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

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

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2009

Commission File Number: 000-53330

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

Freddie Mac

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

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

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

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

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

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

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

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

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EXPLANATORY NOTE

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

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

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

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PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Freddie Mac:

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

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

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

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

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

/s/ PricewaterhouseCoopers LLP

McLean, Virginia
February 23, 2010

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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

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FREDDIE MAC
CONSOLIDATED BALANCE SHEETS

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

Total liabilities	837,412	881,597
Commitments and contingencies (Notes 1, 3, 13 and 14)		
Equity (deficit)		
Freddie Mac stockholders equity (deficit)		
Senior preferred stock, at redemption value	51,700	14,800
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 648,369,668 shares and 647,260,293 shares outstanding, respectively		
Additional paid-in capital	57	19
Retained earnings (accumulated deficit)	(33,921)	(23,191)
AOCI, net of taxes, related to:		
Available-for-sale securities (includes $15,947, net of taxes, of other than-temporary impairments at December 31, 2009)	(20,616)	(28,510)
Cash flow hedge relationships	(2,905)	(3,678)
Defined benefit plans	(127)	(169)
Total AOCI, net of taxes	(23,648)	(32,357)
Treasury stock, at cost, 77,494,218 shares and 78,603,593 shares, respectively	(4,019)	(4,111)
Total Freddie Mac stockholders equity (deficit)	4,278	(30,731)
Noncontrolling interest	94	97
Total equity (deficit)	4,372	(30,634)
Total liabilities and equity (deficit)	$ 841,784	$ 850,963

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

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF EQUITY (DEFICIT)

	Year Ended December 31,					
	2009		2008		2007	
	Shares	Amount	Shares	Amount	Shares	Amount
			(in millions)			
Senior preferred stock, at redemption value						
Balance, beginning of year	1	$ 14,800		$		$
Senior preferred stock issuance			1	1,000		
Increase in liquidation preference		36,900		13,800		
Senior preferred stock, end of year	1	51,700	1	14,800		
Preferred stock, at redemption value						
Balance, beginning of year	464	14,109	464	14,109	132	6,109
Preferred stock issuances					344	8,600
Preferred stock redemptions					(12)	(600)
Preferred stock, end of year	464	14,109	464	14,109	464	14,109
Common stock, par value						
Balance, beginning of year	726		726	152	726	152
Adjustment to par value				(152)		
Common stock, end of year	726		726		726	152
Additional paid-in capital						
Balance, beginning of year		19		871		962
Stock-based compensation		58		74		81
Income tax benefit from stock-based compensation		7		(16)		
Preferred stock issuance costs						(116)
Common stock issuances		(90)		(66)		(42)
REIT preferred stock repurchase				4		(14)
Adjustment to common stock par value				152		
Common stock warrant issuance				2,304		
Commitment from the U.S. Department of the Treasury				(3,304)		
Transfer from retained earnings (accumulated deficit)		63				
Additional paid-in capital, end of year		57		19		871
Retained earnings (accumulated deficit)						
Balance, beginning of year		(23,191)		26,909		31,372
				1,023		181

Cumulative effect of change in accounting principle, net of taxes						
Balance, beginning of year, as adjusted		(23,191)		27,932		31,553
Cumulative effect of change in accounting principle, net of taxes		14,996				
Net loss attributable to Freddie Mac		(21,553)		(50,119)		(3,094)
Senior preferred stock dividends declared		(4,105)		(172)		
Preferred stock dividends declared				(503)		(398)
Common stock dividends declared				(323)		(1,140)
Dividends equivalent payments on expired stock options		(5)		(6)		(12)
Transfer to additional paid-in capital		(63)				
Retained earnings (accumulated deficit), end of year		(33,921)		(23,191)		26,909
AOCI, net of taxes						
Balance, beginning of year		(32,357)		(11,143)		(8,451)
Cumulative effect of change in accounting principle, net of taxes				(850)		
Balance, beginning of year, as adjusted		(32,357)		(11,993)		(8,451)
Cumulative effect of change in accounting principle, net of taxes		(9,931)				
Changes in unrealized gains (losses) related to available-for-sale securities, net of reclassification adjustments		17,825		(20,616)		(3,708)
Changes in unrealized gains (losses) related to cash flow hedge relationships, net of reclassification adjustments		773		377		973
Changes in defined benefit plans		42		(125)		43
AOCI, net of taxes, end of year		(23,648)		(32,357)		(11,143)
Treasury stock, at cost						
Balance, beginning of year	79	(4,111)	80	(4,174)	65	(3,230)
Common stock issuances	(2)	92	(1)	63	(1)	56
Common stock repurchases					16	(1,000)
Treasury stock, end of year	77	(4,019)	79	(4,111)	80	(4,174)
Noncontrolling interest						
Balance, beginning of year		97		181		516
Net income (loss) attributable to noncontrolling interest		(1)		3		(8)
REIT preferred stock repurchase				(82)		(302)
Dividends and other		(2)		(5)		(25)
Noncontrolling interest, end of year		94		97		181

Total equity (deficit)	$ 4,372	$ (30,634)	$ 26,905
Comprehensive income (loss)			
Net loss	$ (21,554)	$ (50,116)	$ (3,102)
Changes in other comprehensive income, net of taxes, net of reclassification adjustments	18,640	(20,364)	(2,692)
Comprehensive income (loss)	(2,914)	(70,480)	(5,794)
Less: Comprehensive (income) loss attributable to noncontrolling interest	1	(3)	8
Total comprehensive income (loss) attributable to Freddie Mac	$ (2,913)	$ (70,483)	$ (5,786)

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

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2009	2008	2007
	(in millions)		
Cash flows from operating activities			
Net loss	$ (21,554)	$ (50,116)	$ (3,102)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Derivative (gains) losses	(2,046)	13,650	2,231
Asset related amortization premiums, discounts and basis adjustments	163	(493)	(10)
Debt related amortization premiums and discounts on certain debt securities and basis adjustments	3,959	8,765	10,894
Net discounts paid on retirements of debt	(4,303)	(8,844)	(8,405)
Losses (gains) on debt retirement	568	(209)	(345)
Provision for credit losses	29,530	16,432	2,854
Low-income housing tax credit partnerships	4,155	453	469
Losses on loans purchased	4,754	1,634	1,865
Losses (gains) on investment activity	5,356	16,108	(294)
Foreign-currency losses, net			2,348
Losses (gains) on debt recorded at fair value	404	(406)	
Deferred income tax (benefit) expense	(670)	5,507	(3,943)
Purchases of held-for-sale mortgages	(101,976)	(38,070)	(21,678)
Sales of held-for-sale mortgages	88,094	24,578	19,525
Repayments of held-for-sale mortgages	3,050	896	138
Change in:			
Due to Participation Certificates and Structured Securities Trust	250	(623)	946
Trading securities			(1,922)
Accounts and other receivables, net	(1,343)	(1,668)	(909)
Amounts due to Participation Certificate investors, net			(10,744)
Accrued interest payable	(1,324)	(786)	(263)
Income taxes payable	312	(1,185)	130
Guarantee asset, at fair value	(5,597)	4,744	(2,203)
Guarantee obligation	(183)	(1,470)	4,245
Other, net	(311)	944	503
Net cash provided by (used for) operating activities	1,288	(10,159)	(7,670)
Cash flows from investing activities			
Purchases of trading securities	(250,411)	(200,613)	
Proceeds from sales of trading securities	153,093	94,764	
Proceeds from maturities of trading securities	69,025	18,382	
Purchases of available-for-sale securities	(15,346)	(174,968)	(319,213)
Proceeds from sales of available-for-sale securities	22,259	35,872	109,973
Proceeds from maturities of available-for-sale securities	86,702	193,573	219,047

Purchases of held-for-investment mortgages		(23,606)		(25,099)		(25,059)
Repayments of held-for-investment mortgages		6,862		6,516		9,571
Decrease (increase) in restricted cash		426		(857)		(96)
Net (payments) proceeds from mortgage insurance and acquisitions and dispositions of real estate owned		(4,690)		(2,573)		1,798
Net decrease (increase) in federal funds sold and securities purchased under agreements to resell		3,150		(3,588)		16,466
Derivative premiums and terminations and swap collateral, net		99		(12,829)		(2,484)
Investments in low-income housing tax credit partnerships						(158)
Net cash provided by (used for) investing activities		47,563		(71,420)		9,845
Cash flows from financing activities						
Proceeds from issuance of short-term debt		996,886		1,194,456		1,016,933
Repayments of short-term debt		(1,088,026)		(1,061,595)		(986,489)
Proceeds from issuance of long-term debt		336,973		241,222		183,161
Repayments of long-term debt		(307,780)		(267,732)		(222,541)
Increase in liquidation preference of senior preferred stock		36,900		13,800		
Proceeds from issuance of preferred stock						8,484
Redemption of preferred stock						(600)
Repurchases of common stock						(1,000)
Payment of cash dividends on senior preferred stock, preferred stock and common stock		(4,105)		(998)		(1,539)
Excess tax benefits associated with stock-based awards		1		3		5
Payments of low-income housing tax credit partnerships notes payable		(343)		(742)		(1,068)
Other, net				(83)		(306)
Net cash (used for) provided by financing activities		(29,494)		118,331		(4,960)
Net increase (decrease) in cash and cash equivalents		19,357		36,752		(2,785)
Cash and cash equivalents at beginning of period		45,326		8,574		11,359
Cash and cash equivalents at end of period	$	64,683	$	45,326	$	8,574
Supplemental cash flow information						
Cash paid (received) for:						
Debt interest	$	25,169	$	35,664	$	37,473
Swap collateral interest		6		149		445
Derivative interest carry, net		2,268		804		(1,070)
Income taxes		(472)		1,230		927
Non-cash investing and financing activities:						
Held-for-sale mortgages securitized and retained as available-for-sale securities		1,088				169
Investments in low-income housing tax credit partnerships financed by notes payable						286
Transfers from held-for-sale mortgages to held-for-investment mortgages		10,336				41
Transfers from held-for-investment mortgages to held-for-sale mortgages		435				
						2,229

Transfers from Participation Certificates recognized on our consolidated balance sheets to held-for-investment mortgages	
Transfers from available-for-sale securities to trading securities	87,281
Issuance of senior preferred stock and warrant to purchase common stock to U.S. Department of the Treasury	3,304

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Freddie Mac was chartered by the U.S. 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. Our participation in the secondary mortgage market includes providing our credit guarantee for residential mortgages originated by mortgage lenders and investing in mortgage loans and mortgage-related securities. Through our credit guarantee activities, we securitize mortgage loans by issuing PCs to third-party investors. We also resecuritize mortgage-related securities that are issued by us or Ginnie Mae as well as private, or non-agency, entities by issuing Structured Securities to third-party investors. We also guarantee multifamily mortgage loans that support housing revenue bonds issued by third parties and we guarantee other mortgage loans held by third parties. Securitized mortgage-related assets that back PCs and Structured Securities that are held by third parties are not reflected as assets on our consolidated balance sheets. As discussed in Securitization Activities through Issuances of Guaranteed PC and Structured Securities, our Structured Securities represent beneficial interests in pools of PCs and certain other types of mortgage-related assets. We earn management and guarantee fees for providing our guarantee and performing management activities (such as ongoing trustee services, administration of pass-through amounts, paying agent services, tax reporting and other required services) with respect to issued PCs and Structured Securities. Our management activities are essential to and inseparable from our guarantee activities. We do not provide or charge for the activities separately. The management and guarantee fee is paid to us over the life of the related PCs and Structured Securities and reflected in earnings as management and guarantee income is accrued.

Basis of Presentation

Our financial reporting and accounting policies conform to GAAP. 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 amounts in prior periods consolidated financial statements have been reclassified to conform to the current presentation. We evaluate the materiality of identified errors in the financial statements using both an income statement, or rollover, and a balance sheet, or iron-curtain, approach, based on relevant quantitative and qualitative factors.

Net income (loss) includes certain adjustments to correct immaterial errors related to previously reported periods. For 2009, we evaluated subsequent events through February 23, 2010.

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. Actual results could differ from those estimates.

Our estimates and judgments include, but are not limited to the following:

- estimating fair value for a significant portion of assets and liabilities, including financial instruments and REO (See NOTE 18: FAIR VALUE DISCLOSURES for a discussion of our fair value estimates);

- estimating the expected amounts of forecasted issuances of debt;

- establishing the allowance for loan losses on loans held-for-investment and the reserve for guarantee losses on PCs;

- applying the static effective yield method of amortizing our guarantee obligation into earnings based on forecasted unpaid principal balances, which requires adjustment when significant changes in economic events cause a shift in the pattern of our economic release from risk;

- applying the effective interest method, which requires estimates of the expected future amounts of prepayments of mortgage-related assets;

- assessing when impairments should be recognized on investments in securities and LIHTC partnerships and the subsequent accretion of security impairments using prospective amortization; and

- assessing the realizability of net deferred tax assets to determine our need for and amount of a valuation allowance.

During 2009, we enhanced our methodology for estimating the reserve for losses on mortgage loans held-for-investment and the reserve for guarantee losses on PCs. These enhancements were made to reduce the number of adjustments that were required in the previous process that arose as a result of dramatic changes in market conditions in recent periods. The new process allows us to incorporate a greater number of loan characteristics by giving us the ability to better integrate into the modeling process our understanding of home price changes at a more detailed level and forecast their impact on incurred losses. Additionally, these changes allow us to better assess incurred losses of modified loans by incorporating specific expectations related to these types of loans into our model. Several of the more significant characteristics include estimated current loan-to-value ratios, original FICO scores, geographic region, loan product, delinquency status, loan age, sourcing channel, occupancy type, and unpaid principal balance at origination. We estimate that these changes in methodology decreased our provision for credit losses and increased net income by approximately $1.4 billion or $0.43 per diluted common share for 2009. Because of the number of characteristics incorporated into the enhanced model, the interdependencies in the calculations, and concurrent implementation of these enhancements, we are not able to attribute the dollar impact of this change to the individual changes in the new model. See NOTE 7: MORTGAGE LOANS AND LOAN LOSS RESERVES for additional information on our loan loss reserves.

Consolidation and Equity Method of Accounting

The consolidated financial statements include our accounts and those of our subsidiaries. The equity and net earnings attributable to the noncontrolling interests in our consolidated subsidiaries are reported separately on our consolidated balance sheets as noncontrolling interests in total equity (deficit) and in the consolidated statements of operations as net (income) loss attributable to noncontrolling interests. All material intercompany transactions have been eliminated in consolidation.

For each entity with which we are involved, we determine whether the entity should be considered a subsidiary and thus consolidated in our financial statements. These subsidiaries include entities in which we hold more than 50% of the voting rights or over which we have the ability to exercise control. Accordingly, we consolidate our two majority-owned REITs, Home Ownership Funding Corporation and Home Ownership Funding Corporation II. Other subsidiaries consist of VIEs in which we are the primary beneficiary.

A VIE is an entity (a) that has a total equity investment at risk that is not sufficient to finance its activities without additional subordinated financial support provided by another party or (b) where the group of equity holders does not have (i) the ability to make significant decisions about the entity s activities, (ii) the obligation to absorb the entity s expected losses or (iii) the right to receive the entity s expected residual returns. We consolidate entities that are VIEs when we are the primary beneficiary. We are considered the primary beneficiary of a VIE when we absorb a majority of its expected losses, receive a majority of its expected residual returns (unless another enterprise receives this majority), or both. We determine if we are the primary beneficiary when we become involved in the VIE or when there is a change to the governing documents. If we are the primary beneficiary, we also reconsider this decision when we sell or otherwise dispose of all or part of our variable interests to unrelated parties or if the VIE issues new variable interests to parties other than us or our related parties. Conversely, if we are not the primary beneficiary, we also reconsider this decision when we acquire additional variable interests in these entities. Prior to 2008, we invested as a limited partner in qualified LIHTC partnerships that are eligible for federal income tax credits and deductible operating losses and that mostly are VIEs. We are the primary beneficiary for certain of these LIHTC partnerships and consolidate them on our consolidated balance sheets as discussed in NOTE 5: VARIABLE INTEREST ENTITIES.

We use the equity method of accounting for entities over which we have the ability to exercise significant influence, but not control, such as (a) entities that are not VIEs and (b) VIEs in which we have significant variable interests but are not the primary beneficiary. We report our recorded investment as part of low-income housing tax credit partnership equity investments on our consolidated balance sheets and recognize our share of the entity s losses in the consolidated statements of operations as non-interest income (loss), with an offset to the recorded investment. Our share of losses is recognized only until the recorded investment is reduced to zero, unless we have guaranteed the obligations of or otherwise committed to provide further financial support to these entities. We review these investments for impairment on a quarterly basis and reduce them to fair value when a decline in fair value below the recorded investment is deemed to be other than temporary. Our review considers a number of factors, including, but not limited to, the severity and duration of the decline in fair value, remaining estimated tax credits and losses in relation to the recorded investment, our intent and ability to hold the investment until a recovery can be reasonably estimated to occur, our ability to use the losses and credits to offset income, and our ability to realize value via sales of our LIHTC investments.

In applying the equity method of accounting to the LIHTC partnerships where we are not the primary beneficiary, our obligations to make delayed equity contributions that are unconditional and legally binding are recorded at their present value in other liabilities on the consolidated balance sheets. In addition, to the extent our recorded investment in qualified LIHTC partnerships differs from the book basis reflected at the partnership level, the difference is amortized over the life of the tax credits and included in our consolidated statements of operations as part of non-interest income (loss) low-income housing tax credit partnerships. Impairment losses under the equity method for these LIHTC partnerships are also included in our consolidated statements of operations as part of non-interest income (loss) low-income housing tax credit partnerships.

We no longer invest in LIHTC partnerships because we do not expect to be able to use the underlying federal income tax credits or the operating losses generated from LIHTC partnerships as a reduction to our taxable income because of our inability to generate sufficient taxable income. Furthermore, we are not able to realize any value through a sale to a third party as a result of a restriction imposed by Treasury. As a result, we wrote down the carrying value of our LIHTC investments to zero as of December 31, 2009. See NOTE 5: VARIABLE INTEREST ENTITIES for additional information.

Cash and Cash Equivalents and Statements of Cash Flows

Highly liquid investment securities that have an original maturity of three months or less are accounted for as cash equivalents. In addition, cash collateral we obtain from counterparties to derivative contracts where we are in a net unrealized gain position is recorded as cash and cash equivalents. The vast majority of the cash and cash equivalents balance is interest-bearing in nature.

We adopted the accounting standards related to the fair value option for financial assets and financial liabilities on January 1, 2008, which requires, among other things, the classification of trading securities cash flows based on the purpose for which the securities were acquired. Upon adoption, we classified our trading securities cash flows as investing activities because we intend to hold these securities for investment purposes. Prior to our adoption, we classified cash flows on all trading securities as operating activities. As a result, the operating and investing activities on our consolidated statements of cash flows have been impacted by this change.

In the consolidated statements of cash flows, cash flows related to the acquisition and termination of derivatives other than forward commitments are generally classified in investing activities, without regard to whether the derivatives are designated as a hedge of another item. Cash flows from commitments accounted for as derivatives that result in the acquisition or sale of mortgage securities or mortgage loans are classified in either: (a) operating activities for mortgage loans classified as held-for-sale, or (b) investing activities for trading securities, available-for-sale securities or mortgage loans classified as held-for-investment. Cash flows related to purchases of mortgage loans held-for-sale are classified in operating activities until the loans have been securitized and retained as available-for-sale PCs in the same period as they are purchased, at which time the cash flows are classified as investing activities. When mortgage loans held-for-sale are sold or securitized, proceeds from sale or securitization and any related gain or loss are classified in operating activities. All cash inflows associated with our investments in mortgage-related securities issued by us that are classified as available-for-sale (*i.e.*, payments, maturities, and proceeds from sales) are classified as investing activities.

Cash flows related to management and guarantee fees, including upfront, guarantee-related payments, are classified as operating activities, along with the cash flows related to the collection and distribution of payments on the mortgage loans underlying PCs. Upfront, guarantee-related payments are discussed further below in Securitization Activities through Issuances of Guaranteed PCs and Structured Securities *Cash Payments at Inception.*

When we have the right to purchase mortgage loans from PC pools, we recognize the mortgage loans as held-for-investment with a corresponding payable to the trust. For periods prior to the third quarter of 2009, the right to purchase the loans was included in net cash provided by investing activities and the increase in the payable to the trust was included in net cash used by operating activities. We determined that the recognition of these mortgage loans should be reflected as a non-cash activity. We revised our consolidated statements of cash flows for the year ended December 31, 2008 to reflect this correction. This revision resulted in an increase to the cash used for operating activities by $518 million and a decrease to the cash used for investing activities by $518 million for 2008. Management concluded that this revision is not material to our previously issued consolidated financial statements.

Restricted Cash

Cash collateral accepted from counterparties that we do not have the right to use is recorded as restricted cash in our consolidated balance sheets. Restricted cash also includes cash held on deposit at the Fixed Income Clearing Corporation.

Securitization Activities through Issuances of Guaranteed PCs and Structured Securities

Overview

We securitize substantially all of the single-family mortgages we have purchased and issue mortgage-related securities called PCs that can be sold to investors or held by us. Guarantor swaps are transactions where financial institutions exchange mortgage loans for PCs backed by these mortgage loans. Multilender swaps are similar to guarantor swaps, except that formed PC pools include loans that are contributed by more than one other party or by us. We issue PCs and Structured Securities through various swap-based exchanges significantly more often than through cash-based exchanges. We also issue and transfer Structured Securities to third parties in exchange for PCs and non-Freddie Mac mortgage-related securities.

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PCs

Our PCs are pass-through securities that represent undivided beneficial interests in trusts that own pools of mortgages we have purchased. 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. We do not guarantee the timely payment of principal for ARM PCs; however, we do guarantee the full and final payment of principal. In exchange for providing this guarantee, we receive a contractual management and guarantee fee and other upfront credit-related fees.

Other investors purchase our PCs, including pension funds, insurance companies, securities dealers, money managers, commercial banks, foreign central banks and other fixed-income investors. PCs differ from U.S. Treasury securities and other fixed-income investments in two primary ways. First, PCs can be prepaid at any time because homeowners can pay off the underlying mortgages at any time prior to a loan s maturity. Because homeowners have the right to prepay their mortgage, the securities implicitly have a call option that significantly reduces the average life of the security as compared to the contractual maturity of the underlying loans. Consequently, mortgage-related securities generally provide a higher nominal yield than certain other fixed-income products. Second, PCs are not backed by the full faith and credit of the United States, as are U.S. Treasury securities. However, we guarantee the payment of interest and principal on all our PCs, as discussed above.

Guarantee Asset

In return for providing our guarantee for the payment of principal and interest on the security, we may earn a management and guarantee fee that is paid to us over the life of an issued PC, representing a portion of the interest collected on the underlying loans. We recognize the fair value of our contractual right to receive management and guarantee fees as a guarantee asset at the inception of an executed guarantee. We recognize a guarantee asset, which performs similar to an interest-only security, only when an explicit management and guarantee fee is charged. To estimate the fair value of most of our guarantee asset, we obtain dealer quotes on proxy securities with collateral similar to aggregated characteristics of our portfolio. For the remaining portion of our guarantee asset, we use an expected cash flow approach including only those cash flows expected to result from our contractual right to receive management and guarantee fees, discounted using market input assumptions extracted from the dealer quotes provided on the more liquid products. See NOTE 4: RETAINED INTERESTS IN MORTGAGE-RELATED SECURITIZATIONS for more information on how we determine the fair value of our guarantee asset.

Subsequently, we account for a guarantee asset like a debt instrument classified as a trading security. As such, we measure the guarantee asset at fair value with changes in the fair value reflected in earnings as gains (losses) on guarantee asset. Cash collections of our contractual management and guarantee fee reduce the value of the guarantee asset and are reflected in earnings as management and guarantee income.

Guarantee Obligation

Our guarantee obligation represents the recognized liability associated with our guarantee of PCs and Structured Securities net of cumulative amortization. Prior to January 1, 2008, we recognized a guarantee obligation at the fair value of our non-contingent obligation to stand ready to perform under the terms of our guarantee at inception of an executed guarantee. Upon adoption of an amendment to the accounting standards for fair value measurements and disclosures on January 1, 2008, we began measuring the fair value of our newly-issued guarantee obligations at their inception using the practical expedient provided by the initial measurement guidance for guarantees. Using the practical expedient, the initial guarantee obligation is recorded at an amount equal to the fair value of compensation we received in the related securitization transaction. As a result, we no longer record estimates of deferred gains or immediate, day one, losses on most guarantees. However, all unamortized amounts recorded prior to January 1, 2008 will continue to be deferred and amortized using the static effective yield method. The guarantee obligation is reduced by the fair value of any primary loan-level mortgage insurance (which is described below under Credit Enhancements) that we receive.

Subsequently, we amortize our guarantee obligation into earnings as income on guarantee obligation using a static effective yield method. The static effective yield is calculated and fixed at inception of the guarantee based on forecasted unpaid principal balances. The static effective yield is subsequently evaluated and adjusted when significant changes in economic events cause a shift in the pattern of our economic release from risk (hereafter referred to as the loss curve). We established triggers that identify significant shifts in the loss curve, which include increases or decreases in prepayment speeds, and increases or decreases in home price appreciation/depreciation. These triggers are based on objective measures (*i.e.*, defined percentages which are designed to identify symmetrical shifts in the loss curve) applied consistently period to period. When a trigger is met, a cumulative catch-up adjustment is recognized to true up the cumulative amortization to the amount that would have been recognized had the shift in the loss curve been included in the original effective yield calculation. The new effective yield is applied prospectively based on the revised cash flow forecast and can subsequently

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change when another trigger is met indicating another significant shift in the loss curve. The resulting recorded amortization reflects our economic release from risk under changing economic scenarios.

Credit Enhancements

As additional consideration, we may receive the following types of seller-provided credit enhancements related to the underlying mortgage loans. These credit enhancements are initially measured at fair value and recognized as follows: (a) pool insurance is recognized as an other asset; (b) recourse and/or indemnifications that are provided by counterparties to guarantor swap or cash purchase transactions are recognized as an other asset; and (c) primary loan-level mortgage insurance is recognized at inception as a component of the recognized guarantee obligation. The fair value of the credit enhancements is estimated using an expected cash flow approach intended to reflect the estimated amount that a third party would be willing to pay for the contracts. Recognized credit enhancement assets are subsequently amortized into earnings as other non-interest expense under the static effective yield method in the same manner as our guarantee obligation. Recurring insurance premiums are recorded at the amount paid and amortized over their contractual life.

Reserve for Guarantee Losses on Participation Certificates

When appropriate, we recognize a contingent obligation to make payments under our guarantee when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. See Allowance for Loan Losses and Reserve for Guarantee Losses below for information on our contingent obligation, when it is recognized, and how it is initially and subsequently measured.

Deferred Guarantee Income or Losses on Certain Credit Guarantees

Prior to January 1, 2008, because the recognized assets (the guarantee asset and any credit enhancement-related assets) and the recognized liability (the guarantee obligation) were valued independently of each other, net differences between these recognized assets and liability existed at inception. If the amounts of the recognized assets exceeded the recognized liability, the excess was deferred on our consolidated balance sheets as a component of guarantee obligation and referred to as deferred guarantee income, and is subsequently amortized into earnings as income on guarantee obligation using a static effective yield method consistent with the amortization of our guarantee obligation. If the amount of the recognized liability exceeded the recognized assets, the excess was expensed immediately to earnings as a component of non-interest expense losses on certain credit guarantees.

