FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
November 03, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

or

o **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	**52-0904874**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
8200 Jones Branch Drive, McLean, Virginia	**22102-3110**
(Address of principal executive offices)	*(Zip Code)*

(703) 903-2000

(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. x Yes o 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). x Yes o 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 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). o Yes x No

As of October 21, 2011, there were 649,722,580 shares of the registrant s common stock outstanding.

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PART I FINANCIAL INFORMATION

We continue to operate under the conservatorship that commenced on September 6, 2008, under the direction of FHFA as our Conservator. The Conservator succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any shareholder, officer or director thereof, with respect to the company and its assets. The Conservator has delegated certain authority to our Board of Directors to oversee, and management to conduct, day-to-day operations. The directors serve on behalf of, and exercise authority as directed by, the Conservator. See BUSINESS Conservatorship and Related Matters in our Annual Report on Form 10-K for the year ended December 31, 2010, or 2010 Annual Report, for information on the terms of the conservatorship, the powers of the Conservator, and related matters, including the terms of our Purchase Agreement with Treasury.

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 and 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) MD&A FORWARD-LOOKING STATEMENTS, and RISK FACTORS in this Form 10-Q and in the comparably captioned sections of our 2010 Annual Report and our Quarterly Reports on Form 10-Q for the first and second quarters of 2011; and (b) the BUSINESS section of our 2010 Annual Report.

Throughout this Form 10-Q, we use certain acronyms and terms which 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 consolidated financial statements and related notes for the three and nine months ended September 30, 2011 included in FINANCIAL STATEMENTS, and our 2010 Annual Report.

EXECUTIVE SUMMARY

Overview

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

Summary of Financial Results

Our financial performance in the third quarter of 2011 was impacted by the ongoing weakness in the economy, including in the mortgage market, and by a significant reduction in long-term interest rates and changes in OAS levels during the quarter. Our total comprehensive income (loss) was $(4.4) billion and $1.4 billion for the third quarters of 2011 and 2010, respectively, consisting of: (a) $(4.4) billion and $(2.5) billion of net income (loss), respectively; and (b) $46 million and $3.9 billion of total other comprehensive income, respectively.

Our total equity (deficit) was $(6.0) billion at September 30, 2011 and includes our total comprehensive income (loss) of $(4.4) billion for the third quarter of 2011 and our dividend payment of $1.6 billion on our senior preferred stock on September 30, 2011. To address our deficit in net worth, FHFA, as Conservator, will submit a draw request on our behalf to Treasury under the Purchase Agreement for $6.0 billion. Following receipt of the draw, the aggregate liquidation preference on the senior preferred stock owned by Treasury will increase to $72.2 billion.

Our Primary Business Objectives

Under conservatorship, we are focused on: (a) meeting the needs of the U.S. residential mortgage market by making home ownership and rental housing more affordable by providing liquidity to mortgage originators and, indirectly, to mortgage borrowers; (b) working to reduce the number of foreclosures and helping to keep families in their homes, including through our role in the MHA Program initiatives, including HAMP and HARP, and through our non-HAMP workout and refinancing initiatives; (c) minimizing our credit losses; (d) maintaining the credit quality of the loans we purchase and guarantee; and (e) strengthening our infrastructure and improving overall efficiency. Our business objectives

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reflect, in part, direction we have received from the Conservator. We also have a variety of different, and potentially competing, objectives based on our charter, public statements from Treasury and FHFA officials, and other guidance and directives from our Conservator. For more information, see BUSINESS Conservatorship and Related Matters *Impact of Conservatorship and Related Actions on Our Business* in our 2010 Annual Report.

Providing Mortgage Liquidity and Conforming Loan Availability

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

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

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

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

- We are an important counter-cyclical influence as we stay in the market even when other sources of capital have pulled out, as evidenced by the events of the last three years.

During the three and nine months ended September 30, 2011, we guaranteed $68.2 billion and $226.1 billion in UPB of single-family conforming mortgage loans, respectively, representing more than 312,000 and 1,022,000 borrowers, respectively, who purchased homes or refinanced their mortgages.

Borrowers typically pay a lower interest rate on loans acquired or guaranteed by Freddie Mac, Fannie Mae, or Ginnie Mae. Mortgage originators are generally able to offer homebuyers and homeowners lower mortgage rates on conforming loan products, including ours, in part because of the value investors place on GSE-guaranteed mortgage-related securities. Prior to 2007, mortgage markets were less volatile, home values were stable or rising, and there were many sources of mortgage funds. We estimate that prior to 2007 the average effective interest rates on conforming, fixed-rate single-family mortgage loans were about 30 basis points lower than on non-conforming loans. Since 2007, we estimate that , at times, interest rates on conforming, fixed-rate loans, excluding conforming jumbo loans, have been lower than those on non-conforming loans by as much as 184 basis points. In September 2011, we estimate that borrowers were paying an average of 53 basis points less on these conforming loans than on non-conforming loans. These estimates are based on data provided by HSH Associates, a third-party provider of mortgage market data.

Reducing Foreclosures and Keeping Families in Homes

We are focused on reducing the number of foreclosures and helping to keep families in their homes. In addition to our participation in HAMP, we introduced several new initiatives during the last few years to help eligible borrowers keep their homes or avoid foreclosure, including our relief refinance mortgage initiative (which is our implementation of HARP). Since the beginning of 2011, we have helped more than 164,000 borrowers either stay in their homes or sell their properties and avoid foreclosure through HAMP and our various other workout initiatives. Table 1 presents our recent single-family loan workout activities.

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

	For the Three Months Ended				
	09/30/2011	06/30/2011	03/31/2011	12/31/2010	09/30/2010
	(number of loans)				
Loan modifications	23,919	31,049	35,158	37,203	39,284
Repayment plans	8,333	7,981	9,099	7,964	7,030
Forbearance agreements[2]	4,262	3,709	7,678	5,945	6,976
Short sales and deed-in-lieu transactions	11,744	11,038	10,706	12,097	10,472
Total single-family loan workouts	48,258	53,777	62,641	63,209	63,762

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

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

We continue to execute a high volume of loan workouts. Highlights of these efforts include the following:

We completed 48,258 single-family loan workouts during the third quarter of 2011, including 23,919 loan modifications and 11,744 short sales and deed-in-lieu transactions.

Based on information provided by the MHA Program administrator, our servicers had completed 143,739 loan modifications under HAMP from the introduction of the initiative in 2009 through September 30, 2011 and, as of September 30, 2011, 13,785 loans were in HAMP trial periods (this figure only includes borrowers who made at least their first payment under the trial period).

We continue to directly assist troubled borrowers through targeted outreach and other efforts. In addition, on April 28, 2011, FHFA announced a new set of aligned standards for servicing by Freddie Mac and Fannie Mae. This servicing alignment initiative will result in consistent processes for both HAMP and non-HAMP loan modifications. We implemented most aspects of this initiative effective October 1, 2011. As part of this initiative, we introduced a new non-HAMP standard loan modification process in the fourth quarter of 2011 that requires borrowers to complete a three month trial period and permits forbearance (but not forgiveness) of principal. This new standard modification will replace our existing non-HAMP modification initiative. We believe that the servicing alignment initiative, which will establish a uniform framework and requirements for servicing non-performing loans owned or guaranteed by us and Fannie Mae, will ultimately change the way servicers communicate and work with troubled borrowers, bring greater consistency and accountability to the servicing industry, and help more distressed homeowners avoid foreclosure. For information on changes to mortgage servicing and foreclosure practices that could adversely affect our business, see LEGISLATIVE AND REGULATORY MATTERS Developments Concerning Single-Family Servicing Practices.

On October 24, 2011 FHFA, Freddie Mac, and Fannie Mae announced a series of FHFA-directed changes to HARP in an effort to attract more eligible borrowers who can benefit from refinancing their home mortgage. The Acting Director of FHFA stated that the goal of pursuing these changes is to create refinancing opportunities for more borrowers whose mortgage is owned or guaranteed by the GSEs while reducing risk for the GSEs and bringing a measure of stability to housing markets. The revisions to HARP enable us to expand the assistance we provide to homeowners by making their mortgage payments more affordable through one or more of the following ways: (a) a reduction in payment; (b) a reduction in rate; (c) movement to a more stable mortgage product type (*i.e.*, from an adjustable-rate mortgage to a fixed-rate mortgage); or (d) a reduction in amortization term.

For more information about HAMP, other loan workout programs, our HARP and relief refinance mortgage initiative, and other initiatives to help eligible borrowers keep their homes or avoid foreclosure, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk MHA Program and Single-Family Loan Workouts*.

Minimizing Credit Losses

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

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

- pursuing a variety of loan workouts, including foreclosure alternatives, in an effort to reduce the severity of losses we experience over time;
- managing foreclosure timelines to the extent possible, given the increasingly lengthy foreclosure process in many states;
- managing our inventory of foreclosed properties to reduce costs and maximize proceeds; and
- pursuing contractual remedies against originators, lenders, servicers, and insurers, as appropriate.

We have contractual arrangements with our seller/servicers under which they agree to sell us mortgage loans that have been originated under specified underwriting standards. If we subsequently discover that contractual standards were not followed, we can exercise certain contractual remedies to mitigate our credit losses. These contractual remedies include requiring the seller/servicer to repurchase the loan at its current UPB or make us whole for any credit losses realized with respect to the loan. The amount we expect to collect on the outstanding requests is significantly less than the UPB amount primarily because many of these requests will likely be satisfied by the seller/servicers reimbursement to us for realized credit losses. These requests also may be rescinded in the course of the contractual appeals process. As of

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September 30, 2011, the UPB of loans subject to repurchase requests issued to our single-family seller/servicers was approximately $2.7 billion, and approximately 40% of these requests were outstanding for more than four months since issuance of our initial repurchase request.

Our credit loss exposure is also partially mitigated by mortgage insurance, which is a form of credit enhancement. Primary mortgage insurance is required to be purchased, typically at the borrower s expense, for certain mortgages with higher LTV ratios. As of September 30, 2011, we had mortgage insurance coverage on loans that represent approximately 13% of the UPB of our single-family credit guarantee portfolio. We received payments under primary and other mortgage insurance of $0.7 billion and $2.0 billion in the three and nine months ended September 30, 2011, respectively, which helped to mitigate our credit losses. See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES Table 4.5 Recourse and Other Forms of Credit Protection for more detail. The financial condition of certain of our mortgage insurers continued to deteriorate in the third quarter of 2011. In August 2011, we suspended Republic Mortgage Insurance Company, or RMIC, and PMI Mortgage Insurance Co., or PMI, and their respective affiliates as approved mortgage insurers for our loans. PMI has been put under state supervision, and PMI s state regulator has petitioned for judicial action to place PMI into receivership. Triad Guaranty Insurance Corp., or Triad, has been operating under regulatory supervision since 2009. In addition to Triad, RMIC, and PMI, we believe that certain mortgage insurance counterparties may lack sufficient ability to meet all their expected lifetime claims paying obligations to us as they emerge. Our loan loss reserves reflect our estimates of expected insurance recoveries. As of September 30, 2011, only six insurance companies remained as eligible insurers for Freddie Mac loans, which makes it likely that, in the future, our mortgage insurance exposure will be concentrated among a smaller number of counterparties.

See RISK MANAGEMENT Credit Risk *Institutional Credit Risk* for further information on our agreements with our seller/servicers and our exposure to mortgage insurers.

Maintaining the Credit Quality of New Loan Purchases and Guarantees

We continue to focus on maintaining credit policies, including our underwriting guidelines, that allow us to purchase and guarantee loans made to qualified borrowers that we believe will provide management and guarantee fee income, over the long-term, that exceeds our expected credit-related and administrative expenses on such loans.

As of September 30, 2011 and December 31, 2010, approximately 50% and 39%, respectively, of our single-family credit guarantee portfolio consisted of mortgage loans originated after 2008. Loans in our single-family credit guarantee portfolio originated after 2008 have experienced lower serious delinquency trends in the early years of their terms than loans originated in 2005 through 2008.

The credit quality of the single-family loans we acquired in the nine months ended September 30, 2011 (excluding relief refinance mortgages, which represented approximately 26% of our single family purchase volume during the nine months ended September 30, 2011) is significantly better than that of loans we acquired from 2005 through 2008, as measured by early delinquency rate trends, original LTV ratios, FICO scores, and the proportion of loans underwritten with fully documented income. The improvement in credit quality of loans we have purchased since 2008 is primarily the result of the combination of: (a) changes in our credit policies, including changes in our underwriting guidelines; (b) fewer purchases of loans with higher risk characteristics; and (c) changes in mortgage insurers and lenders underwriting practices.

Approximately 91% of our single-family purchase volume in the nine months ended September 30, 2011 consisted of fixed-rate amortizing mortgages. Approximately 67% and 75% of our single-family purchase volumes in the three and nine months ended September 30, 2011, respectively, were refinance mortgages, including approximately 22% and 26%, respectively, that were relief refinance mortgages, based on UPB. Relief refinance mortgages with LTV ratios

above 80% may not perform as well as refinance mortgages with LTV ratios of 80% and below over time due, in part, to the continued high LTV ratios of these loans. Approximately 11% and 13% of our single-family purchase volume in the three and nine months ended September 30, 2011, respectively, was relief refinance mortgages with LTV ratios above 80%. Relief refinance mortgages comprised approximately 10% and 7% of the UPB in our total single-family credit guarantee portfolio at September 30, 2011 and December 31, 2010, respectively.

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Table 2 presents the composition, loan characteristics, and serious delinquency rates of loans in our single-family credit guarantee portfolio, by year of origination at September 30, 2011.

Table 2 Single-Family Credit Guarantee Portfolio Data by Year of Origination[1]

	At September 30, 2011					
	% of Portfolio	Average Credit Score[2]	Original LTV Ratio	Current LTV Ratio[3]	Current LTV Ratio >100%[3][4]	Serious Delinquency Rate[5]
Year of Origination						
2011	10%	752	71%	70%	5%	0.03%
2010	20	755	70	70	5	0.17
2009	20	754	68	72	5	0.41
2008	7	726	74	91	33	5.20
2007	10	706	77	112	59	11.21
2006	7	710	75	111	54	10.54
2005	8	717	73	95	37	6.20
2004 and prior	18	720	71	60	9	2.63
Total	100%	735	72	79	19	3.51

(1) Based on the loans remaining in the portfolio, which totaled $1,784 billion at September 30, 2011, rather than all loans originally guaranteed by us and originated in the respective year.
(2) Based on FICO credit score of the borrower as of the date of loan origination and may not be indicative of the borrowers credit worthiness at September 30, 2011. Excludes $10 billion in UPB of loans where the FICO scores at origination were not available at September 30, 2011.
(3) We estimate current market values by adjusting the value of the property at origination based on changes in the market value of homes in the same geographical area since origination.
(4) Calculated as a percentage of the aggregate UPB of loans with LTV ratios greater than 100% in relation to the total UPB of loans in the category.
(5) See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-family Mortgage Credit Risk* Delinquencies for further information about our reported serious delinquency rates.

Mortgages originated after 2008 represent an increasingly large proportion of our single-family credit guarantee portfolio, as the amount of older vintages in the portfolio, which have a higher composition of loans with higher-risk characteristics, continues to decline due to liquidations, which include prepayments, refinancing activity, foreclosure transfers, and foreclosure alternatives. We currently expect that, over time, the replacement of older vintages should positively impact the serious delinquency rates and credit-related expenses of our single-family credit guarantee portfolio. However, the rate at which this replacement occurs slowed beginning in 2010, due to a decline in the volume of home purchase mortgage originations, an increase in the proportion of relief refinance mortgage activity, and delays in the foreclosure process. See Table 14 Segment Earnings Composition Single-Family Guarantee Segment for an analysis of the contribution to Segment Earnings (loss) by loan origination year.

Strengthening Our Infrastructure and Improving Overall Efficiency

In conjunction with our Conservator, we are working to both enhance the quality of our infrastructure and improve our efficiency in order to preserve the taxpayers investment. As such, we are focusing our resources primarily on key projects. Many of these projects will likely take several years to fully implement and focus on making significant improvements to our systems infrastructure in order to: (a) respond to mandatory initiatives from FHFA or other regulatory bodies; (b) replace legacy hardware or software systems at the end of their lives and strengthen our disaster recovery capabilities; and (c) improve our data collection and administration as well as our ability to assist in the servicing of loans. As a result of these efforts, we expect to have an infrastructure in place that is more efficient, flexible and well-controlled, which will assist us in our continued efforts to serve the mortgage market and reduce administrative expenses and other costs.

We continue to actively manage our general and administrative expenses, while also continuing to focus on retaining key talent. Our general and administrative expenses declined for the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010.

Single-Family Credit Guarantee Portfolio

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

Since the beginning of 2008, on an aggregate basis, we have recorded provision for credit losses associated with single-family loans of approximately $70.5 billion, and have recorded an additional $4.4 billion in losses on loans purchased from PC trusts, net of recoveries. The majority of these losses are associated with loans originated in 2005 through 2008. While loans originated in 2005 through 2008 will give rise to additional credit losses that have not yet been

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incurred and, thus have not been provisioned for, we believe that, as of September 30, 2011, we have reserved for or charged-off the majority of the total expected credit losses for these loans. Nevertheless, various factors, such as continued high unemployment rates or further declines in home prices, could require us to provide for losses on these loans beyond our current expectations.

