FEDERAL HOME LOAN MORTGAGE CORP
Form 10-K/A
March 04, 2010

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2009

Commission File Number: 000-53330

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

Freddie Mac

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

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

Title of each class:	Name of each exchange on which registered:
Voting Common Stock, no par value per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
5% Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
5.1% Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
5.79% Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange

Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
5.81% Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
6% Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
5.7% Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
Variable Rate, Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share	New York Stock Exchange
6.42% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share	New York Stock Exchange
5.9% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share	New York Stock Exchange
5.57% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share	New York Stock Exchange
5.66% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share	New York Stock Exchange
6.02% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share	New York Stock Exchange
6.55% Non-Cumulative Preferred Stock, par value $1.00 per share	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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). o Yes o No

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

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

(Do not check if a smaller reporting company) o   Smaller reporting company o

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

The aggregate market value of the common stock held by non-affiliates computed by reference to the price at which the common equity was last sold on June 30, 2009 (the last business day of the registrant s most recently completed second fiscal quarter) was $401.9 million.

As of February 11, 2010, there were 648,377,977 shares of the registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: The information required by Part III (Items 10, 11, 12, 13 and 14) will be filed in an amendment on Form 10-K/A on or before April 30, 2010.

TABLE OF CONTENTS

EXPLANATORY NOTE

Freddie Mac, or the Company, is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the year ended December 31, 2009, or the Form 10-K, filed with the Securities and Exchange Commission, or SEC, on February 24, 2010 to include the conformed signature of PricewaterhouseCoopers LLP, or PwC, which was inadvertently omitted from the Report of Independent Registered Public Accounting Firm included in Item 8 of the Form 10-K. At the time of the February 24, 2010 filing of the Form 10-K with the SEC, the Company was in possession of the manually signed original of PwC s report, but the conformed signature was inadvertently omitted from the Form 10-K. The Company is, thus, amending Item 8 of Form 10-K for the sole purpose of including the aforementioned conformed signature.

Because the amendment to Item 8 only incorporates the conformed signature of PwC on the Report of Independent Registered Public Accounting Firm, the date of such report remains as originally filed. In accordance with SEC rules, we are including in this Form 10-K/A the entire text of Item 8 and revising Item 15 and the Exhibit Index to include new certifications of our chief executive officer and chief financial officer.

This Form 10-K/A continues to speak as of the date of the Form 10-K and no attempt has been made to modify or update disclosures in the original Form 10-K except as noted above. This Form 10-K/A does not reflect events occurring after the filing of the Form 10-K or modify or update any related disclosures and any information not affected by the amendments contained in this Form 10-K/A is unchanged and reflects the disclosure made at the time of the filing of the Form 10-K with the SEC.

Table of Contents

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Freddie Mac:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows, and of equity (deficit) present fairly, in all material respects, the financial position of Freddie Mac, a stockholder-owned government-sponsored enterprise (the Company), and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because a material weakness in internal control over financial reporting related to disclosure controls and procedures that do not provide adequate mechanisms for information known to the Federal Housing Finance Agency (FHFA) that may have financial statement disclosure ramifications to be communicated to management, existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company s annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in the accompanying Management s Report on Internal Control Over Financial Reporting. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2009 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management s report referred to above. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our audits (which was an integrated audit in 2009). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (United States) the supplemental consolidated fair value balance sheets of the Company as of December 31, 2009 and 2008. As explained in Note 18: Fair Value Disclosures , the supplemental consolidated fair value balance sheets have been prepared by management to present relevant financial information that is not provided by the historical-cost consolidated balance sheets and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. In addition, the supplemental consolidated fair value balance sheets do not purport to present the net realizable, liquidation, or market value of the Company as a whole. Furthermore, amounts ultimately realized by the Company from the disposal of assets or amounts required to settle obligations may vary significantly from the fair values presented. In our opinion, the supplemental consolidated fair value balance sheets referred to above present fairly, in all material respects, the information set forth therein as described in Note 18: Fair Value Disclosures .

As explained in Note 2 to the consolidated financial statements, in September 2008, the Company was placed into conservatorship by the FHFA. The U.S. Department of Treasury (Treasury) has committed financial support to the Company and management continues to conduct business operations pursuant to the delegated authorities from FHFA during conservatorship. The Company is dependent upon the continued support of Treasury and FHFA. As discussed in Note 1 to the consolidated financial statements, the Company adopted as of April 1, 2009 an amendment to the accounting standards for investments in debt and equity securities which changed how it recognizes, measures and presents other-than-temporary impairment for debt securities and, as of January 1, 2008, changed how it defines, measures and discloses the fair value of assets and liabilities and elected to measure certain financial instruments and other items at fair value that are not required to be measured at fair value.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 23, 2010