Cash Payments at Inception

When we issue PCs, we often exchange buy-up and buy-down fees with the counterparties to the exchange, so that the mortgage loan pools can fit into PC coupon increments. PCs are issued in 50 basis point coupon increments, whereas the mortgage loans that underlie the PCs are issued in 12.5 basis point coupon increments. Buy-ups are upfront cash payments made by us to increase the management and guarantee fee we will receive over the life of an issued PC, and buy-downs are upfront cash payments made to us to decrease the management and guarantee fee we receive over the life of an issued PC. The following illustrates how buy-ups and buy-downs impact the management and guarantee fees.

Buy-Up Example		**Buy-Down Example**	
Mortgage loan pool weighted average coupon	6.625%	Mortgage loan pool weighted average coupon	6.375%

Loan servicing fee	(.250)%	Loan servicing fee	(.250)%
Stated management and guarantee fee	(.200)%	Stated management and guarantee fee	(.200)%
Buy-up (increasing the stated fee)	(.175)%	Buy-down (decreasing the stated fee)	.075%
PC coupon	6.00%	PC coupon	6.00%

We may also receive upfront, cash-based payments as additional compensation for our guarantee of mortgage loans, referred to as delivery fees. These fees are charged to compensate us for any additional credit risk not contemplated in the management and guarantee fee initially negotiated with customers.

Cash payments that are made or received at inception of a swap-based exchange related to buy-ups, buy-downs or delivery fees are included as a component of our guarantee obligation and amortized into earnings as a component of income on guarantee obligation over the life of the guarantee. Certain pre-2003 deferred delivery and buy-down fees received by us were recorded as deferred income as a component of other liabilities and are amortized through management and guarantee income.

Multilender Swaps

We account for a portion of PCs that we issue through our multilender swap program in the same manner as transfers that are accounted for as cash auctions of PCs if we contribute mortgage loans as collateral. The accounting for the remaining portion of such PC issuances is consistent with the accounting for PCs issued through a guarantor swap transaction.

Structured Securities

We issue single-class Structured Securities and multi-class Structured Securities. We create Structured Securities primarily by using PCs or previously issued Structured Securities as collateral. Similar to our PCs, we guarantee the payment of principal and interest to the holders of the tranches of our Structured Securities. For Structured Securities that we issue to third parties in exchange for PCs, we receive a transaction fee (measured at the amount received), but we generally do not recognize any incremental guarantee asset or guarantee obligation because the underlying collateral is a guaranteed PC; therefore, there is no incremental guarantee asset or obligation to record. Rather, we defer and amortize into earnings as other non-interest income on a straight-line basis that portion of the transaction fee that we receive equal to the estimated fair value of our future administrative responsibilities for issued Structured Securities. These responsibilities include ongoing trustee services, administration of pass-through amounts, paying agent services, tax reporting and other required services. We estimate the fair value of these future responsibilities based on quotes from third-party vendors who perform each type of service and, where quotes are not available, based on our estimates of what those vendors would charge.

The remaining portion of the transaction fee relates to compensation earned in connection with structuring-related services we rendered to third parties and is allocated to the Structured Securities we retain, if any, and the Structured Securities acquired by third parties, based on the relative fair value of the Structured Securities. The fee allocated to any Structured Securities we retain is deferred as a carrying value adjustment of retained Structured Securities and is amortized using the effective interest method over the estimated lives of the Structured Securities. The fee allocated to the Structured Securities acquired by third parties is recognized immediately in earnings as other non-interest income.

Structured Transactions

Structured Securities that we issue to third parties in exchange for non-Freddie Mac mortgage-related securities are referred to as Structured Transactions. We recognize a guarantee asset, to the extent a management and guarantee fee is charged, and we recognize our guarantee obligation at fair value. We do not receive transaction fees for these transactions.

Structured Transactions can generally be segregated into two different types. In one type, we purchase single-class pass-through securities, place them in a securitization trust, guarantee the principal and interest, and issue the Structured Transaction. For other Structured Transactions, we purchase only the senior tranches from a non-Freddie Mac senior-subordinated securitization, place these senior tranches into a securitization trust, provide a guarantee of the principal and interest of the senior tranches, and issue the Structured Transaction.

Cash-Based Sales Transactions

Sometimes we issue PCs and Structured Securities through cash-based sales transactions. Cash-based sales involve the transfer of loans or PCs that we hold into PCs or Structured Securities. Upon completion of a transfer of loans or PCs that qualifies as a sale in accordance with the accounting standards for transfer and servicing of financial assets, we derecognize all assets sold and recognize all assets obtained and liabilities incurred.

We continue to carry on our consolidated balance sheets any retained interests in securitized financial assets. Such retained interests may include our right to receive management and guarantee fees on PCs or Structured Transactions, which is classified on our consolidated balance sheets as a guarantee asset. The carrying amount of all such retained interests is determined by allocating the previous carrying amount of the transferred assets between assets sold and the retained interests based upon their relative fair values at the date of transfer. Other retained interests include PCs or Structured Securities that are not transferred to third parties upon the completion of a securitization or resecuritization transaction.

Upon sale of a PC, we recognize a guarantee obligation representing our non-contingent obligation to stand ready to perform under the terms of our guarantee. The resulting gain (loss) on sale of transferred PCs and Structured Securities is reflected in our consolidated statements of operations as a component of gains (losses) on investment activity.

Freddie Mac PCs and Structured Securities included in Mortgage-Related Securities

When we own Freddie Mac PCs or Structured Securities, we do not derecognize any components of the guarantee asset, guarantee obligation, reserve for guarantee losses, or any other outstanding recorded amounts associated with the guarantee transaction because our contractual guarantee obligation to the unconsolidated securitization trust remains in force until the trust is liquidated, unless the trust is consolidated. We continue to account for the guarantee asset, guarantee obligation, and reserve for guarantee losses in the same manner as described above, and investments in Freddie Mac PCs and Structured Securities, as described in greater detail below. Whether we own the security or not, our guarantee obligation and related credit exposure does not change. Our valuation of these securities is consistent with the legal structure of the guarantee transaction, which includes our guarantee to the securitization trust. As such, the fair value of Freddie Mac PCs and Structured Securities held by us includes the implicit value of the guarantee. See NOTE 18: FAIR VALUE DISCLOSURES, for disclosure of the fair values of our mortgage-related securities, guarantee asset, and guarantee obligation. Upon subsequent sale of a Freddie Mac PC or Structured Security, we continue to account for any outstanding recorded amounts associated with the guarantee transaction on the same basis as prior to the sale of the Freddie Mac PC or Structured Security, because the sale does not result in the retention of any new assets or the assumption of any new liabilities.

Due to PC Investors

Beginning December 2007 we introduced separate legal entities, or trusts, into our securities issuance process for the purpose of managing the receipt and payments of cash flow of our PCs and Structured Securities. In connection with the establishment of these trusts, we also established a separate custodial account in which cash remittances received on the underlying assets of our PCs and Structured Securities are deposited. These cash remittances include both scheduled and unscheduled principal and interest payments. The funds held in this account are segregated and are not commingled with our general operating funds nor are they presented within our consolidated balance sheets. As securities administrator, we invest the cash held in the custodial account, pending distribution to our PC and Structured Securities holders, in short-term investments and are entitled to trust management fees on the trust s assets which are recorded as other non-interest income. The funds are maintained in this separate custodial account until they are due to the PC and Structured Securities holders on their respective security payment dates.

Prior to December 2007, we managed the timing differences that exist for cash receipts from servicers on assets underlying our PCs and Structured Securities and the subsequent pass-through of those payments on PCs owned by third-party investors. In those cases, the PC balances were not reduced for payments of principal received from servicers in a given month until the first day of the next month and we did not release the cash received (principal and interest) to the PC investors until the fifteenth day of that next month. We generally invested the principal and interest amounts we received in short-term investments from the time the cash was received until the time we paid the PC investors. In addition, for unscheduled principal prepayments on loans underlying our PCs and Structured Securities, these timing differences resulted in expenses, since the related PCs continued to bear interest due to the PC investor at the PC coupon rate from the date of prepayment until the date the PC security balance is reduced, while no interest was received from the mortgage on that prepayment amount during that period. The expense recognized upon prepayment was reported in interest expense due to Participation Certificate investors. We report coupon interest income amounts relating to our investment in PCs consistent with the method used for PCs held by third-party investors.

Mortgage Loans

Upon loan acquisition, we classify the loan as either held for sale or held for investment. Mortgage loans that we have the ability and intent to hold for the foreseeable future are classified as held for investment. Held-for-investment mortgage loans are reported at their outstanding unpaid principal balances, net of deferred fees and cost basis adjustments (including unamortized premiums and discounts). These deferred items are amortized into interest income over the estimated lives of the mortgages using the effective interest method. We use actual prepayment experience and estimates of future prepayments to determine the constant yield needed to apply the effective interest method. For purposes of estimating future prepayments, the mortgages are aggregated by similar characteristics such as origination date, coupon and maturity. We recognize interest on mortgage loans on an accrual basis, except when we believe the collection of principal or interest is not probable.

Mortgage loans not classified as held for investment are classified as held for sale. Held for sale mortgages are reported at the lower of cost or fair value, with gains and losses reported in other gains (losses) on investments. Premiums and discounts on loans classified as held for sale are not amortized during the period that such loans are classified as held for sale. Beginning in the third quarter of 2008, we elected the fair value option for multifamily mortgage loans that were purchased through our Capital Market Execution program to reflect our strategy in this program. Thus, these multifamily mortgage loans are measured at fair value on a recurring basis. Gains or losses on these loans related to sales or changes in fair value are reported in other gains (losses) on investments.

If we decide not to sell a mortgage loan classified as held for sale, and instead have the ability and intent to hold that loan for the foreseeable future or until maturity or payoff, the mortgage loan is reclassified from held for sale to held for investment on the date of change in our intent and ability. At the date of reclassification to held for investment, the mortgage loan is recorded at the lower of cost or fair value. Any difference between the new carrying amount of the loan and its outstanding principal balance at that time is treated as a premium or discount and amortized to income over the remaining life of the loan using the effective interest method.

Allowance for Loan Losses and Reserve for Guarantee Losses

We maintain an allowance for loan losses on mortgage loans held-for-investment and a reserve for guarantee losses on PCs, collectively referred to as our loan loss reserves, to provide for credit losses when it is probable that a loss has been incurred. The held-for-investment loan portfolio is reported net of the allowance for loan losses on the consolidated balance sheets. The reserve for guarantee losses is a liability account on our consolidated balance sheets. Increases in loan loss reserves are reflected in earnings as the provision for credit losses, while decreases are reflected through charging-off such balances (net of recoveries) when realized losses are recorded or as a reduction in the provision for credit losses. For both single-family and multifamily mortgages where the original terms of the mortgage loan agreement are modified, resulting in a concession to the borrower experiencing financial difficulties, losses are recorded as charge-offs at the time of modification and the loans are subsequently accounted for as troubled debt restructurings.

We estimate credit losses related to homogeneous pools of single-family and multifamily loans when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated in accordance with the accounting standards for contingencies. We also estimate credit losses for impaired loans in accordance with the subsequent measurement requirements in the accounting standards for receivables. The loans evaluated include single-family loans and multifamily loans whose contractual terms have previously been modified due to credit concerns (including troubled debt restructurings), and certain loans that were deemed impaired based on management judgment. When evaluating loan impairments and establishing the loan loss reserves, we consider available evidence, such as the fair value of collateral for collateral dependent loans, and third-party credit enhancements. Determining the adequacy of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring significant judgment. Loans not deemed to be impaired are grouped with other loans that share common characteristics for evaluation of impairment in accordance with the accounting standards for contingencies.

Single-Family Loan Portfolio

We estimate loan loss reserves on homogeneous pools of single-family loans using a statistically based model that evaluates a variety of factors. The homogeneous pools of single-family mortgage loans are determined based on common underlying characteristics, including current LTV ratios and trends in house prices, loan product type and geographic region. In determining the loan loss reserves for single-family loans at the balance sheet date, we evaluate factors including, but not limited to:

- current LTV ratios and trends in house prices;
- loan product type;
- geographic location;
- delinquency status;
- loan age;
- sourcing channel;
- occupancy type;
- unpaid principal balance at origination;
- actual and estimated amounts for loss severity trends for similar loans;
- default experience;
- expected ability to partially mitigate losses through loan modification or other alternatives to foreclosure;

expected proceeds from mortgage insurance contracts that are contractually attached to a loan or other credit enhancements that were entered into contemporaneous with and in contemplation of a guarantee or loan purchase transaction;

expected repurchases of mortgage loans by sellers under their obligations to repurchase loans that are inconsistent with certain representations and warranties made at the time of sale;

counterparty credit of mortgage insurers and seller/servicers;

pre-foreclosure real estate taxes and insurance;

estimated selling costs should the underlying property ultimately be sold; and

trends in the timing of foreclosures.

Our loan loss reserves reflect our best estimates of incurred losses. Our loan loss reserve estimate includes projections related to strategic loss mitigation activities, including loan modifications for troubled borrowers, and projections of recoveries through repurchases by seller/servicers of defaulted loans due to failure to follow contractual underwriting requirements at the time of the loan origination. At an individual loan level, our estimate also considers the effect of home price changes on borrower behavior and the impact of our loss mitigation actions, including our temporary suspensions of foreclosure transfers and our loan modification efforts. We apply estimated proceeds from primary mortgage insurance that is contractually attached to a loan and other credit enhancements entered into contemporaneous with and in contemplation of a guarantee or loan purchase transaction as a recovery of our recorded investment in a charged-off loan, up to the amount of loss recognized as a charge-off. Proceeds from credit enhancements received in excess of our recorded investment in charged-off loans are recorded in REO operations expense in the consolidated statements of operations when received.

Our reserve estimate also reflects our best projection of defaults we believe are likely to occur as a result of loss events that have occurred through December 31, 2009 and 2008, respectively. However, the continued deterioration in the national housing market during 2009, the uncertainty in other macroeconomic factors, and uncertainty of the success of modification efforts under HAMP and other loss mitigation programs makes forecasting of default rates increasingly imprecise. The inability to realize the benefits of our loss mitigation plans, a lower realized rate of seller/servicer repurchases, further declines in home prices, deterioration in the financial condition of our mortgage insurance counterparties, or default rates that exceed our current projections would cause our losses to be higher than those currently estimated.

We validate and update the model and factors to capture changes in actual loss experience, as well as changes in underwriting practices and in our loss mitigation strategies. We also consider macroeconomic and other factors that impact the quality of the loans underlying our portfolio including regional housing trends, applicable home price indices, unemployment and employment dislocation trends, consumer credit statistics and the extent of third party insurance. We determine our loan loss reserves based on our assessment of these factors.

Multifamily Loan Portfolio

We estimate loan loss reserves on the multifamily loan portfolio based on available evidence, including but not limited to, the fair value of collateral underlying the impaired loans, evaluation of the repayment prospects, and the adequacy of third-party credit enhancements. We also consider the value of collateral underlying individual loans based on property-specific and market-level risk characteristics including apartment vacancy and rental rates. In determining our loan loss reserve estimate, we utilize available economic data related to commercial real estate as well as estimates of loss severity and cure rates. The cure rate is the percent of delinquent loans that are able to return to a current payment status. For those loans we identify as having deteriorating underlying characteristics such as LTV ratio and DSCRs, we then evaluate each individual property, using estimates of property value to determine if a specific reserve is needed for each loan. Although we use the most recently available results of our multifamily borrowers to assess a property s values, there is a lag in reporting as they prepare their results in the normal course of business.

Non-Performing Loans

We classify loans as non-performing and place them on nonaccrual status when we believe collectibility of interest and principal on a loan is not reasonably assured. We consider non-performing loans as those: (a) loans whose contractual terms have been modified due to the financial difficulties of the borrower (including troubled debt restructurings), and (b) loans that are more than 90 days past due, and (c) multifamily loans at least 30 days past due that are deemed impaired based on management judgment. Serious delinquencies are those single-family and multifamily loans that are 90 days or more past due or in foreclosure.

Impaired Loans

A loan is considered impaired when it is probable to not receive all amounts due (principal and interest), in accordance with the contractual terms of the original loan agreement. Impaired loans include single-family loans, both performing and non-performing, that are troubled debt restructurings and delinquent or modified loans purchased from PC pools whose fair value was less than acquisition cost at the date of purchase. Multifamily impaired loans include loans whose contractual terms have previously been modified due to credit concerns (including troubled debt restructurings), loans that are at least 90 days past due, and loans at least 30 days past due that are deemed impaired based on management judgment. Single-family loans are aggregated and measured for impairment based on similar risk characteristics. For impaired multifamily loans, impairment is measured based on the fair value of the loan level underlying collateral as the repayment of these loans is generally provided from the cash flows of the underlying collateral and any credit enhancements associated with the impaired loan. Except for cases of fraud and other unusual circumstances, multifamily loans are non-recourse to the borrower so only the cash flows of the underlying property serve as the source of funds for repayment of the loan.

We have the option to purchase mortgage loans out of PC pools under certain circumstances, such as to resolve an existing or impending delinquency or default. From time to time, we reevaluate our delinquent loan purchase practices and alter them if circumstances warrant. Through November 2007, our general practice was to automatically purchase the mortgage loans out of pools after the loans were 120 days delinquent. Effective December 2007, we purchase loans from pools when (a) loans are modified, (b) foreclosure sales occur, (c) the loans are delinquent for 24 months, or (d) the loans are 120 days or more delinquent and the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the non-performing mortgage loan. On February 10, 2010 we announced that we will purchase substantially all of the single-family mortgage loans that are 120 days or more delinquent from our PCs and Structured Securities. See NOTE 22: SUBSEQUENT EVENTS for additional information. According to the initial measurement requirements in accounting standards for loans and debt securities acquired with deteriorated credit quality, loans that are purchased from PC pools are recorded on our consolidated balance sheets at the lesser of our acquisition cost or the loan s fair value at the date of purchase and are subsequently carried at amortized cost. The initial investment includes the unpaid principal balance, accrued interest, and a proportional amount of the recognized guarantee obligation and reserve for guarantee losses recognized for the PC pool from which the loan was purchased. The proportion of the guarantee obligation is calculated based on the relative percentage of the unpaid principal balance of the loan to the unpaid principal balance of the entire pool. The proportion of the reserve for guarantee losses is calculated based on the relative percentage of the unpaid principal balance of the loan to the unpaid principal balance of the loans in the respective reserving category for the loan (*i.e.*, book year and delinquency status). We record realized losses on loans purchased when, upon purchase, the fair value is less than the acquisition cost of the loan. Gains related to non-accrual loans with deteriorated credit quality acquired from PC pools, which are either repaid in full or are collected in whole or in part when a loan goes to foreclosure are reported in recoveries on loans impaired upon purchase. For impaired loans where the borrower has made required payments that return to current status, the basis adjustments are recognized as interest income over time, as periodic payments are received. Gains resulting from the prepayment of currently performing loans with deteriorated credit quality acquired from PC pools are also reported in mortgage loan interest income.

Investments in Securities

Investments in securities consist primarily of mortgage-related securities. We classify securities as available-for-sale or trading. On January 1, 2008, we elected the fair value option for certain available-for-sale mortgage-related securities, including investments in securities that (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment or (b) are not of high credit quality at the acquisition date, which are identified as within the scope of the accounting standards for investments in beneficial interests in securitized financial assets. Subsequent to our election, these securities were classified as trading securities. See Recently Adopted Accounting Standards for further information. We currently have not classified any securities as held-to-maturity although we may elect to do so in the future. Securities classified as available-for-sale are reported at fair value with changes in fair value included in AOCI, net of taxes, or gains (losses) on investments. Securities classified as trading are reported at fair value with changes in fair value included in gains (losses) on investments. See NOTE 18: FAIR VALUE DISCLOSURES for more information on how we determine the fair value of securities.

We record forward purchases and sales of securities that are specifically exempt from the requirements of derivatives and hedging accounting, on a trade date basis. Securities underlying forward purchases and sales contracts that are not exempt from the requirements of derivatives and hedging accounting are recorded on the contractual settlement date with a corresponding commitment recorded on the trade date.

In connection with transfers of financial assets that qualify as sales under the accounting standards for transfer and servicing of financial assets, we may retain individual securities not transferred to third parties upon the completion of a securitization transaction. These securities may be backed by mortgage loans purchased from our customers or PCs and Structured Securities. The new Structured Securities we acquire in these transactions are classified as available-for-sale or trading. Our PCs and Structured Securities are considered guaranteed investments. Therefore, the fair values of these securities reflect that they are considered to be of high credit quality and the securities are not subject to credit-related impairments. They are subject to the credit risk associated with the underlying mortgage loan collateral. Therefore, our exposure to credit losses on the loans underlying our retained securitization interests is recorded within our reserve for guarantee losses on PCs. See Allowance for Loan Losses and Reserve for Guarantee Losses above for additional information.

For most of our investments in securities, interest income is recognized using the retrospective effective interest method. Deferred items, including premiums, discounts and other basis adjustments, are amortized into interest income over the estimated lives of the securities. We use actual prepayment experience and estimates of future prepayments to determine the constant yield needed to apply the effective interest method. We recalculate the constant effective yield based on changes in estimated prepayments as a result of changes in interest rates and other factors. When the constant effective yield changes, an adjustment to interest income is made for the amount of amortization that would have been recorded if the new effective yield had been applied since the mortgage assets were acquired.

For certain securities investments, interest income is recognized using the prospective effective interest method. We specifically apply this accounting to beneficial interests in securitized financial assets that (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment, (b) are not of high credit quality at the acquisition date, or (c) have been determined to be other-than-temporarily impaired. We recognize as interest income (over the life of these securities) the excess of all estimated cash flows attributable to these interests over their book value using the effective yield method. We update our estimates of expected cash flows periodically and recognize changes in calculated effective yield on a prospective basis.

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On April 1, 2009, we prospectively adopted an amendment to the accounting standards for investments in debt and equity securities, which provides additional guidance in accounting for and presenting impairment losses on debt securities. See Recently Adopted Accounting Standards *Change in the Impairment Model for Debt Securities* for further information regarding this amendment.

We conduct quarterly reviews to identify and evaluate each available-for-sale security that has an unrealized loss, in accordance with the amendment to the accounting standards for investments in debt and equity securities. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. The evaluation of unrealized losses on our available-for-sale portfolio for other-than-temporary impairment contemplates numerous factors. We perform an evaluation on a security-by-security basis considering all available information. For available-for-sale securities, a critical component of the evaluation for other-than-temporary impairments is the identification of credit-impaired securities, where we do not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. Our analysis regarding credit quality is refined where the current fair value or other characteristics of the security warrant. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. See NOTE 6: INVESTMENTS IN SECURITIES Evaluation of Other-Than-Temporary Impairments for a discussion of important factors we considered in our evaluation.

The amount of the total other-than-temporary impairment related to a credit-related loss is recognized in net impairment of available-for-sale securities in our consolidated statements of operations. Unrealized losses on available-for-sale securities that are determined to be temporary in nature are recorded, net of tax, in AOCI.

For available-for-sale securities that are not deemed to be credit impaired, we perform additional analysis to assess whether we intend to sell or would more likely than not be required to sell the security before the expected recovery of the amortized cost basis. In most cases, we asserted that we have no intent to sell and that we believe it is not more likely than not that we will be required to sell the security before recovery of its amortized cost basis. Where such an assertion has not been made, the security s decline in fair value is deemed to be other than temporary and is recorded in earnings.

Prior to January 1, 2008, for certain securities that (a) can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment or (b) are not of high credit quality at the acquisition date, other-than-temporary impairment was defined in accordance with the accounting standards for investments in beneficial interests in securitized financial assets as occurring whenever there was an adverse change in estimated future cash flows coupled with a decline in fair value below the amortized cost basis. When a security was deemed to be other-than-temporarily impaired, the cost basis of the security was written down to fair value, with the loss recorded to gains (losses) on investment activity. Based on the new cost basis, the deferred amounts related to the impaired security were amortized over the security s remaining life in a manner consistent with the amount and timing of the future estimated cash flows. The security cost basis was not changed for subsequent recoveries in fair value.

On January 1, 2008, for available-for-sale securities identified as within the scope of the accounting standards for investments in beneficial interests in securitized financial assets, we elected the fair value option to better reflect the valuation changes that occur subsequent to impairment write-downs recorded on these instruments. By electing the fair value option for these instruments, we reflect valuation changes through our consolidated statements of operations in the period they occur, including increases in value. For additional information on our election of the fair value option, see Recently Adopted Accounting Standards and NOTE 18: FAIR VALUE DISCLOSURES.

Gains and losses on the sale of securities are included in other gains (losses) on investments, including those gains (losses) reclassified into earnings from AOCI. We use the specific identification method for determining the cost of a security in computing the gain or loss.

Repurchase and Resale Agreements

We enter into repurchase and resale agreements primarily as an investor or to finance our security positions. Such transactions are accounted for as secured financings when the transferor does not relinquish control.

Debt Securities Issued

Debt securities that we issue are classified on our consolidated balance sheets as either short-term (due within one year) or long-term (due after one year), based on their remaining contractual maturity. The classification of interest expense on debt securities as either short-term or long-term is based on the original contractual maturity of the debt security.

Debt securities other than foreign-currency denominated debt are reported at amortized cost. Deferred items including premiums, discounts, and hedging-related basis adjustments are reported as a component of debt securities, net. Issuance costs are reported as a component of other assets. These items are amortized and reported through interest expense using the effective interest method over the contractual life of the related indebtedness. Amortization of premiums, discounts and issuance costs begins at the time of debt issuance. Amortization of hedging-related basis adjustments is initiated upon the termination of the related hedge relationship.

On January 1, 2008, we elected the fair value option on foreign-currency denominated debt securities and report them at fair value. The change in fair value of foreign-currency denominated debt for 2008 was reported as gains (losses) on debt recorded at fair value in our consolidated statements of operations. Upfront costs and fees on foreign-currency denominated debt are recognized in earnings as incurred and not deferred. For additional information on our election of the fair value option, see Recently Adopted Accounting Standards and NOTE 18: FAIR VALUE DISCLOSURES. Prior to 2008, foreign-currency denominated debt issuances were recorded at amortized cost and translated into U.S. dollars using foreign exchange spot rates at the balance sheet dates and any resulting gains or losses were reported in non-interest income (loss) foreign-currency gains (losses), net.

When we repurchase or call outstanding debt securities, we recognize a gain or loss related to the difference between the amount paid to redeem the debt security and the carrying value, including any remaining unamortized deferred items (*e.g.*, premiums, discounts, issuance costs and hedging-related basis adjustments). The balances of remaining deferred items are reflected in earnings in the period of extinguishment as a component of gains (losses) on debt retirement. Contemporaneous transfers of cash between us and a creditor in connection with the issuance of a new debt security and satisfaction of an existing debt security are accounted for as either an extinguishment of the existing debt security or a modification, or debt exchange, of an existing debt security. If the debt securities have substantially different terms, the transaction is accounted for as an extinguishment of the existing debt security with recognition of any gains or losses in earnings in gains (losses) on debt retirement, the issuance of a new debt security is recorded at fair value, fees paid to the creditor are expensed, and fees paid to third parties are deferred and amortized into interest expense over the life of the new debt obligation using the effective interest method. If the terms of the existing debt security and the new debt security are not substantially different, the transaction is accounted for as a debt exchange, fees paid to the creditor are deferred and amortized over the life of the modified debt security using the effective interest method, and fees paid to third parties are expensed as incurred. In a debt exchange, the following are considered to be a basis adjustment on the new debt security and are amortized as an adjustment of interest expense over the remaining term of the new debt security: (a) the fees associated with the new debt security and any existing unamortized premium or discount; (b) concession fees on the existing debt security; and (c) hedge gains and losses on the existing debt security.