The UPB of our single-family credit guarantee portfolio declined approximately 2%, on an annualized basis, during the nine months ended September 30, 2011. This reflects that the amount of single-family loan liquidations has exceeded new loan purchase and guarantee activity in 2011, which we believe is due, in part, to declines in the amount of single-family mortgage debt outstanding in the market. Table 3 provides certain credit statistics for our single-family credit guarantee portfolio.

Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio

	As of				
	9/30/2011	**6/30/2011**	**3/31/2011**	**12/31/2010**	**9/30/2010**
Payment status					
One month past due	1.94%	1.92%	1.75%	2.07%	2.11%
Two months past due	0.70%	0.67%	0.65%	0.78%	0.80%
Seriously delinquent[1]	3.51%	3.50%	3.63%	3.84%	3.80%
Non-performing loans (in millions)[2]	$ 119,081	$ 114,819	$ 115,083	$ 115,478	$ 112,746
Single-family loan loss reserve (in millions)[3]	$ 39,088	$ 38,390	$ 38,558	$ 39,098	$ 37,665
REO inventory (in properties)	59,596	60,599	65,159	72,079	74,897
REO assets, net carrying value (in millions)	$ 5,539	$ 5,834	$ 6,261	$ 6,961	$ 7,420

	For the Three Months Ended				
	9/30/2011	**6/30/2011**	**3/31/2011**	**12/31/2010**	**9/30/2010**
	(in units, unless noted)				
Seriously delinquent loan additions[1]	93,850	87,813	97,646	113,235	115,359
Loan modifications[4]	23,919	31,049	35,158	37,203	39,284
Foreclosure starts ratio[5]	0.56%	0.55%	0.58%	0.73%	0.75%
REO acquisitions	24,378	24,788	24,707	23,771	39,053
REO disposition severity ratio:[6]					
California	45.5%	44.9%	44.5%	43.9%	41.9%
Arizona	48.7%	51.3%	50.8%	49.5%	46.6%
Florida	53.3%	52.7%	54.8%	53.0%	54.9%
Nevada	53.2%	55.4%	53.1%	53.1%	51.6%
Michigan	48.1%	48.5%	48.3%	49.7%	49.2%
Total U.S.	41.9%	41.7%	43.0%	41.3%	41.5%
Single-family credit losses (in millions)	$ 3,440	$ 3,106	$ 3,226	$ 3,086	$ 4,216

(1) See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Delinquencies* for further information about our reported serious delinquency rates.
(2) Consists of the UPB of loans in our single-family credit guarantee portfolio that have undergone a TDR or that are seriously delinquent. As of September 30, 2011 and December 31, 2010, approximately $42.2 billion and

$26.6 billion in UPB of TDR loans, respectively, were no longer seriously delinquent.

(3) Consists of the combination of: (a) our allowance for loan losses on mortgage loans held for investment; and (b) our reserve for guarantee losses associated with non-consolidated single-family mortgage securitization trusts and other guarantee commitments.

(4) Represents the number of completed modifications under agreement with the borrower during the quarter. Excludes forbearance agreements, repayment plans, and loans in the trial period under HAMP.

(5) Represents the ratio of the number of loans that entered the foreclosure process during the respective quarter divided by the number of loans in the single-family credit guarantee portfolio at the end of the quarter. Excludes Other Guarantee Transactions and mortgages covered under other guarantee commitments.

(6) Calculated as the amount of our losses recorded on disposition of REO properties during the respective quarterly period, excluding those subject to repurchase requests made to our seller/servicers, divided by the aggregate UPB of the related loans. The amount of losses recognized on disposition of the properties is equal to the amount by which the UPB of the loans exceeds the amount of sales proceeds from disposition of the properties. Excludes sales commissions and other expenses, such as property maintenance and costs, as well as applicable recoveries from credit enhancements, such as mortgage insurance.

The quarterly number of seriously delinquent loan additions declined steadily from the fourth quarter of 2009 through the second quarter of 2011; however, we experienced a small increase in the quarterly number of seriously delinquent loan additions during the third quarter of 2011. Several factors, including delays in foreclosure due to concerns about the foreclosure process, have resulted in loans remaining in serious delinquency for longer periods than prior to 2008, particularly in states that require a judicial foreclosure process. As of September 30, 2011 and December 31, 2010, the percentage of seriously delinquent loans that have been delinquent for more than six months was 70% and 66%, respectively. The UPB of our non-performing loans increased during the nine months ended September 30, 2011, primarily due to an increase in single-family loans classified as TDRs. The credit losses and loan loss reserve associated with our single-family credit guarantee portfolio remained elevated for this period, due in part to:

Losses associated with the continued high volume of foreclosures and foreclosure alternatives. These actions relate to the continued efforts of our servicers to resolve our large inventory of seriously delinquent loans. Due to the length of time necessary for servicers either to complete the foreclosure process or pursue foreclosure alternatives

on seriously delinquent loans in our portfolio, we expect our credit losses will continue to remain high even if the volume of new serious delinquencies declines.

Continued negative impact of certain loan groups within the single-family credit guarantee portfolio, such as those underwritten with certain lower documentation standards and interest-only loans, as well as other 2005 through 2008 vintage loans. These groups continue to be large contributors to our credit losses.

Cumulative declines in national home prices during the last five years, based on our own index, which resulted in approximately 19% of our single-family credit guarantee portfolio, based on UPB, consisting of loans with estimated current LTV ratios in excess of 100% (underwater loans) as of September 30, 2011.

Deterioration in the financial condition of certain of our mortgage insurers, which reduced our estimates of expected recoveries from these counterparties.

Our REO inventory (measured in number of properties) declined in each of the last four quarters due to an increase in the volume of REO dispositions and slowdowns in REO acquisition volume as foreclosure timelines have been lengthening. Dispositions of REO increased 16% for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, based on the number of properties sold. We also have continued to experience high REO disposition severity ratios on sales of our REO inventory in the nine months ended September 30, 2011. We believe our single-family REO acquisition volume and single-family credit losses beginning in the fourth quarter of 2010 have been less than they otherwise would have been due to delays in the single-family foreclosure process. See Mortgage Market and Economic Conditions *Delays in the Foreclosure Process for Single-Family Mortgages* for further information.

Conservatorship and Government Support for our Business

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

We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions.

While the conservatorship has benefited us, we are subject to certain constraints on our business activities imposed by Treasury due to the terms of, and Treasury s rights under, the Purchase Agreement and by FHFA, as our Conservator.

To address our net worth deficit of $6.0 billion at September 30, 2011, FHFA, as Conservator, will submit a draw request on our behalf to Treasury under the Purchase Agreement in the amount of $6.0 billion. FHFA will request that we receive these funds by December 31, 2011. Upon funding of the draw request: (a) our aggregate liquidation preference on the senior preferred stock owned by Treasury will increase to $72.2 billion; and (b) the corresponding annual cash dividend owed to Treasury will increase to $7.2 billion.

We pay cash dividends to Treasury at an annual rate of 10%. Through September 30, 2011, we paid aggregate cash dividends to Treasury of $14.9 billion, an amount equal to 23% of our aggregate draws received under the Purchase Agreement. As of September 30, 2011, our annual cash dividend obligation to Treasury on the senior preferred stock exceeded our annual historical earnings in all but one period. As a result, we expect to make additional draws in future periods, even if our operating performance generates net income or comprehensive income.

Under the Purchase Agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. The $200 billion cap on Treasury s funding commitment will increase as necessary to eliminate any net worth deficits we may have during 2010, 2011, and 2012. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to maintain our access to the debt markets and to have adequate liquidity to conduct our normal business activities, although the costs of our debt funding could vary.

On August 5, 2011, S&P lowered the long-term credit rating of the U.S. government to AA+ from AAA and assigned a negative outlook to the rating. On August 8, 2011, S&P lowered our senior long-term debt credit rating to AA+ from AAA and assigned a negative outlook to the rating. While this could adversely affect our liquidity and the supply and cost of debt financing available to us in the future, we have not yet experienced such adverse effects. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity *Other Debt Securities Credit Ratings*.

Neither the U.S. government nor any other agency or instrumentality of the U.S. government is obligated to fund our mortgage purchase or financing activities or to guarantee our securities or other obligations.

For information on conservatorship, the Purchase Agreement, and the impact of credit ratings, see BUSINESS Conservatorship and Related Matters in our 2010 Annual Report and RISK FACTORS *A downgrade in the credit ratings of our debt could adversely affect our liquidity and other aspects of our business. Our business could also be adversely affected if there is a downgrade in the credit ratings of the U.S. government or a payment default by the U.S. government* and *If Treasury is unable to provide us with funding requested under the Purchase Agreement to address a deficit in our net worth, FHFA could be required to place us into receivership* in our Quarterly Report on Form 10-Q for the second quarter of 2011.

Consolidated Financial Results

Net loss was $4.4 billion and $2.5 billion for the three months ended September 30, 2011 and 2010, respectively. Key highlights of our financial results include:

- Net interest income for the three months ended September 30, 2011 increased to $4.6 billion from $4.3 billion for the three months ended September 30, 2010, mainly due to lower funding costs, partially offset by a decline in the average balances of mortgage-related securities.

- Provision for credit losses for the three months ended September 30, 2011 decreased to $3.6 billion, compared to $3.7 billion for the three months ended September 30, 2010. The slight decline in provision for credit losses for the three months ended September 30, 2011 reflects a decline in the volume of early (*i.e.*, one or two months past due) and seriously delinquent loans, which was substantially offset by higher loss severity, primarily due to lower expectations from mortgage insurance recoveries due to the deterioration in the financial condition of certain of these counterparties, compared to the three months ended September 30, 2010. The provision for credit losses in the three months ended September 30, 2010 also reflected a higher volume of completed loan modifications that were classified as TDRs.

- Non-interest income (loss) was $(4.8) billion for the three months ended September 30, 2011, compared to $(2.6) billion for the three months ended September 30, 2010 largely due to derivative losses in both periods. However, there was a significant decline in net impairments of available-for-sale securities recognized in earnings during the three months ended September 30, 2011 compared to the three months ended September 30, 2010.

- Non-interest expense was $(687) million and $(828) million in the three months ended September 30, 2011 and 2010, respectively, and reflects reduced REO operations expense in the three months ended September 30, 2011, compared to the three months ended September 30, 2010.

- Total comprehensive income (loss) was $(4.4) billion for the three months ended September 30, 2011 compared to $1.4 billion for the three months ended September 30, 2010. Total comprehensive income (loss) for the three months ended September 30, 2011 primarily reflects the $(4.4) billion net loss.

Mortgage Market and Economic Conditions

Overview

The housing market continued to experience challenges during the third quarter of 2011 due primarily to continued weakness in the employment market and a significant inventory of seriously delinquent loans and REO properties in the market. The U.S. real gross domestic product rose by 2.5% on an annualized basis during the third quarter of 2011, compared to 1.3% during the second quarter of 2011, according to the Bureau of Economic Analysis estimates. The national unemployment rate was 9.1% in September 2011, compared to 9.2% in June 2011 and 8.8% in March 2011,

based on data from the U.S. Bureau of Labor Statistics.

Single-Family Housing Market

We believe the overall number of potential home buyers in the market combined with the volume of homes offered for sale will determine the direction of home prices. Within the industry, existing home sales are important for assessing the rate at which the mortgage market might absorb the inventory of listed, but unsold, homes in the U.S. (including listed REO properties). Additionally, we believe new home sales can be an indicator of certain economic trends, such as the potential for growth in gross domestic product and total U.S. mortgage debt outstanding. Sales of existing homes in the third quarter of 2011 averaged 4.88 million (at a seasonally adjusted annual rate), unchanged from the second quarter of 2011. New home sales in the third quarter of 2011 averaged 302,000 homes (at a seasonally adjusted annual rate) decreasing approximately 2.3% from an average seasonally adjusted annual rate of approximately 309,000 homes in the second quarter of 2011.

We estimate that home prices (on a non-seasonally adjusted basis) decreased approximately 1.0% nationwide during the nine months ended September 30, 2011, which includes a 0.7% decrease in the third quarter of 2011. Seasonal factors typically result in stronger house-price appreciation during the second and third quarters. These estimates are based on our own index of mortgage loans in our single-family credit guarantee portfolio. Other indexes of home prices may have different results, as they are determined using different pools of mortgage loans and calculated under different conventions than our own.

Multifamily Housing Market

Multifamily market fundamentals continued to improve on a national level during the third quarter of 2011. This improvement continues a trend of favorable movements in key indicators such as vacancy rates and effective rents. 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. These improving fundamentals, perceived optimism about demand for multifamily housing, and lower capitalization rates have helped improve property values in most markets. However, the broader economy continues to be challenged by persistently high unemployment, which has delayed a more comprehensive recovery of the multifamily housing market.

Delays in the Foreclosure Process for Single-Family Mortgages

In the fall of 2010, several large single-family seller/servicers announced issues relating to the improper preparation and execution of certain documents used in foreclosure proceedings, including affidavits. As a result, a number of our seller/servicers, including several of our largest ones, temporarily suspended foreclosure proceedings in the latter part of 2010 in certain states in which they do business, and we temporarily suspended certain REO sales in November 2010. During the first quarter of 2011, we fully resumed marketing and sales of REO properties. While the larger servicers generally resumed foreclosure proceedings in the first quarter of 2011, we continued to experience significant delays in the foreclosure process for single-family mortgages in the nine months ended September 30, 2011, as compared to before these issues arose, particularly in states that require a judicial foreclosure process. More recently, regulatory developments impacting mortgage servicing and foreclosure practices have also contributed to these delays. We believe that these delays have caused the volume of our single-family REO acquisitions in the nine months ended September 30, 2011 to be less than it otherwise would have been. We expect these delays in the foreclosure process to continue into 2012. We generally refer to these issues as the concerns about the foreclosure process. For information on recent regulatory developments affecting foreclosures, see LEGISLATIVE AND REGULATORY MATTERS Developments Concerning Single-Family Servicing Practices.

Mortgage Market and Business Outlook

Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties. For example, a number of factors could cause the actual performance of the housing and mortgage markets and the U.S. economy during the remainder of 2011 to be significantly worse than we expect, including adverse changes in consumer confidence, national or international economic conditions and changes in the federal government s fiscal policies. See FORWARD-LOOKING STATEMENTS for additional information.

Overview

We continue to expect key macroeconomic drivers of the economy such as income growth, employment, and inflation will affect the performance of the housing and mortgage markets into 2012. As a result of the weak payroll employment growth during the third quarter of 2011 and the continued high unemployment rate, near-term demand for housing will likely remain weak. Further, consumer confidence measures, while up from recession lows, remain below long-term averages and suggest that households will likely be more cautious in home buying. We also expect rates on fixed-rate single-family mortgages to remain historically low into 2012, which may extend the recent high level of refinancing activity (relative to new purchase lending activity). Lastly, many large financial institutions experienced delays in the foreclosure process for single-family loans in late 2010 and throughout 2011. To the extent a large volume of loans completes the foreclosure process in a short period of time, the resulting REO inventory could have a negative impact on the housing market.

Our expectation for home prices, based on our own index, is that national average home prices will continue to remain weak and will likely decline over the near term before a long-term recovery in housing begins, due to, among

other factors: (a) our expectation for a sustained volume of distressed sales, which include short sales and sales by financial institutions of their REO properties; and (b) the likelihood that unemployment rates will remain high.

Single-Family

We expect our provision for credit losses and charge-offs will likely remain elevated into 2012. This is in part due to the substantial number of underwater mortgage loans in our single-family credit guarantee portfolio, as well as the substantial inventory of seriously delinquent loans. For the near term, we also expect:

- REO disposition severity ratios to remain relatively high, as market conditions, such as home prices and the rate of home sales, continue to remain weak;
- non-performing assets, which include loans deemed TDRs, to continue to remain high;
- the volume of loan workouts to remain high; and
- continued high volume of loans in the foreclosure process as well as prolonged foreclosure timelines.

Multifamily

The most recent market data available continues to reflect improving national apartment fundamentals, including decreasing vacancy rates and increasing effective rents. However, some geographic areas in which we have investments in multifamily loans, including the states of Arizona, Georgia, and Nevada, continue to exhibit weaker than average fundamentals that increase our risk of future losses. We own or guarantee loans in these states that we believe are at risk of default. We expect our multifamily delinquency rate to remain relatively stable in the remainder of 2011.

Recent market data shows a significant increase in multifamily loan activity, compared to prior year periods, and reflects that the multifamily sector has experienced greater stability in market fundamentals and investor demand than other real estate sectors. Our purchase and guarantee of multifamily loans increased approximately 46%, to $12.4 billion for the nine months ended September 30, 2011, compared to $8.5 billion during the same period in 2010. We expect our purchase and guarantee activity to continue to increase, but at a more moderate pace in the remainder of 2011.

