
Total comprehensive income	$698	$708	($10)	(1)%

Key Business Drivers:

n 1Q 2018 vs. 1Q 2017

l Continued growth in our single-family credit guarantee portfolio and higher upfront fee amortization income resulted in increased guarantee fee income.

l Benefit for credit losses remained relatively unchanged.

l Decreased fair value losses on STACR debt notes as market spreads between STACR yields and LIBOR remained relatively unchanged in 1Q 2018, while spreads tightened in 1Q 2017.

Multifamily

Market Conditions

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

Change in Effective Rents

Source: REIS, Inc.

Apartment Vacancy Rates

Source: REIS, Inc.

Commentary

- Growth in effective rent (i.e., the average rent paid by the tenant over the term of the lease, adjusted for concessions by the landlord and costs borne by the tenant) for 1Q 2018 remained strong relative to the long-term average, primarily due to an increase in potential renters driven by healthy employment, higher single-family home prices and a growing demand for rental housing due to lifestyle changes and demographic trends.
- While vacancy rates rose slightly during 1Q 2018 compared to 4Q 2017, these rates remain well below the long-term average. Net absorptions continued to lag new apartment completions in 1Q 2018 partially due to seasonality impacts during the winter months. Although we expect continued strong demand, it may take longer to absorb new units compared to prior quarters.
- Our financial results for 1Q 2018 were not significantly affected by these relatively stable market conditions.

K Certificate Benchmark Spreads
Source: Independent dealers

Commentary

- The valuation of our securitization pipeline and the profitability of our primary credit risk transfer securitization product, the K Certificate, are affected by changes in K Certificate benchmark spreads as well as deal-specific attributes, such as tranche size, risk distribution and collateral characteristics (loan term, coupon type, prepayment restrictions and underlying property type). These market spread movements and deal-specific attributes contribute to our earnings volatility, which we manage by controlling the size of our securitization pipeline and by entering into certain spread-related derivatives.
- K Certificate benchmark spreads are market-quoted spreads over the U.S. swap curve. The 10-year fixed-rate spread represents the spread for the largest guaranteed class of a typical fixed-rate K Certificate, while the 7-year ARM spread represents the spread for the largest guaranteed class of a typical floating-rate K Certificate.
- K Certificate benchmark spreads generally tightened during 1Q 2018 and 1Q 2017. Overall, this tightening had a positive effect in 1Q 2018 and 1Q 2017 on the valuation of our securitization pipeline and K Certificate profitability. However, for certain of our K Certificate products that are issued with less frequency, spreads widened resulting in a negative effect on the valuation of loans designated as collateral for those products.

Business Results

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

New Business Activity

Multifamily New Business Activity

Commentary

- The 2018 Conservatorship Scorecard production cap decreased to $35.0 billion from $36.5 billion in 2017. The production cap is subject to reassessment throughout the year by FHFA to determine whether an increase in the cap is appropriate based on a stronger than expected overall market. Reclassifications between new business activity subject to the production cap and new business activity not subject to the production cap may occur during 2018.
- Outstanding purchase commitments were $17.5 billion and $14.0 billion as of March 31, 2018 and March 31, 2017, respectively. Both periods include purchase commitments for which we have elected the fair value option.
- Our new business activity and outstanding purchase commitments were higher during 1Q 2018 compared to 1Q 2017 due to overall growth of the multifamily mortgage market resulting from continued strong demand for multifamily loan products and our strategic pricing efforts.

- Approximately 48% of our multifamily new business activity during 1Q 2018 counted towards the 2018 Conservatorship Scorecard production cap, while the remaining 52% was considered uncapped.
- Our uncapped new business volume increased slightly in 1Q 2018 compared to 1Q 2017 as we continued our efforts to support borrowers in certain property types and communities that meet the criteria for affordability and to support the overall growth of the multifamily market.
- Approximately 90% and 88% of our 1Q 2018 and 1Q 2017 new business volume was intended for our securitization pipeline. Combined with market demand for our securities, our 1Q 2018 new business volume will be the primary driver of and collateral for credit risk transfer securitizations in 2Q 2018 and 3Q 2018.

Multifamily Portfolio and Market Support

Total Multifamily Portfolio

Multifamily Mortgage Investments Portfolio

Multifamily Market Support

The following table summarizes our support of the multifamily market.

(UPB in millions)	March 31, 2018	December 31, 2017
Unsecuritized mortgage loans held-for-sale	$16,383	$20,537
Unsecuritized mortgage loans held-for-investment	16,213	17,702
Unsecuritized non-mortgage loans(1)	332	473
Mortgage-related securities(2)	7,449	7,451
Guarantee portfolio	213,141	203,074
Total multifamily portfolio	253,518	249,237
Add: Unguaranteed securities(3)	32,250	30,890
Less: Acquired mortgage-related securities(4)	(7,141)	(7,109)
Total multifamily market support	$278,627	$273,018

(1) Reflects the UPB of financing provided to whole loan investment funds.

(2) Includes mortgage-related securities from our credit risk transfer transactions. We have not invested in unguaranteed securities that are in a first loss position.

(3) Reflects the UPB of unguaranteed securities issued as part of our securitization products and amounts related to whole loan investment funds not financed by Freddie Mac.

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

Commentary

- Our total multifamily portfolio increased in 1Q 2018 primarily due to new loan purchases. The vast majority of the growth in our guarantee portfolio was associated with ongoing credit risk transfer securitizations, primarily K Certificates and SB Certificates.
- At March 31, 2018, the UPB of our unsecuritized held-for-sale loans and mortgage-related securities, which are measured at fair value or lower-of-cost-or-fair-value, decreased from December 31, 2017. The decrease was primarily driven by ongoing credit risk transfer securitizations, partially offset by new held-for-sale loan purchases.
- At March 31, 2018, approximately 69% of our held-for-sale loans and held-for sale loan commitments were fixed-rate, while the remaining 31% were floating rate.
- We expect our guarantee portfolio to continue to grow as a result of ongoing credit risk transfer securitizations, which we expect to be driven by continued strong new business volume.

Net Interest Yield and Weighted Average Portfolio Balance

Net Interest Yield Earned

Commentary

- Net interest yield increased during 1Q 2018 compared to 1Q 2017 primarily due to higher prepayment income received from interest-only securities, coupled with an increase in our interest-only holdings which generally have higher yields relative to our non-interest-only securities.
- The weighted average portfolio balance of interest-earning assets decreased due to the run-off of our legacy held-for-investment loans and non-agency CMBS.

Credit Risk Transfer Activity

Credit Risk Transfer Activity and New Business Activity

Credit Risk Transfer Activity[1]

(1) The amounts disclosed in the bar graph above represent the UPB of credit risk transferred to third parties.

Commentary

- The structures for credit risk transfer transactions, primarily the K Certificate and SB Certificate structures, vary by deal. Structural deal features such as term, type of underlying loan product, and subordination levels generally influence the deal's size and risk profile, which ultimately affect the guarantee fee rate set by Freddie Mac, as Guarantor, at the time of securitization.
- We executed $16 billion in UPB of credit risk transfer transactions during 1Q 2018 and $265 billion in UPB since 2009. Through these transactions, we transferred a large majority of the expected and stress credit losses of the underlying assets, primarily by issuing unguaranteed subordinated

securities, as part of our K Certificate and SB Certificate transactions. Also, we began selling certain of our loans to investment funds in 3Q 2017, resulting in the transfer of the associated credit risk of those loans to third parties.

- The UPB of our credit risk transfer transactions was higher during 1Q 2018 compared to 1Q 2017, primarily due to a larger average balance in our securitization pipeline, which was driven by strong new loan purchase volume during the latter part of 2017.
- As of March 31, 2018, we had transferred a large majority of credit risk on 90% of the multifamily guarantee portfolio.
  - Calculated as the current balance of multifamily credit risk transfer transactions (primarily K Certificates and SB Certificates) divided by the multifamily guarantee portfolio UPB.
- We expect to reduce by approximately 90% the modeled capital required for credit risk on the quarter's $13 billion of new originations.
  - Calculated as modeled credit capital expected to be released from credit risk transfer transactions (primarily through K Certificates and SB Certificates) divided by total modeled credit capital on quarterly new originations.
  - The modeled capital requirement is per FHFA's CCF and internal methods that use stress scenarios which are generally consistent with the 2017 DFAST "severely adverse" scenario.
- In addition to transferring a large majority of expected and stress credit risk, nearly all of our credit risk transfer transactions also shifted non-credit risks associated with the underlying assets, such as interest-rate risk and liquidity risk, away from Freddie Mac to third-party investors.
- Based on the strength of our new business volume for 4Q 2017 and 1Q 2018, we expect our credit risk transfer activity for 2Q 2018 to exceed our 2Q 2017 activity.
- While our K Certificate and SB Certificate issuances continue to be our primary mechanism to transfer multifamily mortgage credit and non-credit risk, we expect to continue to develop new credit risk transfer initiatives throughout 2018.

Financial Guarantee Activity

Guarantee Assets

Unearned Guarantee Fees

Commentary

- We generally recognize a guarantee asset on our balance sheets each time we enter into a financial guarantee contract. This asset represents the present value of guarantee fees we expect to receive in cash in the future from those guarantee transactions. We recognize these fees in segment earnings over the expected remaining guarantee term. While we expect to collect these future fees based on historical performance, the actual amount collected will depend on the performance of the underlying collateral subject to our financial guarantee.
- New guarantee assets recognized in 1Q 2018 exceeded those recognized in 1Q 2017, primarily due to an increase in the UPB of our credit risk transfer securitizations, coupled with higher average guarantee fee rates due to underlying loan products that, by their nature and design, have more risk.
- The balance of unearned guarantee fees remained relatively flat during 1Q 2018, as the increase attributable to the growth of our credit risk transfer securitization volume was mostly offset by the seasoning and run-off of prior credit risk transfer securitizations.

