FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
May 05, 2015
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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, 2015
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission File Number: 001-34139

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of April 21, 2015, there were 650,044,758 shares of the registrant's common stock outstanding.

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PART I — FINANCIAL INFORMATION

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: (a) the "FORWARD-LOOKING STATEMENTS" sections of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2014, or 2014 Annual Report; and (b) the "RISK FACTORS" and "BUSINESS" sections of our 2014 Annual Report. Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the "GLOSSARY."

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this MD&A in conjunction with our 2014 Annual Report and our consolidated financial statements and related notes for the three months ended March 31, 2015 included in "FINANCIAL STATEMENTS."

EXECUTIVE SUMMARY

Overview

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 mortgages originated by mortgage lenders. In most instances, we package these mortgage 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 mortgage loans or lend money directly to consumers.

We support the U.S. housing market and the overall economy by: (a) providing America's families with access to mortgage funding at lower rates; (b) helping distressed borrowers keep their homes and avoid foreclosure; and (c) providing consistent liquidity to the multifamily mortgage market, which includes providing financing for affordable rental housing. We are also working with FHFA, our customers and the industry to build a stronger housing finance system for the nation.

Conservatorship and Government Support for Our Business

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

Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury constrain our business activities. We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. We cannot retain capital from the earnings generated by our business operations or return capital to stockholders other than Treasury.

Consolidated Financial Results

Comprehensive income was $0.7 billion for the first quarter of 2015, compared to $4.5 billion for the first quarter of 2014. Comprehensive income for the first quarter of 2015 consisted of $0.5 billion of net income and $0.2 billion of other comprehensive income. The main drivers of our results for the first quarter of 2015 include: (a) net interest income; (b) declines in the fair value of our derivatives; and (c) a benefit for credit losses.

Our total equity was $2.5 billion at March 31, 2015. Because our net worth was positive at March 31, 2015, we are not requesting a draw from Treasury under the Purchase Agreement for the first quarter of 2015. Through March 31, 2015, we have received aggregate funding of $71.3 billion from Treasury under the Purchase Agreement, and have paid $91.8 billion in aggregate cash dividends to Treasury.

Variability of Earnings

Our financial results are subject to significant earnings and net worth variability from period to period. This variability can be driven by changes in interest rates, the yield curve, implied volatility, home prices, and mortgage spreads, as well as other factors. For example, while derivatives are an important aspect of our strategy to manage interest-rate risk, they increase the volatility of reported comprehensive income because fair value changes on derivatives are

included in comprehensive income, while fair value changes associated with several of the types of assets and liabilities being economically hedged are not. As a result, there can be timing mismatches affecting current period earnings, which may not be reflective of the underlying economics of our business. While our sensitivity to interest rates on an economic basis remains low, our exposure to earnings volatility resulting from our use of derivatives has increased in recent periods as we have changed the mix of our derivatives to align with the changing duration of our hedged assets and liabilities.

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Our Primary Business Objectives

Our primary business objectives are:

- to support U.S. homeowners and renters by: (a) maintaining mortgage availability even when other sources of financing are scarce; and (b) providing struggling homeowners with alternatives that allow them to stay in their homes or to avoid foreclosure;
- to reduce taxpayer exposure to losses by increasing the role of private capital in the mortgage market and reducing our overall risk profile;
- to build a commercially strong and efficient business enterprise to succeed in a to-be-determined "future state;" and
- to support and improve the secondary mortgage market.

Our business objectives reflect direction that we have received from the Conservator, including the 2015 Conservatorship Scorecard. For information on the Scorecard and the related 2014 Strategic Plan, see "BUSINESS — Regulation and Supervision — Legislative and Regulatory Developments — FHFA's Strategic Plan for Freddie Mac and Fannie Mae Conservatorships" in our 2014 Annual Report.

Supporting U.S. Homeowners and Renters

Maintaining Mortgage Availability

We maintain a consistent presence in the secondary mortgage market, and we are available to purchase mortgages even when other sources of financing are scarce. By providing this consistent source of liquidity for mortgages, we help provide our customers with confidence to continue lending even in difficult environments. In the first quarter of 2015, we purchased, or issued other guarantee commitments for, $80.2 billion in UPB of single-family conforming mortgage loans (representing approximately 354,000 homes), compared to $49.2 billion in the first quarter of 2014 (representing approximately 244,000 homes). Origination volumes in the U.S. residential mortgage market increased in the first quarter of 2015, as compared to the first quarter of 2014, due to a significant increase in the volume of refinance mortgages driven by lower long-term interest rates. We estimate that we, Fannie Mae, and Ginnie Mae collectively guaranteed approximately 90% of the single-family conforming mortgages originated in the U.S. in the first quarter of 2015.

During the first quarter of 2015, our total multifamily new business activity was $10.0 billion in UPB, which provided financing for approximately 500 multifamily properties (representing nearly 140,000 apartment units). Approximately 90% of the units were affordable to families earning at or below the median income in their area. In the first quarter of 2014, our total multifamily new business activity was $3.0 billion in UPB, which provided financing for nearly 240 multifamily properties (representing approximately 51,000 apartment units).

Providing Struggling Homeowners with Alternatives that Allow Them to Stay in Their Homes or to Avoid Foreclosure

We use a variety of borrower-assistance programs (such as HARP and HAMP) designed to provide struggling borrowers with alternatives to help them stay in their homes. We establish guidelines for our servicers to follow and provide them with default management programs to use in determining which type of borrower-assistance program (i.e., one of our loan workout activities or our relief refinance initiative) would be expected to enable us to manage our exposure to credit losses.

Our relief refinance initiative, which has been previously extended and is currently scheduled to end in December 2015, is a key program used to keep families in their homes. Our relief refinance initiative includes HARP, which is the portion of the initiative for loans with LTV ratios above 80%. In the first quarter of 2015, we purchased or guaranteed $5.4 billion in UPB of relief refinance loans, including $2.2 billion of HARP loans. In the first quarter of 2014, we purchased or guaranteed $9.1 billion in UPB of relief refinance loans, including $5.2 billion of HARP loans. We have purchased HARP loans that were provided to nearly 1.4 million borrowers since the initiative began in 2009, including approximately 13,000 borrowers during the first quarter of 2015.

When a refinancing of a loan is not practicable, we require our servicer to evaluate the loan for a repayment plan, forbearance agreement, or loan modification before pursuing a foreclosure or foreclosure alternative, because the level of recovery on a loan that reperforms is often much higher than for a loan that proceeds to a foreclosure or foreclosure alternative. Our servicers contact borrowers experiencing hardship with a goal of helping them to stay in their homes or otherwise to avoid foreclosure. Across all our modification programs, we modified $2.6 billion in UPB of loans

during the first quarter of 2015, compared to $3.8 billion in UPB in the first quarter of 2014. When a home retention solution is not practicable, we require our servicers to pursue foreclosure alternatives, such as short sales, before initiating foreclosure. Since 2009, we have helped nearly 1,100,000 borrowers experiencing hardship to complete a loan workout under these programs.

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The table below presents our completed workout activities for loans within our single-family credit guarantee portfolio for the last five quarters.