Changes to the Home Affordable Refinance Program

On October 24, 2011 FHFA, Freddie Mac, and Fannie Mae announced a series of FHFA-directed changes to HARP in an effort to attract more eligible borrowers who can benefit from refinancing their home mortgage. The Acting Director of FHFA stated that the goal of pursuing these changes is to create refinancing opportunities for more borrowers whose mortgage is owned or guaranteed by the GSEs while reducing risk for the GSEs and bringing a measure of stability to housing markets. The revisions to HARP enable us to expand the assistance we provide to homeowners by making their mortgage payments more affordable through one or more of the following ways: (a) a reduction in payment; (b) a reduction in rate; (c) movement to a more stable mortgage product type (i.e., from an adjustable-rate mortgage to a fixed-rate mortgage); or (d) a reduction in amortization term.

The revisions to HARP will continue to be available to borrowers with loans that were sold to the GSEs on or before May 31, 2009 and who have current LTV ratios above 80%. The October 24, 2011 announcement stated that the GSEs will issue guidance with operational details about the HARP changes to mortgage lenders and servicers by November 15, 2011. We are working collectively with FHFA and Fannie Mae on several operational details of the

program. We are also waiting to receive details from FHFA regarding the fees that we may charge associated with the refinancing program. Since industry participation in HARP is not mandatory, we anticipate that implementation schedules will vary as individual lenders, mortgage insurers and other market participants modify their processes. At this time we do not know how many eligible borrowers are likely to refinance under the program.

The recently announced revisions to HARP will help to reduce our exposure to credit risk to the extent that HARP refinances strengthen the borrowers capacity to repay their mortgages and, in some cases, reduce the terms of their mortgages. These revisions to HARP could also reduce our credit losses to the extent that the revised program contributes to bringing stability to the housing market. However, with our release of certain representations and warranties to lenders, credit losses associated with loans identified with defects will not be recaptured through loan buybacks. We could also experience declines in the fair values of certain agency mortgage-related security investments classified as available-for-sale or trading resulting from changes in expectations of mortgage prepayments and lower net interest yields over time on other mortgage-related investments. As a result, we cannot currently estimate these impacts until more details about the program and the level of borrower participation can be reasonably assured. See RISK FACTORS *The MHA Program and other efforts to reduce foreclosures, modify loan terms and refinance mortgages, including HARP, may fail to mitigate our credit losses and may adversely affect our results of operations or financial condition* for additional information.

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Long-Term Financial Sustainability

There is significant uncertainty as to our long-term financial sustainability. The Acting Director of FHFA stated on September 19, 2011 that it ought to be clear to everyone at this point, given [Freddie Mac and Fannie Mae s] losses since being placed into conservatorship and the terms of the Treasury s financial support agreements, that [Freddie Mac and Fannie Mae] will not be able to earn their way back to a condition that allows them to emerge from conservatorship.

We expect to request additional draws under the Purchase Agreement in future periods. Over time, our dividend obligation to Treasury will increasingly drive future draws. Although we may experience period-to-period variability in earnings and comprehensive income, it is unlikely that we will regularly generate net income or comprehensive income in excess of our annual dividends payable to Treasury over the long term. In addition, we are required under the Purchase Agreement to pay a quarterly commitment fee to Treasury, which could contribute to future draws if the fee is not waived in the future. Treasury waived the fee for all quarters of 2011, but it has indicated that it remains committed to protecting taxpayers and ensuring that our future positive earnings are returned to taxpayers as compensation for their investment. The amount of the quarterly commitment fee has not yet been established and could be substantial.

There continues to be significant uncertainty in the current mortgage market environment, and continued high levels of unemployment, weakness in home prices, adverse changes in interest rates, mortgage security prices, spreads and other factors could lead to additional draws. For discussion of other factors that could result in additional draws, see LIQUIDITY AND CAPITAL RESOURCES Capital Resources.

There is also significant uncertainty as to whether or when we will emerge from conservatorship, as it has no specified termination date, and as to what changes may occur to our business structure during or following conservatorship, including whether we will continue to exist. We are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term. Our future structure and role will be determined by the Obama Administration and Congress, and there are likely to be significant changes beyond the near-term. We have no ability to predict the outcome of these deliberations. As discussed below in Legislative and Regulatory Developments, on February 11, 2011, the Obama Administration delivered a report to Congress that lays out the Administration s plan to reform the U.S. housing finance market.

Limits on Mortgage-Related Investments Portfolio

Under the terms of the Purchase Agreement and FHFA regulation, our mortgage-related investments portfolio is subject to a cap that decreases by 10% each year until the portfolio reaches $250 billion. As a result, the UPB of our mortgage-related investments portfolio could not exceed $810 billion as of December 31, 2010 and may not exceed $729 billion as of December 31, 2011. FHFA has stated that we will not be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio, except for purchases of delinquent mortgages out of PC trusts. FHFA has also indicated that the portfolio reduction targets under the Purchase Agreement and FHFA regulation should be viewed as minimum reductions and has encouraged us to reduce the mortgage-related investments portfolio at a faster rate than required, consistent with FHFA guidance, safety and soundness and the goal of conserving and preserving assets.

Table 4 presents the UPB of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement and FHFA regulation.

Table 4 Mortgage-Related Investments Portfolio[1]

	September 30, 2011	December 31, 2010
	(in millions)	
Investments segment Mortgage investments portfolio	$ 473,630	$ 481,677
Single-family Guarantee segment Single-family unsecuritized mortgage loans(2)	63,237	69,766
Multifamily segment Mortgage investments portfolio	142,266	145,431
Total mortgage-related investments portfolio	$ 679,133	$ 696,874

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

The UPB of our mortgage-related investments portfolio declined from December 31, 2010 to September 30, 2011, primarily due to liquidations, partially offset by the purchase of $34.8 billion of seriously delinquent loans from PC trusts.

Our mortgage-related investments portfolio includes assets that are less liquid than agency securities, including unsecuritized performing single-family mortgage loans, multifamily mortgage loans, CMBS, and housing revenue bonds. Our less liquid assets collectively represented approximately 30% of the UPB of the portfolio at September 30, 2011. Our mortgage-related investments portfolio also includes illiquid assets, including unsecuritized seriously delinquent and modified single-family mortgage loans which we purchased from PC trusts, and our investments in non-agency mortgage-

related securities backed by subprime, option ARM, and Alt-A and other loans. Our illiquid assets collectively represented approximately 28% of the UPB of the portfolio at September 30, 2011. The liquidity of our assets, as described above, is based on our own internal expectations given current market conditions. Challenging market conditions are expected to continue and may rapidly and adversely affect the liquidity of our assets at any given time.

We disclose our mortgage assets on the basis used to determine the cap under the caption Mortgage-Related Investments Portfolio Ending Balance in our Monthly Volume Summary reports, which are available on our web site at www.freddiemac.com and in current reports on Form 8-K we file with the SEC.

We are providing our web site addresses here and elsewhere in this Form 10-Q solely for your information. Information appearing on our web site is not incorporated into this Form 10-Q.

Legislative and Regulatory Developments

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

On August 10, 2011, FHFA, in consultation with Treasury and HUD, announced a request for information seeking input on new options for sales and rentals of single-family REO properties held by Freddie Mac, Fannie Mae and FHA. According to the announcement, the objective of the request for information is to help address current and future REO inventory. The request for information solicited alternatives for maximizing value to taxpayers and increasing private investment in the housing market, including approaches that support rental and affordable housing needs.

On September 19, 2011, the Acting Director of FHFA stated that he would anticipate Freddie Mac and Fannie Mae will continue the gradual process of increasing guarantee fees. He stated that this will not happen immediately but should be expected in 2012. In addition, the Acting Director indicated that FHFA will be considering other alternatives to reduce our long-term risk exposure. President Obama s Plan for Economic Growth and Deficit Reduction, announced on September 19, 2011, contained a proposal to increase the guarantee fees charged by Freddie Mac and Fannie Mae by 10 basis points.

On September 27, 2011, FHFA announced that it is seeking public comment on two alternative mortgage servicing compensation structures detailed in a discussion paper. One proposal would establish a reserve account within the current servicing compensation structure. The other proposal would create a new fee for service compensation structure (*i.e.* a flat per-loan fee). We cannot predict what changes to the current structure will emerge from this process, or the extent to which our business may be impacted by them.

On October 19, 2011, FHFA announced that it has directed Freddie Mac and Fannie Mae to transition away from current foreclosure attorney network programs and move to a system where mortgage servicers select qualified law firms that meet certain minimum, uniform criteria. The changes will be implemented after a transition period in which input will be taken from servicers, regulators, lawyers, and other market participants. We cannot predict the scope of these changes, or the extent to which our business will be impacted by them.

See LEGISLATIVE AND REGULATORY MATTERS for information on the Obama Administration s February 2011 report, recent developments in GSE reform legislation, recently initiated rulemakings under the Dodd-Frank Act, and other regulatory developments, including revisions to HARP announced on October 24, 2011.

SELECTED FINANCIAL DATA[1]

The selected financial data presented below should be reviewed in conjunction with MD&A and our consolidated financial statements and related notes for the three and nine months ended September 30, 2011.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in millions, except share-related amounts)			
Statements of Income and Comprehensive Income Data				
Net interest income	$ 4,613	$ 4,279	$ 13,714	$ 12,540
Provision for credit losses	(3,606)	(3,727)	(8,124)	(14,152)
Non-interest income (loss)	(4,798)	(2,646)	(9,907)	(11,127)
Non-interest expense	(687)	(828)	(1,930)	(1,974)
Net loss attributable to Freddie Mac	(4,422)	(2,511)	(5,885)	(13,912)
Total comprehensive income (loss) attributable to Freddie Mac	(4,376)	1,436	(2,736)	(874)
Net loss attributable to common stockholders	(6,040)	(4,069)	(10,725)	(18,058)
Loss per common share:				
Basic	(1.86)	(1.25)	(3.30)	(5.56)
Diluted	(1.86)	(1.25)	(3.30)	(5.56)
Cash dividends per common share				
Weighted average common shares outstanding (in thousands):[2]				
Basic	3,244,496	3,248,794	3,245,473	3,249,753
Diluted	3,244,496	3,248,794	3,245,473	3,249,753

	September 30, 2011	December 31, 2010
	(dollars in millions)	
Balance Sheets Data		
Mortgage loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$ 1,611,580	$ 1,646,172
Total assets	2,172,336	2,261,780
Debt securities of consolidated trusts held by third parties	1,488,036	1,528,648
Other debt	674,421	713,940
All other liabilities	15,870	19,593
Total stockholders equity (deficit)	(5,991)	(401)
Portfolio Balances[3]		
Mortgage-related investments portfolio	$ 679,133	$ 696,874
Total Freddie Mac mortgage-related securities[4]	1,667,842	1,712,918
Total mortgage portfolio[5]	2,114,169	2,164,859

Non-performing assets[6]	127,903	125,405

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Ratios[7]				
Return on average assets[8][11]	(0.8)%	(0.4)%	(0.4)%	(0.8)%
Non-performing assets ratio[9]	6.6	6.2	6.6	6.2
Equity to assets ratio[10][11]	(0.2)		(0.1)	(0.2)

(1) See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2010 Annual Report and this Form 10-Q for information regarding our accounting policies and the impact of new accounting policies on our consolidated financial statements.

(2) Includes the weighted average number of shares that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included in basic loss per share, because it is unconditionally exercisable by the holder at a cost of $0.00001 per share.

(3) Represents the UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

(4) See Table 26 Freddie Mac Mortgage-Related Securities for the composition of this line item.

(5) See Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios for the composition of our total mortgage portfolio.

(6) See Table 43 Non-Performing Assets for a description of our non-performing assets.

(7) The return on common equity ratio is not presented because the simple average of the beginning and ending balances of total Freddie Mac stockholders equity (deficit), net of preferred stock (at redemption value), is less than zero for all periods presented. The dividend payout ratio on common stock is not presented because we are reporting a net loss attributable to common stockholders for all periods presented.

(8) Ratio computed as annualized net income (loss) attributable to Freddie Mac divided by the simple average of the beginning and ending balances of total assets.

(9) Ratio computed as non-performing assets divided by the ending UPB of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities.

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

(11) To calculate the simple averages for the nine months ended September 30, 2010, the beginning balances of total assets, and total Freddie Mac stockholders equity are based on the January 1, 2010 balances included in NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES Table 2.1 Impact of the Change in Accounting for Transfers of Financial Assets and Consolidation of Variable Interest Entities on Our Consolidated Balance Sheet in our 2010 Annual Report, so that both the beginning and ending balances reflect changes in accounting principles.

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CONSOLIDATED RESULTS OF OPERATIONS

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

Table 5 Summary Consolidated Statements of Income and Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Net interest income	$ 4,613	$ 4,279	$ 13,714	$ 12,540
Provision for credit losses	(3,606)	(3,727)	(8,124)	(14,152)
Net interest income (loss) after provision for credit losses	1,007	552	5,590	(1,612)
Non-interest income (loss):				
Gains (losses) on extinguishment of debt securities of consolidated trusts	(310)	(66)	(212)	(160)
Gains (losses) on retirement of other debt	19	(50)	34	(229)
Gains (losses) on debt recorded at fair value	133	(366)	15	525
Derivative gains (losses)	(4,752)	(1,130)	(8,986)	(9,653)
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	(459)	(523)	(1,743)	(1,054)
Portion of other-than-temporary impairment recognized in AOCI	298	(577)	37	(984)
Net impairment of available-for-sale securities recognized in earnings	(161)	(1,100)	(1,706)	(2,038)
Other gains (losses) on investment securities recognized in earnings	(541)	(503)	(452)	(1,176)
Other income	814	569	1,400	1,604
Total non-interest income (loss)	(4,798)	(2,646)	(9,907)	(11,127)
Non-interest expense:				
Administrative expenses	(381)	(388)	(1,126)	(1,197)
REO operations expense	(221)	(337)	(505)	(456)
Other expenses	(85)	(103)	(299)	(321)
Total non-interest expense	(687)	(828)	(1,930)	(1,974)

Loss before income tax benefit	(4,478)	(2,922)	(6,247)	(14,713)
Income tax benefit	56	411	362	800
Net loss	(4,422)	(2,511)	(5,885)	(13,913)
Other comprehensive income, net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	(80)	3,781	2,764	12,524
Changes in unrealized gains (losses) related to cash flow hedge relationships	124	164	391	520
Changes in defined benefit plans	2	2	(6)	(6)
Total other comprehensive income, net of taxes and reclassification adjustments	46	3,947	3,149	13,038
Comprehensive income (loss)	(4,376)	1,436	(2,736)	(875)
Less: Comprehensive loss attributable to noncontrolling interest				1
Total comprehensive income (loss) attributable to Freddie Mac	$ (4,376)	$ 1,436	$ (2,736)	$ (874)

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Net Interest Income

Table 6 presents an analysis of net interest income, including average balances and related yields earned on assets and incurred on liabilities.

Table 6 Net Interest Income/Yield and Average Balance Analysis

	Three Months Ended September 30,					
	2011			2010		
	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Cash and cash equivalents	$ 51,225	$ 4	0.03%	$ 43,171	$ 24	0.21%
Federal funds sold and securities purchased under agreements to resell	16,434	4	0.08	51,439	24	0.19
Mortgage-related securities:						
Mortgage-related securities(3)	443,135	5,050	4.56	500,500	6,058	4.84
Extinguishment of PCs held by Freddie Mac	(166,356)	(1,918)	(4.61)	(195,890)	(2,543)	(5.19)
Total mortgage-related securities, net	276,779	3,132	4.53	304,610	3,515	4.62
Non-mortgage-related securities(3)	18,175	18	0.40	28,631	42	0.59
Mortgage loans held by consolidated trusts(4)	1,626,583	19,140	4.71	1,706,329	21,473	5.03
Unsecuritized mortgage loans(4)	243,162	2,282	3.75	221,442	2,305	4.16
Total interest-earning assets	$ 2,232,358	$ 24,580	4.41	$ 2,355,622	$ 27,383	4.65
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 1,641,905	$ (18,633)	(4.54)	$ 1,723,095	$ (21,264)	(4.94)
Extinguishment of PCs held by Freddie Mac	(166,356)	1,918	4.61	(195,890)	2,543	5.19
Total debt securities of consolidated trusts held by third parties	1,475,549	(16,715)	(4.53)	1,527,205	(18,721)	(4.90)
Other debt:						
Short-term debt	188,004	(70)	(0.14)	207,673	(143)	(0.27)
Long-term debt(5)	495,188	(3,002)	(2.42)	542,842	(4,002)	(2.94)

Total other debt	683,192	(3,072)	(1.79)	750,515	(4,145)	(2.20)
Total interest-bearing liabilities	2,158,741	(19,787)	(3.67)	2,277,720	(22,866)	(4.01)
Income (expense) related to derivatives[6]		(180)	(0.03)		(238)	(0.04)
Impact of net non-interest-bearing funding	73,617		0.12	77,902		0.13
Total funding of interest-earning assets	$ 2,232,358	$ (19,967)	(3.58)	$ 2,355,622	$ (23,104)	(3.92)
Net interest income/yield		$ 4,613	0.83		$ 4,279	0.73

	Nine Months Ended September 30,					
	2011			2010		
	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate	Average Balance(1)(2)	Interest Income (Expense)(1)	Average Rate
	(dollars in millions)					
Interest-earning assets:						
Cash and cash equivalents	$ 40,817	$ 30	0.10%	$ 52,008	$ 59	0.15%
Federal funds sold and securities purchased under agreements to resell	32,174	30	0.12	46,774	56	0.16
Mortgage-related securities:						
Mortgage-related securities(3)	450,227	15,581	4.61	544,797	19,769	4.84
Extinguishment of PCs held by Freddie Mac	(166,734)	(5,947)	(4.76)	(224,397)	(8,897)	(5.29)
Total mortgage-related securities, net	283,493	9,634	4.53	320,400	10,872	4.52
Non-mortgage-related securities(3)	24,520	74	0.40	27,130	158	0.78
Mortgage loans held by consolidated trusts(4)	1,640,276	58,986	4.79	1,741,092	66,319	5.08
Unsecuritized mortgage loans(4)	242,063	6,890	3.80	198,047	6,445	4.34
Total interest-earning assets	$ 2,263,343	$ 75,644	4.46	$ 2,385,451	$ 83,909	4.69
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 1,654,554	$ (57,326)	(4.62)	$ 1,754,713	$ (66,309)	(5.04)
Extinguishment of PCs held by Freddie Mac	(166,734)	5,947	4.76	(224,397)	8,897	5.29
Total debt securities of consolidated trusts held by third parties	1,487,820	(51,379)	(4.60)	1,530,316	(57,412)	(5.00)
Other debt:						
Short-term debt	192,326	(280)	(0.19)	225,745	(421)	(0.25)
Long-term debt(5)	504,603	(9,690)	(2.56)	553,701	(12,791)	(3.08)
Total other debt	696,929	(9,970)	(1.91)	779,446	(13,212)	(2.26)
Total interest-bearing liabilities	2,184,749	(61,349)	(3.74)	2,309,762	(70,624)	(4.08)
Income (expense) related to derivatives(6)		(581)	(0.04)		(745)	(0.04)
Impact of net non-interest-bearing funding	78,594		0.13	75,689		0.13

Total funding of interest-earning assets	$ 2,263,343	$ (61,930)	(3.65)	$ 2,385,451	$ (71,369)	(3.99)
Net interest income/yield		$ 13,714	0.81		$ 12,540	0.70

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) We calculate average balances based on amortized cost.
(3) Interest income (expense) includes accretion of the portion of impairment charges recognized in earnings where we expect a significant improvement in cash flows.
(4) Non-performing loans, where interest income is generally recognized when collected, are included in average balances.
(5) Includes current portion of long-term debt.
(6) Represents changes in fair value of derivatives in cash flow hedge relationships that were previously deferred in AOCI and have been reclassified to earnings as the associated hedged forecasted issuance of debt affects earnings.