Derivatives

We account for our derivatives pursuant to the accounting standards for derivatives and hedging. Derivatives are reported at their fair value on our consolidated balance sheets. Derivatives in an asset position, including net derivative interest receivable or payable, are reported as derivative assets, net. Similarly, derivatives in a net liability position, including net derivative interest receivable or payable, are reported as derivative liabilities, net. We offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. Changes in fair value and interest accruals on derivatives are recorded as derivative gains (losses) in our consolidated statements of operations.

We evaluate whether financial instruments that we purchase or issue contain embedded derivatives. In connection with the adoption of an amendment to derivatives and hedging accounting regarding certain hybrid financial instruments on January 1, 2007, we elected to measure newly acquired or issued financial instruments that contain embedded derivatives at fair value, with changes in fair value recorded in our consolidated statements of operations. At December 31, 2009 and 2008, we did not have any embedded derivatives that were bifurcated and accounted for as freestanding derivatives.

At December 31, 2009 and 2008, we did not have any derivatives in hedge accounting relationships; however, there are amounts recorded in AOCI related to terminated or de-designated cash flow hedge relationships. These deferred gains and losses on closed cash flow hedges are recognized in earnings as the originally forecasted transactions affect earnings. If it becomes probable the originally forecasted transaction will not occur, the associated deferred gain or loss in AOCI would be reclassified to earnings immediately.

The changes in fair value of the derivatives in cash flow hedge relationships are recorded as a separate component of AOCI to the extent the hedge relationships are effective, and amounts are reclassified to earnings when the forecasted transaction affects earnings.

REO

REO is initially recorded at fair value less estimated costs to sell and is subsequently carried at the lower-of-cost-or-fair-value less estimated costs to sell. When we acquire REO, losses arise when the carrying basis of the loan (including accrued interest) exceeds the fair value of the foreclosed property, net of estimated costs to sell and expected recoveries through credit enhancements. Losses are charged-off against the allowance for loan losses at the time of acquisition. REO gains arise and are recognized immediately in earnings at disposition when the fair market value of the foreclosed property less costs to sell and credit enhancements exceeds the carrying basis of the loan (including accrued interest). Amounts we expect to receive from third-party insurance or other credit enhancements are recorded when the asset is acquired. The receivable is adjusted when the actual claim is filed, and is a component of accounts and other receivables, net on our consolidated balance sheets. Material development and improvement costs relating to REO are capitalized. Operating expenses on the properties are included in REO operations income (expense). Estimated declines in REO fair value that result from ongoing valuation of the properties are provided for and charged to REO operations income (expense) when identified. Any gains and losses from REO dispositions are included in REO operations income (expense).

Income Taxes

We use the asset and liability method to account for income taxes in accordance with the accounting standards for income taxes. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. To the extent tax laws change, deferred tax assets and liabilities are adjusted, when necessary, in the period that the tax change is enacted. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of these net deferred tax assets is dependent upon the generation of sufficient taxable income or upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. On a quarterly basis, our management determines whether a valuation allowance is necessary. In so doing, our management considers all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, it is more likely than not that the net deferred tax assets will be realized. Our management determined that, as of December 31, 2009 and 2008, it was more likely than not that we would not realize the portion of our net deferred tax assets that is dependent upon the generation of future taxable income. This determination was driven by recent events and the resulting uncertainties that existed as of December 31, 2009 and 2008, respectively. For more information about the evidence that management considers and our determination of the need for a valuation allowance, see NOTE 15: INCOME TAXES.

We account for tax positions taken or expected to be taken (and any associated interest and penalties) so long as it is more likely than not that it will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We measure the tax position at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. See NOTE 15: INCOME TAXES for additional information.

Income tax benefit (expense) includes (a) deferred tax benefit (expense), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance, if any, and (b) current tax benefit (expense), which represents the amount of tax currently payable to or receivable from a tax authority including any related interest and penalties plus amounts accrued for unrecognized tax benefits (also including any related interest and penalties). Income tax benefit (expense) excludes the tax effects related to adjustments recorded to equity.

Stock-Based Compensation

We record compensation expense for stock-based compensation awards based on the grant-date fair value of the award and expected forfeitures. Compensation expense is recognized over the period during which an employee is required to provide service in exchange for the stock-based compensation award. The recorded compensation expense is accompanied by an adjustment to additional paid-in capital on our consolidated balance sheets. The vesting period for stock-based compensation awards is generally three to five years for options, restricted stock and restricted stock units. The vesting period for the option to purchase stock under the Employee Stock Purchase Plan, or ESPP, was three months. See NOTE 12: STOCK-BASED COMPENSATION for additional information.

The fair value of options to purchase shares of our common stock, including options issued pursuant to the ESPP, is estimated using a Black-Scholes option pricing model, taking into account the exercise price and an estimate of the expected life of the option, the market value of the underlying stock, expected volatility, expected dividend yield, and the risk-free interest rate for the expected life of the option. The fair value of restricted stock and restricted stock unit awards is based on the fair value of our common stock on the grant date.

Incremental compensation expense related to the modification of awards is based on a comparison of the fair value of the modified award with the fair value of the original award before modification. We generally expect to settle our stock-based compensation awards in shares. In limited cases, an award may be cash-settled upon a contingent event such as involuntary termination. These awards are accounted for as an equity award until the contingency becomes probable of occurring, when the award is reclassified from equity to a liability. We initially measure the cost of employee service received in exchange for a stock-based compensation award of liability instruments based on the fair value of the award at the grant date. The fair value of that award is remeasured subsequently at each reporting date through the settlement date. Changes in the fair value during the service period are recognized as compensation cost over that period.

Excess tax benefits are recognized in additional paid-in capital. Cash retained as a result of the excess tax benefits is presented in the consolidated statements of cash flows as financing cash inflows. The write-off of net deferred tax assets relating to unrealized tax benefits associated with recognized compensation costs reduces additional paid-in capital to the extent there are excess tax benefits from previous stock-based awards remaining in additional paid-in capital, with any remainder reported as part of income tax benefit (expense). A valuation allowance was established against the net deferred assets relating to unrealized tax benefits associated with recognized compensation costs since we determined that it was more likely than not that sufficient future taxable income of an appropriate nature (ordinary income versus capital gains) would not be generated to realize the benefits for the net deferred tax assets.

Earnings Per Common Share

Because we have participating securities, we use the two-class method of computing earnings per common share. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based on dividends declared and participation rights in undistributed earnings. Our participating securities consist of vested options to purchase common stock as well as vested and unvested restricted stock units that earn dividend equivalents at the same rate when and as declared on common stock.

Basic earnings per common share is computed as net income available to common stockholders divided by the weighted average common shares outstanding for the period. The weighted average common shares outstanding for our basic earnings per share calculation includes the weighted average number of shares during 2008 that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included since it is unconditionally exercisable by the holder at a minimal cost of $0.00001 per share. Diluted earnings per common share is determined using the weighted average number of common shares during the period, adjusted for the dilutive effect of common stock equivalents. Dilutive common stock equivalents reflect the assumed net issuance of additional common shares pursuant to certain of our stock-based compensation plans that could potentially dilute earnings per common share.

Comprehensive Income

Comprehensive income is the change in equity, on a net of tax basis, resulting from transactions and other events and circumstances from non-owner sources during a period. It includes all changes in equity during a period, except those resulting from investments by stockholders. We define comprehensive income as consisting of net income plus changes in the unrealized gains and losses on available-for-sale securities, the effective portion of derivatives accounted for as cash flow hedge relationships and changes in defined benefit plans.

Reportable Segments

We have three business segments for financial reporting purposes for all periods presented on our consolidated financial statements under the accounting standards for segment reporting. Certain prior period amounts have been reclassified to conform to the current period financial statements. See NOTE 17: SEGMENT REPORTING for additional information.

Recently Adopted Accounting Standards

FASB Accounting Standards Codification

On September 30, 2009, we adopted an amendment to the accounting standards on the GAAP hierarchy. This amendment changes the GAAP hierarchy used in the preparation of financial statements of non-governmental entities. It establishes the FASB Accounting Standards Codification[tm] as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. Our adoption of this amendment had no impact on our consolidated financial statements.

Measuring Liabilities at Fair Value

In August 2009, the FASB amended guidance on the fair value measurement of liabilities. This amendment clarifies the valuation techniques permitted in measuring fair value of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available. The amendment also provides that, in measuring the fair value of a liability in situations where a restriction prevents the transfer of the liability, companies are not required to make a separate input or adjust other inputs to reflect the existence of such a restriction. It also clarifies that quoted prices for the identical liability when traded as an asset in an active market are Level 1 fair value measurements, when no adjustments to the quoted price of the asset are required. The amendment is effective for the reporting periods, including interim periods, beginning after

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August 28, 2009 with early adoption permitted. We adopted this amendment on October 1, 2009 and the adoption had no impact on our consolidated financial statements.

Change in the Impairment Model for Debt Securities

On April 1, 2009 we prospectively adopted an amendment to the accounting standards for investments in debt and equity securities, which provides additional guidance in accounting for and presenting impairment losses on debt securities. This amendment changes the recognition, measurement and presentation of other-than-temporary impairment for debt securities, and is intended to bring greater consistency to the timing of impairment recognition and provide greater clarity to investors about the credit and non-credit components of impaired debt securities that are not expected to be sold. It also changes (a) the method for determining whether an other-than-temporary impairment exists, and (b) the amount of an impairment charge to be recorded in earnings. To determine whether an other-than-temporary impairment exists, we assess whether we intend to sell or more likely than not will be required to sell the security prior to its anticipated recovery. The entire amount of other-than-temporary impairment related to securities which we intend to sell or for which it is more likely than not that we will be required to sell, is recognized in our consolidated statements of operations as net impairment on available-for-sale securities recognized in earnings. For securities that we do not intend to sell or for which it is more likely than not that we will not be required to sell, but for which we do not expect to recover the securities amortized cost basis, the amount of other-than-temporary impairment is separated between amounts recorded in earnings or AOCI. Other-than-temporary impairment amounts related to credit loss are recognized in net impairment of available-for-sale securities recognized in earnings and the amounts attributable to all other factors are recorded to AOCI.

As a result of the adoption, we recognized a cumulative-effect adjustment, net of tax, of $15.0 billion to our opening balance of retained earnings (accumulated deficit) on April 1, 2009, with a corresponding adjustment of $(9.9) billion, net of tax, to AOCI. The cumulative adjustment reclassifies the non-credit component of previously recognized other-than-temporary impairments from retained earnings to AOCI. The difference between these adjustments of $5.1 billion primarily represents the release of the valuation allowance previously recorded against the deferred tax asset that is no longer required upon adoption of this amendment. See NOTE 6: INVESTMENTS IN SECURITIES for further disclosures regarding our investments in securities and other-than-temporary impairments.

Subsequent Events

We prospectively adopted an amendment to the accounting standards for subsequent events on April 1, 2009. This Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth (a) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (b) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (c) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It also requires entities to disclose the date through which subsequent events have been evaluated and whether that date is the date that financial statements were issued or the date they were available to be issued. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

On January 1, 2009, we retrospectively adopted an amendment to the accounting standards for earnings per share. The guidance in this amendment applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents. It clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Our adoption of this amendment did not have a material impact on our consolidated financial statements.

Noncontrolling Interests

We adopted an amendment to the accounting standards for consolidation regarding noncontrolling interests in consolidated financial statements on January 1, 2009. After adoption, noncontrolling interests (referred to as a minority interest prior to adoption) are classified within equity (deficit), a change from their previous classification between liabilities and stockholders equity (deficit). Income (loss) attributable to noncontrolling interests is included in net income (loss), although such income (loss) continues to be deducted to measure earnings per share. The amendment also requires retrospective application of expanded presentation and disclosure requirements. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Disclosure about Derivative Instruments and Hedging Activities

We adopted an amendment to the accounting standards for derivatives and hedging on January 1, 2009. This amendment changes and expands the disclosure provisions for derivatives and hedging. It requires enhanced disclosures about (a) how and why we use derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect our financial position, financial performance and cash flows. The adoption of this amendment enhanced our disclosures of derivative instruments and hedging activities in NOTE 13: DERIVATIVES but had no impact on our consolidated financial statements.

Other Changes in Accounting Principles

At December 31, 2008, we adopted an amendment to the impairment guidance of investments in beneficial interests in securitized financial assets, which aligns the impairment guidance for debt securities within the scope of the accounting standards for investments in beneficial interests in securitized financial assets with that for other available-for-sale or held-for-maturity debt securities; however, it does not change the interest income recognition method prescribed by the accounting standards for investments in beneficial interests in securitized financial assets. The adoption of this amendment did not have a material impact on our consolidated financial statements.

Effective January 1, 2008, we adopted an amendment to the accounting standards for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This amendment defines fair value as 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 (also referred to as exit price). The adoption of this amendment did not cause a cumulative effect adjustment to our GAAP consolidated financial statements on January 1, 2008. This amendment also changed the initial measurement requirements for guarantees to provide for a practical expedient in measuring the fair value at inception of a guarantee. Upon adoption of this amendment on January 1, 2008, we began measuring the fair value of our newly-issued guarantee obligations at their inception using the practical expedient provided by the initial measurement requirements for guarantees. Using the practical expedient, the initial guarantee obligation is recorded at an amount equal to the fair value of compensation received, inclusive of all rights related to the transaction, in exchange for our guarantee. As a result, we no longer record estimates of deferred gains or immediate day one losses on most guarantees.

Effective January 1, 2008, we adopted an amendment to the measurement date provisions in accounting requirements for defined benefit pension and other post retirement plans. In accordance with the standard, we are required to measure our defined plan assets and obligations as of the date of our consolidated balance sheet, which necessitated a change in our measurement date from September 30 to December 31. The transition approach we elected for the change was the 15-month approach. Under this approach, we continued to use the measurements determined in our 2007 consolidated financial statements to estimate the effects of the change. Our adoption did not have a material impact on our consolidated financial statements.

On January 1, 2008, we adopted the accounting standard related to the fair value option for financial assets and financial liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not required to be measured at fair value. The effect of the first measurement to fair value was reported as a cumulative-effect adjustment to the opening balance of retained earnings (accumulated deficit). We elected the fair value option for foreign-currency denominated debt and certain available-for-sale mortgage-related securities, including investments in securities identified as within the scope of the accounting standards for investments in beneficial interests in securitized financial assets. Our election of the fair value option for the items discussed above was made in an effort to better reflect, in the financial statements, the economic offsets that exist related to items that were not previously recognized as changes in fair value through our consolidated statements of operations. As a result of the adoption, we recognized a $1.0 billion after-tax increase to our beginning retained earnings (accumulated deficit) at January 1, 2008, representing the effect of changing our measurement basis to fair value for the above items with the fair value option elected. During the third quarter of 2008, we elected the fair value option for certain multifamily held-for-sale mortgage loans. For additional information on the election of the fair value option, see NOTE 18: FAIR VALUE DISCLOSURES.

Effective December 31, 2007, we retrospectively changed our method of accounting for our guarantee obligation: 1) to a policy of no longer extinguishing our guarantee obligation when we purchase all or a portion of a guaranteed PC and Structured Security from a policy of effective extinguishment through the recognition of a Participation Certificate residual and 2) to a policy that amortizes our guarantee obligation into earnings in a manner that corresponds more closely to our economic release from risk under our guarantee than our former policy, which amortized our guarantee obligation according to the contractual expiration of our guarantee as observed by the decline in the unpaid principal balance of securitized mortgage loans. While our previous accounting was acceptable, we believe the adopted method of accounting for our guarantee obligation is preferable in that it significantly enhances the transparency and understandability of our financial results, promotes uniformity in the accounting model for the credit risk retained in our primary credit guarantee business, better aligns revenue recognition to the release from economic risk of loss under our guarantee, and increases comparability with other similar financial institutions. Comparative financial statements of prior periods have been adjusted to apply the new methods, retrospectively. The changes in accounting principles resulted in an increase to our total equity (deficit) of $1.1 billion at December 31, 2007.

On October 1, 2007, we adopted a modification to the accounting standards on derivatives and hedging with regard to offsetting amounts related to derivatives, which permits a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting agreement. We elected to reclassify net derivative interest receivable or payable and cash collateral held or posted, on our consolidated balance sheets, to derivative assets, net and derivative liability, net, as applicable. Prior to reclassification, these amounts were recorded on our consolidated balance sheets in accounts and other receivables, net, accrued interest payable, other assets and short-term debt, as applicable. The change resulted in a decrease to total assets and total liabilities of $8.7 billion at the date of adoption, October 1, 2007, and $7.2 billion at December 31, 2007. The adoption of this modification had no effect on our consolidated statements of operations.

On January 1, 2007, we adopted an amendment to the accounting standards for income taxes, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. This amendment provides a single model to account for uncertain tax positions and clarifies accounting for income taxes by prescribing a minimum threshold that a tax position is required to meet before being recognized in the financial statements. This amendment also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of adoption, we recorded a $181 million increase to retained earnings (accumulated deficit) at January 1, 2007. See NOTE 15: INCOME TAXES for additional information.

On January 1, 2007, we adopted an amendment to the accounting standards for derivatives and hedging for certain hybrid financial instruments. This amendment permits the fair value measurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation. In addition, this statement requires an evaluation of interests in securitized financial assets to identify instruments that are freestanding derivatives or that are hybrid financial instruments containing an embedded derivative requiring bifurcation. We adopted this amendment prospectively, and, therefore, there was no cumulative effect of a change in accounting principle. In connection with the adoption of this amendment on January 1, 2007, we elected to measure newly acquired interests in securitized financial assets that contain embedded derivatives requiring bifurcation at fair value, with changes in fair value reflected in our consolidated statements of operations. See NOTE 6: INVESTMENTS IN SECURITIES for additional information.

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

Accounting for Multiple-Deliverable Arrangements

In October 2009, the FASB issued an amendment to the accounting standards on revenue recognition for multiple-deliverable revenue arrangements. This amendment changes the criteria for separating consideration in multiple-deliverable arrangements and establishes a selling price hierarchy for determining the selling price of a deliverable. It eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This amendment is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with earlier adoption permitted. We do not expect the adoption of this amendment will have a material impact on our consolidated financial statements.

Accounting for Transfers of Financial Assets and Consolidation of VIEs

In June 2009, the FASB issued two new accounting standards that amend guidance applicable to the accounting for transfers of financial assets and the consolidation of VIEs. The guidance in these standards is effective for fiscal years beginning after November 15, 2009. The accounting standard for transfers of financial assets is applicable on a prospective basis, while the accounting standard relating to consolidation of VIEs must be applied to all entities within its scope as of the date of adoption.

We use separate securitization trusts in our securities issuance process for the purpose of managing the receipts and payments of cash flow of our PCs and Structured Securities. Prior to January 1, 2010, these trusts met the definition of QSPEs and were not subject to consolidation analysis. Effective January 1, 2010, the concept of a QSPE was removed from GAAP and entities previously considered QSPEs are now required to be evaluated for consolidation. Based on our evaluation, we determined that, under the new consolidation guidance, we are the primary beneficiary of our single-family PC trusts and certain Structured Transactions. Therefore, effective January 1, 2010, we consolidated on our balance sheet the assets and liabilities of these trusts at their unpaid principal balances. As such, we will prospectively recognize on our consolidated balance sheets the mortgage loans underlying our issued single-family PCs and certain Structured Transactions as mortgage loans held-for-investment by consolidated trusts, at amortized cost. Correspondingly, we will also prospectively recognize single-family PCs and certain Structured Transactions held by third parties on our consolidated balance sheets as debt securities of consolidated trusts held by third parties.

The cumulative effect of these changes in accounting principles as of January 1, 2010 is a net decrease of approximately $11.7 billion to total equity (deficit), which includes the changes to the opening balances of AOCI and retained earnings (accumulated deficit). This net decrease is driven principally by: (1) the elimination of deferred premiums, purchase price adjustments and positive mark-to-market fluctuations (inclusive of deferred tax amounts) related to investment securities issued by securitization trusts we are required to consolidate as we will initially recognize the underlying mortgage loans at their unpaid principal balance; (2) the elimination of the guarantee asset and guarantee obligation established for guarantees issued to securitization trusts we are required to consolidate; and (3) the difference between the application of our corporate non-accrual policy to delinquent mortgage loans consolidated as of January 1, 2010 and the prior reserve for uncollectible interest relating to investment securities issued by securitization trusts we are required to consolidate.

The effects of these changes are summarized in Table 1.1 below. Table 1.1 also illustrates the approximate impact on our consolidated balance sheets upon our adoption of these changes in accounting principles.

Table 1.1 Impact of the Change in Accounting for Transfers of Financial Assets and Consolidation of Variable Interest Entities

	December 31, 2009	Consolidation of VIEs	Reclassifications and Eliminations	January 1, 2010
		(in billions)		
Assets				
Cash and cash equivalents, restricted cash and cash equivalents, federal funds sold and securities purchased under agreements to resell[1]	$ 72.2	$ 22.5	$	$ 94.7
Investments in securities[2]	606.9		(286.5)	320.4
Mortgage loans, net[3][4]	127.9	1,812.9	(34.1)	1,906.7
Accounts and other receivables, net[5]	6.1	8.9	1.4	16.4
Guarantee asset, at fair value[6]	10.4		(10.0)	0.4
All other assets	18.3	0.1	1.0	19.4
Total assets	$ 841.8	$ 1,844.4	$ (328.2)	$ 2,358.0
Liabilities and equity (deficit)				
Accrued interest payable[7]	$ 5.0	$ 8.7	$ (1.5)	$ 12.2
Debt, net[8]	780.6	1,835.7	(269.2)	2,347.1
Guarantee obligation[6]	12.5		(11.9)	0.6
Reserve for guarantee losses on Participation Certificates[4]	32.4		(32.2)	0.2
All other liabilities	6.9		(1.7)	5.2
Total liabilities	837.4	1,844.4	(316.5)	2,365.3

Total equity (deficit)	4.4		(11.7)	(7.3)
Total liabilities and equity (deficit)	$ 841.8	$ 1,844.4	$ (328.2)	$ 2,358.0

(1) We will begin recognizing the cash held by our single-family PC trusts and certain Structured Transactions as restricted cash and cash equivalents on our consolidated balance sheets. This adjustment represents amounts that may only be used to settle the obligations of our consolidated trusts.
(2) We will no longer account for single-family PCs and certain Structured Transactions as investments in securities because we will prospectively recognize the underlying mortgage loans on our consolidated balance sheets through consolidation of the issuing entities.
(3) We will begin recognizing the mortgage loans underlying our single-family PCs and certain Structured Transactions on our consolidated balance sheets as mortgage loans held-for-investment by consolidated trusts. Any remaining held-for-sale loans will be multifamily mortgage loans.
(4) We will no longer establish a reserve for guarantee losses on PCs and Structured Transactions issued by trusts that we have consolidated; rather, we will recognize an allowance for loan losses against the mortgage loans that underlie those PCs and Structured Transactions. We will continue to recognize a reserve for guarantee losses related to our long-term standby commitments and guarantees issued to non-consolidated entities.
(5) We will begin recognizing accrued interest receivable on a larger population of loans as a result of our consolidation of PC trusts and certain Structured Transactions. Accrued interest receivable is currently included within accounts and other receivables, net; prospectively, it will be presented as a separate line item and all other items currently included within accounts and other receivables, net will be included within the other assets line item.
(6) We will no longer recognize a guarantee asset and guarantee obligation for guarantees issued to trusts that we have consolidated. We will continue to recognize a guarantee asset and guarantee obligation for our long-term standby commitments and guarantees issued to non-consolidated entities.
(7) We will begin recognizing accrued interest payable on PCs and Structured Transactions issued by our consolidated trusts that are held by third parties.
(8) We will begin recognizing our liability to third parties that hold beneficial interests in our consolidated single-family PC trusts and certain Structured Transactions as debt securities of consolidated trusts held by third parties.

Prospective adoption of these changes in accounting principles will also significantly impact the presentation of our consolidated statements of operations. These impacts are discussed in the sections that follow:

Line Items That No Longer Will Be Separately Presented

Line items that no longer will be separately presented on our consolidated statements of operations include:

Management and guarantee income we will no longer recognize management and guarantee income on PCs and Structured Transactions issued by trusts that we have consolidated; rather, the portion of the interest collected on the underlying loans that represents our management and guarantee fee will be recognized as part of interest income on

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mortgage loans. We will continue to recognize management and guarantee income related to our long-term standby commitments and guarantees issued to non-consolidated entities;

Gains (losses) on guarantee asset and income on guarantee obligation we will no longer recognize a guarantee asset and guarantee obligation for guarantees issued to trusts that we have consolidated; as such, we also will no longer recognize gains (losses) on guarantee asset and income on guarantee obligation for such trusts. However, we will continue to recognize a guarantee asset and guarantee obligation for our long-term standby commitments and guarantees issued to non-consolidated entities;

Losses on loans purchased we will no longer recognize the acquisition of loans from PC and Structured Transaction trusts that we have consolidated as a purchase with an associated loss as these loans will already be reflected on our consolidated balance sheet. Instead, when we acquire a loan from these entities, we will reclassify the loan from mortgage loans held-for-investment by consolidated trusts to unsecuritized mortgage loans held-for-investment and will record the cash tendered as an extinguishment of the related PC and Structured Transaction debt. We will continue to recognize losses on loans purchased related to our long-term standby commitments and purchases of loans from non-consolidated entities;

Recoveries of loans impaired upon purchase as these acquisitions will no longer be treated as purchases for accounting purposes, there will be no recoveries of such loans that require recognition in our consolidated statements of operations; and

Trust management income we will no longer recognize trust management income from the single-family PC trusts that we consolidate; rather, such amounts will be recognized in net interest income.

Line Items That Will Be Significantly Impacted and Still Separately Presented

Line items that will be significantly impacted and that will continue to be separately presented on our consolidated statements of operations include:

Interest income on mortgage loans we will begin recognizing interest income on the mortgage loans underlying PCs and Structured Transactions issued by trusts that we consolidate, which will include the portion of interest that was historically recognized as management and guarantee income. Upfront, credit-related fees received in connection with such loans historically were treated as a component of the related guarantee obligation; prospectively, these fees will be treated as basis adjustments to the loans to be amortized over their respective lives as a component of interest income;

Interest income on investments in securities we will no longer recognize interest income on our investments in PCs and Structured Transactions issued by trusts that we consolidate;

Interest expense we will begin recognizing interest expense on PCs and Structured Transactions that were issued by trusts that we consolidate and are held by third parties;

Other gains (losses) on investments we will no longer recognize other gains (losses) on investments for single-family PCs and certain Structured Transactions because those securities will no longer be accounted for as investments as a result of our consolidation of the issuing entities.

Newly Created Line Items

The line item that will be added to our consolidated statements of operations is as follows:

Gains (losses) on extinguishment of debt securities of consolidated trusts we will record the purchase of PCs or single-class Structured Securities backed by PCs that were issued by our consolidated securitization trusts as an extinguishment of outstanding debt with a gain or loss recorded to this line item. The gain or loss recognized will be the difference between the acquisition price and the amortized cost basis of the debt security.