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

Number of loans (000)

(1) Excludes modification, repayment, and forbearance activities that have not been made effective, such as loans in modification trial periods. As of March 31, 2015, approximately 26,000 borrowers were in modification trial periods. These categories are not mutually exclusive and a loan in one category may also be included in another category in the same period.

As shown in the table above, the volume of completed loan workouts has generally declined over the past year. We attribute this decline to overall improvements in the economy and mortgage market, including rising home prices, declining unemployment rates, and declining serious delinquency rates. While we believe our borrower-assistance programs have been largely successful, many borrowers still need assistance. We will continue our efforts to: (a) encourage eligible borrowers to refinance their mortgages under HARP; (b) develop additional loss mitigation strategies and modify existing programs, as needed; and (c) execute certain neighborhood stabilization activities. In the first quarter of 2015:

- We continued our efforts related to encouraging eligible borrowers to refinance their mortgages under HARP. For example, in March 2015 we participated with FHFA and Fannie Mae in an open forum meeting in Newark, New Jersey to inform community leaders about HARP eligibility criteria and benefits.
- We also continued to assess and develop additional plans for loss mitigation strategies. In January 2015, we implemented an additional incentive program for borrowers who continue to perform on HAMP loans that is applied toward reducing their outstanding principal balance. In March 2015, we announced a new modification initiative to help reduce the risk of default on step-rate modified loans under HAMP. For more information on the additional borrower incentive program for HAMP loans, see "BUSINESS — Our Business — Our Business Segments — Single-Family Guarantee Segment — Single-Family Loan Workouts and the MHA Program — HAMP and Non-HAMP Modifications" in our 2014 Annual Report.
- We continued to work with FHFA and Fannie Mae to develop and execute neighborhood stabilization plans in certain cities. These plans involve short sales and REO sales, including expanded auctions of properties. In these areas we also continued: (a) our efforts with locally-based private entities to facilitate REO dispositions; and (b) our first look opportunities, which provide an initial period for REO properties to be purchased by owner occupants and others before we consider offers from investors.

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Reducing Taxpayer Exposure to Losses and Reducing our Risk Profile

We are working diligently with FHFA to reduce the taxpayers' exposure to losses and reduce our risk profile by:

- managing the performance of our servicers through our contracts with them;
- transferring to private investors part of the credit risk of our New single-family book and our total multifamily portfolio;
- improving our returns on property dispositions;
- protecting our contractual rights with sellers;
- pursuing our rights against mortgage insurers;
- recovering losses on non-agency mortgage-related securities; and
- reducing our mortgage-related investments portfolio over time.

As discussed above, many of our borrower-assistance programs, such as loan modifications, also help reduce our risk of credit losses.

Managing the Performance of Our Servicers

The financial institutions that service our single-family loans (which we refer to as "servicers") are required to service loans on our behalf in accordance with our standards. If a servicer fails to do so, we have certain contractual remedies, including the ability to require the servicer to pay us compensatory or other fees. We continue to review and monitor the performance of our servicers and to seek improvements for the servicing of non-performing loans in our portfolio. We periodically facilitate the transfer of servicing for certain groups of loans that are delinquent or are deemed at risk of default to servicers that we believe have the capabilities and resources necessary to improve the loss mitigation associated with the loans.

In the first quarter of 2015, the serious delinquency rate of our single-family credit guarantee portfolio continued a decline that began in 2010, declining to 1.73% as of March 31, 2015 (which is the lowest level since January 2009) from 1.88% as of December 31, 2014. Also, as a result of our loss mitigation activities and foreclosures, the total number of our loans delinquent for more than one year declined approximately 8% in the first quarter of 2015. Despite these improvements, we continue to have a large number of seriously delinquent loans. We face challenges in resolving these loans, including general constraints on servicer capacity and court backlogs in states that require a judicial foreclosure process, particularly in New York and New Jersey. These situations generally extend the time it takes for seriously delinquent loans to be modified, foreclosed upon, or otherwise resolved. The longer a loan remains delinquent, the more costs we incur. As of March 31, 2015, approximately half of our seriously delinquent single-family loans had been delinquent for more than one year.

Transferring Credit Risk

We believe that using credit risk transfer transactions is a prudent way for us to manage credit risk. We continue to reduce our exposure to credit risk in our New single-family book through the use of STACR debt note and ACIS (re)insurance transactions. In the first quarter of 2015, we completed two STACR debt note transactions and three ACIS (re)insurance transactions. These transactions transferred a portion of credit losses that could occur under adverse home price scenarios (through both first loss and/or mezzanine credit loss positions) on certain groups of loans in the New single-family book to third-party investors. We have a goal to complete credit risk transfer transactions for at least $120 billion in UPB using at least two transaction types in 2015.

In the first quarter of 2015, we also completed five K Certificate transactions in which we transferred the first loss position associated with the underlying multifamily loans to third-party investors. We continue to develop other strategies intended to reduce our exposure to multifamily mortgage loans and securities by transferring credit risk to third parties.

Improving Our Returns on Property Dispositions

We use several strategies to mitigate our credit losses and improve our returns on property dispositions. When a seriously delinquent single-family loan cannot be resolved through a home retention solution (e.g., a loan modification), we typically seek to pursue a short sale transaction. However, some of our seriously delinquent loans ultimately proceed to foreclosure. In a foreclosure, we typically acquire the underlying property (which we refer to as real estate owned, or REO), and later sell it, using the proceeds of the sale to reduce our losses.

Protecting Our Contractual Rights with Sellers

We purchase mortgage loans from financial institutions that originate the loans (which we refer to as "sellers"). When we purchase loans, the sellers represent and warrant that the loans have been originated in accordance with our underwriting standards. If we subsequently discover that these standards were not followed, we can exercise certain contractual remedies to mitigate our actual or potential credit losses.

Pursuing Our Rights Against Mortgage Insurers

We pursue claims for coverage under mortgage insurance policies, a form of credit enhancement we use to mitigate our credit loss exposure. Primary mortgage insurance is generally required for mortgages with LTV ratios greater than 80%.

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We received payments under primary and other mortgage insurance policies of $0.2 billion and $0.4 billion during the first quarter of 2015 and the first quarter of 2014, respectively. Although the financial condition of certain of our mortgage insurers has improved in recent years, some have failed to fully meet their obligations and there remains a significant risk that others may fail to do so. We expect to receive substantially less than full payment of our claims from two of our mortgage insurance counterparties, as they are only permitted to make partial payments under orders from their respective regulators.

Our ability to manage our exposure to mortgage insurers is limited. While our mortgage insurers are operating below our eligibility thresholds, we generally cannot revoke a mortgage insurer's status as an eligible insurer without FHFA approval. In addition, we do not select the insurer that will provide the insurance on a specific loan. Instead, the selection is made by the lender at the time the loan is originated.

Recovering Losses on Non-Agency Mortgage-Related Securities

We incurred substantial losses on our investments in non-agency mortgage-related securities in prior years. We are working, in some cases in conjunction with other investors, to mitigate or recover our losses. In recent years, we and FHFA reached settlements with a number of institutions. Lawsuits against other institutions are currently pending.