Net interest income increased $334 million and $1.2 billion during the three and nine months ended September 30, 2011, respectively, compared to the three and nine months ended September 30, 2010. Net interest yield increased 10 basis points and 11 basis points during the three and nine months ended September 30, 2011, respectively, compared to the three and nine months ended September 30, 2010. The primary driver underlying the increases was lower funding costs from the replacement of debt at lower rates and favorable rate resets on floating-rate debt. In addition, the increases in net interest income and net interest yield for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 were partially driven by the impact of a change in practice announced in February 2010 to purchase substantially all 120 day delinquent loans from PC trusts, as the average funding rate of the other debt used to purchase such loans from PC trusts is significantly less than the average funding rate of the debt securities of consolidated trusts held by third parties. These factors were partially offset by the reduction in the average balance of higher-yielding mortgage-related assets due to continued liquidations and limited purchase activity.

We do not recognize interest income on non-performing loans that have been placed on nonaccrual status, except when cash payments are received. We refer to this interest income that we do not recognize as foregone interest income, and it includes interest income not recognized due to interest rate concessions granted on certain modified loans. Foregone interest income and reversals of previously recognized interest income, net of cash received, related to non-performing loans was $1.0 billion and $2.9 billion during the three and nine months ended September 30, 2011, respectively, compared to $1.1 billion and $3.6 billion during the three and nine months ended September 30, 2010, respectively, primarily due to the decreased volume of non-performing loans on nonaccrual status.

During the three and nine months ended September 30, 2011, spreads on our debt and our access to the debt markets remained favorable relative to historical levels. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity.

Provision for Credit Losses

Since the beginning of 2008, on an aggregate basis, we have recorded provision for credit losses associated with single-family loans of approximately $70.5 billion, and have recorded an additional $4.4 billion in losses on loans purchased from our PCs, net of recoveries. The majority of these losses are associated with loans originated in 2005 through 2008. While loans originated in 2005 through 2008 will give rise to additional credit losses that have not yet been incurred, and thus have not been provisioned for, we believe that, as of September 30, 2011, we have reserved for or charged-off the majority of the total expected credit losses for these loans. Nevertheless, various factors, such as continued high unemployment rates or further declines in home prices, could require us to provide for losses on these loans beyond our current expectations. See Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio for certain quarterly credit statistics for our single-family credit guarantee portfolio.

Our provision for credit losses was $3.6 billion for the third quarter of 2011 compared to $3.7 billion for the third quarter of 2010, and was $8.1 billion in the nine months ended September 30, 2011 compared to $14.2 billion in the nine months ended September 30, 2010. The provision for credit losses in the third quarter of 2011 reflects a decline in the volume of early and seriously delinquent loans, while the provision for credit losses in the nine months ended September 30, 2011 reflects declines in the rate at which delinquent loans transition into serious delinquency. The provision for credit losses in the three and nine months ended September 30, 2011 also reflects higher loss severity, primarily due to lower expectations for mortgage insurance recoveries, which is due to deterioration in the financial condition of certain of these counterparties during the 2011 periods. The provision for credit losses in the three and nine months ended September 30, 2010 also reflected a higher volume of completed loan modifications that were classified as TDRs. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk* for further information on our mortgage insurance counterparties.

During the nine months ended September 30, 2011, our charge-offs, net of recoveries for single-family loans, exceeded the amount of our provision for credit losses. Our charge-offs in the nine months ended September 30, 2011 remained elevated, but reflect suppression of activity due to delays in the foreclosure process and because market conditions, such as home prices and the rate of home sales, continue to remain weak. We believe the level of our charge-offs will continue to remain high in the remainder of 2011 and may increase in 2012. As of September 30, 2011 and December 31, 2010, the UPB of our single-family non-performing loans was $119.1 billion and $115.5 billion, respectively. These amounts include $42.2 billion and $26.6 billion, respectively, of single-family TDRs that are reperforming (*i.e.*, less than three months past due). See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* for further information on our single-family credit guarantee portfolio, including credit performance, charge-offs, and our non-performing assets.

We continued to experience a high volume of completed loan modifications involving concessions to borrowers during the nine months ended September 30, 2011, but the volume of such modifications was less than the volume during the nine months ended September 30, 2010. See Table 37 Reperformance Rates of Modified Single-Family Loans for information on the performance of our modified loans.

We adopted new accounting guidance related to the classification of loans as TDRs in the third quarter of 2011, which significantly increases the population of loans we account for and disclose as TDRs. The impact of this change in guidance on our results for the third quarter of 2011 was not significant. We expect that the number of loans that newly qualify as TDRs in the remainder of 2011 will remain high, primarily because we anticipate that the majority of our modifications, both completed and those still in trial periods will be considered TDRs. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, and NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for additional information on our TDR loans, including our implementation of changes to the accounting guidance for recognition of TDR loans.

While the total number of seriously delinquent loans declined approximately 10.5% during the nine months ended September 30, 2011, in part due to a significant volume of loan modifications, our serious delinquency rate remains high compared to historical levels due to the continued weakness in home prices, persistently high unemployment, extended foreclosure timelines and foreclosure suspensions in many states, and continued challenges faced by servicers processing large volumes of problem loans. Upon completion of a modification, a delinquent single-family loan is given a current payment status.

Our seller/servicers have an active role in our loan workout activities, including under the MHA Program, and a decline in their performance could result in a failure to realize the anticipated benefits of our loss mitigation plans. We believe that the servicing alignment initiative, which will establish a uniform framework and requirements for servicing non-performing loans owned or guaranteed by us and Fannie Mae, will ultimately change the way servicers communicate

and work with troubled borrowers, bring greater consistency and accountability to the servicing industry, and help more distressed homeowners avoid foreclosure.

Our provision (benefit) for credit losses associated with our multifamily mortgage portfolio was $(37) million and $19 million for the third quarters of 2011 and 2010, respectively, and was $(110) million in the nine months ended September 30, 2011 compared to $167 million in the nine months ended September 30, 2010. Our loan loss reserves associated with our multifamily mortgage portfolio were $656 million and $828 million as of September 30, 2011 and December 31, 2010, respectively. The decline in loan loss reserves for multifamily loans was driven primarily by positive market trends in vacancy rates and effective rents reflected over the past several consecutive quarters, as well as stabilizing or improved property values. However, some states in which we have investments in multifamily mortgage loans, including Nevada, Arizona, and Georgia, continue to exhibit weaker than average apartment fundamentals.

Non-Interest Income (Loss)

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

When we purchase PCs that have been issued by consolidated PC trusts, we extinguish a pro rata portion of the outstanding debt securities of the related consolidated trusts. We recognize a gain (loss) on extinguishment of the debt securities to the extent the amount paid to extinguish the debt security differs from its carrying value. For the three months ended September 30, 2011 and 2010, we extinguished debt securities of consolidated trusts with a UPB of $22.8 billion and $10.7 billion, respectively (representing our purchase of single-family PCs with a corresponding UPB amount), and our gains (losses) on extinguishment of these debt securities of consolidated trusts were $(310) million and $(66) million, respectively. The losses during the third quarter of 2011 were primarily due to the repurchase of our debt securities at larger net premiums driven by a decrease in interest rates during the period. For the nine months ended September 30, 2011 and 2010, we extinguished debt securities of consolidated trusts with a UPB of $69.8 billion and $13.2 billion, respectively (representing our purchase of single-family PCs with a corresponding UPB amount), and our gains (losses) on extinguishment of these debt securities of consolidated trusts were $(212) million and $(160) million, respectively. The losses for the nine months ended September 30, 2011 were due to the repurchases of our debt securities at a net premium during the second and third quarters of 2011 driven by a decrease in interest rates during those periods. See Table 18 Total Mortgage-Related Securities Purchase Activity for additional information regarding purchases of mortgage-related securities, including those issued by consolidated PC trusts.

Gains (Losses) on Retirement of Other Debt

Gains (losses) on retirement of other debt were $19 million and $(50) million during the three months ended September 30, 2011 and 2010, respectively, and $34 million and $(229) million during the nine months ended September 30, 2011 and 2010, respectively. We recognized gains on debt retirements for the third quarter and first nine months of 2011, compared to losses for the third quarter and first nine months of 2010, because we purchased debt with higher associated discounts in 2010 relative to the comparable periods in 2011.

Gains (Losses) on Debt Recorded at Fair Value

Gains (losses) on debt recorded at fair value primarily relate to changes in the fair value of our foreign-currency denominated debt. For the three and nine months ended September 30, 2011, we recognized gains on debt recorded at fair value of $133 million and $15 million, respectively, primarily due to the U.S. dollar strengthening relative to the Euro. For the three and nine months ended September 30, 2010, we recognized gains (losses) on debt recorded at fair value of $(366) million and $525 million, respectively, primarily due to the U.S. dollar strengthening relative to the

Euro during the first six months of 2010, followed by the U.S. dollar weakening relative to the Euro during the third quarter of 2010. We mitigate changes in the fair value of our foreign-currency denominated debt by using foreign currency swaps and foreign-currency denominated interest-rate swaps.

Derivative Gains (Losses)

Table 7 presents derivative gains (losses) reported in our consolidated statements of income and comprehensive income. See NOTE 11: DERIVATIVES Table 11.2 Gains and Losses on Derivatives for information about gains and losses related to specific categories of derivatives. Changes in fair value and interest accruals on derivatives not in hedge accounting relationships are recorded as derivative gains (losses) in our consolidated statements of income and comprehensive income. At September 30, 2011 and December 31, 2010, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to discontinued cash flow hedges. Amounts recorded in AOCI associated with these closed cash flow hedges are reclassified to earnings when the forecasted

transactions affect earnings. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the forecasted transaction is reclassified into earnings immediately.

While derivatives are an important aspect of our strategy to manage interest-rate risk, they generally increase the volatility of reported net income (loss), because, while fair value changes in derivatives affect net income, fair value changes in several of the types of assets and liabilities being hedged do not affect net income.

Table 7 Derivatives Gains (Losses)

	Derivative Gains (Losses)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Interest-rate swaps	$ (8,278)	$ (3,963)	$ (10,304)	$ (14,235)
Option-based derivatives[1]	5,887	3,303	6,682	8,585
Other derivatives[2]	(1,092)	475	(1,494)	(498)
Accrual of periodic settlements[3]	(1,269)	(945)	(3,870)	(3,505)
Total	$ (4,752)	$ (1,130)	$ (8,986)	$ (9,653)

(1) Primarily includes purchased call and put swaptions and purchased interest-rate caps and floors.
(2) Includes futures, foreign-currency swaps, commitments, swap guarantee derivatives, and credit derivatives. Foreign-currency swaps are defined as swaps in which net settlement is based on one leg calculated in a foreign-currency and the other leg calculated in U.S. dollars. Commitments include: (a) our commitments to purchase and sell investments in securities; (b) our commitments to purchase mortgage loans; and (c) our commitments to purchase and extinguish or issue debt securities of our consolidated trusts.
(3) Includes imputed interest on zero-coupon swaps.

Gains (losses) on derivatives not accounted for in hedge accounting relationships are principally driven by changes in: (a) interest rates and implied volatility; and (b) the mix and volume of derivatives in our derivatives portfolio.

During the three and nine months ended September 30, 2011, we recognized losses on derivatives of $4.8 billion and $9.0 billion, respectively, primarily due to declines in interest rates in the second and third quarters. Specifically, during the three months and nine months ended September 30, 2011, we recognized fair value losses on our pay-fixed swap positions of $19.1 billion and $22.4 billion, respectively, partially offset by fair value gains on our receive-fixed swaps of $10.8 billion and $12.1 billion, respectively. We also recognized fair value gains of $5.9 billion and $6.7 billion during the three and nine months ended September 30, 2011, respectively, on our option-based derivatives, resulting from gains on our purchased call swaptions as interest rates decreased during the second and third quarters of 2011. Additionally, we recognized losses related to the accrual of periodic settlements during the three and nine months ended September 30, 2011 due to our net pay-fixed swap position in the current interest rate environment.

During the three and nine months ended September 30, 2010, the yield curve flattened, with declining interest rates, resulting in a loss on derivatives of $1.1 billion and $9.7 billion, respectively. Specifically, for the three and nine months ended September 30, 2010, the decrease in interest rates resulted in fair value losses on our pay-fixed swaps of $11.5 billion and $34.9 billion, respectively, partially offset by fair value gains on our receive-fixed swaps of

$7.5 billion and $20.6 billion, respectively. We recognized fair value gains for the three and nine months ended September 30, 2010 of $3.3 billion and $8.6 billion, respectively, on our option-based derivatives, resulting from gains on our purchased call swaptions primarily due to the declines in interest rates during these periods.

Investment Securities-Related Activities

Impairments of Available-For-Sale Securities

We recorded net impairments of available-for-sale securities recognized in earnings, which were related to non-agency mortgage-related securities, of $161 million and $1.7 billion during the three and nine months ended September 30, 2011, respectively, compared to $1.1 billion and $2.0 billion during the three and nine months ended September 30, 2010, respectively. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities* and NOTE 7: INVESTMENTS IN SECURITIES for information regarding the accounting principles for investments in debt and equity securities and the other-than-temporary impairments recorded during the three and nine months ended September 30, 2011 and 2010.

Other Gains (Losses) on Investment Securities Recognized in Earnings

Other gains (losses) on investment securities recognized in earnings primarily consists of gains (losses) on trading securities. We recognized $(547) million and $(473) million related to gains (losses) on trading securities during the three

and nine months ended September 30, 2011, respectively, compared to $(561) million and $(1.3) billion related to gains (losses) on trading securities during the three and nine months ended September 30, 2010, respectively.

The losses on trading securities for all periods presented were primarily due to the movement of securities with unrealized gains towards maturity, partially offset by fair value gains due to a decline in interest rates.

During the three and nine months ended September 30, 2011 the decreased losses on trading securities as compared to the three and nine months ended September 30, 2010 were primarily due to a tightening of OAS levels on agency securities and a decline in interest rates.

Other Income

Table 8 summarizes the significant components of other income.

Table 8 Other Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Other income:				
Guarantee-related income	$ 40	$ 58	$ 175	$ 177
Gains on sale of mortgage loans	46	28	302	244
Gains on mortgage loans recorded at fair value	216	128	319	154
Recoveries on loans impaired upon purchase	119	247	376	643
All other	393	108	228	386
Total other income	$ 814	$ 569	$ 1,400	$ 1,604

Other income increased to $814 million in the three months ended September 30, 2011, compared to $569 million in the three months ended September 30, 2010, primarily due to the recognition of a gain from the settlement of our claim in the bankruptcy of TBW, one of our former seller/servicers, and an adjustment to the amount recorded in the prior period to correct an accounting error.