NOTE 2: CONSERVATORSHIP AND RELATED DEVELOPMENTS

Entry Into Conservatorship

On September 6, 2008, the Director of FHFA placed us into conservatorship. On September 7, 2008, the then Secretary of the Treasury and the then Director of FHFA announced several actions taken by Treasury and FHFA regarding Freddie Mac and Fannie Mae. These actions included the following:

- placing us and Fannie Mae in conservatorship;
- the execution of the Purchase Agreement, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock; and
- the establishment of a temporary secured lending credit facility that was available to us until December 31, 2009, which was effected through the execution of the Lending Agreement.

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. 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. The conservatorship and related developments 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 of Freddie Mac with respect to Freddie Mac and its assets, and 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 delegated certain authority to the Board of Directors to oversee, and to management to conduct, day-to-day operations so that the company can continue to operate in the ordinary course of business.

Our business objectives and strategies have in some cases been altered since we entered into conservatorship, and may continue to change. Based on our charter, public statements from Treasury and FHFA officials and guidance given to us by 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 the taxpayers.

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 also did not authorize us to engage in certain business activities and transactions, including the sale of certain assets, some of 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 increased support provided by Treasury pursuant to the December 2009 amendment to the Purchase Agreement, described below, is sufficient to ensure that we maintain our access to the debt markets, and maintain positive net worth and liquidity to continue to conduct our normal business activities over the next three years.

Certain changes to our business objectives and strategies are designed to provide support for the mortgage market in a manner that serves public mission and other non-financial objectives, but may not contribute to our profitability. Our efforts to help homeowners and the mortgage market, in line with our public mission, may help to mitigate our credit losses, but some of these efforts are expected to have an adverse impact on our near and long-term financial results. As a result, in some cases the objectives of reducing the need to draw funds from Treasury and returning to long-term profitability will be subordinated as we provide this assistance. There is significant uncertainty as to the ultimate impact that our efforts to aid the housing and mortgage markets will have on our future capital or liquidity needs and we cannot estimate whether, and the extent to which, costs we incur in the near term as a result of these efforts, which for the most part we are not reimbursed for, will be offset by the prevention or reduction of potential future costs.

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. Any actions we take related to the uncertainties surrounding our business and future draws will likely require approval by FHFA and Treasury before they are implemented. In addition, FHFA, Treasury or Congress may have a different perspective than 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.

In a letter to the Chairmen and Ranking Members of the Congressional Banking and Financial Services Committees dated February 2, 2010, 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 FHFA does not expect we will be a substantial buyer or seller of mortgages for our mortgage-related investments portfolio, except for purchases of delinquent mortgages out of PC pools. The Acting Director also stated that permitting us to engage in new products is inconsistent with the goals of the conservatorship.

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Purchase Agreement

Overview

The Conservator, acting on our behalf, and Treasury entered into the Purchase Agreement on September 7, 2008. Under the Purchase Agreement, as amended in December 2009, Treasury made a commitment to provide up to $200 billion in funding under specified conditions. The $200 billion cap on Treasury s funding commitment will increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011 and 2012. Pursuant to the Purchase Agreement, on September 8, 2008 we issued to Treasury one million shares of senior preferred stock with an initial liquidation preference equal to $1,000 per share (for an aggregate initial liquidation preference of $1 billion), and a warrant for the purchase of our common stock. The terms of the senior preferred stock and warrant are summarized in separate sections in NOTE 10: FREDDIE MAC STOCKHOLDERS EQUITY (DEFICIT). We did not receive any cash proceeds from Treasury as a result of issuing the senior preferred stock or the warrant.

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the Purchase Agreement. In addition to the issuance of the senior preferred stock and warrant, beginning on March 31, 2011, we are required to pay a quarterly commitment fee to Treasury. This quarterly commitment fee will accrue beginning on January 1, 2011. The fee, in an amount to be mutually agreed upon by us and Treasury and to be determined with reference to the market value of Treasury s funding commitment as then in effect, must be determined on or before December 31, 2010, and will be reset every five years. Treasury may waive the quarterly commitment fee for up to one year at a time, in its sole discretion, based on adverse conditions in the U.S. mortgage market. We may elect to pay the quarterly commitment fee in cash or add the amount of the fee to the liquidation preference of the senior preferred stock.

Under the terms of the Purchase Agreement, Treasury is entitled to a dividend of 10% per year, paid on a quarterly basis (which increases to 12% per year if not paid timely and in cash) on the aggregate liquidation preference of the senior preferred stock, consisting of the initial liquidation preference of $1 billion plus funds we receive from Treasury and any dividends and commitment fees not paid in cash. To the extent we draw on Treasury s funding commitment, the liquidation preference of the senior preferred stock is increased by the amount of funds we receive. The senior preferred stock is senior in liquidation preference to our common stock and all other series of preferred stock. In addition, beginning on March 31, 2011, we are required to pay a quarterly commitment fee to Treasury as discussed above.

The Purchase Agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected on our GAAP consolidated balance sheet for the applicable fiscal quarter (referred to as the deficiency amount), provided that the aggregate amount funded under the Purchase Agreement may not exceed the maximum amount of Treasury s commitment. The Purchase Agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement), then FHFA, in its capacity as our Conservator, may request that Treasury provide funds to us in such amount. The Purchase Agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement). Any amounts that we draw under the Purchase Agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the Purchase Agreement.

Purchase Agreement Covenants

The Purchase Agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

- declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Freddie Mac equity securities (other than with respect to the senior preferred stock or warrant);

- redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant);

- sell or issue any Freddie Mac equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the Purchase Agreement);

- terminate the conservatorship (other than in connection with a receivership);

sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of a receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) in connection with our liquidation by a receiver; (d) of cash or cash equivalents for cash or cash equivalents; or (e) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage-related investments portfolio beginning in 2010;

issue any subordinated debt;

enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or

engage in transactions with affiliates unless the transaction is (a) pursuant to the Purchase Agreement, the senior preferred stock or the warrant, (b) upon arm s length terms or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the Purchase Agreement.

The covenants also apply to our subsidiaries.

The Purchase Agreement also provides that we may not own mortgage assets with an unpaid principal balance in excess of: (a) $900 billion on December 31, 2009; or (b) on December 31 of each year thereafter, 90% of the aggregate amount of mortgage assets we are permitted to own as of December 31 of the immediately preceding calendar year, provided that we are not required to own less than $250 billion in mortgage assets. Under the Purchase Agreement, we also may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are permitted to own on December 31 of the immediately preceding calendar year. The mortgage asset and indebtedness limitations will be determined without giving effect to any change in the accounting standards related to transfers of financial assets and consolidation of VIEs or any similar accounting standard. Therefore, these limitations will not be affected by our implementation of the changes to the accounting standards for transfers of financial assets and consolidation of VIEs, under which we will be required to consolidate our single-family PC trusts and certain of our Structured Transactions in our financial statements as of January 1, 2010.

In addition, the Purchase Agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements of any named executive officer or other executive officer (as such terms are defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

We are required under the Purchase Agreement to provide annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K to Treasury in accordance with the time periods specified in the SEC s rules. In addition, our designated representative (which, during the conservatorship, is the Conservator) is required to provide quarterly certifications to Treasury concerning compliance with the covenants contained in the Purchase Agreement and the accuracy of the representations made pursuant to the agreement. We also are obligated to provide prompt notice to Treasury of the occurrence of specified events, such as the filing of a lawsuit that would reasonably be expected to have a material adverse effect.

Warrant Covenants

The warrant we issued to Treasury includes, among others, the following covenants: (a) our SEC filings under the Exchange Act will comply in all material respects as to form with the Exchange Act and the rules and regulations thereunder; (b) we may not permit any of our significant subsidiaries to issue capital stock or equity securities, or securities convertible into or exchangeable for such securities, or any stock appreciation rights or other profit participation rights; (c) we may not take any action that will result in an increase in the par value of our common stock; (d) we may not take any action to avoid the observance or performance of the terms of the warrant and we must take all actions necessary or appropriate to protect Treasury s rights against impairment or dilution; and (e) we must provide Treasury with prior notice of specified actions relating to our common stock, such as setting a record date for a dividend payment, granting subscription or purchase rights, authorizing a recapitalization, reclassification, merger or similar transaction, commencing a liquidation of the company or any other action that would trigger an adjustment in the exercise price or number or amount of shares subject to the warrant.

Termination Provisions

The Purchase Agreement provides that the Treasury s funding commitment will terminate under any of the following circumstances: (i) the completion of our liquidation and fulfillment of Treasury s obligations under its funding commitment at that time; (ii) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guarantee obligations); and (iii) the funding by Treasury of the maximum amount of the commitment under the Purchase Agreement. In addition, Treasury may terminate its funding commitment and declare the Purchase Agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the

Conservator or otherwise curtails the Conservator s powers. Treasury may not terminate its funding commitment under the Purchase Agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

Waivers and Amendments

The Purchase Agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury s aggregate funding commitment or add conditions to Treasury s funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or Freddie Mac mortgage guarantee obligations.

Third-party Enforcement Rights

In the event of our default on payments with respect to our debt securities or Freddie Mac mortgage guarantee obligations, if Treasury fails to perform its obligations under its funding commitment and if we and/or the Conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Freddie Mac mortgage guarantee obligations may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of: (i) the amount necessary to cure the payment defaults on our debt and Freddie Mac mortgage guarantee obligations; and (ii) the lesser of: (a) the deficiency amount; and (b) the maximum amount of the commitment less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the Purchase Agreement that will increase the liquidation preference of the senior preferred stock.

Government Support for our Business

We are dependent upon the continued support of Treasury and FHFA in order to continue operating our business. We also receive substantial support from the Federal Reserve. 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:

- 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 cap on Treasury s funding commitment will increase as necessary to accommodate any cumulative reduction in our net worth during 2010, 2011 and 2012. To date, we have received an aggregate of $50.7 billion in funding under the Purchase Agreement;

- in November 2008, the Federal Reserve established a program to purchase (i) our direct obligations and those of Fannie Mae and the FHLBs and (ii) mortgage-related securities issued by us, Fannie Mae and Ginnie Mae. According to information provided by the Federal Reserve, it held $64.1 billion of our direct obligations and had net purchases of $400.9 billion of our mortgage-related securities under this program as of February 10, 2010. In September 2009, the Federal Reserve announced that it would gradually slow the pace of purchases under the program in order to promote a smooth transition in markets and anticipates that they will be executed by the end of the first quarter of 2010. On November 4, 2009, the Federal Reserve announced that it was reducing the maximum amount of its purchases of direct obligations of Freddie Mac, Fannie Mae and the FHLBs under this program to $175 billion;

in September 2008, Treasury established a program to purchase mortgage-related securities issued by us and Fannie Mae. This program expired on December 31, 2009. According to information provided by Treasury, it held $197.6 billion of mortgage-related securities issued by us and Fannie Mae as of December 31, 2009 previously purchased under this program; and

in September 2008, we entered into the Lending Agreement with Treasury, pursuant to which Treasury established a secured lending credit facility that was available to us as a liquidity back-stop. The Lending Agreement expired on December 31, 2009. We did not make any borrowings under the Lending Agreement.

We had positive net worth at December 31, 2009 as our assets exceeded our liabilities by $4.4 billion. Therefore, we did not require additional funding from Treasury under the Purchase Agreement. However, we expect to make additional draws under the Purchase Agreement in future periods due to a variety of factors that could adversely affect our net worth.

Based on the current aggregate liquidation preference of the senior preferred stock, Treasury is entitled to annual cash dividends of $5.2 billion, which exceeds our annual historical earnings in most periods. Continued cash payment of senior preferred dividends combined with potentially substantial quarterly commitment fees payable to Treasury beginning in 2011 (the amounts of which must be determined by December 31, 2010) will have an adverse impact on our future financial condition and net worth. 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; (b) there is significant uncertainty as to our long-term financial sustainability; and

(c) there are likely to be significant changes to our capital structure and business model beyond the near-term that we expect to be decided by Congress and the Executive Branch.

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 are currently being considered by the President and Congress. We have no ability to predict the outcome of these deliberations. However, we are not aware of any immediate plans of our Conservator to significantly change our business structure in the near-term.

See NOTE 9: DEBT SECURITIES AND SUBORDINATED BORROWINGS and NOTE 10: FREDDIE MAC STOCKHOLDERS EQUITY (DEFICIT) for more information on the terms of the conservatorship and the agreements described above.

Housing Finance Agency Initiative

On October 19, 2009, we entered into a Memorandum of Understanding with Treasury, FHFA and Fannie Mae, which sets forth the terms under which Treasury and, as directed by FHFA, we and Fannie Mae, would provide assistance, through three separate initiatives, to state and local HFAs so that the HFAs can continue to meet their mission of providing affordable financing for both single-family and multifamily housing. FHFA directed us and Fannie Mae to participate in the HFA initiative on a basis that is consistent with the goals of being commercially reasonable and safe and sound. Treasury s participation in these assistance initiatives does not affect the amount of funding that Treasury can provide to Freddie Mac under the terms of our senior preferred stock purchase agreement with Treasury.

From October 19, 2009 to December 31, 2009, we, Treasury, Fannie Mae and participating HFAs entered into definitive agreements setting forth the respective parties obligations under this initiative. The initiatives are as follows:

> *Temporary Credit and Liquidity Facilities Initiative.* In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to provide $8.2 billion of credit and liquidity support, including outstanding interest at the date of the guarantee, for variable rate demand obligations, or VRDOs, previously issued by HFAs. This support was provided through the issuance of guarantees, which provide credit enhancement to the holders of such VRDOs and also create an obligation to provide funds to purchase any VRDOs that are put by their holders and are not remarketed. Treasury provided a credit and liquidity backstop on the TCLFI. These guarantees, each of which expires on or before December 31, 2012, replaced existing liquidity facilities from other providers.
>
> *New Issue Bond Initiative.* In December 2009, on a 50-50 pro rata basis, Freddie Mac and Fannie Mae agreed to issue in total $15.3 billion of partially guaranteed pass-through securities backed by new single-family and certain new multifamily housing bonds issued by HFAs. Treasury purchased all of the pass-through securities issued by Freddie Mac and Fannie Mae. This initiative provided financing for HFAs to issue new housing bonds.

Treasury will bear the initial losses of principal up to 35% of total principal for these two initiatives combined, and thereafter Freddie Mac and Fannie Mae each will be responsible only for losses of principal on the securities that it issues to the extent that such losses are in excess of 35% of all losses under both initiatives. Treasury will bear all losses of unpaid interest. Under both initiatives, we and Fannie Mae were paid fees at the time bonds were securitized and also will be paid on-going fees.

The third initiative under the HFA initiative is described below:

Multifamily Credit Enhancement Initiative. Using existing housing bond credit enhancement products, Freddie Mac is providing a guarantee of new housing bonds issued by HFAs, which Treasury purchased from the HFAs. Treasury will not be responsible for a share of any losses incurred by us in this initiative.

Related Parties as a Result of Conservatorship

As a result of our issuance to Treasury of the warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding, on a fully diluted basis, we are deemed a related party to the U.S. government. Except for the transactions with Treasury discussed above in Government Support for our Business and Housing Finance Agency Initiative *Temporary Credit and Liquidity Facilities Initiative* and *New Issue Bond Initiative* as well as in NOTE 9: DEBT SECURITIES AND SUBORDINATED BORROWINGS, and NOTE 10: FREDDIE MAC STOCKHOLDERS EQUITY (DEFICIT), no transactions outside of normal business activities have occurred between us and the U.S. government during the year ended December 31, 2009. In addition, we are deemed related parties with Fannie Mae as both we and Fannie Mae have the same relationships with FHFA and Treasury. All transactions between us and Fannie Mae have occurred in the normal course of business.

NOTE 3: FINANCIAL GUARANTEES AND MORTGAGE SECURITIZATIONS

Financial Guarantees

As discussed in NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, we securitize substantially all the single-family mortgage loans we have purchased and issue securities which we guarantee. We enter into other financial agreements, including credit enhancements on mortgage-related assets and derivative transactions, which also give rise to financial guarantees. Table 3.1 below presents our maximum potential amount of future payments, our recognized liability and the maximum remaining term of these guarantees.

Table 3.1 Financial Guarantees

	December 31, 2009			December 31, 2008		
	Maximum Exposure(1)	Recognized Liability	Maximum Remaining Term	Maximum Exposure(1)	Recognized Liability	Maximum Remaining Term
	(dollars in millions, terms in years)					
Guaranteed PCs and Structured Securities	$ 1,854,813	$ 11,949	43	$ 1,807,553	$ 11,480	44
Other mortgage-related guarantees	15,069	516	40	19,685	618	39
Derivative instruments	30,362	76	33	39,488	111	34
Servicing-related premium guarantees	193		5	63		5

(1) Maximum exposure 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, such as recourse provisions, third-party insurance contracts or from collateral held or pledged. The maximum exposure disclosed above is not 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 or available credit enhancements. In addition, the maximum exposure for our liquidity guarantees is not mutually exclusive of our default guarantees on the same securities; therefore, the amounts are also included within the maximum exposure of guaranteed PCs and Structured Securities.

Guaranteed PCs and Structured Securities

We issue two types of mortgage-related securities: PCs and Structured Securities and we refer to certain Structured Securities as Structured Transactions. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for a discussion of our Structured Transactions. We guarantee the payment of principal and interest on issued PCs and Structured Securities that are backed by pools of mortgage loans. For our fixed-rate PCs, we guarantee the timely payment of interest at the applicable PC coupon rate and scheduled principal payments for the underlying mortgages. For our ARM PCs, we guarantee the timely payment of the weighted average coupon interest rate and the full and final payment of principal for the underlying mortgages. We do not guarantee the timely payment of principal for ARM PCs. To the extent the interest rate is modified and reduced for a loan underlying a fixed-rate PC, we pay the shortfall between the original contractual interest rate and the modified interest rate. To the extent the interest rate is modified and reduced for a loan underlying an ARM PC, we only guarantee the timely payment of the modified interest rate and we are not responsible for any shortfalls between the original contractual interest rate and the modified interest rate. When our Structured Securities consist of re-securitizations of PCs, our guarantee and the impacts of modifications to the interest rate of the underlying loans operate in the same manner as PCs. We establish trusts for all of our issued PCs pursuant to our master trust agreement and we serve a role to the trust as administrator, trustee, guarantor, and master servicer of the underlying loans. We do not perform the servicing directly on the loans within PCs; however, we assist our seller/servicers in their loss mitigation activities on loans within PCs that become delinquent, or past due. During 2009 and 2008, we executed foreclosure alternatives on approximately 143,000 and 88,000 single-family mortgage loans, respectively, including those loans held by us on our consolidated balance sheets. Foreclosure alternatives include modifications with and without concessions to the borrower, forbearance agreements, pre-foreclosure sales and repayment plans. Our practice is to purchase these loans from the trusts when foreclosure sales occur, they are modified, or in certain other circumstances. See NOTE 8: REAL ESTATE OWNED for more information on properties acquired under our financial guarantees. See NOTE 7: MORTGAGE LOANS AND LOAN LOSS RESERVES and NOTE 19: CONCENTRATION OF CREDIT AND OTHER RISKS for credit performance information on loans we own or have securitized, information on our purchases of loans under our financial guarantees and other risks associated with our securitization activities.

During 2009 and 2008 we issued $471.7 billion and $352.8 billion of our PCs and Structured Securities backed by single-family mortgage loans and the vast majority of these were in guarantor swap securitizations where our primary involvement is to guarantee the payment of principal and interest, so these transactions are accounted for in accordance with the accounting standards for guarantees at time of issuance. We also issued approximately $2.5 billion and $0.7 billion of PCs and Structured Securities backed by multifamily mortgage loans during 2009 and 2008, respectively. At December 31, 2009 and 2008, we had $1,854.8 billion and $1,807.6 billion of issued and outstanding PCs and Structured Securities, respectively, of which $374.6 billion and $424.5 billion, respectively, were held as investments in mortgage-related securities on our consolidated balance sheets. In 2009, we entered into an agreement with Treasury, FHFA and Fannie Mae, which sets forth the terms under which Treasury and, as directed by FHFA, we and Fannie Mae, would provide guarantees on securities

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issued by state and local HFAs, which are backed by both single-family and multifamily mortgage loans. As of December 31, 2009, we had issued guarantees on HFA securities with $3.5 billion in unpaid principal balance and we had commitments to issue an additional $4.1 billion of these guarantees in January 2010. For additional information regarding the HFA initiative see NOTE 2: CONSERVATORSHIP AND RELATED DEVELOPMENTS Housing Finance Agency Initiative.

The assets that underlie issued PCs and Structured Securities as of December 31, 2009 consisted of approximately $1,832.3 billion in unpaid principal balance of mortgage loans or mortgage-related securities and $22.5 billion of cash and short-term investments, which we invest on behalf of the PC trusts until the time of payment to PC investors. As of December 31, 2009 and 2008, there were $1,736 billion and $1,800.6 billion, respectively, of securities we issued in resecuritization of our PCs and other previously issued Structured Securities. These resecuritized securities do not increase our credit-related exposure and consist of single-class and multi-class Structured Securities backed by PCs, other previously issued Structured Securities, interest-only strips, and principal-only strips. In addition, there were $30.0 billion and $25.5 billion of Structured Transactions outstanding at December 31, 2009 and 2008, respectively, including the HFA securities noted above. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Issued Accounting Standards, Not Yet Adopted Within These Consolidated Financial Statements for information on how amendments to the accounting standards for transfers of financial assets and consolidation of VIEs impacts our accounting for PCs and Structured Securities, effective January 1, 2010.

Our guarantee obligation represents the recognized liability associated with our guarantee of PCs and Structured Securities net of cumulative amortization. In addition to our guarantee obligation, we recognized a reserve for guarantee losses on PCs that totaled $32.4 billion and $14.9 billion at December 31, 2009 and 2008, respectively.

At inception of an executed guarantee, we recognize a guarantee obligation at fair value. Subsequently, we amortize our guarantee obligation under the static effective yield method. We continue to determine the fair value of our guarantee obligation for disclosure purposes as discussed in NOTE 18: FAIR VALUE DISCLOSURES.

We recognize guarantee assets and guarantee obligations for PCs in conjunction with transfers accounted for as sales, as well as, beginning on January 1, 2003, for guarantor swap transactions that do not qualify as sales, but are accounted for as guarantees. For certain of those transfers accounted for as sales, we may sell the majority of the securities to a third party and also retain a portion of the securities on our consolidated balance sheets. See NOTE 4: RETAINED INTERESTS IN MORTGAGE-RELATED SECURITIZATIONS for further information on these retained financial assets. At December 31, 2009 and 2008, approximately 95% and 93%, respectively, of our guaranteed PCs and Structured Securities were issued since January 1, 2003 and had a corresponding guarantee asset or guarantee obligation recognized on our consolidated balance sheets.

Other Mortgage-Related Guarantees and Liquidity Guarantees

We provide long-term stand-by agreements to certain of our customers, which obligate us to purchase delinquent loans that are covered by those agreements. These financial guarantees of non-securitized mortgage loans totaled $5.1 billion and $10.6 billion at December 31, 2009 and 2008, respectively. During 2009 and 2008, several of these agreements were terminated, in whole or in part, at the request of the counterparties to permit a significant portion of the performing loans previously covered by the long-term standby commitments to be securitized as PCs or Structured Transactions, which totaled $5.7 billion and $19.9 billion in issuances of these securities during 2009 and 2008, respectively. We also had outstanding financial guarantees on multifamily housing revenue bonds that were issued by third parties of $9.2 billion at both December 31, 2009 and 2008. In addition, as part of the HFA initiative, we provided guarantees for certain variable-rate single-family and multifamily housing revenue bonds which totaled $0.8 billion at December 31, 2009. At December 31, 2009, we had commitments to settle $3.0 billion of additional guarantees under the HFA initiative.

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 to their holders. These amounts are included in Table 3.1 Financial Guarantees within PCs and Structured Securities and other mortgage-related guarantees depending on the type of mortgage-related guarantee to which they relate. In addition, as part of the HFA initiative, we together with Fannie Mae provide liquidity guarantees for certain variable-rate single-family and multifamily housing revenue bonds, under which Freddie Mac generally is obligated to purchase 50% of any tendered bonds that cannot be remarketed within five business days. No liquidity guarantees were outstanding at December 31, 2009 and 2008.

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Derivative Instruments

Derivative instruments primarily include written options, written swaptions, interest-rate swap guarantees and guarantees of stated final maturity Structured Securities. Derivative instruments also include short-term default and other guarantee commitments that we account for as derivatives.

We guarantee the performance of interest-rate swap contracts in certain circumstances. As part of a resecuritization transaction, we may transfer certain swaps and related assets to a third party and guarantee that interest income generated from the assets will be sufficient to cover the required payments under the interest-rate swap contracts. In some cases, we guarantee that a borrower will perform under an interest-rate swap contract linked to a customer s adjustable-rate mortgage. In connection with certain resecuritization transactions, we may also guarantee that the sponsor of certain securitized multifamily housing revenue bonds will perform under the interest-rate swap contract linked to the variable-rate certificates we issued, which are backed by the bonds.

In addition, we issued credit derivatives that guarantee the payments on (a) multifamily mortgage loans that are originated and held by state and municipal housing finance agencies to support tax-exempt multifamily housing revenue bonds; (b) pass-through certificates which are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans; and (c) the reimbursement of certain losses incurred by third party providers of letters of credit secured by multifamily housing revenue bonds.

We have issued Structured Securities with stated final maturities that are shorter than the stated maturity of the underlying mortgage loans. If the underlying mortgage loans to these securities have not been purchased by a third party or fully matured as of the stated final maturity date of such securities, we may sponsor an auction of the underlying assets. To the extent that purchase or auction proceeds are insufficient to cover unpaid principal amounts due to investors in such Structured Securities, we are obligated to fund such principal. Our maximum exposure on these guarantees represents the outstanding unpaid principal balance of the underlying mortgage loans.

Servicing-Related Premium Guarantees

We provided guarantees to reimburse servicers for premiums paid to acquire servicing in situations where the original seller is unable to perform under its separate servicing agreement. The liability associated with these agreements was not material at December 31, 2009 and 2008.

Credit Protection or Credit Enhancement

In connection with our PCs, Structured Securities and other mortgage-related guarantees, we have credit protection in the form of primary mortgage insurance, pool insurance, recourse to lenders indemnification agreements with seller/servicers and other forms of credit enhancements. The total maximum amount of coverage from these credit protection and recourse agreements associated with single-family mortgage loans, excluding Structured Transactions, was $68.1 billion and $74.7 billion at December 31, 2009 and 2008, respectively, and this credit protection covers $307.8 billion and $342.7 billion, respectively, in unpaid principal balances. At December 31, 2009 and 2008, we recorded $597 million and $764 million, respectively, within other assets on our consolidated balance sheets related to these credit enhancements on securitized mortgages.

Table 3.2 presents the maximum amounts of potential loss recovery by type of credit protection.

Table 3.2 Credit Protection or Credit Enhancement[1]

	Maximum Coverage at December 31, 2009	December 31, 2008
	(in millions)	
PCs and Structured Securities:		
Single-family:		
Primary mortgage insurance	$ 55,205	$ 59,388
Lender recourse and indemnifications	9,014	11,047
Pool insurance	3,431	3,768
HFA indemnification(2)	1,370	
Other credit enhancements	476	475
Multifamily:		
Credit enhancements	2,844	3,261
HFA indemnification(2)	142	

(1) Exclude credit enhancements related to resecuritization transactions that are backed by loans or certificates issued by Federal agencies as well as Structured Transactions, which had unpaid principal balances that totaled $26.5 billion and $24.4 billion at December 31, 2009 and 2008, respectively.