Reducing Our Mortgage-Related Investments Portfolio Over Time

We are required to reduce the size of our mortgage-related investments portfolio over time pursuant to the Purchase Agreement and by FHFA. We are particularly focused on reducing the balance of less liquid assets in this portfolio. In the first quarter of 2015, the size of our mortgage-related investments portfolio declined by 1% or $2.8 billion, to $405.6 billion. Reductions in our less liquid assets accounted for this decline. Our less liquid assets are reduced through: (a) liquidations (including scheduled repayments along with prepayments); (b) sales (including sales related to settlements of non-agency mortgage-related securities litigation); and (c) securitizations.

Building a Commercially Strong and Efficient Business Enterprise to Succeed in a To-Be-Determined “Future State”

We continue to take steps to build a stronger, profitable business model. Our goal is to strengthen the business model so we can run our business efficiently and effectively in support of homeowners and taxpayers and, if required as part of a future state for the enterprise, be ready to return to private sector ownership.

Our Single-family Guarantee segment is focused on strengthening our business model by:

- Better serving our customers: Our customers are our sellers, servicers, and investors/dealers. Based on feedback from our customers, we continue to enhance our processes and programs to improve their experience when doing business with us. This includes providing seller/servicers with greater certainty that the loans they sell to us or service for us meet our requirements, thereby reducing the number of repurchase requests we make to them and the amount of compensatory fees they pay to us. We are providing greater certainty by enhancing the tools we make available to our customers, and expanding and leveraging the data standards of the Uniform Mortgage Data Program. In January 2015, we launched Loan Coverage Advisor, a new tool that allows our sellers to track significant events for the loans they sell us, including the dates when the seller obtains relief from certain representations and warranties.
- Providing market leadership and innovation: We continue to develop innovative programs and services that benefit our customers and leverage our existing capabilities and product offerings to better meet the needs of an evolving mortgage market. We are doing this primarily by: (a) expanding access to credit for credit-worthy borrowers, such as our initiative for loans with LTV ratios up to 97%; (b) continuing to execute our credit risk transfer transactions and seeking to expand and refine our offerings of these transactions; and (c) continuing to work with FHFA and Fannie Mae on enhancing the secondary mortgage market, including the development of a new common securitization platform and a single (common) security. In February 2015, we completed our first STACR debt note transaction that transfers a portion of the first loss position in addition to a mezzanine loss position associated with the related reference pool. In March 2015, we and one of our ACIS counterparties revised a number of our existing ACIS policies and changed the coverage from a fixed severity schedule to coverage based on actual losses. We believe that executing future ACIS transactions that provide coverage based on actual losses will lead to broader market adoption and increase interest in this type of transaction, and thus expand the number of counterparties in this market. In April 2015, we completed a STACR debt note transaction for which allocation of credit losses to the debt notes will be based on actual losses rather than a fixed severity approach.
-

- Managing the credit risk of the single-family credit guarantee portfolio: We are managing our credit risk by setting our underwriting standards at a level commensurate with the long-term credit risk appetite of the company. We made various changes to our credit policies in the last several years. The credit quality of the New single-family book reflects the impact of these changes, as measured by original LTV ratios, credit scores, delinquency rates, credit losses, and the proportion of loans underwritten with full documentation.
- Reducing our credit losses: We continue to develop and implement plans intended to reduce our credit losses and identify and address emerging mortgage credit risks. As part of our loss mitigation strategy, we sold certain seriously delinquent loans during the first quarter of 2015. Our mortgage portfolio includes several loan products with terms that may result in scheduled increases in monthly payments after specified initial periods (e.g., HAMP loans). A significant

number of these loans will experience payment changes beginning in 2015, which could increase the risk that the borrowers will default. To help address this risk, we announced two new initiatives for these types of loans, as discussed above in "Providing Struggling Homeowners with Alternatives that Allow Them to Stay in Their Homes or to Avoid Foreclosure."

- Optimizing the economics of our single-family business: We seek to achieve strong economic returns on our single-family credit guarantee portfolio while considering and balancing our: (a) housing mission and goals; (b) seller diversification; and (c) security price performance (i.e., the disparities in the trading value of our PCs relative to comparable Fannie Mae securities in the market). However, economic returns on our guarantee activities are limited by, and subject to FHFA's oversight.

Our Investments segment is focused on strengthening our business model by:

- Reducing the balance of less liquid mortgage assets, specifically non-agency mortgage related securities, and single-family reperforming, performing modified and delinquent loans;
- Managing the corporate treasury function, including managing funding, interest-rate and liquidity risks, through the use of derivatives, liquidity and contingency operating portfolio and unsecured debt; and
- Continuing to provide secondary liquidity for our agency mortgage-related securities.

Our Multifamily segment is focused on strengthening our business model by:

- Continuing to provide financing for the multifamily market and expanding our market presence in the affordable and workforce housing market with a focus on smaller balance loans and manufactured housing; and
- Identifying new opportunities beyond our existing K Certificate transactions to transfer credit risk associated with our portfolio to reduce exposure for the company (and U.S. taxpayers).

We are investing in the company, in particular our infrastructure and operations, by:

- Improving our infrastructure: We continue to make strategic investments to maintain and improve our ability to operate the company for the foreseeable future in conservatorship, and potentially afterwards. We are improving our information technology to provide the necessary capabilities to meet our needs, the needs of the Conservator, and the mortgage industry. We are continuously investing to address risk, especially in the information security area and our out-of-region disaster recovery capability. We are striving to operate our information technology at world class levels by investing in capabilities that will support the future mortgage market while also seeking to act as good stewards of our technology assets by maintaining, standardizing and simplifying our existing technology portfolio.
- Strengthening our operations: We continue to strengthen and streamline our operations. We are conducting a multi-year project focused on eliminating redundant control activities. We are also conducting detailed operational control design reviews to identify ways to simplify our controls structure. We are improving our risk management capabilities by further enhancing our three-lines-of-defense risk management framework. As part of this effort, in 2015 we have moved, or are moving, several key functions within the organization. We believe these enhancements will improve our risk management effectiveness. Our enhanced framework is designed to balance ownership of the risk by our business units with corporate oversight and independent assessment.

To Support and Improve the Secondary Mortgage Market

Under the direction of FHFA, we continue various efforts to build the infrastructure for a future housing finance system, including the following:

- Common Securitization Platform: We continue to work with FHFA, Fannie Mae, and Common Securitization Solutions, LLC (or CSS) on the development of a new common securitization platform. CSS is equally owned by us and Fannie Mae, and was formed to build and operate the platform. We and FHFA expect this will be a multi-year effort.
- Single-Security Initiative: FHFA is seeking ways to improve the overall liquidity of mortgage-backed securities issued by us and Fannie Mae. This includes working towards the development of a single (common) security, which is intended to reduce the disparities in trading value between our PCs and Fannie Mae's single-class mortgage-backed securities. The proposed single (common) security would be issued and guaranteed by either Freddie Mac or Fannie Mae. One of the goals for the proposed single security is for Freddie Mac PCs and Fannie Mae mortgage-backed securities to be fungible to facilitate trading in a single TBA market for these securities. We continue to work on a detailed implementation plan, and we expect that

the implementation will be a multi-year effort.