Other income declined during the nine months ended September 30, 2011, compared to the same period in 2010, primarily due to lower recoveries on loans impaired upon purchase during the 2011 period and a decline in all other income. All other income declined to $228 million during the nine months ended September 30, 2011, compared to $386 million during the nine months ended September 30, 2010, primarily due to the correction in 2011 of certain prior period accounting errors not material to our financial statements. During the nine months ended September 30, 2011, other income includes the correction of prior period accounting errors associated with the accrual of interest income for certain impaired mortgage-related securities during 2010 and 2009. This correction reduced other income in 2011 by approximately $293 million in the second quarter of 2011, and increased other income by $122 million in the third quarter of 2011 for a net decrease of approximately $171 million in the nine months ended September 30, 2011. Partially offsetting the decline in other income was an increase in gains on mortgage loans recorded at fair value during the nine months ended September 30, 2011, which was primarily due to declines in interest rates combined

with higher balances of loans recorded at fair value during the 2011 period.

During the third quarters of 2011 and 2010, recoveries on loans impaired upon purchase were $119 million and $247 million, respectively, and were $376 million in the nine months ended September 30, 2011, compared to $643 million in the nine months ended September 30, 2010. The declines in the 2011 periods were due to a lower volume of foreclosure transfers associated with loans impaired upon purchase. These recoveries principally relate to impaired loans purchased prior to January 1, 2010, due to a change in accounting guidance effective on that date. Consequently, our recoveries on loans impaired upon purchase will generally continue to decline over time.

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Non-Interest Expense

Table 9 summarizes the components of non-interest expense.

Table 9 Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions)			
Administrative expenses:[1]				
Salaries and employee benefits	$ 212	$ 224	$ 638	$ 688
Professional services	73	72	193	220
Occupancy expense	14	16	44	47
Other administrative expense	82	76	251	242
Total administrative expenses	381	388	1,126	1,197
REO operations expense	221	337	505	456
Other expenses	85	103	299	321
Total non-interest expense	$ 687	$ 828	$ 1,930	$ 1,974

(1) Commencing in the first quarter of 2011, we reclassified certain expenses from other expenses to professional services expense. Prior period amounts have been reclassified to conform to the current presentation.

Administrative Expenses

Administrative expenses decreased for the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010, due in part to our ongoing focus on cost reduction measures, particularly with regard to salaries and employee benefits. We expect our administrative expenses will decline for the full year of 2011 when compared to 2010.

REO Operations Expense

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

Table 10 REO Operations Expense, REO Inventory, and REO Dispositions

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in millions)			
REO operations expense:				

Single-family:				
REO property expenses[1]	$ 298	$ 336	$ 906	$ 820
Disposition (gains) losses, net[2][3]	29	33	211	7
Change in holding period allowance, dispositions	(87)	(40)	(371)	(167)
Change in holding period allowance, inventory[4]	127	250	283	367
Recoveries[5]	(141)	(242)	(511)	(575)
Total single-family REO operations expense	226	337	518	452
Multifamily REO operations expense (income)	(5)		(13)	4
Total REO operations expense	$ 221	$ 337	$ 505	$ 456
REO inventory (in properties), at September 30:				
Single-family	59,596	74,897	59,596	74,897
Multifamily	20	13	20	13
Total	59,616	74,910	59,616	74,910
REO property dispositions (in properties)	25,387	26,336	86,370	74,621

(1) Consists of costs incurred to acquire, maintain or protect a property after it is acquired in a foreclosure transfer, such as legal fees, insurance, taxes, and cleaning and other maintenance charges.
(2) Represents the difference between the disposition proceeds, net of selling expenses, and the fair value of the property on the date of the foreclosure transfer.
(3) Commencing in the first quarter of 2011, we reclassified expenses related to the disposition of REO underlying Other Guarantee Transactions from REO property expense to disposition (gains) losses, net. Prior periods have been revised to conform to the current presentation.
(4) Represents the (increase) decrease in the estimated fair value of properties that were in inventory during the period.
(5) Includes recoveries from primary mortgage insurance, pool insurance and seller/servicer repurchases.

REO operations expense was $221 million for the third quarter of 2011, as compared to $337 million during the third quarter of 2010, and was $505 million in the nine months ended September 30, 2011 compared to $456 million for the nine months ended September 30, 2010. The decline in REO operations expense in the third quarter of 2011, compared to the third quarter of 2010, was primarily due to the impact of a less significant decline in home prices resulting in lower write-downs of single-family REO inventory, partially offset by lower recoveries on sold properties during the third

quarter of 2011. Although REO operations expense was relatively unchanged for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, the 2011 period reflects higher single-family property expenses and lower recoveries on sold properties partially offset by lower write-downs of single-family REO inventory, compared to the 2010 period. We expect REO property expenses to continue to remain high in the remainder of 2011 and into 2012 due to expected continued high levels of single-family REO acquisitions and inventory.

In recent periods, the volume of our single-family REO acquisitions has been less than it otherwise would have been due to delays caused by concerns about the foreclosure process, including deficiencies in foreclosure documentation practices, particularly in states that require a judicial foreclosure process. The acquisition slowdown, coupled with high disposition levels, led to an approximate 17% reduction in REO property inventory from December 31, 2010 to September 30, 2011. We expect these delays in the foreclosure process will likely continue into 2012. For more information on how concerns about foreclosure documentation practices could adversely affect our REO operations expense, see RISK FACTORS Operational Risks *We have incurred and will continue to incur expenses and we may otherwise be adversely affected by deficiencies in foreclosure practices, as well as related delays in the foreclosure process* in our 2010 Annual Report. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Non-Performing Assets* for additional information about our REO activity.

Other Expenses

Other expenses consist primarily of HAMP servicer incentive fees, costs related to terminations and transfers of mortgage servicing, and other miscellaneous expenses. Other expenses were lower in the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010, primarily due to lower expenses associated with transfers and terminations of mortgage servicing, partially offset by higher servicer incentive fees associated with HAMP during the 2011 periods.

Income Tax Benefit

For the three months ended September 30, 2011 and 2010, we reported an income tax benefit of $56 million and $411 million, respectively. For the nine months ended September 30, 2011 and 2010, we reported an income tax benefit of $362 million and $800 million, respectively. See NOTE 13: INCOME TAXES for additional information.

Total Comprehensive Income (Loss)

Our total comprehensive income (loss) was $(4.4) billion and $1.4 billion for the three months ended September 30, 2011 and 2010, respectively, consisting of: (a) $(4.4) billion and $(2.5) billion of net income (loss), respectively; and (b) $46 million and $3.9 billion of total other comprehensive income, respectively.

Our total comprehensive income (loss) was $(2.7) billion and $(0.9) billion for the nine months ended September 30, 2011 and 2010, respectively, consisting of: (a) $(5.9) billion and $(13.9) billion of net income (loss), respectively; and (b) $3.1 billion and $13.0 billion of total other comprehensive income, respectively. See CONSOLIDATED BALANCE SHEETS ANALYSIS Total Equity (Deficit) for additional information regarding total other comprehensive income (loss).

Segment Earnings

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

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

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

The Multifamily segment reflects results from our investment (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. Although we hold multifamily mortgage loans and non-agency CMBS that we purchased for investment, our purchases of such loans have declined significantly since 2010 and our purchases of such CMBS have declined significantly since 2008. Currently, our primary strategy is to purchase multifamily mortgage loans for purposes of aggregation and then securitization. We guarantee the senior tranches of these securitizations. The Multifamily segment does not issue REMIC securities but does issue Other Structured Securities, Other Guarantee Transactions, and other guarantee commitments. Segment Earnings for this segment consist primarily of the interest earned on assets related to multifamily investment activities and management and guarantee fee income, less allocated funding costs, the credit-related expenses, and administrative expenses. In addition, the Multifamily segment reflects gains on sale of mortgages and the impact of changes in fair value of CMBS and held-for-sale loans associated only with factors other than changes in interest rates, such as liquidity and credit.

We evaluate segment performance and allocate resources based on a Segment Earnings approach, subject to the conduct of our business under the direction of the Conservator. The financial performance of our segments is measured based on each segment s contribution to GAAP net income (loss). In addition, our Investments segment is measured on its contribution to GAAP total comprehensive income (loss). The sum of Segment Earnings for each segment and the All Other category equals GAAP net income (loss) attributable to Freddie Mac. Likewise, the sum of total comprehensive income (loss) for each segment and the All Other category equals GAAP total comprehensive income (loss) attributable to Freddie Mac.

The All Other category consists of material corporate level expenses that are: (a) infrequent in nature; and (b) based on management decisions outside the control of the management of our reportable segments. By recording these types of activities to the All Other category, we believe the financial results of our three reportable segments reflect the decisions and strategies that are executed within the reportable segments and provide greater comparability across time periods. The All Other category also includes the deferred tax asset valuation allowance associated with previously recognized income tax credits carried forward.

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

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

See NOTE 17: SEGMENT REPORTING in our 2010 Annual Report for further information regarding our segments, including the descriptions and activities of the segments and the reclassifications and allocations used to present Segment Earnings.

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Table 11 provides information about our various segment mortgage portfolios at September 30, 2011 and December 31, 2010. For a discussion of each segment s portfolios, see *Segment Earnings Results*.

Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios[1]

	September 30, 2011	December 31, 2010
	(in millions)	
Segment mortgage portfolios:		
Investments Mortgage investments portfolio:		
Single-family unsecuritized mortgage loans[2]	$ 98,115	$ 79,097
Freddie Mac mortgage-related securities	251,242	263,152
Non-agency mortgage-related securities	88,857	99,639
Non-Freddie Mac agency mortgage-related securities	35,416	39,789
Total Investments Mortgage investments portfolio	473,630	481,677
Single-family Guarantee Managed loan portfolio:[3]		
Single-family unsecuritized mortgage loans[4]	63,237	69,766
Single-family Freddie Mac mortgage-related securities held by us	251,242	261,508
Single-family Freddie Mac mortgage-related securities held by third parties	1,394,200	1,437,399
Single-family other guarantee commitments[5]	11,437	8,632
Total Single-family Guarantee Managed loan portfolio	1,720,116	1,777,305
Multifamily Guarantee portfolio:[3]		
Multifamily Freddie Mac mortgage related securities held by us	2,813	2,095
Multifamily Freddie Mac mortgage related securities held by third parties	19,587	11,916
Multifamily other guarantee commitments[5]	9,812	10,038
Total Multifamily Guarantee portfolio	32,212	24,049
Multifamily Mortgage investments portfolio[3]		
Multifamily investment securities portfolio	60,675	59,548
Multifamily loan portfolio	81,591	85,883
Total Multifamily Mortgage investments portfolio	142,266	145,431
Total Multifamily portfolio	174,478	169,480
Less : Freddie Mac single-family and certain multifamily securities[6]	(254,055)	(263,603)
Total mortgage portfolio	$ 2,114,169	$ 2,164,859
Credit risk portfolios:[7]		
Single-family credit guarantee portfolio:		
Single-family mortgage loans, on-balance sheet	$ 1,771,717	$ 1,799,256

Non-consolidated Freddie Mac mortgage-related securities		10,884		11,268
Other guarantee commitments		11,437		8,632
Less: HFA-related guarantees[8]		(8,885)		(9,322)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates[8]		(817)		(857)
Total single-family credit guarantee portfolio	$	1,784,336	$	1,808,977
Multifamily mortgage portfolio:				
Multifamily mortgage loans, on-balance sheet	$	81,591	$	85,883
Non-consolidated Freddie Mac mortgage-related securities		22,400		14,011
Other guarantee commitments		9,812		10,038
Less: HFA-related guarantees[8]		(1,449)		(1,551)
Total multifamily mortgage portfolio	$	112,354	$	108,381

(1) Based on UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) Excludes unsecuritized non-accrual single-family loans managed by the Single-family Guarantee segment. However, the Single-family Guarantee segment continues to earn management and guarantee fees associated with unsecuritized single-family loans in the Investments segment.
(3) The balances of the mortgage-related securities in these portfolios are based on the UPB of the security, whereas the balances of our single-family credit guarantee and multifamily mortgage portfolios presented in this report are based on the UPB of the mortgage loans underlying the related security. The differences in the loan and security balances result from the timing of remittances to security holders, which is typically 45 or 75 days after the mortgage payment cycle of fixed-rate and ARM PCs, respectively.
(4) Represents unsecuritized non-accrual single-family loans managed by the Single-family Guarantee segment.
(5) Represents the UPB of mortgage-related assets held by third parties for which we provide our guarantee without our securitization of the related assets.
(6) Freddie Mac single-family mortgage-related securities held by us are included in both our Investments segment s mortgage investments portfolio and our Single-family Guarantee segment s managed loan portfolio, and Freddie Mac multifamily mortgage-related securities held by us are included in both the multifamily investment securities portfolio and the multifamily guarantee portfolio. Therefore, these amounts are deducted in order to reconcile to our total mortgage portfolio.
(7) Represents the UPB of loans for which we present characteristics, delinquency data, and certain other statistics in this report. See GLOSSARY for further description.
(8) We exclude HFA-related guarantees and our resecuritizations of Ginnie Mae certificates from our credit risk portfolios and most related statistics because these guarantees do not expose us to meaningful amounts of credit risk due to the credit enhancement provided on these by the U.S. government.

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Segment Earnings Results

Investments

Table 12 presents the Segment Earnings of our Investments segment.

Table 12 Segment Earnings and Key Metrics Investments[1]

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 1,905	$ 1,667	$ 5,384	$ 4,487
Non-interest income (loss):				
Net impairment of available-for-sale securities	(116)	(934)	(1,284)	(1,637)
Derivative gains (losses)	(3,144)	192	(4,197)	(4,703)
Other non-interest income (loss)	178	(768)	657	(496)
Total non-interest income (loss)	(3,082)	(1,510)	(4,824)	(6,836)
Non-interest expense:				
Administrative expenses	(97)	(110)	(293)	(343)
Other non-interest expense	(1)	(1)	(2)	(14)
Total non-interest expense	(98)	(111)	(295)	(357)
Segment adjustments[2]	137	272	466	1,076
Segment Earnings (loss) before income tax benefit (expense)	(1,138)	318	731	(1,630)
Income tax benefit (expense)	59	(34)	337	192
Segment Earnings (loss), net of taxes, including noncontrolling interest	(1,079)	284	1,068	(1,438)
Less: Net (income) loss noncontrolling interest				(2)
Segment Earnings (loss), net of taxes	(1,079)	284	1,068	(1,440)
Total other comprehensive income, net of taxes	1,347	3,317	3,106	10,051
Total comprehensive income	$ 268	$ 3,601	$ 4,174	$ 8,611
Key metrics Investments:				
Portfolio balances:				
Average balances of interest-earning assets:[3][4][5]				
Mortgage-related securities[6]	$ 387,428	$ 439,073	$ 393,301	$ 482,660

Non-mortgage-related investments[7]	85,819	123,241	97,505	125,912
Unsecuritized single-family loans	97,059	64,517	91,638	53,753
Total average balances of interest-earning assets	$ 570,306	$ 626,831	$ 582,444	$ 662,325
Return:				
Net interest yield Segment Earnings basis (annualized)	1.34%	1.06%	1.23%	0.90%

(1) For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 15: SEGMENT REPORTING Table 15.2 Segment Earnings and Reconciliation to GAAP Results.
(2) For a description of our segment adjustments, see NOTE 15: SEGMENT REPORTING Segment Earnings.
(3) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(4) Excludes non-performing single-family mortgage loans.
(5) We calculate average balances based on amortized cost.
(6) Includes our investments in single-family PCs and certain Other Guarantee Transactions, which have been consolidated under GAAP on our consolidated balance sheet since January 1, 2010.
(7) Includes the average balances of interest-earning cash and cash equivalents, non-mortgage-related securities, and federal funds sold and securities purchased under agreements to resell.

Our total comprehensive income for our Investments segment was $268 million and $4.2 billion for the three and nine months ended September 30, 2011, respectively, consisting of: (a) $(1.1) billion and $1.1 billion of Segment Earnings (loss), respectively; and (b) $1.3 billion and $3.1 billion of total other comprehensive income, respectively.

Our total comprehensive income for our Investments segment was $3.6 billion and $8.6 billion for the three and nine months ended September 30, 2010, respectively, consisting of: (a) $284 million and $(1.4) billion of Segment Earnings (loss), respectively; and (b) $3.3 billion and $10.1 billion of total other comprehensive income, respectively.

During the three and nine months ended September 30, 2011, the UPB of the Investments segment mortgage investments portfolio decreased at an annualized rate of 3.0% and 2.2%, respectively. We held $286.7 billion of agency securities and $88.9 billion of non-agency mortgage-related securities as of September 30, 2011 compared to $302.9 billion of agency securities and $99.6 billion of non-agency mortgage-related securities as of December 31, 2010. The decline in UPB of agency securities is due mainly to liquidations, including prepayments and selected sales. The decline in UPB of non-agency mortgage-related securities is due mainly to the receipt of monthly remittances of principal repayments from both the recoveries of liquidated loans and, to a lesser extent, voluntary repayments of the underlying collateral, representing a partial return of our investments in these securities. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities for additional information regarding our mortgage-related securities.

