FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
August 08, 2011

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 June 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: 000-53330

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

Freddie Mac

Federally chartered corporation *(State or other jurisdiction of incorporation or organization)*	**52-0904874** *(I.R.S. Employer Identification No.)*
8200 Jones Branch Drive, McLean, Virginia *(Address of principal executive offices)*	**22102-3110** *(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 July 22, 2011, there were 649,709,893 shares of the registrant s common stock outstanding.

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MD&A TABLE REFERENCE

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FINANCIAL STATEMENTS

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 Report on Form 10-Q for the first quarter 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 six months ended June 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 second quarter of 2011 was impacted by the ongoing weakness in the economy, including the mortgage market. Our total comprehensive income (loss) was $(1.1) billion and $(430) million for the second quarters of 2011 and 2010, respectively, consisting of: (a) $(2.1) billion and $(4.7) billion of net income (loss), respectively; and (b) $1.0 billion and $4.3 billion of total other comprehensive income, respectively.

Our total equity (deficit) was $(1.5) billion at June 30, 2011, resulting from several contributing factors including our dividend payment of $1.6 billion on our senior preferred stock on June 30, 2011 and our total comprehensive income (loss) of $(1.1) billion for the second quarter of 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 $1.5 billion. Following receipt of the draw, the aggregate liquidation preference on the senior preferred stock owned by Treasury will increase to $66.2 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 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 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 second 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 six months ended June 30, 2011, we guaranteed $62.2 billion and $157.9 billion in UPB of single-family conforming mortgage loans, respectively, representing more than 275,000 and 709,000 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 single-family mortgage loans were about 30 basis points lower than on non-conforming loans. Since 2007, we estimate that interest rates on conforming loans, excluding conforming jumbo loans, have been lower than those on non-conforming loans by as much as 184 basis points. In June 2011, we estimate that borrowers were paying an average of 48 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. In the first half of 2011, we helped more than 116,000 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				
	06/30/2011	03/31/2011	12/31/2010	09/30/2010	06/30/2010
	(number of loans)				
Loan modifications	31,049	35,158	37,203	39,284	49,562
Repayment plans	7,981	9,099	7,964	7,030	7,455
Forbearance agreements(2)	3,709	7,678	5,945	6,976	12,815
Short sales and deed-in-lieu transactions	11,038	10,706	12,097	10,472	9,542
Total single-family loan workouts	53,777	62,641	63,209	63,762	79,374

(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 53,777 single-family loan workouts during the second quarter of 2011, including 31,049 loan modifications and 11,038 short sales and deed-in-lieu transactions.

- Based on information provided by the MHA Program administrator, our servicers had completed 134,282 loan modifications under HAMP from the introduction of the initiative in 2009 through June 30, 2011 and, as of June 30, 2011, 16,106 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 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 workout solutions, and will be implemented over the course of 2011 and into 2012. As part of this initiative, we will implement a new non-HAMP loan modification process that, similar to the HAMP process, will require borrowers to complete a three month trial period. 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.

For more information about HAMP, other loan workout programs, our 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 provide us with 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. As of June 30, 2011, the UPB of loans subject to repurchase requests issued to our single-family seller/servicers was approximately $3.1 billion, and approximately 43% of these requests were outstanding for more than four months since issuance of our initial repurchase request. 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 reimbursement of our realized losses by seller/servicers, or may be rescinded in the course of the contractual appeals process. We continue to review loans and pursue our rights to issue repurchase requests to our counterparties, as appropriate. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk Mortgage Seller/Servicers* for further information on our agreements with our seller/servicers.

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, at the borrower s expense, for certain mortgages with higher LTV ratios. We received payments under primary and other mortgage insurance of $0.7 billion and $1.3 billion in the three and six months ended June 30, 2011, respectively, which helped to mitigate our credit losses. We believe that in addition to Triad Guaranty Insurance Corp., or Triad (as discussed below), certain of our other mortgage insurance counterparties

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may lack sufficient ability to fully meet all of their expected lifetime claims paying obligations to us over the long term as such claims emerge. However, we evaluate the near term recovery from insurance policies for mortgage loans that we hold on our consolidated balance sheet as well as loans underlying our non-consolidated Freddie Mac mortgage-related securities and covered by other guarantee commitments as part of the estimate of our loan loss reserves. Based upon currently available information, we believe that all of our mortgage insurance counterparties, except for Triad, have the capacity to pay all claims as they become due in the normal course for the near term.

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 June 30, 2011 and December 31, 2010, approximately 46% 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 first half of 2011 (excluding relief refinance mortgages, which represented approximately 28% of our single family purchase volume during the first half of 2011) is significantly better than that of loans we acquired from 2005 through 2008, as measured by 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 93% of our single-family purchase volume in the first half of 2011 consisted of fixed-rate amortizing mortgages. Approximately 70% and 79% of our single-family purchase volume in the three and six months ended June 30, 2011, respectively, was refinance mortgages, including approximately 26% and 28%, respectively, that were relief refinance mortgages, based on UPB. Relief refinance mortgages with LTV ratios above 80% may not perform as well as other refinance mortgages over time due, in part, to the continued high LTV ratios of these loans. Approximately 14% of our single-family purchase volume in the first half of 2011 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 June 30, 2011 and December 31, 2010, respectively.

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 June 30, 2011.

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

	At June 30, 2011					
	% of Portfolio	Average Credit Score[2][3]	Original LTV Ratio[3]	Current LTV Ratio[3][4]	Current LTV Ratio >100%	Serious Delinquency Rate[3][5]
Year of Origination						

2011	6%	751	71%	70%	5%	0.01%
2010	20	755	70	71	5	0.12
2009	20	755	68	72	5	0.34
2008	8	727	74	90	32	4.94
2007	10	706	77	110	58	11.04
2006	8	711	75	109	54	10.28
2005	9	717	73	95	36	6.01
2004 and prior	19	721	71	60	9	2.49
Total	100%	734	71	79	20	3.50

(1) Based on the single-family credit guarantee portfolio, which totaled $1,805 billion at June 30, 2011, and includes relief refinance mortgage loans.

(2) Based on FICO credit score of the borrower as of the date of loan origination and may not be indicative of the borrowers creditworthiness at June 30, 2011. Excludes $11 billion in UPB of loans where the FICO scores at origination were not available at June 30, 2011.

(3) Calculated based on the loans remaining in the portfolio as of June 30, 2011, rather than all loans originally guaranteed by us and originated in the respective year.

(4) 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.

(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 payoffs, repayments, refinancing activity, and foreclosures. 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 has slowed in recent quarterly periods, due to a decline in the volume of home purchase mortgage originations and an increase in the proportion of relief refinance mortgage activity. 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

We are working with our Conservator to both enhance the value of our infrastructure and improve our efficiency in order to preserve the taxpayers investment. As such, we are investing considerable resources in an effort to improve our existing systems infrastructure. This effort will likely take several years to fully implement and focuses on making significant improvements to our systems infrastructure in order to: (a) comply with FHFA- and regulatory-mandated initiatives; (b) improve risk management; (c) enhance the service we provide to our customers; and (d) improve operational efficiency. At the end of this effort, 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 monitor our general and administrative expenses, while also continuing to focus on retaining key talent. Our general and administrative expenses declined in the first half of 2011 compared to the first half of 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, and 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 $66.9 billion, and have recorded an additional $4.5 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 incurred and, thus have not been provisioned for, we believe that, as of June 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 slightly during the first half of 2011, since the amount of liquidations exceeded new loan purchase and guarantee activity. Table 3 provides certain credit statistics for our single-family credit guarantee portfolio.

Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio

	As of				
	06/30/2011	**03/31/2011**	**12/31/2010**	**09/30/2010**	**06/30/2010**
Payment status					
One month past due	1.92%	1.75%	2.07%	2.11%	2.02%
Two months past due	0.67%	0.65%	0.78%	0.80%	0.77%
Seriously delinquent(1)	3.50%	3.63%	3.84%	3.80%	3.96%
Non-performing loans (in millions)(2)	$ 114,819	$ 115,083	$ 115,478	$ 112,746	$ 111,758
Single-family loan loss reserve (in millions)(3)	$ 38,390	$ 38,558	$ 39,098	$ 37,665	$ 37,384
REO inventory (in properties)	60,599	65,159	72,079	74,897	62,178
REO assets, net carrying value (in millions)	$ 5,834	$ 6,261	$ 6,961	$ 7,420	$ 6,228

	For the Three Months Ended (in units, unless noted)				
	06/30/2011	**03/31/2011**	**12/31/2010**	**09/30/2010**	**06/30/2010**
Seriously delinquent loan additions(1)	87,813	97,646	113,235	115,359	123,175
Loan modifications(4)	31,049	35,158	37,203	39,284	49,562
Foreclosure starts ratio(5)	0.55%	0.58%	0.73%	0.75%	0.61%
REO acquisitions	24,788	24,707	23,771	39,053	34,662
REO disposition severity ratio:(6)					
California	44.9%	44.5%	43.9%	41.9%	42.0%
Arizona	51.3%	50.8%	49.5%	46.6%	44.3%
Florida	52.7%	54.8%	53.0%	54.9%	53.8%
Nevada	55.4%	53.1%	53.1%	51.6%	49.4%
Michigan	48.5%	48.3%	49.7%	49.2%	47.2%
Total U.S.	41.7%	43.0%	41.3%	41.5%	39.2%
Single-family credit losses (in millions)	$ 3,106	$ 3,226	$ 3,086	$ 4,216	$ 3,851

(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 June 30, 2011 and December 31, 2010, approximately $36.2 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 number of seriously delinquent loan additions has continued to decline; however, our single-family credit guarantee portfolio continued to experience a high level of serious delinquencies and foreclosures in the first half of 2011 as compared to our historical experience. 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 June 30, 2011 and December 31, 2010, the percentage of seriously delinquent loans that have been delinquent for more than six months was 72% and 66%, respectively. The UPB of our non-performing loans declined in the first half of 2011. However, the credit losses and loan loss reserve associated with our single-family credit guarantee portfolio remained elevated in the first half of 2011, due in part to:

Losses associated with the continued high volume of foreclosures and foreclosure alternatives. These actions relate to our continued efforts 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 continues to decline.

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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 continued high REO disposition severity ratios on our dispositions of REO inventory.

Our REO inventory (measured in number of properties) declined in each of the last three quarters due to an increase in the volume of REO dispositions and temporary slowdowns in REO acquisition volume. Dispositions of REO increased 26% in the first half of 2011 compared to the first half of 2010, based on the number of properties sold. 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 $1.5 billion at June 30, 2011, FHFA, as Conservator, will submit a draw request on our behalf to Treasury under the Purchase Agreement in the amount of $1.5 billion. FHFA will request that we receive these funds by September 30, 2011. Upon funding of the draw request: (a) our aggregate liquidation preference on the senior preferred stock owned by Treasury will increase to $66.2 billion; and (b) the corresponding annual cash dividend owed to Treasury will increase to $6.6 billion.

We pay cash dividends to Treasury at an annual rate of 10%. Through June 30, 2011, we paid aggregate cash dividends to Treasury of $13.2 billion, an amount equal to 21% of our aggregate draws received under the Purchase Agreement. As of June 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. This could adversely affect our liquidity and the supply and cost of debt financing available to us. 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*.

Consolidated Financial Results

Net loss was $(2.1) billion and $(4.7) billion for the second quarters of 2011 and 2010, respectively. Key highlights of our financial results include:

- Net interest income for the second quarter of 2011 increased to $4.6 billion from $4.1 billion in the second quarter of 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 second quarter of 2011 decreased to $2.5 billion, compared to $5.0 billion for the second quarter of 2010. The provision for credit losses in the second quarter of 2011 primarily reflects a decline in the rate at which delinquent loans transition into serious delinquency. The provision for credit losses in the second quarter of 2010 reflected a higher volume of seriously delinquent loan additions and loan modifications that were classified as TDRs.

- Non-interest income (loss) was $(3.9) billion for the second quarter of 2011, compared to $(3.6) billion for the second quarter of 2010 largely due to derivative losses in both periods.

- Non-interest expense was $546 million and $479 million in the second quarters of 2011 and 2010, respectively, and reflects increased REO operations expense, partially offset by a decline in administrative expenses in the second quarter of 2011, compared to the second quarter of 2010.

- Total comprehensive income (loss) was $(1.1) billion for the second quarter of 2011 compared to $(430) million for the second quarter of 2010. Total comprehensive income (loss) for the second quarter of 2011 reflects the $(2.1) billion net loss, partially offset by the $1.0 billion total other comprehensive income, primarily resulting from improved fair values on available-for-sale securities.

Mortgage Market and Economic Conditions

Overview

The housing market experienced continued challenges during the second quarter of 2011 due primarily to continued weakness in the employment market and a large number of distressed property sales. The U.S. real gross domestic product rose by 1.3% on an annualized basis during the second quarter of 2011, compared to 0.4% during the first quarter of 2011, according to the Bureau of Economic Analysis estimates. The national unemployment rate rose to 9.2% in June 2011, compared to 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 second quarter of 2011 averaged 4.86 million (at a seasonally adjusted annual rate), a decline of 5% from an average seasonally adjusted annual rate of 5.14 million in the first quarter of 2011. New home sales in the second quarter of 2011 averaged 315,000 homes (at a seasonally adjusted annual rate) increasing approximately 5% from an average seasonally adjusted annual rate of approximately 300,000 homes in the first quarter of 2011.

We estimate that home prices (on a non-seasonally adjusted basis) decreased 0.2% nationwide during the first half of 2011, which includes a 2.1% increase in the second quarter of 2011. Seasonal factors typically result in stronger house-price appreciation during the second quarter. We estimate that seasonally adjusted home prices were approximately flat during the second quarter. 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 second 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 and perceived optimism about demand for multifamily housing 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 complete economic recovery.

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 have continued to experience significant delays in the foreclosure process for single-family mortgages in the second quarter of 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 contributed to these delays. These delays have caused the volume of our single-family REO acquisitions in the first half of 2011 to be less than it otherwise would have been. We expect these delays in the foreclosure process will likely continue at least through the remainder of 2011. 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 in the remainder of 2011. The economy is expected to continue to generate new jobs and rising incomes, which will help in continuing the gradual recovery in housing activity. However, the weak payroll employment growth during the second quarter and accompanying rise in the unemployment rate weakens near-term demand for housing. 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 be slightly higher in the second half of 2011, as stronger GDP growth and labor market improvements generate higher demand for credit and mitigate deflationary pressures. Lastly, many large financial institutions experienced temporary delays in the foreclosure process for single-family loans late in 2010 and early in 2011. To the extent a large inventory of loans completes the foreclosure process, such an increase in 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 volatile 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 credit losses will likely remain elevated in the second half of 2011. This is in part due to the substantial number of mortgage loans in our single-family credit guarantee portfolio on which borrowers owe more than their home is currently worth, 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, which may result in a continued high loan loss reserve balance in the near term and increases in charge-offs in future periods.

Multifamily

The most recent data available continues to reflect improving national apartment fundamentals, including vacancy rates and 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 many nonperforming loans, and loans that we believe are at risk of default, in these states. Our delinquency rates have historically been a lagging indicator and, as a result, we expect to continue to experience delinquencies in the remainder of 2011, consistent with our experience in the first half of 2011.

In addition, as more market participants re-emerged in the multifamily market during the first half of 2011, increased competition from other institutional investors could negatively impact our future purchase volumes as well as the pricing and credit quality of newly originated loans for the remainder of 2011.

Long-Term Financial Sustainability

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 the first three 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. As a result of these factors, there is uncertainty as to our long-term financial sustainability.

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)

	June 30, 2011	December 31, 2010
	(in millions)	
Investments segment Mortgage investments portfolio	$ 477,196	$ 481,677
Single-family Guarantee segment Single-family unsecuritized mortgage loans(2)	64,744	69,766
Multifamily segment Mortgage investments portfolio	143,093	145,431
Total mortgage-related investments portfolio	$ 685,033	$ 696,874

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

The UPB of our mortgage-related investments portfolio declined from December 31, 2010 to June 30, 2011, primarily due to liquidations, partially offset by the purchase of $25.2 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 35% of the UPB of the portfolio at June 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 22% of the UPB of the portfolio at June 30, 2011.

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.

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.

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 six months ended June 30, 2011.

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(dollars in millions, except share-related amounts)			
Statements of Income and Comprehensive Income Data				
Net interest income	$ 4,561	$ 4,136	$ 9,101	$ 8,261
Provision for credit losses	(2,529)	(5,029)	(4,518)	(10,425)
Non-interest income (loss)	(3,857)	(3,627)	(5,109)	(8,481)
Non-interest expense	(546)	(479)	(1,243)	(1,146)
Net loss attributable to Freddie Mac	(2,139)	(4,713)	(1,463)	(11,401)
Total comprehensive income (loss) attributable to Freddie Mac	(1,100)	(430)	1,640	(2,310)
Net loss attributable to common stockholders	(3,756)	(6,009)	(4,685)	(13,989)
Loss per common share:				
Basic	(1.16)	(1.85)	(1.44)	(4.30)
Diluted	(1.16)	(1.85)	(1.44)	(4.30)
Cash dividends per common share				
Weighted average common shares outstanding (in thousands):[2]				
Basic	3,244,967	3,249,198	3,245,970	3,250,241
Diluted	3,244,967	3,249,198	3,245,970	3,250,241

	June 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)	$ 1,634,773	$ 1,646,172
Total assets	2,195,795	2,261,780
Debt securities of consolidated trusts held by third parties	1,499,036	1,528,648
Other debt	681,087	713,940
All other liabilities	17,150	19,593
Total stockholders equity (deficit)	(1,478)	(401)
Portfolio Balances[3]		

Mortgage-related investments portfolio	$ 685,033	$ 696,874
Total Freddie Mac Mortgage-Related Securities[4]	1,681,985	1,712,918
Total mortgage portfolio[5]	2,128,659	2,164,859
Non-performing assets[6]	123,861	125,405

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Ratios[7]				
Return on average assets[8][11]	(0.4)%	(0.8)%	(0.1)%	(1.0)%
Non-performing assets ratio[9]	6.4	6.0	6.4	6.0
Equity to assets ratio[10][11]	0.0	(0.3)	0.0	(0.2)

(1) See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2010 Annual Report for information regarding our accounting policies.
(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 Segment Mortgage Portfolio Composition 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 six months ended June 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Net interest income	$ 4,561	$ 4,136	$ 9,101	$ 8,261
Provision for credit losses	(2,529)	(5,029)	(4,518)	(10,425)
Net interest income (loss) after provision for credit losses	2,032	(893)	4,583	(2,164)
Non-interest income (loss):				
Gains (losses) on extinguishment of debt securities of consolidated trusts	(125)	4	98	(94)
Gains (losses) on retirement of other debt	3	(141)	15	(179)
Gains (losses) on debt recorded at fair value	(37)	544	(118)	891
Derivative gains (losses)	(3,807)	(3,838)	(4,234)	(8,523)
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	(230)	(114)	(1,284)	(531)
Portion of other-than-temporary impairment recognized in AOCI	(122)	(314)	(261)	(407)
Net impairment of available-for-sale securities recognized in earnings	(352)	(428)	(1,545)	(938)
Other gains (losses) on investment securities recognized in earnings	209	(257)	89	(673)
Other income	252	489	586	1,035
Total non-interest income (loss)	(3,857)	(3,627)	(5,109)	(8,481)
Non-interest expense:				
Administrative expenses	(384)	(404)	(745)	(809)
REO operations (expense) income	(27)	40	(284)	(119)
Other expenses	(135)	(115)	(214)	(218)
Total non-interest expense	(546)	(479)	(1,243)	(1,146)

Loss before income tax benefit	(2,371)	(4,999)	(1,769)	(11,791)
Income tax benefit	232	286	306	389
Net loss	(2,139)	(4,713)	(1,463)	(11,402)
Other comprehensive income, net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	903	4,097	2,844	8,743
Changes in unrealized gains (losses) related to cash flow hedge relationships	135	184	267	356
Changes in defined benefit plans	1	2	(8)	(8)
Total other comprehensive income, net of taxes and reclassification adjustments	1,039	4,283	3,103	9,091
Comprehensive income (loss)	(1,100)	(430)	1,640	(2,311)
Less: Comprehensive loss attributable to noncontrolling interest				1
Total comprehensive income (loss) attributable to Freddie Mac	$ (1,100)	$ (430)	$ 1,640	$ (2,310)

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 June 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	$ 33,660	$ 10	0.12%	$ 45,879	$ 18	0.15%
Federal funds sold and securities purchased under agreements to resell	32,227	8	0.09	37,238	16	0.18
Mortgage-related securities:						
Mortgage-related securities(3)	450,575	5,215	4.63	540,380	6,432	4.76
Extinguishment of PCs held by Freddie Mac	(166,318)	(1,966)	(4.73)	(220,350)	(2,913)	(5.29)
Total mortgage-related securities, net	284,257	3,249	4.57	320,030	3,519	4.40
Non-mortgage-related securities(3)	26,078	26	0.39	32,571	55	0.67
Mortgage loans held by consolidated trusts(4)	1,643,680	19,782	4.81	1,729,618	22,114	5.11
Unsecuritized mortgage loans(4)	242,471	2,274	3.75	212,919	2,179	4.09
Total interest-earning assets	$ 2,262,373	$ 25,349	4.48	$ 2,378,255	$ 27,901	4.69
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 1,656,150	$ (19,227)	(4.64)	$ 1,739,519	$ (21,961)	(5.05)
Extinguishment of PCs held by Freddie Mac	(166,318)	1,966	4.73	(220,350)	2,913	5.29
Total debt securities of consolidated trusts held by third parties	1,489,832	(17,261)	(4.63)	1,519,169	(19,048)	(5.02)
Other debt:						
Short-term debt	194,153	(95)	(0.19)	226,624	(137)	(0.24)
Long-term debt(5)	500,587	(3,238)	(2.59)	561,353	(4,331)	(3.08)
Total other debt	694,740	(3,333)	(1.92)	787,977	(4,468)	(2.27)
Total interest-bearing liabilities	2,184,572	(20,594)	(3.77)	2,307,146	(23,516)	(4.08)

Income (expense) related to derivatives(6)		(194)	(0.03)		(249)	(0.04)
Impact of net non-interest-bearing funding	77,801		0.13	71,109		0.13
Total funding of interest-earning assets	$ 2,262,373	$ (20,788)	(3.67)	$ 2,378,255	$ (23,765)	(3.99)
Net interest income/yield		$ 4,561	0.81		$ 4,136	0.70

	Six Months Ended June 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	$ 35,611	$ 26	0.14%	$ 56,426	$ 35	0.12%
Federal funds sold and securities purchased under agreements to resell	40,044	26	0.13	44,441	32	0.14
Mortgage-related securities:						
Mortgage-related securities(3)	453,773	10,531	4.64	566,946	13,711	4.84
Extinguishment of PCs held by Freddie Mac	(166,923)	(4,029)	(4.83)	(238,651)	(6,354)	(5.32)
Total mortgage-related securities, net	286,850	6,502	4.53	328,295	7,357	4.48
Non-mortgage-related securities(3)	27,694	56	0.40	26,380	116	0.88
Mortgage loans held by consolidated trusts(4)	1,647,123	39,846	4.84	1,758,473	44,846	5.10
Unsecuritized mortgage loans(4)	241,514	4,608	3.82	186,350	4,140	4.44
Total interest-earning assets	$ 2,278,836	$ 51,064	4.48	$ 2,400,365	$ 56,526	4.71
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$ 1,660,879	$ (38,693)	(4.66)	$ 1,770,522	$ (45,045)	(5.09)
Extinguishment of PCs held by Freddie Mac	(166,923)	4,029	4.83	(238,651)	6,354	5.32
Total debt securities of consolidated trusts held by third parties	1,493,956	(34,664)	(4.64)	1,531,871	(38,691)	(5.05)
Other debt:						
Short-term debt	194,488	(210)	(0.21)	234,781	(278)	(0.24)
Long-term debt(5)	509,310	(6,688)	(2.63)	559,130	(8,789)	(3.14)

Total other debt	703,798	(6,898)	(1.96)	793,911	(9,067)	(2.28)
Total interest-bearing liabilities	2,197,754	(41,562)	(3.78)	2,325,782	(47,758)	(4.11)
Income (expense) related to derivatives(6)		(401)	(0.04)		(507)	(0.04)
Impact of net non-interest-bearing funding	81,082		0.14	74,583		0.13
Total funding of interest-earning assets	$ 2,278,836	$ (41,963)	(3.68)	$ 2,400,365	$ (48,265)	(4.02)
Net interest income/yield		$ 9,101	0.80		$ 8,261	0.69

(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 expected to be recovered.
(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 $425 million and $840 million during the three and six months ended June 30, 2011, respectively, compared to the three and six months ended June 30, 2010. Net interest yield increased 11 basis points during both the three and six months ended June 30, 2011, compared to the three and six months ended June 30, 2010. The primary driver underlying the increases was lower funding costs from the replacement of debt at lower rates. In addition, the increases in net interest income and net interest yield for the six months ended June 30, 2011 compared to the six months ended June 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.

Interest income that we did not recognize related to non-performing loans, which we refer to as foregone interest income, 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 $2.0 billion during the three and six months ended June 30, 2011, respectively, compared to $1.3 billion and $2.4 billion during the three and six months ended June 30, 2010, respectively, primarily due to the decreased volume of non-performing loans on nonaccrual status.

During the three and six months ended June 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 $66.9 billion, and have recorded an additional $4.5 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 June 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 $2.5 billion for the second quarter of 2011 compared to $5.0 billion for the second quarter of 2010, and was $4.5 billion in the first half of 2011 compared to $10.4 billion in the first half of 2010. The decrease in the provision for credit losses in the second quarter and first half of 2011 primarily reflects a decline in the rate at which delinquent loans transition into serious delinquency. The provision for credit losses in the second quarter and first half of 2010 reflected a higher volume of seriously delinquent loan additions and loan modifications that were classified as TDRs.

During the three and six months ended June 30, 2011, our charge-offs for single-family loans exceeded the amount of our provision for credit losses. We believe the level of our charge-offs will continue to remain high in 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. As of June 30, 2011 and December 31, 2010, the UPB of our single-family non-performing loans was $114.8 billion and $115.5 billion, respectively. These amounts include $36.2 billion and $26.6 billion, respectively, of single-family TDRs that are reperforming, or 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 loan modifications involving concessions to borrowers, which are considered TDRs, during the first half of 2011, but the volume of such modifications was less than the volume in the first half of 2010. Impairment analysis for TDRs requires giving recognition in the provision for credit losses to the excess of our recorded investment in the loan over the present value of the expected future cash flows. This generally results in a higher allowance for loan losses for loan modifications that are TDRs than for loan modifications that are not TDRs. We expect the percentage of modifications that qualify as TDRs in 2011 will remain high, primarily since the majority of our modifications are anticipated to include a significant reduction in the contractual interest rate, which represents a concession to the borrower. In addition, the FASB issued an amendment to the accounting guidance for receivables to clarify when a restructuring such as a loan modification is considered a TDR, which will become effective in the third quarter of 2011. As a result of this amendment, the population of loan modifications we account for and disclose as TDRs will likely increase.

The total number of seriously delinquent loans declined approximately 10% during the first half of 2011, but has remained 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. 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. In an effort to help mitigate such risk, we made significant investments in systems and personnel in the last months of 2010 to help our seller/servicers manage their loss mitigation efforts. In addition, 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 $(13) million and $119 million for the second quarters of 2011 and 2010, respectively, and was $(73) million in the first half of 2011 compared to $148 million in the first half of 2010. Our loan loss reserves associated with our multifamily mortgage portfolio were $705 million and $828 million as of June 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 substantial investments in multifamily mortgage loans, including Nevada, Arizona, and Georgia, continue to exhibit weaker than average 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 trust. 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 June 30, 2011 and 2010, we extinguished debt securities of consolidated trusts with a UPB of $22.2 billion and $0.4 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 $(125) million and $4 million, respectively. The losses during the second quarter of 2011 were primarily due to the repurchase of our debt securities at larger net premiums driven by the decrease in interest rates during the period. For the six months ended June 30, 2011 and 2010, we extinguished debt securities of consolidated trusts with a UPB of $47.0 billion and $2.5 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 $98 million and $(94) million, respectively. The decreased volume of the extinguishment of debt securities in the 2010 periods was due to a change in practice announced in February 2010 that we would purchase substantially all single-family mortgage loans that are 120 days or more delinquent from our PC trusts. As a result, the increased purchases of delinquent loans limited our capacity to repurchase debt securities into our mortgage-related investments portfolio due to limits on the portfolio under the Purchase Agreement and FHFA regulation. The gains for the six months ended June 30, 2011 were due to the repurchases of our debt securities at a net discount during the first quarter of 2011 driven by an increase in interest rates during the first quarter of 2011. 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 $3 million and $(141) million during the three months ended June 30, 2011 and 2010, respectively. Gains (losses) on retirement of other debt were $15 million and $(179) million during the six months ended June 30, 2011 and 2010, respectively. We recognized gains on debt retirements for the second quarter and first half of 2011, compared to losses for the second quarter and first half of 2010, driven by a decrease in the related write-off of unamortized net discounts on the retired other debt during the second quarter and the first half of 2011.

Gains (Losses) on Debt Recorded at Fair Value

Gains (losses) on debt recorded at fair value primarily relates to changes in the fair value of our foreign-currency denominated debt. For the three and six months ended June 30, 2011, we recognized losses on debt recorded at fair value

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of $37 million and $118 million, respectively, primarily due to the U.S. dollar weakening relative to the Euro. For the three and six months ended June 30, 2010, we recognized gains on debt recorded at fair value of $544 million and $891 million, respectively, primarily due to the U.S. dollar strengthening relative to the Euro. 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 June 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 management of 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 Derivative Gains (Losses)

	Derivative Gains (Losses)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Interest-rate swaps	$ (3,749)	$ (7,938)	$ (2,026)	$ (10,272)
Option-based derivatives[1]	1,602	5,864	795	5,282
Other derivatives[2]	(308)	(553)	(402)	(973)
Accrual of periodic settlements[3]	(1,352)	(1,211)	(2,601)	(2,560)
Total	$ (3,807)	$ (3,838)	$ (4,234)	$ (8,523)

(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) swap and forward interest rates and implied volatility; and (b) the mix and volume of derivatives in our derivatives portfolio.

During the three and six months ended June 30, 2011, we recognized losses on derivatives of $3.8 billion and $4.2 billion, respectively, primarily due to declines in interest rates in the second quarter. Specifically, during the three months and six months ended June 30, 2011, we recognized fair value losses on our pay-fixed swap positions of $7.3 billion and $3.3 billion, respectively, partially offset by fair value gains on our receive-fixed swaps of $3.6 billion and $1.3 billion, respectively. We also recognized fair value gains of $1.6 billion and $0.8 billion, respectively, on our option-based derivatives, resulting from gains on our purchased call swaptions as interest rates decreased during these periods. Additionally, we recognized losses related to the accrual of periodic settlements during the three and six months ended June 30, 2011 due to our net pay-fixed swap position in the current interest rate environment.

During the three and six months ended June 30, 2010, the yield curve flattened, with declining longer-term swap interest rates, resulting in a loss on derivatives of $3.8 billion and $8.5 billion, respectively. Also contributing to these losses was a decline in implied volatility on our options portfolio during the six months ended June 30, 2010. Specifically, for the three and six months ended June 30, 2010, the decrease in longer-term swap interest rates resulted in fair value losses on our pay-fixed swaps of $18.6 billion and $23.4 billion, respectively, partially offset by fair value gains on our receive-fixed swaps of $10.7 billion and $13.0 billion, respectively. We recognized fair value gains for the three and six months ended June 30, 2010 of $5.9 billion and $5.3 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.

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Investment Securities-Related Activities

Impairments of Available-For-Sale Securities

We recorded net impairments of available-for-sale securities recognized in earnings, which was related to non-agency mortgage-related securities, of $352 million and $1.5 billion during the three and six months ended June 30, 2011, respectively, compared to $428 million and $938 million during the three and six months ended June 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 six months ended June 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 $274 million and $74 million related to gains (losses) on trading securities during the three and six months ended June 30, 2011, respectively, compared to $(277) million and $(694) million related to gains (losses) on trading securities during the three and six months ended June 30, 2010, respectively.

During the three and six months ended June 30, 2011 the gains on trading securities were primarily due to a decline in interest rates coupled with a tightening of OAS levels on agency securities.

During the three and six months ended June 30, 2010, the losses on trading securities 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.

Other Income

Table 8 summarizes the significant components of other income.

Table 8 Other Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Other income:				
Guarantee-related income	$ 81	$ 60	$ 135	$ 119
Gains on sale of mortgage loans	161	121	256	216
Gains on mortgage loans recorded at fair value	136	5	103	26
Recoveries on loans impaired upon purchase	132	227	257	396
All other	(258)	76	(165)	278
Total other income	$ 252	$ 489	$ 586	$ 1,035

Other income declined during the three and six months ended June 30, 2011, compared to the same periods in 2010, primarily due to certain prior period accounting errors not material to our financial statements recorded in the second quarter of 2011 partially offset by increased gains on mortgage loans recorded at fair value.

During the second quarter of 2011, our largest correction related to an error associated with the accrual of interest income for certain impaired mortgage-related securities during 2010 and 2009, which reduced other income in 2011 by approximately $293 million.

During the second quarters of 2011 and 2010, recoveries on loans impaired upon purchase were $132 million and $227 million, respectively, and were $257 million in the first half of 2011, compared to $396 million in the first half of 2010. The declines in the 2011 periods were due to a lower volume of foreclosure transfers associated with loans impaired upon purchase. We principally recognize recoveries on 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 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Administrative expenses[1]:				
Salaries and employee benefits	$ 219	$ 230	$ 426	$ 464
Professional services	64	67	120	148
Occupancy expense	15	15	30	31
Other administrative expense	86	92	169	166
Total administrative expenses	384	404	745	809
REO operations expense (income)	27	(40)	284	119
Other expenses	135	115	214	218
Total non-interest expense	$ 546	$ 479	$ 1,243	$ 1,146

(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 six months ended June 30, 2011, compared to the three and six months ended June 30, 2010, due in part to our ongoing focus on cost reduction measures, particularly with regard to salaries and employee benefits and professional services costs. We expect our administrative expenses will decline for the full year of 2011 when compared to 2010.

REO Operations Expense (Income)

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

Table 10 REO Operations Expense (Income), REO Inventory, and REO Dispositions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(dollars in millions)			
REO operations expense (income):				

Single-family:				
REO property expenses[1]	$ 300	$ 252	$ 608	$ 484
Disposition (gains) losses, net[2][3]	56	(39)	182	(26)
Change in holding period allowance, dispositions	(129)	(60)	(284)	(127)
Change in holding period allowance, inventory[4]	5	(20)	156	117
Recoveries[5]	(197)	(174)	(370)	(333)
Total single-family REO operations expense (income)	35	(41)	292	115
Multifamily REO operations expense (income)	(8)	1	(8)	4
Total REO operations expense (income)	$ 27	$ (40)	$ 284	$ 119
REO inventory (in properties), at June 30:				
Single-family	60,599	62,178	60,599	62,178
Multifamily	19	12	19	12
Total	60,618	62,190	60,618	62,190
REO property dispositions (in properties)	29,355	26,316	60,983	48,285

(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) We have 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 (income) was $27 million for the second quarter of 2011, as compared to $(40) million during the second quarter of 2010 and was $284 million in the first half of 2011 compared to $119 million for the first half of 2010. These increases were primarily due to higher single-family property expenses in the 2011 periods. We recorded net disposition losses during the 2011 periods as we completed a higher volume of property dispositions and home prices remained weak. We recorded net disposition gains during the 2010 periods due to the relative stabilization in national home prices in the first half of 2010 that included slight improvements in many geographic areas. We expect REO property expenses to continue to remain high in the remainder of 2011 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 16% reduction in REO property inventory from December 31, 2010 to June 30, 2011. We expect these delays in the foreclosure process will likely continue at least through the remainder of 2011. For more information on how concerns about foreclosure documentation practices could adversely affect our REO operations expense (income), 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 first half of 2011 compared to the first half of 2010, primarily due to lower losses on purchases of impaired loans, which were partially offset by increased expenses associated with transfers and terminations of mortgage servicing in the first half of 2011.

Income Tax Benefit

For the three months ended June 30, 2011 and 2010, we reported an income tax benefit of $232 million and $286 million, respectively. For the six months ended June 30, 2011 and 2010 we reported an income tax benefit of $306 million and $389 million, respectively. See NOTE 13: INCOME TAXES for additional information.

Total Comprehensive Income (Loss)

Our total comprehensive income (loss) was $(1.1) billion and $(430) million for the three months ended June 30, 2011 and 2010, respectively, consisting of: (a) a net income (loss) of $(2.1) billion and $(4.7) billion, respectively; and (b) $1.0 billion and $4.3 billion of total other comprehensive income (loss), respectively.

Our total comprehensive income (loss) was $1.6 billion and $(2.3) billion for the six months ended June 30, 2011 and 2010, respectively, consisting of: (a) a net income (loss) of $(1.5) billion and $(11.4) billion, respectively; and (b) $3.1 billion and $9.1 billion of total other comprehensive income (loss), 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 related credit costs (*i.e.*, provision for credit losses), 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 that we purchased for investment, we have not purchased significant amounts of these loans for investment since 2010. 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. Although we hold CMBS that we purchased for investment, we have not purchased significant amounts of non-agency CMBS for investment since 2008. 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 related credit costs (*i.e.* provision (benefit) for credit losses), 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 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 June 30, 2011 and December 31, 2010. For a discussion of each segment s portfolios, see *Segment Earnings Results.*

Table 11 Segment Mortgage Portfolio Composition[1]

	June 30, 2011	December 31, 2010
	(in millions)	
Segment portfolios:		
Investments Mortgage investments portfolio:		
Single-family unsecuritized mortgage loans[2]	$ 93,404	$ 79,097
Freddie Mac mortgage-related securities	256,190	263,152
Non-agency mortgage-related securities	91,735	99,639
Non-Freddie Mac agency mortgage-related securities	35,867	39,789
Total Investments Mortgage investments portfolio	477,196	481,677
Single-family Guarantee Managed loan portfolio:[3]		
Single-family unsecuritized mortgage loans[4]	64,744	69,766
Single-family Freddie Mac mortgage-related securities held by us	256,190	261,508
Single-family Freddie Mac mortgage-related securities held by third parties	1,405,372	1,437,399
Single-family other guarantee commitments[5]	10,442	8,632
Total Single-family Guarantee Managed loan portfolio	1,736,748	1,777,305
Multifamily Guarantee portfolio:[3]		
Multifamily Freddie Mac mortgage-related securities held by us	2,578	2,095
Multifamily Freddie Mac mortgage-related securities held by third parties	17,845	11,916
Multifamily other guarantee commitments[5]	9,967	10,038
Total Multifamily Guarantee portfolio	30,390	24,049
Multifamily Mortgage investments portfolio:[3]		
Multifamily investment securities portfolio	61,291	59,548
Multifamily loan portfolio	81,802	85,883
Total Multifamily Mortgage investments portfolio	143,093	145,431
Total Multifamily portfolio	173,483	169,480
Less: Freddie Mac single-family and multifamily securities[6]	(258,768)	(263,603)
Total mortgage portfolio	$ 2,128,659	$ 2,164,859
Credit risk portfolios:[7]		
Single-family credit guarantee portfolio:		
Single-family mortgage loans, on-balance sheet	$ 1,793,769	$ 1,799,256

Non-consolidated Freddie Mac mortgage-related securities	11,034	11,268
Other guarantee commitments	10,442	8,632
Less: HFA-related guarantees(8)	(9,057)	(9,322)
Less: Freddie Mac mortgage-related securities backed by Ginnie Mae certificates(8)	(852)	(857)
Total single-family credit guarantee portfolio:	$ 1,805,336	$ 1,808,977
Multifamily mortgage portfolio:		
Multifamily mortgage loans, on-balance sheet	$ 81,802	$ 85,883
Non-consolidated Freddie Mac mortgage-related securities	20,422	14,011
Other guarantee commitments	9,967	10,038
Less: HFA-related guarantees(8)	(1,468)	(1,551)
Total multifamily mortgage portfolio:	$ 110,723	$ 108,381

(1) Based on UPB and excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) Excludes unsecuritized non-performing 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-performing 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 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 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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 1,826	$ 1,509	$ 3,479	$ 2,820
Non-interest income (loss):				
Net impairment of available-for-sale securities	(139)	(327)	(1,168)	(703)
Derivative gains (losses)	(2,156)	(2,193)	(1,053)	(4,895)
Other non-interest income (loss)	243	294	479	272
Total non-interest income (loss)	(2,052)	(2,226)	(1,742)	(5,326)
Non-interest expense:				
Administrative expenses	(101)	(111)	(196)	(233)
Other non-interest expense	(1)	(6)	(1)	(13)
Total non-interest expense	(102)	(117)	(197)	(246)
Segment adjustments[2]	126	294	329	804
Segment Earnings (loss) before income tax benefit	(202)	(540)	1,869	(1,948)
Income tax benefit	212	129	278	226
Segment Earnings (loss), net of taxes, including noncontrolling interest	10	(411)	2,147	(1,722)
Less: Net (income) loss noncontrolling interest				(2)
Segment Earnings (loss), net of taxes	10	(411)	2,147	(1,724)
Total other comprehensive income, net of taxes	633	3,614	1,759	6,734
Total comprehensive income	$ 643	$ 3,203	$ 3,906	$ 5,010
Key metrics Investments:				
Portfolio balances:				
Average balances of interest-earning assets:[3][4][5]				
Mortgage-related securities[6]	$ 393,361	$ 478,043	$ 396,238	$ 504,454
Non-mortgage-related investments[7]	91,965	115,688	103,348	127,247
Unsecuritized single-family loans	92,339	53,183	88,927	48,371

Total average balances of interest-earning assets	$ 577,665	$ 646,914	$ 588,513	$ 680,072
Return:				
Net interest yield Segment Earnings basis (annualized)	1.26%	0.93%	1.18%	0.83%

(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 $643 million and $3.9 billion for the three and six months ended June 30, 2011, respectively, consisting of: (a) Segment Earnings of $10 million and $2.1 billion, respectively; and (b) $633 million and $1.8 billion of total other comprehensive income, respectively.