- Improve servicer eligibility standards: In January 2015, FHFA published proposed new minimum financial eligibility requirements for servicers. FHFA stated that it anticipates finalizing the requirements in the second quarter of 2015, and anticipates that the requirements will be effective six months after they are final.
- Uniform Mortgage Data Program: We and Fannie Mae continue to collaborate with the industry to develop and implement uniform data standards for single-family mortgages. This includes active support for the following

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mortgage data standardization initiatives: (a) the Uniform Closing Dataset; and (b) the Uniform Loan Application Dataset.

- Improve mortgage industry standards: We continue to: (a) develop approaches to reduce borrower costs for lender placed insurance; and (b) strengthen mortgage insurer eligibility standards. In April 2015, at the direction of FHFA, we published revised eligibility requirements for mortgage insurers that include financial requirements determined using a risk-based framework. The revised eligibility requirements will become effective for all Freddie Mac-approved mortgage insurers on December 31, 2015. These revised eligibility requirements are designed to strengthen the mortgage insurance industry and enable a financially strong and resilient system that can provide consistent liquidity through the mortgage cycle.
- Improve the underwriting processes with our single-family sellers: We periodically meet with selected sellers to review and discuss improvements in their underwriting process. We also continually seek improvements to our automated tools for use in evaluating the credit and product eligibility of loans and identifying non-compliance issues.

Mortgage Market and Economic Conditions

Overview

The U.S. real gross domestic product rose by 0.2% on an annualized basis during the first quarter of 2015, compared to an annualized increase of 2.2% in the fourth quarter of 2014 and an annualized decrease of 2.1% in the first quarter of 2014, according to the Bureau of Economic Analysis. The national unemployment rate was 5.5% in March 2015, compared to 5.6% in December 2014, based on data from the U.S. Bureau of Labor Statistics. An average of approximately 197,000 and 260,000 monthly net new jobs (non-farm) were added to the economy during the first quarter of 2015 and the full year of 2014, respectively, which shows evidence of continued improvements in the economy and the labor market. The average interest rate on new 30-year fixed-rate conforming mortgages was 3.7% in the first quarter of 2015, compared to 4.0% in the fourth quarter of 2014 and 4.4% in the first quarter of 2014, based on our weekly Primary Mortgage Market Survey. Lower average long-term mortgage interest rates led to an increase in the volume of single-family mortgage refinance activity in the market compared to the first quarter of 2014.

Single-Family Housing Market

Home prices increased on a national basis in both the first quarter of 2015 and the first quarter of 2014 (based on our index), though some localities continued to be affected by weakness in their housing market and experienced declines in home values during these periods. Home prices, on a national basis, continued to appreciate in the first quarter of 2015, with our nationwide index registering approximately a 1.6% increase from December 2014 to March 2015 and a 5.0% increase from March 2014 to March 2015, compared to a 1.6% increase from December 2013 to March 2014 and a 8.2% increase from March 2013 to March 2014. These estimates were based on our own price index of one-family homes funded by mortgage loans owned or guaranteed by us or Fannie Mae. Other indices of home prices may have different results.

Based on data from the National Association of Realtors, sales of existing homes in the first quarter of 2015 were 4.97 million, decreasing 1.8% from 5.06 million in the fourth quarter of 2014 (on a seasonally-adjusted annual basis). Based on data from the U.S. Census Bureau and HUD, sales of new homes in the first quarter of 2015 were approximately 513,000, increasing 8.9% from approximately 471,000 in the fourth quarter of 2014.

Multifamily Housing Market

The multifamily market continued to experience solid fundamentals during the first quarter of 2015. Recent data reported by Reis, Inc. indicated that the national apartment vacancy rate was 4.2% in the first quarter of 2015 and remains low compared to the cyclical peak of 8% reached at the end of 2009. In addition, Reis, Inc. reported that effective rents (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) grew by 0.6% during the first quarter of 2015. Vacancy rates and effective rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property and these factors significantly influence those cash flows.

Outlook

Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. These statements are not historical facts, but represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or

implied by such forward-looking statements due to various factors and uncertainties. For example, a number of factors could cause the actual performance of the housing and mortgage markets and the U.S. economy in the near term to be significantly worse than we expect, including adverse changes in national or international economic conditions and changes in the federal government's fiscal or monetary policies. See "FORWARD-LOOKING STATEMENTS" for additional information.

National home prices have increased in recent periods; however, home prices at March 31, 2015 remained approximately 9.9% below their peak levels in June 2006 (based on our market index). Declines in the market's inventory of vacant housing

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have supported stabilization and increases in home prices in a number of metropolitan areas. We believe that home price growth rates will continue to be consistent with long-term historical averages (approximately 2 to 5 percent per year).

Single-Family

Key macroeconomic drivers of the economy, such as income growth, employment, and inflation, can significantly affect the performance of the housing and mortgage markets. We expect that economic growth will continue and mortgage interest rates will remain relatively low compared to historical levels, although interest rates are expected to begin trending slowly upward. We believe that housing affordability for potential home buyers will remain relatively high in most metropolitan housing markets in the near term. As a result, we expect that the volume of home sales in 2015 will likely be slightly higher than in 2014. However, even with the improvements in home prices of the last few years, a significant number of borrowers remain underwater on their mortgages. We believe this may cause them to refrain from selling their homes to avoid incurring a loss. We also believe that the relatively high unemployment rate in certain areas and relatively modest family income growth will continue to have a negative effect on single-family housing demand.

We believe that total mortgage origination volume in the first quarter of 2015 benefited from increased refinance activity driven by lower long-term interest rates, compared to prior periods. As a result, our loan purchase activity in the first quarter of 2015 increased to $80.2 billion in UPB, compared to $49.2 billion in UPB during the first quarter of 2014. We expect total mortgage origination volume in the last nine months of 2015 will be similar to the same period in 2014. During the first quarter of 2015, refinancings, including HARP, comprised approximately 64% of our single-family purchase and issuance volume compared with 53% in the first quarter of 2014.

Our charge-offs increased significantly in the first quarter of 2015 compared to the first quarter of 2014. On January 1, 2015, we adopted regulatory guidance issued by FHFA that changed when we deem a loan to be uncollectible and caused a large one-time increase in our charge-offs. While our charge-offs in the remaining quarters of 2015 will not be as high as the first quarter of the year, we expect our charge-offs and credit losses to remain elevated in the near term. The level of charge-offs should also decline as we continue our loss mitigation and foreclosure activities as well as our efforts to sell seriously delinquent loans from our single-family credit guarantee portfolio. For the near term, we also expect REO disposition and short sale severity ratios to remain high and the number of seriously delinquent loans and the volume of our loan workouts to continue to decline.

Multifamily

We expect that the new supply of multifamily housing, at the national level, will be absorbed by market demand in the near term, driven by continued improvements in the economy and favorable demographics. However, new supply may outpace demand in certain local markets, which would be evidenced by excess supply and rising vacancy rates.

Multifamily market fundamentals improved in recent years as a result of several factors, including lower interest rates, increasing construction completions and several years of property value appreciation that led to an expansion of the overall volume in the market. Therefore, we expect that our new multifamily business activity in 2015 will be higher than in 2014 as evidenced by our significant new business activity in the first quarter of 2015.

As a result of our business model of transferring credit risk combined with solid market fundamentals and continuing strong portfolio performance, we expect our credit losses and delinquency rates to remain low in the near term. We expect the performance of the multifamily market to continue to be strong in the near term and believe the long-term outlook for the multifamily market continues to be favorable.