Segment Earnings net interest income increased $238 million and $897 million, and Segment Earnings net interest yield increased 28 basis points and 33 basis points during the three and nine months ended September 30, 2011, respectively, compared to the three and nine months ended September 30, 2010. The primary driver was lower funding costs, primarily due to the replacement of debt at lower rates and favorable rate resets on floating-rate debt. These lower funding costs were partially offset by the reduction in the average balance of higher-yielding mortgage-related assets due to continued liquidations.

Segment Earnings non-interest income (loss) was $(3.1) billion for the three months ended September 30, 2011 compared to $(1.5) billion for the three months ended September 30, 2010. This increase in non-interest loss was primarily attributable to increased derivative losses, partially offset by decreased impairments of available-for-sale securities. Segment Earnings non-interest income (loss) was $(4.8) billion for the nine months ended September 30, 2011 compared to $(6.8) billion for the nine months ended September 30, 2010. This decrease in non-interest loss was mainly due to decreased derivative losses, primarily due to a smaller decline in interest rates, and decreased losses on trading securities, primarily due to a smaller decline in interest rates coupled with tightening OAS levels on agency securities, during the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010.

We recorded derivative gains (losses) for this segment of $(3.1) billion and $(4.2) billion during the three and nine months ended September 30, 2011, respectively, compared to $192 million and $(4.7) billion during the three and nine months ended September 30, 2010. While derivatives are an important aspect of our strategy to manage interest-rate risk, they generally increase the volatility of reported Segment Earnings, because while fair value changes in derivatives affect Segment Earnings, fair value changes in several of the types of assets and liabilities being hedged do not affect Segment Earnings. During the three and nine months ended September 30, 2011 and the three and nine months ended September 30, 2010, swap interest rates decreased, resulting in fair value losses on our pay-fixed swaps that were partially offset by fair value gains on our receive-fixed swaps and purchased call swaptions. See Non-Interest Income (Loss) *Derivative Gains (Losses)* for additional information on our derivatives.

Impairments recorded in our Investments segment decreased by $818 million and $353 million during the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities* for additional information on our impairments.

Our Investments segment s total other comprehensive income was $1.3 billion and $3.1 billion for the three and nine months ended September 30, 2011, respectively. Net unrealized losses in AOCI on our available-for-sale securities decreased by $1.2 billion and $2.7 billion during the three and nine months ended September 30, 2011, respectively, primarily attributable to the impact of declining interest rates, resulting in fair value gains on our agency and CMBS securities, and the recognition in earnings of other-than-temporary impairments on our non-agency mortgage-related securities, partially offset by the impact of widening of OAS levels on our non-agency mortgage-related securities. The impact of widening of OAS levels on our CMBS securities is reflected in the Multifamily segment.

Our Investments segment s total other comprehensive income was $3.3 billion and $10.1 billion during the three and nine months ended September 30, 2010, respectively. Net unrealized losses in AOCI on our available-for-sale securities decreased by $3.2 billion and $9.5 billion during the three and nine months ended September 30, 2010, respectively, primarily attributable to the impact of declining interest rates, resulting in fair value gains on our agency, CMBS, and non-agency mortgage-related securities. In addition, the impact of widening OAS levels during these periods was offset by fair value gains related to the movement of securities with unrealized losses towards maturity and the recognition in earnings of other-than-temporary impairments on our non-agency mortgage-related securities.

The objectives set forth for us under our charter and conservatorship, restrictions set forth in the Purchase Agreement and restrictions imposed by FHFA have negatively impacted, and will continue to negatively impact, our Investments segment results. For example, our mortgage-related investments portfolio is subject to a cap that decreases by 10% each year until the portfolio reaches $250 billion. This will likely cause a corresponding reduction in our net interest income from these assets and therefore negatively affect our Investments segment results. FHFA also stated that we will not be a substantial buyer of mortgages for our mortgage-related investments portfolio, except for purchases of seriously delinquent mortgages out of PC trusts. FHFA has also indicated that the portfolio reduction targets under the Purchase Agreement and FHFA regulation should be viewed as minimum reductions and has encouraged us to reduce the mortgage-related investments portfolio at a faster rate than required, consistent with FHFA guidance, safety and soundness and the goal of conserving and preserving assets. We are also subject to limits on the amount of mortgage assets we can sell in any calendar month without review and approval by FHFA and, if FHFA so determines, Treasury.

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For information on the impact of the requirement to reduce the mortgage-related investments portfolio limit by 10% annually, see NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Impact of the Purchase Agreement and FHFA Regulation on the Mortgage-Related Investments Portfolio.

Single-Family Guarantee

Table 13 presents the Segment Earnings of our Single-family Guarantee segment.

Table 13 Segment Earnings and Key Metrics Single-Family Guarantee[1]

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in millions)			
Segment Earnings:				
Net interest income (expense)	$ (98)	$ (4)	$ (28)	$ 106
Provision for credit losses	(4,008)	(3,980)	(9,178)	(15,315)
Non-interest income:				
Management and guarantee income	913	922	2,631	2,635
Other non-interest income	331	307	750	785
Total non-interest income	1,244	1,229	3,381	3,420
Non-interest expense:				
Administrative expenses	(227)	(224)	(670)	(695)
REO operations (expense) income	(226)	(337)	(518)	(452)
Other non-interest expense	(69)	(85)	(241)	(254)
Total non-interest expense	(522)	(646)	(1,429)	(1,401)
Segment adjustments[2]	(161)	(245)	(489)	(666)
Segment Earnings (loss) before income tax (expense) benefit	(3,545)	(3,646)	(7,743)	(13,856)
Income tax (expense) benefit		508	(8)	617
Segment Earnings (loss), net of taxes	(3,545)	(3,138)	(7,751)	(13,239)
Total other comprehensive income (loss), net of taxes		1	(3)	(2)
Total comprehensive income (loss)	$ (3,545)	$ (3,137)	$ (7,754)	$ (13,241)
Key metrics Single-family Guarantee:				
Balances and Growth (in billions, except rate):				
Average balance of single-family credit guarantee portfolio	$ 1,800	$ 1,858	$ 1,811	$ 1,873
Issuance Single-family credit guarantees[3]	$ 68	$ 91	$ 226	$ 261
Fixed-rate products Percentage of purchases[4]	88.6%	95.0%	91.4%	95.6%
	19.9%	26.2%	21.6%	26.9%

Liquidation rate Single-family credit guarantees (annualized)[5]				
Management and Guarantee Fee Rate (in bps, annualized):				
Contractual management and guarantee fees	13.8	13.5	13.7	13.4
Amortization of delivery fees	6.5	6.4	5.7	5.4
Segment Earnings management and guarantee income	20.3	19.9	19.4	18.8
Credit:				
Serious delinquency rate, at end of period	3.51%	3.80%	3.51%	3.80%
REO inventory, at end of period (number of properties)	59,596	74,897	59,596	74,897
Single-family credit losses, in bps (annualized)[6]	76.3	91.0	71.9	78.4
Market:				
Single-family mortgage debt outstanding (total U.S. market, in billions)[7]	$ 9,920	$ 10,094	$ 9,920	$ 10,094
30-year fixed mortgage rate[8]	4.0%	4.3%	4.0%	4.3%

(1) For reconciliations of the Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 15: SEGMENT REPORTING Table 15.2 Segment Earnings and Reconciliation to GAAP Results.
(2) For a description of our segment adjustments, see NOTE 15: SEGMENT REPORTING Segment Earnings.
(3) Based on UPB.
(4) Excludes Other Guarantee Transactions.
(5) Represents principal repayments relating to loans underlying Freddie Mac mortgage-related securities and other guarantee commitments. Also includes our purchases of seriously delinquent and modified mortgage loans and balloon/reset mortgage loans out of PC pools.
(6) Calculated as the amount of single-family credit losses divided by the sum of the average carrying value of our single-family credit guarantee portfolio and the average balance of our single-family HFA initiative guarantees. Credit losses are equal to charge-offs, plus REO operations income (expense).
(7) Source: Federal Reserve Flow of Funds Accounts of the United States of America dated September 16, 2011. The outstanding amount for September 30, 2011 reflects the balance as of June 30, 2011, which is the latest available information.
(8) Based on Freddie Mac s Primary Mortgage Market Survey rate for the last week in the period, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender. This commitment rate applies only to financing on conforming mortgages with LTV ratios of 80%.

Financial Results

For the three and nine months ended September 30, 2011, Segment Earnings (loss) for our Single-family Guarantee segment was $(3.5) billion and $(7.8) billion, respectively, compared to $(3.1) billion and $(13.2) billion for the three and nine months ended September 30, 2010, respectively. Segment Earnings (loss) for our Single-family Guarantee segment worsened for the three months ended September 30, 2011 compared to the three months ended September 30, 2010

primarily due to a decrease in recognized income tax benefit. Segment Earnings (loss) for our Single-family Guarantee segment improved for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 primarily due to a decline in provision for credit losses.

During the three and nine months ended September 30, 2011, our provision for credit losses for the Single-family Guarantee segment was $4.0 billion and $9.2 billion, respectively, compared to $4.0 billion and $15.3 billion during the three and nine months ended September 30, 2010, respectively. The Segment Earnings provision for credit losses in the third quarter of 2011 reflects a decline in the volume of early and seriously delinquent loans, while the provision for credit losses in the nine months ended September 30, 2011 reflects declines in the rate at which delinquent loans transition into serious delinquency. The Segment Earnings provision for credit losses in the three and nine months ended September 30, 2011 also reflects higher loss severity, primarily due to lower expectations for mortgage insurance recoveries, which is due to deterioration in the financial condition of certain of these counterparties during the 2011 periods. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk* for further information on our mortgage insurance counterparties. The Segment Earnings provision for credit losses in the three and nine months ended September 30, 2010 also reflected a higher volume of completed loan modifications that were classified as TDRs.

We adopted new accounting guidance on the classification of loans as TDRs in the third quarter of 2011, which significantly increases the population of loans we account for and disclose as TDRs. The impact of this change in guidance on our results for the third quarter of 2011 was not significant. We expect that the number of loans that newly qualify as TDRs in the remainder of 2011 will remain high, primarily because we anticipate that the majority of our modifications, both completed and those still in trial periods will be considered TDRs. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, and NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for additional information on our TDR loans, including our implementation of changes to the accounting guidance for recognition of TDR loans.

Segment Earnings management and guarantee income decreased slightly in the three and nine months ended September 30, 2011, as compared to the three and nine months ended September 30, 2010, primarily due to lower average balances of the single-family credit guarantee portfolio during the 2011 periods.

On September 19, 2011, the Acting Director of FHFA stated that he would anticipate Freddie Mac and Fannie Mae will continue the gradual process of increasing guarantee fees. He stated that this will not happen immediately but should be expected in 2012. President Obama s Plan for Economic Growth and Deficit Reduction, announced on September 19, 2011, contained a proposal to increase the guarantee fees charged by Freddie Mac and Fannie Mae by 10 basis points.

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Table 14 provides summary information about the composition of Segment Earnings (loss) for this segment in the three and nine months ended September 30, 2011.

Table 14 Segment Earnings Composition Single-Family Guarantee Segment

	Three Months Ended September 30, 2011				
	Segment Earnings Management and Guarantee Income[1]		Credit Expenses[2]		
	Amount	Average Rate[3]	Amount	Average Rate[3]	Net Amount[4]
	(dollars in millions, rates in bps)				
Year of origination:[5]					
2011	$ 111	22.2	$ (25)	5.7	$ 86
2010	186	22.0	(85)	9.8	101
2009	176	20.5	(97)	11.0	79
2008	89	22.4	(466)	141.3	(377)
2007	87	18.2	(1,426)	320.1	(1,339)
2006	57	18.4	(991)	296.7	(934)
2005	66	18.3	(631)	165.6	(565)
2004 and prior	141	18.9	(513)	61.9	(372)
Total	$ 913	20.3	$ (4,234)	94.0	$ (3,321)
Administrative expenses					(227)
Net interest income (expense)					(98)
Other non-interest income and expenses, net					101
Segment Earnings (loss), net of taxes					$ (3,545)

	Nine Months Ended September 30, 2011				
	Segment Earnings Management and Guarantee Income[1]		Credit Expenses[2]		
	Amount	Average Rate[3]	Amount	Average Rate[3]	Net Amount[4]
	(dollars in millions, rates in bps)				
Year of origination:[5]					
2011	$ 202	19.9	$ (40)	5.0	$ 162
2010	555	21.2	(199)	7.4	356
2009	498	18.7	(211)	7.7	287
2008	292	23.1	(879)	83.7	(587)

2007	283	18.6	(3,320)	236.8	(3,037)
2006	172	17.4	(2,483)	237.4	(2,311)
2005	194	17.1	(1,525)	127.3	(1,331)
2004 and prior	435	18.3	(1,039)	39.5	(604)
Total	$ 2,631	19.4	$ (9,696)	71.4	$ (7,065)
Administrative expenses					(670)
Net interest income (expense)					(28)
Other non-interest income and expenses, net					12
Segment Earnings (loss), net of taxes					$ (7,751)

(1) Includes amortization of delivery fees of $293 and $769 million for the three and nine months ended September 30, 2011, respectively.
(2) Consists of the aggregate of the Segment Earnings provision for credit losses and Segment Earnings REO operations expense. Historical rates of average credit expenses may not be representative of future results.
(3) Calculated as the annualized amount of Segment Earnings management and guarantee income or credit expenses, respectively, divided by the sum of the average carrying values of the single-family credit guarantee portfolio and the average balance of our single-family HFA initiative guarantees.
(4) Calculated as Segment Earnings management and guarantee income less credit expenses.
(5) Segment Earnings management and guarantee income is presented by year of guarantee origination, whereas credit expenses are presented based on year of loan origination.

During the nine months ended September 30, 2011, the guarantee-related revenue from mortgage guarantees we issued after 2008 exceeded the credit-related and administrative expenses associated with these guarantees. We currently believe our management and guarantee fee rates for guarantee issuances after 2008, when coupled with the higher credit quality of the mortgages within our new guarantee issuances, will provide management and guarantee fee income, over the long term, that exceeds our expected credit-related and administrative expenses associated with the underlying loans. Nevertheless, various factors, such as continued high unemployment rates or further declines in home prices, could require us to incur expenses on these loans beyond our current expectations. Our management and guarantee fee rates associated with guarantee issuances in 2005 through 2008 have not been adequate to provide income to cover the credit and administrative expenses associated with such loans, primarily due to the high rate of defaults on the loans originated in those years coupled with a high volume of refinancing since 2008. High levels of refinancing and delinquency since 2008 have significantly reduced the balance of performing loans from those years that remain in our portfolio and consequently

reduced management and guarantee income associated with loans originated in 2005 through 2008 (we do not recognize Segment Earnings management and guarantee income on non-accrual mortgage loans). We also believe that the management and guarantee fees associated with originations after 2008 will not be sufficient to offset the future expenses associated with our 2005 to 2008 guarantee issuances for the foreseeable future. Consequently, we expect to continue reporting net losses for the Single-family Guarantee segment for the remainder of 2011 and into 2012.

Key Metrics

The UPB of the Single-family Guarantee managed loan portfolio declined to $1.7 trillion at September 30, 2011 from $1.8 trillion at December 31, 2010. This reflects that the amount of single-family loan liquidations has exceeded new loan purchase and guarantee activity in 2011, which we believe is due, in part, to declines in the amount of single-family mortgage debt outstanding in the market. Additionally, our loan purchase and guarantee activity in the nine months ended September 30, 2011 was at the lowest level we have experienced in the last several years. During the three and nine months ended September 30, 2011 our annualized liquidation rate on our securitized single-family credit guarantees was approximately 20% and 22%, respectively.

Refinance volumes continued to be high due to continued low interest rates, and, based on UPB, represented 67% and 75% of our single-family mortgage purchase volume during the three and nine months ended September 30, 2011, respectively, compared to 76% and 75% of our single-family mortgage purchase volume during the three and nine months ended September 30, 2010, respectively. Relief refinance mortgages comprised approximately 40% and 35% of our total refinance volume during the nine months ended September 30, 2011 and 2010, respectively, based on number of loans.

The serious delinquency rate on our single-family credit guarantee portfolio declined to 3.51% as of September 30, 2011 from 3.84% as of December 31, 2010 due to a high volume of loan modifications and foreclosure transfers, as well as a slowdown in new serious delinquencies. The quarterly number of seriously delinquent loan additions declined steadily from the fourth quarter of 2009 through the second quarter of 2011; however, we experienced a small increase in the quarterly number of seriously delinquent loan additions during the third quarter of 2011. Our serious delinquency rate remains high compared to historical levels, reflecting continued stress in the housing and labor markets.

As of September 30, 2011 and December 31, 2010, approximately 50% and 39%, respectively, of our single-family credit guarantee portfolio is comprised of mortgage loans originated after 2008. Excluding relief refinance mortgages, these new vintages reflect a combination of changes in underwriting practices and improved borrower and loan characteristics, and represent an increasingly large proportion of our single-family credit guarantee portfolio. The proportion of the portfolio represented by 2005 through 2008 vintages, which have a higher composition of loans with higher-risk characteristics, continues to decline principally due to liquidations resulting from prepayments, foreclosure events, and foreclosure alternatives. We currently expect that, over time, the replacement of older vintages should positively impact the serious delinquency rates and credit-related expenses of our single-family credit guarantee portfolio. However, the rate at which this replacement occurs slowed beginning in 2010, due to a decline in the volume of home purchase mortgage originations, an increase in the proportion of relief refinance mortgage activity, and delays in the foreclosure process. Relief refinance mortgages with LTV ratios above 80% represented approximately 13% and 12% of our single-family mortgage purchase volume during the nine months ended September 30, 2011 and 2010, respectively, based on UPB. Relief refinance mortgages with LTV ratios above 80% may not perform as well as refinance mortgages with LTV ratios of 80% or less over time due, in part, to the continued high LTV ratios of these loans.

