FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
May 01, 2019
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, 2019
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 every Interactive Data File required to be submitted 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 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 ¨	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 16, 2019, there were 650,059,033 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, 2018, or 2018 Annual Report, and the Business and Risk Factors sections of our 2018 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms that are defined in the Glossary of our 2018 Annual Report.

You should read the following MD&A in conjunction with our 2018 Annual Report and our condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2019 included in Financial Statements. Throughout this Form 10-Q, we refer to the three months ended March 31, 2019, the three months ended December 31, 2018, the three months ended September 30, 2018, the three months ended June 30, 2018, and the three months ended March 31, 2018 as "1Q 2019," "4Q 2018," "3Q 2018," "2Q 2018," and "1Q 2018," 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. In addition, we transfer mortgage credit risk exposure to private investors through our credit risk transfer programs, which include securities- and insurance-based offerings. 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

Consolidated Financial Results[1]

(1) Net revenues consist of net interest income, guarantee fee income, and other income (loss).

Management's Discussion and Analysis Introduction

Comprehensive income for 1Q 2019 was $1.7 billion, driven by solid business revenues, strong credit quality, minimal impact from market-related items, and continued guarantee portfolio growth.

- Comprehensive income decreased 23% from 1Q 2018, primarily attributable to lower net interest income related to our guarantee and investments portfolios, driven by lower amortization due to lower prepayments on single-family loans and a decline in the balance of our mortgage-related investments portfolio.
- Net revenues increased 2% from 1Q 2018, primarily due to an increase in guarantee fee income and a positive impact from hedge accounting in 1Q 2019, partially offset by the decline in net interest income related to our guarantee and investments portfolios.
- Market-related items had minimal impact in 1Q 2019. Other non-interest income decreased, primarily due to interest-rate related fair value losses on derivatives as long-term interest rates declined, largely offset by an increase in other comprehensive income due to interest-rate related fair value gains on available-for-sale securities and the positive hedge accounting impact.
- Benefit (provision) for credit losses remained relatively flat due to the strong credit performance of both our single-family and multifamily portfolios.

Our total equity was $4.7 billion at March 31, 2019. Based on the applicable Capital Reserve Amount of $3.0 billion, we will have a dividend requirement to Treasury in June 2019 of $1.7 billion.

Our cumulative senior preferred stock dividend payments totaled $118.0 billion as of March 31, 2019. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains at $75.6 billion. In addition, the amount of available funding remaining under the Purchase Agreement is $140.2 billion and will be reduced by any future draws.

Portfolio Balances

Guarantee Portfolios

Investments Portfolios

Total Guarantee Portfolio

- Our total guarantee portfolio grew $108 billion, or 5%, from March 31, 2018 to March 31, 2019, driven by a 4% increase in our single-family credit guarantee portfolio and a 14% increase in our multifamily guarantee portfolio.
  - The growth in our single-family credit guarantee portfolio was primarily driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation and our increased share of the single-family mortgage market. 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 strong loan purchase and securitization activity. Continued strong demand for multifamily financing and healthy multifamily market fundamentals resulted in continued growth in overall multifamily mortgage debt outstanding.

Total Investments Portfolio

- Our total investments portfolio declined $15 billion, or 5%, from March 31, 2018 to March 31, 2019, primarily due to a reduction in the balance of our mortgage-related investments portfolio pursuant to the portfolio limits established by the Purchase Agreement and FHFA. In February 2019, FHFA directed us to maintain the mortgage-related investments portfolio at or below $225 billion at all times.

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 cash 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.

MARKET CONDITIONS AND ECONOMIC INDICATORS

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

Interest Rates[1]

(1) 30-year PMMS interest rates are as of the last week in each quarter.

Unemployment Rate

Source: U.S. Bureau of Labor Statistics

- The 30-year Primary Mortgage Market Survey (PMMS) interest rate is indicative of what a consumer could expect to be offered on a first-lien prime conventional conforming home purchase or refinance mortgage with an LTV of 80%. Increases (decreases) in the PMMS rate typically result in decreases (increases) in refinancing activity and originations.
- Changes in the 10-year and 2-year LIBOR interest rates can significantly affect the fair value of our debt, derivatives, and mortgage and non-mortgage-related securities. In addition, the GAAP accounting treatment for our financial assets and liabilities, including derivatives (i.e., some are measured at amortized cost, while others are measured at fair value) creates variability in our GAAP earnings when interest rates change. We have elected hedge accounting for certain assets and liabilities in an effort to reduce GAAP earnings variability and better align GAAP results with the economics of our business.
- Changes in the 3-month LIBOR rate affect the interest earned on our short-term investments and interest expense on our short-term funding.
- Long-term rates continued to decline during 1Q 2019, while short-term rates remained relatively flat, resulting in inversion of the yield curve.