Limits on Investment Activity and Our Mortgage-Related Investments Portfolio

Under the Purchase Agreement and FHFA regulation, the UPB of our mortgage-related investments portfolio is subject to a cap that decreases by 15% each year until the cap reaches $250 billion. As a result, the UPB of our mortgage-related investments portfolio may not exceed $399 billion as of December 31, 2015. Our 2014 Retained Portfolio Plan provides for us to manage the UPB of the mortgage-related investments portfolio so that it does not exceed 90% of the annual cap established by the Purchase Agreement, subject to certain exceptions. For more information on the plan, see “BUSINESS — Executive Summary — Our Primary Business Objectives — Reducing Taxpayer Exposure to Losses — Reducing Our Mortgage-Related Investments Portfolio Over Time” in our 2014 Annual Report.

The reduction in the mortgage-related investments portfolio will result in a decline in income from this 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.

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Table 2 — Mortgage-Related Investments Portfolio

	March 31, 2015			December 31, 2014		
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total
	(in millions)					
Investments segment — Mortgage investments portfolio:						
Single-family unsecuritized mortgage loans	$—	$83,787	$83,787	$—	$82,778	$82,778
Freddie Mac mortgage-related securities	153,991	7,057	161,048	150,852	7,363	158,215
Non-agency mortgage-related securities	—	39,145	39,145	—	44,230	44,230
Non-Freddie Mac agency mortgage-related securities	15,865	—	15,865	16,341	—	16,341
Total Investments segment — Mortgage investments portfolio	169,856	129,989	299,845	167,193	134,371	301,564
Single-family Guarantee segment — Single-family unsecuritized seriously delinquent mortgage loans	—	26,750	26,750	—	28,738	28,738
Multifamily segment — Mortgage investments portfolio	2,046	76,951	78,997	1,911	76,201	78,112
Total mortgage-related investments portfolio	$171,902	$233,690	$405,592	$169,104	$239,310	$408,414
Percentage of total mortgage-related investments portfolio	42 %	58 %	100 %	41 %	59 %	100 %
Mortgage-related investments portfolio cap at December 31, 2015 and 2014, respectively			$399,181			$469,625
90% of mortgage-related investments portfolio cap at December 31, 2015[(1)]			$359,263			

(1) Represents 90% of the mortgage-related investments portfolio annual cap established by the Purchase Agreement, which we manage to, subject to certain exceptions.

We evaluate the liquidity of the assets in our mortgage-related investments portfolio based on two categories: (a) single-class and multiclass agency securities (excluding certain structured agency securities collateralized by non-agency mortgage-related securities); and (b) assets that are less liquid than the agency securities noted above. Assets that we consider to be less liquid than agency securities include unsecuritized single-family and multifamily mortgage loans, certain structured agency securities collateralized with non-agency mortgage-related securities, and our investments in non-agency mortgage-related securities.

The UPB of our mortgage-related investments portfolio was $405.6 billion at March 31, 2015, a decline of $2.8 billion (or 1%) compared to $408.4 billion at December 31, 2014. While the overall balance of our mortgage-related investments portfolio decreased, including a decline in our less liquid assets of $5.6 billion, the balance of our liquid assets increased by $2.8 billion. The decline in less liquid assets was primarily due to liquidations and our efforts to reduce these assets. We sold $4.1 billion of less liquid assets in the first quarter of 2015, including $0.3 billion in UPB of seriously delinquent unsecuritized single-family loans. In addition, we securitized $0.3 billion in UPB of

single-family reperforming and modified loans and $1.0 billion in UPB of HAMP loans in the first quarter of 2015. These amounts do not include sales of mortgage loans we purchased for cash and subsequently securitized. Our Multifamily segment less liquid assets increased slightly from December 31, 2014 to March 31, 2015 primarily due to increases in held-for-sale mortgage loans that had not yet been securitized.

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SELECTED FINANCIAL DATA

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

Table 3 — Selected Financial Data

	Three Months Ended March 31,	
	2015	2014
	(dollars in millions, except share-related amounts)	
Statements of Comprehensive Income Data		
Net interest income	$3,647	$3,510
Benefit (provision) for credit losses	499	(85)
Non-interest income (loss)	(2,147)	3,111
Non-interest expense	(1,211)	(771)
Income tax expense	(264)	(1,745)
Net income	524	4,020
Comprehensive income	746	4,499
Net loss attributable to common stockholders[1]	(222)	(479)
Net loss per common share – basic and diluted	(0.07)	(0.15)
Cash dividends per common share	—	—
Weighted average common shares outstanding (in millions) – basic and diluted	3,236	3,237

	March 31, 2015	December 31, 2014
	(dollars in millions)	
Balance Sheets Data		
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$1,565,078	$1,558,094
Total assets	1,951,603	1,945,539
Debt securities of consolidated trusts held by third parties	1,488,595	1,479,473
Other debt	447,034	450,069
All other liabilities	13,428	13,346
Total stockholders' equity	2,546	2,651
Portfolio Balances - UPB		
Mortgage-related investments portfolio	$405,592	$408,414
Total Freddie Mac mortgage-related securities[2]	1,652,349	1,637,086
Total mortgage portfolio	1,914,702	1,910,106
TDRs on accrual status	83,439	82,908
Non-accrual loans	30,375	33,130

	Three Months Ended March 31,	
	2015	2014
Ratios[3]		
Return on average assets[4]	0.1 %	0.8 %
Allowance for loans losses as percentage of mortgage loans, held-for-investment[5]	1.1	1.4
Equity to assets ratio[6]	0.1	0.5

(1) For a discussion of the manner in which the senior preferred stock dividend is determined and how it affects net income (loss) attributable to common stockholders, see "NOTE 1: SUMMARY OF SIGNIFICANT

ACCOUNTING POLICIES — Earnings Per Common Share” in our 2014 Annual Report.

(2) See ‘‘Table 25 — Freddie Mac Mortgage-Related Securities’’ for the composition of this line item.

(3) The dividend payout ratio on common stock is not presented because the amount of cash dividends per common share is zero for all periods presented. The return on common equity ratio is not presented because the simple average of the beginning and ending balances of total stockholders’ equity, net of preferred stock (at redemption value) is less than zero for all periods presented.

(4) Ratio computed as net income divided by the simple average of the beginning and ending balances of total assets.

(5) Ratio computed as the allowance for loan losses divided by the total recorded investment of held-for-investment mortgage loans.

(6) Ratio computed as the simple average of the beginning and ending balances of total stockholders’ equity divided by the simple average of the beginning and ending balances of total assets.