(2) The amount of potential reimbursement of losses on securities we have guaranteed that are backed by state and local HFA bonds, under which Treasury bears initial losses on these securities up to 35% of those issued under the HFA initiative on a combined basis. Treasury will also bear losses of unpaid interest.

We have credit protection for certain of our resecuritization transactions that are backed by loans or certificates of federal agencies (such as the FHA, VA, Ginnie Mae and USDA), which totaled $3.9 billion and $4.4 billion in unpaid principal balance as of December 31, 2009 and 2008, respectively. Additionally, certain of our Structured Transactions include subordination protection or other forms of credit enhancement. At December 31, 2009 and 2008, the unpaid principal balance of Structured Transactions with subordination coverage was $4.5 billion and $5.3 billion, respectively, and the average subordination coverage on these securities was 17% and 19% of the balance, respectively. The remaining $19.3 billion and $18.3 billion in unpaid principal balance of single-family Structured Transactions at December 31, 2009 and 2008, respectively, have pass-through structures with no additional credit enhancement.

We use credit enhancements to mitigate risk on certain multifamily mortgages and mortgage revenue bonds. The types of credit enhancements used for multifamily mortgage loans include third-party guarantees or letters of credit, cash escrows, subordinated participations in mortgage loans or structured pools, sharing of losses with sellers, and cross-default and cross-collateralization provisions. Cross-default and cross-collateralization provisions typically work in tandem. With a cross-default provision, if the loan on a property goes into default, we have the right to declare specified other mortgage loans of the same borrower or certain of its affiliates to be in default and to foreclose those other mortgages. In cases where the borrower agrees to cross-collateralization, we have the additional right to apply excess proceeds from the foreclosure of one mortgage to amounts owed to us by the same borrower or its specified affiliates relating to other multifamily mortgage loans we own that are owed to us by the same borrower of certain affiliates and also are in default. The total of multifamily mortgage loans held for investment and underlying our PCs and Structured Securities for which we have credit enhancement coverage was $10.5 billion and $10.0 billion as of December 31, 2009 and 2008, respectively, and we had maximum coverage of $3.0 billion and $3.3 billion, respectively.

PC Trust Documents

In December 2007, we introduced trusts into our security issuance process. Under our PC master trust agreement, we established trusts for all of our PCs issued both prior and subsequent to December 2007. In addition, each PC trust, regardless of the date of its formation, is governed by a pool supplement documenting the formation of the PC trust and the issuance of the related PCs by that trust. The PC master trust agreement, along with the pool supplement, offering circular, any offering circular supplement, and any amendments, are the PC trust documents that govern each individual PC trust.

In accordance with the terms of our PC trust documents, we have the right, but are not required, to purchase a mortgage loan from a PC trust under a variety of circumstances. Through November 2007, our general practice was to purchase the mortgage loans out of PCs after the loans became 120 days delinquent. In December 2007, we changed our practice to purchase mortgages from pools underlying our PCs when:

- the mortgages have been modified;
- a foreclosure sale occurs;
- the mortgages are delinquent for 24 months; or
- the mortgages are 120 days or more delinquent and the cost of guarantee payments to PC holders, including advances of interest at the security coupon rate, exceeds the cost of holding the nonperforming loans on our consolidated balance sheet.

See NOTE 22: SUBSEQUENT EVENTS for further information about our practice for purchases of mortgage loans from PC trusts. In accordance with the terms of our PC trust documents, we are required to purchase a mortgage loan from a PC trust in the following situations:

if a court of competent jurisdiction or a federal government agency, duly authorized to oversee or regulate our mortgage purchase business, determines that our purchase of the mortgage was unauthorized and a cure is not practicable without unreasonable effort or expense, or if such a court or government agency requires us to repurchase the mortgage;

if a borrower exercises its option to convert the interest rate from an adjustable rate to a fixed rate on a convertible ARM; and

in the case of balloon loans, shortly before the mortgage reaches its scheduled balloon repayment date.

We purchase these mortgages at an amount equal to the current unpaid principal balance, less any outstanding advances of principal on the mortgage that have been paid to the PC holder.

Based on the timing of the principal and interest payments to the holders of our PCs and Structured Securities, we may have a payable due to the PC trusts at a period end. The payables due to the PC trusts were $2.4 billion and $842 million at December 31, 2009 and 2008, respectively.

Indemnifications

In connection with various business transactions, we may provide indemnification to counterparties for claims arising out of breaches of certain obligations (*e.g.*, those arising from representations and warranties) in contracts entered into in the normal course of business. It is difficult to estimate our maximum exposure under these indemnification arrangements because in many cases there are no stated or notional amounts included in the indemnification clauses. Such indemnification provisions pertain to matters such as hold harmless clauses, adverse changes in tax laws, breaches of confidentiality, misconduct and potential claims from third parties related to items such as actual or alleged infringement of intellectual property. At December 31, 2009, our assessment is that the risk of any material loss from such a claim for indemnification is remote and there are no probable and estimable losses associated with these contracts. We have not recorded any liabilities related to these indemnifications on our consolidated balance sheets at December 31, 2009 and 2008.

NOTE 4: RETAINED INTERESTS IN MORTGAGE-RELATED SECURITIZATIONS

In connection with certain transfers of financial assets that qualify as sales, we may retain certain newly-issued PCs and Structured Securities not transferred to third parties upon the completion of a securitization transaction. These securities may be backed by mortgage loans purchased from our customers, PCs and Structured Securities, or previously resecuritized securities. These Freddie Mac PCs and Structured Securities are included in investments in securities on our consolidated balance sheets.

Our exposure to credit losses on the loans underlying our retained securitization interests and our guarantee asset is recorded within our reserve for guarantee losses on PCs and as a component of our guarantee obligation, respectively. For additional information regarding our delinquencies and credit losses, see NOTE 7: MORTGAGE LOANS AND LOAN LOSS RESERVES. Table 4.1 below presents the carrying values of our retained interests in securitization transactions as of December 31, 2009 and 2008.

Table 4.1 Carrying Value of Retained Interests

	December 31, 2009 (in millions)	December 31, 2008 (in millions)
Retained Interests, mortgage-related securities	$ 91,537	$ 98,307
Retained Interests, guarantee asset	$ 10,444	$ 4,847

Retained Interests, Mortgage-Related Securities

We estimate the fair value of retained interests in mortgage-related securities based on independent price quotes obtained from third-party pricing services or dealer provided prices. The hypothetical sensitivity of the carrying value of retained securitization interests is based on internal models adjusted where necessary to align with fair values.

Retained Interests, Guarantee Asset

Our approach for estimating the fair value of the guarantee asset at December 31, 2009 used third-party market data as practicable. For approximately 80% of the fair value of the guarantee asset, which relates to fixed-rate loan products that reflect current market rates, the valuation approach involved obtaining dealer quotes on proxy securities with collateral similar to aggregated characteristics of our portfolio. This effectively equates the guarantee asset with current, or spot, market values for excess servicing interest-only securities. We consider these securities to be comparable to the guarantee asset in that they represent interest-only cash flows and do not have matching principal-only securities. The remaining 20% of the fair value of the guarantee asset related to underlying loan products for which comparable market prices were not readily available. These amounts relate specifically to ARM products, highly seasoned loans or fixed-rate loans with coupons that are not consistent with current market rates. This portion of the guarantee asset was valued using an expected cash flow approach, including only those cash flows expected to result from our contractual right to receive management and guarantee fees, with market input assumptions extracted from the dealer quotes provided on the more liquid products, reduced by an estimated liquidity discount.

The fair values at the time of securitization and subsequent fair value measurements at the end of a period were primarily estimated using third-party information. Consequently, we derived the assumptions presented in Table 4.2 by determining those implied by our valuation estimates, with the IRRs adjusted where necessary to align our internal models with estimated fair values determined using third-party information. However, prepayment rates are presented based on our internal models and have not been similarly adjusted. For the portion of our guarantee asset that is valued by obtaining dealer quotes on proxy securities, we derive the assumptions from the prices we are provided. Table 4.2 contains estimates of the key assumptions used to derive the fair value measurement that relates solely to our guarantee asset on financial guarantees of single-family loans. These represent the average assumptions used both at the end of the period as well as the valuation assumptions at guarantee issuance during the year presented on a combined basis.

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Table 4.2 Key Assumptions Used in Measuring the Fair Value of Guarantee Asset[1]

Mean Valuation Assumptions	For the Year Ended December 31, 2009	2008	2007
IRRs[2]	13.8%	12.3%	6.4%
Prepayment rates[3]	26.4%	15.5%	17.1%
Weighted average lives (years)	3.3	5.6	5.2

(1) Estimates based solely on valuations on our guarantee asset associated with single-family loans, which represent approximately 97% of the total guarantee asset.
(2) IRR assumptions represent an unpaid principal balance weighted average of the discount rates inherent in the fair value of the recognized guarantee asset. We estimated the IRRs using a model which employs multiple interest rate scenarios versus a single assumption.
(3) Although prepayment rates are simulated monthly, the assumptions above represent annualized prepayment rates based on unpaid principal balances.

The objective of the sensitivity analysis below is to present our estimate of the financial impact of an unfavorable change in the input values associated with the determination of fair values of these retained interests. We do not use these inputs in determining fair value of our retained interests as our measurements are principally based on third-party pricing information. See NOTE 18: FAIR VALUE DISCLOSURES for further information on determination of fair values. The weighted average assumptions within Table 4.3 represent our estimates of the assumed IRR and prepayment rates implied by market pricing as of each period end and are derived using our internal models. Since we do not use these internal models for determining fair value in our reported results under GAAP, this sensitivity analysis is hypothetical and may not be indicative of actual results. In addition, the effect of a variation in a particular assumption on the fair value of the retained interest is estimated independently of changes in any other assumptions. Changes in one factor may result in changes in another, which might counteract the impact of the change.

Table 4.3 Sensitivity Analysis of Retained Interests

	As of December 31, 2009	2008
	(dollars in millions)	
Retained Interests, Mortgage-Related Securities		
Weighted average IRR assumptions	4.5%	4.7%
Impact on fair value of 100 bps unfavorable change	$ (3,634)	$ (2,762)
Impact on fair value of 200 bps unfavorable change	$ (7,008)	$ (5,366)
Weighted average prepayment rate assumptions	11.4%	37.3%
Impact on fair value of 10% unfavorable change	$ (85)	$ (177)
Impact on fair value of 20% unfavorable change	$ (161)	$ (323)
Retained Interests, Guarantee Asset (Single-Family Only)		
Weighted average IRR assumptions	8.5%	21.1%

Impact on fair value of 100 bps unfavorable change	$ (382)	$ (90)
Impact on fair value of 200 bps unfavorable change	$ (714)	$ (177)
Weighted average prepayment rate assumptions	20.1%	33.1%
Impact on fair value of 10% unfavorable change	$ (517)	$ (357)
Impact on fair value of 20% unfavorable change	$ (995)	$ (689)

Changes in these IRR and prepayment rate assumptions are primarily driven by changes in interest rates. Interest rates on conforming mortgage products declined in 2009, and resulted in a lower IRR on mortgage-related securities retained interests. Lower mortgage rates typically induce borrowers to refinance their loan. Expectations of higher interest rates resulted in a decrease in average prepayment assumptions on mortgage-related securities retained interests.

We receive proceeds in securitizations accounted for as sales for those securities sold to third parties. Subsequent to these securitizations, we receive cash flows related to interest income and repayment of principal on the securities we retain for investment. Regardless of whether our issued PC or Structured Security is sold to third parties or held by us for investment, we are obligated to make cash payments to acquire foreclosed properties and certain delinquent or impaired mortgages under our financial guarantees. Table 4.4 summarizes cash flows on retained interests related to securitizations accounted for as sales.

Table 4.4 Details of Cash Flows

	For the Year Ended December 31,		
	2009	2008	2007
		(in millions)	
Cash flows from:			
Proceeds from transfers of Freddie Mac securities that were accounted for as sales[(1)]	$ 118,445	$ 36,885	$ 62,644
Cash flows received on the guarantee asset[(2)]	2,922	2,871	2,288
Principal and interest from retained securitization interests[(3)]	21,377	20,411	23,541
Purchases of delinquent or foreclosed loans and required purchase of balloon mortgages[(4)]	(26,346)	(13,539)	(6,811)

(1) On our consolidated statements of cash flows, this amount is included in the investing activities as part of proceeds from sales of trading and available-for-sale securities.

(2) Represents cash received from securities receiving sales treatment and related to management and guarantee fees, which reduce the guarantee asset. On our consolidated statements of cash flows, the change in guarantee asset and the corresponding management and guarantee fee income are reflected as operating activities.

(3) On our consolidated statements of cash flows, the cash flows from interest are included in net income (loss) and the principal repayments are included in the investing activities as part of proceeds from maturities of available-for-sale securities.

(4) On our consolidated statements of cash flows, this amount is included in the investing activities as part of purchases of held-for-investment mortgages. Includes our acquisitions of REO in cases where a foreclosure sale occurred while a loan was owned by the securitization trust.

In addition to the cash flow shown above, we are obligated under our guarantee to make up any shortfalls in principal and interest to the holders of our securities, including those shortfalls arising from losses incurred in our role as trustee for the master trust, which administers cash remittances from mortgages and makes payments to the security holders. See NOTE 19: CONCENTRATION OF CREDIT AND OTHER RISKS Securitization Trusts for further information on these cash flows.

Gains and Losses on Transfers of PCs and Structured Securities that are Accounted for as Sales

The gain or loss on a securitization that qualifies as a sale, is determined, in part, based on the carrying amounts of the financial assets sold. The carrying amounts of the assets sold are allocated between those sold to third parties and those held as retained interests based on their relative fair value at the date of sale. We recognized net pre-tax gains (losses) on transfers of mortgage loans, PCs and Structured Securities that were accounted for as sales of approximately $1.5 billion, $151 million and $141 million for the years ended December 31, 2009, 2008 and 2007, respectively. We recognized higher gains in 2009 as a result of increased securitization activity in 2009 as compared to 2008 due to improved fundamentals in the securitization market. The gross proceeds associated with these sales are presented within the table above.

NOTE 5: VARIABLE INTEREST ENTITIES

We are a party to numerous entities that are considered to be VIEs. Our investments in VIEs include LIHTC partnerships and certain Structured Securities transactions. In addition, we buy the highly-rated senior securities in non-mortgage-related, asset-backed investment trusts that are VIEs. Our investments in these securities do not represent a significant variable interest in the securitization trusts as the securities issued by these trusts are not designed to absorb a significant portion of the variability in the trust. Accordingly, we do not consolidate these securities. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Consolidation and Equity Method of Accounting for further information regarding the consolidation practices of our VIEs.

LIHTC Partnerships

The LIHTC Program is widely regarded as the most successful federal program for the production and preservation of rental housing affordable to low-income households. The LIHTC Program is an indirect federal subsidy used to finance the development of affordable rental housing for low-income households. Congress enacted the LIHTC Program in 1986 to provide the private market with an incentive to invest in affordable rental housing. Federal housing tax credits are awarded to developers of qualified projects. Developers then sell these credits to investors to raise capital (or equity) for their projects, which reduces the debt that the developer would otherwise have to borrow. Because the debt is lower, a tax credit property can in turn offer lower, more affordable rents.

As a nationwide investor, we supported the LIHTC market regardless of location, investing in rural areas, in central cities, in special needs projects and in difficult to develop areas. We are a strong proponent of high standards of reporting and asset management, as well as underwriting and investment criteria. Our presence in multi-investor funds enabled smaller investors to participate in much larger pools of projects and helped to attract investment capital to areas that would not otherwise have seen such investments. The LIHTC partnerships invest as limited partners in partnerships that own and operate multifamily rental properties. These properties are rented to qualified low-income tenants, allowing the properties to be eligible for federal income tax credits. Most of these LIHTC partnerships are VIEs. A general partner operates the partnership, identifying investments and obtaining debt financing as needed to finance partnership activities. There were no third-party credit enhancements of our LIHTC investments at December 31, 2009 and 2008. Although these partnerships generate operating losses, we planned to realize a return on our investment through reductions in income tax expense that result from the tax credits, as well as the deductibility of operating losses for tax purposes.

The LIHTC partnership agreements are typically structured to meet a required 15-year period of occupancy by qualified low-income tenants. The investments in LIHTC partnerships, in which we were either the primary beneficiary or had a significant variable interest, were made between 1989 and 2007. At December 31, 2009 and 2008, we did not guarantee any obligations of these LIHTC partnerships and our exposure was limited primarily to the amount of our investment. As discussed below, we currently have no ability to use the tax credits in our own tax return and accordingly did not buy or sell any LIHTC partnership investments in 2009 or 2008.

During the third quarter of 2009, we expected that our ability to realize the carrying value in our LIHTC investments was limited to our ability to execute sales or other transactions related to our partnership interests. This determination is based upon a number of factors, including continued uncertainty in our future business structure and our inability to generate sufficient taxable income in order to use the tax credits and operating losses generated. See NOTE 15: INCOME TAXES for additional information. As a result, we determined that individual partnerships whose carrying value exceeded fair value were other-than-temporarily impaired and should be written down to their fair value. Fair value is determined based on reference to market transactions. As a result, we recognized other-than-temporary impairments on our LIHTC investments of $370 million for the three months ended September 30, 2009.

During 2009, we requested approval from Treasury pursuant to the Purchase Agreement of a proposed transaction that was designed to recover substantially all of the carrying value of our LIHTC investments. In November 2009, FHFA notified us that Treasury, based on broad overall taxpayer issues, would decline to authorize the transaction. However, we were encouraged by FHFA to consider other options that would allow us to realize the carrying value of our investments consistent with our mission and to minimize our losses from carrying these investments. We estimated that our LIHTC investments had a total fair value of $3.4 billion at December 31, 2009, absent any restriction on sale of the assets.

On February 18, 2010, we received a letter from the Acting Director of FHFA stating that FHFA has determined that any sale of the LIHTC investments by Freddie Mac would require Treasury s consent under the terms of the Purchase Agreement. The letter further stated that FHFA had presented other options for Treasury to consider, including allowing Freddie Mac to pay senior preferred stock dividends by waiving the right to claim future tax benefits of the LIHTC investments. However, after further consultation with Treasury and consistent with the terms of the Purchase Agreement, the Acting Director informed us we may not sell or transfer the 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 either through reductions to our taxable income and related tax liabilities or through a sale to a third party.

We recognized the write-down of the LIHTC investments as a loss of $3.4 billion for accounting purposes in our consolidated statements of operations because the value associated with the non-use of the tax credits transfers to Treasury indirectly. The write-down was recorded to low-income housing tax credit partnerships on our consolidated statements of operations. This write-down reduces our net worth at December 31, 2009 and, as such, increases the likelihood that we will require additional draws from Treasury under the Purchase Agreement and, as a consequence, increases the likelihood that our dividend obligation on the senior preferred stock will increase.

We will fulfill all contractual obligations under the LIHTC partnership agreements, and continue to hold and manage the LIHTC assets in support of multifamily affordable housing as directed by FHFA. As of December 31, 2009, we have obligations in the amount of $217 million to continue to fund our existing LIHTC partnership interests over time that we are contractually obligated to make even though we do not expect to receive any returns from these investments.

As further described in NOTE 15: INCOME TAXES to our consolidated financial statements, we determined that it was more likely than not that a portion of our deferred tax assets, net would not be realized. As a result, we are not recognizing a significant portion of the tax benefits associated with tax credits and deductible operating losses generated by our investments in LIHTC partnerships in our consolidated financial statements.

Table 5.1 below depicts the tax credits and operating losses expected to flow from the underlying partnerships as well as our funding commitments to the partnerships over time. Generally LIHTC partnership tax credits have a one-year carryback and 20-year carryforward period.

Table 5.1 Schedule of Forecasted LIHTC Partnership Tax Credits, Forecasted Operating Losses and Funding Requirements as of December 31, 2009

Year	Forecasted Tax Credits(1)	Forecasted Operating Losses(1)(2)	Funding Requirements(1)(3)
		(in millions)	
2010	$ 588	$ 396	$ 123
2011	567	389	50
2012	537	353	12
2013	496	331	11
2014	434	341	5
2015-2026	780	2,041	16
Total	$ 3,402	$ 3,851	$ 217

(1) Forecasted tax credits, forecasted operating losses and funding requirements are based on existing LIHTC investments and no additional investments or sales in the future.
(2) Forecasted operating losses represent Freddie Mac s forecasted share of operating losses generated by the related partnerships.
(3) Represents our gross funding requirements to the underlying partnerships. The payable amount recorded on our books is the present value of these amounts.

At December 31, 2009 and 2008, we were the primary beneficiary of investments in six partnerships, and we consolidated these investments. The investors in the obligations of the consolidated LIHTC partnerships have recourse only to the assets of those VIEs and do not have recourse to us. In addition, the assets of each partnership can be used only to settle obligations of that partnership.

Consolidated VIEs

Table 5.2 represents the carrying amounts and classification of the consolidated assets and liabilities of VIEs on our consolidated balance sheets.

Table 5.2 Assets and Liabilities of Consolidated VIEs

Consolidated Balance Sheets Line Item	December 31, 2009	December 31, 2008
	(in millions)	
Cash and cash equivalents	$ 4	$ 12
Accounts and other receivables, net	16	137

Total assets of consolidated VIEs	$ 20	$ 149
Other liabilities	$ 15	$ 34
Total liabilities of consolidated VIEs	$ 15	$ 34

VIEs Not Consolidated

LIHTC Partnerships

At December 31, 2009 and 2008, we had unconsolidated investments in 187 and 189 LIHTC partnerships, respectively, in which we had a significant variable interest. The size of these partnerships at December 31, 2009 and 2008, as measured in total assets, was $9.6 billion and $10.5 billion, respectively. These partnerships are accounted for using the equity method, as described in NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Our equity investments in these partnerships in which we had a significant variable interest were $ billion and $3.3 billion as of December 31, 2009 and 2008, respectively, and are included in low-income housing tax credit partnership equity investments on our consolidated balance sheets. As a limited partner, our maximum exposure to loss equals the undiscounted book value of our equity investment. Our investments in unconsolidated LIHTC partnerships are funded through non-recourse non-interest bearing notes payable recorded within other liabilities on our consolidated balance sheets. We had $154 million and $347 million of these notes payable outstanding at December 31, 2009 and 2008.

Table 5.3 Significant Variable Interests in LIHTC Partnerships

	December 31,	
	2009	2008
	(in millions)	
Maximum exposure to loss	$	$ 3,336
Non-recourse non-interest bearing notes payable, net	154	347

NOTE 6: INVESTMENTS IN SECURITIES

Table 6.1 summarizes amortized cost, estimated fair values and corresponding gross unrealized gains and gross unrealized losses for available-for-sale securities by major security type.

Table 6.1 Available-For-Sale Securities

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[(1)]	Fair Value
	(in millions)			
Mortgage-related securities:				
Freddie Mac	$ 215,198	$ 9,410	$ (1,141)	$ 223,467
Subprime	56,821	2	(21,102)	35,721
Commercial mortgage-backed securities	61,792	15	(7,788)	54,019
Option ARM	13,686	25	(6,475)	7,236
Alt-A and other	18,945	9	(5,547)	13,407
Fannie Mae	34,242	1,312	(8)	35,546
Obligations of states and political subdivisions	11,868	49	(440)	11,477
Manufactured housing	1,084	1	(174)	911
Ginnie Mae	320	27		347
Total mortgage-related securities	413,956	10,850	(42,675)	382,131
Non-mortgage-related securities:				
Asset-backed securities	2,444	109		2,553
Total non-mortgage-related securities	2,444	109		2,553
Total available-for-sale securities	$ 416,400	$ 10,959	$ (42,675)	$ 384,684
December 31, 2008				
Mortgage-related securities:				
Freddie Mac	$ 271,796	$ 6,333	$ (2,921)	$ 275,208
Subprime	71,399	13	(19,145)	52,267
Commercial mortgage-backed securities	64,214	2	(14,716)	49,500
Option ARM	12,117		(4,739)	7,378
Alt-A and other	20,032	11	(6,787)	13,256
Fannie Mae	40,255	674	(88)	40,841
Obligations of states and political subdivisions	12,874	3	(2,349)	10,528
Manufactured housing	917	9	(183)	743
Ginnie Mae	367	16		383

Total mortgage-related securities	493,971	7,061	(50,928)	450,104
Non-mortgage-related securities:				
Asset-backed securities	8,788	6		8,794
Total non-mortgage-related securities	8,788	6		8,794
Total available-for-sale securities	$ 502,759	$ 7,067	$ (50,928)	$ 458,898

(1) Gross unrealized losses at December 31, 2009 include non-credit-related other-than-temporary impairments on available-for-sale securities recognized in AOCI and temporary unrealized losses.

Available-For-Sale Securities in a Gross Unrealized Loss Position

Table 6.2 shows the fair value of available-for-sale securities in a gross unrealized loss position and whether they have been in that position less than 12 months or 12 months or greater including the non-credit-related portion of other-than-temporary impairments which have been recognized in AOCI.

Table 6.2 Available-For-Sale Securities in a Gross Unrealized Loss Position

	Less than 12 Months				12 Months or Greater				Tot	
		Gross Unrealized Losses				Gross Unrealized Losses				Gross
	Fair Value	Other-Than-Temporary Impairment[1]	Temporary Impairment[2]	Total	Fair Value	Other-Than-Temporary Impairment[1]	Temporary Impairment[2]	Total	Fair Value	Other-Than-Temporary Impairment[1]
	(in millions)									
s:										
	$ 4,219	$	$ (52)	$ (52)	$ 11,068	$	$ (1,089)	$ (1,089)	$ 15,287	$
	6,173	(4,219)	(62)	(4,281)	29,540	(9,238)	(7,583)	(16,821)	35,713	(13,457)
s	3,580		(56)	(56)	48,067	(1,017)	(6,715)	(7,732)	51,647	(1,017)
	2,457	(2,165)	(36)	(2,201)	4,712	(3,784)	(490)	(4,274)	7,169	(5,949)
	4,268	(2,162)	(43)	(2,205)	8,954	(1,833)	(1,509)	(3,342)	13,222	(3,995)
	473		(2)	(2)	124		(6)	(6)	597	
	949		(14)	(14)	6,996		(426)	(426)	7,945	
	212	(58)		(58)	685	(57)	(59)	(116)	897	(115)
	17								17	
	22,348	(8,604)	(265)	(8,869)	110,146	(15,929)	(17,877)	(33,806)	132,494	(24,533)
	$ 22,348	$ (8,604)	$ (265)	$ (8,869)	$ 110,146	$ (15,929)	$ (17,877)	$ (33,806)	$ 132,494	$ (24,533)

December 31, 2008	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Mortgage-related securities:						
Freddie Mac	$ 14,423	$ (425)	$ 15,466	$ (2,496)	$ 29,889	$ (2,921)
Subprime	3,040	(862)	46,585	(18,283)	49,625	(19,145)
	24,783	(8,226)	24,479	(6,490)	49,262	(14,716)

Commercial mortgage-backed securities						
Option ARM	4,186	(2,919)	1,299	(1,820)	5,485	(4,739)
Alt-A and other	3,444	(1,526)	7,159	(5,261)	10,603	(6,787)
Fannie Mae	5,977	(75)	971	(13)	6,948	(88)
Obligations of states and political subdivisions	5,302	(743)	5,077	(1,606)	10,379	(2,349)
Manufactured housing	498	(110)	73	(73)	571	(183)
Ginnie Mae	18		1		19	
Total mortgage-related securities	61,671	(14,886)	101,110	(36,042)	162,781	(50,928)
Total available-for-sale securities in a gross unrealized loss position	$ 61,671	$ (14,886)	$ 101,110	$ (36,042)	$ 162,781	$ (50,928)

(1) Represents the pre-tax amount of non-credit-related other-than-temporary impairments on available-for-sale securities not expected to be sold which are recognized in AOCI.
(2) Represents the pre-tax amount of temporary impairments on available-for-sale securities recognized in AOCI.