Our total comprehensive income for our Investments segment was $3.2 billion and $5.0 billion for the three and six months ended June 30, 2010, respectively, consisting of: (a) Segment Earnings (loss) of $(411) million and $(1.7) billion, respectively; and (b) $3.6 billion and $6.7 billion of total other comprehensive income, respectively.

During the three and six months ended June 30, 2011, the UPB of the Investments segment mortgage investments portfolio decreased at an annualized rate of 0.2% and 1.9%, respectively, compared to a decrease at an annualized rate of 21.2% and 25.0% for the three and six months ended June 30, 2010, respectively. The larger decrease in our Investments segment mortgage investments portfolio during the three and six months ended June 30, 2010 was primarily due to a higher volume of purchases of delinquent and modified loans from the mortgage pools underlying both our PCs and other agency securities. We announced a change in practice in February 2010 to purchase substantially all 120 day delinquent loans from PC trusts. As a result, the increased purchases of delinquent loans limited our capacity to purchase investments into our mortgage-related investments portfolio due to limits on the portfolio under the Purchase Agreement and FHFA regulation. We report the loans that formerly collateralized our PCs in the Single-family Guarantee segment. The UPB of

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the Investments segment mortgage investments portfolio declined to $477.2 billion at June 30, 2011 from $481.7 billion at December 31, 2010.

We held $292.1 billion of agency securities and $91.7 billion of non-agency mortgage-related securities as of June 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 $317 million and $659 million, and Segment Earnings net interest yield increased 33 basis points and 35 basis points during the three and six months ended June 30, 2011, respectively, compared to the three and six months ended June 30, 2010. The primary driver was lower funding costs, primarily due to the replacement of debt at lower rates. 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 $(2.1) billion for the three months ended June 30, 2011 compared to $(2.2) billion for the three months ended June 30, 2010. This decrease in non-interest loss was primarily attributable to increased gains on trading securities and decreased impairments of available-for-sale securities during the three months ended June 30, 2011, compared to the three months ended June 30, 2010. Segment Earnings non-interest income (loss) was $(1.7) billion for the six months ended June 30, 2011 compared to $(5.3) billion for the six months ended June 30, 2010. This decrease in non-interest loss was mainly due to decreased derivative losses and increased gains on trading securities, partially offset by increased impairments of available-for-sale securities during the six months ended June 30, 2011, compared to the six months ended June 30, 2010.

Impairments recorded in our Investments segment decreased by $188 million during the three months ended June 30, 2011, compared to the three months ended June 30, 2010, and increased by $465 million during the six months ended June 30, 2011, compared to the six months ended June 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.

We recorded derivative gains (losses) for this segment of $(2.2) billion and $(1.1) billion during the three and six months ended June 30, 2011, respectively, compared to $(2.2) billion and $(4.9) billion during the three and six months ended June 30, 2010. While derivatives are an important aspect of our management of 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 six months ended June 30, 2011 and the three and six months ended June 30, 2010, longer-term 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.

Our Investments segment s total other comprehensive income was $633 million and $1.8 billion for the three and six months ended June 30, 2011, respectively, compared to $3.6 billion and $6.7 billion during the three and six months ended June 30, 2010, respectively. Net unrealized losses in AOCI on our available-for-sale securities decreased by $498 million and $1.5 billion during the three and six months ended June 30, 2011, respectively, primarily attributable to fair value gains related to the movement of non-agency mortgage-related securities with unrealized losses towards maturity, the impact of declining interest rates on our agency 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. Net unrealized losses in AOCI on our available-for-sale securities decreased by $3.4 billion and $6.4 billion during the three and six months ended June 30, 2010, respectively, primarily attributable to fair value gains related to the movement of securities with unrealized losses towards maturity and a net decrease in interest rates.

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.

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.

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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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(dollars in millions)			
Segment Earnings:				
Net interest income (expense)	$ (30)	$ 51	$ 70	$ 110
Provision for credit losses	(2,886)	(5,294)	(5,170)	(11,335)
Non-interest income:				
Management and guarantee income	848	865	1,718	1,713
Other non-interest income	208	268	419	478
Total non-interest income	1,056	1,133	2,137	2,191
Non-interest expense:				
Administrative expenses	(228)	(242)	(443)	(471)
REO operations (expense) income	(35)	41	(292)	(115)
Other non-interest expense	(106)	(90)	(172)	(169)
Total non-interest expense	(369)	(291)	(907)	(755)
Segment adjustments[2]	(143)	(208)	(328)	(421)
Segment Earnings (loss) before income tax (expense) benefit	(2,372)	(4,609)	(4,198)	(10,210)
Income tax (expense) benefit	(14)	104	(8)	109
Segment Earnings (loss), net of taxes	(2,386)	(4,505)	(4,206)	(10,101)
Total other comprehensive income (loss), net of taxes	1	1	(3)	(3)
Total comprehensive income (loss)	$ (2,385)	$ (4,504)	$ (4,209)	$ (10,104)
Key metrics Single-family Guarantee:				
Balances and Growth (in billions, except rate):				
Average balance of single-family credit guarantee portfolio	$ 1,816	$ 1,877	$ 1,817	$ 1,880
Issuance Single-family credit guarantees[3]	$ 62	$ 76	$ 158	$ 170
Fixed-rate products Percentage of purchases[4]	90.3%	94.2%	92.6%	96.0%
Liquidation rate Single-family credit guarantees (annualized)[5]	17.4%	21.7%	22.7%	27.8%
Management and Guarantee Fee Rate (in bps, annualized):				

Contractual management and guarantee fees	13.7	13.5	13.6	13.4
Amortization of delivery fees	5.0	4.9	5.3	4.8
Segment Earnings management and guarantee income	18.7	18.4	18.9	18.2
Credit:				
Serious delinquency rate, at end of period	3.50%	3.96%	3.50%	3.96%
REO inventory, at end of period (number of properties)	60,599	62,178	60,599	62,178
Single-family credit losses, in bps (annualized)(6)	68.4	82.4	69.7	72.2
Market:				
Single-family mortgage debt outstanding (total U.S. market, in billions)(7)	$ 9,970	$ 10,150	$ 9,970	$ 10,150
30-year fixed mortgage rate(8)	4.5%	4.6%	4.5%	4.6%

(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) Includes our purchases of delinquent loans from PCs. On February 10, 2010, we announced that we would begin purchasing substantially all 120 days or more delinquent mortgages from our PC trusts. See NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for more information.
(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.
(7) Source: Federal Reserve Flow of Funds Accounts of the United States of America dated June 9, 2011. The outstanding amount for June 30, 2011 reflects the balance as of March 31, 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 six months ended June 30, 2011, Segment Earnings (loss) for our Single-family Guarantee segment was $(2.4) billion and $(4.2) billion, respectively, compared to $(4.5) billion and $(10.1) billion for the three and six months ended June 30, 2010, respectively. Segment Earnings (loss) for our Single-family segment improved for the three and six months ended June 30, 2011, as compared to the corresponding 2010 periods primarily due to a decline in provision for credit losses.

During the three and six months ended June 30, 2011, our provision for credit losses for the Single-family Guarantee segment was $2.9 billion and $5.2 billion, respectively, compared to $5.3 billion and $11.3 billion during the three and six months ended June 30, 2010, respectively. Segment Earnings provision for credit losses decreased in the three and six months ended June 30, 2011, as compared to the corresponding periods in 2010, primarily due to a decline in the rate at which delinquent loans transition into serious delinquency.

Segment Earnings management and guarantee income consists of contractual amounts due to us related to our management and guarantee fees as well as amortization of delivery fees. Segment Earnings management and guarantee income increased slightly in the six months ended June 30, 2011, as compared to the first half of 2010, primarily due to an increase in the amortization of delivery fees. Increased amortization of delivery fees reflects the impact of higher delivery fees associated with loans purchased after 2008 combined with continued high prepayment rates on guaranteed mortgages in the first half of 2011 as mortgage rates remained low and refinancing activity remained high. This increase was partially offset by a decline in contractual management and guarantee income due to lower average balances of the single-family credit guarantee portfolio during the first half of 2011. Segment Earnings management and guarantee income decreased approximately 2% in the three months ended June 30, 2011, as compared to the second quarter of 2010, primarily due to lower average balances of the single-family credit guarantee portfolio.

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

Table 14 Segment Earnings Composition Single-Family Guarantee Segment

	Three Months Ended June 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	$ 65	18.9	$ (12)	4.5	$ 53
2010	185	21.1	(60)	6.6	125
2009	152	17.0	(64)	6.9	88
2008	93	22.2	(202)	57.7	(109)
2007	95	18.7	(1,010)	216.5	(915)
2006	56	17.0	(729)	209.4	(673)
2005	62	16.4	(491)	122.7	(429)
2004 and prior	140	17.6	(353)	40.2	(213)
Total	$ 848	18.7	$ (2,921)	64.4	$ (2,073)
Administrative expenses					(228)
Net interest income (expense)					(30)
Other non-interest income and expenses, net					(55)
Segment Earnings (loss), net of taxes					$ (2,386)

	Six Months Ended June 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	$ 91	17.6	$ (15)	4.1	$ 76
2010	369	20.9	(114)	6.2	255
2009	322	17.8	(114)	6.1	208
2008	203	23.5	(413)	57.3	(210)
2007	196	18.8	(1,894)	198.0	(1,698)
2006	115	17.0	(1,492)	208.8	(1,377)
2005	128	16.5	(894)	109.4	(766)
2004 and prior	294	18.0	(526)	29.2	(232)
Total	$ 1,718	18.9	$ (5,462)	60.2	$ (3,744)
Administrative expenses					(443)
Net interest income					70
Other non-interest income and expenses, net					(89)
Segment Earnings (loss), net of taxes					$ (4,206)

(1) Includes amortization of delivery fees of $224 and $476 million for the three and six months ended June 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 first half of 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. However, 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 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 those years. 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. Consequently, we expect to continue reporting net losses for the Single-family Guarantee segment at least through 2011.

Key Metrics

The UPB of the Single-family Guarantee managed loan portfolio declined to $1.7 trillion at June 30, 2011 from $1.8 trillion at December 31, 2010. The decline in UPB of the Single-family Guarantee managed loan portfolio during 2011 reflects that the amount of liquidations has exceeded new loan purchase and guarantee activity, which we believe is due in part, to declines in the amount of single-family mortgage debt outstanding in the market. During the three and six months ended June 30, 2011 our annualized liquidation rate on our securitized single-family credit guarantees was 17% and 23%, respectively.

Refinance volumes continued to be high due to continued low interest rates, and, based on UPB, represented 70% and 79% of our single-family mortgage purchase volume during the three and six months ended June 30, 2011, respectively, compared to 71% and 75% of our single-family mortgage purchase volume during the three and six months ended June 30, 2010, respectively. Relief refinance mortgages comprised approximately 40% and 34% of our total refinance volume during the six months ended June 30, 2011 and 2010, respectively, based on number of loans. Relief refinance mortgages with LTV ratios above 80% represented approximately 14% and 12% of our single-family mortgage purchase volume during the six months ended June 30, 2011 and 2010, respectively, based on UPB.

The serious delinquency rate on our single-family credit guarantee portfolio declined to 3.50% as of June 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. Although the volume of new serious delinquencies has continued to decline, our serious delinquency rate remains high compared to historical levels, reflecting continued stress in the housing and labor markets. As of June 30, 2011 and December 31, 2010, approximately 46% 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 repayments, payoffs, and refinancing activity as well as liquidations resulting from 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 has slowed in recent quarterly periods, due to a decline in the volume of home purchase mortgage originations and an increase in the proportion of relief refinance mortgage activity. Relief refinance mortgages with LTV ratios above 80% may not perform as well as other refinance mortgages 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 68.4 basis points in the second quarter of 2011, compared to 82.4 basis points for the second quarter of 2010, and was 69.7 basis points for the first half of 2011, compared to 72.2 basis points for the first half of 2010. Charge-offs, net of recoveries, associated with the single-family loans declined to $3.1 billion in the second quarter of 2011, from $3.9 billion for the second quarter of 2010. Charge-offs, net of recoveries, were $6.0 billion and $6.6 billion in the first half of 2011 and 2010, respectively. Our net charge-offs in the three and six months ended June 30, 2011 remained elevated, but reflect suppression of activity due to delays in foreclosures caused by concerns about the foreclosure process. We believe that the level of our charge-offs will remain high in 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. 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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(dollars in millions)			
Segment Earnings:				
Net interest income	$ 304	$ 278	$ 583	$ 516
(Provision) benefit for credit losses	13	(119)	73	(148)
Non-interest income (loss):				
Management and guarantee income	30	25	58	49
Net impairment of available-for-sale securities	(182)	(17)	(317)	(72)
Derivative gains (losses)	2	(1)	4	4
Other non-interest income	111	55	298	163
Total non-interest income (loss)	(39)	62	43	144
Non-interest expense:				
Administrative expenses	(55)	(51)	(106)	(105)
REO operations income (expense)	8	(1)	8	(4)
Other non-interest expense	(28)	(19)	(41)	(36)
Total non-interest expense	(75)	(71)	(139)	(145)
Segment Earnings before income tax benefit	203	150	560	367
Income tax benefit (expense)	(3)		(1)	1
Segment Earnings, net of taxes, including noncontrolling interest	200	150	559	368
Less: Net (income) loss noncontrolling interest				3
Segment Earnings, net of taxes	200	150	559	371
Total other comprehensive income, net of taxes	405	668	1,347	2,360
Total comprehensive income	$ 605	$ 818	$ 1,906	$ 2,731
Key metrics Multifamily:				
Balances and Growth:				
Average balance of Multifamily loan portfolio	$ 83,718	$ 82,107	$ 84,749	$ 82,782
Average balance of Multifamily guarantee portfolio	$ 29,014	$ 21,723	$ 27,163	$ 20,594
Average balance of Multifamily investment securities portfolio	$ 61,909	$ 62,017	$ 62,376	$ 62,259
Liquidation rate Multifamily loan portfolio (annualized)	10.1%	4.8%	7.9%	3.6%

Growth rate (annualized)	4.6%	4.9%	4.1%	6.6%
Yield and Rate:				
Net interest yield Segment Earnings basis (annualized)	0.83%	0.77%	0.79%	0.71%
Average Management and guarantee fee rate, in bps (annualized)(2)	43.0	49.6	44.7	51.1
Credit:				
Delinquency rate, at period end(3)	0.31%	0.22%	0.31%	0.22%
Allowance for loan losses and reserve for guarantee losses, at period end	$ 705	$ 935	$ 705	$ 935
Allowance for loan losses and reserve for guarantee losses, in bps	62.8	89.4	62.8	89.4
Credit losses, in bps (annualized)(4)	7.6	10.3	5.9	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) 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.

(3) See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Multifamily Mortgage Credit Risk* for information on our reported multifamily delinquency rate.

(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.

Our total comprehensive income for our Multifamily segment was $605 million and $1.9 billion for the three and six months ended June 30, 2011 respectively, consisting of: (a) Segment Earnings of $200 million and $559 million, respectively; and (b) $405 million and $1.3 billion, respectively, of total other comprehensive income, primarily resulting from improved fair values related to credit risk on available-for-sale CMBS.

Our total comprehensive income for our Multifamily segment was $818 million and $2.7 billion for the three and six months ended June 30, 2010, respectively, consisting of: (a) Segment Earnings of $150 million and $371 million, respectively; and (b) $668 million and $2.4 billion, respectively, of total other comprehensive income, primarily resulting from improved fair values related to credit risk on available-for-sale CMBS.

Segment Earnings for our Multifamily segment increased to $200 million for the second quarter of 2011 from $150 million for the second quarter of 2010 and increased to $559 million for the first half of 2011 from $371 million for the first half of 2010. These increases were primarily due to lower provision for credit losses and higher other non-interest income, partially offset by higher net impairments on available-for-sale securities in the three and six months ended

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June 30, 2011, compared to the same periods in 2010. We currently expect to generate positive Segment Earnings in the Multifamily segment in the remainder of 2011.

Segment Earnings net interest income increased to $304 million in the second quarter of 2011 from $278 million in the second quarter of 2010, and was $583 million and $516 million in the first half of 2011 and 2010, respectively. These increases were primarily attributable to growth in the average balance of the multifamily loan portfolio and higher interest income relative to allocated funding costs in the first half of 2011.

Segment Earnings non-interest income (loss) was $(39) million and $62 million for the three months ended June 30, 2011 and 2010, respectively, and was $43 million and $144 million for the six months ended June 30, 2011 and 2010, respectively. Within Segment Earnings non-interest income, we experienced higher security impairments on CMBS that were offset primarily by fair value gains on mortgage loans during the first half of 2011, compared to the first half of 2010. CMBS impairments during the first half of 2011 and 2010 totaled $317 million and $72 million, respectively. During the second quarter of 2011, we sold two of the five impaired CMBS bonds, which had generated a majority of our Segment Earnings net impairments of available-for-sale securities recognized during the first half of 2011. We have the intent to sell the three other impaired CMBS bonds in the second half of 2011 subject to market conditions. We also recognized $240 million in gains on sales of $7.7 billion in UPB of multifamily loans during the first half of 2011, compared to $205 million of gains on sales of $4.2 billion in UPB of multifamily loans during the first half of 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 data available continues to reflect improving national apartment fundamentals, including vacancy rates and effective rents. However, the broader economy continues to be challenged by persistently high unemployment, which has delayed a more complete economic recovery. 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 many nonperforming loans, and loans that we believe are at risk of default, in these states. Our delinquency rates have historically been a lagging indicator and, as a result, we expect to continue to experience delinquencies in the remainder of 2011, consistent with our experience in the first half 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 $(13) million and $(73) million for the three and six months ended June 30, 2011 compared to a provision for credit losses of $119 million and $148 million, for the three and six months ended June 30, 2010, respectively. Our loan loss reserves associated with our multifamily mortgage portfolio were $705 million and $828 million as of June 30, 2011 and December 31, 2010, respectively. The decline in our loan loss reserves in the first half of 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 property 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 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 delinquency rate for loans in the multifamily mortgage portfolio was 0.31% and 0.26% as of June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011, more than one-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 June 30, 2011 and December 31, 2010, was 0.70% and 0.85%, respectively, while the delinquency rate for non-credit-enhanced loans was 0.19% 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 10.3 basis points in the second quarter of 2010 to 7.6 basis points in the second quarter of 2011, driven by an improvement in REO operations income (expense) for the second quarter of 2011. Charge-offs, excluding recoveries, associated with multifamily loans increased to $29 million in the second quarter of 2011, compared to $27 million in the second quarter of 2010, due to an increase in the number of foreclosures in the 2011 period. Charge-offs, excluding recoveries, were $41 million and $45 million in the first half of 2011 and 2010, respectively. We currently expect that our charge-offs and credit losses in the full-year of 2011 will be consistent with the amount realized in 2010.

The UPB of the total multifamily portfolio increased to $173.5 billion at June 30, 2011 from $169.5 billion at December 31, 2010, due primarily to increased guarantees of non-consolidated securities issued during the first half of 2011 as well as the transfer in the first quarter of 2011 of certain housing revenue bonds to the Multifamily Segment that were previously managed by the Investments segment. We issued $7.0 billion and $5.6 billion UPB of Freddie Mac mortgage-related securities and other guarantee commitments related to multifamily mortgage loans in the first half of 2011 and 2010, respectively. Increased competition in certain markets has exerted and may continue to exert downward pressure on pricing and credit for new activity in the remainder of 2011, and could negatively impact our future purchase volumes. Our primary multifamily business strategy in 2011 is to purchase loans and subsequently securitize them, which supports liquidity for the multifamily market and affordability for multifamily rental housing.

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 and investments in securities purchased under agreements to resell. These short-term assets decreased by $21.1 billion from December 31, 2010 to June 30, 2011, primarily due to a relative decline in the level of refinancing activity.

Excluding amounts related to our consolidated VIEs, we held $17.5 billion and $37.0 billion of cash and cash equivalents, $7.3 billion and $1.4 billion of federal funds sold, and $12.4 billion and $15.8 billion of securities purchased under agreements to resell at June 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 $29.8 billion and $30.9 billion of cash and cash equivalents and $21.6 billion and $25.1 billion of federal funds sold and securities purchased under agreements to resell during the three and six months ended June 30, 2011.

Recently we changed the composition of our portfolio of liquid assets given the recent market 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 June 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 Segment Mortgage Portfolio Composition.

Table 16 Investments in Securities

	Fair Value June 30, 2011	Fair Value December 31, 2010
	(in millions)	
Investments in securities:		
Available-for-sale:		
Mortgage-related securities:		
Freddie Mac[1]	$ 85,221	$ 85,689
Subprime	30,491	33,861
CMBS	57,647	58,087
Option ARM	6,591	6,889
Alt-A and other	12,209	13,168
Fannie Mae	21,011	24,370
Obligations of states and political subdivisions	8,560	9,377
Manufactured housing	844	897
Ginnie Mae	275	296
Total available-for-sale mortgage-related securities	222,849	232,634
Total investments in available-for-sale securities	222,849	232,634
Trading:		
Mortgage-related securities:		
Freddie Mac[1]	16,997	13,437
Fannie Mae	17,982	18,726
Ginnie Mae	165	172
Other	82	31
Total trading mortgage-related securities	35,226	32,366
Non-mortgage-related securities:		
Asset-backed securities	164	44
Treasury bills	250	17,289
Treasury notes	17,497	10,122
FDIC-guaranteed corporate medium-term notes	1,627	441
Total trading non-mortgage-related securities	19,538	27,896
Total investments in trading securities	54,764	60,262
Total investments in securities	$ 277,613	$ 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 $19.5 billion and $27.9 billion as of June 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 single-family PCs and certain Other Guarantee Transactions. For further information on our holdings of such securities, see Table 11 Segment Mortgage Portfolio Composition.

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

	June 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	$ 79,194	$ 9,014	$ 88,208	$ 79,955	$ 8,118	$ 88,073
Multifamily	780	1,798	2,578	339	1,756	2,095
Total Freddie Mac mortgage-related securities	79,974	10,812	90,786	80,294	9,874	90,168
Non-Freddie Mac mortgage-related securities:						
Agency securities:(3)						
Fannie Mae:						
Single-family	19,838	15,645	35,483	21,238	18,139	39,377
Multifamily	70	77	147	228	88	316
Ginnie Mae:						
Single-family	273	111	384	296	117	413
Multifamily	27		27	27		27
Total agency securities	20,208	15,833	36,041	21,789	18,344	40,133
Non-agency mortgage-related securities:						
Single-family:(4)						
Subprime	344	51,147	51,491	363	53,855	54,218
Option ARM		14,778	14,778		15,646	15,646
Alt-A and other	2,260	15,502	17,762	2,405	16,438	18,843
CMBS	20,574	35,817	56,391	21,401	37,327	58,728
Obligations of states and political subdivisions(5)	8,809	24	8,833	9,851	26	9,877
Manufactured housing	879	140	1,019	930	150	1,080
Total non-agency mortgage-related securities(6)	32,866	117,408	150,274	34,950	123,442	158,392
Total UPB of mortgage-related securities	$ 133,048	$ 144,053	277,101	$ 137,033	$ 151,660	288,693
Premiums, discounts, deferred fees, impairments of UPB and			(11,696)			(11,839)

other basis adjustments		
Net unrealized (losses) on mortgage-related securities, pre-tax	(7,330)	(11,854)
Total carrying value of mortgage-related securities	$ 258,075	$ 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) 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. We do not consolidate our resecuritization trusts since we are not deemed to be the primary beneficiary of such trusts. 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 49% and 50% of these securities held at June 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 22% and 23% of total non-agency mortgage-related securities held at June 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 $277.1 billion at June 30, 2011 primarily as a result of liquidations exceeding our purchase activity during the six months ended June 30, 2011.

Table 18 summarizes our mortgage-related securities purchase activity for the three and six months ended June 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 June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in millions)			
Non-Freddie Mac mortgage-related securities purchased for resecuritization:				
Ginnie Mae Certificates	$ 56	$	$ 72	$ 13
Non-agency mortgage-related securities purchased for Other Guarantee Transactions[2]	3,633	2,063	6,512	7,684
Total non-Freddie Mac mortgage-related securities purchased for resecuritization	3,689	2,063	6,584	7,697
Non-Freddie Mac mortgage-related securities purchased as investments in securities:				
Agency securities:				
Fannie Mae:				
Fixed-rate	2,181		3,200	
Variable-rate	60	117	228	164
Total agency securities	2,241	117	3,428	164
Non-agency mortgage-related securities:				
CMBS:				
Fixed-rate	14		14	
Variable-rate	46		46	
Total non-agency mortgage-related securities	60		60	
Total non-Freddie Mac mortgage-related securities purchased as investments in securities	2,301	117	3,488	164
Total non-Freddie Mac mortgage-related securities purchased	$ 5,990	$ 2,180	$ 10,072	$ 7,861
Freddie Mac mortgage-related securities purchased:				
Single-family:				
Fixed-rate	$ 24,304	$ 1,205	$ 60,983	$ 6,045
Variable-rate	462		3,004	203
Multifamily:				
Fixed-rate	26	160	51	185
Variable-rate	65	10	65	41

Total Freddie Mac mortgage-related securities purchased	$ 24,857	$ 1,375	$ 64,103	$ 6,474

(1) Based on UPB. Excludes mortgage-related securities traded but not yet settled.
(2) Purchases for the six months ended June 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 six months ended June 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 first half of 2011 reflected in Table 18 above is attributed primarily to these transactions.

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

At June 30, 2011, our gross unrealized losses, pre-tax, on available-for-sale mortgage-related securities were $20.5 billion, compared to $23.1 billion at December 31, 2010. The improvement in unrealized losses was primarily due to fair value gains on non-agency mortgage-related securities related to the movement of these securities with unrealized losses towards maturity and the impact of a decline in interest rates, partially offset by the impact of widening OAS levels on our 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 June 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.

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.

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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				
	06/30/2011	**03/31/2011**	**12/31/2010**	**09/30/2010**	**06/30/2010**
	(dollars in millions)				
UPB:					
Subprime first lien	$ 51,070	$ 52,403	$ 53,756	$ 55,250	$ 56,922
Option ARM	14,778	15,232	15,646	16,104	16,603
Alt-A(2)	15,059	15,487	15,917	16,406	16,909
Gross unrealized losses, pre-tax:(3)					
Subprime first lien	$ 13,764	$ 12,481	$ 14,026	$ 16,446	$ 17,757
Option ARM	3,099	3,170	3,853	4,815	5,770
Alt-A(2)	2,171	1,941	2,096	2,542	3,335
Present value of expected credit losses:					
Subprime first lien	$ 6,487	$ 6,612	$ 5,937	$ 4,364	$ 3,311
Option ARM	4,767	4,993	4,850	4,208	3,534
Alt-A(2)	2,310	2,401	2,469	2,101	1,653
Collateral delinquency rate:(4)					
Subprime first lien	42%	44%	45%	45%	46%
Option ARM	44	44	44	44	45
Alt-A(2)	26	26	27	26	26
Cumulative collateral loss:(5)					
Subprime first lien	20%	19%	18%	17%	16%
Option ARM	15	14	13	11	10
Alt-A(2)	7	7	6	6	5
Average credit enhancement:(6)					
Subprime first lien	23%	24%	25%	25%	26%
Option ARM	10	11	12	12	13
Alt-A(2)	8	8	9	9	10

(1) See *Ratings of Non-Agency Mortgage-Related Securities* for additional information about these securities.
(2) Excludes non-agency mortgage-related securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.

(3) Represents the aggregate of the amount by which amortized cost, after other-than-temporary impairments, exceeds fair value measured at the individual lot level.
(4) 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.
(5) 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.
(6) 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 monoline bond insurance, overcollateralization and other forms of credit enhancement.

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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				
	06/30/2011	03/31/2011	12/31/2010	09/30/2010	06/30/2010
	(in millions)				
Net impairment of available-for-sale securities recognized in earnings:					
Subprime first and second liens	$ 70	$ 734	$ 1,207	$ 213	$ 17
Option ARM	65	281	668	577	48
Alt-A and other	32	40	372	296	333
Principal repayments and cash shortfalls:(2)					
Subprime first and second liens:					
Principal repayments	$ 1,341	$ 1,361	$ 1,512	$ 1,685	$ 2,001
Principal cash shortfalls	10	14	6	8	12
Option ARM:					
Principal repayments	$ 331	$ 315	$ 347	$ 377	$ 435
Principal cash shortfalls	123	100	111	122	80
Alt-A and other:					
Principal repayments	$ 464	$ 452	$ 537	$ 582	$ 653
Principal cash shortfalls	84	81	62	56	67

(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 six months ended June 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 impairment analysis, our estimate of the present value of expected future credit losses on our portfolio of non-agency mortgage-related securities decreased to $14.4 billion at June 30, 2011 from $15.2 billion at March 31, 2011. All of this amount has been reflected in our net impairment of available-for-sale securities recognized in earnings in this period or prior periods. The decrease in our estimate of the present value of expected future credit losses resulted primarily from decreasing interest rates in the second quarter of 2011, offset by a decline in forecasted home prices on a seasonally adjusted basis.

Since the beginning of 2007, we have incurred actual principal cash shortfalls of $1.1 billion on impaired non-agency mortgage-related securities, of which $229 million and $428 million related to the three and six months ended June 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 six months ended June 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 June 30, 2011 and 2010.

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

	Three Months Ended June 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	$ 11,909	$ 67	$ 606	$ 15
Other years first and second liens(1)	298	3	234	2
Total subprime first and second liens(1)	12,207	70	840	17
Option ARM:				
2006 & 2007	5,867	43	1,940	34
Other years	1,235	22	260	14
Total option ARM	7,102	65	2,200	48
Alt-A:				
2006 & 2007	1,494	16	2,860	37
Other years	2,126	15	152	2
Total Alt-A	3,620	31	3,012	39
Other loans	80	1	2,419	294
Total subprime, option ARM, Alt-A and other loans	23,009	167	8,471	398
CMBS	918	183	900	17
Manufactured housing	205	2	424	13
Total available-for-sale mortgage-related securities	$ 24,132	$ 352	$ 9,795	$ 428

(1) Includes all second liens.

We recorded net impairment of available-for-sale mortgage-related securities recognized in earnings of $352 million and $1.5 billion during the three and six months ended June 30, 2011, respectively, compared to $428 million and $938 million during the three and six months ended June 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 $167 million and $1.2 billion of impairments related to securities backed by subprime, option ARM, and Alt-A and other loans during the three and six months ended June 30, 2011, respectively, compared to $398 million and $851 million during the three and six months ended June 30, 2010. In addition, during the three months ended June 30, 2011, these impairments include recognition of the unrealized fair value losses related to three investments in CMBS of $154 million 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 June 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 June 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 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, all of which have contributed to poor performance during the three and six months ended June 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.

We rely on monoline bond insurance, including secondary coverage, to provide credit protection on some of our investments in non-agency mortgage-related securities. We have determined that there is substantial uncertainty

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surrounding certain monoline bond insurers ability to pay our future claims on expected credit losses related to our non-agency mortgage-related security investments. This uncertainty contributed to the impairments recognized in earnings during the three and six months ended June 30, 2011 and 2010. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers for additional information.

Our assessments concerning other-than-temporary impairment require significant judgment and the use of models, and are subject to potentially significant change due to changes in the performance of the individual securities and in mortgage market conditions. Depending on the structure of the individual mortgage-related security and our estimate of collateral losses relative to the amount of credit support available for the tranches we own, a change in collateral loss estimates can have a disproportionate impact on the loss estimate for the security. Additionally, servicer performance, loan modification programs and backlogs, bankruptcy reform and other forms of government intervention in the housing market can significantly affect the performance of these securities, including the timing of loss recognition of the underlying loans and thus the timing of losses we recognize on our securities. Foreclosure processing suspensions can also affect our losses. For example, while defaulted loans remain in the trusts prior to completion of the foreclosure process, the subordinate classes of securities issued by the securitization trusts may continue to receive interest payments, rather than absorbing default losses. This may reduce the amount of funds available for the tranches we own. Given the extent of the housing and economic downturn, it is difficult to estimate the future performance of mortgage loans and mortgage-related securities with high assurance, and actual results could differ materially from our expectations. Furthermore, various market participants could arrive at materially different conclusions regarding estimates of future cash shortfalls. For more information on how delays in the foreclosure process, including delays related to concerns about deficiencies in foreclosure documentation practices, could adversely affect the values of, and the losses on, the non-agency mortgage-related securities we hold, 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.

Ratings of Non-Agency Mortgage-Related Securities

Table 22 shows the ratings of non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans, and CMBS held at June 30, 2011 based on their ratings as of June 30, 2011 as well as those held at December 31, 2010 based on their ratings as of December 31, 2010 using the lowest rating available for each security.

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Table 22 Ratings of Non-Agency Mortgage-Related Securities Backed by Subprime, Option ARM, Alt-A and Other Loans, and CMBS

Credit Ratings as of June 30, 2011	UPB	Percentage of UPB	Amortized Cost	Gross Unrealized Losses	Monoline Insurance Coverage(1)
	(dollars in millions)				
Subprime loans:					
AAA-rated	$ 1,284	2%	$ 1,284	$ (106)	$ 23
Other investment grade	2,934	6	2,934	(395)	394
Below investment grade(2)	47,273	92	40,013	(13,271)	1,727
Total	$ 51,491	100%	$ 44,231	$ (13,772)	$ 2,144
Option ARM loans:					
AAA-rated	$	%	$	$	$
Other investment grade	100	1	100	(12)	100
Below investment grade(2)	14,678	99	9,561	(3,087)	45
Total	$ 14,778	100%	$ 9,661	$ (3,099)	$ 145
Alt-A and other loans:					
AAA-rated	$ 482	3%	$ 483	$ (25)	$ 7
Other investment grade	2,300	13	2,323	(306)	337
Below investment grade(2)	14,980	84	11,744	(2,056)	2,274
Total	$ 17,762	100%	$ 14,550	$ (2,387)	$ 2,618
CMBS:					
AAA-rated	$ 26,407	47%	$ 26,455	$ (29)	$ 42
Other investment grade	26,524	47	26,496	(421)	1,652
Below investment grade(2)	3,460	6	2,990	(266)	1,701
Total	$ 56,391	100%	$ 55,941	$ (716)	$ 3,395
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$ 28,173	20%	$ 28,222	$ (160)	$ 72
Other investment grade	31,858	23	31,853	(1,134)	2,483
Below investment grade(2)	80,391	57	64,308	(18,680)	5,747
Total	$ 140,422	100%	$ 124,383	$ (19,974)	$ 8,302

Total investments in mortgage-related securities	$ 277,101				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	51%				
Credit Ratings as of December 31, 2010					
Subprime loans:					
AAA-rated	$ 2,085	4%	$ 2,085	$ (199)	$ 31
Other investment grade	3,407	6	3,408	(436)	449
Below investment grade(2)	48,726	90	42,423	(13,421)	1,789
Total	$ 54,218	100%	$ 47,916	$ (14,056)	$ 2,269
Option ARM loans:					
AAA-rated	$	%	$	$	$
Other investment grade	139	1	140	(18)	129
Below investment grade(2)	15,507	99	10,586	(3,835)	50
Total	$ 15,646	100%	$ 10,726	$ (3,853)	$ 179
Alt-A and other loans:					
AAA-rated	$ 1,293	7%	$ 1,301	$ (87)	$ 7
Other investment grade	2,761	15	2,765	(362)	368
Below investment grade(2)	14,789	78	11,498	(2,002)	2,443
Total	$ 18,843	100%	$ 15,564	$ (2,451)	$ 2,818
CMBS:					
AAA-rated	$ 28,007	48%	$ 28,071	$ (52)	$ 42
Other investment grade	26,777	45	26,740	(676)	1,655
Below investment grade(2)	3,944	7	3,653	(1,191)	1,704
Total	$ 58,728	100%	$ 58,464	$ (1,919)	$ 3,401
Total subprime, option ARM, Alt-A and other loans, and CMBS:					
AAA-rated	$ 31,385	21%	$ 31,457	$ (338)	$ 80
Other investment grade	33,084	23	33,053	(1,492)	2,601
Below investment grade(2)	82,966	56	68,160	(20,449)	5,986
Total	$ 147,435	100%	$ 132,670	$ (22,279)	$ 8,667
Total investments in mortgage-related securities	$ 288,693				
Percentage of subprime, option ARM, Alt-A and other loans, and CMBS of total investments in mortgage-related securities	51%				

(1) Represents the amount of UPB covered by monoline bond insurance coverage. This amount does not represent the maximum amount of losses we could recover, as the monoline insurance also covers interest.

(2) Includes securities with S&P credit ratings below BBB and certain securities that are no longer rated.

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Mortgage Loans

The UPB of mortgage loans on our consolidated balance sheet declined to $1,876 billion as of June 30, 2011 from $1,885 billion as of December 31, 2010. See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for further detail about the mortgage loans on our consolidated balance sheets.

The UPB of unsecuritized single-family mortgage loans increased by $9.2 billion, to $158.1 billion at June 30, 2011 from $148.9 billion at December 31, 2010, primarily due to our continued purchases of seriously delinquent and modified loans from the mortgage pools underlying our PCs. Based on the amount of the recorded investment of these loans, approximately $74.6 billion, or 4.2%, of the single-family mortgage loans on our consolidated balance sheet as of June 30, 2011 were seriously delinquent, as compared to $84.2 billion, or 4.7%, as of December 31, 2010. The majority of these seriously delinquent loans are unsecuritized, and were purchased by us from our PC trusts. As guarantor, we have the right to purchase mortgages that back our PCs from the underlying loan pools under certain circumstances. See NOTE 5: INDIVIDUALLY IMPAIRED AND NON-PERFORMING LOANS for more information on our purchases of single-family loans from PC trusts.

The UPB of unsecuritized multifamily mortgage loans was $81.8 billion at June 30, 2011 and $85.9 billion at December 31, 2010. Our multifamily loan activity in the three and six months ended June 30, 2011 primarily consisted of purchases of loans intended for securitization and sales of loans through Other Guarantee Transactions. We expect to continue to purchase and subsequently securitize multifamily loans, which supports liquidity for the multifamily market and affordability for multifamily rental housing, as our primary multifamily business strategy.

Table 23 summarizes our purchase and guarantee activity in mortgage loans. This activity consists of: (a) mortgage loans underlying consolidated single-family PCs issued in the period (regardless of whether such securities are held by us or third parties); (b) single-family and multifamily mortgage loans purchased, but not securitized, in the period; and (c) mortgage loans underlying our mortgage-related financial guarantees issued in the period, which are not consolidated on our balance sheets.

Table 23 Mortgage Loan Purchase and Other Guarantee Commitment Activity[1]

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
	UPB Amount	% of Total	UPB Amount	% of Total	UPB Amount	% of Total	UPB Amount	% of Total
	(dollars in millions)							
Mortgage loan purchases and guarantee issuances:								
Single-family:								
30-year or more amortizing fixed-rate	$ 40,345	60%	$ 53,661	67%	$ 103,243	61%	$ 119,275	70%
20-year amortizing fixed-rate	3,315	5	3,871	5	10,030	6	7,229	4
15-year amortizing fixed-rate	13,001	19	14,737	18	35,111	21	29,851	18
Adjustable-rate[2]	6,125	9	3,925	5	11,866	7	5,783	3

Interest-only[3]			499	1			820	<1
FHA/VA and other governmental	117	<1	349	<1	204	<1	3,132	2
Total single-family[4]	62,903	93	77,042	96	160,454	95	166,090	97
Multifamily	4,512	7	2,954	4	7,561	5	5,067	3
Total mortgage loan purchases and other guarantee commitment activity[5]	$ 67,415	100%	$ 79,996	100%	$ 168,015	100%	$ 171,157	100%
Percentage of mortgage purchases and other guarantee commitment activity with credit enhancements[6]	9%		8%		8%		11%	

(1) Based on UPB. Excludes mortgage loans traded but not yet settled. Excludes additions of seriously delinquent loans and balloon/reset mortgages purchased out of PC trusts. Includes other guarantee commitments associated with mortgage loans. See endnote (5) for further information.

(2) Includes amortizing ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods. We did not purchase any option ARM loans during the first half of 2011 or 2010.

(3) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed-rate and variable-rate interest-only loans.

(4) Includes $13.3 billion and $11.0 billion of mortgage loans in excess of $417,000, which we refer to as conforming jumbo mortgages, for the six months ended June 30, 2011 and 2010, respectively.

(5) Includes issuances of other guarantee commitments on single-family loans of $2.5 billion and $3.1 billion and issuances of other guarantee commitments on multifamily loans of $0.4 billion and $0.9 billion during the six months ended June 30, 2011 and 2010, respectively, which include our unsecuritized guarantees of HFA bonds under the TCLFP in 2010.

(6) See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES Credit Protection and Other Forms of Credit Enhancement for further details on credit enhancement of mortgage loans in our single-family credit guarantee portfolio.

See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* and NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS Table 17.2 Certain Higher-Risk Categories in the Single-Family Credit Guarantee Portfolio for information about mortgage loans in our single-family credit guarantee portfolio that we believe have higher-risk characteristics.

Derivative Assets and Liabilities, Net

The composition of our derivative portfolio changes from period to period as a result of derivative purchases, terminations, or assignments prior to contractual maturity, and expiration of the derivatives at their contractual maturity. We also classify net derivative interest receivable or payable, trade/settle receivable or payable, and cash collateral held or posted on our consolidated balance sheets in derivative assets, net and derivative liabilities, net. See NOTE 11: DERIVATIVES for additional information regarding our derivatives.

Table 24 shows the fair value for each derivative type, the weighted average fixed rate of our pay-fixed and receive-fixed swaps, and the maturity profile of our derivative positions as of June 30, 2011. A positive fair value in Table 24 for each derivative type is the estimated amount, prior to netting by counterparty, that we would be entitled to receive if the derivatives of that type were terminated. A negative fair value for a derivative type is the estimated amount, prior to netting by counterparty, that we would owe if the derivatives of that type were terminated.