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CONSOLIDATED RESULTS OF OPERATIONS

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

Table 4 — Summary Consolidated Statements of Comprehensive Income

	Three Months Ended March 31,		
	2015	2014	Variance
	(in millions)		
Net interest income	$3,647	$3,510	$137
Benefit (provision) for credit losses	499	(85)	584
Net interest income after benefit (provision) for credit losses	4,146	3,425	721
Non-interest income (loss):			
Gains (losses) on extinguishment of debt securities of consolidated trusts	(80)	12	(92)
Gains (losses) on retirement of other debt	1	7	(6)
Derivative gains (losses)	(2,403)	(2,351)	(52)
Net impairment of available-for-sale securities recognized in earnings	(93)	(364)	271
Other gains (losses) on investment securities recognized in earnings	417	766	(349)
Other income (loss)	11	5,041	(5,030)
Total non-interest income (loss)	(2,147)	3,111	(5,258)
Non-interest expense:			
Administrative expense	(451)	(468)	17
REO operations (expense) income	(75)	(59)	(16)
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(222)	(178)	(44)
Other expense	(463)	(66)	(397)
Total non-interest expense	(1,211)	(771)	(440)
Income before income tax expense	788	5,765	(4,977)
Income tax expense	(264)	(1,745)	1,481
Net income	524	4,020	(3,496)
Other comprehensive income (loss), net of taxes and reclassification adjustments	222	479	(257)
Comprehensive income	$746	$4,499	$(3,753)

Net Interest Income

Net interest income represents the difference between interest income (which includes income from guarantee fees) and interest expense and is a primary source of our revenue. The table below presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

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Table 5 — Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended March 31,					
	2015			2014		
	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Cash and cash equivalents	$15,353	$3	0.07 %	$19,641	$—	— %
Federal funds sold and securities purchased under agreements to resell	47,430	8	0.07	48,155	5	0.05
Mortgage-related securities:						
Mortgage-related securities	244,662	2,366	3.87	271,646	2,607	3.84
Extinguishment of PCs held by Freddie Mac	(111,988)	(1,034)	(3.69)	(116,588)	(1,097)	(3.77)
Total mortgage-related securities, net	132,674	1,332	4.02	155,058	1,510	3.90
Non-mortgage-related securities	9,419	3	0.12	5,870	—	0.02
Mortgage loans held by consolidated trusts[1]	1,563,272	13,879	3.55	1,532,416	14,484	3.78
Unsecuritized mortgage loans[1]	165,168	1,575	3.81	178,220	1,662	3.73
Total interest-earning assets	$1,933,316	$16,800	3.47	$1,939,360	$17,661	3.64
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,583,630	$(12,521)	(3.16)	$1,547,682	$(13,340)	(3.45)
Extinguishment of PCs held by Freddie Mac	(111,988)	1,034	3.69	(116,588)	1,097	3.77
Total debt securities of consolidated trusts held by third parties	1,471,642	(11,487)	(3.12)	1,431,094	(12,243)	(3.42)
Other debt:						
Short-term debt	121,728	(38)	(0.12)	126,521	(41)	(0.13)
Long-term debt	324,655	(1,563)	(1.93)	348,631	(1,788)	(2.05)
Total other debt	446,383	(1,601)	(1.43)	475,152	(1,829)	(1.54)
Total interest-bearing liabilities	1,918,025	(13,088)	(2.73)	1,906,246	(14,072)	(2.95)
Expense related to derivatives[2]	—	(65)	(0.01)	—	(79)	(0.02)
Impact of net non-interest-bearing funding	15,291	—	0.02	33,114	—	0.05
Total funding of interest-earning assets	$1,933,316	$(13,153)	(2.72)	$1,939,360	$(14,151)	(2.92)
Net interest income/yield		$3,647	0.75		$3,510	0.72

(1) Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in average balances.

(2) Represents changes in fair value of derivatives in closed cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the interest expense associated with the hedged forecasted issuance of debt affects earnings.

Net interest income increased by $137 million to $3.6 billion for the three months ended March 31, 2015, compared to $3.5 billion for the three months ended March 31, 2014. Net interest yield increased by three basis points to 75 basis points for the three months ended March 31, 2015, compared to 72 basis points for the three months ended March 31, 2014. The increase in net interest income and net interest yield was primarily due to higher management and guarantee fee income, including increased amortization of upfront fees associated with a higher liquidation rate.

The percentage of our net interest income derived from guarantee fees continues to increase as the size of our mortgage-related investments portfolio continues to decline. We estimate that slightly more than 40% of our net interest income for the three months ended March 31, 2015 was derived from guarantee fees. We expect that guarantee fees will account for an increasing portion of our net interest income.

Net interest income includes the legislated 10 basis point increase in guarantee fees, which is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011. Net interest income includes $219 million and $172 million for the three months ended March 31, 2015 and for the three months ended March 31, 2014, respectively, related to this increase in guarantee fees.

Benefit (Provision) for Credit Losses

During the first quarter of 2015, we reclassified $3.6 billion in UPB of seriously delinquent single-family loans from held-for-investment to held-for-sale. This reclassification affects several income statement line items. Our benefit (provision) for credit losses for the first quarter of 2015 includes a $0.7 billion reduction of loan loss reserves related to these loans, which was more than offset by: (a) a loss of approximately $0.5 billion included in other non-interest income primarily related to adjusting these loans to the lower-of-cost-or-fair-value; and (b) higher non-interest expense of approximately $0.4 billion related to property taxes and insurance associated with these loans. We will also recognize income for compensatory fees for failure to meet foreclosure timelines in the period in which these loans are sold.

Our benefit (provision) for credit losses was $0.5 billion in the first quarter of 2015, compared to $(0.1) billion in the first quarter of 2014. These amounts predominantly related to single-family mortgage loans. The benefit for credit losses in the first quarter of 2015 reflects an approximately $0.7 billion reduction of loan loss reserves associated with seriously delinquent single-family loans that were reclassified from held-for-investment to held-for-sale as discussed above, partially offset by a slightly higher expected default costs on impaired loans. The provision for credit losses in the first quarter of 2014 reflects incurred losses associated with newly delinquent loans that were partially offset by moderate home price growth. Our provision for credit losses in the first quarter of 2014 also reflects $0.3 billion of benefit related to settlement agreements with certain

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sellers for the release of repurchase obligations in exchange for one-time cash payments, primarily associated with our Legacy single-family books. The benefit (provision) for credit losses in both the first quarter of 2015 and the first quarter of 2014 also reflects benefits associated with the positive payment performance of our TDR loans.

Our single-family loan loss reserves declined from $21.8 billion at December 31, 2014 to $18.7 billion at March 31, 2015, primarily reflecting a high level of loan charge-offs related to our adoption of regulatory guidance that changed when we deem a loan uncollectible.

On January 1, 2015, we adopted regulatory guidance issued by FHFA that establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures, including guidelines for recognizing charge-offs on certain single-family loans. Upon adoption of the FHFA regulatory guidance on January 1, 2015, we changed the timing of when we deem certain single-family loans to be uncollectible, and we began to charge-off loans that have been deemed uncollectible prior to foreclosure. This adoption resulted in a reduction to both the recorded investment of mortgage loans, held-for-investment, and our allowance for loan losses of $1.9 billion on January 1, 2015. However, these additional charge-offs did not have a material impact on our comprehensive income for the first quarter of 2015, as we had already reserved for these losses in our allowance for loan losses in prior periods.