Single-family credit losses as a percentage of the average balance of the single-family credit guarantee portfolio and HFA-related guarantees was 76.3 basis points in the third quarter of 2011, compared to 91.0 basis points for the third

quarter of 2010, and was 71.9 basis points for the nine months ended September 30, 2011, compared to 78.4 basis points for the nine months ended September 30, 2010. Charge-offs, net of recoveries, associated with the single-family loans declined to $3.2 billion in the third quarter of 2011, from $3.9 billion for the third quarter of 2010. Charge-offs, net of recoveries, were $9.3 billion and $10.5 billion in the nine months ended September 30, 2011 and 2010, respectively. Our net charge-offs in the three and nine months ended September 30, 2011 remained elevated, but reflect suppression of activity due to delays in the foreclosure process. We believe that the level of our charge-offs will continue to remain high in the remainder of 2011 and may increase in 2012 due to the large number of single-family non-performing loans that will likely be resolved as our servicers work through their foreclosure-related issues and because market conditions, such as home prices and the rate of home sales, continue to remain weak. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* for further information on our single-family credit guarantee portfolio, including credit performance, charge-offs, and our non-performing assets.

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Multifamily

Table 15 presents the Segment Earnings of our Multifamily segment.

Table 15 Segment Earnings and Key Metrics Multifamily[1]

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 314	$ 290	$ 897	$ 806
(Provision) benefit for credit losses	37	(19)	110	(167)
Non-interest income (loss):				
Management and guarantee income	32	25	90	74
Net impairment of available-for-sale securities	(27)	(5)	(344)	(77)
Derivative gains (losses)	(1)	1	3	5
Other non-interest income (loss)	(83)	185	215	348
Total non-interest income (loss)	(79)	206	(36)	350
Non-interest expense:				
Administrative expenses	(57)	(54)	(163)	(159)
REO operations income (expense)	5		13	(4)
Other non-interest expense	(15)	(17)	(56)	(53)
Total non-interest expense	(67)	(71)	(206)	(216)
Segment Earnings before income tax benefit	205	406	765	773
Income tax benefit (expense)		(25)	(1)	(24)
Segment Earnings, net of taxes, including noncontrolling interest	205	381	764	749
Less: Net (income) loss noncontrolling interest				3
Segment Earnings, net of taxes	205	381	764	752
Total other comprehensive income (loss), net of taxes	(1,301)	629	46	2,989
Total comprehensive income (loss)	$ (1,096)	$ 1,010	$ 810	$ 3,741
Key metrics Multifamily:				
Balances and Growth:				
Average balance of Multifamily loan portfolio	$ 82,128	$ 83,232	$ 83,875	$ 82,932
Average balance of Multifamily guarantee portfolio	$ 31,283	$ 22,428	$ 28,566	$ 21,206
Average balance of Multifamily investment securities portfolio	$ 60,868	$ 60,988	$ 61,873	$ 61,835
Liquidation rate Multifamily loan portfolio (annualized)	12.4%	5.7%	9.2%	4.3%

Growth rate (annualized)(2)	5.8%	5.4%	4.7%	6.3%
Yield and Rate:				
Net interest yield Segment Earnings basis (annualized)	0.87%	0.80%	0.82%	0.74%
Average Management and guarantee fee rate, in bps (annualized)(3)	41.5	50.0	43.5	50.7
Credit:				
Delinquency rate:				
Credit-enhanced loans, at period end	0.77%	0.86%	0.77%	0.86%
Non-credit-enhanced loans, at period end	0.18%	0.18%	0.18%	0.18%
Total Delinquency rate, at period end	0.33%	0.31%	0.33%	0.31%
Allowance for loan losses and reserve for guarantee losses, at period end	$ 656	$ 931	$ 656	$ 931
Allowance for loan losses and reserve for guarantee losses, in bps	57.6	87.8	57.6	87.8
Credit losses, in bps (annualized)(4)	4.0	9.0	5.3	9.2

(1) For reconciliations of Segment Earnings line items to the comparable line items in our consolidated financial statements prepared in accordance with GAAP, see NOTE 15: SEGMENT REPORTING Table 15.2 Segment Earnings and Reconciliation to GAAP Results.
(2) Based on the aggregate UPB of the Multifamily loan and guarantee portfolios.
(3) Represents Multifamily Segment Earnings management and guarantee income, excluding prepayment and certain other fees, divided by the sum of the average balance of the multifamily guarantee portfolio and the average balance of guarantees associated with the HFA initiative, excluding certain bonds under the NIBP.
(4) Calculated as the amount of multifamily credit losses divided by the sum of the average carrying value of our multifamily loan portfolio and the average balance of the multifamily guarantee portfolio, including multifamily HFA initiative guarantees. Credit losses are equal to charge-offs, plus REO operations income (expense).

Our purchase and guarantee of multifamily loans increased by approximately 46%, to $12.4 billion for the nine months ended September 30, 2011, compared to $8.5 billion during the same period in 2010. We completed Other Guarantee Transactions securitizing $10.1 billion and $5.2 billion in UPB of multifamily loans in the nine months ended September 30, 2011 and 2010, respectively. The UPB of the total multifamily portfolio increased to $174.5 billion at September 30, 2011 from $169.5 billion at December 31, 2010, primarily due to increased issuance of Other Guarantee Transactions, partially offset by maturities and other repayments of multifamily held-for-investment mortgage loans.

During the third quarter of 2011, Multifamily Segment Earnings were negatively impacted by the widening of OAS levels on multifamily investments, which we believe was primarily due to increased global economic uncertainty. Although widening of OAS levels was largely offset by a decline in interest rates during the quarter, the financial impact associated with the decline in interest rates is included in Segment Earnings of the Investments segment, while the non-interest rate component of the change in fair value is recognized in the Multifamily segment.

Segment Earnings for our Multifamily segment decreased to $205 million for the third quarter of 2011 from $381 million for the third quarter of 2010 primarily due to lower other non-interest income, partially offset by recognition of benefit for credit losses and higher net interest income in the third quarter of 2011. Segment Earnings for our Multifamily segment slightly increased to $764 million for the nine months ended September 30, 2011, compared to $752 million for the nine months ended September 30, 2010, primarily due to improvement of provision (benefit) for credit losses, which was substantially offset by higher security impairments on CMBS in the 2011 period. We currently expect to generate positive Segment Earnings in the Multifamily segment in the remainder of 2011 and 2012.

Our total comprehensive income (loss) for our Multifamily segment was $(1.1) billion and $0.8 billion for the three and nine months ended September 30, 2011, respectively, consisting of: (a) Segment Earnings of $0.2 billion and $0.8 billion, respectively; and (b) $(1.3) billion and $46 million, respectively, of total other comprehensive income (loss), which was mainly attributable to widening OAS levels on available-for-sale CMBS. Our total comprehensive income for our Multifamily segment was $1.0 billion and $3.7 billion for the three and nine months ended September 30, 2010, respectively, consisting of: (a) Segment Earnings of $0.4 billion and $0.7 billion, respectively; and (b) $0.6 billion and $3.0 billion, respectively, of total other comprehensive income, primarily resulting from improved fair values resulting from tightening of OAS levels on available-for-sale CMBS.

Segment Earnings net interest income increased to $314 million in the third quarter of 2011 from $290 million in the third quarter of 2010, and was $897 million and $806 million in the nine months ended September 30, 2011 and 2010, respectively. These increases were primarily attributable to higher interest income relative to allocated funding costs in the 2011 periods.

Within Segment Earnings non-interest income (loss), we recognized higher security impairments on CMBS that were partially offset by higher gains on sale of mortgage loans during the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010. CMBS impairments during the nine months ended September 30, 2011 and 2010 totaled $344 million and $77 million, respectively, representing an increase of $267 million. We recognized $302 million in gains on sales of $10.1 billion in UPB of multifamily loans during the nine months ended September 30, 2011, compared to $244 million of gains on sales of $5.4 billion in UPB of multifamily loans during the nine months ended September 30, 2010. Gains on sales of multifamily loans in the multifamily segment are presented net of changes in fair value due to changes in interest rates.

The most recent market data available continues to reflect improving national apartment fundamentals, including decreasing vacancy rates and increasing effective rents. However, the broader economy continues to be challenged by persistently high unemployment, which has delayed a more comprehensive recovery of the multifamily housing market. Some geographic areas in which we have investments in multifamily loans, including the states of Arizona, Georgia, and Nevada, continue to exhibit weaker than average fundamentals that increase our risk of future losses. We expect our multifamily delinquency rate to remain relatively stable in the remainder of 2011. For further information on delinquencies, including geographical and other concentrations, see NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS.

Our Multifamily segment recognized a provision (benefit) for credit losses of $(37) million and $(110) million for the three and nine months ended September 30, 2011 compared to a provision for credit losses of $19 million and $167 million, for the three and nine months ended September 30, 2010, respectively. Our loan loss reserves associated with our multifamily mortgage portfolio were $656 million and $828 million as of September 30, 2011 and December 31, 2010, respectively. The decline in our loan loss reserves in the nine months ended September 30, 2011 was driven by positive trends in vacancy rates and effective rents, as well as stabilizing or improved property values. For loans where we identified deteriorating collateral performance characteristics, such as estimated current LTV ratio and DSCRs, we evaluate each individual loan, using estimates of the property s current value, to determine if a specific

loan loss reserve is needed. Although we use the most recently available results of our multifamily borrowers to estimate a property s current value, there may be a significant lag in reporting, which could be six months or more, as they prepare their results in the normal course of business.

The credit quality of the multifamily mortgage portfolio remains strong, as evidenced by low delinquency rates and credit losses, and we believe reflects prudent underwriting practices. The delinquency rate for loans in the multifamily mortgage portfolio was 0.33% and 0.26% as of September 30, 2011 and December 31, 2010, respectively. As of September 30, 2011, more than half of the multifamily loans, measured both in terms of number of loans and on a UPB basis, that were two or more monthly payments past due had credit enhancements that we currently believe will mitigate our expected losses on those loans. The multifamily delinquency rate of credit-enhanced loans as of September 30, 2011 and December 31, 2010, was 0.77% and 0.85%, respectively, while the delinquency rate for non-credit-enhanced loans

was 0.18% and 0.12%, respectively. See RISK MANAGEMENT -Credit Risk -*Mortgage Credit Risk - Multifamily Mortgage Credit Risk* for further information about our reported multifamily delinquency rates, including factors that can positively impact such rates.

Multifamily credit losses as a percentage of the combined average balance of our multifamily loan and guarantee portfolios declined from 9.0 basis points in the third quarter of 2010 to 4.0 basis points in the third quarter of 2011. Charge-offs, net of recoveries, associated with multifamily loans decreased to $16 million in the third quarter of 2011, compared to $23 million in the third quarter of 2010, and decreased to $57 million in the nine months ended September 30, 2011, compared to $68 million in the nine months ended September 30, 2010, due to a decline in loss severities in the 2011 periods.

CONSOLIDATED BALANCE SHEETS ANALYSIS

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

Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell

Cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, and other liquid assets discussed in Investments in Securities *Non-Mortgage-Related Securities*, are important to our cash flow and asset and liability management, and our ability to provide liquidity and stability to the mortgage market. We use these assets to help manage recurring cash flows and meet our other cash management needs. We consider federal funds sold to be overnight unsecured trades executed with commercial banks that are members of the Federal Reserve System. Securities purchased under agreements to resell principally consist of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities.

The short-term assets on our consolidated balance sheets also include those related to our consolidated VIEs, which are comprised primarily of restricted cash and cash equivalents at September 30, 2011. These short-term assets decreased by $11.7 billion from December 31, 2010 to September 30, 2011, primarily due to a relative decline in the level of refinancing activity.

Excluding amounts related to our consolidated VIEs, we held $18.2 billion and $37.0 billion of cash and cash equivalents, $0 billion and $1.4 billion of federal funds sold, and $10.6 billion and $15.8 billion of securities purchased under agreements to resell at September 30, 2011 and December 31, 2010, respectively. The aggregate decrease in these assets was primarily driven by a decline in funding needs for debt redemptions. In addition, excluding amounts related to our consolidated VIEs, we held on average $37.7 billion and $33.2 billion of cash and cash equivalents and $12.9 billion and $21.0 billion of federal funds sold and securities purchased under agreements to resell during the three and nine months ended September 30, 2011, respectively.

In the beginning of the third quarter of 2011, we made a temporary change in the composition of our portfolio of liquid assets to more cash and overnight investments given the market s concerns about the potential for a downgrade in the credit ratings of the U.S. government and the potential that the U.S. would exhaust its borrowing authority under the statutory debt limit. For more information, see LIQUIDITY AND CAPITAL RESOURCES Liquidity.

Investments in Securities

Table 16 provides detail regarding our investments in securities as of September 30, 2011 and December 31, 2010. Table 16 does not include our holdings of single-family PCs and certain Other Guarantee Transactions. For information on our holdings of such securities, see Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.

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Table 16 Investments in Securities

	Fair Value	
	September 30, 2011	December 31, 2010
	(in millions)	
Investments in securities:		
Available-for-sale:		
Mortgage-related securities:		
Freddie Mac[1]	$ 84,021	$ 85,689
Subprime	28,888	33,861
CMBS	56,265	58,087
Option ARM	6,168	6,889
Alt-A and other	11,443	13,168
Fannie Mae	20,580	24,370
Obligations of states and political subdivisions	8,132	9,377
Manufactured housing	816	897
Ginnie Mae	271	296
Total available-for-sale mortgage-related securities	216,584	232,634
Total investments in available-for-sale securities	216,584	232,634
Trading:		
Mortgage-related securities:		
Freddie Mac[1]	16,588	13,437
Fannie Mae	17,603	18,726
Ginnie Mae	161	172
Other	78	31
Total trading mortgage-related securities	34,430	32,366
Non-mortgage-related securities:		
Asset-backed securities	276	44
Treasury bills	1,000	17,289
Treasury notes	17,159	10,122
FDIC-guaranteed corporate medium-term notes	2,433	441
Total trading non-mortgage-related securities	20,868	27,896
Total investments in trading securities	55,298	60,262
Total investments in securities	$ 271,882	$ 292,896

(1)

For information on the types of instruments that are included, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities in our 2010 Annual Report.

Non-Mortgage-Related Securities

Our investments in non-mortgage-related securities provide an additional source of liquidity for us. We held investments in non-mortgage-related securities classified as trading of $20.9 billion and $27.9 billion as of September 30, 2011 and December 31, 2010, respectively. While balances may fluctuate from period to period, we continue to meet required liquidity and contingency levels.

Mortgage-Related Securities

We are primarily a buy-and-hold investor in mortgage-related securities, which consist of securities issued by Fannie Mae, Ginnie Mae, and other financial institutions. We also invest in our own mortgage-related securities. However, the single-family PCs and certain Other Guarantee Transactions we purchase as investments are not accounted for as investments in securities because we recognize the underlying mortgage loans on our consolidated balance sheets through consolidation of the related trusts.

Table 17 provides the UPB of our investments in mortgage-related securities classified as available-for-sale or trading on our consolidated balance sheets. Table 17 does not include our holdings of our own single-family PCs and certain Other Guarantee Transactions. For further information on our holdings of such securities, see Table 11 Composition of Segment Mortgage Portfolios and Credit Risk Portfolios.