At December 31, 2009, total gross unrealized losses on available-for-sale securities were $42.7 billion, as noted in Table 6.2. The gross unrealized losses relate to approximately 5,940 individual lots representing approximately 3,430 separate securities, including securities with non-credit-related other-than-temporary impairments recognized in AOCI. We routinely purchase multiple lots of individual securities at different times and at different costs. We determine gross unrealized gains and gross unrealized losses by specifically identifying investment positions at the lot level; therefore, some of the lots we hold for a single security may be in an unrealized gain position while other lots for that security are in an unrealized loss position, depending upon the amortized cost of the specific lot.

Evaluation of Other-Than-Temporary Impairments

We adopted an amendment to the accounting standards for investments in debt and equity securities on April 1, 2009, which provides additional guidance in accounting for and presenting impairment losses on debt securities. This amendment was effective and was applied prospectively by us in the second quarter of 2009. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Recently Adopted Accounting Standards *Change in the Impairment Model for Debt Securities* for further additional information regarding the impact of this amendment on our consolidated financial statements.

We conduct quarterly reviews to identify and evaluate each available-for-sale security that has an unrealized loss, in accordance with the amendment to the accounting standards for investments in debt and equity securities. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis.

The evaluation of unrealized losses on our available-for-sale portfolio for other-than-temporary impairment contemplates numerous factors. We perform an evaluation on a security-by-security basis considering all available information. The relative importance of this information varies based on the facts and circumstances surrounding each security, as well as the economic environment at the time of assessment. Important factors include:

- loan level default modeling for single-family residential mortgages that considers individual loan characteristics, including current LTV ratio, FICO score and delinquency status, requires assumptions about future home prices and interest rates, and employs internal default and prepayment models. The modeling for CMBS employs third-party models that require assumptions about the economic conditions in the areas surrounding each individual property;

- analysis of the performance of the underlying collateral relative to its credit enhancements using techniques that require assumptions about future loss severity, default, prepayment and other borrower behavior. Implicit in this analysis is information relevant to expected cash flows (such as collateral performance and characteristics). We qualitatively consider available information when assessing whether an impairment is other-than-temporary;

- the length of time and extent to which the fair value of the security has been less than the book value and the expected recovery period;

- the impact of changes in credit ratings (*i.e.*, rating agency downgrades); and

- our conclusion that we do not intend to sell our available-for-sale securities and it is not more likely than not that we will be required to sell these securities before sufficient time elapses to recover all unrealized losses.

We consider available information in determining the recovery period and anticipated holding periods for our available-for-sale securities. An important underlying factor we consider in determining the period to recover unrealized losses on our available-for-sale securities is the estimated life of the security. The amount of the total other-than-temporary impairment related to credit is recorded within our consolidated statements of operations as net impairment of available-for-sale securities recognized in earnings. The credit-related loss represents the amount by which the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. With regard to securities that we have no intent to sell and that we believe it is not more likely than not that we will be required to sell, the amount of the total other-than-temporary impairment related to non-credit-related factors is recognized, net of tax, in AOCI. Unrealized losses on available-for-sale securities that are determined to be temporary in nature are recorded, net of tax, in AOCI.

For available-for-sale securities that are not deemed to be credit impaired, we perform additional analysis to assess whether we intend to sell or would more likely than not be required to sell the security before the expected recovery of the amortized cost basis. In most cases, we have asserted that we have no intent to sell and that we believe it is not more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. Where such an assertion has not been made, the security s decline in fair value is deemed to be other-than-temporary and the entire charge is recorded in earnings.

Freddie Mac and Fannie Mae Securities

These securities generally fit into one of two categories:

Unseasoned Securities We frequently resecuritize agency securities, typically unseasoned pass-through securities. In these resecuritization transactions, we typically retain an interest representing a majority of the cash flows, but consider the resecuritization to be a sale of all of the securities for purposes of assessing if an impairment is other-than-temporary. As these securities have generally been recently acquired, they generally have current coupon rates and prices close to par. Consequently, any decline in the fair value of these agency securities is relatively small and could be recovered by small interest rate changes. We expect that the recovery period would be in the near term. Notwithstanding this, we recognize other-than-temporary impairments on any of these securities that are likely to be sold. This population is identified based on our expectations of resecuritization volume and our eligible collateral. If any of the securities identified as likely to be sold are in a loss position, other-than-temporary impairment is recorded as we could not assert that we would not sell such securities prior to recovery. Any additional losses realized upon sale result from further declines in fair value subsequent to the balance sheet date. For securities that we do not intend to sell and it is more likely than not that we will not be required to sell such securities before a recovery of the unrealized losses, we expect to recover any unrealized losses by holding them to recovery.

Seasoned Securities These securities are not usually utilized for resecuritization transactions. We hold the seasoned agency securities that are in an unrealized loss position at least to recovery and typically to maturity. As the principal and interest on these securities are guaranteed and we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before a recovery of the unrealized losses, any unrealized loss will be recovered. The unrealized losses on agency securities are primarily a result of movements in interest rates.

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

We believe the unrealized losses on our non-agency mortgage-related securities are a result of poor underlying collateral performance and limited liquidity and large risk premiums. With the exception of the other-than-temporarily impaired securities discussed below, we have not identified any securities that were likely of incurring a contractual principal or interest loss at December 31, 2009. As such, and based on our conclusion that we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before a recovery of the unrealized losses, we have concluded that the impairment of these securities is temporary. We consider securities to be other-than-temporarily impaired when future losses are deemed likely.

Our review of the securities backed by subprime loans, option ARM, Alt-A and other loans includes loan level default modeling and analyses of the individual securities based on underlying collateral performance, including the collectibility of amounts that would be recovered from primary monoline insurers. In the case of monoline insurers, we also consider factors such as the availability of capital, generation of new business, pending regulatory action, ratings, security prices and credit default swap levels traded on the insurers. We consider loan level information including estimated current LTV ratios, FICO credit scores, and other loan level characteristics. We also consider the differences between the loan level characteristics of the performing and non-performing loan populations.

Table 6.3 presents the modeled default rates and severities, without regard to subordination, that are used to determine whether our senior interests in certain non-agency mortgage-related securities will experience a cash shortfall. Our proprietary default model requires assumptions about future home prices, as defaults and severities are modeled at the loan level and then aggregated. The model uses projections of future home prices at the state level. Assumptions of voluntary prepayments derived from our proprietary prepayment models are also an input; however, given the current low level of voluntary prepayments, they do not significantly affect the present value of expected losses.

Table 6.3 Significant Modeled Attributes for Certain Non-Agency Mortgage-Related Securities

	December 31, 2009				
			Alt-A[1]		
	Subprime first lien	Option ARM	Fixed Rate	Variable Rate	Hybrid Rate
	(dollars in millions)				
Vintage Year					
2004 & Prior:					
Unpaid principal balance	$ 1,623	$ 143	$ 1,178	$ 672	$ 2,660
Weighted average collateral defaults[2]	40%	43%	8%	49%	31%
Weighted average collateral severities[3]	51%	43%	36%	46%	35%
2005:					
Unpaid principal balance	$ 9,919	$ 3,513	$ 1,482	$ 1,066	$ 4,893
Weighted average collateral defaults[2]	59%	63%	26%	63%	44%
Weighted average collateral severities[3]	60%	53%	44%	50%	43%
2006:					
Unpaid principal balance	$ 24,215	$ 8,673	$ 700	$ 1,482	$ 1,502
Weighted average collateral defaults[2]	69%	72%	38%	68%	49%
	64%	60%	51%	58%	48%

Weighted average collateral severities(3)					
2007 & Later:					
Unpaid principal balance	$ 25,262	$ 5,358	$ 187	$ 1,724	$ 452
Weighted average collateral defaults(2)	66%	66%	58%	66%	61%
Weighted average collateral severities(3)	64%	60%	58%	57%	56%
Total:					
Unpaid principal balance	$ 61,019	$ 17,687	$ 3,547	$ 4,944	$ 9,507
Weighted average collateral defaults(2)	65%	68%	24%	64%	42%
Weighted average collateral severities(3)	63%	58%	44%	54%	42%

(1) Excludes non-agency mortgage-related securities backed by other loans, which are primarily comprised of securities backed by home equity lines of credit.
(2) The expected cumulative default rate expressed as a percentage of the current collateral unpaid principal balance.
(3) The expected average loss given default calculated as the ratio of cumulative loss over cumulative default rate for each security.

In evaluating our non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans for other-than-temporary impairment, we noted and specifically considered that the percentage of securities that were AAA-rated and the percentage that were investment grade had decreased since acquisition. Although some ratings have declined, the ratings themselves have not been determinative that a loss is likely. While we consider credit ratings in our analysis, we believe that our detailed security-by-security analyses provide a more consistent view of the ultimate collectibility of contractual amounts due to us. As such, we have impaired securities with current ratings ranging from CCC to AAA and have determined that other securities within the same ratings were not other-than-temporarily impaired. However, we carefully consider individual ratings, especially those below investment grade, including changes since December 31, 2009.

Our analysis is conducted on a quarterly basis and is subject to change as new information regarding delinquencies, severities, loss timing, prepayments and other factors becomes available. While it is reasonably possible that, under certain conditions, defaults and loss severities on our remaining available-for-sale securities for which we have not recorded an impairment charge could exceed our subordination and credit enhancement levels and a principal or interest loss could occur, we do not believe that those conditions were likely as of December 31, 2009.

In addition, we considered fair value at December 31, 2009, as well as, any significant changes in fair value since December 31, 2009 to assess if they were indicative of potential future cash shortfalls. In this assessment, we put greater emphasis on categorical pricing information than on individual prices. We use multiple pricing services and dealers to price the majority of our non-agency mortgage-related securities. We observed significant dispersion in prices obtained from different sources. However, we carefully consider individual and sustained price declines, placing greater weight when dispersion is lower and less weight when dispersion is higher. Where dispersion is higher, other factors previously mentioned, received greater weight.

Commercial Mortgage-Backed Securities

Commercial mortgage-backed securities are exposed to stresses in the commercial real estate market. We use external models to identify securities which have an increased risk of failing to make their contractual payments. We then perform an analysis of the underlying collateral on a security-by-security basis to determine whether we will receive all of the contractual payments due to us. At December 31, 2009, 53% of our commercial mortgage-backed securities were AAA-rated compared to 93% at December 31, 2008. We believe the declines in fair value are mainly attributable to the limited liquidity and large risk premiums in the commercial mortgage-backed securities market consistent with the broader credit markets rather than to the performance of the underlying collateral supporting the securities. We have identified six securities with a combined unpaid principal balance of $1.6 billion that are expected to incur contractual losses, and have recorded other-than-temporary impairment charges in earnings of $83 million during the fourth quarter of 2009. However, we view the performance of these securities as significantly worse than the vast majority of our commercial mortgage-backed securities, and while delinquencies for the remaining securities have increased, we believe the credit enhancement related to these securities is currently sufficient to cover expected losses. Since we generally hold these securities to maturity, we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before recovery of the unrealized losses.

Obligations of States and Political Subdivisions

These investments consist of mortgage revenue bonds. The unrealized losses on obligations of states and political subdivisions are primarily a result of movements in interest rates and liquidity and risk premiums. We have concluded that the impairment of these securities is temporary based on our conclusion that we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities before a recovery of the unrealized losses, as well as the extent and duration of the decline in fair value relative to the amortized cost and a lack of any other facts or circumstances to suggest that the decline was other-than-temporary. The issuer guarantees related to these securities have led us to conclude that any credit risk is minimal.

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

Table 6.4 summarizes our net impairments of available-for-sale securities recognized in earnings by security type and the duration of the unrealized loss prior to impairment of less than 12 months or 12 months or greater.

Table 6.4 Net Impairment of Available-For-Sale Securities Recognized in Earnings by Gross Unrealized Loss Position[1]

	Net Impairment of Available-For-Sale Securities Recognized in Earnings For the Year Ended December 31, (in millions)								
	2009			2008			2007		
	Less than 12 Months	12 Months or Greater	Total	Less than 12 Months	12 Months or Greater	Total	Less than 12 Months	12 Months or Greater	Tot
tgage-related securities:									
prime	$ (1,110)	$ (5,416)	$ (6,526)	$ (168)	$ (3,453)	$ (3,621)	$ (11)	$	$ (
on ARM	(775)	(951)	(1,726)		(7,602)	(7,602)			
A and other	(820)	(1,752)	(2,572)	(914)	(4,339)	(5,253)			
l subprime, option ARM, A and other	(2,705)	(8,119)	(10,824)	(1,082)	(15,394)	(16,476)	(11)		(
die Mac							(17)	(320)	(3
nie Mae							(1)	(12)	(
mercial mortgage-backed rities	(28)	(109)	(137)						
gations of states and political livisions				(58)	(10)	(68)			
ufactured housing	(48)	(3)	(51)	(74)	(16)	(90)	(4)		
l other-than-temporary airments on mortgage-related rities	(2,781)	(8,231)	(11,012)	(1,214)	(15,420)	(16,634)	(33)	(332)	(3
-mortgage-related securities:									
et-backed securities	(185)		(185)	(942)	(106)	(1,048)			
l other-than-temporary airments on non-tgage-related securities	(185)		(185)	(942)	(106)	(1,048)			
l other-than-temporary airments on available-for-sale rities	$ (2,966)	$ (8,231)	$ (11,197)	$ (2,156)	$ (15,526)	$ (17,682)	$ (33)	$ (332)	$ (3

(1) As a result of the adoption of an amendment to the accounting standards for investments in debt and equity securities on April 1, 2009, net impairment of available-for-sale securities recognized in earnings for the nine months ended December 31, 2009 (which is included in the year ended December 31, 2009) includes credit-related other-than-temporary impairments and other-than-temporary impairments on securities which we intend to sell or it is more likely than not that we will be required to sell. In contrast, net impairment of available-for-sale securities recognized in earnings for the three months ended March 31, 2009 (which is included in the year ended December 31, 2009) and the years ended December 31, 2008 and 2007 includes both credit-related and non-credit-related other-than-temporary impairments as well as other-than-temporary impairments on securities for which we could not assert the positive intent and ability to hold until recovery of the unrealized losses.

During 2009, we recorded net impairment of available-for-sale securities recognized in earnings of $11.2 billion. Of this amount, $6.9 billion related to impairments recognized in the first quarter of 2009, prior to the adoption of the amendment to the accounting standards for investments in debt and equity securities, on non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans that were likely of incurring a contractual principal or interest loss. Subsequent to our adoption of this amendment, impairments realized on non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans during 2009 were primarily due to the higher projections of future defaults and severities related to the collateral underlying these securities, particularly for our more recent vintages of subprime non-agency mortgage-related securities. We estimate that the future expected principal and interest shortfall on these securities will be significantly less than the likely impairment required to be recorded under GAAP, as we expect these shortfalls to be less than the recent fair value declines. Since January 1, 2007, we have incurred actual principal cash shortfalls of $107 million on impaired securities. However, many of our investments were structured so that realized losses are recognized when the investment matures. Net impairment of available-for-sale securities recognized in earnings during 2009 included $137 million related to CMBS where the present value of cash flows expected to be collected was less than the amortized cost basis of these securities.

Contributing to the impairments recognized during 2009 were certain credit enhancements related to primary monoline insurers where we have determined that it is likely a principal and interest shortfall will occur, and that in such a case there is substantial uncertainty surrounding the insurer s ability to pay all future claims. We rely on monoline bond insurance, including secondary coverage, to provide credit protection on some of our securities held in our mortgage-related investments portfolio as well as our non-mortgage- related investments portfolio. See NOTE 19: CONCENTRATION OF CREDIT AND OTHER RISKS Bond Insurers for additional information. The recent deterioration has not impacted our conclusion that we do not intend to sell these securities and it is not more likely than not that we will be required to sell such securities. Net impairment of available-for-sale securities recognized in earnings during 2009 included $185 million related to other-than-temporary impairments of non-mortgage-related asset-backed securities where we could not assert that we did not intend to sell these securities before a recovery of the unrealized losses. The decision to impair these asset-backed securities is consistent with our consideration of these securities as a contingent source of liquidity. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities for information regarding our policy on accretion of impairments.

During the years ended December 31, 2008 and 2007, we recorded $17.7 billion and $365 million, respectively, of impairment of available-for-sale securities recognized in earnings. Of the impairments recognized during 2008, $16.5 billion related to non-agency mortgage-related securities backed by subprime, option ARM, Alt-A and other loans primarily due to deterioration in the performance of the collateral underlying these loans. In addition, during 2008 we also recorded net impairment of available-for-sale securities recognized in earnings of $1.0 billion, related to our non-mortgage-related asset-backed securities where we did not have the intent to hold to a forecasted recovery of the unrealized losses.

Table 6.5 presents a roll-forward of the credit-related other-than-temporary impairment component of the amortized cost related to available-for-sale securities (1) that we have written down for other-than-temporary impairment and (2) for which the credit component of the loss is recognized in earnings. The credit-related other-than-temporary impairment component of the amortized cost represents the difference between the present value of expected future cash flows, including bond insurance, and the amortized cost basis of the security prior to considering credit losses. The beginning balance represents the other-than-temporary impairment credit loss component related to available-for-sale securities for which other-than-temporary impairment occurred prior to April 1, 2009. Net impairment of available-for-sale securities recognized in earnings is presented as additions in two components based upon whether the current period is (1) the first time the debt security was credit-impaired or (2) not the first time the debt security was credit impaired. The credit loss component is reduced if we sell, intend to sell or believe we will be required to sell previously credit-impaired available-for-sale securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit-impaired debt security or the security matures or is fully written down.

Table 6.5 Other-Than-Temporary Impairments Related to Credit Losses on Available-For-Sale Securities[1]

		Nine Months Ended December 31, 2009[2] (in millions)
Credit-related other-than-temporary impairments on available-for-sale securities recognized in earnings:		
Beginning balance remaining credit losses to be realized on available-for-sale securities held at the beginning of the period where other-than-temporary impairments were recognized in earnings	$	7,489
Additions:		
Amounts related to credit losses for which an other-than-temporary impairment was not previously recognized		1,050
Amounts related to credit losses for which an other-than-temporary impairment was previously recognized		3,006
Amounts related to the termination of our rights to certain policies with Syncora Guarantee Inc.[3]		113

Reductions:		
Amounts related to securities which were sold, written off or matured		(103)
Amounts related to amortization resulting from increases in cash flows expected to be collected that are recognized over the remaining life of the security		(42)
Ending balance remaining credit losses to be realized on available-for-sale securities held at period end where other-than-temporary impairments were recognized in earnings(4)	$	11,513

(1) Excludes other-than-temporary impairments on securities that we intend to sell or it is more likely than not that we will be required to sell before recovery of the unrealized losses.
(2) This roll-forward commenced upon our adoption of an amendment to the accounting standards for investments in debt and equity securities on April 1, 2009. This amendment was effective and was applied prospectively by us in the second quarter of 2009.
(3) During the second quarter of 2009, as part of its comprehensive restructuring, Syncora Guarantee Inc., or SGI, pursued a settlement with certain policyholders. In July 2009, we agreed to terminate our rights under certain policies with SGI, which provided credit coverage for certain of the bonds owned by us, in exchange for a one-time cash payment of $113 million.
(4) The balances at December 31, 2009 exclude increases in cash flows expected to be collected that will be recognized in earnings over the remaining life of the security of $709 million, net of amortization.

Realized Gains and Losses on Available-For-Sale Securities

Table 6.6 below illustrates the gross realized gains and gross realized losses received from the sale of available-for-sale securities.

Table 6.6 Gross Realized Gains and Gross Realized Losses on Sales of Available-For-Sale Securities

	Year Ended December 31,		
	2009	2008	2007
	(in millions)		
Gross Realized Gains			
Mortgage-related securities:			
Freddie Mac	$ 879	$ 423	$ 666
Fannie Mae	2	67	
Subprime			4
Commercial mortgage-backed securities			3
Manufactured housing			11
Obligations of states and political subdivisions	2	75	1
Total mortgage-related securities gross realized gains	883	565	685
Non-mortgage-related securities:			
Asset-backed securities	313	1	1
Obligations of states and political subdivisions			2
Total non-mortgage-related securities gross realized gains	313	1	3
Gross realized gains	1,196	566	688
Gross Realized Losses			
Mortgage-related securities:			
Freddie Mac	(113)	(13)	(390)
Fannie Mae		(2)	(9)
Commercial mortgage-backed securities			
Obligations of states and political subdivisions		(5)	
Total mortgage-related securities gross realized losses	(113)	(20)	(399)
Non-mortgage-related securities:			
Asset-backed securities			(56)
Obligations of states and political subdivisions			(1)
Total non-mortgage-related securities gross realized losses			(57)
Gross realized losses	(113)	(20)	(456)
Net realized gains (losses)	$ 1,083	$ 546	$ 232

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Maturities and Weighted Average Yield of Available-For-Sale Securities

Table 6.7 summarizes, by major security type, the remaining contractual maturities and weighted average yield of available-for-sale securities.

Table 6.7 Maturities and Weighted Average Yield of Available-For-Sale Securities(1)

December 31, 2009	Amortized Cost	Fair Value	Weighted Average Yield(2)
	(dollars in millions)		
Mortgage-related securities:			
Due within 1 year or less	$ 186	$ 188	4.51%
Due after 1 through 5 years	2,644	2,774	5.45
Due after 5 through 10 years	34,930	36,345	4.80
Due after 10 years	376,196	342,824	4.08
Total	$ 413,956	$ 382,131	4.15
Non-mortgage-related securities:			
Asset-backed securities			
Due within 1 year or less	$	$	
Due after 1 through 5 years	2,294	2,400	1.20
Due after 5 through 10 years	87	88	0.31
Due after 10 years	63	65	0.28
Total	$ 2,444	$ 2,553	1.14
Total available-for-sale securities:			
Due within 1 year or less	$ 186	$ 188	4.51
Due after 1 through 5 years	4,938	5,174	3.47
Due after 5 through 10 years	35,017	36,433	4.79
Due after 10 years	376,259	342,889	4.08
Total	$ 416,400	$ 384,684	4.13

(1) Maturity information provided is based on contractual maturities, which may not represent expected life, as obligations underlying these securities may be prepaid at any time without penalty.
(2) The weighted average yield is calculated based on a yield for each individual lot held at December 31, 2009. The numerator for the individual lot yield consists of the sum of (a) the year-end interest coupon rate multiplied by the year-end unpaid principal balance and (b) the annualized amortization income or expense calculated for December 2009 (excluding the accretion of non-credit-related other-than-temporary impairments and any adjustments recorded for changes in the effective rate). The denominator for the individual lot yield consists of the year-end amortized cost of the lot excluding effects of other-than-temporary impairments on the unpaid principal balances of impaired lots.

AOCI, Net of Taxes, Related to Available-For-Sale Securities

Table 6.8 presents the changes in AOCI, net of taxes, related to available-for-sale securities. The net unrealized holding losses, net of tax, represents the net fair value adjustments recorded on available-for-sale securities throughout the year, after the effects of our federal statutory tax rate of 35%. The net reclassification adjustment for net realized losses (gains), net of tax, represents the amount of those fair value adjustments, after the effects of our federal statutory tax rate of 35%, that have been recognized in earnings due to a sale of an available-for-sale security or the recognition of an impairment loss.

Table 6.8 AOCI, Net of Taxes, Related to Available-For-Sale Securities

	Year Ended December 31,		
	2009	2008	2007
		(in millions)	
Beginning balance	$ (28,510)	$ (7,040)	$ (3,332)
Adjustment to initially apply the adoption of an amendment to the accounting standards for investments in debt and equity securities(1)	(9,931)		
Adjustment to initially apply the accounting standards on the fair value option for financial assets and liabilities(2)		(854)	
Net unrealized holding gains (losses), net of tax(3)	11,250	(31,753)	(3,792)
Net reclassification adjustment for net realized losses, net of tax(4)(5)	6,575	11,137	84
Ending balance	$ (20,616)	$ (28,510)	$ (7,040)

(1) Net of tax benefit of $5.3 billion for the year ended December 31, 2009.
(2) Net of tax benefit of $460 million for the year ended December 31, 2008.
(3) Net of tax benefit (expense) of $(6.1) billion, $17.1 billion and $2.0 billion for the years ended December 31, 2009, 2008 and 2007, respectively.
(4) Net of tax benefit of $3.5 billion, $6.0 billion and $45 million for the years ended December 31, 2009, 2008 and 2007, respectively.
(5) Includes the reversal of previously recorded unrealized losses that have been recognized on our consolidated statements of operations as impairment losses on available-for-sale securities of $7.3 billion, $11.5 billion and $234 million, net of taxes, for the years ended December 31, 2009, 2008 and 2007, respectively.

Trading Securities

Table 6.9 summarizes the estimated fair values by major security type for our investments in trading securities.

Table 6.9 Trading Securities

	December 31, 2009	December 31, 2008
	(in millions)	
Mortgage-related securities:		
Freddie Mac	$ 170,955	$ 158,822
Fannie Mae	34,364	31,309
Ginnie Mae	185	198
Other	28	32
Total mortgage-related securities	205,532	190,361
Non-mortgage-related securities:		
Asset-backed securities	1,492	
Treasury bills	14,787	
FDIC-guaranteed corporate medium-term notes	439	
Total non-mortgage-related securities	16,718	
Total fair value of trading securities	$ 222,250	$ 190,361

For the years ended December 31, 2009, 2008 and 2007 we recorded net unrealized gains (losses) on trading securities held at December 31, 2009, 2008 and 2007 of $4.3 billion, $1.6 billion and $505 million, respectively.

Total trading securities include $3.3 billion and $3.9 billion, respectively, of assets as defined by the derivative and hedging accounting guidance regarding certain hybrid financial instruments as of December 31, 2009 and 2008. Gains (losses) on trading securities on our consolidated statements of operations include gains of $96 million and $249 million, respectively, related to these trading securities for the years ended December 31, 2009 and 2008.

Impact of the Purchase Agreement and FHFA Regulation on the Mortgage-Related Investments Portfolio

Under the Purchase Agreement with Treasury and FHFA regulation, the unpaid principal balance of our mortgage-related investments portfolio could not exceed $900 billion as of December 31, 2009, and must decline by 10% per year thereafter until it reaches $250 billion. The annual 10% reduction in the size of our mortgage-related investments portfolio, the first of which is effective on December 31, 2010, is calculated based on the maximum allowable size of the mortgage-related investments portfolio, rather than the actual unpaid principal balance of the mortgage-related investments portfolio, as of December 31 of the preceding year. Due to this restriction, the unpaid principal balance of our mortgage-related investments portfolio may not exceed $810 billion as of December 31, 2010. The limitation will be determined without giving effect to any change in the accounting standards related to transfers of financial assets and consolidation of VIEs or any similar accounting standard. The unpaid principal balance of our mortgage-related investments portfolio, as defined under the Purchase Agreement and FHFA regulation, was $755.3 billion at December 31, 2009.