Our loan loss reserves reflect a significant amount of impairment associated with loans classified as TDRs. A TDR is a loan where we have granted a concession to a borrower who is experiencing financial difficulties. A concession generally occurs when the modification of a loan results in a reduction in the loan's interest rate. Due to the large number of loan modifications completed in recent years, our loan loss reserves attributable to TDRs remain high. As of March 31, 2015, approximately 59% of the loan loss reserves for single-family loans related to interest rate concessions associated with TDRs. Most of our modified loans (including TDRs) were current and performing at March 31, 2015. However, loans that have been classified as TDRs remain categorized as such throughout the remaining life of the loan regardless of whether the borrower makes payments which return the loan to a current payment status. We maintain a loan loss reserve on TDRs until the loans are repaid or complete short sales or foreclosures. We expect our loan loss reserve associated with existing TDRs will continue to decline over time as borrowers continue to make monthly payments under the modified terms and the interest rate concessions are recognized as income.

Although the housing market continued to improve in many geographic areas in the first quarter of 2015, we expect that our loan loss reserves may remain elevated for an extended period because: (a) a significant portion of our reserves is associated with individually impaired loans (e.g., modified loans) that are less than three months past due; and (b) the resolution of problem loans takes considerable time, often several years in the case of foreclosure.

Loans that have been individually evaluated for impairment, such as modified loans, generally have a higher associated loan loss reserve than loans that have been collectively evaluated for impairment. As of March 31, 2015 and December 31, 2014, the recorded investment of single-family impaired loans with specific reserves recorded was $93.9 billion and $95.1 billion, respectively, and the loan loss reserves associated with these loans were $16.4 billion and $17.8 billion, respectively.

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

Table 6 — Single-Family Impaired Loans with Specific Reserve Recorded

	2015		2014	
	Number of Loans	Amount	Number of Loans	Amount
	(dollars in millions)			
TDRs, at January 1,	539,590	$94,401	514,497	$92,505
New additions	16,650	2,356	20,957	3,252
Repayments, charge-offs, and reclassifications to held-for-sale[1]	(9,574)	(2,779)	(6,315)	(1,113)
Foreclosure transfers and foreclosure alternatives	(6,055)	(1,025)	(7,005)	(1,218)
TDRs, at March 31,	540,611	92,953	522,134	93,426
Loans impaired upon purchase	11,882	906	13,381	1,133

Total impaired loans with specific reserve	552,493	93,859	535,515	94,559
Total allowance for loan losses of individually impaired single-family loans		(16,357)		(18,560)
Net investment, at March 31,		$77,502		$75,999

(1) The recorded investment amount for 2015 includes charge-offs related to our January 1, 2015 adoption of regulatory guidance that changed when we deem loans to be uncollectible.

We place loans, including TDRs, on non-accrual status when we believe the collectability of interest and principal on a loan is not reasonably assured, unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, interest income is recognized only upon receipt of cash payments and any interest income accrued but uncollected is reversed. See "NOTE 5: IMPAIRED LOANS" for further information about our TDRs and non-accrual and other impaired loans.

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

Table 7 — TDRs and Non-Accrual Mortgage Loans

	March 31, 2015	December 31, 2014	March 31, 2014
	(in millions)		
TDRs on accrual status:			
Single-family	$82,967	$82,373	$80,110
Multifamily	472	535	615
Subtotal —TDRs on accrual status	83,439	82,908	80,725
Non-accrual loans:			
Single-family[1]	30,021	32,745	39,202
Multifamily[2]	354	385	579
Subtotal — non-accrual loans	30,375	33,130	39,781
Total TDRs and non-accrual mortgage loans[3]	$113,814	$116,038	$120,506
Loan loss reserves associated with:			
TDRs on accrual status	$13,349	$13,749	$14,456
Non-accrual loans	4,555	6,966	8,279
Total loan loss reserves associated with TDRs and non-accrual loans	$17,904	$20,715	$22,735
Ratio of total loan loss reserves (excluding reserves for TDR concessions) to net charge-offs for single-family loans[4][5]	0.7	2.7	2.5
Ratio of total loan loss reserves to net charge-offs for single-family loans[4]	1.7	5.6	4.8

	Three Months Ended March 31, 2015	2014
	(in millions)	
Foregone interest income on TDR and non-accrual mortgage loans[6]:		
Single-family	$871	$1,001
Multifamily	4	6
Total foregone interest income on TDR and non-accrual mortgage loans	$875	$1,007

(1) Includes $15.5 billion, $18.0 billion, and $18.6 billion in UPB of seriously delinquent loans classified as TDRs at March 31, 2015, December 31, 2014, and March 31, 2014, respectively.

(2) Includes $0.3 billion, $0.4 billion, and $0.5 billion in UPB of loans that were current as of March 31, 2015, December 31, 2014, and March 31, 2014, respectively.

(3) As of January 1, 2015, we adopted regulatory guidance that changed when we deem loans to be uncollectible. As of March 31, 2015, there was $7.1 billion in UPB of our TDR and non-accrual loans of which we had charged-off $2.0 billion during the first quarter of 2015 that reduced the UPB of these loans.

(4) Excludes: (a) amounts associated with loans acquired with deteriorated credit quality (at the time of acquisition); and (b) recoveries related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments.

(5) The ratio for March 31, 2015 includes charge-offs of $1.9 billion associated with our initial adoption of regulatory guidance on January 1, 2015. Excluding this amount, the ratio of total loan loss reserves (excluding reserves for

TDR concessions) to net charge-offs for single-family loans at March 31, 2015 was 2.2.

(6) 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.

Credit Loss Performance

Historically, our credit losses have been generally measured at the conclusion of the loan and related collateral resolution process. On January 1, 2015, we adopted regulatory guidance that changed when we deem a loan to be uncollectible and recognized $1.9 billion of charge-offs on that date related to this change. See "NOTE 1: SUMMARY OF SIGNFICANT ACCOUNTING POLICIES" for further information about this change.

Our single-family charge-offs, gross, for the three months ended March 31, 2015 and the three months ended March 31, 2014 were associated with approximately $9.8 billion and $3.2 billion in UPB of loans, respectively. Our single-family charge-offs, gross, were higher in the first quarter of 2015 compared to the first quarter of 2014 due to the change in when we deem a loan to be uncollectible. Single-family charge-offs, net, in the first quarter of 2014 include recoveries of $0.3 billion related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments. While we do not expect that our charge-offs in any of the remaining quarters of 2015 to be as high as the first quarter of the year, we expect our charge-offs and credit losses may continue to remain elevated in the near term. The level

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of charge-offs should decline as we continue our loss mitigation and foreclosure activities, as well as our efforts to sell seriously delinquent loans from our single-family credit guarantee portfolio.
The table below provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and loans underlying our non-consolidated mortgage-related financial guarantees.
Table 8 — Credit Loss Performance

	Three Months Ended March 31,	
	2015	2014
	(dollars in millions)	
REO		
REO balances, net:		
Single-family	$2,294	$4,313
Multifamily	—	26
Total	$2,294	$4,339
REO operations expense (income):		
Single-family	$75	$59
Multifamily	—	—
Total	$75	$59
Charge-offs		
Single-family:		
Charge-offs, gross[1]	$2,978	$1,475
Recoveries[2]	(174)	(567)
Single-family, net	$2,804	$908
Multifamily:		
Charge-offs, gross[1]	$—	$—
Recoveries[2]	—	—
Multifamily, net	$—	$—
Total Charge-offs:		
Charge-offs, gross[1]	$2,978	$1,475
Recoveries[2]	(174)	(567)
Total Charge-offs, net	$2,804	$908
Credit Losses:		
Single-family	$2,879	$967
Multifamily	—	—
Total	$2,879	$967
Total (in bps)[3]	62.8	21.4

(1) Charge-offs include $27 million and $18 million for the three months ended March 31, 2015 and the three months ended March 31, 2014, respectively, related to losses on loans purchased that were recorded within other expenses on our consolidated statements of comprehensive income, which relate to certain loans purchased under financial guarantees. The first quarter of 2015 includes the effect of our adoption of regulatory guidance, which increased our charge-offs in the period above what they otherwise would have been absent this change.