Financial Results

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

(Dollars in millions)	1Q 2018	1Q 2017	Change $	Change %
Net interest income	$271	$271	$—	—%
Guarantee fee income	195	151	44	29
Benefit (provision) for credit losses	16	6	10	167
Gains (losses) on loans and other non-interest income	(430)	236	(666)	(282)
Derivative gains (losses)	655	127	528	416
Administrative expense	(100)	(95)	(5)	(5)
Other non-interest expense	(14)	(21)	7	33
Segment Earnings before income tax expense	593	675	(82)	(12)
Income tax expense	(121)	(226)	105	46
Segment Earnings, net of taxes	472	449	23	5
Total other comprehensive income (loss), net of tax	(68)	(4)	(64)	(1,600)
Total comprehensive income (loss)	$404	$445	($41)	(9)%

Key Business Drivers:

- 1Q 2018 vs. 1Q 2017
  - Higher net interest yields, offset by a decline in our weighted average portfolio balance of interest-earning assets, resulted in net interest income being flat.
  - Continued growth in our multifamily guarantee portfolio and higher average guarantee fee rates on new guarantee business volume resulted in increased guarantee fee income.
  - Spread widening on certain of our K Certificate products that we issue with less frequency coupled with the effects of strategic pricing, partially offset by larger average balances of held-for-sale commitments and securitization pipeline loans, resulted in lower spread-related fair value gains.
  - Derivative gains (losses) are largely offset by interest rate-related fair value changes on the loans and investment securities being economically hedged, resulting in interest rate changes having a minimal net impact on total comprehensive income.

Capital Markets
Market Conditions

The following graphs and related discussion present the par swap rate curves as of the end of each comparative period. Changes in par swap rates can significantly affect the fair value of our debt, derivatives and mortgage and non-mortgage-related securities. However, the majority of these fair value changes are offset by our hedge accounting programs.

Par Swap Rate Curves

Source: BlackRock

Commentary

- Long-term interest rates increased more during 1Q 2018 than 1Q 2017. In addition, during 1Q 2018, the 2-year interest rate increased more than the 10-year interest rate, resulting in the yield curve flattening. These yield curve changes resulted in larger fair value gains for our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures, partially offset by larger fair value losses for our receive-fixed interest rate swaps and the vast majority of our investments in securities. The net amount of these changes in fair value was mostly offset by the change in fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs.

Business Results

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

Investing Activity

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

Investments Portfolio

Mortgage Investments Portfolio

Commentary

- We continue to reduce the size of our mortgage investments portfolio in order to comply with the mortgage-related investments portfolio year-end limits. The balance of our mortgage investments portfolio declined 2.9% from December 31, 2017 to March 31, 2018.
- The balance of our other investments and cash portfolio declined by 21.8%, primarily due to reduced near term cash needs as of March 31, 2018 compared to December 31, 2017.
- The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 28.4% at December 31, 2017 to 27.8% at March 31, 2018, primarily due to repayments, sales and securitizations of our less liquid assets. We continued to actively reduce the size of our less liquid assets during 1Q 2018 by selling $1.7 billion of non-agency mortgage-related securities and $1.8 billion of reperforming loans. Our sales of reperforming loans involved securitization of the loans using senior subordinate structures.
- The overall liquidity of our mortgage investments portfolio continued to improve as our less liquid assets decreased at a faster pace than the overall decline of our mortgage investments portfolio.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balances
(UPB in billions)
Commentary

- Net Interest Yield
  - 1Q 2018 vs. 1Q 2017 - Increased 8 basis points primarily due to changes in our investment and funding mix as we reduce our less liquid assets, coupled with an increase in the yield on our other investments and cash portfolio as short-term interest rates increased. These increased yields were partially offset by an increase in our funding costs.
  - Capital Markets segment net interest yield in the graph above is not impacted by our hedge accounting programs. See Note 13 in our 2017 Annual Report for more information.

Financial Results

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

(Dollars in millions)	1Q 2018	1Q 2017	Change $	Change %
Net interest income	$817	$929	($112)	(12)
Net impairment of available-for-sale securities recognized in earnings	111	73	38	52
Derivative gains (losses)	1,302	52	1,250	2,404
Gains (losses) on trading securities	(471)	(135)	(336)	(249)
Other non-interest income	525	744	(219)	(29)
Administrative expense	(84)	(83)	(1)	(1)
Segment Earnings before income tax expense	2,200	1,580	620	39
Income tax expense	(448)	(528)	80	15
Segment Earnings, net of taxes	1,752	1,052	700	67
Total other comprehensive income (loss), net of tax	(704)	29	(733)	(2,528)
Total comprehensive income (loss)	$1,048	$1,081	($33)	(3)%

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

(Dollars in billions)	1Q 2018	1Q 2017	Change $	Change %
Interest rate-related	($0.1)	$—	($0.1)	N/A
Market spread-related	0.2	0.1	0.1	100 %

Key Business Drivers:

n 1Q 2018 vs. 1Q 2017

l The continued reduction in the balance of our mortgage-related investments portfolio resulted in a decrease in net interest income.

l Interest rate-related fair value changes resulted in a small net loss during 1Q 2018 as a result of our remaining post-hedge accounting interest rate-related exposure and the flattening of the yield curve. Long-term interest rates increased more during 1Q 2018 than 1Q 2017, resulting in higher fair value losses for the vast majority of our investments in securities (some of which are recorded in other comprehensive income) and our receive-fixed interest rate swaps, and higher fair value gains for our pay-fixed interest rate swaps, forward commitments to issue PCs, and futures. The net amount of these changes in fair value was mostly offset by the change in fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs.

l Spread related fair value changes were relatively flat, with gains on our derivatives primarily on commitments to sell agency securities due to spread widening, partially offset by less spread tightening on our agency securities.

l The lower volume of PCs repurchased in 1Q 2018 resulted in lower gains.

[1] Sales of single-family reperforming loans that were sold into senior subordinate securitization structures in 1Q 2018 resulted in gains. In 1Q 2017, we did not execute any similar structures.

RISK MANAGEMENT

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

For more discussion of these and other risks facing our business and our risk management framework, see MD&A - Risk Management and Risk Factors in our 2017 Annual Report and Liquidity and Capital Resources in this report and in our 2017 Annual Report. See below for updates since our 2017 Annual Report.

Market Risk

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

Economic Market Risk

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

Our primary interest-rate risk measures are duration gap and PMVS. Duration gap measures the difference in price sensitivity to interest rate changes between our financial assets and liabilities and is expressed in months relative to the market value of assets. PMVS is our estimate of the change in the market value of our financial assets and liabilities from an instantaneous shock to interest rates, assuming spreads are held constant and no rebalancing actions are undertaken. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to a 50 basis point parallel movement in interest rates (PMVS-L) and the other to a non-parallel movement resulting from a 25 basis point change in slope of the LIBOR yield curve (PMVS-YC). While we believe that duration gap and PMVS are useful risk management tools, they should be understood as estimates rather than as precise measurements.

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

	March 31, 2018			December 31, 2017		
	PMVS-YC	PMVS-L		PMVS-YC	PMVS-L	
(In millions)	25 bps	50 bps	100 bps	25 bps	50 bps	100 bps
Assuming shifts of the LIBOR yield curve, (gains) losses on:[1]						
Assets	($495)	($5,380)	($10,562)	$463	$5,587	$11,446
Liabilities	(164)	2,218	4,345	185	(2,377)	(4,968)
Derivatives	673	3,177	6,254	(646)	(3,200)	(6,477)
Total	$14	$15	$37	$2	$10	$1
PMVS	$14	$15	$37	$2	$10	$1

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

(Duration gap in months, dollars in millions)	1Q 2018 Duration Gap	1Q 2018 PMVS-YC 25 bps	1Q 2018 PMVS-L 50 bps	1Q 2017 Duration Gap	1Q 2017 PMVS-YC 25 bps	1Q 2017 PMVS-L 50 bps
Average	—	$9	$8	0.1	$7	$5
Minimum	(0.3)	—	—	(0.2)	—	—
Maximum	0.2	24	30	0.8	22	63
Standard deviation	0.1	5	8	0.2	5	15

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

(In millions)	PMVS-L (50 bps) Before Derivatives	PMVS-L (50 bps) After Derivatives	Effect of Derivatives
March 31, 2018	$3,269	$15	($3,254)
December 31, 2017	3,210	10	(3,200)

GAAP Earnings Variability

The GAAP accounting treatment for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates and spreads change. This variability of GAAP earnings, which may not reflect the economics of our business, increases the risk of our having a negative net worth and thus being required to draw from Treasury.

Interest-rate Volatility

While we manage our interest-rate risk exposure on an economic basis to a low level as measured by our models, our GAAP financial results are still subject to significant earnings variability from period to period. Based upon the composition of our financial assets and liabilities, including derivatives, at March 31, 2018, we generally recognize fair value losses in GAAP earnings when interest rates decline.

In an effort to reduce our GAAP earnings variability and better align our GAAP results with the economics of our business, we elect hedge accounting for certain single-family mortgage loans and certain debt instruments. See Note 9 for additional information on hedge accounting.

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

(In billions)	1Q 2018	1Q 2017
Interest-rate effect on derivative fair values	$3.1	$0.5
Estimate of offsetting interest-rate effect related to financial instruments measured at fair value[1]	(1.9)	(0.5)
Gains (losses) on mortgage loans and debt in fair value hedge relationships	(1.4)	—
Income tax (expense) benefit	—	—
Estimated net interest rate effect on comprehensive income (loss)	($0.2)	$—

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

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

- At March 31, 2018, the GAAP adverse scenario before fair value hedge accounting was a non-parallel shift in which long-term rates decrease by 100 basis points, while the GAAP adverse scenario after fair value hedge accounting was a non-parallel shift in which short and medium-term rates increase by 100 basis points.
- At March 31, 2017, the GAAP adverse scenario both before and after fair value hedge accounting was a non-parallel shift in which long-term rates decrease by 100 basis points.

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

(Dollars in billions)	GAAP Adverse Scenario (Before-Tax) Before Hedge Accounting	After Hedge Accounting	% Change
March 31, 2018	($3.3)	($0.6)	83 %
March 31, 2017	(3.5)	(1.8)	50

Spread Volatility

We have limited ability to manage our spread risk exposure and therefore the volatility of market spreads may contribute to significant GAAP earnings variability. For financial assets measured at fair value, we generally recognize fair value losses when market spreads widen. Conversely, for financial liabilities measured at fair value, we generally recognize fair value gains when market spreads widen.