- Changes in 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.
- Continued job growth, a declining unemployment rate, and generally favorable economic conditions resulted in strong credit performance.

U.S. Single-Family Home Prices

Source: Freddie Mac House Price Index.

U.S. Single-Family Originations

Source: Inside Mortgage Finance dated April 26, 2019 (latest available IMF purchase/refinance information).

- Changes in home prices affect the amount of equity that borrowers have in their homes. Borrowers with less equity typically have higher delinquency rates. As home prices decline, the severity of losses we incur on defaulted loans that we hold or guarantee increases because the amount we can recover from the property securing the loan decreases.
- Single-family home prices increased 1.5% during 1Q 2019, compared to an increase of 2.5% during 1Q 2018. We expect home price growth will continue in 2019, although at a slower pace than in full-year 2018, due to increased supply.

- U.S. single-family loan origination volume decreased to $355 billion in 1Q 2019 from $380 billion in 1Q 2018, driven by lower refinance volume as a result of higher average mortgage interest rates in 1Q 2019.
- We expect U.S. single-family home purchase volume to increase slightly in 2019, driven by an expected increase in home sales and modest home price growth. Freddie Mac's single-family loan purchase volumes typically follow a similar trend.

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.

Table 1 - Summary of Consolidated Statements of Comprehensive Income (Loss)

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Net interest income	$3,153	$3,018	$135	4 %
Guarantee fee income	217	194	23	12
Other income (loss)	34	131	(97)	(74)
Net revenues	3,404	3,343	61	2
Other non-interest income (loss):				
Mortgage loans gains (losses)	931	(215)	1,146	533
Investment securities gains (losses)	174	(232)	406	175
Debt gains (losses)	15	121	(106)	(88)
Derivative gains (losses)	(1,606)	1,830	(3,436)	(188)
Total other non-interest income (loss)	(486)	1,504	(1,990)	(132)
Benefit (provision) for credit losses	135	(63)	198	314
Non-interest expense	(1,288)	(1,110)	(178)	(16)
Income (loss) before income tax (expense) benefit	1,765	3,674	(1,909)	(52)
Income tax (expense) benefit	(358)	(748)	390	52
Net income (loss)	1,407	2,926	(1,519)	(52)
Total other comprehensive income (loss), net of taxes and reclassification adjustments	258	(776)	1,034	133
Comprehensive income (loss)	$1,665	$2,150	($485)	(23)%

Net Interest Income

The table below presents the components of net interest income.

Table 2 - Components of Net Interest Income

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Net interest income related to guarantee portfolios:				
Contractual guarantee fee income	$906	$834	$72	9 %
Guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	377	347	30	9
Amortization related to guarantee portfolios	482	748	(266)	(36)
Total net interest income related to guarantee portfolios	1,765	1,929	(164)	(9)
Net interest income related to investments portfolios:				
Contractual net interest income	1,252	1,457	(205)	(14)
Amortization related to investments portfolios	(131)	5	(136)	(2,720)
Total net interest income related to investments portfolios	1,121	1,462	(341)	(23)
Hedge accounting impact	267	(373)	640	172
Net interest income	$3,153	$3,018	$135	4 %

Key Drivers:

- Contractual guarantee fee income
  - 1Q 2019 vs. 1Q 2018 - Increased primarily due to the continued growth of the core single-family loan portfolio.
- Amortization related to guarantee portfolios
  - 1Q 2019 vs. 1Q 2018 - Decreased primarily due to lower prepayments on single-family loans as a result of higher average mortgage interest rates.
- Contractual net interest income
  - 1Q 2019 vs. 1Q 2018 - Decreased primarily due to the 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 - Managing Our Mortgage-Related Investments Portfolio for a discussion of the key drivers of the decline in our mortgage-related investments portfolio.
- Amortization related to investments portfolios
  - 1Q 2019 vs. 1Q 2018 - Decreased primarily due to lower accretion related to previously recognized other-than-temporary impairments as a result of a decline in the population of impaired securities. Amortization related to unsecuritized mortgage loans also decreased, as certain of those loans were reclassified from held-for-investment to held-for-sale and ceased amortizing.
- Hedge accounting impact
  - 1Q 2019 vs. 1Q 2018 - Increased primarily due to the mismatch related to fair value hedge accounting. The mismatch is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.