Table 24 Derivative Fair Values and Maturities

	June 30, 2011					
			Fair Value[1]			
	Notional or Contractual Amount[2]	Total Fair Value[3]	Less than 1 Year	1 to 3 Years	Greater than 3 and up to 5 Years	In Excess of 5 Years
	(dollars in millions)					
Interest-rate swaps:						
Receive-fixed:						
Swaps	$ 199,851	$ 2,260	$ 151	$ 590	$ 931	$ 588
Weighted average fixed rate[4]			1.31%	1.22%	2.21%	3.60%
Forward-starting swaps[5]	15,907	440			(1)	441
Weighted average fixed rate[4]				0.59%	1.09%	4.51%
Total receive-fixed	215,758	2,700	151	590	930	1,029
Basis (floating to floating)	3,275	4		1	3	
Pay-fixed:						
Swaps	302,831	(18,263)	(136)	(1,261)	(4,880)	(11,986)
Weighted average fixed rate[4]			2.90%	1.68%	3.28%	4.07%
Forward-starting swaps[5]	19,039	(2,489)				(2,489)
Weighted average fixed rate[4]						5.37%
Total pay-fixed	321,870	(20,752)	(136)	(1,261)	(4,880)	(14,475)
Total interest-rate swaps	540,903	(18,048)	15	(670)	(3,947)	(13,446)
Option-based:						
Call swaptions						
Purchased	103,825	8,260	4,084	2,001	816	1,359
Written	23,025	(780)	(18)	(694)	(68)	
Put swaptions						
Purchased	73,475	1,714	117	427	484	686
Written	6,000					
Other option-based derivatives[6]	41,861	1,514	5			1,509
Total option-based	248,186	10,708	4,188	1,734	1,232	3,554
Futures	105,169	(46)	(46)			
Foreign-currency swaps	2,184	327	101	226		
Commitments[7]	34,361	55	55			
Swap guarantee derivatives	3,733	(36)		(1)	(1)	(34)

Subtotal	934,536	(7,040)	$ 4,313	$ 1,289	$ (2,716)	$ (9,926)
Credit derivatives	11,383	(2)				
Subtotal	945,919	(7,042)				
Derivative interest receivable (payable), net		(1,347)				
Trade/settle receivable (payable), net		6				
Derivative collateral (held) posted, net		8,221				
Total	$ 945,919	$ (162)				

(1) Fair value is categorized based on the period from June 30, 2011 until the contractual maturity of the derivative.
(2) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged. Notional or contractual amounts are not recorded as assets or liabilities on our consolidated balance sheets.
(3) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liabilities, net, and includes derivative interest receivable or (payable), net, trade/settle receivable or (payable), net and derivative cash collateral (held) or posted, net.
(4) Represents the notional weighted average rate for the fixed leg of the swaps.
(5) Represents interest-rate swap agreements that are scheduled to begin on future dates ranging from less than one year to fifteen years.
(6) Primarily includes purchased interest rate caps and floors.
(7) 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.

At June 30, 2011, the net fair value of our total derivative portfolio was $(0.2) billion, as compared to $(1.1) billion at December 31, 2010. During the six months ended June 30, 2011, the fair value of our total derivative portfolio increased primarily due to additional cash collateral we posted to our counterparties during this period, partially offset by declines in interest rates. See NOTE 11: DERIVATIVES Table 11.1 Derivative Assets and Liabilities at Fair Value for our notional or contractual amounts and related fair values of our total derivative portfolio by product type at June 30, 2011 and December 31, 2010.

Table 25 summarizes the changes in derivative fair values.

Table 25 Changes in Derivative Fair Values

	Six Months Ended June 30,(1)	
	2011	2010
	(in millions)	
Beginning balance, at January 1 Net asset (liability)	$ (6,560)	$ (2,267)
Net change in:		
Commitments(2)	75	(1)
Credit derivatives	(9)	(4)
Swap guarantee derivatives		(1)
Other derivatives:(3)		
Changes in fair value	(1,213)	(5,816)
Fair value of new contracts entered into during the period(4)	576	(324)
Contracts realized or otherwise settled during the period	89	99
Ending balance, at June 30 Net asset (liability)	$ (7,042)	$ (8,314)

(1) Refer to Table 24 Derivative Fair Values and Maturities for reconciliation of fair value to the amounts presented on our consolidated balance sheets as of June 30, 2011. At June 30, 2011, fair value in this table excludes derivative interest receivable or (payable), net of $(791) million, trade/settle receivable or (payable), net of $17 million, and derivative cash collateral posted, net of $8.4 billion.
(2) 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 fair value changes for interest-rate swaps, option-based derivatives, futures, and foreign-currency swaps.
(4) Consists primarily of cash premiums paid or received on options.

See CONSOLIDATED RESULTS OF OPERATIONS Non-Interest Income (Loss) *Derivative Gains (Losses)* for a description of gains (losses) on our derivative positions.

REO, Net

As a result of borrower default on mortgage loans that we own, or for which we have issued our financial guarantee, we acquire properties which are recorded as REO assets on our consolidated balance sheets. The balance of our REO, net, declined to $5.9 billion at June 30, 2011 from $7.1 billion at December 31, 2010. 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. These delays in foreclosures continued in the first half of 2011, particularly in states that require a judicial foreclosure process. We expect these delays in the foreclosure process will likely continue at least through the remainder of 2011. However, we expect our REO inventory to remain at elevated levels, as we have a large inventory of significantly delinquent loans in our single-family credit guarantee portfolio, many of which will likely complete the foreclosure process and transition to REO during the next few quarters as our servicers work through their foreclosure-related issues. To the extent a large inventory of loans completes the foreclosure process, such an increase in REO inventory could have a negative impact on the housing market. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk* *Non-Performing Assets* for additional information about our REO activity.

Deferred Tax Assets, Net

In connection with our entry into conservatorship, we determined that it was more likely than not that a portion of our net deferred tax assets would not be realized due to our inability to generate sufficient taxable income and, therefore, we recorded a valuation allowance. After evaluating all available evidence, including our losses, the events and developments related to our conservatorship, volatility in the economy, and related difficulty in forecasting future profit levels, we reached a similar conclusion in all subsequent quarters, including in the second quarter of 2011. Our valuation allowance increased by $658 million during the six months ended June 30, 2011 to $33.9 billion, primarily attributable to an increase in temporary differences during the period. As of June 30, 2011, after consideration of the valuation allowance, we had a net deferred tax asset of $3.9 billion, primarily representing the tax effect of unrealized losses on our available-for-sale securities. We believe the deferred tax asset related to these unrealized losses is more likely than not to be realized because of our assertion that we have the intent and ability to hold our available-for-sale securities until any temporary unrealized losses are recovered.

IRS Examinations

Prior to 2011, the IRS completed its examinations of tax years 1998 to 2007. We received Statutory Notices from the IRS assessing $3.0 billion of additional income taxes and penalties for the 1998 to 2005 tax years. We filed a petition with the U.S. Tax Court on October 22, 2010 in response to the Statutory Notices. The principal matter of controversy involves questions of timing and potential penalties regarding our tax accounting method for certain hedging transactions. The IRS responded to our petition with the U.S. Tax Court on December 21, 2010. On July 6, 2011, the U.S. Tax Court issued a Notice Setting Case for Trial and a Standing Pretrial Order. The trial date set forth in the Notice is December 12, 2011. We currently believe adequate reserves have been provided for settlement on reasonable terms. For additional information, see NOTE 13: INCOME TAXES.

Other Assets

Other assets consist of the guarantee asset related to non-consolidated trusts and other guarantee commitments, accounts and other receivables, and other miscellaneous assets. Other assets decreased to $8.4 billion as of June 30, 2011 from $10.9 billion as of December 31, 2010 primarily because of a decrease in servicer receivables resulting from lower loan liquidations on mortgage loans held by consolidated trusts. See NOTE 21: SELECTED FINANCIAL STATEMENT LINE ITEMS for additional information.

Total Debt, Net

PCs and Other Guarantee Transactions issued by our consolidated trusts and held by third parties are recognized as debt securities of consolidated trusts held by third parties on our consolidated balance sheets. Debt securities of consolidated trusts held by third parties represents our liability to third parties that hold beneficial interests in our consolidated trusts. The debt securities of our consolidated trusts may be prepaid without penalty at any time.

Other debt consists of unsecured short-term and long-term debt securities we issue to third parties to fund our business activities. It is classified as either short-term or long-term based on the contractual maturity of the debt instrument. See LIQUIDITY AND CAPITAL RESOURCES for a discussion of our management activities related to other debt.

Table 26 presents the UPB for Freddie Mac issued mortgage-related securities by the underlying mortgage product type based on the UPB of the securities.

Table 26 Freddie Mac Mortgage-Related Securities(1)(2)

	June 30, 2011			December 31, 2010		
	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total	Issued by Consolidated Trusts	Issued by Non-Consolidated Trusts	Total
	(in millions)					
Single-family:						
30-year or more amortizing fixed-rate	$ 1,182,288	$	$ 1,182,288	$ 1,213,448	$	$ 1,213,448
20-year amortizing fixed-rate	67,525		67,525	65,210		65,210
15-year amortizing fixed-rate	251,030		251,030	248,702		248,702
Adjustable-rate(3)	64,367		64,367	61,269		61,269
Interest-only(4)	67,593		67,593	79,835		79,835
FHA/VA and other governmental	3,486		3,486	3,369		3,369
Total single-family	1,636,289		1,636,289	1,671,833		1,671,833
Multifamily		4,611	4,611		4,603	4,603
Total single-family and multifamily	1,636,289	4,611	1,640,900	1,671,833	4,603	1,676,436
Other Guarantee Transactions:						
HFA bonds:(5)						
Single-family		6,144	6,144		6,168	6,168
Multifamily		1,093	1,093		1,173	1,173
Total HFA bonds		7,237	7,237		7,341	7,341
Other:						
Single-family(6)	14,240	4,038	18,278	15,806	4,243	20,049
Multifamily		14,718	14,718		8,235	8,235
Total Other Guarantee Transactions	14,240	18,756	32,996	15,806	12,478	28,284
REMICs and Other Structured Securities backed by Ginnie Mae Certificates(7)		852	852		857	857

Total Freddie Mac Mortgage-Related Securities	$ 1,650,529	$ 31,456	$ 1,681,985	$ 1,687,639	$ 25,279	$ 1,712,918
Less: Repurchased Freddie Mac Mortgage-Related Securities(8)	(166,113)			(170,638)		
Total UPB of debt securities of consolidated trusts held by third parties	$ 1,484,416			$ 1,517,001		

(1) Based on UPB of the securities and excludes mortgage-related debt traded, but not yet settled.
(2) Excludes other guarantee commitments for mortgage assets held by third parties that require us to purchase loans from lenders when these loans meet certain delinquency criteria.
(3) Includes $1.2 billion and $1.3 billion in UPB of option ARM mortgage loans as of June 30, 2011 and December 31, 2010, respectively. See endnote (6) for additional information on option ARM loans that back our Other Guarantee Transactions.
(4) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments. Includes both fixed- and variable-rate interest-only loans.
(5) Consists of bonds we acquired and resecuritized under the NIBP.
(6) Backed by non-agency mortgage-related securities that include prime, FHA/VA and subprime mortgage loans and also include $7.9 billion and $8.4 billion in UPB of securities backed by option ARM mortgage loans at June 30, 2011 and December 31, 2010, respectively.
(7) Backed by FHA/VA loans.
(8) Represents the UPB of repurchased Freddie Mac mortgage-related securities that are consolidated on our balance sheets and includes certain remittance amounts associated with our security trust administration that are payable to third-party mortgage-related security holders. Our holdings of non-consolidated Freddie Mac mortgage-related securities are presented in Table 17 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets.

Excluding Other Guarantee Transactions, the percentage of amortizing fixed-rate single-family loans underlying our consolidated trust securities, based on UPB, was approximately 92% at both June 30, 2011 and December 31, 2010. Because mortgage interest rates remained relatively low in the first half of 2011, the majority of newly issued Freddie Mac single-family mortgage-related securities in 2011 were backed by refinance mortgages. During the first half of 2011, the UPB of Freddie Mac mortgage-related securities issued by consolidated trusts declined approximately 4.4%, on an annualized basis, as our new issuances have not been sufficient to replace the liquidations of these securities. The UPB of multifamily Other Guarantee Transactions, excluding HFA-related securities, increased to $14.7 billion as of June 30, 2011 from $8.2 billion as of December 31, 2010, due to increased multifamily loan securitization activity.

Table 27 presents issuances and extinguishments of debt securities of our consolidated trusts held by third parties during the three and six months ended June 30, 2011 and 2010.

Table 27 Issuances and Extinguishments of Debt Securities of Consolidated Trusts[1]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Beginning balance of debt securities of consolidated trusts held by third parties	$ 1,497,849	$ 1,543,062	$ 1,517,001	$ 1,564,093
Issuances to third parties of debt securities of consolidated trusts:				
Issuances based on underlying mortgage product type:				
30-year or more amortizing fixed-rate	36,517	53,603	98,308	122,027
20-year amortizing fixed-rate	3,147	4,006	9,390	6,879
15-year amortizing fixed-rate	15,648	14,170	35,514	27,377
Adjustable-rate	6,216	3,835	11,862	5,605
Interest-only		473	152	757
FHA/VA		1	160	1,075
Debt securities of consolidated trusts retained by us at issuance	(313)	(481)	(6,658)	(2,791)
Net issuances of debt securities of consolidated trusts	61,215	75,607	148,728	160,929
Reissuances of debt securities of consolidated trusts previously held by us[2]	11,977	8,449	36,553	16,360
Total issuances to third parties of debt securities of consolidated trusts	73,192	84,056	185,281	177,289
Extinguishments, net[3]	(86,625)	(90,169)	(217,866)	(204,433)
Ending balance of debt securities of consolidated trusts held by third parties	$ 1,484,416	$ 1,536,949	$ 1,484,416	$ 1,536,949

(1) Based on UPB.
(2) Represents our sales of PCs and certain Other Guarantee Transactions previously held by us.
(3) Represents: (a) UPB of our purchases from third parties of PCs and Other Guarantee Transactions issued by our consolidated trusts; (b) principal repayments related to PCs and Other Guarantee Transactions issued by our consolidated trusts; and (c) certain remittance amounts associated with our trust security administration that are payable to third-party mortgage-related security holders as of June 30, 2011 and 2010.

Other Liabilities

Other liabilities consist of the guarantee obligation, the reserve for guarantee losses on non-consolidated trusts and other mortgage-related financial guarantees, servicer liabilities, accounts payable and accrued expenses, and other miscellaneous liabilities. Other liabilities decreased to $7.2 billion as of June 30, 2011 from $8.1 billion as of December 31, 2010 primarily because of a decrease in servicer liabilities and accounts payable and accrued expenses during the first half of 2011. See NOTE 21: SELECTED FINANCIAL STATEMENT LINE ITEMS for additional information.

Total Equity (Deficit)

Table 28 presents the changes in total equity (deficit) and certain capital-related disclosures.

Table 28 Changes in Total Equity (Deficit)

	Three Months Ended					Six Months Ended
	06/30/11	03/31/11	12/31/10	09/30/10	06/30/10	06/30/11
	(in millions)					
Beginning balance	$ 1,237	$ (401)	$ (58)	$ (1,738)	$ (10,525)	$ (401)
Net income (loss)	(2,139)	676	(113)	(2,511)	(4,713)	(1,463)
Other comprehensive income (loss), net of taxes:						
Changes in unrealized gains (losses) related to available-for-sale securities	903	1,941	1,097	3,781	4,097	2,844
Changes in unrealized gains (losses) related to cash flow hedge relationships	135	132	153	164	184	267
Changes in defined benefit plans	1	(9)	19	2	2	(8)
Total comprehensive income (loss)	(1,100)	2,740	1,156	1,436	(430)	1,640
Capital draw funded by Treasury		500	100	1,800	10,600	500
Senior preferred stock dividends declared	(1,617)	(1,605)	(1,603)	(1,561)	(1,293)	(3,222)
Other	2	3	4	5	(90)	5
Total equity (deficit) / Net worth	$ (1,478)	$ 1,237	$ (401)	$ (58)	$ (1,738)	$ (1,478)
Aggregate draws under the Purchase Agreement[1]	$ 63,700	$ 63,700	$ 63,200	$ 63,100	$ 61,300	$ 63,700
Aggregate senior preferred stock dividends paid to Treasury in cash	$ 13,248	$ 11,631	$ 10,026	$ 8,423	$ 6,862	$ 13,248
Percentage of dividends paid to Treasury in cash to aggregate draws	21%	18%	16%	13%	11%	21%

(1)

Does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received.

Net unrealized losses in AOCI on our available-for-sale securities decreased by $0.9 billion and $2.8 billion during the three and six months ended June 30, 2011, respectively, primarily due to fair value gains related to the movement of non-agency mortgage-related securities with unrealized losses towards maturity and the impact of a decline in interest rates, partially offset by the impact of widening OAS levels on our 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. Net unrealized losses in AOCI on our closed cash flow hedge relationships decreased by $135 million and $267 million during the three and six months ended June 30, 2011, respectively, primarily attributable to the reclassification of losses into earnings related to our closed cash flow hedges as the originally forecasted transactions affected earnings.

RISK MANAGEMENT

Our investment and credit guarantee activities expose us to three broad categories of risk: (a) credit risk; (b) interest-rate risk and other market risk; and (c) operational risk. See RISK FACTORS in our 2010 Annual Report, our Quarterly Report on Form 10-Q for the first quarter of 2011, and in this Form 10-Q for additional information regarding these and other risks.

Credit Risk

We are subject primarily to two types of credit risk: institutional credit risk and mortgage credit risk. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage we own or guarantee. We are exposed to mortgage credit risk on our total mortgage portfolio because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a Freddie Mac mortgage-related security, or other guarantee commitment.

Institutional Credit Risk

In recent periods, challenging market conditions adversely affected the liquidity and financial condition of our counterparties. The concentration of our exposure to our counterparties has increased in recent periods due to industry consolidation and counterparty failures. In addition, previously highly-rated mortgage insurers have been downgraded in prior periods due to their weakened financial condition. As a result, we continue to face challenges in reducing our risk concentrations with counterparties. Efforts we take to reduce exposure to financially weakened counterparties could further increase our exposure to other individual counterparties. The failure of any of our primary counterparties to meet their obligations to us could have a material adverse effect on our results of operations, financial condition, and our ability to conduct future business.

Our exposure to mortgage seller/servicers remained high during the six months ended June 30, 2011 with respect to their repurchase obligations arising from breaches of representations and warranties made to us for loans they underwrote and sold to us. We rely on our seller/servicers to perform loan workout activities as well as foreclosures on loans that they service for us. Our credit losses could increase to the extent that our seller/servicers do not fully perform these obligations in a prudent and timely manner.

Our exposure to derivatives counterparties remains highly concentrated as compared to historical levels.

Non-Agency Mortgage-Related Security Issuers

Our investments in securities expose us to institutional credit risk to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform their obligations. Our investments in non-Freddie Mac mortgage-related securities include both agency and non-agency securities. However, agency securities have historically presented minimal institutional credit risk due to the guarantee provided by those institutions.

At the direction of our Conservator, we are working to enforce our rights as an investor with respect to the non-agency mortgage-related securities we hold, and are engaged in efforts to mitigate losses on our investments in these securities, in some cases in conjunction with other investors. The effectiveness of our efforts is highly uncertain and any potential recoveries may take significant time to realize.

As previously disclosed, we joined an investor group that delivered a notice of non-performance in 2010 to The Bank of New York Mellon, as Trustee, and Countrywide Home Loans Servicing LP (now known as BAC Home Loans Servicing, LP), related to the possibility that certain mortgage pools backing certain mortgage-related securities issued by Countrywide Financial and related entities include mortgages that may have been ineligible for inclusion in the pools due to breaches of representations or warranties.

On June 29, 2011, Bank of America Corporation announced that it, BAC Home Loans Servicing, LP, Countrywide Financial Corporation and Countrywide Home Loans, Inc. entered into a settlement agreement with The Bank of New York Mellon, as trustee, to resolve all outstanding and potential claims related to alleged breaches of representations and warranties (including repurchase claims), substantially all historical loan servicing claims and certain other historical claims with respect to 530 Countrywide first-lien and second-lien residential mortgage-related securitization trusts. Bank of America indicated that the settlement is subject to final court approval and certain other conditions, including the receipt of a private letter ruling from the IRS. There can be no assurance that final court approval of the settlement will be obtained or that all conditions will be satisfied. Bank of America noted that, given the number of investors and the complexity of the settlement, it is not possible to predict whether and to what extent challenges will be made to the settlement or the timing or ultimate outcome of the court approval process, which could take a substantial period of time. We have investments in certain of these Countrywide securitization trusts and would expect to benefit from this settlement, if final court approval is obtained.

In connection with the settlement, Bank of America Corporation entered into an agreement with the investor group. Under this agreement, the investor group agreed, among other things, to use reasonable best efforts and to cooperate in good faith to effectuate the settlement, including to obtain final court approval. Freddie Mac was not a party to this agreement, but agreed to retract any previously delivered notices of non-performance upon final court approval of the settlement.

The court has directed that any objections to the settlement be filed no later than August 30, 2011. FHFA, after considering input from us and others, will determine whether or not to object to the proposed settlement.

On July 27, 2011, FHFA announced that it, as conservator of Freddie Mac and Fannie Mae, has filed a lawsuit in the federal district court for the Southern District of New York against UBS Americas, Inc., and related defendants alleging violations of federal securities laws in the sale of residential private-label mortgage-related securities to Freddie Mac and Fannie Mae. FHFA seeks to recover losses and damages sustained by Freddie Mac and Fannie Mae as a result of their investments in UBS securities.

See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities for additional information on credit risk associated with our investments in mortgage-related securities, including higher-risk components and impairment charges we recognized in the three and six months ended June 30, 2011 related to these investments. For information about institutional credit risk associated with our investments in non-mortgage-related securities, see NOTE 7: INVESTMENTS IN SECURITIES Table 7.9 Trading Securities as well as Cash and Other Investments Counterparties below.

Mortgage Seller/Servicers

We acquire a significant portion of our single-family mortgage purchase volume from several large lenders, or seller/servicers. Our top 10 single-family seller/servicers provided approximately 85% of our single-family purchase volume during the six months ended June 30, 2011. Wells Fargo Bank, N.A., JPMorgan Chase Bank, N.A., Bank of America, N.A. and U.S. Bank, N.A. accounted for 29%, 14%, 11%, and 10% respectively, of our single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of our purchase volume for the six months ended June 30, 2011. For the six months ended June 30, 2011, our top two multifamily lenders, CBRE Capital Markets, Inc., and Berkadia Commercial Mortgage LLC accounted for 21% and 13%, respectively, of our multifamily purchase volume. Our top 10 multifamily lenders represented an aggregate of approximately 85% of our multifamily purchase volume for the six months ended June 30, 2011. In July 2011, FHFA informed us that it expects us, going forward, to have in our agreements with sellers the ability to change base guarantee fees upon 90 days notice to sellers, if directed to do so by FHFA.

We have contractual arrangements with our seller/servicers under which they agree to provide us with 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 the ability to require 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. In addition, we may enter into agreements with certain of our seller/servicers to release specified loans in their servicing portfolios from certain repurchase obligations in exchange for one-time cash payments or seek other remedies with our seller/servicers in the future.

We are exposed to institutional credit risk arising from the potential insolvency or non-performance by our mortgage seller/servicers, including non-performance of their repurchase obligations arising from breaches of the representations and warranties made to us for loans they underwrote and sold to us or failure to honor their recourse and indemnification obligations to us. Pursuant to their repurchase obligations, our seller/servicers are obligated to repurchase mortgages sold to us when there has been a breach of the representations and warranties made to us with respect to the mortgages. In lieu of repurchase, we may choose to allow a seller/servicer to indemnify us against losses realized on such mortgages or otherwise compensate us for the risk of continuing to hold the mortgages. In some cases, the ultimate amounts of recovery payments we have received from seller/servicers may be significantly less than the amount of our estimates of potential exposure to losses related to their obligations. If a seller/servicer does not satisfy its repurchase or indemnification obligations with respect to a loan, we will be subject to the full range of credit risks posed by the loan if the loan fails to perform, including the risk that a mortgage insurer may deny or rescind coverage on the loan (if the loan is insured) and the risk that we will incur credit losses on the loan through the workout or foreclosure process.

Our contracts require that a seller/servicer repurchase a mortgage after we issue a repurchase request, unless the seller/servicer avails itself of an appeals process provided for in our contracts, in which case the deadline for repurchase is extended until we decide the appeal. Some of our seller/servicers have failed to fully perform their repurchase obligations due to lack of financial capacity, while others, including many of our larger seller/servicers, have not fully performed their repurchase obligations in a timely manner. The UPB of loans subject to repurchase requests issued to our single-family seller/servicers declined to approximately $3.1 billion as of June 30, 2011 from $3.8 billion as of December 31, 2010, primarily because resolved requests of $6.1 billion exceeded our issuance of $5.4 billion of new requests for the six months ended June 30, 2011. As measured by UPB, approximately 43% and 34% of the repurchase requests outstanding at June 30, 2011 and December 31, 2010, respectively, were outstanding for four months or more since issuance of the initial request. The amount we expect to collect on the outstanding requests is significantly less than the UPB amount because many of these requests are likely to be satisfied by reimbursement of our realized losses by seller/servicers, or rescinded in the course of the contractual appeal process. Based on our historical loss experience and the fact that many of these loans are covered by credit enhancement, we expect the actual credit losses experienced by us should we fail to collect on these repurchase requests to also be less than the UPB of the loans. As of June 30, 2011, a significant portion of the repurchase requests outstanding more than four months relates to requests made because the mortgage insurer rescinded the mortgage insurance on the loan or denied the mortgage insurance claim. Our actual credit losses could increase should the mortgage insurance coverage not be reinstated and we fail to collect on these repurchase requests.

During the six months ended June 30, 2011, we recovered amounts that covered losses with respect to $2.4 billion of UPB of loans subject to our repurchase requests. At June 30, 2011 and December 31, 2010, four of our largest single-family seller/servicers collectively had approximately 47% and 32%, respectively, of their repurchase obligations outstanding for more than four months since issuance of our initial repurchase request, as measured by the UPB of loans associated with our repurchase requests. During 2010, we entered into agreements with certain of our seller/servicers to release specified loans in their servicing portfolios from certain repurchase obligations in exchange for one-time cash payments.

In order to resolve outstanding repurchase requests on a more timely basis with our single-family seller/servicers in the future, we have begun to require certain of our larger seller/servicers to commit to plans for completing repurchases, with financial consequences or with stated remedies for non-compliance, as part of the annual renewals of our contracts with them. While these provisions are in place for certain of our seller/servicers, it is too early to tell if these provisions will help in resolving future repurchase requests in a more timely manner or the impact they may have on the size or timing of our credit losses. In addition, we will implement a new monitoring process for our seller/servicers in the third quarter of 2011, which is intended to allow us to better evaluate our servicers and remediate issues concerning performance. We continue to review loans and pursue our rights to issue repurchase requests to our counterparties, as appropriate.

Our estimate of probable incurred losses for exposures to seller/servicer repurchase obligations is considered in our allowance for loan losses as of June 30, 2011 and December 31, 2010; however, our actual losses may be different than our estimates. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guarantee Losses in our 2010 Annual Report for further information.

On August 24, 2009, Taylor, Bean & Whitaker Mortgage Corp., or TBW, filed for bankruptcy. Prior to that date, we had terminated TBW s status as a seller/servicer of our loans. We had exposure to TBW with respect to its loan repurchase obligations. We also had exposure with respect to certain borrower funds that TBW held for the benefit of Freddie Mac. TBW received and processed such funds in its capacity as a servicer of loans owned or guaranteed by Freddie Mac. TBW maintained certain bank accounts, primarily at Colonial Bank, to deposit such borrower funds and to provide remittance to Freddie Mac. Colonial Bank was placed into receivership by the FDIC in August 2009.

On or about June 14, 2010, we filed a proof of claim in the TBW bankruptcy aggregating $1.78 billion. Of this amount, approximately $1.15 billion related to current and projected repurchase obligations and approximately $440 million related to funds deposited with Colonial Bank, or with the FDIC as its receiver, which are attributable to mortgage loans owned or guaranteed by us and previously serviced by TBW. The remaining $190 million represented miscellaneous costs and expenses incurred in connection with the termination of TBW s status as a seller/servicer of our loans.

With the approval of FHFA, as Conservator, we entered into a proposed settlement with TBW and the creditors committee appointed in the TBW bankruptcy proceeding to represent the interests of the unsecured trade creditors of TBW. The settlement, which is discussed below, was filed with the Bankruptcy Court for the Middle District of Florida on June 22, 2011. The court approved the settlement and confirmed TBW s proposed plan of liquidation on July 21, 2011.

Under the terms of the settlement, we have been granted an unsecured claim in the TBW bankruptcy estate in the amount of $1.022 billion, largely representing our claims to past and future loan repurchase exposures. We estimate that this claim may result in a distribution to us of approximately $40-45 million, which is based on the plan of liquidation and disclosure statement filed with the court by TBW, indicating that general unsecured creditors are likely to receive a distribution of 3.3 to 4.4 cents on the dollar. We are also entitled to approximately $203 million on deposit in certain TBW bank accounts relating to our mortgage loans, $150 million of which we received on June 21, 2011 from the FDIC as receiver of Colonial Bank. We are required to assign ownership rights of certain escrow accounts associated with the serviced loans to TBW and certain of its creditors. The settlement also allows for our sale of TBW-related mortgage servicing rights and provides a formula for determining the amount of the proceeds, if any, to be allocated to third parties that have asserted interests in those rights. We estimate that during the third quarter of 2011, we will recognize approximately a $0.2 billion gain, representing the difference between the amounts that we assign, or pay, to TBW and their creditors and the liability recorded on our consolidated balance sheet.

At June 30, 2011, we estimate our uncompensated loss exposure to TBW to be approximately $0.7 billion. This estimated exposure largely relates to outstanding repurchase claims that have already been adjusted in our financial statements to their net realizable value through our provision for loan losses. Our ultimate losses could exceed our recorded estimate. Potential changes in our estimate of uncompensated loss exposure or the potential for additional claims as discussed below could cause us to record additional losses in the future.

We understand that Ocala Funding, LLC, or Ocala, which is a wholly owned subsidiary of TBW, or its creditors may file an action to recover certain funds paid to us prior to the TBW bankruptcy. However, no actions against Freddie Mac related to Ocala have been initiated in bankruptcy court or elsewhere to recover assets. Based on court filings and other information, we understand that Ocala or its creditors may attempt to assert fraudulent transfer and other possible claims totaling approximately $840 million against us related to funds that were allegedly transferred from Ocala to Freddie Mac custodial accounts. We also understood that Ocala might attempt to make claims against us asserting ownership of a large number of loans that we purchased from TBW. The order approving the settlement provides that nothing in the settlement shall be construed to limit, waive or release Ocala s claims against Freddie Mac, except for TBW s claims and claims arising from the allocation of the loans discussed above to Freddie Mac.

On or about May 14, 2010, certain underwriters at Lloyds, London and London Market Insurance Companies brought an adversary proceeding in bankruptcy court against TBW, Freddie Mac and other parties seeking a declaration rescinding mortgage bankers bonds insuring against loss resulting from dishonest acts by TBW s officers, directors, and employees. Freddie Mac has filed a proof of loss under the bonds, but we are unable at this time to estimate our potential recovery, if any, thereunder. Discovery is proceeding.

A significant portion of our single-family mortgage loans are serviced by several large seller/servicers. Our top five single-family loan servicers, Wells Fargo Bank N.A., Bank of America N.A., JPMorgan Chase Bank, N.A., Citimortgage, Inc., and U.S. Bank, N.A., together serviced approximately 67% of our single-family mortgage loans as of June 30, 2011. Wells Fargo Bank N.A., Bank of America N.A., and JPMorgan Chase Bank, N.A. serviced approximately 26%, 14%, and 12%, respectively, of our single-family mortgage loans, as of June 30, 2011. Since we do not have our own servicing operation, if our servicers lack appropriate process controls, experience a failure in their controls, or experience an operating disruption in their ability to service mortgage loans, it could have an adverse impact on our business and financial results.

During the second half of 2010, a number of our single-family servicers, including several of our largest, announced that they were evaluating the potential extent of issues relating to the possible improper execution of documents associated with foreclosures of loans they service, including those they service for us. Some of these companies temporarily suspended foreclosure proceedings in certain states in which they do business. While these servicers generally resumed foreclosure proceedings in the first quarter of 2011, the rate at which they are effecting foreclosures has been slower than prior to the suspensions. 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.

We also are exposed to the risk that seller/servicers might fail to service mortgages in accordance with our contractual requirements, resulting in increased credit losses. For example, our seller/servicers have an active role in our loan workout efforts, including under the MHA Program and the recent servicing alignment initiative, and therefore, we also have exposure to them to the extent a decline in their performance results in a failure to realize the anticipated benefits of our loss mitigation plans. During the first half of 2011, there have been several regulatory developments that have affected and will continue to significantly impact our single-family mortgage servicers. For more information on regulatory and other developments in mortgage servicing, and how these developments may impact our business, see LEGISLATIVE AND REGULATORY MATTERS Developments Concerning Single-Family Servicing Practices.

While we have legal remedies against seller/servicers who fail to comply with our contractual servicing requirements, we are exposed to institutional credit risk in the event of their insolvency or if, for other causes, seller/servicers fail to perform their obligations to repurchase affected mortgages, indemnify us for losses resulting from any breach, or pay damages for any breach. In the event a seller/servicer does not fulfill its repurchase or other responsibilities, we may seek partial recovery of amounts owed by the seller/servicer by transferring the applicable mortgage servicing rights of the seller/servicer to a different servicer. However, this option may be difficult to accomplish with respect to our largest seller/servicers due to the operational and capacity challenges of transferring a large servicing portfolio.

As of June 30, 2011, our top four multifamily servicers, Berkadia Commercial Mortgage LLC, Wells Fargo Bank, N.A., CBRE Capital Markets, Inc., and Deutsche Bank Berkshire Mortgage, each serviced more than 10% of our multifamily mortgage portfolio and together serviced approximately 51% of our multifamily mortgage portfolio.

In our multifamily business, we are exposed to the risk that multifamily seller/servicers could come under financial pressure, which could potentially cause degradation in the quality of servicing they provide to us or, in certain cases, reduce the likelihood that we could recover losses through recourse agreements or other credit enhancements, where applicable. This risk primarily relates to multifamily loans that we hold on our consolidated balance sheets where we retain all of the related credit risk. We monitor the status of all our multifamily seller/servicers in accordance with our counterparty credit risk management framework.

Mortgage Insurers

We have institutional credit risk relating to the potential insolvency of or non-performance by mortgage insurers that insure single-family mortgages we purchase or guarantee. As a guarantor, we remain responsible for the payment of principal and interest if a mortgage insurer fails to meet its obligations to reimburse us for claims. If any of our mortgage insurers that provide credit enhancement fail to fulfill their obligation, we could experience increased credit losses.

Table 29 summarizes our exposure to mortgage insurers as of June 30, 2011. In the event that a mortgage insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses resulting from such failure. As of June 30, 2011, most of the coverage outstanding from mortgage insurance shown in Table 29 is attributed to primary policies rather than pool insurance policies.

Table 29 Mortgage Insurance by Counterparty

Counterparty Name	Credit Rating(1)	Credit Rating Outlook(1)	As of June 30, 2011 Primary Insurance(2)	Pool Insurance(2)	Coverage Outstanding(3)
			(in billions)		
Mortgage Guaranty Insurance Corporation (MGIC)	B+	Negative	$ 50.9	$ 31.0	$ 13.4
Radian Guaranty Inc.	B+	Negative	37.5	12.4	11.0
Genworth Mortgage Insurance Corporation	BB–	Negative	32.4	0.9	8.3
United Guaranty Residential Insurance Co.	BBB	Stable	28.5	0.3	7.0
PMI Mortgage Insurance Co. (PMI)	CCC–	Negative	26.3	2.3	6.6
Republic Mortgage Insurance Company (RMIC)	B+	Negative	21.8	2.2	5.5
Triad Guaranty Insurance Corp.(4)	Not rated	N/A	9.4	1.0	2.3
CMG Mortgage Insurance Co.	BBB	Negative	2.9	0.1	0.7
Total			$ 209.7	$ 50.2	$ 54.8

(1) Except for PMI and RMIC, latest rating available as of July 22, 2011. PMI s and RMIC s credit rating and credit rating outlook reflect a S&P action on August 4, 2011 and August 1, 2011, respectively. Represents the lower of S&P and Moody s credit ratings and outlooks. In this table, the rating and outlook of the legal entity is stated in terms of the S&P equivalent.
(2) Represents the amount of UPB at the end of the period for our single-family credit guarantee portfolio covered by the respective insurance type.
(3) Represents the remaining aggregate contractual limit for reimbursement of losses under policies of both primary and pool insurance. These amounts are based on our gross coverage without regard to netting of coverage that may exist to the extent an affected mortgage is covered under both types of insurance.
(4) Beginning on June 1, 2009, Triad began paying valid claims 60% in cash and 40% in deferred payment obligations.

We received proceeds of $1.3 billion and $0.7 billion during the six months ended June 30, 2011 and 2010, respectively, from our primary and pool mortgage insurance policies for recovery of losses on our single-family loans. We had outstanding receivables from mortgage insurers, net of associated reserves, of $1.4 billion and $1.5 billion as of June 30, 2011 and December 31, 2010, respectively.

The UPB of single-family loans covered by pool insurance declined approximately 11% during the six months ended June 30, 2011, primarily due to payoffs and other liquidation events. We did not purchase pool insurance on single-family loans during the six months ended June 30, 2011. In recent periods, we also reached the maximum limit of recovery on certain of these policies.

Based on information we received from MGIC, we understand that MGIC may challenge our future claims under certain of their pool insurance policies. We believe that our pool insurance policies with MGIC provide us with the right to obtain recoveries for losses up to the aggregate limit indicated in Table 29. However, MGIC s interpretation of these policies would result in claims coverage approximately $0.5 billion lower than the coverage outstanding amount set forth in Table 29. We expect this difference to increase but not to exceed approximately $0.7 billion.

Four of our mortgage insurers, including RMIC and PMI, have exceeded risk to capital ratios required by their state insurance regulators, and others may exceed regulatory limits in the future. Most, but not all, states have issued waivers to allow the companies to continue writing new business in their states, and Freddie Mac has, in certain circumstances, approved limited purpose affiliates to allow the companies to continue writing business in those states that have not issued waivers. Some of those state regulatory waivers are nearing their expiration dates.

On July 28, 2011, RMIC announced that its waiver of minimum state regulatory capital requirements will expire on August 31, 2011, and that it has not yet obtained necessary approvals to move production of new business to a separately capitalized subsidiary. RMIC stated that it is probable that its new business production will cease, at least temporarily, prior to August 31, 2011. RMIC also stated that, absent approval to underwrite new production through a separately capitalized subsidiary, it is most likely that RMIC s existing book of business would be placed into run off operating mode. We notified RMIC that they were suspended as an approved insurer for Freddie Mac loans effective August 1, 2011.

We evaluate the near term recovery from insurance policies for mortgage loans that we hold on our consolidated balance sheet as well as loans underlying our non-consolidated Freddie Mac mortgage-related securities and covered by other guarantee commitments as part of the estimate of our loan loss reserves. Based upon currently available information, we believe that all of our mortgage insurance counterparties have the capacity to pay all claims as they become due in the normal course for the near term, except for claims obligations of Triad that were partially deferred beginning June 1, 2009, under order of Triad s state regulator. To date, Triad s regulator has not allowed Triad to begin paying its deferred payment obligations, and it is uncertain when or if Triad will be permitted to do so, which would result in the loss of a significant portion of the coverage provided by Triad and indicated in Table 29 above. In addition, we believe that certain of our other mortgage insurance counterparties may lack sufficient ability to fully meet all of their expected lifetime claims paying obligations to us over the long term as such claims emerge.

We believe at least one of our largest servicers entered into arrangements with two of our mortgage insurance counterparties for settlement of future rescission activity for certain mortgage loans. Under such agreements, servicers pay and/or indemnify mortgage insurers in exchange for the mortgage insurers agreeing not to issue mortgage insurance rescissions and /or denials of coverage related to origination defects on Freddie Mac-owned mortgages. For loans covered by these agreements, we may be at risk of additional loss to the extent we do not independently uncover loan defects and require lender repurchase for loans that otherwise would have resulted in mortgage insurance rescission. Additionally, this type of activity could result in negative financial impacts on our mortgage insurers ability to pay in some economic scenarios. In April 2011, we issued an industry letter to our servicers reminding them that they may not enter into these types of agreements without our consent. It is unclear how widespread this type of agreement between our servicers and mortgage insurers may become or how many loans it may impact.

Bond Insurers

Most of the non-agency mortgage-related securities we hold rely primarily on subordinated tranches to provide credit loss protection. Bond insurance, which may be either primary or secondary policies, is a credit enhancement covering certain of the non-agency mortgage-related securities we hold. Primary policies are acquired by the securitization trust issuing the securities we purchase, while secondary policies are acquired by us. Bond insurance exposes us to the risk that the bond insurer will be unable to satisfy claims.

Table 30 presents our coverage amounts of monoline bond insurance, including secondary coverage, for the non-agency mortgage-related securities we hold. In the event a monoline bond insurer fails to perform, the coverage outstanding represents our maximum exposure to credit losses related to such a failure.

Table 30 Monoline Bond Insurance by Counterparty

			June 30, 2011	
Counterparty Name	**Credit Rating(1)**	**Credit Rating Outlook(1)**	**Coverage Outstanding(2) (dollars in billions)**	**Percent of Total(2)**
Ambac Assurance Corporation (Ambac)(3)	Not rated	N/A	$ 4.4	43%
Financial Guaranty Insurance Company (FGIC)(3)	Not rated	N/A	1.9	19
MBIA Insurance Corp.	B	Negative	1.4	14
Assured Guaranty Municipal Corp.	AA+	Stable	1.2	12
National Public Finance Guarantee Corp.	BBB	Developing	1.1	11
Syncora Guarantee Inc.(3)	Not rated	N/A	0.1	1
Total			$ 10.1	100%

(1) Latest ratings available as of July 22, 2011. Represents the lower of S&P and Moody s credit ratings. In this table, the rating and outlook of the legal entity is stated in terms of the S&P equivalent.
(2) Represents the remaining contractual limit for reimbursement of losses, including lost interest and other expenses, on non-agency mortgage-related securities.
(3)

Neither S&P nor Moody s provide credit ratings for Ambac, FGIC, or Syncora Guarantee Inc., since these companies operate under regulatory supervision at June 30, 2011.