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Table 17 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets

	September 30, 2011			December 31, 2010		
	Fixed Rate	Variable Rate[1]	Total	Fixed Rate	Variable Rate[1]	Total
			(in millions)			
Freddie Mac mortgage-related securities:[2]						
Single-family	$ 76,432	$ 9,086	$ 85,518	$ 79,955	$ 8,118	$ 88,073
Multifamily	1,009	1,804	2,813	339	1,756	2,095
Total Freddie Mac mortgage-related securities	77,441	10,890	88,331	80,294	9,874	90,168
Non-Freddie Mac mortgage-related securities:						
Agency securities:[3]						
Fannie Mae:						
Single-family	19,380	15,666	35,046	21,238	18,139	39,377
Multifamily	62	77	139	228	88	316
Ginnie Mae:						
Single-family	264	106	370	296	117	413
Multifamily	27		27	27		27
Total agency securities	19,733	15,849	35,582	21,789	18,344	40,133
Non-agency mortgage-related securities:						
Single-family:[4]						
Subprime	341	49,857	50,198	363	53,855	54,218
Option ARM		14,351	14,351		15,646	15,646
Alt-A and other	2,190	15,065	17,255	2,405	16,438	18,843
CMBS	20,228	35,379	55,607	21,401	37,327	58,728
Obligations of states and political subdivisions[5]	8,131	23	8,154	9,851	26	9,877
Manufactured housing	854	134	988	930	150	1,080
Total non-agency mortgage-related securities[6]	31,744	114,809	146,553	34,950	123,442	158,392
Total UPB of mortgage-related securities	$ 128,918	$ 141,548	270,466	$ 137,033	$ 151,660	288,693
Premiums, discounts, deferred fees, impairments of UPB and			(11,908)			(11,839)

other basis adjustments		
Net unrealized (losses) on mortgage-related securities, pre-tax	(7,544)	(11,854)
Total carrying value of mortgage-related securities	$ 251,014	$ 265,000

(1) Variable-rate mortgage-related securities include those with a contractual coupon rate that, prior to contractual maturity, is either scheduled to change or is subject to change based on changes in the composition of the underlying collateral.
(2) When we purchase REMICs and Other Structured Securities and certain Other Guarantee Transactions that we have issued, we account for these securities as investments in debt securities as we are investing in the debt securities of a non-consolidated entity. We do not consolidate our resecuritization trusts since we are not deemed to be the primary beneficiary of such trusts. We are subject to the credit risk associated with the mortgage loans underlying our Freddie Mac mortgage-related securities. Mortgage loans underlying our issued single-family PCs and certain Other Guarantee Transactions are recognized on our consolidated balance sheets as held-for-investment mortgage loans, at amortized cost. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities in our 2010 Annual Report for further information.
(3) Agency securities are generally not separately rated by nationally recognized statistical rating organizations, but have historically been viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities AAA-rated or equivalent.
(4) For information about how these securities are rated, see Table 22 Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS.
(5) Consists of housing revenue bonds. Approximately 38% and 50% of these securities held at September 30, 2011 and December 31, 2010, respectively, were AAA-rated as of those dates, based on the lowest rating available.
(6) Credit ratings for most non-agency mortgage-related securities are designated by no fewer than two nationally recognized statistical rating organizations. Approximately 21% and 23% of total non-agency mortgage-related securities held at September 30, 2011 and December 31, 2010, respectively, were AAA-rated as of those dates, based on the UPB and the lowest rating available.

The total UPB of our investments in mortgage-related securities on our consolidated balance sheets decreased from $288.7 billion at December 31, 2010 to $270.5 billion at September 30, 2011 primarily as a result of liquidations exceeding our purchase activity during the nine months ended September 30, 2011.

Table 18 summarizes our mortgage-related securities purchase activity for the three and nine months ended September 30, 2011 and 2010. The purchase activity includes single-family PCs and certain Other Guarantee Transactions issued by trusts that we consolidated. Purchases of single-family PCs and certain Other Guarantee Transactions issued by trusts that we consolidated are recorded as an extinguishment of debt securities of consolidated trusts held by third parties on our consolidated balance sheets.

Table 18 Total Mortgage-Related Securities Purchase Activity[1]

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(in millions)			
Non-Freddie Mac mortgage-related securities purchased for resecuritization:				
Ginnie Mae Certificates	$ 1	$ 40	$ 73	$ 53
Non-agency mortgage-related securities purchased for Other Guarantee Transactions[2]	2,088	969	8,600	8,653
Total non-Freddie Mac mortgage-related securities purchased for resecuritization	2,089	1,009	8,673	8,706
Non-Freddie Mac mortgage-related securities purchased as investments in securities:				
Agency securities:				
Fannie Mae:				
Fixed-rate	1,550		4,750	
Variable-rate	927	209	1,155	373
Total agency securities	2,477	209	5,905	373
Non-agency mortgage-related securities:				
CMBS:				
Fixed-rate			14	
Variable-rate	6	40	52	40
Total non-agency mortgage-related securities	6	40	66	40
Total non-Freddie Mac mortgage-related securities purchased as investments in securities	2,483	249	5,971	413
Total non-Freddie Mac mortgage-related securities purchased	$ 4,572	$ 1,258	$ 14,644	$ 9,119
Freddie Mac mortgage-related securities purchased:				
Single-family:				
Fixed-rate	$ 23,607	$ 17,344	$ 84,590	$ 23,389
Variable-rate	587	79	3,591	282
Multifamily:				
Fixed-rate	125	31	176	216
Variable-rate	52		117	41
Total Freddie Mac mortgage-related securities purchased	$ 24,371	$ 17,454	$ 88,474	$ 23,928

(1) Based on UPB. Excludes mortgage-related securities traded but not yet settled.
(2) Purchases for the nine months ended September 30, 2010 include HFA bonds we acquired and resecuritized under the NIBP. See NOTE 3: CONSERVATORSHIP AND RELATED MATTERS in our 2010 Annual Report for further information on this component of the HFA Initiative.

During the three and nine months ended September 30, 2011, we engaged in mortgage-related security transactions in which we entered into an agreement to purchase and subsequently resell (or sell and subsequently repurchase) agency securities. We engaged in these transactions primarily to support the market and pricing of our PC securities. When these transactions involve our consolidated PC trusts, the purchase and sale represents an extinguishment and issuance of debt securities, respectively, and impacts our net interest income and recognition of gain or loss on the extinguishment of debt on our consolidated statements of income and comprehensive income. These transactions can cause short-term fluctuations in the balance of our mortgage-related investments portfolio. The increase in our purchases of agency securities in the three and nine months ended September 30, 2011, reflected in Table 18 is attributed primarily to these transactions.

Unrealized Losses on Available-For-Sale Mortgage-Related Securities

At September 30, 2011, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were $20.8 billion, compared to $23.1 billion at December 31, 2010. The improvement in unrealized losses was primarily due to the impact of a decline in interest rates, resulting in fair value gains on our agency and CMBS securities, partially offset by the impact of widening OAS levels on our CMBS and other non-agency mortgage-related securities. Additionally, net unrealized losses recorded in AOCI decreased due to the recognition in earnings of other-than-temporary impairments on our non-agency mortgage-related securities. We believe the unrealized losses related to these securities at September 30, 2011 were mainly attributable to poor underlying collateral performance, limited liquidity and large risk premiums in the market for residential non-agency mortgage-related securities. All available-for-sale securities in an unrealized loss position are evaluated to determine if the impairment is other-than-temporary. See Total Equity (Deficit) and NOTE 7: INVESTMENTS IN SECURITIES for additional information regarding unrealized losses on our available-for-sale securities.

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Higher-Risk Components of Our Investments in Mortgage-Related Securities

As discussed below, we have exposure to subprime, option ARM, interest-only, and Alt-A and other loans as part of our investments in mortgage-related securities as follows:

Single-family non-agency mortgage-related securities: We hold non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans.

Single-family Freddie Mac mortgage-related securities: We hold certain Other Guarantee Transactions as part of our investments in securities. There are subprime and option ARM loans underlying some of these Other Guarantee Transactions. For more information on single-family loans with certain higher-risk characteristics underlying our issued securities, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk.*

Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, and Alt-A Loans

We categorize our investments in non-agency mortgage-related securities as subprime, option ARM, or Alt-A if the securities were identified as such based on information provided to us when we entered into these transactions. We have not identified option ARM, CMBS, obligations of states and political subdivisions, and manufactured housing securities as either subprime or Alt-A securities. Since the first quarter of 2008, we have not purchased any non-agency mortgage-related securities backed by subprime, option ARM, or Alt-A loans. Tables 19 and 20 present information about our holdings of these securities.

Table 19 Non-Agency Mortgage-Related Securities Backed by Subprime First Lien, Option ARM, and Alt-A Loans and Certain Related Credit Statistics[1]

			As of		
	9/30/2011	6/30/2011	3/31/2011	12/31/2010	9/30/2010
			(dollars in millions)		
UPB:					
Subprime first lien[2]	$ 49,794	$ 51,070	$ 52,403	$ 53,756	$ 55,250
Option ARM	14,351	14,778	15,232	15,646	16,104
Alt-A[3]	14,643	15,059	15,487	15,917	16,406
Gross unrealized losses, pre-tax:[4]					
Subprime first lien[2]	$ 14,132	$ 13,764	$ 12,481	$ 14,026	$ 16,446
Option ARM	3,216	3,099	3,170	3,853	4,815
Alt-A[3]	2,468	2,171	1,941	2,096	2,542
Present value of expected future credit losses:[5]					
Subprime first lien[2]	$ 5,414	$ 6,487	$ 6,612	$ 5,937	$ 4,364
Option ARM	4,434	4,767	4,993	4,850	4,208
Alt-A[3]	2,204	2,310	2,401	2,469	2,101
Collateral delinquency rate:[6]					
Subprime first lien[2]	42%	42%	44%	45%	45%
Option ARM	44	44	44	44	44
Alt-A[3]	25	26	26	27	26
Average credit enhancement:[7]					
Subprime first lien[2]	22%	23%	24%	25%	25%

Option ARM	8	10	11	12	12
Alt-A[3]	7	8	8	9	9
Cumulative collateral loss:[8]					
Subprime first lien[2]	21%	20%	19%	18%	17%
Option ARM	16	15	14	13	11
Alt-A[3]	8	7	7	6	6

(1) See *Ratings of Non-Agency Mortgage-Related Securities* for additional information about these securities.

(2) Excludes non-agency mortgage-related securities backed by subprime second liens. We held $404 million of UPB of these securities at September 30, 2011.

(3) Excludes non-agency mortgage-related securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.

(4) Represents the aggregate of the amount by which amortized cost, after other-than-temporary impairments, exceeds fair value measured at the individual lot level.

(5) Represents our estimate of future contractual cash flows that we do not expect to collect, discounted at the effective interest rate implicit in the security at the date of acquisition. This discount rate is only utilized to analyze the cumulative credit deterioration for securities since acquisition and may be lower than the discount rate used to measure ongoing other-than-temporary impairment to be recognized in earnings for securities that have experienced a significant improvement in expected cash flows since the last recognition of other-than-temporary impairment recognized in earnings.

(6) Determined based on the number of loans that are two monthly payments or more past due that underlie the securities using information obtained from a third-party data provider.

(7) Reflects the ratio of the current principal amount of the securities issued by a trust that will absorb losses in the trust before any losses are allocated to securities that we own. Percentage generally calculated based on: (a) the total UPB of securities subordinate to the securities we own, divided by (b) the total UPB of all of the securities issued by the trust (excluding notional balances). Only includes credit enhancement provided by subordinated securities; excludes credit enhancement provided by bond insurance, overcollateralization and other forms of credit enhancement.

(8) Based on the actual losses incurred on the collateral underlying these securities. Actual losses incurred on the securities that we hold are significantly less than the losses on the underlying collateral as presented in this table, as non-agency mortgage-related securities backed by subprime first lien, option ARM, and Alt-A loans were structured to include credit enhancements, particularly through subordination and other structural enhancements.

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Table 20 Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans(1)

	Three Months Ended				
	9/30/2011	6/30/2011	3/31/2011	12/31/2010	9/30/2010
	(in millions)				
Net impairment of available-for-sale securities recognized in earnings:					
Subprime first and second liens	$ 31	$ 70	$ 734	$ 1,207	$ 213
Option ARM	19	65	281	668	577
Alt-A and other	80	32	40	372	296
Principal repayments and cash shortfalls:(2)					
Subprime first and second liens:					
Principal repayments	$ 1,287	$ 1,341	$ 1,361	$ 1,512	$ 1,685
Principal cash shortfalls	6	10	14	6	8
Option ARM:					
Principal repayments	$ 318	$ 331	$ 315	$ 347	$ 377
Principal cash shortfalls	109	123	100	111	122
Alt-A and other:					
Principal repayments	$ 425	$ 464	$ 452	$ 537	$ 582
Principal cash shortfalls	81	84	81	62	56

(1) See *Ratings of Non-Agency Mortgage-Related Securities* for additional information about these securities.

(2) In addition to the contractual interest payments, we receive monthly remittances of principal repayments from both the recoveries of liquidated loans and, to a lesser extent, voluntary repayments of the underlying collateral of these securities representing a partial return of our investment in these securities.

As discussed below, we recognized impairment in earnings on our holdings of such securities during the three and nine months ended September 30, 2011 and 2010. See Table 21 Net Impairment on Available-For-Sale Mortgage-Related Securities Recognized in Earnings for more information.

For purposes of our cumulative credit deterioration analysis, our estimate of the present value of expected future credit losses on our portfolio of non-agency mortgage-related securities decreased to $12.9 billion at September 30, 2011 from $14.4 billion at June 30, 2011. All of these amounts have been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decline in the present value of expected future credit losses was primarily due to the impact of a decline in interest rates resulting in a benefit from expected structural credit enhancements on the securities.

Since the beginning of 2007, we have incurred actual principal cash shortfalls of $1.3 billion on impaired non-agency mortgage-related securities, of which $202 million and $630 million related to the three and nine months ended September 30, 2011. Many of the trusts that issued non-agency mortgage-related securities we hold were structured so that realized collateral losses in excess of structural credit enhancements are not passed on to investors until the investment matures. We currently estimate that the future expected principal and interest shortfalls on non-agency mortgage-related securities we hold will be significantly less than the fair value declines experienced on these securities.

The investments in non-agency mortgage-related securities we hold backed by subprime first lien, option ARM, and Alt-A loans were structured to include credit enhancements, particularly through subordination and other structural enhancements. Bond insurance is an additional credit enhancement covering some of the non-agency mortgage-related securities. These credit enhancements are the primary reason we expect our actual losses, through principal or interest shortfalls, to be less than the underlying collateral losses in aggregate. It is difficult to estimate the point at which structural credit enhancements will be exhausted and we will incur actual losses. During the three and nine months ended September 30, 2011, we continued to experience the erosion of structural credit enhancements on many securities backed by subprime first lien, option ARM, and Alt-A loans due to poor performance of the underlying collateral. For more information, see RISK MANAGEMENT Credit Risk *Institutional Credit Risk Bond Insurers*.

Other-Than-Temporary Impairments on Available-For-Sale Mortgage-Related Securities

Table 21 provides information about the mortgage-related securities for which we recognized other-than-temporary impairments for the three months ended September 30, 2011 and 2010.

Table 21 Net Impairment on Available-For-Sale Mortgage-Related Securities Recognized in Earnings

	Three Months Ended September 30,			
	2011		2010	
	UPB	Net Impairment of Available-For-Sale Securities Recognized in Earnings	UPB	Net Impairment of Available-For-Sale Securities Recognized in Earnings
	(in millions)			
Subprime:				
2006 & 2007 first lien	$ 1,431	$ 29	$ 12,847	$ 204
Other years first and second liens[1]	77	2	496	9
Total subprime first and second liens	1,508	31	13,343	213
Option ARM:				
2006 & 2007	1,446	15	10,721	526
Other years	555	4	1,509	51
Total option ARM	2,001	19	12,230	577
Alt-A:				
2006 & 2007	1,311	29	4,971	227
Other years	1,212	10	2,607	59
Total Alt-A	2,523	39	7,578	286
Other loans	1,202	41	841	10
Total subprime, option ARM, Alt-A and other loans	7,234	130	33,992	1,086
CMBS	788	27	312	6
Manufactured housing	245	4	460	8
Total available-for-sale mortgage-related securities	$ 8,267	$ 161	$ 34,764	$ 1,100

(1) Includes all second liens.

We recorded net impairment of available-for-sale mortgage-related securities recognized in earnings of $161 million and $1.7 billion during the three and nine months ended September 30, 2011, respectively, compared to $1.1 billion

and $2.0 billion during the three and nine months ended September 30, 2010, as our estimate of the present value of expected future credit losses on certain individual securities increased during the periods. These impairments include $130 million and $1.4 billion of impairments related to securities backed by subprime, option ARM, and Alt-A and other loans during the three and nine months ended September 30, 2011, respectively, compared to $1.1 billion and $1.9 billion during the three and nine months ended September 30, 2010. In addition, during the three and nine months ended September 30, 2011, these impairments include recognition of the fair value declines related to certain investments in CMBS of $27 million and $181 million, respectively, as an impairment charge in earnings, as we have the intent to sell these securities. For more information, see NOTE 7: INVESTMENTS IN SECURITIES Other-Than-Temporary Impairments on Available-for-Sale Securities.

While it is reasonably possible that collateral losses on our available-for-sale mortgage-related securities where we have not recorded an impairment charge in earnings could exceed our credit enhancement levels, we do not believe that those conditions were likely at September 30, 2011. Based on our conclusion that we do not intend to sell our remaining available-for-sale mortgage-related securities in an unrealized loss position and it is not more likely than not that we will be required to sell these securities before a sufficient time to recover all unrealized losses and our consideration of other available information, we have concluded that the reduction in fair value of these securities was temporary at September 30, 2011 and have recorded these fair value losses in AOCI.

The credit performance of loans underlying our holdings of non-agency mortgage-related securities has declined since 2007. This decline has been particularly severe for subprime, option ARM, and Alt-A and other loans. Economic factors negatively impacting the performance of our investments in non-agency mortgage-related securities include high unemployment, a large inventory of seriously delinquent mortgage loans and unsold homes, tight credit conditions, and weak consumer confidence during the three and nine months ended September 30, 2011 and 2010. In addition, subprime, option ARM, and Alt-A and other loans backing the securities we hold have significantly greater concentrations in the states that are undergoing the greatest economic stress, such as California and Florida. Loans in these states undergoing economic stress are more likely to become seriously delinquent and the credit losses associated with such loans are likely to be higher than in other states.