Net Interest Yield Analysis

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

Table 3 - Analysis of Net Interest Yield

(Dollars in millions)	1Q 2019 Average Balance	1Q 2019 Interest Income (Expense)[1]	1Q 2019 Average Rate	1Q 2018 Average Balance	1Q 2018 Interest Income (Expense)[1]	1Q 2018 Average Rate
Interest-earning assets:						
Cash and cash equivalents	$7,105	$38	2.14 %	$7,015	$11	0.60 %
Securities purchased under agreements to resell	47,224	297	2.51	51,732	197	1.52
Secured lending	1,567	16	4.08	990	6	2.59
Mortgage-related securities:						
Mortgage-related securities	133,925	1,461	4.36	150,267	1,580	4.21
Extinguishment of PCs held by Freddie Mac	(84,709)	(895)	(4.23)	(90,814)	(843)	(3.71)
Total mortgage-related securities, net	49,216	566	4.60	59,453	737	4.96
Non-mortgage-related securities	19,408	123	2.54	14,775	73	1.97
Loans held by consolidated trusts[1]	1,847,861	16,977	3.68	1,776,708	14,859	3.35
Loans held by Freddie Mac[1]	89,152	969	4.35	103,451	1,092	4.22
Total interest-earning assets	2,061,533	18,986	3.68	2,014,124	16,975	3.37
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	1,871,847	(14,876)	(3.18)	1,803,122	(13,356)	(2.96)
Extinguishment of PCs held by Freddie Mac	(84,709)	895	4.23	(90,814)	842	3.71
Total debt securities of consolidated trusts held by third parties	1,787,138	(13,981)	(3.13)	1,712,308	(12,514)	(2.92)
Other debt:						
Short-term debt	70,192	(436)	(2.48)	67,970	(229)	(1.35)
Long-term debt	199,937	(1,416)	(2.83)	228,981	(1,214)	(2.12)
Total other debt	270,129	(1,852)	(2.74)	296,951	(1,443)	(1.94)
Total interest-bearing liabilities	2,057,267	(15,833)	(3.08)	2,009,259	(13,957)	(2.78)
Impact of net non-interest-bearing funding	4,266	—	0.01	4,865	—	0.01
Total funding of interest-earning assets	$2,061,533	($15,833)	(3.07)%	$2,014,124	($13,957)	(2.77)%
Net interest income/yield		$3,153	0.61 %		$3,018	0.60 %

(1) Loan fees, primarily consisting of amortization of upfront fees, included in interest income were $574 million during both 1Q 2019 and 1Q 2018 for loans held by consolidated trusts and $16 million and $22 million for loans held by Freddie Mac during 1Q 2019 and 1Q 2018, respectively.

Guarantee Fee Income

- 1Q 2019 vs. 1Q 2018 - Increased due to the continued growth in the multifamily guarantee portfolio.

Other Non-Interest Income (Loss)

Mortgage Loans Gains (Losses)

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

Table 4 - Components of Mortgage Loans Gains (Losses)

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Gains (losses) on certain loan purchase commitments	$391	$105	$286	272%
Gains (losses) on mortgage loans	540	(320)	860	269
Mortgage loans gains (losses)	$931	($215)	$1,146	533%

- 1Q 2019 vs. 1Q 2018 - Increased due to fair value gains on multifamily held-for-sale mortgage loans and commitments as a result of the decline in interest rates and spread tightening, coupled with lower fair value losses on single-family seasoned loans.

Investment Securities Gains (Losses)

- 1Q 2019 vs. 1Q 2018 - Increased primarily due to gains on trading securities driven by decreasing interest rates, partially offset by a decrease in realized gains reclassified from AOCI due to a lower volume of sales of available-for-sale non-agency mortgage-related securities.