We monitor the financial strength of our bond insurers in accordance with our risk management policies. We expect to receive substantially less than full payment of our claims from FGIC and Ambac due to adverse developments concerning these companies, both of which are currently not paying any of their claims. We believe that we will likely receive substantially less than full payment of our claims from some of our other bond insurers, because we believe they also lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as such claims emerge. In the event one or more of these bond insurers were to become subject to a regulatory order or insolvency proceeding, our ability to recover certain unrealized losses on our mortgage-related securities would be negatively impacted, which may result in further impairment losses to be recognized on our investments in securities. We considered our expectations regarding our bond insurers ability to meet their obligations, including those of Ambac and FGIC, in making our impairment determinations at June 30, 2011 and December 31, 2010. See NOTE 7: INVESTMENTS IN SECURITIES Other-Than-Temporary Impairments on Available-For-Sale Securities for additional information regarding impairment losses on securities covered by bond insurers.

Cash and Other Investments Counterparties

We are exposed to institutional credit risk arising from the potential insolvency or non-performance of counterparties of non-mortgage-related investment agreements and cash equivalent transactions, including those entered into on behalf of our securitization trusts. These financial instruments are investment grade at the time of purchase and primarily short-term in nature, which mitigates institutional credit risk for these instruments.

Our cash and other investment counterparties are primarily financial institutions and the Federal Reserve Bank. As of June 30, 2011 and December 31, 2010, there were $53.4 billion and $91.6 billion, respectively, of cash and other non-mortgage assets invested in financial instruments with institutional counterparties or deposited with the Federal Reserve Bank. As of June 30, 2011, these included:

$14.4 billion of cash equivalents invested in 32 counterparties that had short-term credit ratings of A-1 or above on the S&P or equivalent scale;

$6.0 billion of federal funds sold with four counterparties that had short-term S&P ratings of A-1 or above;

$1.3 billion of federal funds sold with one counterparty that had a short-term S&P rating of A-2;

$7.1 billion of securities purchased under agreements to resell with three counterparties that had short-term S&P ratings of A-1 or above;

$19.2 billion of securities purchased under agreements to resell with eight counterparties that had short-term S&P ratings of A-2; and

$4.9 billion of cash deposited with the Federal Reserve Bank.

Derivative Counterparties

We are exposed to institutional credit risk arising from the possibility that a derivative counterparty will not be able to meet its contractual obligations. We are an active user of exchange-traded products, such as Treasury and Eurodollar futures, to reduce our overall exposure to derivative counterparties. Exchange-traded derivatives do not measurably increase our institutional credit risk because changes in the value of open exchange-traded contracts are settled daily through a financial clearinghouse established by each exchange. OTC derivatives, however, expose us to institutional credit risk because transactions are executed and settled directly between us and the counterparty. When our net position with an OTC counterparty subject to a master netting agreement has a market value above zero at a given date (*i.e.*, it is an asset reported as derivative assets, net on our consolidated balance sheets), then the counterparty could potentially be obligated to deliver cash, securities, or a combination of both having that market value necessary to satisfy its net obligation to us under the derivatives (subject to a threshold).

The Dodd-Frank Act will require that, in the future, many types of derivatives be centrally cleared and traded on exchanges or comparable trading facilities. Pursuant to the Dodd-Frank Act, the U.S. Commodity Futures Trading Commission, or CFTC, is in the process of determining the types of derivatives that must be subject to this requirement. See LEGISLATIVE AND REGULATORY MATTERS Dodd-Frank Act for more information. In addition, we continue to work with the Chicago Mercantile Exchange and other parties to implement a central clearing platform for interest rate derivatives. We will be exposed to institutional credit risk with respect to the Chicago Mercantile Exchange or other comparable exchanges or trading facilities in the future, to the extent we use them to clear and trade derivatives, and to the members of such clearing organizations that execute and submit our transactions for clearing.

We seek to manage our exposure to institutional credit risk related to our OTC derivative counterparties using several tools, including:

review of external rating analyses;

strict standards for approving new derivative counterparties;

ongoing monitoring and internal analysis of our positions with, and credit rating of, each counterparty;

managing diversification mix among counterparties;

master netting agreements and collateral agreements; and

stress-testing to evaluate potential exposure under possible adverse market scenarios.

On an ongoing basis, we review the credit fundamentals of all of our OTC derivative counterparties to confirm that they continue to meet our internal standards. We assign internal ratings, credit capital, and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or certain events affecting an individual counterparty occur.

All of our OTC derivative counterparties are major financial institutions and are experienced participants in the OTC derivatives market. A large number of OTC derivative counterparties have credit ratings below AA . We require such counterparties to post collateral if our net exposure to them on derivative contracts exceeds $1 million. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS for additional information.

The relative concentration of our derivative exposure among our primary derivative counterparties remains high. This concentration has increased significantly since 2008 due to industry consolidation and the failure of certain counterparties, and could further increase. Table 31 summarizes our exposure to our derivative counterparties, which represents the net positive fair value of derivative contracts, related accrued interest and collateral held by us from our counterparties, after netting by counterparty as applicable (*i.e.*, net amounts due to us under derivative contracts which are recorded as derivative assets). In addition, we have derivative liabilities where we post collateral to counterparties. At June 30, 2011, our collateral posted exceeded our collateral held. See CONSOLIDATED BALANCE SHEETS ANALYSIS Derivative Assets and Liabilities, Net and Table 24 Derivative Fair Values and Maturities for a reconciliation of fair value to the amounts presented on our consolidated balance sheets as of June 30, 2011, which includes both cash collateral held and posted by us, net.

Table 31 Derivative Counterparty Credit Exposure

	As of June 30, 2011					
Rating[(1)]	**Number of Counterparties[(2)]**	**Notional or Contractual Amount[(3)]**	**Total Exposure at Fair Value[(4)]**	**Exposure, Net of Collateral[(5)]**	**Weighted Average Contractual Maturity (in years)**	**Collateral Posting Threshold[(6)]**
	(dollars in millions)					
AA	3	$ 54,831	$	$	5.8	$10 million or less
AA	4	227,820	1,634	60	6.0	$10 million or less
A+	7	395,803	101	40	5.3	$1 million or less
A	3	98,758	15	13	6.0	$1 million or less
Subtotal[(7)]	17	777,212	1,750	113	5.6	
Other derivatives[(8)]		130,613				
Commitments[(9)]		34,361	121	121		
Swap guarantee derivatives		3,733				
Total derivatives[(10)]		$ 945,919	$ 1,871	$ 234		

	As of December 31, 2010					
Rating[(1)]	**Number of Counterparties[(2)]**	**Notional or Contractual Amount[(3)]**	**Total Exposure at Fair Value[(4)]**	**Exposure, Net of Collateral[(5)]**	**Weighted Average Contractual Maturity (in years)**	**Collateral Posting Threshold[(6)]**
	(dollars in millions)					
AA	3	$ 53,975	$	$	6.8	$10 million or less
AA−	4	270,694	1,668	29	6.4	$10 million or less
A+	7	441,004	460	1	6.2	$1 million or less
A	3	177,277	16	2	5.2	$1 million or less

Subtotal(7)	17	942,950	2,144	32	6.1
Other derivatives(8)		244,640			
Commitments(9)		14,292	103	103	
Swap guarantee derivatives		3,614			
Total derivatives(10)		$ 1,205,496	$ 2,247	$ 135	

(1) We use the lower of S&P and Moody s ratings to manage collateral requirements. In this table, the rating of the legal entity is stated in terms of the S&P equivalent.
(2) Based on legal entities. Affiliated legal entities are reported separately.
(3) Notional or contractual amounts are used to calculate the periodic settlement amounts to be received or paid and generally do not represent actual amounts to be exchanged.
(4) For each counterparty, this amount includes derivatives with a net positive fair value (recorded as derivative assets, net), including the related accrued interest receivable/payable (net) and trade/settle fees.
(5) Calculated as Total Exposure at Fair Value less cash collateral held as determined at the counterparty level. Includes amounts related to our posting of cash collateral in excess of our derivative liability as determined at the counterparty level.
(6) Counterparties are required to post collateral when their exposure exceeds agreed-upon collateral posting thresholds. These thresholds are typically based on the counterparty s credit rating and are individually negotiated.
(7) Consists of OTC derivative agreements for interest-rate swaps, option-based derivatives (excluding certain written options), foreign-currency swaps, and purchased interest-rate caps.
(8) Consists primarily of exchange-traded contracts, certain written options, and certain credit derivatives. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.
(9) 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.
(10) The difference between the exposure, net of collateral column above and derivative assets, net on our consolidated balance sheets primarily represents exchange-traded contracts which are settled daily through a clearinghouse, and thus, do not present counterparty credit exposure.

Over time, our exposure to individual counterparties for OTC interest-rate swaps, option-based derivatives, foreign-currency swaps, and purchased interest rate caps varies depending on changes in fair values, which are affected by changes in period-end interest rates, the implied volatility of interest rates, foreign-currency exchange rates, and the amount of derivatives held. If all of our counterparties for these derivatives defaulted simultaneously on June 30, 2011, our uncollateralized exposure to these counterparties, or our maximum loss for accounting purposes after applying netting agreements and collateral, would have been approximately $113 million. Our uncollateralized exposure as of December 31, 2010 was $32 million. Four counterparties each accounted for greater than 10% and collectively accounted for 94% of our net uncollateralized exposure to derivative counterparties, excluding commitments, at June 30, 2011. These counterparties were Barclays Bank PLC, Deutsche Bank, A.G., UBS A.G., and Goldman Sachs Bank USA, all of which were rated A or higher as of July 22, 2011.

As indicated in Table 31, approximately 94% of our counterparty credit exposure for OTC interest-rate swaps, option-based derivatives, foreign-currency swaps, and purchased interest rate caps was collateralized at June 30, 2011. The uncollateralized exposure was primarily due to exposure amounts below the applicable counterparty collateral posting threshold, as well as market movements during the time period between when a derivative was marked to fair value and the date we received the related collateral. Collateral is typically transferred within one business day based on the values of the related derivatives.

In the event a derivative counterparty defaults, our economic loss may be higher than the uncollateralized exposure of our derivatives if we are not able to replace the defaulted derivatives in a timely and cost-effective fashion. We could also incur economic loss if the collateral held by us cannot be liquidated at prices that are sufficient to recover the amount of such exposure. We monitor the risk that our uncollateralized exposure to each of our OTC counterparties for interest-rate swaps, option-based derivatives, foreign-currency swaps, and purchased interest rate caps will increase under certain adverse market conditions by performing daily market stress tests. These tests, which involve significant management judgment, evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties on OTC derivatives contracts assuming certain changes in the level and implied volatility of interest rates and certain changes in foreign currency exchange rates over a brief time period. Our actual exposure could vary significantly from amounts forecasted by these tests.

As indicated in Table 31, the total exposure on our OTC forward purchase and sale commitments, which are treated as derivatives for accounting purposes, was $121 million and $103 million at June 30, 2011 and December 31, 2010, respectively. These commitments are uncollateralized. Because the typical maturity of our forward purchase and sale commitments is less than 60 days and they are generally settled through a clearinghouse, we do not require master netting and collateral agreements for the counterparties of these commitments. However, we monitor the credit fundamentals of the counterparties to our forward purchase and sale commitments on an ongoing basis in an effort to ensure that they continue to meet our internal risk-management standards.

Mortgage Credit Risk

We are exposed to mortgage credit risk on our total mortgage portfolio because we either hold the mortgage assets or have guaranteed mortgages in connection with the issuance of a Freddie Mac mortgage-related security, or other guarantee commitment. Mortgage credit risk is primarily influenced by the credit profile of the borrower on the mortgage, the features of the mortgage itself, the type of property securing the mortgage and general economic conditions. All mortgages that we purchase or guarantee have an inherent risk of default.

Single-Family Mortgage Credit Risk

Through our delegated underwriting process, single-family mortgage loans and the borrowers ability to repay the loans are evaluated using several critical risk characteristics, including but not limited to the borrower s credit score and credit history, the borrower s monthly income relative to debt payments, the original LTV ratio, the type of mortgage product and the occupancy type of the loan. Despite the improvements in underwriting standards and borrower and loan credit characteristics in the past two years, our single-family quality control sampling and review continues to find loans with underwriting deficiencies. We meet with our seller/servicers that have higher than average rates of loans with deficiencies from our sampling to help ensure they make changes appropriate to their underwriting process. See BUSINESS Our Business and BUSINESS Our Business Segments *Single-Family Guarantee Segment Underwriting Requirements and Quality Control Standards* in our 2010 Annual Report for information about our charter requirements for single-family loans purchases, delegated underwriting, and our quality control monitoring.

Conditions in the mortgage market continued to remain challenging during the six months ended June 30, 2011. All single-family mortgage loans, especially those originated between 2005 and 2008, have been affected by the compounding pressures on household wealth caused by significant declines in home values that began in 2006 and the ongoing weak employment environment. Our serious delinquency rates remained high in the first half of 2011 compared to historical levels, primarily due to economic factors which adversely affected borrowers. Also contributing to high serious delinquency rates were: (a) delays related to servicer processing capacity constraints; (b) delays associated with the modification process; and (c) delays caused by concerns about the foreclosure process and other delays imposed by third parties. These delays lengthen the period of time in which loans remain in seriously delinquent status, as the delays extend the time it takes for seriously delinquent loans to be modified, foreclosed upon or otherwise resolved and thus transition out of seriously delinquent status. While still at historically high levels, the UPB of our single-family non-performing loans declined during the six months ended June 30, 2011, and the number of loans that transitioned to serious delinquency also declined.

Characteristics of the Single-Family Credit Guarantee Portfolio

The average UPB of loans in our single-family credit guarantee portfolio was approximately $151,000 and $150,000 at June 30, 2011 and December 31, 2010, respectively. Our single-family mortgage purchases and other guarantee commitment activity in the second quarter of 2011 decreased by 18% to $62.9 billion, as compared to $77.0 billion in the second quarter of 2010. Approximately 90% of the single-family mortgages we purchased in the second quarter of 2011 were fixed-rate amortizing mortgages, based on UPB. Approximately 70% and 79% of the single-family mortgages we purchased in the three and six months ended June 30, 2011 were refinance mortgages, including approximately 26% and 28%, respectively, that were relief refinance mortgages, based on UPB.

An important safeguard against credit losses on mortgage loans in our single-family credit guarantee portfolio is provided by the borrowers equity in the underlying properties. As estimated current LTV ratios increase, the borrower s equity in the home decreases, which negatively affects the borrower s ability to refinance or sell the property for an amount at or above the balance of the outstanding mortgage loan. If a borrower has an estimated current LTV ratio greater than 100%, the borrower is underwater and, based upon historical information, is more likely to default than other borrowers. The percentage of borrowers in our single-family credit guarantee portfolio, based on UPB, with estimated current LTV ratios greater than 100% was 20% and 18% as of June 30, 2011 and December 31, 2010, respectively. The serious delinquency rate for single-family loans with estimated current LTV ratios greater than 100% was 12.7% and 14.9% as of June 30, 2011 and December 31, 2010, respectively. Due to declines in home prices since 2006, we estimate that, as of June 30, 2011, approximately 46% of the loans originated in 2005 through 2008 that remained in our single-family credit guarantee portfolio as of that date had current LTV ratios greater than 100%. In addition, as of June 30, 2011 and December 31, 2010, for the loans in our single-family credit guarantee portfolio with greater than 80% estimated current LTV ratios, the borrowers had a weighted average credit score at origination of 724 and 721, respectively.

A second lien mortgage also reduces the borrower s equity in the home, and has a similar negative effect on the borrower s ability to refinance or sell the property for an amount at or above the combined balances of the first and second mortgages. As of June 30, 2011 and December 31, 2010, approximately 15% and 14% of loans in our single-family credit guarantee portfolio had second lien financing at the time of origination of the first mortgage, and we estimate that these loans comprised 18% and 19%, respectively, of our seriously delinquent loans, based on UPB. However, borrowers are free to obtain second lien financing after origination and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second lien mortgages.

Table 32 provides additional characteristics of single-family mortgage loans purchased during the three and six months ended June 30, 2011 and 2010, and of our single-family credit guarantee portfolio at June 30, 2011 and December 31, 2010.

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Table 32 Characteristics of the Single-Family Credit Guarantee Portfolio(1)

	Purchases During the Three Months Ended June 30,		Purchases During the Six Months Ended June 30,		Portfolio(2) at	
	2011	2010	2011	2010	June 30, 2011	December 31, 2010
Original LTV Ratio Range(3)(4)						
60% and below	29%	28%	31%	30%	23%	23%
Above 60% to 70%	16	16	17	16	16	16
Above 70% to 80%	46	48	44	46	43	43
Above 80% to 90%	5	5	5	5	9	9
Above 90% to 100%	4	3	3	3	8	8
Above 100%	<1	<1	<1	<1	1	1
Total	100%	100%	100%	100%	100%	100%
Weighted average original LTV ratio	68%	68%	67%	68%	71%	71%
Estimated Current LTV Ratio Range(5)						
60% and below					25%	27%
Above 60% to 70%					12	12
Above 70% to 80%					17	17
Above 80% to 90%					16	16
Above 90% to 100%					10	10
Above 100% to 110%					7	6
Above 110% to 120%					4	4
Above 120%					9	8
Total					100%	100%
Weighted average estimated current LTV ratio:						
Relief refinance mortgages(6)					79%	78%
All other mortgages					79%	78%
Total mortgages					79%	78%
Credit Score(3)(7)						
740 and above	71%	68%	73%	69%	54%	53%

700 to 739	19	20	18	19	21	21
660 to 699	8	9	7	9	14	15
620 to 659	2	2	2	2	7	7
Less than 620	<1	1	<1	1	3	3
Not available	<1	<1	<1	<1	1	1
Total	100%	100%	100%	100%	100%	100%
Weighted average credit score:						
Relief refinance mortgages(6)	738	741	742	742	744	745
All other mortgages	755	752	757	753	733	732
Total mortgages	751	749	753	750	734	733
Loan Purpose						
Purchase	30%	29%	21%	25%	30%	31%
Cash-out refinance	19	23	19	23	28	29
Other refinance(8)	51	48	60	52	42	40
Total	100%	100%	100%	100%	100%	100%
Property Type						
Detached/townhome(9)	93%	93%	94%	93%	92%	92%
Condo/Co-op	7	7	6	7	8	8
Total	100%	100%	100%	100%	100%	100%
Occupancy Type						
Primary residence	89%	91%	91%	92%	91%	91%
Second/vacation home	5	5	4	5	5	5
Investment	6	4	5	3	4	4
Total	100%	100%	100%	100%	100%	100%

(1) Purchases and ending balances are based on the UPB of the single-family credit guarantee portfolio. Other Guarantee Transactions with ending balances of $2 billion at both June 30, 2011 and December 31, 2010, are excluded from portfolio balance data since these securities are backed by non- Freddie Mac issued securities for which the loan characteristics data was not available.
(2) Includes loans acquired under our relief refinance initiative, which began in 2009.
(3) Purchases columns exclude mortgage loans acquired under our relief refinance initiative. See Table 35 Single-Family Refinance Loan Volume for further information on the LTV ratios of these loans.
(4) Original LTV ratios are calculated as the amount of the mortgage we guarantee including the credit-enhanced portion, divided by the lesser of the appraised value of the property at the time of mortgage origination or the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation. The existence of a second lien mortgage reduces the borrower s equity in the home and, therefore, can increase the risk of default.
(5) Current market values are estimated 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. Estimated current LTV ratio range is not applicable to purchase activity, and excludes any secondary financing by third parties.

(6) The ending balances of relief refinance mortgages comprised approximately 10% and 7% of our single-family credit guarantee portfolio as of June 30, 2011 and December 31, 2010, respectively.

(7) Credit score data is based on FICO scores. Although we obtain updated credit information on certain borrowers after the origination of a mortgage, such as those borrowers seeking a modification, the scores presented in this table represent only the credit score of the borrower at the time of loan origination.

(8) Other refinance transactions include: (a) refinance mortgages with no cash-out to the borrower; and (b) refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction.

(9) Includes manufactured housing and homes within planned unit development communities. The UPB of manufactured housing mortgage loans purchased in the six months ended June 30, 2011 and 2010 was $206 million and $179 million, respectively.

Attribute Combinations

Certain combinations of loan characteristics often can indicate a higher degree of credit risk. For example, single-family mortgages with both high LTV ratios and borrowers who have lower credit scores typically experience higher rates of serious delinquency and default. We estimate that there were $11.5 billion and $11.8 billion at June 30, 2011 and December 31, 2010, respectively, of loans in our single-family credit guarantee portfolio with both original LTV ratios greater than 90% and FICO scores less than 620 at the time of loan origination. Certain mortgage product types, including interest-only or option ARM loans, that have additional higher risk characteristics, such as lower credit scores or higher LTV ratios, will also have a higher risk of default than those same products without these characteristics. The presence of a second lien mortgage can also increase the risk that a borrower will default.

Single-Family Mortgage Product Types

The primary mortgage products in our single-family credit guarantee portfolio are first lien, fixed-rate mortgage loans. The majority of our loan modifications result in new terms that include fixed interest rates after modification. However, our HAMP loan modifications result in an initial interest rate that subsequently adjusts to a new rate that is fixed for the remaining life of the loan. We have classified these loans as fixed-rate products for presentation within this Form 10-Q and elsewhere in our reporting even though they have a one-time rate adjustment provision, because the change in rate is determined at the time of modification rather than at a future date.

The following paragraphs provide information on the interest-only, option ARM and conforming jumbo loans in our single-family credit guarantee portfolio. Interest-only and option ARM loans have experienced significantly higher serious delinquency rates than fixed-rate amortizing mortgage products.

Interest-Only Loans

Interest-only loans have an initial period during which the borrower pays only interest, and at a specified date the monthly payment changes to begin reflecting repayment of principal until maturity. At both June 30, 2011 and December 31, 2010, interest-only loans represented approximately 5% of the UPB of our single-family credit guarantee portfolio. We discontinued purchasing interest-only loans on September 1, 2010.

Option ARM Loans

Most option ARM loans have initial periods during which the borrower has various options as to the amount of each monthly payment, until a specified date, when the terms are recast. At both June 30, 2011 and December 31, 2010, option ARM loans represented less than 1% of the UPB of our single-family credit guarantee portfolio. Included in this exposure was $7.9 billion and $8.4 billion of option ARM securities underlying certain of our Other Guarantee Transactions at June 30, 2011 and December 31, 2010, respectively. While we have not categorized these option ARM securities as either subprime or Alt-A securities for presentation within this Form 10-Q and elsewhere in our reporting, they could exhibit similar credit performance to collateral identified as subprime or Alt-A. We have not purchased option ARM loans in our single-family credit guarantee portfolio since 2007. For information on our exposure to option ARM loans through our holdings of non-agency mortgage-related securities, see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

Conforming Jumbo Loans

We purchased $13.3 billion and $11.0 billion of conforming jumbo loans during the six months ended June 30, 2011 and 2010, respectively. The UPB of conforming jumbo loans in our single-family credit guarantee portfolio as of June 30, 2011 and December 31, 2010 was $46.7 billion and $37.8 billion, respectively. The average size of these loans was approximately $548,000 at both June 30, 2011 and December 31, 2010. Our purchases of conforming jumbo loans will likely decline beginning in the fourth quarter of 2011 if the temporary increase in limits on the size of loans we may purchase expires as scheduled on September 30, 2011. See LEGISLATIVE AND REGULATORY MATTERS for further information on the conforming loan limits.

Other Categories of Single-Family Mortgage Loans

While we classified certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-Q, there is no universally accepted definition of subprime or Alt-A, and our classification of such loans may differ from those used by other companies. For example, some financial institutions may use FICO credit scores to delineate certain residential mortgages as subprime. In addition, we do not rely primarily on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

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Subprime Loans

Participants in the mortgage market may characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we do monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk (see *Higher Risk Loans in the Single-Family Credit Guarantee Portfolio* and Table 40 Single-Family Credit Guarantee Portfolio by Attribute Combinations for further information).

We estimate that approximately $2.4 billion and $2.5 billion of security collateral underlying our Other Guarantee Transactions at June 30, 2011 and December 31, 2010, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

We also categorize our investments in non-agency mortgage-related securities as subprime if they were identified as such based on information provided to us when we entered into these transactions. At June 30, 2011 and December 31, 2010, we held $51.5 billion and $54.2 billion, respectively, in UPB of non-agency mortgage-related securities backed by subprime loans. These securities were structured to provide credit enhancements, and 8% and 10% of these securities were investment grade at June 30, 2011 and December 31, 2010, respectively. The credit performance of loans underlying these securities has deteriorated significantly since the beginning of 2008 and has continued to deteriorate during the six months ended June 30, 2011. For more information on our exposure to subprime mortgage loans through our investments in non-agency mortgage-related securities see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

Alt-A Loans

Although there is no universally accepted definition of Alt-A, many mortgage market participants classify single-family loans with credit characteristics that range between their prime and subprime categories as Alt-A because these loans have a combination of characteristics of each category, may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan, or both. The UPB of Alt-A loans in our single-family credit guarantee portfolio declined to $104.0 billion as of June 30, 2011 from $115.5 billion as of December 31, 2010. The UPB of our Alt-A loans declined in the first half of 2011 primarily due to refinancing into other mortgage products, foreclosure transfers, and other liquidation events. As of June 30, 2011, for Alt-A loans in our single-family credit guarantee portfolio, the average FICO credit score at origination was 719. Although Alt-A mortgage loans comprised approximately 6% of our single-family credit guarantee portfolio as of June 30, 2011, these loans represented approximately 29% and 30% of our credit losses during the three and six months ended June 30, 2011, respectively. During the first quarter of 2011, we identified approximately $0.6 billion in UPB of single-family loans underlying certain Other Guarantee Transactions that had been previously reported in both the Alt-A and subprime categories. Commencing March 31, 2011, we no longer report these loans as Alt-A (but continue to report them as subprime) and we revised the prior periods to conform to the current period presentation.

We did not purchase any new single-family Alt-A mortgage loans in our single-family credit guarantee portfolio during the six months ended June 30, 2011. Although we discontinued new purchases of mortgage loans with lower documentation standards for assets or income beginning March 1, 2009 (or later, as our customers contracts permitted), we continued to purchase certain amounts of these mortgages in cases where the loan was either: (a) purchased pursuant to a previously issued other guarantee commitment; (b) part of our relief refinance mortgage initiative; or (c) in another refinance mortgage initiative and the pre-existing mortgage (including Alt-A loans) was originated under less than full documentation standards. However, in the event we purchase a refinance mortgage in one of these programs and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A mortgage in this Form 10-Q and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the product became available in 2009 to June 30, 2011, we purchased approximately $13.4 billion of relief refinance mortgages that were previously categorized as Alt-A loans in our portfolio, including $3.2 billion during the six months ended June 30, 2011.

We also hold investments in non-agency mortgage-related securities backed by single-family Alt-A loans. At June 30, 2011 and December 31, 2010, we held investments of $17.8 billion and $18.8 billion, respectively, of non-agency mortgage-related securities backed by Alt-A and other mortgage loans and 16% and 22%, respectively, of these securities were categorized as investment grade. The credit performance of loans underlying these securities has deteriorated significantly since the beginning of 2008 and has continued to deteriorate during the six months ended June 30, 2011. We categorize our investments in non-agency mortgage-related securities as Alt-A if the securities were identified as such

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based on information provided to us when we entered into these transactions. For more information on our exposure to Alt-A mortgage loans through our investments in non-agency mortgage-related securities see CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities.

Higher-Risk Loans in the Single-Family Credit Guarantee Portfolio

Table 33 presents information about certain categories of single-family mortgage loans within our single-family credit guarantee portfolio that we believe have certain higher-risk characteristics. These loans include categories based on product type and borrower characteristics present at origination. The table includes a presentation of each higher risk category in isolation. A single loan may fall within more than one category (for example, an interest-only loan may also have an original LTV ratio greater than 90%). Mortgage loans with higher LTV ratios have a higher risk of default, especially during housing and economic downturns, such as the one the U.S. has experienced since 2007.

Table 33 Certain Higher-Risk(1) Categories in the Single-Family Credit Guarantee Portfolio

	As of June 30, 2011			
	UPB	Estimated Current LTV(2)	Percentage Modified(3)	Serious Delinquency Rate(4)
	(dollars in billions)			
Loans with one or more specified characteristics	$ 356.4	104%	6.5%	9.3%
Categories (individual characteristics):				
Alt-A(5)	104.0	104	7.4	11.7
Interest-only(6)	82.1	117	0.4	17.7
Option ARM(7)	9.0	118	3.4	21.6
Original LTV ratio greater than 90%, non-relief refinance mortgages(8)	112.5	108	7.4	8.3
Original LTV ratio greater than 90%, relief refinance mortgages(8)	50.3	104	0.1	0.9
Lower original FICO scores (less than 620)(8)	58.5	92	12.2	12.5

	As of December 31, 2010			
	UPB	Estimated Current LTV(2)	Percentage Modified(3)	Serious Delinquency Rate(4)
	(dollars in billions)			
Loans with one or more specified characteristics	$ 368.8	100%	5.5%	10.3%
Categories (individual characteristics):				
Alt-A(5)	115.5	99	5.7	12.2
Interest-only(6)	95.4	112	0.5	18.4
Option ARM(7)	9.4	115	3.1	21.2
Original LTV ratio greater than 90%, non-relief refinance mortgages(8)	117.8	105	6.3	9.1

Original LTV ratio greater than 90%, relief refinance mortgages(8)	36.5	101	0.1	0.7
Lower original FICO scores (less than 620)(8)	61.2	89	10.4	13.9

(1) Categories are not additive and a single loan may be included in multiple categories if more than one characteristic is associated with the loan. Loans with a combination of these characteristics will have an even higher risk of default than those with an individual characteristic.

(2) Based on our first lien exposure on the property and excludes secondary financing by third parties, if applicable. The existence of a second lien reduces the borrower s equity in the property and, therefore, can increase the risk of default. For refinance mortgages, the original LTV ratios are based on third-party appraisals used in loan origination, whereas new purchase mortgages are based on the lower of an appraisal or property sales price.

(3) Represents the percentage of loans based on loan count in our single-family credit guarantee portfolio that have been modified under agreement with the borrower, including those with no changes in the interest rate or maturity date, but where past due amounts are added to the outstanding principal balance of the loan. Excludes loans underlying certain Other Guarantee Transactions for which data was not available.

(4) See Delinquencies for further information about our reported serious delinquency rates.

(5) Loans within the Alt-A category continue to remain as such following modification, even though the borrower may have provided full documentation of assets and income to complete the modification.

(6) The percentages of interest-only loans which have been modified at period end reflect that a number of these loans have not yet been assigned to their new product category (post modification), primarily due to delays in processing.

(7) Loans within the option ARM category continue to remain as such following modification, even though the modified loan no longer provides for optional payment provisions.

(8) See endnotes (4) and (7) to Table 32 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of original LTV ratios and our use of FICO scores, respectively.

Loans with one or more of the above attributes comprised approximately 20% of our single-family credit guarantee portfolio as of both June 30, 2011 and December 31, 2010. The total UPB of loans in our single-family credit guarantee portfolio with one or more of these characteristics declined approximately 3%, to $356.4 billion as of June 30, 2011 from $368.8 billion as of December 31, 2010. This decline was principally due to liquidations resulting from repayments, payoffs, and refinancing activity as well as liquidations resulting from foreclosure events and foreclosure alternatives, but was partially offset by increases in loans with original LTV ratios greater than 90% due to our relief refinance mortgage activity in the first half of 2011. The serious delinquency rates associated with these loans declined to 9.3% as of June 30, 2011 from 10.3% as of December 31, 2010.

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Credit Enhancements

Our charter requires that single-family mortgages with LTV ratios above 80% at the time of purchase be covered by specified credit enhancements or participation interests. However, as discussed below, under HARP we allow eligible borrowers who have mortgages with high current LTV ratios to refinance their mortgages without obtaining new mortgage insurance in excess of what was already in place. Primary mortgage insurance is the most prevalent type of credit enhancement protecting our single-family credit guarantee portfolio, and is typically provided on a loan-level basis. In addition, for some mortgage loans, we elect to share the default risk by transferring a portion of that risk to various third parties through a variety of other credit enhancements.

At June 30, 2011 and December 31, 2010, our credit-enhanced mortgages represented 14% and 15%, respectively, of our single-family credit guarantee portfolio, excluding those backing Ginnie Mae Certificates and HFA bonds guaranteed by us under the HFA initiative. Freddie Mac securities backed by Ginnie Mae Certificates and HFA bonds guaranteed by us under the HFA initiative are excluded because we consider the incremental credit risk to which we are exposed to be insignificant. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* for credit enhancement and other information about our investments in non-Freddie Mac mortgage-related securities.

We had recoveries associated with charged-off single-family loans of $1.5 billion and $1.4 billion during the six months ended June 30, 2011 and 2010, respectively, under our primary and pool mortgage insurance policies and other credit enhancements. During the six months ended June 30, 2011, the credit enhancement coverage for new purchases was lower than in periods before 2009, primarily as a result of the high refinance activity during the first half of 2011. Refinance loans (other than relief refinance mortgages) typically have lower LTV ratios, and are more likely to have a LTV ratio below 80% and not require credit protection as specified in our charter. In addition, we have been purchasing significant amounts of relief refinance mortgages. These mortgages allow for the refinance of existing loans guaranteed by us under terms such that we may not have mortgage insurance for some or all of the UPB of the mortgage in excess of 80% of the value of the property for certain of these loans.

See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for information about credit protection and other forms of credit enhancements covering loans in our single-family credit guarantee portfolio as of June 30, 2011 and December 31, 2010.

Other Credit Risk Management Activities

To compensate us for higher levels of risk in some mortgage products, we may charge upfront delivery fees above a base management and guarantee fee, which are calculated based on credit risk factors such as the mortgage product type, loan purpose, LTV ratio and other loan or borrower characteristics. We announced delivery fee increases in the fourth quarter of 2010 that became effective March 1, 2011 (or later, as outstanding contracts permit) for loans with higher LTV ratios. These increased fees do not apply to relief refinance mortgages with settlement dates on or after July 1, 2011.

MHA Program

The MHA Program is designed to help in the housing recovery, promote liquidity and housing affordability, expand foreclosure prevention efforts and set market standards. Participation in the MHA Program is an integral part of our mission of providing stability to the housing market. Through our participation in this program, we help borrowers maintain home ownership. Some of the key initiatives of this program include:

Home Affordable Modification Program

HAMP commits U.S. government, Freddie Mac and Fannie Mae funds to help eligible homeowners avoid foreclosures and keep their homes through mortgage modifications, where possible. Under this program, we offer loan modifications to financially struggling homeowners with mortgages on their primary residences that reduce the monthly principal and interest payments on their mortgages. HAMP applies both to delinquent borrowers and to current borrowers at risk of imminent default. See MD&A RISK MANAGEMENT Credit Risk *Mortgage Credit Risks Portfolio Management Activities MHA Program* in our 2010 Annual Report for further information on HAMP.

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Table 34 presents the number of single-family loans that completed modification or were in trial periods under HAMP as of June 30, 2011 and December 31, 2010.

Table 34 Single-Family Home Affordable Modification Program Volume[1]

	As of June 30, 2011		As of December 31, 2010	
	Amount[2]	Number of Loans	Amount[2]	Number of Loans
	(dollars in millions)			
Completed HAMP modifications[3]	$ 29,662	134,282	$ 23,635	107,073
Loans in the HAMP trial period	$ 3,460	16,106	$ 4,905	22,352

(1) Based on information reported by our servicers to the MHA Program administrator.
(2) For loans in the HAMP trial period, this reflects the loan balance prior to modification. For completed HAMP modifications, the amount represents the balance of loans after modification under HAMP.
(3) Completed HAMP modifications are those where the borrower has made the last trial period payment, has provided the required documentation to the servicer and the modification has become effective. Amounts presented represent completed HAMP modifications with effective dates since our implementation of HAMP in 2009 through June 30, 2011 and December 31, 2010, respectively.

As of June 30, 2011, the borrower s monthly payment was reduced on average by an estimated $563, which amounts to an average of $6,756 per year, and a total of $907 million in annual reductions for all of our completed HAMP modifications (these amounts are calculated by multiplying the number of completed modifications by the average reduction in monthly payment, and have not been adjusted to reflect the actual performance of the loans following modification). Except in limited instances, each borrower s reduced payment will remain in effect for a minimum of five years, and borrowers whose payments were adjusted below current market levels will have their payment gradually increased after the fifth year to a rate consistent with the market rate at the time of modification. We bear the cost associated with the borrowers payment reductions. Although mortgage investors under the MHA Program are entitled to certain subsidies from Treasury for reducing the borrowers monthly payments from 38% to 31% of the borrower s income, we do not receive such subsidies on modified mortgages owned or guaranteed by us.

The number of our loans in the HAMP trial period declined to 16,106 as of June 30, 2011 from 22,352 as of December 31, 2010. A large number of borrowers entered into trial period plans when the program was initially introduced in 2009, and significantly fewer new borrowers entered into HAMP trial period plans after 2009. Consequently, we expect fewer borrowers will complete a HAMP modification during 2011 than 2010, since a large number of the delinquent borrowers that were eligible for the program have already completed the trial period or attempted to do so, but failed. When a borrower s HAMP trial period is cancelled, the loan is considered for our other workout activities. For more information on our HAMP modifications, including redefault rates on these loans, see *Single-Family Loan Workouts*.

Home Affordable Refinance Program

HARP gives eligible homeowners with loans owned or guaranteed by us or Fannie Mae an opportunity to refinance into loans with more affordable monthly payments and/or fixed-rate terms and is available until June 2012. Under HARP, we allow eligible borrowers who have mortgages with current LTV ratios up to 125% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place.

The relief refinance initiative is our implementation of HARP. HARP is targeted at borrowers with current LTV ratios above 80%; however, our program also allows borrowers with LTV ratios of 80% and below to participate. HARP loans may not perform as well as other refinance mortgages over time due, in part, to the continued high LTV ratios of these loans. Through our relief refinance initiative, we offer this refinancing option only for qualifying mortgage loans that we hold or guarantee. We continue to bear the credit risk for refinanced loans under this program, to the extent that such risk is not covered by existing mortgage insurance or other existing credit enhancements.

The implementation of the relief refinance mortgage product has resulted in a higher volume of purchases and increased delivery fees from the new loans than we would expect in the absence of the program. However, we believe the net effect of the refinance activity on our financial results has not been significant.

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Table 35 below presents the composition of our purchases of refinanced single-family loans during the six months ended June 30, 2011 and 2010.

Table 35 Single-Family Refinance Loan Volume(1)

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
	Amount	Number of Loans	Percent	Amount	Number of Loans	Percent
	(dollars in millions)					
Relief refinance mortgages:						
Above 105% LTV ratio	$ 4,638	20,072	3.3%	$ 1,376	5,736	1.0%
Above 80% to 105% LTV ratio	18,431	85,328	14.1	18,998	81,913	13.8
80% and below LTV ratio	22,269	137,053	22.7	19,749	110,627	18.7
Total relief refinance mortgages	$ 45,338	242,453	40.1%	$ 40,123	198,276	33.5%
Total refinance loan volume(2)	$ 125,399	604,493	100%	$ 122,377	591,936	100%

(1) Consists of all single-family refinance mortgage loans that we either purchased or guaranteed during the period, excluding those associated with other guarantee commitments and Other Guarantee Transactions.
(2) Consists of relief refinance mortgages and other refinance mortgages.

Relief refinance mortgages comprised approximately 40% and 34%, based on the number of loans, of our total refinance volume during the six months ended June 30, 2011 and 2010, respectively. Relief refinance mortgages with LTV ratios above 80% represented approximately 14% and 12% of our total single-family credit guarantee portfolio purchases, based on UPB, during the six months ended June 30, 2011 and 2010, respectively. Relief refinance mortgages comprised approximately 10% and 7% of the UPB in our total single-family credit guarantee portfolio at June 30, 2011 and December 31, 2010, respectively.

Home Affordable Foreclosure Alternatives Program

HAFA is designed to permit borrowers who meet basic HAMP eligibility requirements to sell their homes in short sales, if such borrowers did not qualify for or participate in a trial period, failed to complete their HAMP trial period, or defaulted on their HAMP modification. HAFA also provides a process for borrowers to convey title to their homes through a deed in lieu of foreclosure. HAFA took effect in April 2010 and ends on December 31, 2012. We began our implementation of this program in August 2010. We completed a small number of HAFA transactions on our single-family mortgage loans during the first half of 2011.

Hardest Hit Fund

In 2010, the federal government created the Hardest Hit Fund, which provides funding for state HFAs to create programs to assist homeowners in those states that have been hit hardest by the housing crisis and economic downturn. To the extent our borrowers participate in the HFA unemployment assistance programs and the full contractual payment is made by an HFA, a borrower s mortgage delinquency status will remain static and will not fall into further delinquency. Based on information provided to us by our seller/servicers, we believe participation in these programs by our borrowers has been limited through June 30, 2011.

Impact of the MHA Program on Freddie Mac

As previously discussed, HAMP is intended to provide borrowers the opportunity to obtain more affordable monthly payments and to reduce the number of delinquent mortgages that proceed to foreclosure and, ultimately, mitigate our credit losses by reducing or eliminating a portion of the costs related to foreclosed properties. We believe our overall loss mitigation programs, including efforts outside of the MHA Program, could reduce our ultimate credit losses over the long term. However, we cannot currently estimate whether, or the extent to which, costs incurred in the near term from HAMP or other MHA Program efforts may be offset, if at all, by the prevention or reduction of potential future costs of serious delinquencies and foreclosures due to these initiatives.