Collateral Pledged

Collateral Pledged to Freddie Mac

Our counterparties are required to pledge collateral for securities purchased under agreements to resell transactions and most derivative instruments subject to collateral posting thresholds generally related to a counterparty s credit rating. We had cash pledged to us related to derivative instruments of $3.1 billion and $4.3 billion at December 31, 2009 and 2008, respectively. Although it is our practice not to repledge assets held as collateral, a portion of the collateral may be repledged based on master agreements related to our derivative instruments. At December 31, 2009 and 2008, we did not have collateral in the form of securities pledged to and held by us under these master agreements. Also at December 31, 2009 and 2008, we did not have securities pledged to us for securities purchased under agreements to resell transactions that we had the right to repledge.

In addition, we hold cash collateral primarily in connection with certain of our multifamily guarantees as credit enhancements. The cash collateral held related to these transactions at December 31, 2009 and 2008 was $322 million and $376 million, respectively.

Collateral Pledged by Freddie Mac

We are also required to pledge collateral for margin requirements with third-party custodians in connection with secured financings, interest-rate swap agreements, futures and daily trade activities with some counterparties. The level of collateral pledged related to our derivative instruments is determined after giving consideration to our credit rating. As of December 31, 2009, we had one uncommitted intraday line of credit with a third party, which is secured, in connection with the Federal Reserve s payments system risk policy, which restricts or eliminates delinquent overdrafts by the GSEs, in connection with our use of the fedwire system. In certain circumstances, the line of credit agreement gives the secured party the right to repledge the securities underlying our financing to other third parties, including the Federal Reserve Bank. We pledge collateral to meet these requirements upon demand by the respective counterparty.

Table 6.10 summarizes all securities pledged as collateral by us, including assets that the secured party may repledge and those that may not be repledged as well as the related liability recorded on our consolidated balance sheet that caused the need to post collateral.

Table 6.10 Collateral in the Form of Securities Pledged

	December 31, 2009	December 31, 2008
	(in millions)	
Securities pledged with ability for secured party to repledge:		
Available-for-sale securities	$ 10,879	$ 21,302
Securities pledged without ability for secured party to repledge:		
Available-for-sale securities	302	1,050
Total securities pledged	$ 11,181	$ 22,352

Securities Pledged with the Ability of the Secured Party to Repledge

At December 31, 2009, we pledged securities with the ability of the secured party to repledge of $10.9 billion, of which $10.8 billion was collateral posted in connection with our uncommitted intraday line of credit with a third party as discussed above. At December 31, 2008, we pledged securities with the ability of the secured party to repledge of $21.3 billion, of which $20.7 billion was collateral posted in connection with our two uncommitted intraday lines of credit with third parties as discussed above. There were no borrowings against the lines of credit at December 31, 2009 or 2008. The remaining $0.1 billion and $0.6 billion of collateral posted with the ability of the secured party to repledge at December 31, 2009 and 2008, respectively, was posted in connection with our futures transactions.

Securities Pledged without the Ability of the Secured Party to Repledge

At December 31, 2009 and 2008, we pledged securities without the ability of the secured party to repledge of $0.3 billion and $1.1 billion, respectively, at a clearinghouse in connection with our futures transactions.

Collateral in the Form of Cash Pledged

At December 31, 2009, we pledged $5.8 billion of collateral in the form of cash of which $5.6 billion related to our interest rate swap agreements as we had $6.0 billion of such derivatives in a net loss position. At December 31, 2008, we pledged $6.4 billion of collateral in the form of cash of which $5.8 billion related to our interest rate swap agreements as we had $6.1 billion of such derivatives in a net loss position. The remaining $0.2 billion and $0.6 billion was posted at clearinghouses in connection with our securities transactions at December 31, 2009 and 2008, respectively.

NOTE 7: 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. We principally purchase single-family loans as held-for-sale in cash-based exchanges where our intent is to securitize and sell our PCs at auction to investors. We purchase single-family loans designated as held-for-investment when we make required or optional repurchases of mortgages out of our PCs. Historically, we purchased multifamily loans as held-for-investment and have been a buy and hold investor. In 2008 and 2009 we increased our purchases of multifamily loans designated as held-for-sale to facilitate greater volumes of securitization transactions.

Table 7.1 summarizes the types of loans on our consolidated balance sheets as of December 31, 2009 and 2008. These balances do not include mortgage loans underlying our issued PCs and Structured Securities, since these are not consolidated on our balance sheets. See NOTE 3: FINANCIAL GUARANTEES AND MORTGAGE SECURITIZATIONS for information on our securitized mortgage loans.

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Table 7.1 Mortgage Loans

	December 31, 2009	December 31, 2008
	(in millions)	
Single-family[1]:		
Conventional		
Fixed-rate	$ 49,458	$ 35,070
Adjustable-rate	2,310	2,136
Total conventional	51,768	37,206
FHA/VA Fixed-rate	1,588	548
U.S. Department of Agriculture Rural Development and other federally guaranteed loans	1,522	1,001
Total single-family	54,878	38,755
Multifamily[1]:		
Conventional		
Fixed-rate	71,936	65,319
Adjustable-rate	11,999	7,399
Total conventional	83,935	72,718
U.S. Department of Agriculture Rural Development	3	3
Total multifamily	83,938	72,721
Total unpaid principal balance of mortgage loans	138,816	111,476
Deferred fees, unamortized premiums, discounts and other cost basis adjustments	(9,317)	(3,178)
Lower of cost or fair value adjustments on loans held-for-sale	(188)	(17)
Allowance for loan losses on mortgage loans held-for-investment	(1,441)	(690)
Total mortgage loans, net of allowance for loan losses	$ 127,870	$ 107,591

(1) Based on unpaid principal balances and excludes mortgage loans traded, but not yet settled.

During the years ended December 31, 2009 and 2008, we redesignated, or transferred loans of approximately $10.6 billion and $ billion in unpaid principal balance from held-for-sale mortgage loans to the held-for-investment category. The majority of these loans were originally purchased with the expectation of subsequent securitization as a PC; however, we now expect to hold these on our consolidated balance sheets. We transferred loans of $0.9 billion in unpaid principal balance from held-for-investment mortgage loans to the held-for-sale category during the year ended December 31, 2009. For loans designated as held-for-sale, we evaluate the lower of cost or fair value for such loans each period by aggregating loans based on the mortgage product type. However, the evaluation of the lower of cost or fair value is performed at the date of transfer for each individual loan in the event of redesignation to held-for-investment. We recognized lower of cost or fair value adjustments at the time of transfer of $438 million during the year ended December 31, 2009.

Loan Loss Reserves

We maintain an allowance for loan losses on mortgage loans that we classify as held-for-investment on our consolidated balance sheets and a reserve for guarantee losses for mortgage loans that underlie our issued PCs and Structured Securities, collectively referred to as loan loss reserves. Loan loss reserves are generally established to provide for credit losses when it is probable that a loss has been incurred. For loans subject to accounting standards for loans and debt securities acquired with deteriorated credit quality, loan loss reserves are only established when it becomes probable that we will be unable to collect all cash flows which we expected to collect when we acquired the loan.

We also provide for credit losses on our financial guarantees of interest associated with PCs and Structured Securities where the underlying mortgage loans are delinquent and we are required to make payment of interest to the security holders. This amount is included in other liabilities on our consolidated balance sheets and totaled $2.0 billion and $0.5 billion as of December 31, 2009 and 2008, respectively.

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Table 7.2 summarizes loan loss reserve activity:

Table 7.2 Detail of Loan Loss Reserves

	Year Ended December 31,								
	2009			2008			2007		
	Allowance for Loan Losses	Reserve for Guarantee Losses on PCs	Total Loan Loss Reserves	Allowance for Loan Losses	Reserve for Guarantee Losses on PCs	Total Loan Loss Reserves	Allowance for Loan Losses	Reserve for Guarantee Losses on PCs	Total Loan Loss Reserves
	(in millions)								
Beginning balance	$ 690	$ 14,928	$ 15,618	$ 256	$ 2,566	$ 2,822	$ 69	$ 550	$ 619
Provision for credit losses[1]	1,057	28,473	29,530	631	15,801	16,432	321	2,533	2,854
Charge-offs[2]	(528)	(8,874)	(9,402)	(459)	(2,613)	(3,072)	(373)	(3)	(376)
Recoveries[2]	222	1,866	2,088	265	514	779	239		239
Transfers, net[3]		(3,977)	(3,977)	(3)	(1,340)	(1,343)		(514)	(514)
Ending balance	$ 1,441	$ 32,416	$ 33,857	$ 690	$ 14,928	$ 15,618	$ 256	$ 2,566	$ 2,822
Single-family	$ 693	$ 32,333	$ 33,026	$ 454	$ 14,887	$ 15,341	$ 202	$ 2,558	$ 2,760
Multifamily	748	83	831	236	41	277	54	8	62
Total	$ 1,441	$ 32,416	$ 33,857	$ 690	$ 14,928	$ 15,618	$ 256	$ 2,566	$ 2,822

(1) During the period ended December 31, 2009, we enhanced our methodology for estimating our loan loss reserves for single-family loans to reduce the number of adjustments required to be made in the previous process that arose as a result of dramatic changes in market conditions in recent periods. The new process allows us to incorporate a greater number of loan characteristics by giving us the ability to better integrate into the modeling process our understanding of home price changes at a more detailed level and assess their impact on incurred losses. Additionally, these changes allow us to better assess incurred losses of modified loans by incorporating specific expectations related to these types of loans.

(2) Charge-offs represent the amount of the unpaid principal balance of a loan that has been discharged to remove the loan from our consolidated balance sheets at the time of resolution. Charge-offs exclude $280 million, $377 million and $156 million for the years ended December 31, 2009, 2008 and 2007, respectively, related to certain loans purchased under financial guarantees and reflected within losses on loans purchased on our consolidated statements of operations. Recoveries of charge-offs primarily result from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers or other third parties through credit enhancements.

(3) Consist primarily of: (a) approximately $375 million during 2009 related to agreements with seller/servicers where the transfer represents recoveries received under these agreements to compensate us for previously incurred and recognized losses, (b) the transfer of a proportional amount of the recognized reserves for guaranteed losses related to PC pools associated with delinquent or modified loans purchased from mortgage pools underlying our PCs, Structured Securities and long-term standby agreements to establish the initial recorded investment in these loans at the date of our purchase, and (c) amounts attributable to uncollectible interest on mortgage loans held for

investment.

Impaired Loans

Single-family impaired loans include performing and non-performing troubled debt restructurings, as well as delinquent or modified loans that were purchased from mortgage pools underlying our PCs and Structured Securities and long-term standby agreements. Multifamily impaired loans include certain loans whose contractual terms have previously been modified due to credit concerns (including troubled debt restructurings), certain loans with observable collateral deficiencies, and loans impaired based on management s judgments concerning other known facts and circumstances associated with those loans. Recorded investment on impaired loans includes the unpaid principal balance plus amortized basis adjustments, which are modifications to the loan s carrying values.

Total loan loss reserves, as presented in Table 7.2 Detail of Loan Loss Reserves, consists of a specific valuation allowance related to impaired mortgage loans, which is presented in Table 7.3, and an additional reserve for other probable incurred losses, which totaled $33.5 billion, $15.5 billion and $2.8 billion at December 31, 2009, 2008 and 2007, respectively. The specific allowance presented in Table 7.3 is determined using estimates of the fair value of the underlying collateral and insurance or other recoveries, less estimated selling costs. Our recorded investment in impaired mortgage loans and the related valuation allowance are summarized in Table 7.3.

Table 7.3 Impaired Loans

	December 31,								
	2009			2008			2007		
	Recorded Investment	Specific Reserve	Net Investment	Recorded Investment	Specific Reserve	Net Investment	Recorded Investment	Specific Reserve	Net Investment
	(in millions)								
Impaired loans having:									
Related-valuation allowance	$ 2,611	$ (379)	$ 2,232	$ 1,126	$ (125)	$ 1,001	$ 155	$ (13)	$ 142
No related-valuation allowance[1]	11,304		11,304	8,528		8,528	8,579		8,579
Total	$ 13,915	$ (379)	$ 13,536	$ 9,654	$ (125)	$ 9,529	$ 8,734	$ (13)	$ 8,721

(1) Impaired loans with no related valuation allowance primarily represent performing single-family troubled debt restructuring loans and those mortgage loans purchased out of PC pools and accounted for in accordance with accounting standards for loans and debt securities acquired with deteriorated credit quality that have not experienced further deterioration.

For the years ended December 31, 2009, 2008 and 2007, the average investment in impaired loans was $12.2 billion, $8.4 billion and $7.5 billion, respectively. The increase in impaired loans in 2009 is attributed to an increase in troubled debt restructurings and delinquent and modified loans purchased out of PC pools, in part due to our implementation of HAMP.

Interest income on multifamily impaired loans is recognized on an accrual basis for loans performing under the original or restructured terms and on a cash basis for non-performing loans, and collectively totaled approximately $44 million, $22 million and $22 million for the years ended December 31, 2009, 2008 and 2007, respectively. We recorded interest income on impaired single-family loans that totaled $680 million, $507 million and $382 million for the years ended December 31, 2009, 2008 and 2007, respectively. Interest income foregone on impaired loans approximated $266 million, $84 million and $141 million in 2009, 2008 and 2007, respectively.

Loans Acquired under Financial Guarantees

We have the option under our PC agreements to purchase mortgage loans from the loan pools that underlie our guarantees (and standby commitments) under certain circumstances to resolve an existing or impending delinquency or default. Our practice is to purchase and effectively liquidate the loans from pools when: (a) the loans are modified; (b) foreclosure transfers occur; (c) the loans have been delinquent for 24 months; or (d) the loans have been 120 days delinquent and the cost of guarantee payments to PC holders, including advances of interest at the PC coupon, exceeds the expected cost of holding the non-performing mortgage loan. Loans purchased from PC pools that underlie our guarantees (or that are covered by our standby commitments) are recorded at the lesser of our acquisition cost or the loan s fair value at the date of purchase. Our estimate of the fair value of loans purchased from PC pools is determined by obtaining indicative market prices from large, experienced dealers and using an average of these market prices to estimate the initial fair value. We recognize losses on loans purchased in our consolidated statements of operations if our net investment in the acquired loan is higher than its fair value. At December 31, 2009 and 2008, the unpaid principal balances of these loans were $18.0 billion and $9.5 billion, respectively, while the carrying amounts of these loans were $9.4 billion and $6.3 billion, respectively.

We account for loans acquired in accordance with accounting standards for loans and debt securities acquired with deteriorated credit quality if, at acquisition, the loans had credit deterioration and we do not consider it probable that we will collect all contractual cash flows from the borrower without significant delay. The excess of contractual principal and interest over the undiscounted amount of cash flows we expect to collect represents a non-accretable difference that is neither accreted to interest income nor displayed on the consolidated balance sheets. The amount that may be accreted into interest income on such loans is limited to the excess of our estimate of undiscounted expected principal, interest and other cash flows from the loan over our initial investment in the loan. We consider estimated prepayments when calculating the accretable balance and the non-accretable difference. Table 7.4 provides details on loans acquired under financial guarantees and accounted for in accordance with the standard referenced above.

Table 7.4 Loans Acquired Under Financial Guarantees

	Year Ended December 31,	
	2009	2008
	(in millions)	
Contractual principal and interest payments at acquisition	$ 12,905	$ 6,708
Non-accretable difference	(1,852)	(508)
Cash flows expected to be collected at acquisition	11,053	6,200
Accretable balance	(6,847)	(2,938)
Initial investment in acquired loans at acquisition	$ 4,206	$ 3,262

	December 31, 2009	December 31, 2008
	(in millions)	
Contractual balance of outstanding loans	$ 18,049	$ 9,522
Carrying amount of outstanding loans	$ 9,367	$ 6,345

Our net investment in delinquent and modified loans purchased under financial guarantees increased approximately 48% in 2009. During this period, we purchased approximately $10.8 billion in unpaid principal balances of these loans with a fair value at acquisition of $4.2 billion. The $6.6 billion purchase discount consists of $1.8 billion previously recognized as loan loss reserve or guarantee obligation and $4.8 billion of losses on loans purchased. The non-accretable difference associated with new acquisitions during 2009 increased compared to 2008 due to significantly higher volumes of our purchases in the 2009 period combined with the lower expectations for recoveries on these loans.

While these loans are seriously delinquent, no amounts are accreted to interest income. Subsequent changes in estimated future cash flows to be collected related to interest-rate changes are recognized prospectively in interest income over the remaining contractual life of the loan. We increase our allowance for loan losses if there is a decline in estimates of future cash collections due to further credit deterioration. Subsequent to acquisition, we recognized provision for credit losses related to these loans of $36 million and $89 million for the years ended December 31, 2009 and 2008, respectively.

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Table 7.5 provides changes in the accretable balance acquired under financial guarantees and accounted for in accordance with accounting standards for loans and debt securities acquired with deteriorated credit quality.

Table 7.5 Changes in Accretable Balance

	Year Ended December 31, 2009	2008
	(in millions)	
Beginning balance	$ 3,964	$ 2,407
Additions from new acquisitions	6,847	2,938
Accretion during the period	(653)	(372)
Reductions[1]	(360)	(481)
Change in estimated cash flows[2]	(186)	59
Reclassifications (to) from nonaccretable difference[3]	(1,129)	(587)
Ending balance	$ 8,483	$ 3,964

(1) Represents the recapture of losses previously recognized due to borrower repayment or foreclosure on the loan.
(2) Represents the change in expected cash flows due to troubled debt restructurings or change in prepayment assumptions of the related loans.
(3) Represents the change in expected cash flows due to changes in credit quality or credit assumptions. The reclassification amount for 2009 primarily results from revisions to: (1) the effect of home price changes on borrower behavior and (2) the impact of loss mitigation actions.

Delinquency Rates

Table 7.6 summarizes the delinquency performance for mortgage loans held on our consolidated balance sheets as well as those underlying our PCs, Structured Securities and other mortgage-related financial guarantees and excludes that portion of Structured Securities backed by Ginnie Mae Certificates and financial guarantees backed by HFA bonds.

Table 7.6 Delinquency Performance

	At December 31, 2009	2008	2007
Delinquencies:			
Single-family:[1]			
Non-credit-enhanced portfolio[2]			
Delinquency rate	3.00%	1.26%	0.45%
Total number of delinquent loans	305,840	127,569	44,948
Credit-enhanced portfolio[2]			
Delinquency rate	8.17%	3.79%	1.62%
Total number of delinquent loans	168,903	85,719	34,621
Total portfolio, excluding Structured Transactions			

Delinquency rate	3.87%	1.72%	0.65%
Total number of delinquent loans	474,743	213,288	79,569
Structured Transactions(3):			
Delinquency rate	9.44%	7.23%	9.86%
Total number of delinquent loans	24,086	18,138	14,122
Total single-family portfolio:			
Delinquency rate	3.98%	1.83%	0.76%
Total number of delinquent loans	498,829	231,426	93,691
Multifamily:			
Delinquency rate(4)	0.16%	0.03%	0.01%
Net carrying value of delinquent loans (in millions)	$ 163	$ 30	$ 10

(1) Based on the number of mortgages 90 days or more delinquent or in foreclosure. Delinquencies on mortgage loans underlying certain Structured Securities, long-term standby commitments and Structured Transactions may be reported on a different schedule due to variances in industry practice.
(2) Excluding Structured Transactions.
(3) Structured Transactions generally have underlying mortgage loans with higher risk characteristics but may provide inherent credit protections from losses due to underlying subordination, excess interest, overcollateralization and other features.
(4) Multifamily delinquency performance is based on net carrying value of mortgages 90 days or more delinquent or in foreclosure rather than on a unit basis, and includes multifamily Structured Transactions.

Throughout 2009, we have worked with our single-family seller/servicers to help distressed homeowners by implementing a number of steps that include extending foreclosure timelines and additional efforts to modify and restructure loans. Currently, we are primarily focusing on initiatives that support the MHA Program. Borrowers must complete a trial period under HAMP before the modification becomes effective. For each successful modification completed under HAMP, we will pay our servicers a $1,000 incentive fee when they originally modify a loan and an additional $500 incentive fee if the loan was current when it entered the trial period (*i.e.*, where default was imminent but had not yet occurred). In addition, servicers will receive up to $1,000 for any modification that reduces a borrower s monthly payment by 6% or more, in each of the first three years after the modification, as long as the modified loan remains current. Borrowers whose loans are modified through HAMP will accrue monthly incentive payments that will be applied annually to reduce up to $1,000 of their principal, per year, for five years, as long as they are making timely payments under the modified loan terms, which we will recognize as charge-offs against the outstanding balance of the loan. HAMP applies to loans originated on or before January 1, 2009, and borrowers requests for such modifications will be considered until December 31, 2012. Based on information reported by our servicers to the MHA Program administrator, more than 129,000 loans that we own or guarantee were in the trial period of the HAMP process and approximately 14,000 modifications were completed and effective as of December 31, 2009. FHFA reported approximately 152,000 of our loans were in active trial periods as of December 31, 2009, which included loans in the trial period regardless of the first payment date. FHFA also reported 19,500 permanent modifications of our loans were completed under HAMP as of December 31, 2009, which included modifications that are pending the borrower s acceptance. Except for certain Structured Transactions and loans underlying our long-term stand-by agreements, 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 do not receive a reimbursement of these costs from Treasury. We incur incentive fees to the servicer and borrower associated with each HAMP loan once the modification is completed and reported to the MHA Program administrator, and we paid $11 million of such fees in 2009. As discussed above, we also incur up to $8,000 of additional servicer incentive fees and borrower incentive fees per modification as long as the borrower remains current on a loan modified under HAMP. We accrued $106 million in 2009 for both initial fees and recurring incentive fees not yet due. We expect that non-GSE mortgages modified under HAMP will include mortgages backing our investments in non-agency mortgage-related securities. Such modifications will reduce the monthly payments due from affected borrowers, and thus could reduce the payments we receive on these securities. Incentive payments from Treasury passed through to us as a holder of the applicable securities may partially offset such reductions. The success of modifications under HAMP is uncertain and dependent on many factors, including borrower awareness of the process and the employment status and financial condition of the borrower.

NOTE 8: REAL ESTATE OWNED

We obtain REO properties when we are the highest bidder at foreclosure sales of properties that collateralize non-performing single-family and multifamily mortgage loans owned by us or when a delinquent borrower chooses to transfer the mortgaged property to us in lieu of going through the foreclosure process. Upon acquiring single-family properties, we establish a marketing plan to sell the property as soon as practicable by either listing it with a sales broker or by other means, such as arranging a real estate auction. Upon acquiring multifamily properties, we may operate them with third-party property-management firms for a period to stabilize value and then sell the properties through commercial real estate brokers. For each of the years ended December 31, 2009, 2008 and 2007, the weighted average holding period for our disposed REO properties was less than one year. Table 8.1 provides a summary of our REO activity.

Table 8.1 Real Estate Owned

	REO, Gross	Valuation Allowance[1]	REO, Net
		(in millions)	
Balance, December 31, 2007	$ 2,067	$ (331)	$ 1,736
Additions	6,991	(428)	6,563
Dispositions and valuation allowance assessment	(4,842)	(202)	(5,044)
Balance, December 31, 2008	4,216	(961)	3,255
Additions	9,420	(611)	8,809
Dispositions and valuation allowance assessment	(8,511)	1,139	(7,372)
Balance, December 31, 2009	$ 5,125	$ (433)	$ 4,692

(1) The release of our holding period, or valuation, allowance substantially offset the impact of our REO disposition losses during 2009.

The REO balance, net at December 31, 2009 and 2008 associated with single-family properties was $4.7 billion and $3.2 billion, respectively, and the balance associated with multifamily properties was $31 million and $47 million, respectively. The number of REO additions, which was primarily single-family properties, increased by 68% in 2009 compared to 2008. Increases in our single-family REO additions have been most significant in the West and Southeast regions. The West region represented approximately 35% and 30% of the additions in 2009 and 2008, respectively, based on the number of units, and the highest concentration in the West region is in California. At December 31, 2009, our REO inventory in California represented approximately 25% of our total REO inventory based on REO value at the time of acquisition and 16% based on number of units. Our REO inventory consisted of 45,052 units and 29,346 units at December 31, 2009 and 2008, respectively.

Our REO operations expenses include REO property expenses, net losses incurred on disposition of REO properties, adjustments to the holding period allowance associated with REO properties to record them at the lower of their carrying amount or fair value less the estimated costs to sell, and insurance reimbursements and other credit enhancement recoveries. An allowance for estimated declines in the REO fair value during the period properties are held reduces the carrying value of REO property. During 2009, our REO property carrying values and disposition values were more closely aligned due to more stable national home prices in the period. The table below presents the components of our REO operations expense for the years ended December 31, 2009, 2008 and 2007.

Table 8.2 REO Operations Expense

	2009	2008	2007
	(dollars in millions)		
Single-family:			
REO property expenses[1]	$ 708	$ 372	$ 136
Disposition (gains) losses[2]	749	682	120
Change in holding period allowance[3]	(612)	495	129
Recoveries	(558)	(452)	(180)
Total single-family REO operations expense	287	1,097	205
Multifamily REO operations expense	20		1
Total REO operations expense	$ 307	$ 1,097	$ 206
REO inventory (units), at December 31,	45,052	29,346	14,394
REO property dispositions (units), for the year ended December 31,	69,406	35,579	17,231

(1) Consists of costs incurred to maintain and protect a property after foreclosure acquisition, such as legal fees, insurance, taxes, 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. Excludes holding period writedowns while in REO inventory.
(3) Includes both the increase (decrease) in the holding period allowance for properties that remain in inventory at the end of the year as well as any reductions associated with dispositions during the year. The release of our holding period, or valuation, allowance substantially offset the impact of our REO disposition losses during 2009.

We temporarily suspended all foreclosure transfers of occupied homes from November 26, 2008 through January 31, 2009 and from February 14, 2009 through March 6, 2009. Beginning March 7, 2009, we began suspension of foreclosure transfers of owner-occupied homes where the borrower may be eligible to receive a loan modification under the MHA Program. We continued to pursue loss mitigation options with delinquent borrowers during these temporary suspension periods; and, we also continued to proceed with initiation and other pre-closing steps in the foreclosure process.

Our method of recording cash flows associated with REO acquisitions changed significantly as a long-term effect of our December 2007 operational change where we no longer automatically purchase mortgages out of our PCs when they become 120 days delinquent. During 2007, the majority of our REO acquisitions resulted from transfers from our mortgage loans held on our consolidated balance sheets and we reported $3.1 billion in such non-cash transfers in our consolidated statement of cash flows for that period. In contrast, the majority of our REO acquisitions during 2008 and 2009 resulted from cash payment for extinguishments of mortgage loans within PC pools at the time of their conversion to REO. These cash outlays are included in net payments of mortgage insurance and acquisitions and dispositions of REO in our consolidated statements of cash flows. The amount of non-cash acquisitions of REO properties during the years ended December 31, 2009 and 2008 was $1.2 billion and $2.3 billion, respectively.

NOTE 9: DEBT SECURITIES AND SUBORDINATED BORROWINGS

Debt securities are classified as either short-term (due within one year) or long-term (due after one year) based on their remaining contractual maturity.

Under the Purchase Agreement, without the prior written consent of Treasury, we may not incur indebtedness that would result in the par value of our aggregate indebtedness exceeding:

through and including December 30, 2010, 120% of the amount of mortgage assets we are permitted to own under the Purchase Agreement on December 31, 2009; and

beginning on December 31, 2010, and through and including December 30, 2011, and each year thereafter, 120% of the amount of mortgage assets we are permitted to own under the Purchase Agreement on December 31 of the immediately preceding calendar year.

Under the Purchase Agreement, the amount of our indebtedness is determined without giving effect to any change in the accounting standards related to transfers of financial assets and consolidation of VIEs or any similar accounting standard. We also cannot become liable for any subordinated indebtedness, without the prior consent of Treasury.