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

(In billions)	1Q 2018	1Q 2017
Capital Markets	$0.2	$0.1
Multifamily	—	0.1
Single-family Guarantee[1]	—	(0.1)
Spread effect on comprehensive income (loss)	$0.2	$0.1

(1) Represents spread exposure on certain STACR debt securities for which we have elected the fair value option.

LIQUIDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital

Our business activities require that we maintain adequate liquidity to fund our operations. We also must maintain adequate capital resources to avoid being placed into receivership by FHFA. For further discussion of our liquidity framework and profile, see MD&A - Liquidity and Capital Resources in our 2017 Annual Report.

Primary Sources of Liquidity, Funding and Capital

The following table lists the sources of our liquidity, funding and capital, the balances as of 1Q 2018, and a brief description of their importance to Freddie Mac.

Source	Balance[1] (In billions)	Description
Liquidity		
• Other Investments and Cash Portfolio - Liquidity and Contingency Operating Portfolio	$48.8	• The liquidity and contingency operating portfolio, included within our other investments and cash portfolio, is primarily used for short-term liquidity management.
• Liquid Portion of the Mortgage-Related Investments Portfolio	$132.1	• The liquid portion of our mortgage-related investments portfolio can be pledged or sold for liquidity purposes. The amount of cash we may be able to successfully raise may be substantially less than the balance.
Funding		
• Other Debt	$280.9	• Other debt is used to fund our other business activities.
• Debt Securities of Consolidated Trusts	$1,727.0	• Debt securities of consolidated trusts is used primarily to fund our Single-family guarantee activities. This type of debt is principally repaid by the cash flows of the associated mortgage loans. As a result, our repayment obligation is limited to amounts paid pursuant to our guarantee of principal and interest and to purchase modified or seriously delinquent loans from the trusts.
Capital		
• Net Worth	$2.2	• GAAP net worth represents capital available before we need to draw from Treasury on the available funding under the Purchase Agreement.
• Available Funding under Purchase Agreement	$140.2	• FHFA may request that available funding under the Purchase Agreement be drawn on our behalf from Treasury.

(1) Represents carrying value for the liquidity and contingency operating portfolio, included within our other investments and cash portfolio, and net worth. Represents UPB for the liquid portion of the mortgage-related investments portfolio and debt balances.

Other Investments and Cash Portfolio

The investments in our other investments and cash portfolio are important to our cash flow, collateral management, asset and liability management, and our ability to provide liquidity and stability to the mortgage market. The table below summarizes the balances in our other investments and cash portfolio, which includes the liquidity and contingency operating portfolio.

(In billions)	March 31, 2018				December 31, 2017			
	Liquidity and Contingency Operating Portfolio	Custodial Account	Other[1]	Total Other Investments and Cash Portfolio	Liquidity and Contingency Operating Portfolio	Custodial Account	Other[1]	Total Other Investments and Cash Portfolio
Cash and cash equivalents[2]	$5.2	$1.1	$2.3	$8.6	$6.8	$0.5	$2.5	$9.8
Securities purchased under agreements to resell	27.0	14.3	0.5	41.8	38.9	16.8	0.2	55.9
Non-mortgage-related securities	16.6	—	2.0	18.6	22.2	—	0.6	22.8
Advances to lenders	—	—	0.9	0.9	—	—	0.8	0.8
Total	$48.8	$15.4	$5.7	$69.9	$67.9	$17.3	$4.1	$89.3

(1) Consists of amounts related to collateral held by us from derivative and other counterparties, securities used to pledge as collateral to our derivative counterparties, advances to lenders and other secured lending transactions.
(2) The current and prior period presentation has been modified to include restricted cash and cash equivalents due to recently adopted accounting guidance.

Our non-mortgage-related investments in the liquidity and contingency operating portfolio consist of U.S. Treasury securities and other investments that we could sell to provide us with an additional source of liquidity to fund our business operations. We also maintain non-interest-bearing deposits at the Federal Reserve Bank of New York.

Mortgage-Related Investments Portfolio

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and liquid. Our primary source of liquidity among these mortgage assets is our holdings of single-class and multiclass agency securities, excluding certain structured agency securities collateralized by non-agency mortgage-related securities. Our ability to pledge certain of these assets as collateral or sell them enhances our liquidity profile, although the amount of cash we may be able to successfully raise in the event of a liquidity crisis or significant market disruption may be substantially less than the amount of mortgage-related assets we hold. See Conservatorship and Related Matters for additional details on the liquidity of our mortgage-related investments portfolio.

Other Debt Activities

We issue other debt to fund our operations. Competition for funding can vary with economic, financial market and regulatory environments. We issue other debt based on a variety of factors including market conditions and our liquidity requirements. We currently favor a mix of derivatives and shorter- and medium-term debt to fund our business and manage interest-rate risk. This funding mix is a less expensive method than relying more extensively on long-term debt.

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

	1Q 2018			
(Dollars in millions)	Short-term	Average Rate[1]	Long-term	Average Rate[1]
Discount notes and Reference Bills:				
Beginning balance	$45,717	1.19 %	$—	— %
Issuances	74,116	1.29	—	—
Repurchases	—	—	—	—
Maturities	(92,875)	1.21	—	—
Ending Balance	26,958	1.40	—	—
Securities sold under agreements to repurchase:				
Beginning balance	9,681	1.06	—	—
Additions	41,794	1.32	—	—
Repayments	(41,730)	1.24	—	—
Ending Balance	9,745	1.38	—	—
Callable debt:				
Beginning balance	—	—	113,822	1.58
Issuances	—	—	5,551	2.82
Repurchases	—	—	(554)	2.13
Calls	—	—	(892)	1.97
Maturities	—	—	(4,375)	1.05
Ending Balance	—	—	113,552	1.66
Non-callable debt:[2]				
Beginning balance	17,792	1.03	129,094	2.52
Issuances	1,825	1.44	8,375	2.25
Repurchases	—	—	—	—
Maturities	(2,005)	0.77	(24,405)	0.83
Ending Balance	17,612	1.12	113,064	2.90
Total other debt	$54,315	1.31 %	$226,616	2.28 %

	1Q 2017			
(Dollars in millions)	Short-term	Average Rate[1]	Long-term	Average Rate[1]
Discount notes and Reference Bills:				
Beginning balance	$61,042	0.47 %	$—	— %
Issuances	100,504	0.59	—	—
Repurchases	(57)	0.91	—	—
Maturities	(100,416)	0.47	—	—
Ending Balance	61,073	0.66	—	—
Securities sold under agreements to repurchase:				
Beginning balance	3,040	0.42	—	—
Additions	36,976	0.26	—	—
Repayments	(33,469)	0.23	—	—
Ending Balance	6,547	0.41	—	—
Callable debt:				
Beginning balance	—	—	98,420	1.44
Issuances	—	—	18,008	1.91
Repurchases	—	—	—	—
Calls	—	—	(1,460)	2.02
Maturities	—	—	(2,178)	0.76
Ending Balance	—	—	112,790	1.52
Non-callable debt:[2]				
Beginning balance	7,435	0.41	186,806	2.10
Issuances	4,572	0.69	5,134	2.23
Repurchases	—	—	—	—
Maturities	—	—	(26,346)	1.30
Ending Balance	12,007	0.51	165,594	2.25
Total other debt	$79,627	0.62 %	$278,384	1.95 %

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

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

Our outstanding other debt balance continues to decline as we reduce our indebtedness along with the decline in our mortgage-related investments portfolio. As a result, our total issuances, excluding securities sold under agreements to repurchase, decreased in 1Q 2018. However, we increased our volume of securities sold under agreements to repurchase in 1Q 2018 as these borrowing transactions reduced the cost of our funding.

The following graphs present our other debt by contractual maturity date and earliest redemption date. The earliest redemption date refers to the earliest call date for callable debt and the contractual maturity date for all other debt.
Contractual Maturity Date as of March 31, 2018[(1)]

Earliest Redemption Date as of March 31, 2018[(1)]

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

Debt Securities of Consolidated Trusts

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

- The assets held by the securitization trusts, the majority of which are mortgage loans. We recognized $1,778.0 billion and $1,774.3 billion of mortgage loans, which represented 87.9% and 86.6% of our total assets, as of 1Q 2018 and 4Q 2017, respectively.
- The debt securities issued by the securitization trusts, the majority of which are PCs. PCs are pass-through securities, where the cash flows of the mortgage loans held by the securitization trust are passed through to the holders of the PCs. We recognized $1,727.0 billion and $1,721.0 billion of debt securities of consolidated trusts, which represented 86.1% and 84.6% of our total debt, as of 1Q 2018 and 4Q 2017, respectively.

Debt securities of consolidated trusts are principally repaid from the cash flows of the mortgage loans held by the securitization trusts that issued the debt securities. In circumstances when the cash flows of the mortgage loans are not sufficient to repay the debt, we make up the shortfall because we have guaranteed the payment of principal and interest on the debt. In certain circumstances, we have the right and/or obligation to purchase the loan from the trust prior to its contractual maturity.

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

(In millions)	1Q 2018	1Q 2017
Beginning balance	$1,672,605	$1,602,162
Issuances:		
New issuances to third parties	37,316	71,002
Additional issuances of securities	40,200	30,804
Total issuances	77,516	101,806
Extinguishments:		
Purchases of debt securities from third parties	(8,828)	(12,515)
Debt securities received in settlement of advances to lenders	(4,725)	(8,231)
Repayments of debt securities	(56,600)	(65,061)
Total extinguishments	(70,153)	(85,807)
Ending balance	1,679,968	1,618,161
Unamortized premiums and discounts	47,001	45,650
Debt securities of consolidated trusts held by third parties	$1,726,969	$1,663,811

Capital

Our entry into conservatorship resulted in significant changes to the assessment of our capital adequacy and our management of capital. Under the Purchase Agreement, Treasury made a commitment to provide us with equity funding, under certain conditions, to eliminate deficits in our net worth. As of March 31, 2018, our net worth was $2.2 billion and the amount of available funding remaining under the Purchase Agreement was $140.2 billion. See Note 2 for details of the support we receive from Treasury.