The costs we incur related to loan modifications and other activities under HAMP have been, and will likely continue to be, significant for the following reasons:

- Except for certain Other Guarantee Transactions and loans underlying our other guarantee commitments, we bear the full cost of the monthly payment reductions related to modifications of loans we own or guarantee and all servicer and borrower incentive fees and we will not receive a reimbursement of these costs from Treasury. We paid $113 million of servicer and borrower incentive fees during the six months ended June 30, 2011, as compared to $85 million of such fees during the six months ended June 30, 2010. We also have the potential to incur additional servicer incentive fees and borrower incentive fees as long as the borrower remains current on a loan modified under HAMP. As of June 30, 2011, we accrued $116 million for both initial fees and recurring incentive fees not yet due.

Under HAMP, we typically provide concessions to borrowers, including interest rate reductions and forbearance of principal. To the extent borrowers successfully obtain HAMP modifications, we will continue to experience high volumes of TDRs, similar to our experience during 2010 and the six months ended June 30, 2011.

Some borrowers will fail to complete the HAMP trial period and others will default on their HAMP modified loans. For those borrowers who redefault or who do not complete the trial period and do not qualify for another loan workout, HAMP will have delayed the resolution of the loans through the foreclosure process. If home prices decline while these events take place, such delay in the foreclosure process may increase the losses we recognize on these loans, to the extent the prices we ultimately receive for the foreclosed properties are less than the prices we could have received had we foreclosed upon the properties earlier.

Non-GSE mortgages modified under HAMP include mortgages backing our investments in non-agency mortgage-related securities. Such modifications reduce the monthly payments due from affected borrowers, and thus reduce the payments we receive on these securities (to the extent the payment reductions have not been absorbed by subordinated investors or by other credit enhancement).

Single-Family Loan Workouts

Loan workout activities are a key component of our loss mitigation strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention in seriously delinquent mortgages and provides alternatives to foreclosure. Other single-family loss mitigation activities include providing our single-family servicers with default management tools designed to help them manage non-performing loans more effectively and to assist borrowers in retaining home ownership where possible, or facilitate foreclosure alternatives when continued homeownership is not an option. Loan workouts are intended to reduce the number of seriously delinquent mortgages that proceed to foreclosure and, ultimately, mitigate our total credit losses by reducing or eliminating a portion of the costs related to foreclosed properties and avoiding the additional credit losses that likely would be incurred in a REO sale. See BUSINESS Our Business Segments *Single-Family Guarantee Segment Loss Mitigation and Workout Activities* in our 2010 Annual Report for a general description of our loan workouts.

We require our single-family seller/servicers to first evaluate problem loans for possible reinstatement, a repayment plan, or a forbearance agreement before considering a modification under HAMP. If a borrower is not eligible for a modification under HAMP, the borrower is considered for modification under our other loan modification programs. If the borrower is not eligible for any such programs, the loan is considered for other workout options. During the six months ended June 30, 2011, we helped more than 116,000 borrowers either stay in their homes or sell their properties and avoid foreclosures through our various workout programs, including HAMP, and we completed approximately 61,000 foreclosures.

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Table 36 presents volumes of single-family workouts, serious delinquency, and foreclosures for the three and six months ended June 30, 2011 and 2010.

Table 36 Single-Family Loan Workouts, Serious Delinquency, and Foreclosure Volumes[1]

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
	Number of Loans	Loan Balances	Number of Loans	Loan Balances	Number of Loans	Loan Balances	Number of Loans	Loan Balances
	(dollars in millions)							
Home retention actions:								
Loan modifications[2]								
with no change in terms[3]	1,058	$ 190	1,212	$ 205	2,323	$ 409	1,949	$ 321
with extension of loan terms	4,528	836	5,494	940	9,808	1,797	9,455	1,597
with reduction of contractual interest rate	8,720	1,942	14,261	3,202	18,085	4,076	28,175	6,244
with rate reduction and term extension	11,061	2,461	19,511	4,273	24,664	5,494	35,710	7,846
with rate reduction, term extension and principal forbearance	5,682	1,520	9,084	2,373	11,327	3,025	18,501	4,838
Total loan modifications[4]	31,049	6,949	49,562	10,993	66,207	14,801	93,790	20,846
Repayment plans[5]	7,981	1,157	7,455	1,090	17,080	2,443	16,216	2,358
Forbearance agreements[6]	3,709	703	12,815	2,695	11,387	2,229	21,673	4,551
Total home retention actions:	42,739	8,809	69,832	14,778	94,674	19,473	131,679	27,755
Foreclosure alternatives:								
Short sale	10,894	2,515	9,450	2,240	21,515	5,003	16,407	3,849
Deed-in-lieu transactions	144	25	92	15	229	40	199	31
Total foreclosure alternatives	11,038	2,540	9,542	2,255	21,744	5,043	16,606	3,880
Total single-family loan workouts	53,777	$ 11,349	79,374	$ 17,033	116,418	$ 24,516	148,285	$ 31,635
Delinquent loan additions	87,813		123,175		185,459		274,116	
Single-family foreclosures[7]	30,139		37,718		61,226		70,019	
Delinquent loans, at period end	417,457		492,500		417,457		492,500	

(1) Based on completed actions 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 (see endnote 6).

(2) Includes approximately 24,000 and 40,000 TDRs during the three months ended June 30, 2011 and 2010, respectively, and approximately 51,000 and 67,000 TDRs during the six months ended June 30, 2011 and 2010, respectively.

(3) Under this modification type, past due amounts are added to the principal balance and reamortized based on the original contractual loan terms.

(4) Includes completed loan modifications under HAMP; however, the number of such completions differs from that reported by the MHA Program administrator in part due to differences in the timing of recognizing the completions by us and the administrator.

(5) Represents the number of borrowers as reported by our seller/servicers that have completed the full term of a repayment plan for past due amounts. Excludes the number of borrowers that are actively repaying past due amounts under a repayment plan, which totaled 20,342 and 22,323 borrowers as of June 30, 2011 and 2010, respectively.

(6) Excludes loans with long-term forbearance under a completed loan modification. Many borrowers complete a short-term forbearance agreement before a 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.

(7) Represents the number of our single-family loans that complete foreclosure transfers, including third-party sales at foreclosure auction in which ownership of the property is transferred directly to a third-party rather than to us.

We experienced declines in home retention actions, particularly loan modifications, and increases in short sales during the three and six months ended June 30, 2011, compared to the three and six months ended June 30, 2010, respectively. Loan modifications may include the additions of past due amounts to principal, interest rate reductions, term extensions and principal forbearance. Although HAMP contemplates that some servicers will also make use of principal reduction to achieve reduced payments for borrowers, we only used forbearance in the first half of 2011 and did not use principal reduction in modifying our loans. We bear the costs of these activities, including the cost of any monthly payment reductions.

The UPB of loans in our single-family credit guarantee portfolio for which we have completed a loan modification increased to $63 billion as of June 30, 2011 from $52 billion as of December 31, 2010. The number of modified loans in our single-family credit guarantee portfolio has been increasing and such loans comprised approximately 2.6% and 2.1% of our single-family credit guarantee portfolio as of June 30, 2011 and December 31, 2010, respectively. The estimated current LTV ratio for all modified loans in our single-family credit guarantee portfolio was 121% and the serious delinquency rate on these loans was 16% as of June 30, 2011. Table 37 presents the reperformance rate of modified single-family loans in each of the last eight quarterly periods.

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Table 37 Reperformance Rates[1] of Modified Single-Family Loans

	Quarter of Loan Modification Completion[2]							
HAMP loan modifications:	**1Q 2011**	**4Q 2010**	**3Q 2010**	**2Q 2010**	**1Q 2010**	**4Q 2009**	**3Q 2009**	**2Q 2009**
Time since modification								
3 to 5 months	95%	94%	93%	94%	95%	94%	96%	
6 to 8 months		92	92	91	93	93	93	
9 to 11 months			90	89	90	90	92	
12 to 14 months				87	88	88	91	
15 to 17 months					86	86	89	
18 to 20 months						85	87	
21 to 23 months							85	
24 to 26 months								

	Quarter of Loan Modification Completion[2]							
Non-HAMP loan modifications:	**1Q 2011**	**4Q 2010**	**3Q 2010**	**2Q 2010**	**1Q 2010**	**4Q 2009**	**3Q 2009**	**2Q 2009**
Time since modification								
3 to 5 months	93%	94%	93%	93%	94%	90%	88%	73%
6 to 8 months		89	90	86	87	82	78	64
9 to 11 months			85	82	80	75	71	58
12 to 14 months				78	77	69	66	55
15 to 17 months					74	66	61	51
18 to 20 months						64	59	48
21 to 23 months							57	47
24 to 26 months								46

	Quarter of Loan Modification Completion[2]							
Total (HAMP and non-HAMP):	**1Q 2011**	**4Q 2010**	**3Q 2010**	**2Q 2010**	**1Q 2010**	**4Q 2009**	**3Q 2009**	**2Q 2009**
Time since modification								
3 to 5 months	95%	94%	93%	94%	95%	92%	89%	73%
6 to 8 months		90	91	90	92	88	79	64
9 to 11 months			88	87	88	84	72	58
12 to 14 months				85	86	80	67	55
15 to 17 months					84	78	62	51
18 to 20 months						76	61	48
21 to 23 months							59	47
24 to 26 months								46

(1)

Represents the percentage of loans that are current or less than three monthly payments past due as well as those paid-in-full or repurchased. Excludes those loan modification activities for which the borrower has started the required process, but the modification has not been made permanent, or effective, such as loans in the trial period under HAMP.

(2) Loan modifications are recognized as completed in the quarterly period in which the servicer has reported the modification as effective and the agreement has been accepted by us, which in certain cases may be delayed by a backlog in servicer processing of modifications. In the second quarter of 2011, we revised the calculation of reperformance rates to better account for remodified loans, or those where a borrower has received a second modification. The revised calculation reflects the status of each modification separately. In the case of a remodified loan where the borrower is performing, the previous modification would be presented as being in default in the applicable period.

The redefault rate is the percentage of our modified loans that became seriously delinquent, transitioned to REO, or completed a loss-producing foreclosure alternative, and is the inverse of the reperformance rate. As of June 30, 2011, the redefault rate for all of our single-family loan modifications (including those under HAMP) completed during 2010, 2009, and 2008 was 14%, 46%, and 65%, respectively. Many of the borrowers that received modifications in 2008 and 2009 were negatively affected by worsening economic conditions, including high unemployment rates during the last several years. As of June 30, 2011, the redefault rate for loans modified under HAMP in 2010 and 2009 was approximately 12% and 15%, respectively. These redefault rates may not be representative of the future performance of modified loans, including those modified under HAMP. We believe the redefault rate for loans modified in 2010, 2009, and 2008, including those modified under HAMP, is likely to increase, particularly since the housing and economic environments remain challenging.

In February 2011, FHFA directed Freddie Mac and Fannie Mae to develop consistent requirements, policies and processes for the servicing of non-performing loans. This directive was designed to create greater consistency in servicing practices and to build on the best practices of each of the GSEs. In April 2011, pursuant to this directive, FHFA announced a new set of aligned standards for servicing non-performing loans owned or guaranteed by Freddie Mac and Fannie Mae that are designed to help servicers do a better job of communicating and working with troubled borrowers and to bring greater accountability to the servicing industry. These standards will provide for earlier and more frequent communication with borrowers, consistent requirements for collecting documents from borrowers, consistent timelines for responding to borrowers, a consistent approach to modifications, and consistent timelines for processing foreclosures. These standards will result in the alignment of our processes for both HAMP and non-HAMP workouts, and will be implemented over the course of 2011 and into 2012.

Under these new servicing standards, servicers will be subject to incentives and compensatory fee assessments with respect to servicer performance. These incentives will likely result in our payment of increased fees to our seller/servicers, but these fees will be at least partially mitigated by compensatory fees paid to us by our servicers that do not perform as required.

We anticipate implementing the new non-HAMP modification initiative beginning in the fourth quarter of 2011. This initiative will require a three month trial period for our new non-HAMP modifications. Consequently, we expect to experience a temporary decline in completed modification volume, as many borrowers will be in the process of completing the trial period of this non-HAMP modification initiative. This new modification program is expected to result in a higher volume of modifications where we partially forbear principal until the borrower sells the home or refinances or pays off the mortgage. In addition, the new modification initiative will allow for a change of contractual interest rates to a current market rate whereas, our previous initiative allowed for reduction of contractual interest rates to as low as 2%.

Delinquencies

We report single-family serious delinquency rate information based on the number of loans that are three monthly payments or more past due or in the process of foreclosure, as reported by our seller/servicers. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not counted as delinquent as long as the borrower is current under the modified terms. Single-family loans for which the borrower has been granted forbearance will continue to reflect the past due status of the borrower. To the extent our borrowers participate in the HFA unemployment assistance initiatives and the full contractual payment is made by an HFA, a borrower s mortgage delinquency status will remain static and will not fall into further delinquency.

Our single-family delinquency rates include all single-family loans that we own, that are collateral for Freddie Mac securities, and that are covered by our other guarantee commitments, except financial guarantees that are backed by either Ginnie Mae Certificates or HFA bonds because these securities do not expose us to meaningful amounts of credit risk due to the guarantee or credit enhancements provided on these securities by the U.S. government.

Some of our loss mitigation activities create fluctuations in our delinquency statistics. For example, single-family loans that we report as seriously delinquent before they enter the HAMP trial period continue to be reported as seriously delinquent for purposes of our delinquency reporting until the modifications become effective and the loans are removed from delinquent status by our servicers. However, under many of our non-HAMP modifications, the borrower would return to a current payment status sooner, because these modifications do not have trial periods. Consequently, the volume, timing, and type of loan modifications have impacted our reported serious delinquency rate. As discussed above in Single-Family Loan Workouts, we anticipate implementing a new non-HAMP loan modification initiative that will include a trial period comparable to that of our HAMP modification initiative. In addition, there may be temporary timing differences, or lags, in the reporting of payment status and modification completion due to differing practices of our servicers that can affect our delinquency reporting.

Temporary actions to suspend foreclosure transfers of occupied homes, increases in foreclosure process timeframes, process requirements of HAMP, and general constraints on servicer capacity caused loans to remain in seriously delinquent status for longer periods than prior to 2008, before such actions and delays arose. This has caused our single-family serious delinquency rates to be higher in recent periods than they otherwise would have been. Delays in foreclosure relating to the concerns about the foreclosure process have also had a similar effect on our single-family serious delinquency rates. As of June 30, 2011 and December 31, 2010, the percentage of seriously delinquent loans that have been delinquent for more than six months was 72% and 66%, respectively.

Table 38 presents delinquency rates for our single-family credit guarantee portfolio.

Table 38 Single-Family Serious Delinquency Rates

	As of June 30, 2011		As of December 31, 2010	
	Percentage of Portfolio	Serious Delinquency Rate	Percentage of Portfolio	Serious Delinquency Rate
Single-family:				
Non-credit-enhanced	86%	2.75%	85%	3.01%
Credit-enhanced	14	7.67	15	8.27
Total single-family credit guarantee portfolio[1]	100%	3.50	100%	3.84

(1) As of June 30, 2011 and December 31, 2010, approximately 67% and 61%, respectively, of the single-family loans reported as seriously delinquent were in the process of foreclosure.

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Serious delinquency rates of our single-family credit guarantee portfolio declined slightly to 3.50% as of June 30, 2011 from 3.84% as of December 31, 2010. Serious delinquency rates for interest-only and option ARM products, which together represented approximately 5% of our total single-family credit guarantee portfolio at June 30, 2011, were 17.7% and 21.6%, respectively, at June 30, 2011, compared with 18.4% and 21.2%, respectively, at December 31, 2010. Serious delinquency rates of single-family 30-year, fixed rate amortizing loans, which is a more traditional mortgage product, were approximately 3.7% and 4.0% at June 30, 2011, and December 31, 2010, respectively. The slight improvement in the single-family serious delinquency rate during the second quarter of 2011 was primarily due to a continued high volume of loan modifications, significant volumes of foreclosure transfers, and a slowdown in new serious delinquencies. Although the volume of new serious delinquencies declined in each of the past several quarters, our serious delinquency rate remains high, reflecting continued stress in the housing and labor markets.

In certain states our single-family serious delinquency rates have remained persistently high. As of June 30, 2011, single-family loans in Arizona, California, Florida, and Nevada comprised 26% of our single-family credit guarantee portfolio, and the serious delinquency rate of loans in these states was 6.3%. During the six months ended June 30, 2011, we also continued to experience high serious delinquency rates on single-family loans originated between 2005 and 2008. We purchased significant amounts of loans with higher-risk characteristics in those years. In addition, those borrowers are more susceptible to the declines in home prices since 2006 than those homeowners that have built up equity in their homes over time.

Table 39 presents credit concentrations for certain loan groups in our single-family credit guarantee portfolio.

Table 39 Credit Concentrations in the Single-Family Credit Guarantee Portfolio

	As of June 30, 2011					
	Alt-A UPB	Non Alt-A UPB	Total UPB	Estimated Current LTV Ratio(1)	Percentage Modified(2)	Serious Delinquency Rate
	(in billions)					
Geographical distribution:						
Arizona, California, Florida, and Nevada	$ 43	$ 416	$ 459	92%	4.1%	6.3%
All other states	61	1,285	1,346	75	2.2	2.7
Year of origination:						
2011		105	105	70		<0.1
2010		361	361	71	<0.1	0.1
2009	<1	366	366	72	0.1	0.3
2008	9	131	140	90	3.4	4.9
2007	32	154	186	110	8.5	11.0
2006	28	111	139	109	7.7	10.3
2005	19	140	159	95	4.2	6.0
2004 and prior	16	333	349	60	2.1	2.5

	As of June 30, 2010					
	Alt-A UPB	Non Alt-A UPB	Total UPB	Estimated Current LTV Ratio(1)	Percentage Modified(2)	Serious Delinquency Rate
	(in billions)					
Geographical distribution:						
Arizona, California, Florida, and Nevada	$ 53	$ 421	$ 474	82%	2.3%	7.6%
All other states	80	1,316	1,396	70	1.4	3.0
Year of origination:						
2010		122	122	68		<0.1
2009	<1	452	452	66	<0.1	0.1
2008	11	188	199	79	1.2	4.1
2007	41	200	241	95	4.1	11.0
2006	36	146	182	95	3.8	9.9
2005	24	183	207	83	2.1	5.7
2004 and prior	21	446	467	54	1.2	2.3

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2011	2010	2011	2010
	(in millions)		(in millions)	
Credit Losses				
Geographical distribution:				
Arizona, California, Florida, and Nevada	$ 1,967	$ 2,445	$ 3,951	$ 4,192
All other states	1,139	1,406	2,381	2,566
Year of origination:				
2011				
2010				
2009	35	9	67	14
2008	233	232	484	389
2007	1,139	1,325	2,315	2,277
2006	899	1,189	1,830	2,053
2005	534	767	1,104	1,419
2004 and prior	266	329	532	606

(1) See endnote (5) to Table 32 Characteristics of the Single-Family Credit Guarantee Portfolio for information on our calculation of estimated current LTV ratios.

(2) Represents the percentage of loans, based on loan count in our single-family credit guarantee portfolio, that have been modified under agreement with the borrower, including those with no changes in interest rate or maturity date, but where past due amounts are added to the outstanding principal balance of the loan.

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Table 40 presents statistics for combinations of certain characteristics of the mortgages in our single-family credit guarantee portfolio as of June 30, 2011 and December 31, 2010.

Table 40 Single-Family Credit Guarantee Portfolio by Attribute Combinations

	As of June 30, 2011								
	Current LTV Ratio(1) £ 80		Current LTV Ratio(1) of 81-100		Current LTV Ratio(1) > 100		Current LTV Ratio(1) All Loans		
	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Percentage Modified(3)	Serious Delinquency Rate
By Product Type									
FICO scores < 620:									
20 and 30- year or more amortizing fixed rate	0.9%	7.6%	0.8%	12.6%	1.0%	23.3%	2.7%	15.1%	13.6%
15- year amortizing fixed rate	0.2	4.2	<0.1	10.7	<0.1	18.2	0.2	1.9	4.8
ARMs/adjustable rate(4)	0.1	11.2	<0.1	16.9	<0.1	25.3	0.1	8.9	15.7
Interest-only(5)	<0.1	16.2	<0.1	22.6	0.1	36.6	0.1	0.7	31.3
Other(6)	<0.1	3.1	<0.1	7.4	0.1	11.6	0.1	3.7	4.9
Total FICO scores < 620	1.2	6.7	0.8	12.8	1.2	23.8	3.2	12.2	12.5
FICO scores of 620 to 659									
20 and 30- year or more amortizing fixed rate	2.0	4.8	1.6	8.3	2.0	17.6	5.6	10.1	9.5
15- year amortizing fixed rate	0.6	2.5	<0.1	6.4	<0.1	14.2	0.6	1.0	2.8
ARMs/adjustable rate(4)	0.1	5.4	0.1	11.8	0.1	24.0	0.3	1.5	12.9
Interest-only(5)	<0.1	10.1	0.1	18.7	0.3	32.6	0.4	0.7	27.5
Other(6)	<0.1	2.0	<0.1	4.8	<0.1	4.9	<0.1	1.2	3.9
Total FICO scores of 620 to 659	2.7	4.1	1.8	8.7	2.4	18.9	6.9	8.0	9.1
FICO scores ³ 660									
20 and 30- year or more amortizing fixed rate	34.6	0.9	20.8	2.2	12.3	8.9	67.7	2.4	2.6
	12.6	0.4	1.0	1.1	0.2	6.0	13.8	0.1	0.5

15- year amortizing fixed rate									
ARMs/adjustable rate(4)	2.0	1.3	0.9	4.6	0.8	15.4	3.7	0.4	5.1
Interest-only(5)	0.5	3.4	0.9	9.2	2.6	21.3	4.0	0.3	16.2
Other(6)	<0.1	1.7	<0.1	1.5	0.1	1.4	0.1	0.4	1.4
Total FICO scores ³ 660	49.7	0.7	23.6	2.5	16.0	10.7	89.3	1.7	2.5
FICO scores not available	0.3	4.2	0.2	11.1	0.1	20.2	0.6	4.9	8.5
All FICO scores									
20 and 30- year or more amortizing fixed rate	37.8	1.4	23.2	3.2	15.3	11.1	76.3	3.6	3.7
15- year amortizing fixed rate	13.3	0.6	1.1	1.6	0.2	7.2	14.6	0.2	0.7
ARMs/adjustable rate(4)	2.2	2.0	1.0	5.9	1.0	17.0	4.2	0.8	6.0
Interest-only(5)	0.5	4.2	1.0	10.5	3.0	22.9	4.5	0.4	17.7
Other(6)	0.1	7.7	0.1	8.5	0.2	6.5	0.4	6.1	7.5
Total Single-family Credit Guarantee Portfolio(7)	53.9%	1.2%	26.4%	3.4%	19.7%	12.7%	100.0%	2.6%	3.5%
By Region(8)									
FICO scores < 620:									
North Central	0.2%	6.0%	0.2%	11.4%	0.2%	19.4%	0.6%	12.4%	11.7%
Northeast	0.4	8.7	0.2	17.5	0.3	27.1	0.9	12.8	13.7
Southeast	0.2	7.4	0.2	13.2	0.3	28.7	0.7	12.6	15.2
Southwest	0.2	5.1	0.1	10.1	0.1	19.1	0.4	8.7	7.8
West	0.2	4.7	0.1	10.3	0.3	21.5	0.6	14.7	12.8
Total FICO scores < 620	1.2	6.7	0.8	12.8	1.2	23.8	3.2	12.2	12.5
FICO scores of 620 to 659									
North Central	0.4	3.7	0.4	7.9	0.5	14.3	1.3	7.8	8.1
Northeast	0.9	5.1	0.5	12.0	0.4	21.6	1.8	7.9	9.3
Southeast	0.5	4.9	0.3	9.0	0.6	23.5	1.4	8.1	11.7
Southwest	0.5	3.0	0.3	6.6	0.1	12.3	0.9	5.3	4.9
West	0.4	3.1	0.3	7.2	0.8	18.9	1.5	10.6	10.4
Total FICO scores of 620 to 659	2.7	4.1	1.8	8.7	2.4	18.9	6.9	8.0	9.1

FICO scores ³ 660									
North Central	8.1	0.6	5.0	2.1	3.0	6.8	16.1	1.4	1.9
Northeast	14.7	0.9	5.8	3.7	1.9	11.6	22.4	1.4	2.1
Southeast	7.0	1.1	4.1	2.7	3.8	14.1	14.9	1.8	4.1
Southwest	7.1	0.6	3.0	1.8	0.4	5.7	10.5	0.8	1.1
West	12.8	0.5	5.7	1.9	6.9	10.9	25.4	2.6	3.2
Total FICO scores ³ 660	49.7	0.7	23.6	2.5	16.0	10.7	89.3	1.7	2.5
FICO scores not available	0.3	4.2	0.2	11.1	0.1	20.2	0.6	4.9	8.5
All FICO scores									
North Central	8.7	1.0	5.6	3.0	3.8	8.8	18.1	2.4	2.8
Northeast	16.1	1.5	6.5	5.0	2.5	14.5	25.1	2.4	3.1
Southeast	7.7	1.7	4.7	3.8	4.8	16.5	17.2	3.0	5.4
Southwest	7.9	1.0	3.5	2.8	0.6	8.6	12.0	1.7	1.8
West	13.5	0.7	6.1	2.4	8.0	12.2	27.6	3.4	3.8
Total Single-family Credit Guarantee Portfolio(7)	53.9%	1.2%	26.4%	3.4%	19.7%	12.7%	100.0%	2.6%	3.5%

	As of December 31, 2010								
	Current LTV Ratio(1) £ 80		Current LTV Ratio(1) of 81-100		Current LTV Ratio(1) > 100		Current LTV Ratio(1) All Loans		
	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Serious Delinquency Rate	Percentage of Portfolio(2)	Percentage Modified(3)	Serious Delinquency Rate
By Product Type									
FICO scores < 620:									
20 and 30- year or more amortizing fixed rate	1.1%	8.6%	0.8%	15.1%	0.9%	27.5%	2.8%	12.9%	15.1%
15- year amortizing fixed rate	0.2	4.6	<0.1	11.8	<0.1	22.2	0.2	1.8	5.1
ARMs/adjustable rate(4)	0.1	12.2	<0.1	18.4	<0.1	28.6	0.1	7.6	16.9
Interest-only(5)	<0.1	17.6	0.1	25.3	0.1	39.9	0.2	0.9	33.3
Other(6)	<0.1	3.7	<0.1	8.5	0.1	13.2	0.1	3.1	5.6
Total FICO scores < 620	1.4	7.6	0.9	15.3	1.1	27.9	3.4	10.4	13.9
FICO scores of 620 to 659:									
20 and 30- year or more amortizing fixed rate	2.4	5.2	1.7	9.8	1.8	20.5	5.9	8.3	10.3
15- year amortizing fixed rate	0.6	2.6	<0.1	7.3	<0.1	16.6	0.6	0.9	3.0
ARMs/adjustable rate(4)	0.1	6.0	0.1	13.5	0.1	25.9	0.3	1.5	13.6
Interest-only(5)	<0.1	10.9	0.2	20.6	0.3	35.6	0.5	0.9	29.2
Other(6)	<0.1	2.6	<0.1	5.4	<0.1	5.3	<0.1	1.0	4.3
Total FICO scores of 620 to 659	3.1	4.5	2.0	10.3	2.2	22.0	7.3	6.5	9.9
FICO scores ³ 660:									
20 and 30- year or more amortizing fixed rate	36.5	1.0	20.0	2.8	10.4	10.4	66.9	1.9	2.8
15- year amortizing fixed rate	12.5	0.4	0.9	1.4	0.1	7.3	13.5	0.1	0.5
ARMs/adjustable rate(4)	1.9	1.6	0.8	5.4	0.8	17.0	3.5	0.4	5.6
Interest-only(5)	0.7	3.7	1.2	10.3	2.8	23.1	4.7	0.4	16.7
Other(6)	<0.1	2.1	<0.1	2.0	0.1	1.3	0.1	0.4	1.7
Total FICO scores ³ 660	51.6	0.8	22.9	3.1	14.2	12.6	88.7	1.3	2.7

FICO scores not available	0.4	4.6	0.1	11.9	0.1	23.7	0.6	4.1	8.8
All FICO scores:									
20 and 30- year or more amortizing fixed rate	40.2	1.6	22.6	3.9	13.2	13.1	76.0	2.9	4.0
15- year amortizing fixed rate	13.3	0.6	0.9	2.0	0.2	8.8	14.4	0.2	0.8
ARMs/adjustable rate[4]	2.1	2.4	1.0	7.0	0.9	18.7	4.0	0.8	6.7
Interest-only[5]	0.7	4.5	1.3	11.7	3.2	24.9	5.2	0.5	18.4
Other[6]	0.2	9.3	0.1	8.6	0.1	7.3	0.4	5.2	8.6
Total Single-family Credit Guarantee Portfolio[7]	56.5%	1.4%	25.9%	4.3%	17.6%	14.9%	100.0%	2.1%	3.8%
By Region[8]									
FICO scores <620:									
North Central	0.2%	7.1%	0.2%	13.7%	0.2%	22.5%	0.6%	10.9%	13.0%
Northeast	0.5	9.4	0.3	19.9	0.2	30.5	1.0	10.7	14.5
Southeast	0.2	8.4	0.2	15.5	0.3	31.9	0.7	10.7	16.4
Southwest	0.3	5.9	0.1	12.7	0.1	24.1	0.5	7.6	9.2
West	0.2	5.6	0.1	13.5	0.3	28.0	0.6	12.3	15.8
Total FICO scores < 620	1.4	7.6	0.9	15.3	1.1	27.9	3.4	10.4	13.9
FICO scores of 620 to 659:									
North Central	0.6	4.3	0.4	9.6	0.4	16.6	1.4	6.6	8.9
Northeast	0.9	5.4	0.6	13.7	0.3	23.2	1.8	6.4	9.6
Southeast	0.5	5.3	0.4	10.0	0.6	25.5	1.5	6.6	12.1
Southwest	0.6	3.4	0.3	8.1	0.1	15.3	1.0	4.5	5.6
West	0.5	3.5	0.3	9.6	0.8	23.7	1.6	8.5	12.7
Total FICO scores of 620 to 659	3.1	4.5	2.0	10.3	2.2	22.0	7.3	6.5	9.9
FICO scores ³ 660:									
North Central	8.9	0.7	4.9	2.8	2.3	7.9	16.1	1.2	2.1
Northeast	15.0	1.0	5.6	4.4	1.5	12.0	22.1	1.1	2.1
Southeast	7.4	1.2	4.1	3.0	3.6	15.1	15.1	1.4	4.1
Southwest	7.3	0.7	2.9	2.3	0.3	6.8	10.5	0.7	1.2
West	13.0	0.6	5.4	2.7	6.5	13.8	24.9	2.1	3.9

Total FICO scores ³ 660	51.6	0.8	22.9	3.1	14.2	12.6	88.7	1.3	2.7
FICO scores not available	0.4	4.6	0.1	11.9	0.1	23.7	0.6	4.1	8.8
All FICO scores:									
North Central	9.6	1.2	5.6	3.9	3.0	10.5	18.2	2.0	3.1
Northeast	16.6	1.6	6.4	6.0	2.0	15.4	25.0	1.9	3.2
Southeast	8.2	1.9	4.7	4.3	4.5	17.8	17.4	2.4	5.6
Southwest	8.2	1.2	3.4	3.6	0.5	10.9	12.1	1.5	2.1
West	13.9	0.9	5.8	3.4	7.6	15.5	27.3	2.7	4.7
Total Single-family Credit Guarantee Portfolio(7)	56.5%	1.4%	25.9%	4.3%	17.6%	14.9%	100.0%	2.1%	3.8%

(1) The current LTV ratios are our estimates. See endnote (5) to Table 32 Characteristics of the Single-Family Credit Guarantee Portfolio for further information.

(2) Based on UPB of the single-family credit guarantee portfolio.

(3) See endnote (2) to Table 39 Credit Concentrations in the Single-Family Credit Guarantee Portfolio.

(4) Includes balloon/resets and option ARM mortgage loans.

(5) Includes both fixed rate and adjustable rate loans. The percentages of interest-only loans which have been modified at period end reflect that a number of these loans have not yet been assigned to their new product category (post modification), primarily due to delays in processing.

(6) Consist of FHA/VA and other government guaranteed mortgages.

(7) The total of all FICO scores categories may not sum due to the inclusion of loans where FICO scores are not available in the respective totals for all loans. See endnote (7) to Table 32 Characteristics of the Single-Family Credit Guarantee Portfolio for further information about our use of FICO scores.

(8) Presentation with the following regional designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); and Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

Table 41 presents delinquency and default rate information for loans in our single-family credit guarantee portfolio based on year of origination.

Table 41 Single-Family Credit Guarantee Portfolio by Year of Loan Origination

	As of June 30, 2011			As of December 31, 2010		
Year of Loan Origination	**Percentage of Portfolio**	**Serious Delinquency Rate**	**Foreclosure and Short Sale Rate[(1)]**	**Percentage of Portfolio**	**Serious Delinquency Rate**	**Foreclosure and Short Sale Rate[(1)]**
2011	6%	0.01%	%	%	%	%
2010	20	0.12	0.01	18	0.05	
2009	20	0.34	0.09	21	0.26	0.04
2008	8	4.94	1.72	9	4.89	1.26
2007	10	11.04	6.19	11	11.63	4.92
2006	8	10.28	5.99	9	10.46	5.00
2005	9	6.01	3.51	10	6.04	2.95
2004 and prior[(2)]	19	2.49	0.96	22	2.46	0.88
Total	100%	3.50%		100%	3.84%	

(1) Calculated for each year of origination as the number of loans that have proceeded to foreclosure transfer or short sale and resulted in a credit loss, excluding any subsequent recoveries during the period from origination to June 30, 2011 and December 31, 2010, respectively, divided by the number of loans in our single-family credit guarantee portfolio originated in that year.
(2) The foreclosure and short sale rate for 2004 and prior represents the rate associated with loans originated from 2000 to 2004.

At June 30, 2011, approximately 35% of our single-family credit guarantee portfolio consisted of mortgage loans originated from 2005 through 2008. Loans originated during these years experienced higher serious delinquency rates in the earlier years of their terms as compared to our historical experience. We attribute this serious delinquency performance to a number of factors, including: (a) the expansion of credit terms under which loans were underwritten during these years; (b) an increase in the origination and our purchase of interest-only and Alt-A mortgage products in these years; and (c) an environment of decreasing home sales and broadly declining home prices in the period shortly following the loans origination. Interest-only and Alt-A products have higher inherent credit risk than traditional fixed-rate mortgage products.

The UPB of loans originated after 2008 comprised 46% of our portfolio as of June 30, 2011. Approximately 93% of the loans we purchased in our single-family credit guarantee portfolio during the six months ended June 30, 2011 were amortizing fixed-rate mortgage products.

Multifamily Mortgage Credit Risk

Portfolio diversification, particularly by product and geographical areas, is an important aspect of our strategy to manage mortgage credit risk for multifamily loans. We monitor a variety of mortgage loan characteristics that may affect the default experience on our multifamily mortgage portfolio, such as the LTV ratio, DSCR, geographic location and loan duration. See NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS for more information about the loans in our multifamily mortgage portfolio. We also monitor the performance and risk concentrations of our multifamily loans and the underlying properties throughout the life of the loan.

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Table 42 provides certain attributes of our multifamily mortgage portfolio at June 30, 2011 and December 31, 2010.

Table 42 Multifamily Mortgage Portfolio by Attribute

	UPB[1] at		Delinquency Rate[2] at	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Original LTV Ratio[3]	(dollars in billions)			
Below 75%	$ 74.7	$ 72.0	0.19%	0.08%
75% to 80%	29.5	29.8	0.15	0.24
Above 80%	6.5	6.6	2.45	2.30
Total	$ 110.7	$ 108.4	0.31%	0.26%
Weighted average LTV ratio at origination	70%	70%		
Maturity Dates				
2011	$ 1.0	$ 2.3	2.65%	0.97%
2012	3.8	4.1	0.20	0.82
2013	6.3	6.8	0.98	
2014	8.2	8.5	0.03	0.02
2015	11.7	12.0	0.14	0.09
Beyond 2015	79.7	74.7	0.29	0.29
Total	$ 110.7	$ 108.4	0.31%	0.26%
Year of Acquisition or Guarantee[4]				
2004 and prior	$ 14.4	$ 15.9	0.33%	0.31%
2005	7.6	7.9		
2006	11.1	11.6	0.33	0.25
2007	20.5	20.8	0.92	0.97
2008	22.1	23.0	0.33	0.03
2009	14.7	15.2		
2010	13.1	14.0		
2011	7.2	N/A		N/A
Total	$ 110.7	$ 108.4	0.31%	0.26%
Current Loan Size Distribution				

Above $25 million	$ 39.9	$ 39.6	0.22%	0.07%
Above $5 million to $25 million	61.4	59.4	0.34	0.38
$5 million and below	9.4	9.4	0.50	0.37
Total	$ 110.7	$ 108.4	0.31%	0.26%
Legal Structure				
Unsecuritized loans	$ 81.8	$ 85.9	0.18%	0.11%
Non-consolidated Freddie Mac mortgage-related securities	19.3	12.8	0.89	1.30
Other guarantee commitments	9.6	9.7	0.23	0.23
Total	$ 110.7	$ 108.4	0.31%	0.26%
Credit Enhancement				
Credit-enhanced	$ 27.2	$ 20.9	0.70%	0.85%
Non-credit-enhanced	83.5	87.5	0.19	0.12
Total	$ 110.7	$ 108.4	0.31%	0.26%

(1) Beginning in the second quarter of 2011, we exclude non-consolidated mortgage-related securities for which we do not provide our guarantee. The prior period has been revised to conform to the current period presentation.
(2) See *Delinquencies* below for more information about our multifamily delinquency rates.
(3) Original LTV ratios are calculated as the UPB of the mortgage, divided by the lesser of the appraised value of the property at the time of mortgage origination or, except for refinance loans, the mortgage borrower s purchase price. Second liens not owned or guaranteed by us are excluded from the LTV ratio calculation. The existence of a second lien reduces the borrower s equity in the property and, therefore, can increase the risk of default.
(4) Based on either: (a) the year of acquisition, for loans recorded on our consolidated balance sheets; or (b) the year that we issued our guarantee, for the remaining loans in our multifamily mortgage portfolio.

Our multifamily mortgage portfolio consists of product types that are categorized based on loan terms. Multifamily loans may be interest-only or amortizing, fixed or variable rate, or may switch between fixed and variable rate over time. However, our multifamily loans generally have balloon maturities ranging from five to ten years. Amortizing loans reduce our credit exposure over time because the UPB declines with each mortgage payment. As of June 30, 2011 and December 31, 2010, approximately 83% and 85%, respectively, of the multifamily loans on our consolidated balance sheets had fixed interest rates while the remaining loans had variable-rates.

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Because most multifamily loans require a significant lump sum payment of unpaid principal at maturity, the inability to refinance or pay off the loan at maturity is a serious concern for lenders. Although property values have increased in recent quarters, in some instances they are still well below the highs of a few years ago and are lower than when the loans were originally underwritten, particularly in areas where economic conditions remain weak. As a result, if property values do not continue to improve, borrowers may experience significant difficulty refinancing as their loans approach maturity, which could increase borrower defaults or increase modification volumes. As of June 30, 2011, approximately 90% of UPB in our multifamily mortgage portfolio matures in 2014 and beyond.

In certain cases, we may provide short-term loan extensions of up to 12 months for certain borrowers. Modifications and extensions of loans are performed in an effort to minimize our losses and maximize our returns. During the first half of 2011, we extended and modified unsecuritized multifamily loans totaling $170 million in UPB, compared with $301 million during the six months ended June 30, 2010. Multifamily unsecuritized loan modifications during the first half of 2011 included: (a) $32 million in UPB for short-term loan extensions; and (b) $138 million in UPB for loan modifications. Where we have granted a concession to borrowers experiencing financial difficulties, we account for these loans as TDRs. When we execute a modification classified as a TDR, the loan is then classified as nonperforming for the life of the loan regardless of its delinquency status. At June 30, 2011, we had $988 million of multifamily loan UPB classified as TDRs on our consolidated balance sheets, all of which were current.

Delinquencies

Our multifamily delinquency rates include all multifamily loans that we own, that are collateral for Freddie Mac securities, and that are covered by our other guarantee commitments, except financial guarantees that are backed by HFA bonds because these securities do not expose us to meaningful amounts of credit risk due to the guarantee or credit enhancement provided by the U.S. government. We report multifamily delinquency rates based on UPB of mortgage loans that are two monthly payments or more past due or in the process of foreclosure. Our delinquency rates for multifamily loans are positively impacted to the extent we have been successful in working with troubled borrowers to modify their loans prior to becoming delinquent or by providing temporary relief through loan modifications, including short-term extensions. In addition, multifamily loans are not counted as delinquent if the borrower has entered into a forbearance agreement and is abiding by the terms of the agreement. As of both June 30, 2011 and December 31, 2010, approximately $0.1 billion of multifamily loan UPB had been granted forbearance and were not included in the delinquency rate statistics. 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 many loans in these states that are non-performing, or we believe are at risk of default. For further information regarding concentrations in our multifamily mortgage portfolio, including regional geographic composition, see NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS.

Our multifamily mortgage portfolio delinquency rate increased to 0.31% at June 30, 2011 from 0.26% at December 31, 2010. Our delinquency rate for credit-enhanced loans was 0.70% and 0.85% at June 30, 2011 and December 31, 2010, respectively, and for non-credit-enhanced loans was 0.19% and 0.12% at June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011, more than one-half of our multifamily loans, measured both in terms of number of loans and on a UPB basis, that were two monthly payments or more past due had credit enhancements that we currently believe will mitigate our expected losses on those loans. See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for information about credit protections and other forms of credit enhancements covering loans in our multifamily mortgage portfolio as of June 30, 2011 and December 31, 2010.

Non-Performing Assets

Non-performing assets consist of single-family and multifamily loans that have undergone a TDR, single-family seriously delinquent loans, multifamily loans that are three or more payments past due or in the process of foreclosure, and REO assets, net. Non-performing assets also include multifamily loans that are deemed impaired based on management judgment. We place non-performing loans on non-accrual status when we believe the collectability of interest and principal on a loan is not reasonably assured, unless the loan is well secured and in the process of collection. When a loan is placed on non-accrual status, any interest income accrued but uncollected is reversed. Thereafter, interest income is recognized only upon receipt of cash payments. We did not accrue interest on any loans three monthly payments or more past due or if the loan is in the process of foreclosure during the three and six months ended June 30, 2011.