Debt Gains (Losses)

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

Table 5 - Components of Debt Gains (Losses)

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Fair value changes	($4)	$11	($15)	(136)%
Gains (losses) on extinguishment of debt	19	110	(91)	(83)
Debt gains (losses)	$15	$121	($106)	(88)%

- 1Q 2019 vs. 1Q 2018 - Decreased primarily due to lower gains from the extinguishment of fixed-rate PCs, as market interest rates declined between the time of issuance and repurchase.

Derivative Gains (Losses)

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

Table 6 - Components of Derivative Gains (Losses)

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Fair value change in interest-rate swaps	($1,047)	$1,514	($2,561)	(169)%
Fair value change in option-based derivatives	(187)	(455)	268	59
Fair value change in other derivatives	(318)	916	(1,234)	(135)
Accrual of periodic cash settlements	(54)	(145)	91	63
Derivative gains (losses)	($1,606)	$1,830	($3,436)	(188)%

- 1Q 2019 vs. 1Q 2018 - Decreased as long-term interest rates declined during 1Q 2019. The 10-year par swap rate decreased 31 basis points during 1Q 2019, compared to a 39 basis point increase during 1Q 2018. The interest rate decreases during 1Q 2019 resulted in fair value losses on pay-fixed interest rate swaps, forward commitments to issue PCs, and futures, which were partially offset by fair value gains on receive-fixed swaps and certain option-based derivatives.

Benefit (Provision) for Credit Losses

- 1Q 2019 vs. 1Q 2018 - Remained relatively flat due to the strong credit performance of both our single-family and multifamily portfolios.

Other Comprehensive Income (Loss)

- 1Q 2019 vs. 1Q 2018 - Increased primarily due to fair value gains as long-term interest rates declined, coupled with a decrease in realized gains reclassified from AOCI due to a lower volume of sales of non-agency mortgage-related securities.

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

Table 7 - Summarized Consolidated Balance Sheets

			Change	
(Dollars in millions)	3/31/2019	12/31/2018	$	%
Assets:				
Cash and cash equivalents	$6,239	$7,273	($1,034)	(14)%
Securities purchased under agreements to resell	50,134	34,771	15,363	44
Subtotal	56,373	42,044	14,329	34
Investments in securities, at fair value	65,496	69,111	(3,615)	(5)
Mortgage loans, net	1,942,088	1,926,978	15,110	1
Accrued interest receivable	6,684	6,728	(44)	(1)
Derivative assets, net	1,146	335	811	242
Deferred tax assets, net	6,819	6,888	(69)	(1)
Other assets	14,301	10,976	3,325	30
Total assets	$2,092,907	$2,063,060	$29,847	1 %
Liabilities and Equity:				
Liabilities:				
Accrued interest payable	$6,558	$6,652	($94)	(1)%
Debt, net	2,073,614	2,044,950	28,664	1
Derivative liabilities, net	432	583	(151)	(26)
Other liabilities	7,638	6,398	1,240	19
Total liabilities	2,088,242	2,058,583	29,659	1
Total equity	4,665	4,477	188	4
Total liabilities and equity	$2,092,907	$2,063,060	$29,847	1 %

Key Drivers:

As of March 31, 2019 compared to December 31, 2018:

- Cash and cash equivalents and securities purchased under agreements to resell increased on a combined basis primarily due to higher near-term cash needs for upcoming maturities and higher anticipated calls of other debt.
- Other assets increased primarily due to the recognition of receivables on sales of securities which had traded but not settled as of March 31, 2019.
- Other liabilities increased primarily due to the recognition of liabilities related to purchases of securities which had traded but not settled as of March 31, 2019.

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), single-family securitization activities, and treasury function, which includes interest-rate risk management for the company.

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.
(In millions)

Single-Family Guarantee
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

- Our loan purchase and guarantee activity increased in 1Q 2019 compared to 1Q 2018, primarily due to higher home purchase volume, partially offset by a decline in refinance activity as a result of higher average mortgage interest rates in recent quarters.

Single-Family Credit Guarantee Portfolio

- The single-family credit guarantee portfolio increased at an annualized rate of approximately 4% between December 31, 2018 and March 31, 2019, driven by an increase in U.S. single-family mortgage debt outstanding as a result of continued home price appreciation and our increased share of the single-family mortgage market. 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 83% of the single-family credit guarantee portfolio at March 31, 2019, compared to 82% at December 31, 2018.
- The legacy and relief refinance single-family loan portfolio declined to 17% of the single-family credit guarantee portfolio at March 31, 2019, compared to 18% at December 31, 2018.