The table below presents activity related to our net worth during 1Q 2018 and 1Q 2017.

(In millions)	1Q 2018	1Q 2017
Beginning balance	($312)	$5,075
Comprehensive income (loss)	2,150	2,234
Capital draw from Treasury	312	—
Senior preferred stock dividends declared	—	(4,475)
Total equity / net worth	$2,150	$2,834
Aggregate draws under Purchase Agreement	$71,648	$71,336
Aggregate cash dividends paid to Treasury	112,393	105,923

Cash Flows

We evaluate our cash flow performance by comparing the net cash flows from operating and investing activities to the net cash flows required to finance those activities. The following graphs present the results of these activities for 1Q 2017 and 1Q 2018.

Operating Cash Flows Investing Cash Flows Financing Cash Flow

Commentary

- Cash provided by operating activities increased $4.6 billion primarily due to:
  - An increase in net sales of held-for-sale loans, driven by an increase in the volume of our multifamily securitizations.
- Cash provided by investing activities increased $24.3 billion primarily due to:
  - An increase in net proceeds received from sale of investment securities, driven by the continued reduction in the balance of our mortgage-related investments portfolio as required by the Purchase Agreement and FHFA; and
  - A decrease in securities purchased under agreements to resell due to lower near term cash needs for fewer upcoming maturities and anticipated calls of other debt.

This increase was partially offset by:

- A decrease in net repayments of mortgage loans acquired as held-for-investment, driven by a decline in single-family loan liquidations.

- Cash used in financing activities increased $20.5 billion primarily due to:
  - An increase in net repayments of other debt as debt maturities were not replaced with new issuances of debt due to lower near term cash needs.

This increase was partially offset by:

- A decrease in net repayments and redemptions of debt securities of consolidated trusts held by third parties primarily due to lower prepayments driven by higher interest rates.

CONSERVATORSHIP AND RELATED MATTERS

Reducing Our Mortgage-Related Investments Portfolio Over Time

The table below presents the UPB of our mortgage-related investments portfolio for purposes of the limit imposed by the Purchase Agreement and FHFA regulation. The cap for this portfolio will decrease to $250 billion at December 31, 2018.

	March 31, 2018				December 31, 2017			
(Dollars in millions)	Liquid	Securitiz-ation Pipeline	Less Liquid	Total	Liquid	Securitiz-ation Pipeline	Less Liquid	Total
Capital Markets segment - Mortgage investments portfolio:								
Single-family unsecuritized loans								
Performing loans	$—	$11,392	$—	$11,392	$—	$9,999	$—	$9,999
Reperforming loans	—	—	45,832	45,832	—	—	46,666	46,666
Total single-family unsecuritized loans	—	11,392	45,832	57,224	—	9,999	46,666	56,665
Freddie Mac mortgage-related securities	120,092	—	3,639	123,731	123,905	—	3,817	127,722
Non-agency mortgage-related securities	734	—	3,349	4,083	749	—	5,152	5,901
Other Non-Freddie Mac agency mortgage-related securities	4,906	—	—	4,906	5,211	—	—	5,211
Total Capital Markets segment - Mortgage investments portfolio	125,732	11,392	52,820	189,944	129,865	9,999	55,635	195,499
Single-family Guarantee segment - Single-family unsecuritized seriously delinquent loans	—	—	10,993	10,993	—	—	12,267	12,267
Multifamily segment:								
Unsecuritized loans	—	14,768	17,828	32,596	—	19,653	18,585	38,238
Mortgage-related securities	6,326	—	1,123	7,449	6,181	—	1,270	7,451
Total Multifamily segment	6,326	14,768	18,951	40,045	6,181	19,653	19,855	45,689
Total mortgage-related investments portfolio	$132,058	$26,160	$82,764	$240,982	$136,046	$29,652	$87,757	$253,455

Percentage of total mortgage-related investments portfolio	55 %	11 %	34 %	100 %	54 %	12 %	34 %	100 %
Mortgage-related investments portfolio cap at December 31, 2018 and December 31, 2017				$250,000				$288,408
90% of mortgage-related investments portfolio cap at December 31, 2018 and December 31, 2017[1]				$225,000				$259,567

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

The decline in our mortgage-related investments portfolio during 1Q 2018 was primarily due to repayments and the active disposition of less liquid assets.

While we continued to purchase new single-family seriously delinquent loans and multifamily unsecuritized loans, which are classified as held-for-investment, our active disposition of less liquid assets included the following:

- Sales of \$3.5 billion of less liquid assets, including \$1.7 billion in UPB of non-agency mortgage-related securities and \$1.8 billion in UPB of single-family reperforming loans;
- Securitizations of \$0.2 billion in UPB of less liquid multifamily loans; and
- Transfers of \$0.3 billion in UPB of less liquid multifamily loans to the securitization pipeline.

REGULATION AND SUPERVISION

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

Affordable Housing Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points of each dollar of total new business purchases and pay this amount to certain housing funds. During 1Q 2018, we completed $79 billion of new business purchases subject to this requirement and accrued $33 million of related expense. We expect to pay this amount (and any additional amounts accrued based on our new business purchases during the remainder of 2018) in February 2019. We are prohibited from passing through these costs to the originators of the loans that we purchase.

Legislative and Regulatory Developments

Affordable Housing Goals

On February 6, 2018, FHFA published a final rule that establishes new annual single-family and multifamily housing goals for Freddie Mac and Fannie Mae for 2018 through 2020. The new goals set forth below replace the previous goals, which were in effect through 2017:

	2018 - 2020	
Single-family purchase money goals (Benchmark levels):		
Low-income	24	%
Very low-income	6	%
Low-income areas	TBD	
Low-income areas subgoal	14	%
Single-family refinance low-income goal (Benchmark level)	21	%
Multifamily low-income goal (In units)	315,000	
Multifamily very low-income subgoal (In units)	60,000	
Multifamily small property low-income subgoal (In units)	10,000	

In March 2018, we filed our Annual Housing Activities Report with FHFA. For 2017, we have determined that we achieved all three multifamily affordable housing goal benchmarks, as well as the single-family low-income areas purchase goal, low-income areas subgoal and low-income refinance goal benchmarks. We believe that we will also meet the single-family low-income and very low-income purchase goals based on meeting or exceeding the actual share of the market that meets the criteria for those goals once such market information is published in late 2018. FHFA will ultimately make the determination as to whether we achieved compliance with the housing goals for 2017.

Single (Common) Security Update

In March 2018, FHFA announced that on June 3, 2019, Freddie Mac and Fannie Mae will start issuing a new, common security, the Uniform Mortgage-Backed Security (UMBS), using the Common Securitization Platform created by their joint venture, CSS.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain off-balance sheet arrangements related to our securitization activities involving guaranteed loans and mortgage-related securities, though most of our securitization activities are on-balance sheet. For a description of our off-balance sheet arrangements, see MD&A - Off-Balance Sheet Arrangements in our 2017 Annual Report. See Note 3 and Note 5 for more information on our off-balance sheet securitization and guarantee activities.

Our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and guarantees is primarily represented by the UPB of the underlying loans and securities, which was $225.8 billion and $215.7 billion at March 31, 2018 and December 31, 2017, respectively.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain "forward-looking statements." Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily and Capital Markets segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, the costs and benefits of our credit risk transfer transactions and our results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. Forward-looking statements are often accompanied by, and identified with, terms such as "could," "may," "will," "believe," "expect," "anticipate," "forecast" and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the Risk Factors section of our 2017 Annual Report, and:

- The actions the U.S. government (including FHFA, Treasury and Congress) may take, or require us to take, including to support the housing markets or to implement FHFA's Conservatorship Scorecards and other objectives for us;
- The effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend requirement on the senior preferred stock;
- Changes in our Charter or in applicable legislative or regulatory requirements (including any legislation affecting the future status of our company);
- Changes in the fiscal and monetary policies of the Federal Reserve, including the balance sheet normalization program announced in October 2017 to reduce the Federal Reserve's holdings of mortgage-related securities;
- Changes in tax laws, including those made by the Tax Cuts and Jobs Act enacted in December 2017;
- Changes in accounting policies, practices or guidance (e.g., FASB's accounting standards update related to the measurement of credit losses of financial instruments);
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance vs. purchase and fixed-rate vs. ARM);
- The success of our efforts to mitigate our losses on our Legacy and relief refinance single-family loan portfolio;
- The success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS, K Certificate, SB Certificate and other credit risk transfer transactions;
- Our ability to maintain adequate liquidity to fund our operations;
- Our ability to maintain the security and resiliency of our operational systems and infrastructure (e.g.,

against cyberattacks);

- Our ability to effectively execute our business strategies, implement new initiatives and improve efficiency;
- The adequacy of our risk management framework;
- Our ability to manage mortgage credit risk, including the effect of changes in underwriting and servicing practices;
- Our ability to limit or manage our economic exposure and GAAP earnings exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;
- Our operational ability to issue new securities, make timely and correct payments on securities and provide initial and ongoing disclosures;
- Changes or errors in the methodologies, models, assumptions and estimates we use to prepare our financial statements, make business decisions and manage risks;
- Changes in investor demand for our debt or mortgage-related securities;
- Changes in the practices of loan originators, servicers, investors and other participants in the secondary mortgage market;
- The occurrence of a major natural or other disaster in areas in which our offices or significant portions of our total mortgage portfolio are located; and
- Other factors and assumptions described in this Form 10-Q and our 2017 Annual Report, including in the MD&A section.