We classify TDRs as those loans we modified and granted the borrower a concession. TDRs remain categorized as non-performing throughout the remaining life of the loan regardless of whether the borrower makes payments which return the loan to a current payment status after modification.

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Table 43 provides detail on non-performing loans and REO assets on our consolidated balance sheets and non-performing loans underlying our financial guarantees.

Table 43 Non-Performing Assets(1)

	As of		
	June 30, 2011	December 31, 2010	June 30, 2010
	(dollars in millions)		
Non-performing mortgage loans on balance sheet:			
Single-family TDRs:			
Reperforming, or less than three monthly payments past due	$ 36,243	$ 26,612	$ 15,470
Seriously delinquent	3,884	3,144	1,836
Multifamily TDRs(2)	988	911	351
Total TDRs	41,115	30,667	17,657
Other single-family non-performing loans(3)	73,397	84,272	92,788
Other multifamily non-performing loans(4)	1,901	1,750	1,451
Total non-performing mortgage loans on balance sheet	116,413	116,689	111,896
Non-performing mortgage loans off-balance sheet:			
Single-family loans	1,295	1,450	1,664
Multifamily loans	221	198	157
Total non-performing mortgage loans off-balance sheet	1,516	1,648	1,821
Real estate owned, net	5,932	7,068	6,298
Total non-performing assets	$ 123,861	$ 125,405	$ 120,015
Loan loss reserves as a percentage of our non-performing mortgage loans	33.2%	33.7%	33.7%
Total non-performing assets as a percentage of the total mortgage portfolio, excluding non-Freddie Mac securities	6.4%	6.4%	6.0%

(1) Mortgage loan amounts are based on UPB and REO, net is based on carrying values.
(2) As of June 30, 2011, all multifamily loans classified as TDRs were current.
(3) Represents loans recognized by us on our consolidated balance sheets, including loans purchased from PC trusts due to the borrower s serious delinquency.
(4) Of this amount, $1.7 billion, $1.6 billion, and $1.4 billion of UPB were current at June 30, 2011, December 31, 2010, and June 30, 2010, respectively.

The amount of non-performing assets declined to $123.9 billion as of June 30, 2011, from $125.4 billion at December 31, 2010, primarily due to a decline in the rate at which loans transitioned into serious delinquency. Although declining, our serious delinquency rate has remained high compared to historical levels due to the impact of continued weakness in home prices and persistently high unemployment, extended foreclosure timelines and foreclosure suspensions in many states, and challenges faced by servicers in processing large volumes of problem loans. The UPB of loans categorized as TDRs increased to $41.1 billion at June 30, 2011 from $30.7 billion at December 31, 2010, largely due to a continued high volume of loan modifications during the six months ended June 30, 2011 in which we decreased the contractual interest rate, deferred the balance on which contractual interest is computed, or made a combination of both of these changes. TDRs during the second quarter of 2011 include HAMP and non-HAMP loan modifications. In recent periods, our non-HAMP modifications comprised a greater portion of our loan modification volume and the volume of HAMP modifications declined. We expect this trend to continue in the remainder of 2011. We expect our non-performing assets, including loans deemed to be TDRs, to remain at elevated levels during the remainder of 2011.

Table 44 provides detail by region for REO activity. Our REO activity relates almost entirely to single-family residential properties. Consequently, our regional REO acquisition trends generally follow a pattern that is similar to, but lags, that of regional serious delinquency trends of our single-family credit guarantee portfolio. See Table 40 Single-Family Credit Guarantee Portfolio by Attribute Combinations for information about regional serious delinquency rates.

Table 44 REO Activity by Region[1]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(number of properties)			
REO Inventory				
Beginning property inventory	65,174	53,839	72,093	45,052
Adjustment to beginning balance[2]				1,340
Properties acquired by region:				
Northeast	1,921	3,086	3,406	5,730
Southeast	5,131	9,594	9,865	17,628
North Central	6,405	8,119	12,780	15,318
Southwest	3,388	3,601	6,501	6,691
West	7,954	10,267	16,956	18,716
Total properties acquired	24,799	34,667	49,508	64,083
Properties disposed by region:				
Northeast	(2,427)	(2,230)	(5,088)	(4,142)
Southeast	(7,540)	(6,874)	(16,754)	(12,136)
North Central	(6,801)	(5,938)	(14,093)	(10,835)
Southwest	(3,539)	(2,812)	(7,019)	(5,144)
West	(9,048)	(8,462)	(18,029)	(16,028)
Total properties disposed	(29,355)	(26,316)	(60,983)	(48,285)
Ending property inventory	60,618	62,190	60,618	62,190

(1) See endnote (8) to Table 40 Single-Family Credit Guarantee Portfolio by Attribute Combinations for a description of these regions.
(2) Represents REO assets associated with previously non-consolidated mortgage trusts recognized upon adoption of the amendment to the accounting guidance for consolidation of VIEs on January 1, 2010.

Our REO property inventory declined 16% from December 31, 2010 to June 30, 2011, primarily due to a decline in the volume of single-family foreclosures caused by temporary delays in the foreclosure process, including delays related to concerns about the foreclosure process, combined with continued strong levels of REO disposition activity during the period. Due to temporary suspensions, delays and other factors, the average length of time for foreclosure of a Freddie Mac loan significantly increased in recent years. The nationwide average for completion of a foreclosure (as measured from the date of the last scheduled payment made by the borrower) on our single-family delinquent loans, excluding those underlying our Other Guarantee Transactions, was 498 days and 451 days for foreclosures completed during the three months ended June 30, 2011 and 2010, respectively.

We expect the pace of our REO acquisitions will continue to be affected by delays in the foreclosure process in the remainder of 2011. However, we expect the volume of our REO acquisitions will likely remain elevated, in part due to the resumption earlier in the year of foreclosure activity by servicers following the temporary suspensions over concerns about documentation practices. We have a large inventory of seriously delinquent loans in our single-family credit guarantee portfolio, many of which will likely complete the foreclosure process and transition to REO during the next few quarters as our servicers work through their foreclosure-related issues. This inventory of seriously delinquent loans arose due to various factors and events that have lengthened the problem loan resolution process and delayed the transition of such loans to a workout or foreclosure transfer (and then, to REO). These factors and events include the effect of HAMP, temporary suspensions of foreclosure transfers, and the increasingly lengthy foreclosure process in many states.

Our single-family REO acquisitions during the six months ended June 30, 2011 were most significant in the states of California, Michigan, Arizona, Georgia, and Florida. The state with the most properties in our REO inventory is California. At June 30, 2011, our REO inventory in California comprised 13% of total REO property inventory, based on the number of properties.

We are limited in our REO disposition efforts by the capacity of the market to absorb large numbers of foreclosed properties. An increasing portion of our REO acquisitions are: (a) located in jurisdictions that require a period of time after foreclosure during which the borrower may reclaim the property; or (b) occupied and we have either retained the tenant under an existing lease or begun the process of eviction. During the period when the borrower may reclaim the property, or we are completing the eviction process, we are not able to market the property. This generally extends our holding period for up to three additional months. As of June 30, 2011 and December 31, 2010, approximately 33% and 28%, respectively, of our REO property inventory was not marketable due to the above conditions. Our temporary suspension of certain REO sales during the fourth quarter of 2010 (for up to three months) due to concerns about deficiencies in foreclosure documentation practices also caused the holding period to increase. Primarily for these reasons, the average holding period of our REO property increased in recent periods, though it varies significantly in different states. Excluding any post-foreclosure period during which borrowers may reclaim a foreclosed property, the average holding period associated with our REO dispositions during the six months ended June 30, 2011 and 2010 was 193 days and 151 days, respectively. As of June 30, 2011 and December 31, 2010, the percentage of our single-family REO property inventory that had been held for sale longer than one year was 6.3% and 3.4%, respectively. We continue to actively market these properties through our established initiatives. All of these factors have resulted in an increase in the aging of our inventory.

The composition of interest-only and Alt-A loans in our single-family credit guarantee portfolio, based on UPB, was approximately 5% and 6%, respectively, at June 30, 2011 and was 9% on a combined basis. The percentage of our REO acquisitions in the six months ended June 30, 2011 that had been secured by either of these loan types represented approximately 32% of our total REO acquisitions, based on loan amount prior to acquisition.

Credit Loss Performance

Many loans that are seriously delinquent or in foreclosure result in credit losses. Table 45 provides detail on our credit loss performance associated with mortgage loans and REO assets on our consolidated balance sheets and underlying our non-consolidated mortgage-related financial guarantees.

Table 45 Credit Loss Performance

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(dollars in millions)			
REO				
REO balances, net:				
Single-family	$ 5,834	$ 6,228	$ 5,834	$ 6,228
Multifamily	98	70	98	70
Total	$ 5,932	$ 6,298	$ 5,932	$ 6,298
REO operations (income) expense:				
Single-family	$ 35	$ (41)	$ 292	$ 115
Multifamily	(8)	1	(8)	4
Total	$ 27	$ (40)	$ 284	$ 119
Charge-offs				
Single-family:				
Charge-offs, gross(1) (including $3.8 billion, $4.5 billion, $7.3 billion, and $7.8 billion relating to loan loss reserves, respectively)	$ 3,871	$ 4,664	$ 7,524	$ 8,031
Recoveries(2)	(800)	(772)	(1,484)	(1,388)
Single-family, net	$ 3,071	$ 3,892	$ 6,040	$ 6,643

Multifamily:				
Charge-offs, gross[1] (including $29 million, $27 million, $41 million, and $45 million relating to loan loss reserves, respectively)	$ 29	$ 27	$ 41	$ 45
Recoveries[2]				
Multifamily, net	$ 29	$ 27	$ 41	$ 45
Total Charge-offs:				
Charge-offs, gross[1] (including $3.8 billion, $4.5 billion, $7.4 billion, and $7.8 billion relating to loan loss reserves, respectively)	$ 3,900	$ 4,691	$ 7,565	$ 8,076
Recoveries [2]	(800)	(772)	(1,484)	(1,388)
Total Charge-offs, net	$ 3,100	$ 3,919	$ 6,081	$ 6,688
Credit losses[3]				
Single-family	$ 3,106	$ 3,851	$ 6,332	$ 6,758
Multifamily	21	28	33	49
Total	$ 3,127	$ 3,879	$ 6,365	$ 6,807
Total (in bps)[4]	64.9	78.6	66.0	68.9

(1) Represent the carrying amount of a loan that has been discharged in order to remove the loan from our consolidated balance sheets at the time of resolution, regardless of when the impact of the credit loss was recorded on our consolidated statements of income and comprehensive income through the provision for credit losses or losses on loans purchased. Charge-offs primarily result from foreclosure transfers and short sales and are generally calculated as the recorded investment of a loan at the date it is discharged less the estimated value in final disposition or actual net sales in a short sale.

(2) Recoveries of charge-offs primarily result from foreclosure transfers and short sales on loans where a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements.

(3) Excludes foregone interest on non-performing loans, which reduces our net interest income but is not reflected in our total credit losses. In addition, excludes other market-based credit losses: (a) incurred on our investments in mortgage loans and mortgage-related securities; and (b) recognized in our consolidated statements of income and comprehensive income.

(4) Calculated as credit losses divided by the average carrying value of our total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of REMICs and Other Structured Securities that are backed by Ginnie Mae Certificates.

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Our credit loss performance metric generally measures losses at the conclusion of the loan and related collateral resolution process. There is a significant lag in time from the implementation of problem loan workout activities until the final resolution of seriously delinquent mortgage loans and REO assets. Our credit loss performance is based on our charge-offs and REO expenses. We record charge-offs at the time we take ownership of a property through foreclosure. We expect our credit losses to remain elevated in the remainder of 2011, as our short sale and REO acquisition volumes will likely remain high, due to high levels of seriously delinquent loans and pending foreclosures, and because market conditions, such as home prices and the rate of home sales, continue to remain weak. Suspensions and delays of foreclosure transfers, including as a result of concerns about the foreclosure process, and imposed delays by regulatory or governmental agencies have caused delays in the timing of our recognition of credit losses and may continue to do so in the future.

Single-family charge-offs, gross, for the three and six months ended June 30, 2011 were $3.9 billion and $7.5 billion, respectively, compared to $4.7 billion and $8.0 billion for the three and six months ended June 30, 2010, respectively. Our charge-offs in the three and six months ended June 30, 2011 remained elevated, but reflects suppression of activity due to delays in the foreclosure process. We believe that the level of our charge-offs will remain high in 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. Our credit losses during the three months ended June 30, 2011 continued to be disproportionately high in those states that experienced significant declines in property values since 2006, such as California, Florida, Nevada and Arizona. California accounted for 16% of loans in our single-family credit guarantee portfolio as of June 30, 2011, and comprised approximately 32% of our total credit losses in both the three and six months ended June 30, 2011. In addition, although Alt-A loans comprised approximately 6% of our single-family credit guarantee portfolio at both June 30, 2011 and December 31, 2010, respectively, these loans accounted for approximately 29% and 30% of our credit losses for the three and six months ended June 30, 2011, respectively. See Table 3 Credit Statistics, Single-Family Credit Guarantee Portfolio for information on REO disposition severity ratios, and see NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS for additional information about our credit losses.

Credit Risk Sensitivity

Under a 2005 agreement with FHFA, then OFHEO, we are required to disclose the estimated increase in the NPV of future expected credit losses for our single-family credit guarantee portfolio over a ten year period as the result of an immediate 5% decline in home prices nationwide, followed by a stabilization period and return to the base case. This sensitivity analysis is hypothetical and may not be indicative of our actual results. We do not use this analysis for determination of our reported results under GAAP. As shown in Table 46 below, our quarterly credit risk sensitivity estimates have increased in recent periods primarily due to declines in home prices during the last year.

Table 46 Single-Family Credit Loss Sensitivity

	Before Receipt of Credit Enhancements(1)		**After Receipt of Credit Enhancements(2)**	
	NPV(3)	**NPV Ratio(4)**	**NPV(3)**	**NPV Ratio(4)**
	(dollars in millions)			
At:				
June 30, 2011	$ 10,203	56.5 bps	$ 9,417	52.2 bps
March 31, 2011	$ 9,832	54.2 bps	$ 8,999	49.6 bps
December 31, 2010	$ 9,926	54.9 bps	$ 9,053	50.0 bps
September 30, 2010	$ 9,099	49.5 bps	$ 8,187	44.6 bps

June 30, 2010	$ 8,327	44.5 bps	$ 7,445	39.8 bps

(1) Assumes that none of the credit enhancements currently covering our mortgage loans has any mitigating impact on our credit losses.
(2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates.
(3) Based on the single-family credit guarantee portfolio, excluding REMICs and Other Structured Securities backed by Ginnie Mae Certificates.
(4) Calculated as the ratio of NPV of increase in credit losses to the single-family credit guarantee portfolio, defined in note (3) above.

Interest Rate and Other Market Risks

For a discussion of our interest rate and other market risks, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Operational Risks

We may face increased operational risk due to the requirement that we and Fannie Mae align certain single-family mortgage servicing practices for non-performing loans. On April 28, 2011, FHFA announced a new set of aligned standards for servicing by Freddie Mac and Fannie Mae. The large scope of change required by this alignment will require significant management effort and attention. See Credit Risk *Mortgage Credit Risk* *Single-family Mortgage*

Credit Risk Single-Family Loan Workouts for more information. There also have been a number of other regulatory developments in recent periods impacting single-family mortgage servicing and foreclosure practices. The servicing model for single-family mortgages may face further significant changes in the future. As a result, we may be required to make additional significant changes to our practices, which could further increase our operational risk. See LEGISLATIVE AND REGULATORY MATTERS Developments Concerning Single-Family Servicing Practices for more information.

Our risks related to employee retention are high. We have experienced elevated levels of voluntary turnover, and expect this to be the case for the remainder of 2011 as the public debate regarding the future role of the GSEs continues. This has led to concerns about staffing inadequacies and management depth. A number of senior officers left the company in 2011, including our Chief Operating Officer, our Executive Vice President Single-Family Credit Guarantee, our Executive Vice President Investments and Capital Markets and Treasurer, our Executive Vice President Multifamily, our Senior Vice President Operations & Technology, and our Executive Vice President General Counsel & Corporate Secretary. In addition, our Executive Vice President Chief Credit Officer will be leaving the company in October 2011. Because we maintain succession plans for our senior management positions, we have been able to fill most of these senior management positions quickly, or have eliminated them through reorganizations. However, disruptive levels of turnover at both the executive and employee levels could lead to breakdowns in any of our operations, affect our execution capabilities, cause delays in the implementation of critical technology and other projects, and erode our business, modeling, internal audit, risk management, financial reporting, and compliance expertise and capabilities.

We made two significant internal reorganizations during the second quarter of 2011, as we combined our Single-Family Credit Guarantee, Single-Family Portfolio Management, and Operations & Technology divisions, and we merged our Credit Management division into our Enterprise Risk Management division. Over time, we expect these changes will improve our overall risk profile. However, in the near term, these changes could increase our operational risk.

Management, including the company s Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of June 30, 2011, at a reasonable level of assurance, because our disclosure controls and procedures did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. We have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is communicated from FHFA to Freddie Mac s management in a manner that allows for timely decisions regarding our required disclosure. For additional information, see CONTROLS AND PROCEDURES.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

Our business activities require that we maintain adequate liquidity to fund our operations, which may include the need to make payments of principal and interest on our debt securities, including securities issued by our consolidated trusts; make payments upon the maturity, redemption or repurchase of our debt securities; make net payments on derivative instruments; pay dividends on our senior preferred stock; purchase mortgage-related securities and other investments; and purchase mortgage loans, including modified or seriously delinquent loans from PC trusts. For more information on our liquidity needs and liquidity management, see MD&A LIQUIDITY AND CAPITAL RESOURCES in our 2010 Annual Report.

We fund our cash requirements primarily by issuing short-term and long-term debt. Other sources of cash include:

- receipts of principal and interest payments on securities or mortgage loans we hold;
- other cash flows from operating activities, including the management and guarantee fees we receive in connection with our guarantee activities;
- borrowings against mortgage-related securities and other investment securities we hold; and
- sales of securities we hold.

We have also received substantial amounts of cash from Treasury pursuant to draws under the Purchase Agreement, which are made to address deficits in our net worth, however, no cash was received from Treasury during the second quarter of 2011 due to our positive net worth at March 31, 2011.

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. This could adversely affect our liquidity, and the supply and cost of debt financing available to us. For more information, see *Other Debt Securities Credit Ratings.*

Recently we changed the composition of our portfolio of liquid assets by decreasing our holdings of short-term Treasury securities and money funds and increasing our holdings of cash and overnight investments given the recent market concerns about the potential for a downgrade in the credit rating 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 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.*

Liquidity Management

Maintaining sufficient liquidity is of primary importance and we continually strive to enhance our liquidity management practices and policies. Under these practices and policies, we maintain an amount of cash and cash equivalent reserves in the form of liquid, high quality short-term investments that is intended to enable us to meet ongoing cash obligations for an extended period, in the event we do not have access to the short- or long-term unsecured debt markets. We also actively manage the concentration of debt maturities and closely monitor our monthly maturity profile. In the second quarter of 2011, we revised our liquidity management practices and policies such that they no longer require us to maintain a back-up core portfolio of liquid non-mortgage-related securities with a market value of $10 billion. This requirement was no longer deemed to be necessary due to improvements in our ability to forecast cash flows. Our remaining liquidity management policies remain in effect, including the requirement to maintain funds sufficient to cover our maximum cash liquidity needs for at least the following 35 calendar days. For a discussion of our liquidity management practices and policies, see MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity *Liquidity Management* in our 2010 Annual Report.

Throughout the second quarter of 2011, we complied with all requirements under our liquidity management policies. Furthermore, the majority of the funds used to cover our short-term cash liquidity needs are invested in short-term assets with a rating of A-1/P-1 or AAA or are issued by a counterparty with that rating. In the event of a downgrade of a position or a counterparty, as applicable, below minimum rating requirements, our credit governance policies require us to exit from the position within a specified period.

We also continue to manage our debt issuances to remain in compliance with the aggregate indebtedness limits set forth in the Purchase Agreement.

To facilitate cash management, we forecast cash outflows. These forecasts help us to manage our liabilities with respect to asset purchases and runoff, when financial markets are not in crisis. For further information on our management of interest-rate risk associated with asset and liability management, see QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Notwithstanding these practices and policies, our ability to maintain sufficient liquidity, including by pledging mortgage-related and other securities as collateral to other financial institutions, could cease or change rapidly and the cost of the available funding could increase significantly due to changes in market confidence and other factors. For more information, see RISK FACTORS Competitive and Market Risks *Our business may be adversely affected by limited availability of financing and increased funding costs* in our 2010 Annual Report.

Actions of Treasury and FHFA

Since our entry into conservatorship, Treasury and FHFA have taken a number of actions that affect our cash requirements and ability to fund those requirements. The conservatorship, and the resulting support we received from Treasury, has enabled us to access debt funding on terms sufficient for our needs.

Under the Purchase Agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. The Purchase Agreement provides that the $200 billion maximum amount of the commitment from Treasury will increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011, and 2012. If we do not have a capital surplus (*i.e.*, positive net worth) at the end of 2012, then the amount of funding available after 2012 will be $149.3 billion ($200 billion funding commitment reduced by cumulative draws for net worth deficits through December 31, 2009). In the event we have a capital surplus at the end of 2012, then the amount of funding available after 2012 will depend on the size of that surplus relative to cumulative draws needed for deficits during 2010 to 2012, as follows:

If the year-end 2012 surplus is lower than the cumulative draws needed for 2010 to 2012, then the amount of available funding is $149.3 billion less the surplus.

If the year-end 2012 surplus exceeds the cumulative draws for 2010 to 2012, then the amount of available funding is $149.3 billion less the amount of those draws.

While 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, the costs of our debt funding could vary due to the uncertainty about the future of the GSEs and potential investor concerns about the adequacy of funding available to us under the Purchase Agreement after 2012. The costs of our debt funding could also increase due to the downgrades discussed above or in the event of any future downgrades in our credit ratings or the credit ratings of the U.S. government. Upon funding of the draw request that FHFA will submit to eliminate our net worth deficit at June 30, 2011, our aggregate funding received from Treasury under the Purchase Agreement will increase to $65.2 billion. This aggregate funding amount does not include the initial $1.0 billion liquidation preference of senior preferred stock that we issued to Treasury in September 2008 as an initial commitment fee and for which no cash was received. Commencing in the second quarter of 2011, our draw request represents our net worth deficit at quarter-end rounded up to the nearest $1 million. In addition, we are required to pay a quarterly commitment fee to Treasury under the Purchase Agreement, as discussed below.

For more information on these actions, see BUSINESS Conservatorship and Related Matters and Regulation and Supervision in our 2010 Annual Report and RISK FACTORS in this Form 10-Q.

Dividend Obligation on the Senior Preferred Stock

Following funding of the draw request related to our net worth deficit at June 30, 2011, our annual cash dividend obligation to Treasury on the senior preferred stock will increase from $6.5 billion to $6.6 billion, which exceeds our annual historical earnings in all but one period. The senior preferred stock accrues quarterly cumulative dividends at a rate of 10% per year or 12% per year in any quarter in which dividends are not paid in cash until all accrued dividends have been paid in cash. We paid a quarterly dividend of $1.6 billion in cash on the senior preferred stock on June 30, 2011 at the direction of our Conservator. Through June 30, 2011, we paid aggregate cash dividends to Treasury of $13.2 billion, an amount equal to 21% of our aggregate draws received under the Purchase Agreement. Continued cash payment of senior preferred dividends will have an adverse impact on our future financial condition and net worth and will increasingly drive future draws. 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 has waived the fee for the first three 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 fee has not yet been established and could be substantial.

The payment of dividends on our senior preferred stock in cash reduces our net worth. For periods in which our earnings and other changes in equity do not result in positive net worth, draws under the Purchase Agreement effectively fund the cash payment of senior preferred dividends to Treasury. Under the Purchase Agreement, our ability to repay the liquidation preference of the senior preferred stock is limited and we will not be able to do so for the foreseeable future, if at all.

As discussed in Capital Resources, we expect to make additional draws under the Purchase Agreement in future periods. Further draws will increase the liquidation preference of and the dividends we owe on the senior preferred stock.

Other Debt Securities

Spreads on our debt and our access to the debt markets remained favorable relative to historical levels during the three and six months ended June 30, 2011, due largely to support from the U.S. government. As a result, we were able to replace certain higher cost debt with lower cost debt. Our short-term debt was 28% of outstanding other debt at both June 30, 2011 and December 31, 2010 as compared to 27% at March 31, 2011.

Because of the debt limit under the Purchase Agreement, we may be restricted in the amount of debt we are allowed to issue to fund our operations. Our debt cap under the Purchase Agreement is $972 billion in 2011. As of June 30, 2011, we estimate that the par value of our aggregate indebtedness totaled $695.2 billion, which was approximately $276.8 billion below the debt cap. As of December 31, 2010, we estimate that the par value of our aggregate indebtedness totaled $728.2 billion, which was approximately $351.8 billion below the then applicable limit of $1.08 trillion. Our aggregate indebtedness is calculated as the par value of other debt. We disclose the amount of our indebtedness on this basis monthly under the caption Other Debt Activities Total Debt Outstanding 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.

Other Debt Issuance Activities

Table 47 summarizes the par value of other debt securities we issued, based on settlement dates, during the three and six months ended June 30, 2011 and 2010.

Table 47 Other Debt Security Issuances by Product, at Par Value[(1)]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Other short-term debt:				
Reference Bills® securities and discount notes	$ 104,200	$ 103,331	$ 208,046	$ 256,934
Medium-term notes non-callable[(2)]	250	565	450	1,065
Total other short-term debt	104,450	103,896	208,496	257,999
Other long-term debt:				
Medium-term notes callable	33,246	62,975	71,047	126,696
Medium-term notes non-callable	18,482	23,958	47,657	51,200
U.S. dollar Reference Notes® securities non-callable	8,000	7,000	18,000	17,500
Total other long-term debt	59,728	93,933	136,704	195,396
Total other debt issued	$ 164,178	$ 197,829	$ 345,200	$ 453,395

(1) Excludes federal funds purchased and securities sold under agreements to repurchase and lines of credit. Also excludes debt securities of consolidated trusts held by third parties.
(2) Includes $250 million and $565 million of medium-term notes non-callable issued for the three months ended June 30, 2011 and 2010, respectively, which were accounted for as debt exchanges. For the six months ended June 30, 2011 and 2010, there were $0.5 billion and $1.1 billion accounted for as debt exchanges, respectively.

Other Debt Retirement Activities

We repurchase, call, or exchange our outstanding medium- and long-term debt securities from time to time to help support the liquidity and predictability of the market for our other debt securities and to manage our mix of liabilities funding our assets.

Table 48 provides the par value, based on settlement dates, of other debt securities we repurchased, called, and exchanged during the three and six months ended June 30, 2011 and 2010.

Table 48 Other Debt Security Repurchases, Calls, and Exchanges[(1)]

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions)			
Repurchases of outstanding Reference Notes® securities	$	$ 192	$	$ 262
Repurchases of outstanding medium-term notes	1,030	4,054	3,768	4,054
Calls of callable medium-term notes	45,697	81,560	85,532	138,734
Exchanges of medium-term notes	250	565	450	1,065

(1) Excludes debt securities of consolidated trusts held by third parties.

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent upon our credit ratings. Table 49 indicates our credit ratings as of August 8, 2011.

Table 49 Freddie Mac Credit Ratings

	Nationally Recognized Statistical Rating Organization		
	S&P	**Moody s**	**Fitch**
Senior long-term debt[(1)]	AA+/Negative	Aaa/Negative	AAA
Short-term debt[(2)]	A-1+	P-1	F1+
Subordinated debt[(3)]	A/Negative	Aa2/Negative	AA
Preferred stock[(4)]	C	Ca	C/RR6

(1) Consists of medium-term notes, U.S. dollar Reference Notes® securities and Reference Notes® securities.
(2) Consists of Reference Bills® securities and discount notes.
(3) Consists of Freddie SUBS® securities.
(4) Does not include senior preferred stock issued to Treasury.

Earlier this year, given concerns that the U.S. government s statutory debt limit would not be raised in a timely manner as well as uncertainty about achievement of a credible deficit reduction solution, certain major credit rating agencies took actions on the U.S. government s credit ratings. Due to the support we receive from Treasury, these rating agencies also took corresponding actions on certain of our credit ratings. On August 2, 2011, President Obama signed the Budget and Control Act of 2011 which raised the U.S. government s statutory debt limit. The raising of the statutory debt limit and details outlined in the legislation to reduce the deficit resulted in further rating actions on our debt ratings and the ratings of the U.S. government.

On July 15, 2011, S&P placed our senior long-term debt and short-term debt on CreditWatch with negative implications. This action followed S&P s placement of the long-term and short-term credit ratings of the United States on CreditWatch with negative implications on July 14, 2011. S&P subsequently lowered the long-term credit rating of the United States to AA+ from AAA and affirmed the short-term rating of A-1+ on August 5, 2011. S&P removed both the short- and long-term ratings of the U.S. government from CreditWatch negative and assigned a negative outlook to the long-term credit 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.

On August 2, 2011, Moody s confirmed our senior long-term debt and subordinated debt ratings and assigned a negative outlook to the ratings. This action accompanied Moody s confirmation of the U.S. government s long-term credit rating and assignment of a negative outlook to the rating. Our debt ratings, as well as the long-term credit rating of the U.S. government, had previously been placed on review for possible downgrade on July 13, 2011.

For information about the potential impact of a downgrade in our credit ratings, see 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.*

A security rating is not a recommendation to buy, sell or hold securities. It may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

Cash and Cash Equivalents, Federal Funds Sold, Securities Purchased Under Agreements to Resell, and Non-Mortgage-Related Securities

Excluding amounts related to our consolidated VIEs, we held $56.7 billion in the aggregate of cash and cash equivalents, federal funds sold, securities purchased under agreements to resell, and non-mortgage-related securities at June 30, 2011. These investments are important to our cash flow and asset and liability management and our ability to provide liquidity and stability to the mortgage market. At June 30, 2011, our non-mortgage-related securities primarily consisted of FDIC-guaranteed corporate medium-term notes, Treasury notes, and Treasury bills that we could sell to provide us with an additional source of liquidity to fund our business operations. For additional information on these assets, see CONSOLIDATED BALANCE SHEETS ANALYSIS Cash and Cash Equivalents, Federal Funds Sold and Securities Purchased Under Agreements to Resell and Investments in Securities *Non-Mortgage-Related Securities.*

Mortgage Loans and Mortgage-Related Securities

We invest principally in mortgage loans and mortgage-related securities, certain categories of which are largely unencumbered and highly liquid. Our primary source of liquidity among these mortgage assets is our holdings of agency securities. In addition, our unsecuritized performing single-family mortgage loans are also a potential source of liquidity. Our holdings of CMBS are less liquid than agency securities. Our holdings of non-agency mortgage-related securities backed by subprime, option ARM, and Alt-A and other loans are not liquid due to market conditions and the continued poor credit quality of the underlying assets. Our holdings of unsecuritized seriously delinquent and modified single-family mortgage loans are also illiquid.

We are 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. See CONSOLIDATED BALANCE SHEETS ANALYSIS Investments in Securities *Mortgage-Related Securities* for more information

Cash Flows

Our cash and cash equivalents decreased approximately $19.5 billion to $17.5 billion during the six months ended June 30, 2011. Cash flows provided by operating activities during the six months ended June 30, 2011 were $7.8 billion, primarily driven by net interest income and net sales of multifamily held-for-sale mortgage loans. Cash flows provided by investing activities during the six months ended June 30, 2011 were $181.8 billion, primarily resulting from net proceeds received as a result of repayments of single-family held-for-investment mortgage loans. Cash flows used for financing activities during the six months ended June 30, 2011 were $209.1 billion, largely attributable to net repayments of debt securities of consolidated trusts held by third parties.

Our cash and cash equivalents decreased approximately $15.0 billion to $49.7 billion during the six months ended June 30, 2010. Cash flows provided by operating activities during the six months ended June 30, 2010 were $6.6 billion, primarily driven by net interest income and net sales of multifamily held-for-sale mortgage loans. Cash flows provided by investing activities during the six months ended June 30, 2010 were $133.9 billion, primarily resulting from net proceeds received on held-for-investment mortgage loans as we had more repayments of held-for-investment mortgage loans compared to purchases. Cash flows used for financing activities for the six months ended June 30, 2010 were $155.5 billion, largely attributable to repayments of debt securities of consolidated trusts held by third parties, net of proceeds from the issuance of debt securities of consolidated trusts held by third parties.

Capital Resources

Under the GSE Act, FHFA must place us into receivership if FHFA determines in writing that our assets are and have been less than our obligations for a period of 60 days. Obtaining funding from Treasury pursuant to its commitment under the Purchase Agreement enables us to avoid being placed into receivership by FHFA. To address our net worth deficit of $1.5 billion at June 30, 2011, FHFA will submit a draw request on our behalf to Treasury under the Purchase Agreement in the amount of $1.5 billion, and will request that we receive these funds by September 30, 2011. See BUSINESS Regulation and Supervision *Federal Housing Finance Agency Receivership* in our 2010 Annual Report for additional information on mandatory receivership. See also RISK FACTORS *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.*

We expect to make further draws under the Purchase Agreement in future periods. Given the substantial senior preferred stock dividend obligation to Treasury, which will increase with additional draws, senior preferred stock dividend payments will increasingly drive our future draw requests under the Purchase Agreement with Treasury.

The size and timing of our future draws will be determined by our dividend obligation on the senior preferred stock and a variety of other factors that could adversely affect our net worth. These other factors include how long and to what extent the housing market, including home prices, remains weak, which could increase credit expenses and cause additional other-than-temporary impairments of the non-agency mortgage-related securities we hold; foreclosure prevention efforts and foreclosure processing delays, which could increase our expenses; adverse changes in interest rates, the yield curve, implied volatility or mortgage-to-debt OAS, which could increase realized and unrealized mark-to-fair-value losses recorded in earnings or AOCI; required reductions in the size of our mortgage-related investments portfolio and other limitations on our investment activities that reduce the earnings capacity of our investment activities; quarterly commitment fees payable to Treasury; adverse changes to our funding costs and limited availability of financing; establishment of additional valuation allowances for our remaining net deferred tax asset; changes in accounting practices or guidance; the effect of the MHA Program and other government initiatives; limitations on our ability to develop new products; the introduction of additional public mission-related initiatives that may adversely impact our financial results; or changes in business practices resulting from legislative and regulatory developments.

For more information on the Purchase Agreement, its effect on our business and capital management activities, and the potential impact of making additional draws, see MD&A LIQUIDITY AND CAPITAL RESOURCES Liquidity *Dividend Obligation on the Senior Preferred Stock,* BUSINESS Executive Summary *Long-Term Financial Sustainability and Future Status* and RISK FACTORS in our 2010 Annual Report.

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FAIR VALUE MEASUREMENTS AND ANALYSIS

Fair Value Measurements

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For additional information regarding the fair value hierarchy and measurements, see MD&A FAIR VALUE MEASUREMENTS AND ANALYSIS in our 2010 Annual Report.

We categorize assets and liabilities measured and reported at fair value in our consolidated balance sheets within the fair value hierarchy based on the valuation process used to derive their fair values and our judgments regarding the observability of the related inputs. Those judgments are based on our knowledge and observations of the markets relevant to the individual assets and liabilities and may vary due to changes in market conditions. In making our judgments, we review ranges of third-party prices and transaction volumes, and hold discussions with dealers and pricing service vendors to understand and assess the extent of market benchmarks available and the judgments or modeling required in their processes. Based on these factors, we determine whether the inputs are observable and whether the principal markets are active or inactive.

Our Level 3 fair value measurements (*i.e.*, valued using significant inputs that are unobservable) primarily consist of non-agency mortgage-related securities and multifamily held-for-sale loans. The market for non-agency mortgage-related securities continued to be illiquid during the second quarter of 2011, with low transaction volumes, wide credit spreads, and limited transparency. We value the non-agency mortgage-related securities we hold based primarily on prices received from pricing services and dealers. The techniques used by these pricing services and dealers to develop the prices generally are either: (a) a comparison to transactions involving instruments with similar collateral and risk profiles; or (b) industry standard modeling, such as a discounted cash flow model. For a large majority of the securities we value using dealers and pricing services, we obtain multiple independent prices, which are non-binding both to us and our counterparties. When multiple prices are received, we use the median of the prices. The models and related assumptions used by the dealers and pricing services are owned and managed by them. However, we have an understanding of the processes they use to develop the prices provided to us based on our ongoing due diligence. We periodically have discussions with our dealers and pricing service vendors to maintain a current understanding of the processes and inputs they use to develop prices. We make no adjustments to the individual prices we receive from third-party pricing services or dealers for non-agency mortgage-related securities beyond calculating median prices and discarding certain prices that are determined not to be valid based on our validation processes. See MD&A FAIR VALUE MEASUREMENTS AND ANALYSIS Fair Value Measurements *Controls over Fair Value Measurement* in our 2010 Annual Report for information on our validation processes.

Table 50 below summarizes our assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and December 31, 2010.

Table 50 Summary of Assets and Liabilities at Fair Value on a Recurring Basis

	June 30, 2011		December 31, 2010	
	Total GAAP Recurring	Percentage in	Total GAAP Recurring	Percentage in

	Fair Value	Level 3	Fair Value	Level 3
	(dollars in millions)			
Assets:				
Investments in securities:				
Available-for-sale, at fair value	$ 222,849	29%	$ 232,634	30%
Trading, at fair value	54,764	6	60,262	5
Mortgage loans:				
Held-for-sale, at fair value	4,463	100	6,413	100
Derivative assets, net(1)	246		143	
Other assets:				
Guarantee assets, at fair value	667	100	541	100
Total assets carried at fair value on a recurring basis(1)	$ 282,989	24	$ 299,993	25
Liabilities:				
Debt securities recorded at fair value	$ 3,998	%	$ 4,443	%
Derivative liabilities, net(1)	408	2	1,209	3
Total liabilities carried at fair value on a recurring basis(1)	$ 4,406	1	$ 5,652	2

(1) Percentages by level are based on gross fair value of derivative assets and derivative liabilities before counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

Changes in Level 3 Recurring Fair Value Measurements

At June 30, 2011 and December 31, 2010, we measured and recorded at fair value on a recurring basis $72.8 billion and $79.8 billion, respectively, or approximately 24% and 25% of total assets carried at fair value on a recurring basis, using significant unobservable inputs (Level 3), before the impact of counterparty and cash collateral netting. Our Level 3 assets at June 30, 2011 primarily consist of non-agency mortgage-related securities and multifamily held-for-sale loans. At June 30, 2011 and December 31, 2010, we also measured and recorded at fair value on a recurring basis Level 3 derivative liabilities of $0.4 billion and $0.8 billion, or 1% and 2%, respectively, of total liabilities carried at fair value on a recurring basis, before the impact of counterparty and cash collateral netting.

During the three and six months ended June 30, 2011, the fair value of our Level 3 assets decreased by $5.0 billion and $7.0 billion, respectively, mainly attributable to: (a) monthly remittances of principal repayments from the underlying collateral of non-agency mortgage-related securities; and (b) net sales of multifamily held-for-sale loans. In addition, the fair value of our investments in non-agency mortgage-related securities also decreased from the widening of OAS levels on these securities during the second quarter of 2011. During the three and six months ended June 30, 2011, we had a net transfer into Level 3 assets of $12 million and $160 million, respectively, resulting from a change in valuation method for certain mortgage-related securities due to a lack of relevant price quotes from dealers and third-party pricing services.

See NOTE 18: FAIR VALUE DISCLOSURES Table 18.2 Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs for the Level 3 reconciliation. For discussion of types and characteristics of mortgage loans underlying our mortgage-related securities, see RISK MANAGEMENT Credit Risk and Table 17 Characteristics of Mortgage-Related Securities on Our Consolidated Balance Sheets.

Consideration of Credit Risk in Our Valuation

We consider credit risk in the valuation of our assets and liabilities through consideration of credit risk of the counterparty in asset valuations and through consideration of our own institutional credit risk in liability valuations on our GAAP consolidated balance sheets.

We consider credit risk in our valuation of investments in securities based on fair value measurements that are largely the result of price quotes received from multiple dealers or pricing services. Some of the key valuation drivers of such fair value measurements can include the collateral type, collateral performance, credit quality of the issuer, tranche type, weighted average life, vintage, coupon, and interest rates. We also make adjustments for items such as credit enhancements or other types of subordination and liquidity, where applicable. In cases where internally developed models are used, we maximize the use of market-based inputs or calibrate such inputs to market data.

We also consider credit risk when we evaluate the valuation of our derivative positions. The fair value of derivative assets considers the impact of institutional credit risk in the event that the counterparty does not honor its payment obligation. For derivatives that are in an asset position, we hold collateral against those positions in accordance with agreed upon thresholds. The amount of collateral held depends on the credit rating of the counterparty and is based on our credit risk policies. Similarly, for derivatives that are in a liability position, we post collateral to counterparties in accordance with agreed upon thresholds. Based on this evaluation, our fair value of derivatives is not adjusted for credit risk because we obtain collateral from, or post collateral to, most counterparties, typically within one business day of the daily market value calculation, and substantially all of our credit risk arises from counterparties with investment-grade credit ratings of A or above. See RISK MANAGEMENT Credit Risk *Institutional Credit Risk Derivative Counterparties* for a discussion of our counterparty credit risk.

See NOTE 18: FAIR VALUE DISCLOSURES Valuation Methods and Assumptions Subject to Fair Value Hierarchy for additional information regarding the valuation of our assets and liabilities.

Consolidated Fair Value Balance Sheets Analysis

Our consolidated fair value balance sheets present our estimates of the fair value of our financial assets and liabilities. See NOTE 18: FAIR VALUE DISCLOSURES Table 18.6 Consolidated Fair Value Balance Sheets for our fair value balance sheets. In conjunction with the preparation of our consolidated fair value balance sheets, we use a number of financial models. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks in this Form 10-Q and our 2010 Annual Report, and RISK FACTORS and RISK MANAGEMENT Operational Risks in our 2010 Annual Report for information concerning the risks associated with these models.