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 2018 Annual Report for more information on our guarantee fees.

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

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

(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.

- The average portfolio Segment Earnings guarantee fee rate declined in 1Q 2019 compared to 1Q 2018 due to a decrease in the recognition of upfront fees driven by a lower prepayment rate. This decrease was partially offset by an increase in contractual guarantee fees as older vintages were replaced by acquisitions of new loans with higher contractual guarantee fees.
- The average guarantee fee rate charged on new acquisitions remained unchanged in 1Q 2019 compared to 1Q 2018.

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. See MD&A - Our Business Segments - Single-Family Guarantee - Business Overview - Products and Activities - Credit Risk Transfer (CRT) Transactions in our 2018 Annual Report for more information on our CRT transactions.

The following table presents the issuance amounts during 1Q 2019 on the protected UPB and maximum coverage by loss position associated with CRT transactions for loans in our single-family credit guarantee portfolio.

Table 8 - Single-Family Credit Guarantee Portfolio CRT Issuance

	Issuance for the Three Months Ended March 31, 2019			
	Protected UPB[1]	Maximum Coverage[2]		
(In millions)	Total	First Loss[3]	Mezzanine	Total
CRT Activities:				
STACR debt notes	$9,000	$60	$220	$280
STACR Trust transactions	65,849	522	1,440	1,962
ACIS® transactions	65,103	243	611	854
Senior subordinate securitization structures	1,903	115	79	194
Other	4,187	32	128	160
Less: UPB with more than one type of CRT activity	(45,368)	—	—	—
Total CRT Activities	$100,674	$972	$2,478	$3,450

(1) For STACR and ACIS transactions, represents the UPB of the assets included in the reference pool. For senior subordinate securitization structure transactions, represents the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities.

(2) For STACR transactions, represents the balance held by third parties at issuance. For ACIS transactions, represents the aggregate limit of insurance purchased from third parties at issuance. For senior subordinate securitization structure transactions, represents the UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

(3) First loss includes the most subordinate securities (i.e., B tranches) in our STACR transactions and their equivalent in ACIS and Other CRT transactions.

- We retained exposure to $97.2 billion of the protected UPB for the CRT issuances during 1Q 2019, including first loss and mezzanine positions.

We are continually evaluating our CRT strategy, and we make changes depending on market conditions and our business strategy. The aggregate cost of our CRT activity, as well as the amount of credit risk transferred, will continue to increase as we execute new transactions.

Credit Enhancements

To reduce our credit risk exposure, we engage in various credit enhancement arrangements, which include CRT transactions and other credit enhancements.

The tables below provide information on the total protected UPB and maximum coverage associated with credit enhanced loans in our single-family credit guarantee portfolio, measured by UPB, that were covered by one or more forms of credit enhancements as of March 31, 2019 and December 31, 2018, respectively. See MD&A - Risk Management - Single-Family Mortgage Credit Risk - Transferring Credit Risk of the Single-Family Credit Guarantee Portfolio to Investors in New and Innovative Ways in our 2018 Annual Report and Note 6 in this report and our 2018 Annual Report for additional information about our single-family credit enhancements.

Table 9 - Details of Credit Enhanced Loans in Our Single-Family Credit Guarantee Portfolio

	Outstanding as of March 31, 2019					
	Protected UPB[1]	Percentage of Single-Family Credit Guarantee Portfolio		Maximum Coverage[2]		
(In millions)	Total	Total		First Loss[3]	Mezzanine	Total
CRT Activities:						
STACR debt notes	$600,857	31	%	$2,213	$15,251	$17,464
STACR Trust transactions	222,837	12		2,144	4,822	6,966
ACIS transactions	853,942	45		1,792	8,011	9,803
Senior subordinate securitization structures	41,015	2		1,919	2,107	4,026
Other	17,216	1		5,256	203	5,459
Less: UPB with more than one type of CRT Activity	(764,956)	(40)		—	—	—
Total CRT Activities	$970,911	51	%	$13,324	$30,394	$43,718
Other Credit Enhancements:						
Primary Mortgage Insurance	$385,483	20	%	$98,846	—	$98,846
Other	2,435	—		1,312	—	1,312
Less: UPB with both CRT and other credit enhancements	(283,923)	(15)		—	—	—
Single-family credit guarantee portfolio with credit enhancement	1,074,906	56		113,482	30,394	143,876
Single-family credit guarantee portfolio without credit enhancement	838,619	44		—	—	—
Total	$1,913,525	100	%	$113,482	$30,394	$143,876

Referenced footnotes are included after the next table.