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

Financial
Statements

Financial
Statements

Financial Statements Condensed Consolidated Statements of Comprehensive Income

FREDDIE MAC
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(In millions, except share-related amounts)	1Q 2018	1Q 2017
Interest income		
Mortgage loans	$15,951	$15,965
Investments in securities	810	914
Other	214	101
Total interest income	16,975	16,980
Interest expense	(13,957)	(13,185)
Net interest income	3,018	3,795
Benefit (provision) for credit losses	(63)	116
Net interest income after benefit (provision) for credit losses	2,955	3,911
Non-interest income (loss)		
Gains (losses) on extinguishment of debt	110	218
Derivative gains (losses)	1,830	(302)
Net impairment of available-for-sale securities recognized in earnings	—	(13)
Other gains (losses) on investment securities recognized in earnings	(232)	56
Other income (loss)	121	415
Non-interest income (loss)	1,829	374
Non-interest expense		
Salaries and employee benefits	(286)	(275)
Professional services	(102)	(112)
Other administrative expense	(132)	(124)
Total administrative expense	(520)	(511)
Real estate owned operations expense	(34)	(56)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(359)	(321)
Other expense	(197)	(76)
Non-interest expense	(1,110)	(964)
Income (loss) before income tax (expense) benefit	3,674	3,321
Income tax (expense) benefit	(748)	(1,110)
Net income (loss)	2,926	2,211
Other comprehensive income (loss), net of taxes and reclassification adjustments:		
Changes in unrealized gains (losses) related to available-for-sale securities	(800)	(2)
Changes in unrealized gains (losses) related to cash flow hedge relationships	30	28
Changes in defined benefit plans	(6)	(3)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(776)	23
Comprehensive income (loss)	$2,150	$2,234
Net income (loss)	$2,926	$2,211
Undistributed net worth sweep and senior preferred stock dividends	—	(2,234)
Net income (loss) attributable to common stockholders	$2,926	($23)
Net income (loss) per common share — basic and diluted	$0.90	($0.01)
Weighted average common shares outstanding (in millions) — basic and diluted	3,234	3,234

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

Financial Statements Condensed Consolidated Balance Sheets

FREDDIE MAC
Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share-related amounts)	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents (Notes 1, 3 and 14) (includes $3,398 and $2,963 of restricted cash and cash equivalents)	$8,617	$9,811
Securities purchased under agreements to resell (Notes 3, 10)	41,828	55,903
Investments in securities, at fair value (Note 7)	75,501	84,318
Mortgage loans held-for-sale (Notes 3, 4) (includes $15,832 and $20,054 at fair value)	27,615	34,763
Mortgage loans held-for-investment (Notes 3, 4) (net of allowance for loan losses of $8,848 and $8,966)	1,840,736	1,836,454
Accrued interest receivable (Note 3)	6,381	6,355
Derivative assets, net (Notes 9, 10)	454	375
Deferred tax assets, net (Note 12)	8,313	8,107
Other assets (Notes 3, 18) (includes $3,502 and $3,353 at fair value)	13,038	13,690
Total assets	$2,022,483	$2,049,776
Liabilities and equity		
Liabilities		
Accrued interest payable (Note 3)	$6,058	$6,221
Debt, net (Notes 3, 8) (includes $5,617 and $5,799 at fair value)	2,004,807	2,034,630
Derivative liabilities, net (Notes 9, 10)	345	269
Other liabilities (Notes 3, 18)	9,123	8,968
Total liabilities	2,020,333	2,050,088
Commitments and contingencies (Notes 5, 9 and 16)		
Equity (Note 11)		
Senior preferred stock (redemption value of $75,648 and $75,336)	72,648	72,336
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 650,054,986 shares and 650,054,731 shares outstanding	—	—
Additional paid-in capital	—	—
Retained earnings (accumulated deficit)	(80,424)	(83,261)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $363 and $593, related to net unrealized gains on securities for which other-than-temporary impairment has been recognized in earnings)	5	662
Cash flow hedge relationships	(399)	(356)
Defined benefit plans	96	83
Total AOCI, net of taxes	(298)	389
Treasury stock, at cost, 75,808,900 shares and 75,809,155 shares	(3,885)	(3,885)
Total equity (See Note 11 for information on our dividend requirement to Treasury)	2,150	(312)
Total liabilities and equity	$2,022,483	$2,049,776

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

(In millions)	March 31, 2018	December 31, 2017
Consolidated Balance Sheet Line Item		
Assets: (Note 3)		

Mortgage loans held-for-sale	$—	$—
Mortgage loans held-for-investment	1,778,010	1,774,286
All other assets	23,488	25,753
Total assets of consolidated VIEs	$1,801,498	$1,800,039
Liabilities: (Note 3)		
Debt, net	$1,726,969	$1,720,996
All other liabilities	5,045	5,030
Total liabilities of consolidated VIEs	$1,732,014	$1,726,026

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

FREDDIE MAC
Condensed Consolidated Statements of Cash Flows (Unaudited)

(In millions)	1Q 2018	1Q 2017
Net cash provided by (used in) operating activities	$4,643	($17)
Cash flows from investing activities		
Purchases of trading securities	(29,949)	(55,647)
Proceeds from sales of trading securities	32,487	44,936
Proceeds from maturities and repayments of trading securities	1,471	2,383
Purchases of available-for-sale securities	(4,266)	(2,610)
Proceeds from sales of available-for-sale securities	6,351	5,327
Proceeds from maturities and repayments of available-for-sale securities	1,541	3,796
Purchases of held-for-investment mortgage loans	(30,737)	(26,993)
Proceeds from sales of mortgage loans held-for-investment	2,282	96
Repayments of mortgage loans held-for-investment	60,542	64,253
Advances to lenders	(4,944)	(8,251)
Net proceeds from dispositions of real estate owned and other recoveries	352	473
Net (increase) decrease in securities purchased under agreements to resell	14,075	291
Derivative premiums and terminations, swap collateral, and exchange settlement payments, net	2,958	(240)
Changes in other assets	(143)	(77)
Net cash provided by investing activities	52,020	27,737
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	42,558	43,036
Repayments and redemptions of debt securities of consolidated trusts held by third parties	(65,614)	(77,193)
Proceeds from issuance of other debt	131,574	165,060
Repayments of other debt	(166,686)	(163,852)
Increase in liquidation preference of senior preferred stock	312	—
Payment of cash dividends on senior preferred stock	—	(4,475)
Changes in other liabilities	(1)	—
Net cash used in financing activities	(57,857)	(37,424)
Net (decrease) increase in cash and cash equivalents (includes restricted cash and cash equivalents)	(1,194)	(9,704)
Cash and cash equivalents (includes restricted cash and cash equivalents) at beginning of year	9,811	22,220
Cash and cash equivalents (includes restricted cash and cash equivalents) at end of period	$8,617	$12,516
Supplemental cash flow information		
Cash paid for:		
Debt interest	$16,306	$15,647
Income taxes	—	—
Non-cash investing and financing activities (Note 4 and 7)		

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

Notes to Condensed Consolidated Financial Statements
NOTE 1
Summary of Significant Accounting Policies
Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability and affordability to the U.S. housing market. We are regulated by FHFA, the SEC, HUD and Treasury, and are currently operating under the conservatorship of FHFA. For more information on the roles of FHFA and Treasury, see Note 2 in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2017, or 2017 Annual Report. Throughout our unaudited condensed consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the "Glossary" of our 2017 Annual Report. Throughout this Form 10-Q, we refer to the three months ended March 31, 2018, the three months ended December 31, 2017, the three months ended September 30, 2017, the three months ended June 30, 2017 and the three months ended March 31, 2017 as "1Q 2018," "4Q 2017," "3Q 2017," "2Q 2017" and "1Q 2017," respectively.
The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2017 Annual Report.
Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP and include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated.
We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and as authorized by FHFA through our Board of Directors and management. Certain amounts in prior periods' condensed consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, our unaudited condensed consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary for a fair statement of our results.
We evaluate the materiality of identified errors in the financial statements using both an income statement, or "rollover," and a balance sheet, or "iron curtain," approach, based on relevant quantitative and qualitative factors. Net income includes certain adjustments to correct immaterial errors related to previously reported periods.

Use of Estimates

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

Recently Issued Accounting Guidance

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Condensed Consolidated Financial Statements
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2015-14, Topic 606: Deferral of the Effective Date	The amendment requires entities to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14 defers the effective date of ASU 2014-09 for all entities by one year.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)	The amendment addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-08, Topic 606: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	The amendments in this Update do not change the core principle of the guidance in Topic 606. The amendments clarify the implementation guidance on principal versus agent considerations.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial

			statements or on our disclosures.
ASU 2016-10, Topic 606: Identifying Performance Obligations and Licensing	The amendments in this Update do not change the core principle of the guidance in Topic 606, but they clarify two issues: i) identifying performance obligations; and ii) licensing. These clarifications are intended to reduce diversity in practice and to reduce the cost and complexity of Topic 606 at transition and on an ongoing basis.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2016-12, Topic 606: Narrow-Scope Improvements and Practical Expedients	The amendments in this Update do not change the core principle of the guidance in Topic 606, but affect aspects of the guidance and technical corrections.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.

Recently Adopted Accounting Guidance

Standard	Description	Date of Adoption	Effect on Condensed Consolidated Financial Statements
ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)	The main objective of this Update is to address the diversity in practice that currently exists in regards to how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice.	January 1, 2018	Upon adoption, the portion of the cash payment attributable to the accreted interest related to zero-coupon debt is presented in the operating activities section, a classification change from the financing activities section where this item was previously presented. As a result, we reclassified approximately $71 million of cash payments from financing activities to operating activities on our condensed consolidated statements of cash flows for 1Q 2017 upon adoption.
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	The amendments in this Update address the diversity in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. Specifically, this amendment dictates that the statement of cash flows should explain the change in the period of the total of cash, cash equivalents and restricted cash balances.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements; however, we modified the presentation of restricted cash and cash equivalent balances on our condensed consolidated balance sheets. The presentation of our condensed consolidated statements of cash flows has also been revised to reflect the change of total cash and cash equivalents and restricted cash and cash equivalents balances.
ASU 2016-20, Technical Corrections and Improvements to Topic 606	The amendments in this Update are of a similar nature to the items typically addressed in the Technical Corrections and Improvements project. However, the Board decided to issue a separate Update for technical corrections and improvements to Topic 606 and other Topics amended by Update 2014-09 to increase stakeholders' awareness of the proposals and to expedite improvements to Update 2014-09.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.
ASU 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from	The amendments in this Update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from	January 1, 2018	Upon adoption, we reclassified approximately $89 million from accumulated other comprehensive income to retained earnings on our condensed consolidated financial

Accumulated Other Comprehensive Income	the Tax Cuts and Jobs Act.		statements.
ASU 2018-03, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities	The amendments clarify certain aspects of the guidance issued in Update 2016-01 and address six specific issues.	January 1, 2018	The adoption of the amendments did not have a material effect on our condensed consolidated financial statements or on our disclosures.