See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2010 Annual Report and NOTE 18: FAIR VALUE DISCLOSURES in this Form 10-Q for more information on fair values.

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Discussion of Fair Value Results

Table 51 summarizes the change in the fair value of net assets for the six months ended June 30, 2011 and 2010.

Table 51 Summary of Change in the Fair Value of Net Assets

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in billions)	
Beginning balance	$ (58.6)	$ (62.5)
Changes in fair value of net assets, before capital transactions	(1.7)	8.2
Capital transactions:		
Dividends and share issuances, net(1)	(2.7)	8.0
Ending balance	$ (63.0)	$ (46.3)

(1) Includes the funds received from Treasury of $0.5 billion and $10.6 billion for the six months ended June 30, 2011 and 2010, respectively, under the Purchase Agreement, which increased the liquidation preference of our senior preferred stock.

During the six months ended June 30, 2011, the fair value of net assets, before capital transactions, decreased by $1.7 billion, compared to an $8.2 billion increase during the six months ended June 30, 2010. The decrease in the fair value of net assets, before capital transactions, was primarily due to a decrease in the fair value of our single-family loans due to a decline in forecasted home prices (on a seasonally adjusted basis) and a continued weak credit environment, as well as a decrease in the fair value of our investments in mortgage-related securities from the widening of OAS levels on our non-agency securities. The decrease in fair value was partially offset by an increase in fair value from a tightening of OAS levels on our agency and CMBS securities and high core spread income.

During the six months ended June 30, 2010, the increase in the fair value of net assets, before capital transactions, was primarily due to high core spread income and an increase in the fair value of our investments in mortgage-related securities driven by the tightening of the OAS levels of agency mortgage-related securities and CMBS. The fair value of net assets was also positively impacted by higher than previously expected home prices (on a seasonally adjusted basis) and an increase in prepayment speeds on our PC debt securities. The increase in fair value was partially offset by a change in the estimation of a risk premium assumption embedded in our model to apply credit costs, which led to a decrease in our fair value measurement of mortgage loans, as well as an increase in the risk premium related to our single-family loans in the continued weak credit environment.

When the OAS on a given asset widens, the fair value of that asset will typically decline, all other market factors being equal. However, we believe such OAS widening has the effect of increasing the likelihood that, in future periods, we will recognize income at a higher spread on this existing asset. The reverse is true when the OAS on a given asset tightens current period fair values for that asset typically increase due to the tightening in OAS, while future income recognized on the asset is more likely to be earned at a reduced spread. However, as market conditions change, our estimate of expected fair value gains and losses from OAS may also change, and the actual core spread income recognized in future periods could be significantly different from current estimates.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or may be recorded in amounts that differ from the full contract or notional amount of the transaction. These off-balance sheet arrangements may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets.

Securitization Activities and Other Guarantee Commitments

We have off-balance sheet arrangements related to our securitization activities involving guaranteed mortgages and mortgage-related securities. As of June 30, 2011, our off-balance sheet arrangements related to these securitization activities primarily consisted of: (a) Freddie Mac mortgage-related securities backed by multifamily loans; and (b) certain single-family Other Guarantee Transactions. We also have off balance sheet arrangements related to other guarantee commitments, including long-term standby commitments and liquidity guarantees.

We guarantee the payment of principal and interest on Freddie Mac mortgage-related securities we issue and on mortgage loans covered by our other guarantee commitments. Therefore, our maximum potential off-balance sheet exposure to credit losses relating to these securitization activities and the other guarantee commitments is primarily represented by the UPB of the underlying loans and securities, which was \$51.9 billion and \$43.9 billion at June 30, 2011 and December 31, 2010, respectively. Our off-balance sheet arrangements related to securitization activity have been significantly reduced due to accounting guidance for transfers of financial assets and the consolidation of VIEs, which we adopted on January 1, 2010. See NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES in our 2010 Annual Report and NOTE 9: FINANCIAL GUARANTEES in this Form 10-Q for more information on our off-balance sheet securitization arrangements.

Our exposure to losses on the transactions described above would be partially mitigated by the recovery we would receive through exercising our rights to the collateral backing the underlying loans and the available credit enhancements, which may include recourse and primary insurance with third parties. In addition, we provide for incurred losses each period on these guarantees within our provision for credit losses.

Other Agreements

We own an interest in numerous entities that are considered to be VIEs for which we are not the primary beneficiary and which we do not consolidate on our balance sheets in accordance with the accounting guidance for the consolidation of VIEs. These VIEs relate primarily to our investment activity in mortgage-related assets and non-mortgage assets, and include LIHTC partnerships, certain Other Guarantee Transactions, and certain asset-backed investment trusts. Our consolidated balance sheets reflect only our investment in the VIEs, rather than the full amount of the VIEs assets and liabilities. See NOTE 3: VARIABLE INTEREST ENTITIES for additional information related to our variable interests in these VIEs.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives. Their fair values are reported as either derivative assets, net or derivative liabilities, net on our consolidated balance sheets. We also have purchase commitments primarily related to our mortgage purchase flow business, which we principally fulfill by issuing PCs in swap transactions, and, to a lesser extent, commitments to purchase or guarantee multifamily mortgage loans that are not accounted for as derivatives and are not recorded on our consolidated balance sheets. These non-derivative commitments totaled $241.7 billion, and $220.7 billion in notional value at June 30, 2011 and December 31, 2010, respectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make a number of judgments, estimates and assumptions that affect the reported amounts within our consolidated financial statements. Certain of our accounting policies, as well as estimates we make, are critical, as they are both important to the presentation of our financial condition and results of operations and require management to make difficult, complex, or subjective judgments and estimates, often regarding matters that are inherently uncertain. Actual results could differ from our estimates and the use of different judgments and assumptions related to these policies and estimates could have a material impact on our consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) allowances for loan losses and reserve for guarantee losses; (b) fair value measurements; (c) impairment recognition on investments in securities; and (d) realizability of net deferred tax assets. For additional information about our critical accounting policies and estimates and other significant accounting policies, including recently issued accounting pronouncements, see MD&A CRITICAL ACCOUNTING POLICIES AND ESTIMATES in our 2010 Annual Report and NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in this Form 10-Q.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts and others as part of our normal operations. Some of these communications, including this Form 10-Q, contain forward-looking statements, including statements pertaining to the conservatorship, our current expectations and objectives for our efforts under the MHA Program and other programs to assist the U.S. residential mortgage market, the servicing alignment initiative, future business plans, liquidity, capital management, economic and market conditions and trends, market share, the effect of legislative and regulatory developments, implementation of new accounting guidance, credit losses, internal control remediation efforts, and results of operations and financial condition on a GAAP, Segment Earnings, and fair value basis. Forward-looking statements are often accompanied by, and identified with, terms such as objective, expect, trend, forecast, anticipate, believe, intend, could, similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the RISK FACTORS sections of this Form 10-Q, our 2010 Annual Report, and our Quarterly Report on Form 10-Q for the first quarter of 2011, and:

the actions FHFA, Treasury, the Federal Reserve, the Obama Administration, Congress, and our management may take;

the impact of the restrictions and other terms of the conservatorship, the Purchase Agreement, the senior preferred stock, and the warrant on our business, including our ability to pay: (a) the dividend on the senior preferred stock; and (b) any quarterly commitment fee that we are required to pay to Treasury under the Purchase Agreement;

our ability to maintain adequate liquidity to fund our operations, including following any changes in the support provided to us by Treasury or FHFA, a change in the credit ratings of our debt securities or a change in the credit rating of the U.S. government;

changes in our charter or applicable legislative or regulatory requirements, including any restructuring or reorganization in the form of our company, whether we will remain a stockholder-owned company or continue to exist and whether we will be wound down or placed under receivership, regulations under the GSE Act, the Reform Act, or the Dodd-Frank Act, regulatory or legislative actions taken to implement the Obama Administration s plan to reform the housing finance system, changes to affordable housing goals regulation, reinstatement of regulatory capital requirements, or the exercise or assertion of additional regulatory or administrative authority;

changes in the regulation of the mortgage and financial services industries, including changes caused by the Dodd-Frank Act, or any other legislative, regulatory, or judicial action at the federal or state level;

enforcement actions against mortgage servicers and other mortgage industry participants by federal or state authorities;

the extent to which borrowers participate in the MHA Program, modification efforts under the servicing alignment initiative, and other initiatives designed to help in the housing recovery and the impact of such programs on our credit losses, expenses, and the size and composition of our mortgage-related investments portfolio;

the impact of any deficiencies in foreclosure documentation practices and related delays in the foreclosure process;

the ability of our financial, accounting, data processing, and other operating systems or infrastructure, and those of our vendors to process the complexity and volume of our transactions;

changes in accounting or tax guidance or in our accounting policies or estimates, and our ability to effectively implement any such changes in guidance, policies, or estimates;

changes in general regional, national, or international economic, business, or market conditions and competitive pressures, including changes in employment rates and interest rates, and changes in the federal government s fiscal and monetary policy;

changes in the U.S. residential mortgage market, including changes in the rate of growth in total outstanding U.S. residential mortgage debt, the size of the U.S. residential mortgage market, and home prices;

our ability to effectively implement our business strategies, including our efforts to improve the supply and liquidity of, and demand for, our products, and restrictions on our ability to offer new products or engage in new activities;

our ability to recruit and retain executive officers and other key employees;

our ability to effectively identify and manage credit, interest-rate, operational, and other risks in our business, including changes to the credit environment and the levels and volatilities of interest rates, as well as the shape and slope of the yield curves;

the effects of internal control deficiencies and our ability to effectively identify, assess, evaluate, manage, mitigate, or remediate control deficiencies and risks, including material weaknesses and significant deficiencies, in our internal control over financial reporting and disclosure controls and procedures;

incomplete or inaccurate information provided by customers and counterparties;

consolidation among, or adverse changes in the financial condition of, our customers and counterparties;

the failure of our customers and counterparties to fulfill their obligations to us, including the failure of seller/servicers to meet their obligations to repurchase loans sold to us in breach of their representations and warranties;

- changes in our judgments, assumptions, forecasts, or estimates regarding the volume of our business and spreads we expect to earn;
- the availability of options, interest-rate and currency swaps, and other derivative financial instruments of the types and quantities, on acceptable terms, and with acceptable counterparties needed for investment funding and risk management purposes;
- changes in pricing, valuation or other methodologies, models, assumptions, judgments, estimates and/or other measurement techniques, or their respective reliability;
- changes in mortgage-to-debt OAS;
- the potential impact on the market for our securities resulting from any sales by the Federal Reserve or Treasury of Freddie Mac debt and mortgage-related securities they have purchased;
- adverse judgments or settlements in connection with legal proceedings, governmental investigations, and IRS examinations;
- volatility of reported results due to changes in the fair value of certain instruments or assets;
- the development of different types of mortgage servicing structures and servicing compensation;
- preferences of originators in selling into the secondary mortgage market;
- changes to our underwriting or servicing requirements, or investment standards for mortgage-related products;
- investor preferences for mortgage loans and mortgage-related and debt securities compared to other investments;
- borrower preferences for fixed-rate mortgages or adjustable-rate mortgages;
- the occurrence of a major natural or other disaster in geographic areas in which our offices or portions of our total mortgage portfolio are concentrated;
- other factors and assumptions described in this Form 10-Q, in our 2010 Annual Report, and our Quarterly Report on Form 10-Q for the first quarter of 2011;
- our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their impacts; and
- market reactions to the foregoing.

We undertake no obligation to update any forward-looking statements we make to reflect events or circumstances occurring after the date of this Form 10-Q.

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we announced our adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with FHFA, then OFHEO, that updated these commitments and set forth a process for implementing them. A copy of the letters between us and OFHEO dated September 1, 2005 constituting the written agreement has been filed as an exhibit to our Registration Statement on Form 10, filed with the SEC on July 18, 2008, and is available on the Investor Relations page of our web site at www.freddiemac.com/investors/sec_filings/index.html.

In November 2008, FHFA suspended our periodic issuance of subordinated debt disclosure commitment during the term of conservatorship and thereafter until directed otherwise. In March 2009, FHFA suspended the remaining disclosure commitments under the September 1, 2005 agreement until further notice, except that: (a) FHFA will continue to monitor our adherence to the substance of the liquidity management and contingency planning commitment through normal supervision activities; and (b) we will continue to provide interest-rate risk and credit risk disclosures in our periodic public reports. For the six months ended June 30, 2011, our duration gap averaged zero months, PMVS-L averaged $433 million and PMVS-YC averaged $23 million. Our 2011 monthly average duration gap, PMVS results and related disclosures are provided in our Monthly Volume Summary reports, which are available on our web site, www.freddiemac.com/investors/volsum and in current reports on Form 8-K we file with the SEC. For disclosures concerning credit risk sensitivity, see RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Credit Risk Sensitivity.*

LEGISLATIVE AND REGULATORY MATTERS

Obama Administration Report on Reforming the U.S. Housing Finance Market

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, stating 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.

The report states that the government is committed to ensuring that Freddie Mac and Fannie Mae have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, and further states that the Obama Administration will not pursue policies or reforms in a way that would impair the ability of Freddie Mac and Fannie Mae to honor their obligations. The report states the Obama Administration s belief that under the companies senior preferred stock purchase agreements with Treasury, there is sufficient funding to ensure the orderly and deliberate wind down of Freddie Mac and Fannie Mae, as described in the Administration s plan.

The report identifies a number of policy levers that could be used to wind down Freddie Mac and Fannie Mae, shrink the government s footprint in housing finance, and help bring private capital back to the mortgage market, including increasing guarantee fees, phasing in a 10% down payment requirement, reducing conforming loan limits, and winding down Freddie Mac and Fannie Mae s investment portfolios, consistent with the senior preferred stock purchase agreements.

These recommendations, if implemented, would have a material impact on our business volumes, market share, results of operations and financial condition. We cannot predict the extent to which these recommendations will be implemented or when any actions to implement them may be taken. However, we are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term.

Legislation Related to Reforming Freddie Mac and Fannie Mae

Congress continues to hold hearings and consider legislation on the future state of Freddie Mac and Fannie Mae. In the Senate, a comprehensive bill on the future state of Freddie Mac and Fannie Mae was introduced in March, but has yet to be scheduled for consideration. Under this bill, 24 months after the date of enactment, the Director of FHFA would be required to determine the financial viability of each company, based on standards for the appointment of a receiver for an enterprise under the GSE Act. If Freddie Mac or Fannie Mae were determined not to be financially viable, FHFA would immediately be appointed as receiver. If Freddie Mac or Fannie Mae were determined to be financially viable, the company s charter would be revoked after an additional three-year period and the company would be wound down over a subsequent ten-year period.

In the House, Congress continues to debate the approach to the long-term future of housing finance including the role of Freddie Mac and Fannie Mae. Several bills take a comprehensive approach that would wind down Freddie Mac and Fannie Mae while other bills take a more targeted approach that would impact the companies operations.

The comprehensive bills include the House companion to the Senate bill, as well as two additional bills that were introduced in the second quarter of 2011. One bill would wind down and place Freddie Mac and Fannie Mae into receivership no later than one year after the time when FHFA has chartered five or more newly created, privately capitalized, federally chartered entities. Freddie Mac and Fannie Mae s role in the secondary market would be replaced by these entities which would, as secondary mortgage market participants, purchase conventional mortgage loans, issue mortgage-related securities, and sell the mortgage-related securities in the capital markets. The other bill would require the Secretary of the Treasury, in consultation with FHFA, to develop a plan to wind down Freddie Mac and Fannie Mae within 36 months and establish a Federal Secondary Market Facility for Residential Mortgages. The Facility would operate as a government instrumentality of the federal government but without capital stock.

In addition, the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises approved a number of bills affecting Freddie Mac and Fannie Mae s operations that, among other things, would require advance approval by the Secretary of the Treasury and notice to Congress for all debt issuances by the companies; require FHFA to direct the companies to increase guarantee fees; repeal our affordable housing goals; prohibit the companies from initially offering new products during conservatorship or receivership; accelerate reductions in our mortgage-related investments portfolio; require that Freddie Mac and Fannie Mae mortgages be treated the same as other mortgages for purposes of risk retention requirements in the Dodd-Frank Act; grant the FHFA Inspector General direct access to our records and employees; place all Freddie Mac and Fannie Mae employees on the federal government pay scale; authorize FHFA, as receiver, to revoke the charters of Freddie Mac and Fannie Mae; prevent the Department of the Treasury from lowering the dividend payment under the Purchase Agreement; abolish the Affordable Housing Trust Fund, the Capital Magnet Fund, and the HOPE Reserve Fund; require disposition of non-mission critical assets; apply the Freedom of Information Act to Freddie Mac and Fannie Mae; and set a cap on the funds received under the Purchase Agreement.

We expect additional legislation relating to Freddie Mac and Fannie Mae to be introduced and considered by Congress; however, we cannot predict whether or when any such legislation will be enacted. Some of the bills discussed above, if enacted, would materially affect the role of the company, our business model and our structure, and could have an adverse effect on our financial results and operations as well as our ability to retain and recruit management and other valuable employees. Under several of the bills, our charter would be revoked and/or we would be wound down or placed into receivership. Such legislation could impair our ability to issue securities in the capital markets and therefore our ability to conduct our business, absent an explicit guarantee of our existing and ongoing liabilities by the U.S. government. A number of the other bills would adversely affect our ability to conduct business under our current business model, including by subjecting us to new requirements that could increase costs, reduce revenues and limit or prohibit current business activities.

Dodd-Frank Act

The Dodd-Frank Act, which was signed into law on July 21, 2010, significantly changed the regulation of the financial services industry, including by creating new standards related to regulatory oversight of systemically important financial companies, derivatives, capital requirements, asset-backed securitization, mortgage underwriting, and consumer financial protection. The Dodd-Frank Act has and will directly affect the business and operations of Freddie Mac by subjecting us to new and additional regulatory oversight and standards, including with respect to our activities and products. We may also be affected by provisions of the Dodd-Frank Act and implementing regulations that affect the activities of banks, savings institutions, insurance companies, securities dealers, and other regulated entities that are our customers and counterparties.

At this time, it is difficult to assess fully the impact of the Dodd-Frank Act on Freddie Mac and the financial services industry. Implementation of the Dodd-Frank Act is being accomplished through numerous rulemakings, many of which are still in process. The final effects of the legislation will not be known with certainty until these rulemakings are complete. The Dodd-Frank Act also mandates the preparation of studies on a wide range of issues, which could lead to additional legislation or regulatory changes.

Developments since the first quarter of 2011 with respect to rulemakings that may have a significant impact on Freddie Mac include actions taken by the CFTC and SEC to defer most Dodd-Frank Act requirements regulating swaps and security-based swaps that would otherwise have gone into effect on July 16, 2011.

We continue to review and assess the impact of rulemakings and other activities under the Dodd-Frank Act. For more information, see RISK FACTORS Legal and Regulatory Risks *The Dodd-Frank Act and related regulation may adversely affect our business activities and financial results* in our 2010 Annual Report.

Conforming Loan Limits

On September 30, 2010, Congress temporarily extended the current higher loan limits in certain high-cost areas through September 30, 2011. Actual conforming loan limits are established by FHFA for each county (or equivalent) and the loan limits for specific high-cost areas may be lower than the maximum amounts. The report that the Obama

Administration delivered to Congress on February 11, 2011 recommends that Congress allow the temporary increase in loan limits to expire as scheduled on September 30, 2011. If Congress allows the temporary high-cost area loan limits to expire, the permanent high-cost area loan limits set out in the Reform Act will apply. Certain of the bills discussed above in Legislation Related to Reforming Freddie Mac and Fannie Mae would also terminate the permanent high-cost area loan limits entirely. Legislation has been introduced that would extend the current temporary loan limits.

Prudential Management and Operations Standards

On June 20, 2011, FHFA published a proposed rule that would establish prudential standards, in the form of guidelines, relating to the management and operations of Freddie Mac, Fannie Mae, and the FHLBs (the Standards). This proposed rule implements the Housing and Economic Recovery Act amendments to the GSE Act. The proposed Standards address a number of business, controls, and risk management areas. The Standards specify the possible consequences for any entity that fails to meet any of the Standards or otherwise fails to comply (including submission of a corrective plan, limits on asset growth, increases in capital, limits on dividends and stock redemptions or repurchases, a minimum level of retained earnings or any other action that the FHFA Director determines will contribute to bringing the entity into compliance with the Standards). In addition, a failure to meet any Standard also may constitute an unsafe or unsound practice, which may form the basis for FHFA initiating an administrative enforcement action. Because FHFA proposes to adopt the Standards as guidelines, as authorized by the Housing and Economic Recovery Act, FHFA may modify, revoke or add to the Standards at any time by order.

Conservatorship and Receivership Rule

On June 20, 2011, FHFA published a final rule that addresses conservatorship and receivership operations of Freddie Mac, Fannie Mae and the FHLBs. The final rule establishes a framework to be used by FHFA when acting as conservator or receiver, supplementing and clarifying statutory authorities. Among other provisions, the final rule indicates that FHFA will not permit payment of securities litigation claims during conservatorship and that claims by current or former shareholders arising as a result of their status as shareholders would receive the lowest priority of claim in receivership. In addition, the final rule indicates that administrative expenses of the conservatorship will also be deemed to be administrative expenses of a subsequent receivership and that capital distributions may not be made during conservatorship, except as specified in the final rule.

Developments Concerning Single-Family Servicing Practices

There have been a number of regulatory developments in recent periods impacting single-family mortgage servicing and foreclosure practices, including those discussed below. These developments have caused delays in the foreclosure process for single-family mortgages, which have caused the volume of our single-family REO acquisitions to be less than it otherwise would have been. It is possible that these developments will result in significant changes to mortgage servicing and foreclosure practices that could adversely affect our business. New compliance requirements placed on servicers as a result of these developments could expose Freddie Mac to financial risk as a result of further extensions of foreclosure timelines if home prices remain weak or decline. We may need to make additional significant changes to our practices, which could increase our operational risk. It is difficult to predict other impacts on our business of these changes, though such changes could adversely affect our credit losses and costs of servicing, and make it more difficult for us to transfer mortgage servicing rights to a successor servicer should we need to do so. The regulatory developments and changes include the following:

On April 13, 2011, the OCC, the Federal Reserve, the FDIC, and the Office of Thrift Supervision entered into consent orders with 14 large servicers regarding their foreclosure and loss mitigation practices. These institutions service the majority of the single-family mortgages we own or guarantee. The consent orders require the servicers to submit comprehensive action plans relating to, among other items, use of foreclosure documentation, staffing of foreclosure and loss mitigation activities, oversight of third parties, use of the Mortgage Electronic Registration System, or the MERS System, and communications with borrowers. We will not be able to assess the impact of these actions on our business until the servicers comprehensive action plans are publicly available.

On June 30, 2011, the OCC issued Supervisory Guidance regarding the OCC s expectations for the oversight and management of mortgage foreclosure activities by national banks. The Supervisory Guidance contains several elements from the consent orders with the 14 major servicers that will now be applied to all national banks. In the Supervisory Guidance, the OCC directs all national banks to conduct a self-assessment of foreclosure management practices by September 30, 2011. Additionally, the Guidance sets forth foreclosure management standards that mirror the broad categories of the servicing guidelines contained in the consent orders. During Congressional testimony on July 7, 2011, an OCC official indicated that there is an active interagency effort under way to develop comprehensive, nationally applicable mortgage servicing standards, and that this effort involves federal bank regulatory agencies, HUD and FHFA.

A group consisting of state attorneys general and state bank and mortgage regulators is in discussions with a number of large seller/servicers concerning a global settlement of certain issues related to mortgage servicing practices. It has been reported that this settlement could include changes to mortgage servicing practices.

On April 28, 2011, FHFA announced a new set of aligned standards for servicing delinquent mortgages owned or guaranteed by Freddie Mac and Fannie Mae. See RISK MANAGEMENT Credit Risk *Mortgage Credit Risk Single-Family Mortgage Credit Risk Single-Family Loan Workouts.* FHFA has also directed us and Fannie Mae to work on a joint initiative to consider alternatives for future mortgage servicing structures and servicing compensation. The development of further alternatives could impact our ability to conduct current initiatives.

On July 21, 2011, new MERS membership rules with respect to the foreclosure of mortgages registered on the MERS System were adopted. Subject to certain limited exceptions, these rules require the assignment of a mortgage out of MERS name prior to the initiation of foreclosure or certain other legal proceedings. This may further extend Freddie Mac s foreclosure timelines.

For more information on operational risks related to these developments in mortgage servicing, see RISK MANAGEMENT Operational Risks.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest-Rate Risk and Other Market Risks

Our investments in mortgage loans and mortgage-related securities expose us to interest-rate risk and other market risks arising primarily from the uncertainty as to when borrowers will pay the outstanding principal balance of mortgage loans and mortgage-related securities, known as prepayment risk, and the resulting potential mismatch in the timing of our receipt of cash flows related to our assets versus the timing of payment of cash flows related to our liabilities used to fund those assets. See QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK Interest-Rate Risk and Other Market Risks in our 2010 Annual Report for more information on our exposure to interest-rate and other market risks, including our use of derivatives as part of our efforts to manage certain of these risks.

PMVS and Duration Gap

Our primary interest-rate risk measures are PMVS and duration gap.

PMVS is an estimate of the change in the market value of our net assets and liabilities from an instantaneous 50 basis point shock to interest rates, assuming no rebalancing actions are undertaken and assuming the mortgage-to-LIBOR basis does not change. We do not actively manage overall basis risk, also referred to as mortgage-to-debt OAS risk or spread risk, arising from funding mortgage-related assets with our debt securities. Recently our agency-to-swap basis risk exposure has increased due to the increased use of floating rate debt. Agency-to-swap basis risk impacts the debt component of our mortgage-to-debt OAS risk. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value to parallel movements in interest rates (PMVS-Level or PMVS-L) and the other to nonparallel movements (PMVS-YC).

The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures reflect reasonably possible near-term changes that we believe provide a meaningful measure of our interest-rate risk sensitivity. Our PMVS measures assume instantaneous shocks. Therefore, these PMVS measures do not consider the effects on fair value of any rebalancing actions that we would typically expect to take to reduce our risk exposure.

Duration gap measures the difference in price sensitivity to interest rate changes between our assets and liabilities, and is expressed in months relative to the market value of assets. For example, assets with a six-month duration and liabilities with a five-month duration would result in a positive duration gap of one month. A duration gap of zero implies that the duration of our assets approximates the duration of our liabilities. Multiplying duration gap (expressed as a percentage of a year) by the fair value of our assets will provide an indication of the change in the fair value of our equity resulting from a 1% change in interest rates.

Limitations of Market Risk Measures

Our PMVS and duration gap estimates are determined using models that involve our best judgment of interest-rate and prepayment assumptions. Accordingly, while we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements. While PMVS and duration gap estimate our exposure to changes in interest rates, they do not capture the potential impact of certain other market risks, such as changes in volatility, basis, and foreign-currency risk.

There are inherent limitations in any methodology used to estimate exposure to changes in market interest rates. Our sensitivity analyses for PMVS and duration gap contemplate only certain movements in interest rates and are performed at a particular point in time based on the estimated fair value of our existing portfolio. These sensitivity analyses do not consider other factors that may have a significant effect on our financial instruments, most notably business activities and strategic actions that management may take in the future to manage interest-rate risk. As such, these analyses are not intended to provide precise forecasts of the effect a change in market interest rates would have on the estimated fair value of our net assets.

In addition, it is more difficult to measure and manage the interest rate risk related to mortgage assets as risk for prepayment model error remains high due to uncertainty regarding foreclosures, loan modification, and the volatility and impact of home price movements on mortgage durations. Mis-estimation of prepayments could result in hedging-related losses.

Duration Gap and PMVS Results

Table 52 provides duration gap, estimated point-in-time and minimum and maximum PMVS-L and PMVS-YC results, and an average of the daily values and standard deviation for the three and six months ended June 30, 2011 and 2010. Table 52 also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve.

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We do not hedge the entire prepayment risk exposure embedded in our mortgage assets. The interest rate sensitivity of a mortgage portfolio varies across a wide range of interest rates. Therefore, the difference between PMVS at 50 basis points and 100 basis points is non-linear. Accordingly, as shown in Table 52, the PMVS-L results based on a 100 basis point shift in the LIBOR curve are disproportionately higher at June 30, 2011, than the PMVS-L results based on a 50 basis point shift in the LIBOR curve.

Table 52 PMVS Results

	PMVS-YC 25 bps	PMVS-L 50 bps	PMVS-L 100 bps
	(in millions)		
Assuming shifts of the LIBOR yield curve:			
June 30, 2011	$ 35	$ 434	$ 1,607
December 31, 2010	$ 35	$ 588	$ 1,884

	Three Months Ended June 30, 2011			2010		
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps
Average	0.1	$ 25	$ 419	0.0	$ 23	$ 415
Minimum	(0.2)	$ 4	$ 288	(0.6)	$	$ 156
Maximum	0.6	$ 58	$ 558	0.5	$ 64	$ 606
Standard deviation	0.2	$ 13	$ 62	0.2	$ 16	$ 92

	Six Months Ended June 30, 2011			2010		
	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps	Duration Gap (in months)	PMVS-YC 25 bps (dollars in millions)	PMVS-L 50 bps
Average	(0.1)	$ 23	$ 433	0.0	$ 21	$ 445
Minimum	(1.0)	$	$ 280	(0.7)	$	$ 156
Maximum	0.6	$ 58	$ 721	0.7	$ 64	$ 668
Standard deviation	0.3	$ 13	$ 84	0.3	$ 16	$ 92

Derivatives have historically enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 53 shows that the PMVS-L risk levels for the periods presented would generally have been higher if we had not used derivatives to manage our interest-rate risk exposure.

Table 53 Derivative Impact on PMVS-L (50 bps)

	Before Derivatives	After Derivatives (in millions)	Effect of Derivatives
At:			
June 30, 2011	$ 3,688	$ 434	$ (3,254)
December 31, 2010	$ 3,614	$ 588	$ (3,026)

The disclosure 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, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and that such information is accumulated and communicated to senior management, as appropriate, to allow timely decisions regarding required disclosure. In designing our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in implementing possible controls and procedures.

Management, including the company s Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of June 30, 2011. As a result of management s evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2011, at a reasonable level of assurance, because our disclosure controls and procedures did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. We have not been able to update our disclosure controls and procedures to provide reasonable assurance that information known by FHFA on an ongoing basis is communicated from FHFA to Freddie Mac s management in a manner that allows for timely decisions regarding our required disclosure. Based on discussions with FHFA and the structural nature of this continued weakness, it is likely that we will not remediate this weakness in our disclosure controls and procedures while we are under conservatorship. As noted below, we also consider this situation to be a continuing material weakness in our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting During the Quarter Ended June 30, 2011

We evaluated the changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 and concluded that the following matters have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

A number of senior officers have left the company since March 31, 2011, including Donald J. Bisenius, Executive Vice President Single-Family Credit Guarantee, Peter J. Federico, Executive Vice President Investments and Capital Markets and Treasurer, Michael C. May, Executive Vice President Multifamily, Joseph A. Rossi, Senior Vice President Operations & Technology, and Robert E. Bostrom, Executive Vice President General Counsel & Corporate Secretary. In addition, Raymond G. Romano, Executive Vice President Chief Credit Officer will be leaving the company in October 2011. Because we maintain succession plans for our senior management positions, we have been able to fill many of these senior management positions quickly, or have eliminated them through reorganizations. However, disruptive levels of turnover at both the executive and employee levels could lead to breakdowns in any of our operations, affect our execution capabilities, cause delays in the implementation of critical technology and other projects, and erode our business, modeling, internal audit, risk management, financial reporting, and compliance expertise and capabilities.

We made two significant internal reorganizations during the second quarter of 2011, as we combined our Single-Family Credit Guarantee, Single-Family Portfolio Management, and Operations & Technology divisions, and we merged our Credit Management division into our Enterprise Risk Management division. Over time, we expect these changes will improve our overall risk profile. However, in the near term, these changes could increase our operational risk.

Mitigating Actions Related to the Material Weakness in Internal Control Over Financial Reporting

We have not remediated the material weakness in internal control over financial reporting related to our disclosure controls and procedures as of June 30, 2011. Given the structural nature of this continued weakness, we believe it is likely that we will not remediate this material weakness while we are under conservatorship. However, both we and FHFA have continued to engage in activities and employ procedures and practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws. These include the following:

FHFA has established the Office of Conservator Affairs, which is intended to facilitate operation of the company with the oversight of the Conservator.

We provide drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also provide drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.

FHFA personnel, including senior officials, review our SEC filings prior to filing, including this quarterly report on Form 10-Q, and engage in discussions regarding issues associated with the information contained in those filings. Prior to filing this quarterly report on Form 10-Q, FHFA provided us with a written acknowledgement that it had reviewed the quarterly report on Form 10-Q, was not aware of any material misstatements or omissions in the quarterly report on Form 10-Q, and had no objection to our filing the quarterly report on Form 10-Q.

The Acting Director of FHFA is in frequent communication with our Chief Executive Officer, typically meeting (in person or by phone) on a weekly basis.

FHFA representatives hold frequent meetings, typically weekly, with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, capital markets management, external communications and legal matters.

Senior officials within FHFA s accounting group meet frequently, typically weekly, with our senior financial executives regarding our accounting policies, practices and procedures.

In view of our mitigating actions related to the material weakness, we believe that our interim consolidated financial statements for the quarter ended June 30, 2011 have been prepared in conformity with GAAP.

ITEM 1. FINANCIAL STATEMENTS

FREDDIE MAC
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(in millions, except share-related amounts)			
Interest income				
Mortgage loans:				
Held by consolidated trusts	$ 19,782	$ 22,114	$ 39,846	$ 44,846
Unsecuritized	2,274	2,179	4,608	4,140
Total mortgage loans	22,056	24,293	44,454	48,986
Investments in securities	3,275	3,574	6,558	7,473
Other	18	34	52	67
Total interest income	25,349	27,901	51,064	56,526
Interest expense				
Debt securities of consolidated trusts	(17,261)	(19,048)	(34,664)	(38,691)
Other debt	(3,333)	(4,468)	(6,898)	(9,067)
Total interest expense	(20,594)	(23,516)	(41,562)	(47,758)
Expense related to derivatives	(194)	(249)	(401)	(507)
Net interest income	4,561	4,136	9,101	8,261
Provision for credit losses	(2,529)	(5,029)	(4,518)	(10,425)
Net interest income (loss) after provision for credit losses	2,032	(893)	4,583	(2,164)
Non-interest income (loss)				
Gains (losses) on extinguishment of debt securities of consolidated trusts	(125)	4	98	(94)
Gains (losses) on retirement of other debt	3	(141)	15	(179)
Gains (losses) on debt recorded at fair value	(37)	544	(118)	891
Derivative gains (losses)	(3,807)	(3,838)	(4,234)	(8,523)
Impairment of available-for-sale securities:				
Total other-than-temporary impairment of available-for-sale securities	(230)	(114)	(1,284)	(531)
Portion of other-than-temporary impairment recognized in AOCI	(122)	(314)	(261)	(407)

Net impairment of available-for-sale securities recognized in earnings	(352)	(428)	(1,545)	(938)
Other gains (losses) on investment securities recognized in earnings	209	(257)	89	(673)
Other income	252	489	586	1,035
Non-interest income (loss)	(3,857)	(3,627)	(5,109)	(8,481)
Non-interest expense				
Salaries and employee benefits	(219)	(230)	(426)	(464)
Professional services	(64)	(67)	(120)	(148)
Occupancy expense	(15)	(15)	(30)	(31)
Other administrative expenses	(86)	(92)	(169)	(166)
Total administrative expenses	(384)	(404)	(745)	(809)
Real estate owned operations (expense) income	(27)	40	(284)	(119)
Other expenses	(135)	(115)	(214)	(218)
Non-interest expense	(546)	(479)	(1,243)	(1,146)
Loss before income tax benefit	(2,371)	(4,999)	(1,769)	(11,791)
Income tax benefit	232	286	306	389
Net loss	(2,139)	(4,713)	(1,463)	(11,402)
Other comprehensive income, net of taxes and reclassification adjustments:				
Changes in unrealized gains (losses) related to available-for-sale securities	903	4,097	2,844	8,743
Changes in unrealized gains (losses) related to cash flow hedge relationships	135	184	267	356
Changes in defined benefit plans	1	2	(8)	(8)
Total other comprehensive income, net of taxes and reclassification adjustments	1,039	4,283	3,103	9,091
Comprehensive income (loss)	(1,100)	(430)	1,640	(2,311)
Less: Comprehensive loss attributable to noncontrolling interest				1
Total comprehensive income (loss) attributable to Freddie Mac	$ (1,100)	$ (430)	$ 1,640	$ (2,310)
Net loss	$ (2,139)	$ (4,713)	$ (1,463)	$ (11,402)
Less: Net loss attributable to noncontrolling interest				1
Net loss attributable to Freddie Mac	(2,139)	(4,713)	(1,463)	(11,401)
Preferred stock dividends	(1,617)	(1,296)	(3,222)	(2,588)
Net loss attributable to common stockholders	$ (3,756)	$ (6,009)	$ (4,685)	$ (13,989)

Loss per common share:				
Basic	$ (1.16)	$ (1.85)	$ (1.44)	$ (4.30)
Diluted	$ (1.16)	$ (1.85)	$ (1.44)	$ (4.30)
Weighted average common shares outstanding (in thousands):				
Basic	3,244,967	3,249,198	3,245,970	3,250,241
Diluted	3,244,967	3,249,198	3,245,970	3,250,241

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

FREDDIE MAC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2011	December 31, 2010
	(in millions, except share-related amounts)	
Assets		
Cash and cash equivalents (includes $1 and $1, respectively, related to our consolidated VIEs)	$ 17,488	$ 37,012
Restricted cash and cash equivalents (includes $1,850 and $7,514, respectively, related to our consolidated VIEs)	2,333	8,111
Federal funds sold and securities purchased under agreements to resell (includes $13,950 and $29,350, respectively, related to our consolidated VIEs)	33,609	46,524
Investments in securities:		
Available-for-sale, at fair value (includes $244 and $817, respectively, pledged as collateral that may be repledged)	222,849	232,634
Trading, at fair value	54,764	60,262
Total investments in securities	277,613	292,896
Mortgage loans:		
Held-for-investment, at amortized cost:		
By consolidated trusts (net of allowances for loan losses of $8,948 and $11,644, respectively)	1,634,773	1,646,172
Unsecuritized (net of allowances for loan losses of $29,919 and $28,047, respectively)	198,568	192,310
Total held-for-investment mortgage loans, net	1,833,341	1,838,482
Held-for-sale, at lower-of-cost-or-fair-value (includes $4,463 and $6,413 at fair value, respectively)	4,463	6,413
Total mortgage loans, net	1,837,804	1,844,895
Accrued interest receivable (includes $6,704 and $6,895, respectively, related to our consolidated VIEs)	8,523	8,713
Derivative assets, net	246	143
Real estate owned, net (includes $83 and $118, respectively, related to our consolidated VIEs)	5,932	7,068
Deferred tax assets, net	3,866	5,543
Other assets (Note 21) (includes $3,252 and $6,001, respectively, related to our consolidated VIEs)	8,381	10,875
Total assets	$ 2,195,795	$ 2,261,780

Liabilities and equity (deficit)		
Liabilities		
Accrued interest payable (includes $6,241 and $6,502, respectively, related to our consolidated VIEs)	$ 9,542	$ 10,286
Debt, net:		
Debt securities of consolidated trusts held by third parties	1,499,036	1,528,648
Other debt (includes $3,998 and $4,443 at fair value, respectively)	681,087	713,940
Total debt, net	2,180,123	2,242,588
Derivative liabilities, net	408	1,209
Other liabilities (Note 21) (includes $3,821 and $3,851, respectively, related to our consolidated VIEs)	7,200	8,098
Total liabilities	2,197,273	2,262,181
Commitments and contingencies (Notes 9, 11, and 19)		
Equity (deficit)		
Senior preferred stock, at redemption value	64,700	64,200
Preferred stock, at redemption value	14,109	14,109
Common stock, $0.00 par value, 4,000,000,000 shares authorized, 725,863,886 shares issued and 649,706,712 shares and 649,179,789 shares outstanding, respectively		
Additional paid-in capital	1	7
Retained earnings (accumulated deficit)	(67,449)	(62,733)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $10,195 and $10,740, respectively, net of taxes, of other-than-temporary impairments)	(6,834)	(9,678)
Cash flow hedge relationships	(1,972)	(2,239)
Defined benefit plans	(122)	(114)
Total AOCI, net of taxes	(8,928)	(12,031)
Treasury stock, at cost, 76,157,174 shares and 76,684,097 shares, respectively	(3,911)	(3,953)
Total equity (deficit)	(1,478)	(401)
Total liabilities and equity (deficit)	$ 2,195,795	$ 2,261,780

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

FREDDIE MAC
CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)
(UNAUDITED)

	Shares Outstanding			Freddie Mac Stockholders Equity (Deficit)								
	Senior Preferred Stock	Preferred Stock	Common Stock	Senior Preferred Stock, at Redemption Value	Preferred Stock, at Redemption Value	Common Stock, at Par Value	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	AOCI, Net of Tax	Treasury Stock, at Cost	Noncontrolling Interest	(
						(in millions)						
s of 31, 2009	1	464	649	$ 51,700	$ 14,109	$	$ 57	$ (33,921)	$ (23,648)	$ (4,019)	$ 94	$
e effect of accounting								(9,011)	(2,690)		(2)	
of January 1,	1	464	649	51,700	14,109		57	(42,932)	(26,338)	(4,019)	92	
nsive income												
								(11,401)			(1)	
prehensive ss), net of taxes									9,091			
nsive income								(11,401)	9,091		(1)	
liquidation				10,600								
d compensation							15					
benefit from d compensation							1					
tock issuances							(65)			64		
lling interest							(31)				(89)	
om retained ccumulated dditional ital							23	(23)				
erred stock declared								(2,585)				
								(4)				

quivalent on expired stock and other											(2)	
lance at 010	1	464	649	$ 62,300	$ 14,109	$	$	$ (56,945)	$ (17,247)	$ (3,955)	$	$
s of 31, 2010	1	464	649	$ 64,200	$ 14,109	$	$ 7	$ (62,733)	$ (12,031)	$ (3,953)	$	$
nsive income												
								(1,463)				
prehensive ss), net of taxes									3,103			
nsive income								(1,463)	3,103			
liquidation				500								
d compensation							7					
benefit from d compensation							1					
tock issuances			1				(42)			42		
om retained ccumulated dditional ital							28	(28)				
ferred stock declared								(3,222)				
quivalent on expired stock								(3)				
lance at 011	1	464	650	$ 64,700	$ 14,109	$	$ 1	$ (67,449)	$ (8,928)	$ (3,911)	$	$

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

FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2011	2010
	(in millions)	
Cash flows from operating activities		
Net loss	$ (1,463)	$ (11,402)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Derivative losses	1,632	5,963
Asset related amortization premiums, discounts, and basis adjustments	595	(48)
Debt related amortization premiums and discounts on certain debt securities and basis adjustments	(311)	1,099
Net discounts paid on retirements of other debt	(469)	(1,041)
Net premiums received from issuance of debt securities of consolidated trusts	1,927	1,225
(Gains) losses on extinguishment of debt securities of consolidated trusts and other debt	(113)	273
Provision for credit losses	4,518	10,425
Losses on investment activity	1,096	1,369
Losses (gains) on debt recorded at fair value	118	(891)
Deferred income tax benefit	15	(268)
Purchases of held-for-sale mortgage loans	(5,298)	(2,795)
Sales of mortgage loans acquired as held-for-sale	6,998	3,629
Repayments of mortgage loans acquired as held-for-sale	22	11
Change in:		
Accrued interest receivable	190	279
Accrued interest payable	(618)	(887)
Income taxes payable	(319)	70
Other, net	(726)	(348)
Net cash provided by operating activities	7,794	6,663
Cash flows from investing activities		
Purchases of trading securities	(28,705)	(28,153)
Proceeds from sales of trading securities	24,076	4,231
Proceeds from maturities of trading securities	10,122	21,477
Purchases of available-for-sale securities	(7,687)	(626)
Proceeds from sales of available-for-sale securities	2,107	606
Proceeds from maturities of available-for-sale securities	17,965	23,542
Purchases of held-for-investment mortgage loans	(17,610)	(25,200)
Repayments of mortgage loans acquired as held-for-investment	159,045	156,865
Decrease in restricted cash	5,778	8,714
Net proceeds from mortgage insurance and acquisitions and dispositions of real estate owned	6,782	5,654

Net decrease (increase) in federal funds sold and securities purchased under agreements to resell	12,915	(27,568)
Derivative premiums and terminations and swap collateral, net	(2,965)	(5,646)
Purchase of noncontrolling interest		(23)
Net cash provided by investing activities	181,823	133,873
Cash flows from financing activities		
Proceeds from issuance of debt securities of consolidated trusts held by third parties	43,997	38,756
Repayments of debt securities of consolidated trusts held by third parties	(217,330)	(206,991)
Proceeds from issuance of other debt	521,779	602,116
Repayments of other debt	(554,835)	(597,356)
Increase in liquidation preference of senior preferred stock	500	10,600
Payment of cash dividends on senior preferred stock	(3,222)	(2,585)
Excess tax benefits associated with stock-based awards	1	1
Payments of low-income housing tax credit partnerships notes payable	(31)	(83)
Net cash used for financing activities	(209,141)	(155,542)
Net decrease in cash and cash equivalents	(19,524)	(15,006)
Cash and cash equivalents at beginning of period	37,012	64,683
Cash and cash equivalents at end of period	$ 17,488	$ 49,677
Supplemental cash flow information		
Cash paid (received) for:		
Debt interest	$ 43,449	$ 48,738
Net derivative interest carry and swap collateral interest	2,074	2,412
Income taxes	(1)	(191)
Non-cash investing and financing activities:		
Held-for-sale mortgage loans securitized and retained as trading securities	448	371
Underlying mortgage loans related to guarantor swap transactions	143,324	142,146
Debt securities of consolidated trusts held by third parties established for guarantor swap transactions	143,324	142,146
Transfers from held-for-investment mortgage loans to held-for-sale mortgage loans		196

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac was chartered by Congress in 1970 to stabilize the nation s residential mortgage market and expand opportunities for home ownership and affordable rental housing. Our statutory mission is to provide liquidity, stability and affordability to the U.S. housing market. We are a GSE regulated by FHFA, the SEC, HUD, and the Treasury. For more information on the roles of FHFA and the Treasury, see NOTE 2: CONSERVATORSHIP AND RELATED MATTERS in this Form 10-Q and NOTE 3: CONSERVATORSHIP AND RELATED MATTERS in our Annual Report on our Form 10-K for the year ended December 31, 2010, or our 2010 Annual Report.