Table of Contents

FREDDIE MAC
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2009	2008	2007
	(in millions, except share-related amounts)		
Interest income			
Investments in securities	$ 33,290	$ 35,067	$ 36,587
Mortgage loans	6,815	5,369	4,449
Other:			
Cash and cash equivalents	193	618	594
Federal funds sold and securities purchased under agreements to resell	48	423	1,280
Total other	241	1,041	1,874
Total interest income	40,346	41,477	42,910
Interest expense			
Short-term debt	(2,234)	(6,800)	(8,916)
Long-term debt	(19,916)	(26,532)	(29,148)
Total interest expense on debt	(22,150)	(33,332)	(38,064)
Due to Participation Certificate investors			(418)
Total interest expense	(22,150)	(33,332)	(38,482)
Expense related to derivatives	(1,123)	(1,349)	(1,329)
Net interest income	17,073	6,796	3,099
Non-interest income (loss)			
Management and guarantee income (includes interest on guarantee asset of $923, $1,121 and $549, respectively)	3,033	3,370	2,635
Gains (losses) on guarantee asset	3,299	(7,091)	(1,484)
Income on guarantee obligation	3,479	4,826	1,905
Derivative gains (losses)	(1,900)	(14,954)	(1,904)
Gains (losses) on investments:			
Impairment-related:			
Total other-than-temporary impairment of available-for-sale securities	(23,125)	(17,682)	(365)
Portion of other-than-temporary impairment recognized in AOCI	11,928		
Net impairment of available-for-sale securities recognized in earnings	(11,197)	(17,682)	(365)
Other gains (losses) on investments	5,841	1,574	659
Total gains (losses) on investments	(5,356)	(16,108)	294
Gains (losses) on debt recorded at fair value	(404)	406	
Gains (losses) on debt retirement	(568)	209	345

Recoveries on loans impaired upon purchase		379		495		505
Foreign-currency gains (losses), net						(2,348)
Low-income housing tax credit partnerships		(4,155)		(453)		(469)
Trust management income (expense)		(761)		(70)		18
Other income		222		195		228
Non-interest income (loss)		(2,732)		(29,175)		(275)
Non-interest expense						
Salaries and employee benefits		(912)		(828)		(828)
Professional services		(310)		(262)		(392)
Occupancy expense		(68)		(67)		(64)
Other administrative expenses		(361)		(348)		(390)
Total administrative expenses		(1,651)		(1,505)		(1,674)
Provision for credit losses		(29,530)		(16,432)		(2,854)
Real estate owned operations expense		(307)		(1,097)		(206)
Losses on certain credit guarantees				(17)		(1,988)
Losses on loans purchased		(4,754)		(1,634)		(1,865)
Securities administrator loss on investment activity				(1,082)		
Other expenses		(483)		(418)		(226)
Non-interest expense		(36,725)		(22,185)		(8,813)
Loss before income tax benefit (expense)		(22,384)		(44,564)		(5,989)
Income tax benefit (expense)		830		(5,552)		2,887
Net loss		(21,554)		(50,116)		(3,102)
Less: Net (income) loss attributable to noncontrolling interest		1		(3)		8
Net loss attributable to Freddie Mac	$	(21,553)	$	(50,119)	$	(3,094)
Preferred stock dividends and issuance costs on redeemed preferred stock		(4,105)		(675)		(404)
Amount allocated to participating security option holders				(1)		(5)
Net loss attributable to common stockholders	$	(25,658)	$	(50,795)	$	(3,503)
Loss per common share:						
Basic	$	(7.89)	$	(34.60)	$	(5.37)
Diluted	$	(7.89)	$	(34.60)	$	(5.37)
Weighted average common shares outstanding (in thousands):						
Basic		3,253,836		1,468,062		651,881
Diluted		3,253,836		1,468,062		651,881
Dividends per common share	$		$	0.50	$	1.75

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

Table of Contents

FREDDIE MAC
CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents	$ 64,683	$ 45,326
Restricted cash	527	953
Federal funds sold and securities purchased under agreements to resell	7,000	10,150
Investments in securities:		
Available-for-sale, at fair value (includes $10,879 and $21,302, respectively, pledged as collateral that may be repledged)	384,684	458,898
Trading, at fair value	222,250	190,361
Total investments in securities	606,934	649,259
Mortgage loans:		
Held-for-sale, at lower-of-cost-or-fair-value (except $2,799 and $401 at fair value, respectively)	16,305	16,247
Held-for-investment, at amortized cost (net of allowances for loan losses of $1,441 and $690, respectively)	111,565	91,344
Total mortgage loans, net	127,870	107,591
Accounts and other receivables, net	6,095	6,337
Derivative assets, net	215	955
Guarantee asset, at fair value	10,444	4,847
Real estate owned, net	4,692	3,255
Deferred tax assets, net	11,101	15,351
Low-income housing tax credit partnership equity investments		4,145
Other assets	2,223	2,794
Total assets	$ 841,784	$ 850,963
Liabilities and equity (deficit)		
Liabilities		
Accrued interest payable	$ 5,047	$ 6,504
Debt, net:		
Short-term debt (includes $6,328 and $1,638 at fair value, respectively)	343,975	435,114
Long-term debt (includes $2,590 and $11,740 at fair value, respectively)	436,629	407,907
Total debt, net	780,604	843,021
Guarantee obligation	12,465	12,098
Derivative liabilities, net	589	2,277
Reserve for guarantee losses on Participation Certificates	32,416	14,928
Other liabilities	6,291	2,769

Total liabilities	837,412	881,597