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

Standard	Description	Date of Planned Adoption	Effect on Consolidated Financial Statements
ASU 2016-02, Leases (Topic 842)	The amendment addresses the accounting for lease arrangements.	January 1, 2019	We do not expect that the adoption of this amendment will have a material effect on our consolidated financial statements.
ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.	January 1, 2020	While we are evaluating the effect that the adoption of this amendment will have on our consolidated financial statements, it will increase (perhaps substantially) our provision for credit losses in the period of adoption.

NOTE 2
Conservatorship and Related Matters
Business Objectives

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

We are also subject to certain constraints on our business activities under the Purchase Agreement. However, the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities, although the costs of our debt funding could vary. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent.

Impact of Conservatorship and Related Developments on the Mortgage-Related Investments Portfolio

For purposes of the limit imposed by the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio cannot exceed $250 billion at December 31, 2018 and was $241.0 billion at March 31, 2018. Our Retained Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the cap established by the Purchase Agreement (subject to certain exceptions). Our ability to acquire and sell mortgage assets is significantly constrained by limitations of the Purchase Agreement and those imposed by FHFA.

Government Support for Our Business

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

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

At December 31, 2017, our liabilities exceeded our assets under GAAP; therefore, FHFA, as Conservator, submitted a draw request, on our behalf, to Treasury under the Purchase Agreement to eliminate our net worth deficit. As a result, we received $312 million from Treasury under the Purchase Agreement during 1Q 2018. The amount of available funding remaining under the Purchase Agreement was reduced to $140.2 billion and will be reduced by any future draws.

See Note 8 and Note 11 for more information on the conservatorship and the Purchase Agreement.

Related Parties as a Result of Conservatorship

We are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. CSS was formed in 2013 as a limited liability company equally-owned by Freddie Mac and Fannie Mae. Therefore, CSS is also deemed a related party. During 1Q 2018, we contributed $41 million of capital to CSS, and we have contributed $370 million since the fourth quarter of 2014.

NOTE 3
Securitization Activities and Consolidation

Our primary business activities in our Single-family Guarantee and Multifamily segments involve the securitization of loans or other mortgage-related assets using trusts that are VIEs. These trusts issue beneficial interests in the loans or other mortgage-related assets that they own. We guarantee the principal and interest payments on some or all of the issued beneficial interests in substantially all of our securitization transactions. We consolidate VIEs when we have a controlling financial interest in the VIE and are therefore considered the primary beneficiary of the VIE. See Note 5 for additional information on our guarantee activities.

Consolidated VIEs

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

(In millions)	March 31, 2018	December 31, 2017
Consolidated Balance Sheet Line Item		
Assets:		
Restricted cash and cash equivalents	$1,165	$518
Securities purchased under agreements to resell	14,275	16,750
Mortgage loans held-for-investment	1,778,010	1,774,286
Accrued interest receivable	5,775	5,747
Other assets	2,273	2,738
Total assets of consolidated VIEs	$1,801,498	$1,800,039
Liabilities:		
Accrued interest payable	$5,045	$5,028
Debt, net	1,726,969	1,720,996
Other liabilities	—	2
Total liabilities of consolidated VIEs	$1,732,014	$1,726,026

Non-Consolidated VIEs

Our involvement with VIEs for which we are not the primary beneficiary takes one or both of two forms - purchasing an investment in these entities or providing a guarantee to these entities. The following table presents the carrying amounts and classification of the assets and liabilities recorded on our condensed consolidated balance sheets related to our variable interests in non-consolidated VIEs with which we were involved in the design and creation and have a significant continuing involvement, as well as our maximum exposure to loss. 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. See Note 6 for additional information on credit enhancement arrangements.

(In millions)	March 31, 2018	December 31, 2017
Assets and Liabilities Recorded on our Condensed Consolidated Balance Sheets(1)		
Assets:		
Investments in securities	$48,925	$51,494
Accrued interest receivable	235	233
Derivative assets, net	26	7
Other assets	2,706	2,591
Liabilities:		
Derivative liabilities, net	29	—
Other liabilities	2,581	2,489
Maximum Exposure to Loss(2)(3)	211,465	200,196
Total Assets of Non-Consolidated VIEs(3)	245,591	232,762

(1) Includes our variable interests in REMICs and Stripped Giant PCs, K Certificates, SB Certificates, senior subordinate securitization structures and other securitization products that we do not consolidate.

(2) Our maximum exposure to loss includes the guaranteed UPB of assets held by the non-consolidated VIEs, the UPB of unguaranteed securities that we acquired from these securitization transactions and the UPB of guarantor advances made to the holders of the guaranteed securities.

(3) Our maximum exposure to loss and total assets of non-consolidated VIEs exclude our investments in and obligations to REMICs and Stripped Giant PCs, because we already consolidate the underlying collateral of these trusts on our condensed consolidated balance sheets. In addition, our maximum exposure to loss excludes other guarantees measured at fair value related to certain of our REMICs where our exposure may be unlimited. We generally reduce our exposure to these guarantees with unlimited exposure through separate contracts with third parties.

We also obtain interests in various other VIEs created by third parties through the normal course of business. To the extent that we were not involved in the design and creation of these VIEs, they are excluded from the table above. Our interests in these VIEs are generally passive in nature and are not expected to result in us obtaining a controlling financial interest in these VIEs in the future.

NOTE 4
Mortgage Loans and Allowance for Credit Losses

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

	March 31, 2018			December 31, 2017		
(In millions)	Held by Freddie Mac	Held by Consolidated Trusts	Total	Held by Freddie Mac	Held by Consolidated Trusts	Total
Held-for-sale:						
Single-family	$13,756	$—	$13,756	$17,039	$—	$17,039
Multifamily	16,383	—	16,383	20,537	—	20,537
Total UPB	30,139	—	30,139	37,576	—	37,576
Cost basis and fair value adjustments, net	(2,524)	—	(2,524)	(2,813)	—	(2,813)
Total held-for-sale loans, net	27,615	—	27,615	34,763	—	34,763
Held-for-investment:						
Single-family	54,460	1,749,047	1,803,507	51,893	1,742,736	1,794,629
Multifamily	16,213	3,874	20,087	17,702	3,747	21,449
Total UPB	70,673	1,752,921	1,823,594	69,595	1,746,483	1,816,078
Cost basis adjustments	(2,625)	28,615	25,990	(2,148)	31,490	29,342
Allowance for loan losses	(5,322)	(3,526)	(8,848)	(5,279)	(3,687)	(8,966)
Total held-for-investment loans, net	62,726	1,778,010	1,840,736	62,168	1,774,286	1,836,454
Total loans, net	$90,341	$1,778,010	$1,868,351	$96,931	$1,774,286	$1,871,217

During 1Q 2018 and 1Q 2017, we purchased $65.5 billion and $85.6 billion, respectively, in UPB of single-family loans and $1.0 billion and $1.3 billion, respectively, in UPB of multifamily loans that were classified as held-for-investment. During 1Q 2018 and 1Q 2017, we purchased $11.8 billion and $11.2 billion, respectively, in UPB of multifamily loans that were initially classified as held-for-sale.

Our sales of multifamily loans occur primarily through the issuance of multifamily K Certificates and SB Certificates. During 1Q 2018 and 1Q 2017, we sold $16.2 billion and $9.9 billion, respectively, in UPB of held-for-sale multifamily loans. See Note 3 for more information on our K Certificates and SB Certificates.

As part of our strategy to mitigate losses and reduce our holdings of less liquid assets, we completed sales of $1.8 billion in UPB of seasoned single-family loans during 1Q 2018. We did not have sales of seasoned single-family loans in 1Q 2017. Seasoned single-family mortgage loans include seriously delinquent and reperforming loans.

We reclassified $1.7 billion in UPB of seasoned single-family loans from held-for-investment to held-for-sale during both 1Q 2018 and 1Q 2017. In addition, we reclassified $0.3 billion in UPB of multifamily mortgage loans from held-for-investment to held-for-sale during 1Q 2018. We did not reclassify any multifamily mortgage loans in 1Q 2017. For additional information regarding the fair value of our loans classified as held-for-sale, see Note 15.

Credit Quality

Single-Family

The current LTV ratio is one key factor we consider when estimating our allowance for credit losses for single-family loans. As current LTV ratios increase, the borrower's equity in the home decreases, which may negatively affect the borrower's ability to refinance or to sell the property for an amount at or above the balance of the outstanding loan. A second-lien loan also reduces the borrower's equity in the home and has a similar negative effect on the borrower's ability to refinance or sell the property for an amount at or above the combined balances of the first and second loans. As of both March 31, 2018 and December 31, 2017, based on data collected by us at loan delivery, approximately 9% of loans in our single-family credit guarantee portfolio had second-lien financing by third parties at origination of the first loan. However, borrowers are free to obtain second-lien financing after origination, and we are not entitled to receive notification when a borrower does so. For further information about concentrations of risk associated with our single-family and multifamily loans, see Note 14.

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

	March 31, 2018				December 31, 2017			
	Current LTV Ratio				Current LTV Ratio			
(In millions)	≤ 80	> 80 to 100	> 100(1)	Total	≤ 80	> 80 to 100	> 100(1)	Total
20 and 30-year or more, amortizing fixed-rate(2)	$1,270,145	$199,335	$11,097	$1,480,577	$1,240,224	$214,177	$13,303	$1,467,704
15-year amortizing fixed-rate(2)	267,453	6,105	296	273,854	270,266	7,351	381	277,998
Adjustable-rate	47,364	2,474	19	49,857	48,596	2,963	28	51,587
Alt-A, interest-only, and option ARM	20,489	3,576	1,162	25,227	21,013	4,256	1,429	26,698
Total single-family loans	$1,605,451	$211,490	$12,574	$1,829,515	$1,580,099	$228,747	$15,141	$1,823,987

(1) The serious delinquency rate for the total of single-family held-for-investment mortgage loans with current LTV ratios in excess of 100% was 8.50% and 8.43% as of March 31, 2018 and December 31, 2017, respectively.