We are involved in the U.S. housing market by participating in the secondary mortgage market. We do not participate directly in the primary mortgage market. Our participation in the secondary mortgage market includes providing our credit guarantee for mortgages originated by mortgage lenders in the primary mortgage market and investing in mortgage loans and mortgage-related securities.

Our operations consist of three reportable segments, which are based on the type of business activities each performs Single-family Guarantee, Investments, and Multifamily. Our Single-family Guarantee segment reflects results from our single-family credit guarantee activities. In our Single-family Guarantee segment, we acquire and securitize mortgage loans by issuing PCs to third-party investors and we also guarantee the payment of principal and interest on single-family mortgage loans and mortgage-related securities. We also resecuritize mortgage-related securities that are issued by us or Ginnie Mae as well as private (non-agency) entities. Our 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 mortgage loans. These activities are funded by debt issuances. We manage the interest-rate risk associated with these investment and funding activities using derivatives. Our Multifamily segment reflects results from our investments (both purchases and sales), securitization, and guarantee activities in multifamily mortgage loans and securities. In our Multifamily segment, we purchase multifamily mortgage loans primarily for securitization. We also guarantee the payment of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. See NOTE 15: SEGMENT REPORTING for additional information.

Under conservatorship, we are focused on the following primary business objectives: (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 programs; (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.

In addition to our primary business objectives discussed above, we have a variety of different, and potentially competing, objectives based on our charter, public statements from Treasury and FHFA officials, and other guidance from our Conservator. For information regarding these objectives, see NOTE 2: CONSERVATORSHIP AND RELATED MATTERS Business Objectives.

Throughout our consolidated financial statements and related notes, we use certain acronyms and terms which are defined in the Glossary.

For additional information regarding our significant accounting policies, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2010 Annual Report.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in our 2010 Annual Report. We are operating under the basis that we will realize assets and satisfy liabilities in the normal course of business as a going concern and in accordance with the delegation of authority from FHFA to our Board of Directors and management. Certain financial information that is normally included in annual financial statements prepared in conformity with GAAP but is not required for interim reporting purposes has been condensed or omitted. Certain amounts in prior periods consolidated financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments, which include only normal recurring adjustments, have been recorded for a fair statement of our unaudited consolidated financial statements.

We recorded the cumulative effect of certain miscellaneous errors related to previously reported periods as corrections in the three and six months ended June 30, 2011. We concluded that these errors are not material individually or in the aggregate to our previously issued consolidated financial statements for any of the periods affected, or to our estimated earnings for the full year ending December 31, 2011 or to the trend of earnings. The cumulative effect, net of taxes, of the errors corrected during the three and six months ended June 30, 2011 was $189 million and $28 million, respectively.

Use of Estimates

The preparation of financial statements requires us to make estimates and assumptions that affect: (a) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements; and (b) the reported amounts of revenues and expenses and gains and losses during the reporting period. Management has made significant estimates in preparing the financial statements, including, but not limited to, establishing the allowance for loan losses and reserve for guarantee losses, valuing financial instruments and other assets and liabilities, assessing impairments on investments, and assessing the realizability of net deferred tax assets. Actual results could be different from these estimates.

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

Fair Value Measurement

In May 2011, the FASB issued amendments to the accounting guidance pertaining to fair value measurement and disclosure. These amendments provide both: (a) clarification about the FASB s intent about the application of existing fair value measurement and disclosure requirements; and (b) changes to some of the principles or requirements for measuring fair value or for disclosing information about fair value measurements. These amendments are effective for interim and annual periods beginning after December 15, 2011 and are to be applied prospectively, with early adoption not permitted by public companies. We do not expect that the adoption of these amendments will have a material impact on our consolidated financial statements.

Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB issued an amendment to the guidance for transfers and servicing with regard to repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This amendment removes the criterion related to collateral maintenance from the transferor s assessment of effective control. It focuses the assessment of effective control on the transferor s rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations. The amendment is effective for interim and annual periods beginning on or after December 15, 2011. We do not expect that the adoption of this amendment will have a material impact on our consolidated financial statements.

A Creditor s Determination of Whether a Restructuring is a TDR

In April 2011, the FASB issued an amendment to the accounting guidance for receivables to clarify when a restructuring such as a loan modification is considered a TDR. This amendment clarifies the guidance regarding a creditor s evaluation of whether a debtor is experiencing financial difficulty and whether a creditor has granted a concession to a debtor for purposes of determining if a restructuring constitutes a TDR. The amendment is effective for interim and annual periods beginning on or after June 15, 2011 and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption, with early adoption permitted. We are evaluating the impact of this amendment on our consolidated financial statements; however, we expect that the population of loan restructurings we account for and disclose as TDRs will increase.

NOTE 2: CONSERVATORSHIP AND RELATED MATTERS

Business Objectives

We continue to operate under the conservatorship that commenced on September 6, 2008, conducting our business under the direction of FHFA, as our Conservator. The conservatorship and related matters have had a wide-ranging impact on us, including our regulatory supervision, management, business, financial condition and results of operations. Upon its appointment, FHFA, as Conservator, immediately succeeded to all rights, titles, powers and privileges of Freddie Mac, and of any stockholder, officer or director thereof, with respect to the company and its assets. The Conservator also succeeded to the title to all books, records, and assets of Freddie Mac held by any other legal custodian or third party. During the conservatorship, the Conservator has delegated certain authority to the Board of Directors to oversee, and management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business. The directors serve on behalf of, and exercise authority as directed by, the Conservator.

We are also subject to certain constraints on our business activities by Treasury due to the terms of, and Treasury s rights under, the Purchase Agreement. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent.

Our business objectives and strategies have in some cases been altered since we were placed into conservatorship, and may continue to change. These changes to our business objectives and strategies may not contribute to our profitability. Based on our charter, public statements from Treasury and FHFA officials and other guidance and directives from our Conservator, we have a variety of different, and potentially competing, objectives, including:

- providing liquidity, stability and affordability in the mortgage market;
- continuing to provide additional assistance to the struggling housing and mortgage markets;
- reducing the need to draw funds from Treasury pursuant to the Purchase Agreement;
- returning to long-term profitability; and
- protecting the interests of taxpayers.

In a letter to the Chairmen and Ranking Members of the Senate Banking and House Financial Services Committees dated February 2, 2010, the Acting Director of FHFA stated that the focus of the conservatorship is on conserving assets, minimizing corporate losses, ensuring Freddie Mac continues to serve its mission, overseeing remediation of identified weaknesses in corporate operations and risk management, and ensuring that sound corporate governance principles are followed. The Acting Director of FHFA stated that minimizing our credit losses is our central goal and that we will be limited to continuing our existing core business activities and taking actions necessary to advance the goals of the conservatorship. The Acting Director stated that permitting us to offer new products is inconsistent with the goals of the conservatorship.

These objectives create conflicts in strategic and day-to-day decision making that will likely lead to suboptimal outcomes for one or more, or possibly all, of these objectives. We regularly receive direction from our Conservator on how to pursue our objectives under conservatorship, including direction to focus our efforts on assisting homeowners in the housing and mortgage markets. The Conservator and Treasury have also not authorized us to engage in certain business activities and transactions, including the purchase or sale of certain assets, which we believe may have had a beneficial impact on our results of operations or financial condition, if executed. Our inability to execute such transactions may adversely affect our profitability, and thus contribute to our need to draw additional funds from Treasury. However, 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.

Given the important role the Obama Administration and our Conservator have placed on Freddie Mac in addressing housing and mortgage market conditions and our public mission, we may be required to take additional actions that could have a negative impact on our business, operating results, or financial condition. The Acting Director of FHFA stated that FHFA does not expect we will be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio, except for purchases of seriously delinquent mortgages from PC trusts. We are also subject to limits on the amount of assets we can sell from our mortgage-related investments portfolio in any calendar month without review and approval by FHFA and, if FHFA determines, Treasury.

Certain changes to our business objectives and strategies are designed to provide support for the mortgage market in a manner that serves our public mission and other non-financial objectives, but may not contribute to our profitability. Some of these changes increase our expenses, while others require us to forego revenue or other opportunities. In addition, the objectives set forth for us under our charter and by our Conservator, as well as the restrictions on our business under the Purchase Agreement, have adversely impacted and may continue to adversely impact our financial results, including our segment results. For example, our efforts to help struggling homeowners and the mortgage market, in line with our public mission, may help to mitigate our credit losses, but in some cases may increase our expenses or require us to forgo revenue opportunities in the near term. There is significant uncertainty as to the ultimate impact that our efforts to aid the housing and mortgage markets, including our efforts in connection with the MHA Program, will have on our future capital or liquidity needs. We are allocating significant internal resources to the implementation of the various initiatives under the MHA Program and to the servicing alignment initiative as directed by FHFA on April 28, 2011, which has increased, and will continue to increase, our expenses. We cannot currently estimate whether, or the extent to which, costs incurred in the near term from HAMP or other MHA Program efforts may be offset, if at all, by the prevention or reduction of potential future costs of loan defaults and foreclosures due to these initiatives.

There is 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 our conservatorship, including whether we will continue to exist. Our future structure and role will be determined by the Obama Administration and Congress. We have no ability to predict the outcome of these deliberations.

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.

The report states that the government is committed to ensuring that Freddie Mac and Fannie Mae have sufficient capital to perform under any guarantees issued now or in the future and the ability to meet any of their debt obligations, and further states that the Obama Administration will not pursue policies or reforms in a way that would impair the ability of Freddie Mac and Fannie Mae to honor their obligations. The report states the Obama Administration s belief that under the companies senior preferred stock purchase agreements with Treasury, there is sufficient funding to ensure the orderly and deliberate wind down of Freddie Mac and Fannie Mae, as described in the Administration s plan.

The report identifies a number of policy levers that could be used to wind down Freddie Mac and Fannie Mae, shrink the government s footprint in housing finance, and help bring private capital back to the mortgage market, including increasing guarantee fees, phasing in a 10% down payment requirement, reducing conforming loan limits, and winding down Freddie Mac and Fannie Mae s investment portfolios, consistent with the senior preferred stock purchase agreements.

These recommendations, if implemented, would have a material impact on our business volumes, market share, results of operations and financial condition. We cannot predict the extent to which these recommendations will be implemented or when any actions to implement them may be taken. However, we are not aware of any current plans of our Conservator to significantly change our business model or capital structure in the near-term.

Management is continuing its efforts to identify and evaluate actions that could be taken to reduce the significant uncertainties surrounding our business, as well as the level of future draws under the Purchase Agreement; however, our ability to pursue such actions may be limited by market conditions and other factors. Our future draws are dictated by the terms of the Purchase Agreement. Any actions we take will likely require approval by FHFA and possibly Treasury before they are implemented. FHFA will regulate any actions we take related to the uncertainties surrounding our business. In addition, FHFA, Treasury, or Congress may have a different perspective from management and may direct us to focus our efforts on supporting the mortgage markets in ways that make it more difficult for us to implement any such actions.

Impact of the Purchase Agreement and FHFA Regulation on the 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. The UPB of our mortgage-related investments portfolio, for purposes of the limit imposed by the Purchase Agreement and FHFA regulation, was $685.0 billion at June 30, 2011. The annual 10% reduction in the size of our mortgage-related investments portfolio is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual UPB of the mortgage-related investments portfolio, as of December 31 of the preceding year. The limitation is determined without giving effect to the January 1, 2010 change in the accounting guidance related to transfers of financial assets and consolidation of VIEs.

Government Support for our Business

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.

Significant recent developments with respect to the support we receive from the government include the following:

On March 31, 2011, we received $500 million in funding from Treasury under the Purchase Agreement relating to our quarterly net worth deficit at December 31, 2010, which increased the aggregate liquidation preference of the senior preferred stock to $64.7 billion as of March 31, 2011. No cash was received from Treasury under the Purchase Agreement during the second quarter of 2011 due to our positive net worth at March 31, 2011.

On both March 31, 2011 and June 30, 2011, we paid dividends of $1.6 billion in cash on the senior preferred stock to Treasury at the direction of the Conservator.

To address our net worth deficit of $1.5 billion at June 30, 2011, FHFA will submit a draw request on our behalf to Treasury under the Purchase Agreement in the amount of $1.5 billion, and will request that we receive these funds by September 30, 2011. Commencing in the second quarter of 2011, our draw request represents our net worth deficit at quarter-end rounded up to the nearest $1 million. Following funding of the draw request related to our net worth deficit at June 30, 2011, our annual cash dividend obligation to Treasury on the senior preferred stock will increase from $6.5 billion to $6.6 billion, which exceeds our annual historical earnings in all but one period.

Through June 30, 2011, we paid $13.2 billion in cash dividends in the aggregate on the senior preferred stock. Continued cash payment of senior preferred dividends will have an adverse impact on our future financial condition and net worth. In addition, cash payment of quarterly commitment fees payable to Treasury will negatively impact our future net worth over the long-term. Treasury waived the fee for the first three quarters of 2011. The amount of the fee has not yet been established and could be substantial. As a result of additional draws and other factors: (a) the liquidation preference of, and the dividends we owe on, the senior preferred stock would increase and, therefore, we may need additional draws from Treasury in order to pay our dividend obligations; and (b) there is significant uncertainty as to our long-term financial sustainability.

See NOTE 3: CONSERVATORSHIP AND RELATED DEVELOPMENTS, NOTE 9: DEBT SECURITIES AND SUBORDINATED BORROWINGS, and NOTE 13: FREDDIE MAC STOCKHOLDERS EQUITY (DEFICIT) in our 2010 Annual Report for more information on the terms of the conservatorship and the Purchase Agreement.

NOTE 3: VARIABLE INTEREST ENTITIES

We use securitization trusts in our securities issuance process, and are required to evaluate the trusts for consolidation. For VIEs, our policy is to consolidate all entities in which we hold a controlling financial interest and are therefore deemed to be the primary beneficiary. The accounting guidance related to the consolidation of VIEs states that an enterprise will be deemed to have a controlling financial interest in, and thus be the primary beneficiary of, a VIE if it has both: (a) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance; and (b) the right to receive benefits from the VIE that could potentially be significant to the VIE or the obligation to absorb losses of the VIE that could potentially be significant to the VIE. We perform ongoing assessments of whether we are the primary beneficiary of a VIE. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Consolidation and Equity Method of Accounting in our 2010 Annual Report for further information regarding the consolidation of certain VIEs.

Based on our evaluation, we determined that we are the primary beneficiary of trusts that issue our single-family PCs and certain Other Guarantee Transactions. Therefore, we consolidate on our balance sheet the assets and liabilities of these trusts. In addition to our PC trusts, we are involved with numerous other entities that meet the definition of a VIE, as discussed below.

VIEs for which We are the Primary Beneficiary

Single-family PC Trusts

Our single-family PC trusts issue pass-through securities that represent undivided beneficial interests in pools of mortgages held by these trusts. For our fixed-rate PCs, we guarantee the timely payment of interest and principal. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate for the underlying mortgage loans and the full and final payment of principal; we do not guarantee the timely payment of principal on ARM PCs. In exchange for providing this guarantee, we may receive a management and guarantee fee and up-front delivery fees. We issue most of our single-family PCs in transactions in which our customers exchange mortgage loans for PCs. We refer to these transactions as guarantor swaps.

PCs are designed so that we bear the credit risk inherent in the loans underlying the PCs through our guarantee of principal and interest payments on the PCs. The PC holders bear the interest rate or prepayment risk on the mortgage loans and the risk that we will not perform on our obligation as guarantor. For purposes of our consolidation assessments, our evaluation of power and economic exposure with regard to PC trusts focuses on credit risk because the credit performance of the underlying mortgage loans was identified as the activity that most significantly impacts the economic performance of these entities. We have the power to impact the activities related to this risk in our role as guarantor and master servicer.

Specifically, in our role as master servicer, we establish requirements for how mortgage loans are serviced and what steps are to be taken to avoid credit losses (*e.g.*, modification, foreclosure). Additionally, in our capacity as guarantor, we have the ability to purchase defaulted mortgage loans out of the PC trust to help manage credit losses. See NOTE 5: INDIVIDUALLY IMPAIRED LOANS AND NON-PERFORMING LOANS for further information regarding our purchase of mortgage loans out of PC trusts. These powers allow us to direct the activities of the VIE (*i.e.*, the PC trust) that most significantly impact its economic performance. In addition, we determined that our guarantee to each PC trust to provide principal and interest payments obligates us to absorb losses that could potentially be significant to the PC trusts. Accordingly, we concluded that we are the primary beneficiary of our single-family PC trusts.

At June 30, 2011 and December 31, 2010, we were the primary beneficiary of, and therefore consolidated, single-family PC trusts with assets totaling $1.6 trillion and $1.7 trillion, respectively, as measured using the UPB of issued PCs. The assets of each PC trust can be used only to settle obligations of that trust. In connection with our PC trusts, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders, and other forms of credit enhancement. We also have credit protection for certain of our PC trusts that issue PCs backed by loans or certificates of federal agencies (such as FHA, VA, and USDA). See NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES Credit Protection and Other Forms of Credit Enhancement for additional information regarding third-party credit enhancements related to our PC trusts.

Other Guarantee Transactions

Other Guarantee Transactions are mortgage-related securities that we issue to third parties in exchange for non-Freddie Mac mortgage-related securities. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities in our 2010 Annual Report for information on the nature of Other Guarantee Transactions. The degree to which our involvement with securitization trusts that issue Other Guarantee Transactions provides us with power to direct the activities that most significantly impact the economic performance of these VIEs (*e.g.*, the ability to mitigate credit losses on the underlying assets of these entities) and exposure to benefits or losses that could potentially be significant to the VIEs (*e.g.*, the existence of third party credit enhancements) varies by transaction. Our consolidation determination took into consideration the specific facts and circumstances of our involvement with each of these entities, including our ability to direct or influence the performance of the underlying assets and our exposure to potentially significant variability based upon the design of each entity and its governing contractual arrangements. As a result, we have concluded that we are the primary beneficiary of certain Other Guarantee Transactions with underlying assets totaling $14.2 billion and $15.8 billion at June 30, 2011 and December 31, 2010, respectively. For those Other Guarantee Transactions that we do consolidate, the investors in these securities have recourse only to the assets of those VIEs.

Consolidated VIEs

Table 3.1 represents the carrying amounts and classification of the assets and liabilities of consolidated VIEs on our consolidated balance sheets.

Table 3.1 Assets and Liabilities of Consolidated VIEs

Consolidated Balance Sheets Line Item	**June 30, 2011**	**December 31, 2010**
	(in millions)	
Cash and cash equivalents	$ 1	$ 1
Restricted cash and cash equivalents	1,850	7,514
Federal funds sold and securities purchased under agreements to resell	13,950	29,350
Mortgage loans held-for-investment by consolidated trusts	1,634,773	1,646,172
Accrued interest receivable	6,704	6,895
Real estate owned, net	83	118
Other assets	3,252	6,001
Total assets of consolidated VIEs	$ 1,660,613	$ 1,696,051
Accrued interest payable	$ 6,241	$ 6,502
Debt securities of consolidated trusts held by third parties	1,499,036	1,528,648
Other liabilities	3,821	3,851
Total liabilities of consolidated VIEs	$ 1,509,098	$ 1,539,001

VIEs for which We are not the Primary Beneficiary

Table 3.2 represents the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs. Our involvement with VIEs for which we are not the primary beneficiary generally takes one of two forms: (a) purchasing an investment in these entities; or (b) providing a guarantee to these entities. Our maximum exposure to loss for those VIEs in which we have purchased an investment is calculated as the maximum potential charge that we would recognize in our consolidated statements of income and comprehensive income if that investment were to become worthless. This amount does not include other-than-temporary impairments or other write-downs that we previously recognized through earnings. Our maximum exposure to loss for those VIEs for which we have provided a guarantee represents the contractual amounts that could be lost under the guarantees if counterparties or borrowers defaulted, without consideration of possible recoveries under credit enhancement arrangements. We do not believe the maximum exposure to loss disclosed in the table below is representative of the actual loss we are likely to incur, based on our historical loss experience and after consideration of proceeds from related collateral liquidation, including possible recoveries under credit enhancement arrangements.

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Table 3.2 Variable Interests in VIEs for which We are not the Primary Beneficiary

	June 30, 2011				
		Mortgage-Related Security Trusts		Unsecuritized	
	Asset-Backed Investment Trusts[1]	Freddie Mac Securities[2]	Non-Freddie Mac Securities[1]	Multifamily Loans[3]	Other[1][4]
	(in millions)				
Assets and Liabilities Recorded on our Consolidated Balance Sheets					
Assets:					
Cash and cash equivalents	$ 4,355	$	$	$	$
Restricted cash and cash equivalents		52		35	288
Investments in securities:					
Available-for-sale, at fair value		85,221	129,068		
Trading, at fair value	164	16,997	18,216		
Mortgage loans:					
Held-for-investment, unsecuritized				76,759	
Held-for-sale				4,463	
Accrued interest receivable		519	462	345	5
Derivative assets, net					2
Other assets		358	3	193	411
Liabilities:					
Derivative liabilities, net		(1)			(40)
Other liabilities		(524)	(1)	(36)	(832)
Maximum Exposure to Loss	$ 4,519	$ 32,568	$ 163,800	$ 81,795	$ 11,344
Total Assets of Non-Consolidated VIEs[5]	$ 51,779	$ 36,610	$ 1,023,005	$ 131,227	$ 25,264

	December 31, 2010				
		Mortgage-Related Security Trusts		Unsecuritized	
	Asset-Backed Investment Trusts[1]	Freddie Mac Securities[2]	Non-Freddie Mac Securities[1]	Multifamily Loans[3]	Other[1][4]
	(in millions)				
Assets and Liabilities Recorded on our Consolidated Balance Sheets					
Assets:					
Cash and cash equivalents	$ 9,909	$	$	$	$
Restricted cash and cash equivalents		52		34	464
Investments in securities:					

Available-for-sale, at fair value		85,689	137,568		
Trading, at fair value	44	13,437	18,914		
Mortgage loans:					
Held-for-investment, unsecuritized				78,448	
Held-for-sale				6,413	
Accrued interest receivable		419	717	372	5
Derivative assets, net					2
Other assets		277	6	23	381
Liabilities:					
Derivative liabilities, net		(2)			(41)
Other liabilities		(408)	(3)	(36)	(1,034)
Maximum Exposure to Loss	$ 9,953	$ 26,392	$ 176,533	$ 85,290	$ 11,375
Total Assets of Non-Consolidated VIEs(5)	$ 129,479	$ 29,368	$ 1,036,975	$ 138,330	$ 25,875

(1) For our involvement with non-consolidated asset-backed investment trusts, non-Freddie Mac security trusts, and certain other VIEs where we do not provide a guarantee, our maximum exposure to loss is computed as the carrying amount if the security is classified as trading or the amortized cost if the security is classified as available-for-sale for our investments and related assets recorded on our consolidated balance sheets, including any unrealized amounts recorded in AOCI for securities classified as available-for-sale.
(2) Freddie Mac securities include our variable interests in single-family multiclass REMICs and Other Structured Securities, multifamily PCs, multifamily Other Structured Securities, and Other Guarantee Transactions that we do not consolidate. For our variable interests in non-consolidated Freddie Mac security trusts for which we have provided a guarantee, our maximum exposure to loss is the outstanding UPB of the underlying mortgage loans or securities that we have guaranteed, which is the maximum contractual amount under such guarantees. However, our investments in single-family REMICs and Other Structured Securities that are not consolidated do not give rise to any additional exposure to loss as we already consolidate the underlying collateral.
(3) For unsecuritized multifamily loans, our maximum exposure to loss is based on the UPB of these loans, as adjusted for loan level basis adjustments, any associated allowance for loan losses, accrued interest receivable, and fair value adjustments on held-for-sale loans.
(4) For other non-consolidated VIEs where we have provided a guarantee, our maximum exposure to loss is the contractual amount that could be lost under the guarantee if the counterparty or borrower defaulted, without consideration of possible recoveries under credit enhancement arrangements.
(5) Represents the remaining UPB of assets held by non-consolidated VIEs using the most current information available, where our continuing involvement is significant. We do not include the assets of our non-consolidated trusts related to single-family REMICs and Other Structured Securities in this amount as we already consolidate the underlying collateral of these trusts on our consolidated balance sheets.

Asset-Backed Investment Trusts

We invest in a variety of non-mortgage-related, asset-backed investment trusts. These investments represent interests in trusts consisting of a pool of receivables or other financial assets, typically credit card receivables, auto loans, or student loans. These trusts act as vehicles to allow originators to securitize assets. Securities are structured from the underlying pool of assets to provide for varying degrees of risk. Primary risks include potential loss from the credit risk and interest-rate risk of the underlying pool. The originators of the financial assets or the underwriters of the deal create the trusts and typically own the residual interest in the trust assets. See NOTE 7: INVESTMENTS IN SECURITIES for additional information regarding our asset-backed investments.

At June 30, 2011 and December 31, 2010, we had investments in 15 and 23 asset-backed investment trusts in which we had a variable interest but were not considered the primary beneficiary, respectively. Our investments in these asset-backed investment trusts as of June 30, 2011 were made in 2010 and 2011. At both June 30, 2011 and December 31, 2010, we were not the primary beneficiary of any such trusts because our investments are passive in nature and do not provide us with the power to direct the activities of the trusts that most significantly impact their economic performance. As such, our investments in these asset-backed investment trusts are accounted for as investment securities as described in NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2010 Annual Report. Our investments in these trusts totaled $4.5 billion and $10.0 billion as of June 30, 2011 and December 31, 2010, respectively, and are included as cash and cash equivalents, available-for-sale securities or trading securities on our consolidated balance sheets. At both June 30, 2011 and December 31, 2010, we did not guarantee any obligations of these investment trusts and our exposure was limited to the amount of our investment.

Mortgage-Related Security Trusts

Freddie Mac Securities

Freddie Mac securities related to our variable interests in non-consolidated VIEs primarily consist of our REMICs and Other Structured Securities and Other Guarantee Transactions. REMICs and Other Structured Securities are created by using PCs or previously issued REMICs and Other Structured Securities as collateral. Our involvement with the resecuritization trusts that issue these securities does not provide us with rights to receive benefits or obligations to absorb losses nor does it provide any power that would enable us to direct the most significant activities of these VIEs because the ultimate underlying assets are PCs for which we have already provided a guarantee (*i.e.*, all significant rights, obligations and powers are associated with the underlying PC trusts). As a result, we have concluded that we are not the primary beneficiary of these resecuritization trusts.

Other Guarantee Transactions are created by using non-Freddie Mac mortgage-related securities as collateral. At both June 30, 2011 and December 31, 2010, our involvement with certain Other Guarantee Transactions does not provide us with the power to direct the activities that most significantly impact the economic performance of these VIEs. As a result, we hold a variable interest in, but are not the primary beneficiary of, certain Other Guarantee Transactions.

For non-consolidated REMICs and Other Structured Securities and Other Guarantee Transactions, our investments are primarily included in either available-for-sale securities or trading securities on our consolidated balance sheets. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Securitization Activities through Issuances of Freddie Mac Mortgage-Related Securities in our 2010 Annual Report for additional information on accounting for purchases of PCs and beneficial interests issued by resecuritization trusts. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Non-Freddie Mac Securities

We invest in a variety of mortgage-related securities issued by third-parties, including non-Freddie Mac agency securities, CMBS, other private-label securities backed by various mortgage-related assets, and obligations of states and political subdivisions. These investments typically represent interests in trusts that consist of a pool of mortgage-related assets and act as vehicles to allow originators to securitize those assets. Securities are structured from the underlying pool of assets to provide for varying degrees of risk. Primary risks include potential loss from the credit risk and interest-rate risk of the underlying pool. The originators of the financial assets or the underwriters of the deal create the trusts and typically own the residual interest in the trust assets. See NOTE 7: INVESTMENTS IN SECURITIES for additional information regarding our non-Freddie Mac securities.

Our investments in these non-Freddie Mac securities at June 30, 2011 were made between 1994 and 2011. We are not generally the primary beneficiary of non-Freddie Mac securities trusts because our investments are passive in nature and do not provide us with the power to direct the activities of the trusts that most significantly impact their economic performance. At both June 30, 2011 and December 31, 2010, we were not the primary beneficiary of any non-Freddie Mac securities trusts. Our investments in non-consolidated non-Freddie Mac mortgage-related securities are accounted for as investment securities as described in NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2010 Annual Report. At both June 30, 2011 and December 31, 2010, we did not guarantee any obligations of these investment trusts and our exposure was limited to the amount of our investment. Our investments in these trusts are funded through the issuance of unsecured debt, which is recorded as other debt on our consolidated balance sheets.

Unsecuritized Multifamily Loans

We purchase loans made to various multifamily real estate entities. We primarily purchase such loans for securitization, and to a lesser extent, investment purposes. These real estate entities are primarily single-asset entities (typically partnerships or limited liability companies) established to acquire, construct, rehabilitate, or refinance residential properties, and subsequently to operate the properties as residential rental real estate. The loans we acquire usually make up 80% or less of the value of the related underlying property at origination. The remaining 20% of value is typically funded through equity contributions by the partners or members of the borrower entity. In certain cases, the 20% not funded through the loan we acquire also includes subordinate loans or mezzanine financing from third-party lenders. We held more than 7,000 unsecuritized multifamily loans at both June 30, 2011 and December 31, 2010.

The UPB of our investments in these loans was $81.8 billion and $85.9 billion as of June 30, 2011 and December 31, 2010, respectively, and was included in unsecuritized held-for-investment mortgage loans, at amortized cost, and held-for-sale mortgage loans at fair value on our consolidated balance sheets. We are not generally the primary beneficiary of the multifamily real estate borrowing entities because the loans we acquire are passive in nature and do not provide us with the power to direct the activities of these entities that most significantly impact their economic performance. However, when a multifamily loan becomes delinquent, we may become the primary beneficiary of the borrowing entity depending upon the structure of this entity and the rights granted to us under the governing legal documents. At June 30, 2011 and December 31, 2010, the amount of loans for which we could be considered the primary beneficiary of the underlying borrowing entity was not material. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Mortgage Loans in our 2010 Annual Report and NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES for more information.

Other

Our involvement with other VIEs includes our investments in LIHTC partnerships, certain other mortgage-related guarantees, and certain short-term default and other guarantee commitments that we account for as derivatives:

Investments in LIHTC Partnerships: We hold equity investments in various LIHTC partnerships that invest in lower-tier or project partnerships that are single asset entities. In February 2010, the Acting Director of FHFA, after consultation with Treasury, informed us that we may not sell or transfer our investments in LIHTC assets and that he sees no other disposition options. As a result, we wrote down the carrying value of our LIHTC investments to zero as of December 31, 2009, as we will not be able to realize any value from these investments either through reductions to our taxable income and related tax liabilities or through a sale to a third party.

Certain other mortgage-related guarantees: We have other guarantee commitments outstanding on multifamily housing revenue bonds that were issued by third parties. As part of certain other mortgage-related guarantees, we also provide commitments to advance funds, commonly referred to as liquidity guarantees, which require us to advance funds to enable third parties to purchase variable-rate multifamily housing revenue bonds, or certificates backed by such bonds, that cannot be remarketed within five business days after they are tendered by their holders.

Certain short-term default and other guarantee commitments accounted for as derivatives: Our involvement in these VIEs includes our guarantee of the performance of interest-rate swap contracts in certain circumstances and credit derivatives we issued to guarantee the payments on multifamily loans or securities.

At June 30, 2011 and December 31, 2010, we were the primary beneficiary of two and three, respectively, credit-enhanced multifamily housing revenue bonds that were not deemed to be material. We were not the primary beneficiary of the remainder of other VIEs because our involvement in these VIEs is passive in nature and does not provide us with the power to direct the activities of the VIEs that most significantly impact their economic performance. See Table 3.2 for the carrying amounts and classification of the assets and liabilities recorded on our consolidated balance sheets related to our variable interests in these non-consolidated VIEs, as well as our maximum exposure to loss as a result of our involvement with these VIEs. Also see NOTE 9: FINANCIAL GUARANTEES for additional information about our involvement with the VIEs related to mortgage-related guarantees and short-term default and other guarantee commitments discussed above.

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NOTE 4: MORTGAGE LOANS AND LOAN LOSS RESERVES

We own both single-family mortgage loans, which are secured by one to four family residential properties, and multifamily mortgage loans, which are secured by properties with five or more residential rental units. For a discussion of our significant accounting policies regarding our mortgage loans and loan loss reserves, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES in our 2010 Annual Report.

Table 4.1 summarizes the types of loans on our consolidated balance sheets as of June 30, 2011 and December 31, 2010.

Table 4.1 Mortgage Loans

	June 30, 2011			December 31, 2010		
	Unsecuritized	Held by Consolidated Trusts	Total	Unsecuritized	Held by Consolidated Trusts	Total
	(in millions)					
Single-family:[1]						
Fixed-rate						
Amortizing	$ 137,684	$ 1,488,199	$ 1,625,883	$ 126,561	$ 1,493,206	$ 1,619,767
Interest-only	3,512	16,986	20,498	4,161	19,616	23,777
Total fixed-rate	141,196	1,505,185	1,646,381	130,722	1,512,822	1,643,544
Adjustable-rate						
Amortizing	3,844	62,945	66,789	3,625	59,851	63,476
Interest-only	11,789	49,925	61,714	13,018	58,792	71,810
Total adjustable-rate	15,633	112,870	128,503	16,643	118,643	135,286
Other Guarantee Transactions backed by non-Freddie Mac securities		14,090	14,090		15,580	15,580
FHA/VA and other governmental	1,319	3,476	4,795	1,498	3,348	4,846
Total single-family	158,148	1,635,621	1,793,769	148,863	1,650,393	1,799,256
Multifamily[1]:						
Fixed-rate	68,155		68,155	72,679		72,679
Adjustable-rate	13,644		13,644	13,201		13,201
Other governmental	3		3	3		3
Total multifamily	81,802		81,802	85,883		85,883

Total UPB of mortgage loans	239,950	1,635,621	1,875,571	234,746	1,650,393	1,885,139
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(7,045)	8,100	1,055	(7,665)	7,423	(242)
Lower of cost or fair value adjustments on loans held-for-sale(2)	45		45	(311)		(311)
Allowance for loan losses on mortgage loans held-for-investment	(29,919)	(8,948)	(38,867)	(28,047)	(11,644)	(39,691)
Total mortgage loans, net	$ 203,031	$ 1,634,773	$ 1,837,804	$ 198,723	$ 1,646,172	$ 1,844,895
Mortgage loans, net:						
Held-for-investment	$ 198,568	$ 1,634,773	$ 1,833,341	$ 192,310	$ 1,646,172	$ 1,838,482
Held-for-sale	4,463		4,463	6,413		6,413
Total mortgage loans, net	$ 203,031	$ 1,634,773	$ 1,837,804	$ 198,723	$ 1,646,172	$ 1,844,895

(1) Based on UPB and excluding mortgage loans traded, but not yet settled.
(2) Includes fair value adjustments associated with mortgage loans for which we have made a fair value election.

We purchased UPB of $62.2 billion of single-family mortgage loans and $0.9 billion of multifamily loans that were classified as held-for-investment at purchase in the three months ended June 30, 2011. We purchased UPB of $158.0 billion of single-family mortgage loans and $1.7 billion of multifamily loans that were classified as held-for-investment at purchase in the six months ended June 30, 2011. Our sales of multifamily mortgage loans occur primarily through the issuance of multifamily Other Guarantee Transactions. See NOTE 9: FINANCIAL GUARANTEES for more information. We did not sell any held-for-investment loans during the three and six months ended June 30, 2011. We did not have significant reclassifications of mortgage loans into held-for-sale in the three and six months ended June 30, 2011.

Credit Quality of Mortgage Loans

We evaluate the credit quality of single-family loans using different criteria than the criteria we use to evaluate multifamily loans. The current LTV ratio is one key factor we consider when estimating our loan loss reserves for single-family loans. As estimated current LTV ratios increase, the borrower s equity in the home decreases, which negatively affects the borrower s ability to refinance or to sell the property for an amount at or above the balance of the outstanding mortgage loan. If a borrower has an estimated current LTV ratio greater than 100%, the borrower is underwater and is more likely to default than other borrowers. A second lien mortgage also reduces the borrower s equity in the home, and has a similar negative effect on the borrower s ability to refinance or sell the property for an amount at or above the combined balances of the first and second mortgages. As of June 30, 2011 and December 31, 2010, approximately 15% and 14%, respectively, of loans in our single-family credit guarantee portfolio had second lien financing at the time of origination of the first mortgage, and we estimate that these loans comprised 18% and 19%, respectively, of our seriously delinquent loans, based on UPB. However, borrowers are free to obtain second lien financing after origination, and we are not entitled to receive notification when a borrower does so. Therefore, it is likely that additional borrowers have post-origination second lien mortgages.

Table 4.2 presents information on the estimated current LTV ratios of single-family loans on our consolidated balance sheets, all of which are held-for-investment. Our current LTV ratio estimates are based on available data through the end of each respective period.

Table 4.2 Recorded Investment of Held-for-Investment Mortgage Loans, by LTV Ratio

	As of June 30, 2011 Estimated Current LTV Ratio[1]				**As of December 31, 2010 Estimated Current LTV Ratio[1]**			
	<= 80	**81 100**	**> 100[2]**	**Total**	**<= 80**	**81 100**	**> 100[2]**	**Total**
				(in millions)				
Single-family loans:								
20 and 30-year or more, amortizing fixed-rate[3]								