(2) Includes $0.4 billion in the first quarter of 2014 related to repurchase requests made to our seller/servicers (including $0.3 billion related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments). Excludes certain recoveries, such as pool insurance and risk transfer transactions, which are included in non-interest income on our consolidated statements of comprehensive income.

(3) Includes charge-offs of $1.9 billion associated with our initial adoption of regulatory guidance on January 1, 2015. Excluding this amount, the total credit losses (in bps) for the first quarter of 2015 was 20.5.

Our 2005-2008 Legacy single-family book comprised approximately 12% of our single-family credit guarantee portfolio, based on UPB, at March 31, 2015; however, these loans accounted for approximately 84% of our credit losses during the first quarter of 2015. Our single-family credit losses during the first quarter of 2015 were highest in Florida and New Jersey. Collectively, these two states comprised approximately 38% of our total credit losses in the first quarter of 2015.

At March 31, 2015, loans in states with a judicial foreclosure process comprised 39% of our single-family credit guarantee portfolio, based on UPB, while loans in these states contributed to approximately 75% of our credit losses in the first quarter of 2015. Foreclosures generally take longer to complete in states where a judicial foreclosure is required, compared to other states. We expect the portion of our credit losses related to loans in states with judicial foreclosure processes will remain high in the near term as the substantial backlog of loans awaiting court proceedings in those states transitions to REO or other loss events. See “NOTE 15: CONCENTRATION OF CREDIT AND OTHER RISKS” for additional information about our credit losses.

The table below provides information on the severity of losses we experienced on loans in our single-family credit guarantee portfolio. In recent periods, third-party sales at foreclosure auction have comprised an increasing portion of

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foreclosure transfers. Third-party sales at foreclosure auction avoid the REO property expenses that we would have otherwise incurred if we held the property in our REO inventory until disposition.

Table 9 — Severity Ratios for Single-Family Loans

	Three Months Ended March 31,	
	2015	2014
REO disposition severity ratio[1]	36.4 %	35.6 %
Third-party sale at foreclosure auction severity ratio[2]	32.1	30.6
Short sale severity ratio	31.0	31.6

(1) Ratios calculated as: (a) the difference between the UPB of the loans and the estimated net proceeds, net of selling and repair expenses and excluding recoveries related to settlement agreements with certain sellers to release specified loans from certain repurchase obligations in exchange for one-time cash payments; divided by (b) the UPB of the loans.

(2) Ratios calculated as: (a) the difference between the UPB of the loans and the proceeds from sales at foreclosure auction; divided by (b) the UPB of the loans.

Non-Interest Income (Loss)

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

During the three months ended March 31, 2015 and the three months ended March 31, 2014, we extinguished debt securities of consolidated trusts with a UPB of $10.8 billion and $7.9 billion, respectively (representing our purchase of single-family PCs). Gains (losses) on extinguishment of these debt securities of consolidated trusts were $(80) million and $12 million during the three months ended March 31, 2015 and the three months ended March 31, 2014, respectively.

Gains (Losses) on Retirement of Other Debt

Gains (losses) on retirement of other debt were $1 million and $7 million during the three months ended March 31, 2015 and the three months ended March 31, 2014, respectively.

Derivative Gains (Losses)

The table below presents derivative gains (losses) reported in our consolidated statements of comprehensive income. See "NOTE 9: DERIVATIVES — Table 9.2 — Gains and Losses on Derivatives" for information about gains and losses related to specific categories of derivatives.

We did not have any derivatives in hedge accounting relationships at March 31, 2015 or December 31, 2014. However, AOCI includes amounts related to closed cash flow hedges.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they increase the volatility of reported comprehensive income because fair value changes on derivatives are included in comprehensive income, while fair value changes associated with several of the types of assets and liabilities being economically hedged are not. As a result, there can be timing mismatches affecting current period earnings, which may not be reflective of the underlying economics of our business. The mix of our derivative portfolio, in conjunction with the mix of our assets and liabilities, affects the volatility of comprehensive income.

Table 10 — Derivative Gains (Losses)

	Three Months Ended March 31,	
	2015	2014
	(in millions)	
Interest-rate swaps	$(2,661)	$(1,770)
Option-based derivatives	1,016	69
Other derivatives[1]	(187)	28
Accrual of periodic settlements	(571)	(678)
Total	$(2,403)	$(2,351)

(1) Primarily includes futures, commitments, credit derivatives and swap guarantee derivatives.

Gains (losses) on our derivative portfolio include both derivative fair value changes and the accrual of periodic settlements. Gains (losses) on our derivative portfolio can change based on changes in: (a) interest rates, yield curves and implied volatility; and (b) the mix and balance of products in our derivative portfolio. The mix and balance of products in our derivative portfolio change from period to period as we respond to changing interest rate environments and changes in our asset and liability balances and characteristics.

While our sensitivity to interest rates on an economic basis remains low, our exposure to earnings volatility resulting from our use of derivatives has increased in recent periods as we have changed the mix of our derivatives to align with the changing duration of our hedged assets and liabilities.

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During the three months ended March 31, 2015, we recognized a net loss on derivatives of $2.4 billion primarily driven by a decline in longer-term interest rates. We recognized: (a) fair value losses on our interest-rate swaps of $2.7 billion; and (b) a net loss of $0.6 billion related to the accrual of periodic settlements on interest-rate swaps as we were a net payer on our interest-rate swaps based on the coupons of the instruments. These losses were partially offset by fair value gains on our option-based derivatives of $1.0 billion, primarily on our purchased call swaptions. Although longer-term interest rates declined less during the three months ended March 31, 2015 compared to the three months ended March 31, 2014, the total net loss on derivatives was relatively unchanged in both periods due to changes in the mix and balance of products in our derivative portfolio.

During the three months ended March 31, 2014, we recognized a net loss on derivatives of $2.4 billion. We recognized: (a) fair value losses on our interest-rate swaps of $1.8 billion primarily driven by a decline in longer-term interest rates; and (b) a net loss of $0.7 billion related to the accrual of periodic settlements on interest-rate swaps as we were a net payer on our interest-rate swaps based on the coupons of the instruments.

Investment Securities-Related Activities

Impairments of Available-For-Sale Securities

We recorded net impairments of available-for-sale securities recognized in earnings of $93 million and $364 million during the three months ended March 31, 2015 and the three months ended March 31, 2014, respectively, related to non-agency mortgage-related securities. The impairments during both periods were primarily driven by an increase in the population of available-for-sale securities in an unrealized loss position that we intend to sell. This generally reflects our efforts to reduce the balance of less liquid assets in the mortgage-related investments portfolio. During the three months ended March 31, 2014, the impairments included amounts where our intent to sell changed as a result of the settleme