(2) As of March 31, 2018 and December 31, 2017, $20.5 billion and $22.2 billion, respectively, in UPB of modified loans were categorized as fixed-rate loans (instead of as adjustable rate loans), even though the modified loans have rate adjustment provisions. In these cases, while the terms of the modified loans provide for the interest rate to adjust, such rates and the timing of the adjustment are determined at the time of modification rather than at a subsequent date.

For reporting purposes:

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

Multifamily

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

(In millions)	March 31, 2018	December 31, 2017
Credit risk profile by internally assigned grade:(1)		
Pass	$19,503	$20,963
Special mention	330	301
Substandard	234	169
Doubtful	2	—
Total	$20,069	$21,433

(1) A loan categorized as: "Pass" is current and adequately protected by the current financial strength and debt service capacity of the borrower; "Special mention" has administrative issues that may affect future repayment prospects but does not have current credit weaknesses; "Substandard" has a weakness that jeopardizes the timely full repayment; and "Doubtful" has a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions.

Mortgage Loan Performance

The tables below present the recorded investment of our single-family and multifamily loans, held-for-investment, by payment status.

	March 31, 2018					
(In millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure(1)	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,451,682	$13,478	$4,075	$11,342	$1,480,577	$11,337
15-year amortizing fixed-rate	272,305	855	187	507	273,854	507
Adjustable-rate	49,347	262	65	183	49,857	183
Alt-A, interest-only, and option ARM	22,224	1,046	436	1,521	25,227	1,520
Total single-family	1,795,558	15,641	4,763	13,553	1,829,515	13,547
Total multifamily	20,033	18	—	18	20,069	65
Total single-family and multifamily	$1,815,591	$15,659	$4,763	$13,571	$1,849,584	$13,612

	December 31, 2017					
(In millions)	Current	One Month Past Due	Two Months Past Due	Three Months or More Past Due, or in Foreclosure(1)	Total	Non-accrual
Single-family:						
20 and 30-year or more, amortizing fixed-rate	$1,431,342	$18,297	$5,660	$12,405	$1,467,704	$12,401
15-year amortizing fixed-rate	275,864	1,288	290	556	277,998	556
Adjustable-rate	50,915	383	84	205	51,587	205
Alt-A, interest-only, and option ARM	23,235	1,297	509	1,657	26,698	1,656
Total single-family	1,781,356	21,265	6,543	14,823	1,823,987	14,818
Total multifamily	21,414	—	—	19	21,433	64

Total single-family and multifamily	$1,802,770	$21,265	$6,543	$14,842	$1,845,420	$14,882

(1) Includes $4.2 billion and $4.1 billion of loans that were in the process of foreclosure as of March 31, 2018 and December 31, 2017, respectively.

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

(Dollars in millions)	March 31, 2018	December 31, 2017
Single-family:(1)		
Non-credit-enhanced portfolio		
Serious delinquency rate	1.07 %	1.16 %
Total number of seriously delinquent loans	73,914	81,668
Credit-enhanced portfolio:(2)		
Primary mortgage insurance:		
Serious delinquency rate	1.28 %	1.43 %
Total number of seriously delinquent loans	20,939	23,275
Other credit protection:(3)		
Serious delinquency rate	0.44 %	0.53 %
Total number of seriously delinquent loans	14,834	16,259
Total single-family:		
Serious delinquency rate	0.97 %	1.08 %
Total number of seriously delinquent loans	105,211	116,662
Multifamily:(4)		
Non-credit-enhanced portfolio:		
Delinquency rate	0.05 %	0.06 %
UPB of delinquent loans	$19	$24
Credit-enhanced portfolio:		
Delinquency rate	0.01 %	0.01 %
UPB of delinquent loans	$26	$16
Total multifamily:		
Delinquency rate	0.02 %	0.02 %
UPB of delinquent loans	$45	$40

(1) Serious delinquencies on single-family loans underlying certain REMICs, other securitization products and other mortgage-related guarantees may be reported on a different schedule due to variances in industry practice.

(2) The credit-enhanced categories are not mutually exclusive, as a single loan may be covered by both primary mortgage insurance and other credit protection.

(3) Consists of single-family loans covered by financial arrangements (other than primary mortgage insurance) that are designed to reduce our credit risk exposure. See Note 6 for additional information on our credit enhancements.

(4) Multifamily delinquency performance is based on UPB of loans that are two monthly payments or more past due or those in the process of foreclosure.

Allowance for Credit Losses

The allowance for credit losses represents estimates of probable incurred credit losses which we recognize by recording a charge to the provision for credit losses in our condensed consolidated statements of comprehensive income. The allowance for credit losses includes:

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

The table below summarizes changes in our allowance for credit losses.

(In millions)	1Q 2018 Allowance for Loan Losses Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Total	1Q 2017 Allowance for Loan Losses Held by Freddie Mac	Held By Consolidated Trusts	Reserve for Guarantee Losses	Total
Single-family:								
Beginning balance	$5,251	$3,680	$48	$8,979	$10,442	$2,969	$54	$13,465
Provision (benefit) for credit losses	98	(21)	2	79	(216)	106	—	(110)
Charge-offs	(355)	(15)	(2)	(372)	(697)	(43)	—	(740)
Recoveries	95	1	—	96	95	2	—	97
Transfers, net[1]	126	(126)	—	—	181	(181)	—	—
Other[2]	90	5	—	95	61	1	—	62
Single-family ending balance	5,305	3,524	48	8,877	9,866	2,854	54	12,774
Multifamily ending balance	17	2	7	26	18	1	10	29
Total ending balance	$5,322	$3,526	$55	$8,903	$9,884	$2,855	$64	$12,803

(1) Relates to removal of delinquent single-family loans from consolidated trusts and resecuritization after such removal.

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

A significant number of unsecuritized single-family loans on our condensed consolidated balance sheets are individually evaluated for impairment while substantially all single-family loans held by our consolidated trusts are collectively evaluated for impairment. The allowance for loan losses associated with our held-for-investment unsecuritized loans represented approximately 7.8% of the recorded investment in such loans at both March 31, 2018 and December 31, 2017, and a substantial portion of the allowance associated with these loans represented interest rate concessions provided to borrowers as part of loan modifications. The allowance for loan losses associated with loans held by our consolidated trusts represented approximately 0.2% of the recorded investment in such loans as of both March 31, 2018 and December 31, 2017.

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

(In millions)	March 31, 2018 Single-family	Multifamily	Total	December 31, 2017 Single-family	Multifamily	Total
Recorded investment:						
Collectively evaluated	$1,767,827	$19,948	$1,787,775	$1,764,750	$21,301	$1,786,051
Individually evaluated	61,688	121	61,809	59,237	132	59,369
Total recorded investment	1,829,515	20,069	1,849,584	1,823,987	21,433	1,845,420
Ending balance of the allowance for loan losses:						
Collectively evaluated	(1,861)	(11)	(1,872)	(2,301)	(28)	(2,329)
Individually evaluated	(6,968)	(8)	(6,976)	(6,630)	(7)	(6,637)
Total ending balance of the allowance	(8,829)	(19)	(8,848)	(8,931)	(35)	(8,966)
Net investment in loans	$1,820,686	$20,050	$1,840,736	$1,815,056	$21,398	$1,836,454

Allowance for Loan Losses Determined on an Individual Basis

Impaired Loans

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

	March 31, 2018			December 31, 2017		
(In millions)	UPB	Recorded Investment	Associated Allowance	UPB	Recorded Investment	Associated Allowance
Single-family:						
With no allowance recorded:[1]						
20 and 30-year or more, amortizing fixed-rate	$4,324	$3,354	N/A	$3,768	$2,908	N/A
15-year amortizing fixed-rate	24	20	N/A	24	21	N/A
Adjustable-rate	261	259	N/A	259	256	N/A
Alt-A, interest-only, and option ARM	1,636	1,354	N/A	1,558	1,297	N/A
Total with no allowance recorded	6,245	4,987	N/A	5,609	4,482	N/A
With an allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	49,940	48,721	($5,832)	47,897	46,783	($5,505)
15-year amortizing fixed-rate	944	955	(45)	752	757	(24)
Adjustable-rate	245	241	(14)	232	228	(14)
Alt-A, interest-only, and option ARM	7,255	6,784	(1,077)	7,407	6,987	(1,087)
Total with an allowance recorded	58,384	56,701	(6,968)	56,288	54,755	(6,630)
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	54,264	52,075	(5,832)	51,665	49,691	(5,505)
15-year amortizing fixed-rate	968	975	(45)	776	778	(24)
Adjustable-rate	506	500	(14)	491	484	(14)
Alt-A, interest-only, and option ARM	8,891	8,138	(1,077)	8,965	8,284	(1,087)
Total single-family	64,629	61,688	(6,968)	61,897	59,237	(6,630)
Multifamily:						
With no allowance recorded[1]	92	85	N/A	106	97	N/A
With an allowance recorded	36	36	(8)	35	35	(7)
Total multifamily	128	121	(8)	141	132	(7)
Total single-family and multifamily	$64,757	$61,809	($6,976)	$62,038	$59,369	($6,637)

Referenced footnotes are included after the next table.