	Outstanding as of December 31, 2018					
	Protected UPB[(1)]	Percentage of Single-Family Credit Guarantee Portfolio		Maximum Coverage[(2)]		
(In millions)	Total	Total		First Loss[(3)]	Mezzanine	Total
CRT Activities:						
STACR debt notes	$605,263	32	%	$2,155	$15,441	$17,596
STACR Trust transactions	161,152	8		1,622	3,404	5,026
ACIS transactions	807,885	43		1,552	7,571	9,123
Senior subordinate securitization structures	39,860	2		1,807	2,046	3,853
Other	18,136	1		5,049	340	5,389
Less: UPB with more than one type of CRT Activity	(736,334)	(39	)	—	—	—
Total CRT Activities	$895,962	47	%	$12,185	$28,802	$40,987
Other Credit Enhancements:						
Primary Mortgage Insurance	$378,594	20	%	$96,996	—	$96,996
Other	2,642	—		1,341	—	1,341
Less: UPB with both CRT and other credit enhancements	(254,774)	(13	)	—	—	—
Single-family credit guarantee portfolio with credit enhancement	1,022,424	54		110,522	28,802	139,324
Single-family credit guarantee portfolio without credit enhancement	873,762	46		—	—	—
Total	$1,896,186	100	%	$110,522	$28,802	$139,324

(1) For STACR and ACIS transactions, represents the UPB of the assets included in the reference pool. For senior subordinate securitization structure transactions, represents the UPB of the guaranteed securities, which represents the UPB of the assets included in the trust net of the protection provided by the subordinated securities.

(2) For STACR transactions, represents the outstanding balance held by third parties. For ACIS transactions, represents the remaining aggregate limit of insurance purchased from third parties. For senior subordinate securitization structure transactions, represents the outstanding UPB of the securities that are subordinate to Freddie Mac guaranteed securities and held by third parties.

(3) First loss includes the most subordinate securities (i.e., B tranches) in our STACR transactions and their equivalent in ACIS and Other CRT transactions.

n We had coverage remaining of $143.9 billion and $139.3 billion on our single-family credit guarantee portfolio as of March 31, 2019 and December 31, 2018, respectively. CRT transactions provided 30.4% and 29.4% of the coverage remaining at those dates.

n As of March 31, 2019, we had cumulatively transferred a portion of credit risk on nearly $1.3 trillion of our single-family mortgages, based upon the UPB at issuance of the CRT transactions.

l FHFA's conservatorship capital needed for credit risk was reduced by approximately 65% through CRT transactions on new business activity in the twelve months ended March 31, 2018.

l The reduction in the amount of conservatorship capital needed for credit risk on new business activity is calculated as conservatorship credit capital released from the CRT transactions (primarily through STACR and ACIS) divided by total conservatorship credit capital on new business activity at the time of purchase. For more information on the CCF and the calculation of conservatorship capital, see Liquidity and Capital Resources - Capital Resources - Conservatorship Capital Framework - Return on Conservatorship Capital.

- During 1Q 2019, we paid $159 million in interest expense, net of reinvestment income, on our outstanding STACR debt notes and $152 million in premium expense for ACIS and STACR Trust contracts, compared to $165 million in interest expense, net of reinvestment income, on our outstanding STACR debt notes and $67 million in premium expense for ACIS and STACR Trust contracts in 1Q 2018.
- As of March 31, 2019, we had experienced minimal write-downs on our STACR transactions and have filed minimal claims for reimbursement of losses under our ACIS transactions.

Mortgage Loan Credit Risk

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

Table 10 - Single-Family Credit Guarantee Portfolio Attribute Combinations for Higher Risk Loans

	March 31, 2019								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(Credit score)	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate	% Modified
Core single-family loan portfolio:									
< 620	0.3 %	2.19 %	0.1 %	3.39 %	— %	NM	0.4 %	2.36 %	3.6 %
620 to 659	2.1	1.10	0.3	1.18	—	NM	2.4	1.11	2.0
≥ 660	69.4	0.17	10.3	0.25	—	NM	79.7	0.18	0.3
Not available									