(In millions)	1Q 2018 Average Recorded Investment	1Q 2018 Interest Income Recognized	1Q 2018 Interest Income Recognized On Cash Basis[3]	1Q 2017 Average Recorded Investment	1Q 2017 Interest Income Recognized	1Q 2017 Interest Income Recognized On Cash Basis[3]
Single-family:						
With no allowance recorded:[1]						
20 and 30-year or more, amortizing fixed-rate	$3,311	$94	$7	$4,031	$109	$4
15-year amortizing fixed-rate	20	1	—	26	1	—
Adjustable rate	263	3	—	311	3	—
Alt-A, interest-only, and option ARM	1,356	23	1	1,655	29	1
Total with no allowance recorded	4,950	121	8	6,023	142	5
With an allowance recorded:[2]						
20 and 30-year or more, amortizing fixed-rate	47,868	592	83	65,091	670	70
15-year amortizing fixed-rate	869	8	3	825	12	2
Adjustable rate	226	2	1	274	3	1
Alt-A, interest-only, and option ARM	6,834	80	9	11,416	107	11
Total with an allowance recorded	55,797	682	96	77,606	792	84
Combined single-family:						
20 and 30-year or more, amortizing fixed-rate	51,179	686	90	69,122	779	74
15-year amortizing fixed-rate	889	9	3	851	13	2
Adjustable rate	489	5	1	585	6	1
Alt-A, interest-only, and option ARM	8,190	103	10	13,071	136	12
Total single-family	60,747	803	104	83,629	934	89
Multifamily:						
With no allowance recorded[1]	84	2	1	271	3	1
With an allowance recorded	36	—	—	41	1	—
Total multifamily	120	2	1	312	4	1
Total single-family and multifamily	$60,867	$805	$105	$83,941	$938	$90

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

Troubled Debt Restructurings

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

	1Q 2018		1Q 2017	
(Dollars in millions)	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
Single-family:[1]				
20 and 30-year or more, amortizing fixed-rate	19,699	$3,305	8,964	$1,283
15-year amortizing fixed-rate	2,816	292	1,192	88
Adjustable-rate	319	57	250	35
Alt-A, interest-only, and option ARM	1,239	203	680	114
Total single-family	24,073	3,857	11,086	1,520
Multifamily[2]	—	$—	—	$—

(1) The pre-TDR recorded investment for single-family loans initially classified as TDR during 1Q 2018 and 1Q 2017 was $3.9 billion and $1.5 billion, respectively.

(2) The post-TDR recorded investment is not meaningful.

Of the single-family loans that were newly classified as TDRs during 1Q 2018 and 1Q 2017, respectively:

n 19% and 43% involved interest rate reductions and, in certain cases, term extensions;

n 29% and 14% involved principal forbearance in addition to interest rate reductions and, in certain cases, term extensions;

n The average term extension was 166 months and 172 months; and

n The average interest rate reduction was 0.4% and 0.9%.

The table below presents the volume of our TDR modifications that experienced payment defaults (i.e., loans that became two months delinquent or completed a loss event) during the applicable periods and had completed a modification during the year preceding the payment default. The table presents loans based on their original product category before modification.

	1Q 2018		1Q 2017	
(Dollars in millions)	Number of Loans	Post-TDR Recorded Investment	Number of Loans	Post-TDR Recorded Investment
Single-family:				
20 and 30-year or more, amortizing fixed-rate	2,956	$443	3,356	$553
15-year amortizing fixed-rate	170	15	168	13
Adjustable-rate	44	7	56	8
Alt-A, interest-only, and option ARM	275	54	305	64
Total single-family	3,445	519	3,885	638
Multifamily	—	$—	—	$—

In addition, loans may be initially classified as TDRs as a result of other loss mitigation activities (i.e., repayment plans, forbearance agreements, or loans in modification trial periods). During 1Q 2018 and 1Q 2017, 1,710 and 1,590, respectively, of such loans (with a post-TDR recorded investment of $0.2 billion for both periods) experienced a payment default within a year after the loss mitigation activity occurred.

Loans may also be initially classified as TDRs because the borrowers’ debts were discharged in Chapter 7 bankruptcy (and the loan was not already classified as a TDR for other reasons). During 1Q 2018 and 1Q 2017, 159 and 258, respectively, of such loans (with a post-TDR recorded investment of $18 million and $30 million, respectively) experienced a payment default within a year after the borrowers' Chapter 7 bankruptcy.

Non-Cash Investing and Financing Activities

During 1Q 2018 and 1Q 2017, we acquired $36.1 billion and $60.6 billion, respectively, of loans held-for-investment in exchange for the issuance of debt securities of consolidated trusts in guarantor swap transactions. We received approximately $4.8 billion and $8.4 billion of loans from sellers during 1Q 2018 and 1Q 2017, respectively, to satisfy advances to lenders that were recorded in other assets on our condensed consolidated balance sheets. These loans were primarily included in the guarantor swap transactions.

In addition, we acquire REO properties through foreclosure sales or by deed in lieu of foreclosure. These acquisitions represent non-cash transfers. During 1Q 2018 and 1Q 2017, we had transfers of $0.2 billion and $0.3 billion, respectively, from loans to REO.

NOTE 5
Guarantee Activities

We generate revenue through our guarantee activities by agreeing to absorb the credit risk associated with certain financial instruments that are owned or held by third parties. In exchange for providing this guarantee, we receive an ongoing guarantee fee that is commensurate with the risks assumed and that will, over the long-term, provide us with cash flows that are expected to exceed the credit-related and administrative expenses of the underlying financial instruments. The profitability of our guarantee activities may vary and will be dependent on our guarantee fee and the actual credit performance of the underlying financial instruments that we have guaranteed.

The table below shows our maximum exposure, recognized liability and maximum remaining term of our recognized guarantees to non-consolidated VIEs and other third parties. This table does not include our unrecognized guarantees, such as guarantees to consolidated VIEs or to resecuritization trusts that do not expose us to incremental credit risk. The maximum exposure disclosed in the table is not representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancement arrangements. See Note 6 for additional information on our credit enhancement arrangements.

	March 31, 2018			December 31, 2017		
(Dollars in millions, terms in years)	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term	Maximum Exposure(1)	Recognized Liability(2)	Maximum Remaining Term
Single-family:						
Securitization activity guarantees	$12,208	$139	40	$10,817	$120	40
Other mortgage-related guarantees	6,125	180	30	6,264	190	31
Total single-family	$18,333	$319		$17,081	$310	
Multifamily:						
Securitization activity guarantees	$197,404	$2,375	40	$188,768	$2,305	40
Other mortgage-related guarantees	10,018	463	36	9,888	466	36
Total multifamily	$207,422	$2,838		$198,656	$2,771	
Other guarantees measured at fair value	$12,837	$150	30	$9,661	$141	28

(1) The maximum exposure represents the contractual amounts that could be lost 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. For other guarantees measured at fair value, this amount represents the notional value if it relates to our market value guarantees or guarantees of third party derivative instruments; or the UPB if it relates to a guarantee of a mortgage-related asset. For certain of our other guarantees measured at fair value, our exposure may be unlimited. We generally reduce our exposure to these guarantees with unlimited exposure through separate contracts with third parties.

(2) For securitization activity guarantees and other mortgage-related guarantees, this amount represents the guarantee obligation on our condensed consolidated balance sheets. This amount excludes our reserve for guarantee losses, which totaled $55 million and $57 million as of March 31, 2018 and December 31, 2017, respectively, and is included within other liabilities on our condensed consolidated balance sheets. For other guarantees measured at fair value, this amount represents the fair value of the contract.

NOTE 6
Credit Enhancements

In connection with many of our mortgage loans, securitization activity guarantees, other mortgage-related guarantees and other credit risk transfer transactions, we obtain various forms of credit enhancements that reduce our exposure to credit losses. These credit enhancements may be attached to the underlying mortgage loans, freestanding or embedded in debt instruments.

Attached Credit Enhancements

The table below presents the total current and protected UPB and maximum coverage provided by our attached credit enhancements. For information about counterparty credit risk associated with mortgage insurers, see Note 14.

(In millions)	March 31, 2018 Total Current and Protected UPB(1)	March 31, 2018 Maximum Coverage(2)	December 31, 2017 Total Current and Protected UPB(1)	December 31, 2017 Maximum Coverage(2)
Single-family:				
Primary mortgage insurance	$338,457	$86,622	$334,189	$85,429

(1) Underlying loans may be covered by more than one form of credit enhancement, including freestanding credit enhancements and debt with embedded credit enhancements.

(2) Represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements.

Freestanding Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to our single-family and multifamily freestanding credit enhancements.

(In millions)	March 31, 2018 Total Current and Protected UPB(1)	March 31, 2018 Maximum Coverage(2)	December 31, 2017 Total Current and Protected UPB(1)	December 31, 2017 Maximum Coverage(2)
Single-family:				
Subordination (non-consolidated VIEs)	$10,404	$1,904	$8,953	$1,734
ACIS(3)	650,420	7,148	617,736	6,736
Other(4)	15,641	6,362	15,975	6,479
Total single-family		15,414		14,949
Multifamily:				
Subordination (non-consolidated VIEs)	197,268	32,039	187,299	30,689
Other(5)	1,756	724	1,833	726
Total multifamily		32,763		31,415
Total single-family and multifamily freestanding credit enhancements		$48,177		$46,364

(1) Underlying loans may be covered by more than one form of credit enhancement, including attached credit enhancements and debt with embedded credit enhancements. For subordination, total current and protected UPB includes the UPB of the guaranteed securities and the UPB of guarantor advances made to the holders of the guaranteed securities.

(2) For subordination, maximum coverage represents the UPB of the securities that are subordinate to our guarantee and held by third parties. For all other freestanding credit enhancements, maximum coverage represents the remaining amount of loss recovery that is available subject to the terms of counterparty agreements.

(3) As of March 31, 2018 and December 31, 2017, our counterparties posted collateral on our ACIS transactions of $1.2 billion and $1.1 billion, respectively.

(4) Includes seller indemnification, Deep MI CRT, lender recourse and indemnification agreements, pool insurance, HFA indemnification and other credit enhancements.

(5) Consists of multifamily HFA indemnification and loss reimbursement agreements with third parties obtained in certain of our Q Certificate transactions.

In addition to the credit enhancements disclosed above, the Multifamily segment has other credit enhancements. Recoveries from these other credit enhancements have been minimal as the historical losses on our mortgage loans and amounts paid under our guarantee contracts have not been significant. Therefore, these other credit enhancements have been excluded from the table.

Debt with Embedded Credit Enhancements

The table below presents the total current and protected UPB and maximum amounts of potential loss recovery related to debt with embedded credit enhancements.

(In millions)	March 31, 2018		December 31, 2017	
	Total Current and Protected UPB[1]	Maximum Coverage[2]	Total Current and Protected UPB[1]	Maximum Coverage[2]
Single-family:				
STACR debt notes	$661,399	$19,183	$604,356	$17,788
Subordination (consolidated VIEs)	6,582	307	3,330	179
Total single-family		19,490		17,967
Multifamily:				
SCR debt notes	2,704	135		