As of December 31, 2009, we estimate that the par value of our aggregate indebtedness totaled $805.1 billion, which was approximately $274.9 billion below the applicable limit of $1.08 trillion. Our aggregate indebtedness calculation, which has not been confirmed by Treasury, includes the combined balance of our senior and subordinated debt. Because of the debt limit, we may be restricted in the amount of debt we are allowed to issue to fund our operations.

Table 9.1 summarizes the balances and effective interest rates for debt securities, as well as subordinated borrowings.

Table 9.1 Total Debt

	December 31,			
	2009		2008	
	Balance, Net(1)	Effective Rate(2)	Balance, Net(1)	Effective Rate(2)
	(dollars in millions)			
Short-term debt:				
Short-term debt securities	$ 238,171	0.28%	$ 329,702	1.73%
Current portion of long-term debt	105,804	3.31	105,412	3.46
Short-term debt	343,975	1.21	435,114	2.15
Long-term debt:				
Senior debt	435,931	3.43	403,402	4.70
Subordinated debt	698	6.58	4,505	5.59
Long-term debt	436,629	3.44	407,907	4.71
Total debt	$ 780,604		$ 843,021	

(1) Represents par value, net of associated discounts, premiums and hedge-related basis adjustments, with $6.3 billion and $1.6 billion, respectively, of short-term debt and $2.6 billion and $11.7 billion, respectively, of long-term debt that represent the fair value of debt securities with fair value option elected at December 31, 2009 and 2008.

(2) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums and issuance costs. Also includes the amortization of hedge-related basis adjustments.

For 2009 and 2008, we recognized fair value gains (losses) of $(405) million and $406 million, respectively, on our foreign-currency denominated debt, of which $(209) million and $710 million, respectively, are gains (losses) related to our net foreign-currency translation. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for additional information regarding our adoption of the accounting standards related to the fair value option for financial assets and financial liabilities.

Short-Term Debt

As indicated in Table 9.2, a majority of short-term debt (excluding current portion of long-term debt) consisted of Reference Bills® securities and discount notes, paying only principal at maturity. Reference Bills® securities, discount notes and medium-term notes are unsecured general corporate obligations. Certain medium-term notes that have original maturities of one year or less are classified as short-term debt securities. Securities sold under agreements to repurchase are effectively collateralized borrowing transactions where we sell securities with an agreement to repurchase such securities. These agreements require the underlying securities to be delivered to the dealers who arranged the transactions. Federal funds purchased are unsecuritized borrowings from commercial banks that are members of the Federal Reserve System. At both December 31, 2009 and 2008, we had no balances in federal funds purchased and securities sold under agreements to repurchase.

Table 9.2 provides additional information related to our short-term debt.

Table 9.2 Short-Term Debt

	December 31,					
	2009			2008		
	Par Value	Balance, Net(1)	Effective Rate(2)	Par Value	Balance, Net(1)	Effective Rate(2)
	(dollars in millions)					
Reference Bills® securities and discount notes	$ 227,732	$ 227,611	0.26%	$ 311,227	$ 310,026	1.67%
Medium-term notes	10,561	10,560	0.69	19,675	19,676	2.61
Short-term debt securities	238,293	238,171	0.28	330,902	329,702	1.73
Current portion of long-term debt	105,729	105,804	3.31	105,420	105,412	3.46
Short-term debt	$ 344,022	$ 343,975	1.21	$ 436,322	$ 435,114	2.15

(1) Represents par value, net of associated discounts, premiums and hedge-related basis adjustments.
(2) Represents the weighted average effective rate that remains constant over the life of the instrument, which includes the amortization of discounts or premiums and issuance costs. The current portion of long-term debt includes the amortization of hedge-related basis adjustments.

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Long-Term Debt

Table 9.3 summarizes our long-term debt.

Table 9.3 Long-Term Debt

		December 31,							
		2009				2008			
	Contractual Maturity[1]	Par Value	Balance, Net[2]	Interest Rates		Par Value	Balance, Net[2]	Interest Rates	
		(dollars in millions)							
Long-term debt:									
Senior debt:[3]									
Fixed-rate:									
Medium-term notes callable[4]	2011-2039	$ 143,294	$ 143,168	1.00%	6.63%	$ 158,228	$ 158,018	1.61%	6.85%
Medium-term notes non-callable	2011-2028	8,571	8,732	1.00%	13.25%	7,285	7,527	1.00%	13.25%
U.S. dollar Reference Notes® securities non-callable	2011-2032	202,997	202,941	1.13%	6.75%	197,781	197,609	2.38%	7.00%
Reference Notes® securities non-callable	2012-2014	2,449	2,590	4.38%	5.13%	11,295	11,740	4.38%	5.75%
Variable-rate:									
Medium-term notes callable[5]	2011-2029	21,515	21,515	Various		11,169	11,170	Various	
Medium-term notes non-callable	2011-2026	44,340	44,360	Various		2,495	2,520	Various	
Zero-coupon:									
Medium-term notes callable[6]	2028-2039	23,388	4,444	%		25,492	5,136	%	
Medium-term notes non-callable[7]	2011-2039	13,588	8,015	%		15,425	9,415	%	
Hedging-related basis adjustments		N/A	166			N/A	267		
Total senior debt		460,142	435,931			429,170	403,402		
Subordinated debt:									
Fixed-rate[8]	2011-2018	578	575	5.00%	8.25%	4,452	4,394	5.00%	8.25%
Zero-coupon[9]	2019	331	123	%		332	111	%	
Total subordinated debt		909	698			4,784	4,505		

Total long-term debt	$ 461,051	$ 436,629	$ 433,954	$ 407,907

(1) Represents contractual maturities at December 31, 2009.
(2) Represents par value of long-term debt securities and subordinated borrowings, net of associated discounts or premiums and hedge-related basis adjustments.
(3) For debt denominated in a currency other than the U.S. dollar, the outstanding balance is based on the exchange rate at December 31, 2009 and 2008, respectively.
(4) Includes callable Estate Notes[sm] securities and FreddieNotes® securities of $6.1 billion and $9.4 billion at December 31, 2009 and 2008, respectively. These debt instruments represent medium-term notes that permit persons acting on behalf of deceased beneficial owners to require us to repay principal prior to the contractual maturity date.
(5) Includes callable Estate Notes[sm] securities and FreddieNotes® securities of $5.5 billion and $2.0 billion at December 31, 2009 and 2008.
(6) The effective rates for zero-coupon medium-term notes callable ranged from 5.78% 7.25% and 6.11% 7.25% at December 31, 2009 and 2008, respectively.
(7) The effective rates for zero-coupon medium-term notes non-callable ranged from 0.56% 11.18% and 2.49% 11.18% at December 31, 2009 and 2008, respectively.
(8) Balance, net includes callable subordinated debt of $ billion at both December 31, 2009 and 2008.
(9) The effective rate for zero-coupon subordinated debt, due after one year was 10.51% at both December 31, 2009 and 2008.

A portion of our long-term debt is callable. Callable debt gives us the option to redeem the debt security at par on one or more specified call dates or at any time on or after a specified call date.

Table 9.4 summarizes the contractual maturities of long-term debt securities (including current portion of long-term debt) and subordinated borrowings outstanding at December 31, 2009, assuming callable debt is paid at contractual maturity.

Table 9.4 Long-Term Debt (including current portion of long-term debt)

Annual Maturities	**Contractual Maturity(1)(2) (in millions)**
2010	$ 105,729
2011	135,514
2012	94,362
2013	47,386
2014	53,372
Thereafter	130,417
Total(1)	566,780
Net discounts, premiums, hedge-related and other basis adjustments(3)	(24,347)
Long-term debt, including current portion of long-term debt	$ 542,433

(1) Represents par value of long-term debt securities and subordinated borrowings.

(2) For debt denominated in a currency other than the U.S. dollar, the par value is based on the exchange rate at December 31, 2009.
(3) Other basis adjustments primarily represent changes in fair value attributable to instrument-specific credit risk related to foreign-currency-denominated debt.

Lines of Credit

We have an intraday line of credit with a third-party to provide additional liquidity to fund our intraday activities through the Fedwire system in connection with the Federal Reserve s payments system risk policy, which restricts or eliminates daylight overdrafts by GSEs. At December 31, 2009 and 2008, we had one and two secured, uncommitted lines of credit totaling $10 billion and $17 billion, respectively. No amounts were drawn on these lines of credit at December 31, 2009 or 2008. We expect to continue to use the current facility from time to time to satisfy our intraday financing needs; however, since the line is uncommitted, we may not be able to draw on it if and when needed.

Lending Agreement

On September 18, 2008, we entered into the Lending Agreement with Treasury under which we could request loans, however the Lending Agreement expired on December 31, 2009. No amounts were borrowed under the Lending Agreement.

Subordinated Debt Interest and Principal Payments

In a September 23, 2008 statement concerning the conservatorship, the Director of FHFA stated that we would continue to make interest and principal payments on our subordinated debt, even if we fail to maintain required capital levels. As a result, the terms of any of our subordinated debt that provide for us to defer payments of interest under certain circumstances, including our failure to maintain specified capital levels, are no longer applicable.

NOTE 10: FREDDIE MAC STOCKHOLDERS EQUITY (DEFICIT)

Issuance of Senior Preferred Stock

Pursuant to the Purchase Agreement described in NOTE 2: CONSERVATORSHIP AND RELATED DEVELOPMENTS, we issued one million shares of senior preferred stock to Treasury on September 8, 2008. The senior preferred stock was issued to Treasury in partial consideration of Treasury s commitment to provide funds to us under the terms set forth in the Purchase Agreement.

Shares of the senior preferred stock have a par value of $1, and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. Dividends that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the Purchase Agreement and any quarterly commitment fees that are not paid in cash to Treasury nor waived by Treasury will be added to the liquidation preference of the senior preferred stock. As described below, we may make payments to reduce the liquidation preference of the senior preferred stock in limited circumstances.

Treasury, as the holder of the senior preferred stock, is entitled to receive, when, as and if declared by our Board of Directors, cumulative quarterly cash dividends at the annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock. Total dividends paid in cash during 2009 and 2008 at the direction of the Conservator were $4.1 billion and $172 million, respectively. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any Freddie Mac common stock or other securities ranking junior to the senior preferred stock unless: (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash; and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury s funding commitment set forth in the Purchase Agreement; however, we are permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock to the extent of (i) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (ii) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury s funding commitment. Following the termination of Treasury s funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part. If, after termination of Treasury s funding commitment, we pay down the liquidation preference of each outstanding share of senior preferred stock in full, the shares will be deemed to have been redeemed as of the payment date.

Table 10.1 provides a summary of our senior preferred stock outstanding at December 31, 2009. See Stock Repurchase and Issuance Programs for additional information about our draws on the Purchase Agreement with Treasury during 2009.

Table 10.1 Senior Preferred Stock

	Draw Date	Shares Authorized	Shares Outstanding	Total Par Value	Initial Liquidation Preference Price per Share	Total Liquidation Preference(1)	Redeemable On or After(2)
		(in millions, except initial liquidation preference price per share)					
Senior preferred stock:(3)							
10%	September 8, 2008(4)	1.00	1.00	$ 1.00	$ 1,000	$ 1,000	N/A
10%(5)	November 24, 2008				N/A	13,800	N/A
10%(5)	March 31, 2009				N/A	30,800	N/A
10%(5)	June 30, 2009				N/A	6,100	N/A
Total, senior preferred stock		1.00	1.00	$ 1.00		$ 51,700	

(1) Amounts stated at redemption value.
(2) In accordance with the Purchase Agreement, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury, redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant). See NOTE 11: REGULATORY CAPITAL for more information.
(3) Dividends on the senior preferred stock are cumulative, and the dividend rate is 10% per year. However, if at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends, the dividend rate will be 12% per year.
(4) We did not receive any cash proceeds from Treasury as a result of issuing the initial liquidation preference.
(5) Represents an increase in the liquidation preference of our senior preferred stock due to the receipt of funds from Treasury.

We received \$6.1 billion and \$30.8 billion in June 2009 and March 2009, respectively, pursuant to draw requests that FHFA submitted to Treasury on our behalf to address the deficits in our net worth as of March 31, 2009 and December 31, 2008, respectively. As a result of funding of these draw requests, the aggregate liquidation preference on the senior preferred stock owned by Treasury increased from \$14.8 billion as of December 31, 2008 to \$51.7 billion on December 31, 2009.

Issuance of Common Stock Warrant

Pursuant to the Purchase Agreement described in NOTE 2: CONSERVATORSHIP AND RELATED DEVELOPMENTS, on September 7, 2008, we, through FHFA, in its capacity as Conservator, issued a warrant to purchase common stock to Treasury. The warrant was issued to Treasury in partial consideration of Treasury s commitment to provide funds to us under the terms set forth in the Purchase Agreement.

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to us of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of our common stock is greater than the exercise price, then, instead of paying the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person.

We account for the warrant in permanent equity. At issuance on September 7, 2008, we recognized the warrant at fair value, and we do not recognize subsequent changes in fair value while the warrant remains classified in equity. We recorded an aggregate fair value of $2.3 billion for the warrant as a component of additional paid-in-capital. We derived the fair value of the warrant using a modified Black-Scholes model. If the warrant is exercised, the stated value of the common stock issued will be reclassified to common stock in our consolidated balance sheets. The warrant was determined to be in-substance non-voting common stock, because the warrant s exercise price of $0.00001 per share is considered non-substantive (compared to the market price of our common stock). As a result, the warrant is included in the computation of basic and diluted earnings (loss) per share. The weighted average shares of common stock outstanding for the years ended December 31, 2009 and 2008, respectively, included shares of common stock that would be issuable upon full exercise of the warrant issued to Treasury.

Preferred Stock

Table 10.2 provides a summary of our preferred stock outstanding at December 31, 2009. We have the option to redeem our preferred stock on specified dates, at their redemption price plus dividends accrued through the redemption date. However, without the consent of Treasury, we are restricted from making payments to purchase or redeem preferred stock as well as paying any preferred dividends, other than dividends on the senior preferred stock. In addition, all 24 classes of preferred stock are perpetual and non-cumulative, and carry no significant voting rights or rights to purchase additional

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Freddie Mac stock or securities. Costs incurred in connection with the issuance of preferred stock are charged to additional paid-in capital.

Table 10.2 Preferred Stock

	Issue Date	Shares Authorized	Shares Outstanding	Total Par Value	Redemption Price per Share	Total Outstanding Balance[1]	Redeemable On or After[2]	NYSE Symbol[3]
		(in millions, except redemption price per share)						
Preferred stock:								
1996 Variable-rate[4]	April 26, 1996	5.00	5.00	$ 5.00	$ 50.00	$ 250	June 30, 2001	FRE.prB
5.81%	October 27, 1997	3.00	3.00	3.00	50.00	150	October 27, 1998	(5)
5%	March 23, 1998	8.00	8.00	8.00	50.00	400	March 31, 2003	FRE.prF
1998 Variable-rate[6]	September 23 and 29, 1998	4.40	4.40	4.40	50.00	220	September 30, 2003	FRE.prG
5.10%	September 23, 1998	8.00	8.00	8.00	50.00	400	September 30, 2003	FRE.prH
5.30%	October 28, 1998	4.00	4.00	4.00	50.00	200	October 30, 2000	(5)
5.10%	March 19, 1999	3.00	3.00	3.00	50.00	150	March 31, 2004	(5)
5.79%	July 21, 1999	5.00	5.00	5.00	50.00	250	June 30, 2009	FRE.prK
1999 Variable-rate[7]	November 5, 1999	5.75	5.75	5.75	50.00	287	December 31, 2004	FRE.prL
2001 Variable-rate[8]	January 26, 2001	6.50	6.50	6.50	50.00	325	March 31, 2003	FRE.prM
2001 Variable-rate[9]	March 23, 2001	4.60	4.60	4.60	50.00	230	March 31, 2003	FRE.prN
5.81%	March 23, 2001	3.45	3.45	3.45	50.00	173	March 31, 2011	FRE.prO
6%	May 30, 2001	3.45	3.45	3.45	50.00	173	June 30, 2006	FRE.prP
2001 Variable-rate[10]	May 30, 2001	4.02	4.02	4.02	50.00	201	June 30, 2003	FRE.prQ
5.70%	October 30, 2001	6.00	6.00	6.00	50.00	300	December 31, 2006	FRE.prR
5.81%	January 29, 2002	6.00	6.00	6.00	50.00	300	March 31, 2007	(5)
2006 Variable-rate[11]	July 17, 2006	15.00	15.00	15.00	50.00	750	June 30, 2011	FRE.prS
6.42%		5.00	5.00	5.00	50.00	250	June 30, 2011	FRE.prT

	July 17, 2006							
5.90%	October 16, 2006	20.00	20.00	20.00	25.00	500	September 30, 2011	FRE.prU
5.57%	January 16, 2007	44.00	44.00	44.00	25.00	1,100	December 31, 2011	FRE.prV
5.66%	April 16, 2007	20.00	20.00	20.00	25.00	500	March 31, 2012	FRE.prW
6.02%	July 24, 2007	20.00	20.00	20.00	25.00	500	June 30, 2012	FRE.prX
6.55%	September 28, 2007	20.00	20.00	20.00	25.00	500	September 30, 2017	FRE.prY
2007 Fixed-to-floating Rate(12)	December 4, 2007	240.00	240.00	240.00	25.00	6,000	December 31, 2012	FRE.prZ
Total, preferred stock		464.17	464.17	$ 464.17		$ 14,109		

(1) Amounts stated at redemption value.
(2) In accordance with the Purchase Agreement, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury, redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities (other than the senior preferred stock or warrant). See NOTE 11: REGULATORY CAPITAL for more information.
(3) Preferred stock is listed on the NYSE unless otherwise noted.
(4) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 9.00%.
(5) Not listed on any exchange.
(6) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 1% divided by 1.377, and is capped at 7.50%.
(7) Dividend rate resets on January 1 every five years after January 1, 2005 based on a five-year Constant Maturity Treasury rate, and is capped at 11.00%. Optional redemption on December 31, 2004 and on December 31 every five years thereafter.
(8) Dividend rate resets on April 1 every two years after April 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.10%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every two years thereafter.
(9) Dividend rate resets on April 1 every year based on 12-month LIBOR minus 0.20%, and is capped at 11.00%. Optional redemption on March 31, 2003 and on March 31 every year thereafter.
(10) Dividend rate resets on July 1 every two years after July 1, 2003 based on the two-year Constant Maturity Treasury rate plus 0.20%, and is capped at 11.00%. Optional redemption on June 30, 2003 and on June 30 every two years thereafter.
(11) Dividend rate resets quarterly and is equal to the sum of three-month LIBOR plus 0.50% but not less than 4.00%.
(12) Dividend rate is set at an annual fixed rate of 8.375% from December 4, 2007 through December 31, 2012. For the period beginning on or after January 1, 2013, dividend rate resets quarterly and is equal to the higher of (a) the sum of three-month LIBOR plus 4.16% per annum or (b) 7.875% per annum. Optional redemption on December 31, 2012, and on December 31 every five years thereafter.

Stock Repurchase and Issuance Programs

We did not repurchase or issue any of our common shares or non-cumulative preferred stock during 2009 and 2008, except for issuances of Treasury stock as reported on our Consolidated Statements of Equity (Deficit). During 2009, restrictions lapsed on 1,758,668 restricted stock units, all of which were granted prior to conservatorship. For a discussion regarding our stock-based compensation plans, see NOTE 12: STOCK-BASED COMPENSATION. Consistent with the terms of the Purchase Agreement, we may not, without prior written consent of Treasury, redeem, purchase, retire or otherwise acquire any Freddie Mac equity securities or sell or issue any Freddie Mac equity securities.

Dividends Declared During 2009

No common dividends were declared in 2009. During 2009, we paid dividends of $4.1 billion in cash on the senior preferred stock at the direction of our Conservator. We did not declare or pay dividends on any other series of Freddie Mac preferred stock outstanding during 2009.

NOTE 11: REGULATORY CAPITAL

On October 9, 2008, FHFA announced that it was suspending capital classification of us during conservatorship in light of the Purchase Agreement. Concurrent with this announcement, FHFA classified us as undercapitalized as of June 30, 2008 based on discretionary authority provided by statute. FHFA noted that although our capital calculations as of June 30, 2008 reflected that we met the statutory and FHFA-directed requirements for capital, the continued market downturn in July and August of 2008 raised significant questions about the sufficiency of our capital.

FHFA continues to closely monitor our capital levels, but the existing statutory and FHFA-directed regulatory capital requirements are not binding during conservatorship. We continue to provide our regular submissions to FHFA on both minimum and risk-based capital. FHFA continues to publish relevant capital figures (minimum capital requirement, core capital, and GAAP net worth) but does not publish our critical capital, risk-based capital or subordinated debt levels during conservatorship. Additionally, FHFA announced it will engage in rule-making to revise our minimum capital and risk-based capital requirements.

Our regulatory minimum capital is a leverage-based measure that is generally calculated based on GAAP and reflects a 2.50% capital requirement for on-balance sheet assets and 0.45% capital requirement for off-balance sheet obligations. Based upon our adoption of amendments to the accounting standards for transfers of financial assets and consolidation of VIEs, we determined that, under the new consolidation guidance, we are the primary beneficiary of our single-family PC trusts and certain Structured Transactions and, therefore, effective January 1, 2010, we consolidated on our balance sheet the assets and liabilities of these trusts. Pursuant to regulatory guidance from FHFA, our minimum capital requirement will not automatically be affected by adoption of these amendments on January 1, 2010. Specifically, upon adoption of these amendments, FHFA directed us, for purposes of minimum capital, to continue reporting single-family PCs and certain Structured Transactions held by third parties using a 0.45% capital requirement. Notwithstanding this guidance, FHFA reserves the authority under the Reform Act to raise the minimum capital requirement for any of our assets or activities. On February 8, 2010, FHFA issued a notice of proposed rulemaking setting forth procedures and standards for such a temporary increase in minimum capital levels.

Our regulatory capital standards in effect prior to our entry into conservatorship on September 6, 2008 are described below.

Regulatory Capital Standards

The GSE Act established minimum, critical and risk-based capital standards for us.

Prior to our entry into conservatorship, those standards determined the amounts of core capital and total capital that we were to maintain to meet regulatory capital requirements. Core capital consisted of the par value of outstanding common stock (common stock issued less common stock held in treasury), the par value of outstanding non-cumulative, perpetual preferred stock, additional paid-in capital and retained earnings (accumulated deficit), as determined in accordance with GAAP. Total capital included core capital and general reserves for mortgage and foreclosure losses and any other amounts available to absorb losses that FHFA included by regulation.

Minimum Capital

The minimum capital standard required us to hold an amount of core capital that was generally equal to the sum of 2.50% of aggregate on-balance sheet assets and approximately 0.45% of the sum of our PCs and Structured Securities outstanding and other aggregate off-balance sheet obligations. As discussed below, in 2004 FHFA implemented a framework for monitoring our capital adequacy, which included a mandatory target capital surplus over the minimum capital requirement.

Critical Capital

The critical capital standard required us to hold an amount of core capital that was generally equal to the sum of 1.25% of aggregate on-balance sheet assets and approximately 0.25% of the sum of our PCs and Structured Securities outstanding and other aggregate off-balance sheet obligations.

Risk-Based Capital

The risk-based capital standard required the application of a stress test to determine the amount of total capital that we were to hold to absorb projected losses resulting from adverse interest-rate and credit-risk conditions specified by the GSE Act prior to enactment of the Reform Act and added 30% additional capital to provide for management and operations risk. The adverse interest-rate conditions prescribed by the GSE Act included an up-rate scenario in which 10-year Treasury yields rise by as much as 75% and a down-rate scenario in which they fall by as much as 50%. The credit risk component of the stress tests simulated the performance of our mortgage portfolio based on loss rates for a benchmark region. The criteria for the benchmark region were intended to capture the credit-loss experience of the region that experienced the highest historical rates of default and severity of mortgage losses for two consecutive origination years.

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Classification

Prior to FHFA s suspension of our capital classifications in October 2008, FHFA assessed our capital adequacy not less than quarterly.

To be classified as adequately capitalized, we must meet both the risk-based and minimum capital standards. If we fail to meet the risk-based capital standard, we cannot be classified higher than undercapitalized. If we fail to meet the minimum capital requirement but exceed the critical capital requirement, we cannot be classified higher than significantly undercapitalized. If we fail to meet the critical capital standard, we must be classified as critically undercapitalized. In addition, FHFA has discretion to reduce our capital classification by one level if FHFA determines in writing that (i) we are engaged in conduct that could result in a rapid depletion of core or total capital, the value of collateral pledged as security has decreased significantly, or the value of the property subject to mortgages held or securitized by us has decreased significantly, (ii) we are in an unsafe or unsound condition or (iii) we are engaging in unsafe or unsound practices.

If we were classified as adequately capitalized, we generally could pay a dividend on our common or preferred stock or make other capital distributions (which includes common stock repurchases and preferred stock redemptions) without prior FHFA approval so long as the payment would not decrease total capital to an amount less than our risk-based capital requirement and would not decrease our core capital to an amount less than our minimum capital requirement. However, during conservatorship, the Conservator has instructed our Board of Directors that it should consult with and obtain the approval of the Conservator before taking any actions involving capital stock and dividends. In addition, while the senior preferred stock is outstanding, we are prohibited from paying dividends (other than on the senior preferred stock) or issuing equity securities without Treasury s consent.

If we were classified as undercapitalized, we would be prohibited from making a capital distribution that would reduce our core capital to an amount less than our minimum capital requirement. We also would be required to submit a capital restoration plan for FHFA approval, which could adversely affect our ability to make capital distributions.

If we were classified as significantly undercapitalized, we would be prohibited from making any capital distribution that would reduce our core capital to less than the critical capital level. We would otherwise be able to make a capital distribution only if FHFA determined that the distribution would: (a) enhance our ability to meet the risk-based capital standard and the minimum capital standard promptly; (b) contribute to our long-term financial safety and soundness; or (c) otherwise be in the public interest. Also under this classification, FHFA could take action to limit our growth, require us to acquire new capital or restrict us from activities that create excessive risk. We also would be required to submit a capital restoration plan for FHFA approval, which could adversely affect our ability to make capital distributions.

If we were classified as critically undercapitalized, FHFA would have the authority to appoint a conservator or receiver for us.

In addition, without regard for our capital classification, under the Reform Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition. Also without regard to our capital classification, under Freddie Mac s charter, we must obtain prior written approval of FHFA to make any capital distribution that would decrease total capital to an amount less than the risk-based capital level or that would decrease core capital to an amount less than the minimum capital level.

Performance Against Regulatory Capital Standards

Table 11.1 summarizes our minimum capital requirements and deficits and net worth.

Table 11.1 Net Worth and Minimum Capital

	December 31, 2009	December 31, 2008
	(in millions)	
GAAP net worth[(1)]	$ 4,372	$ (30,634)
Core capital[(2)(3)]	$ (23,774)	$ (13,174)
Less: Minimum capital requirement[(2)]	28,352	28,200
Minimum capital surplus (deficit)[(2)]	$ (52,126)	$ (41,374)

(1) Net worth (deficit) represents the difference between our assets and liabilities under GAAP. With our adoption of an amendment to the accounting standards for consolidation regarding noncontrolling interests in consolidated financial statements on January 1, 2009, our net worth is now equal to our total equity (deficit). Prior to adoption of the amendment noted above, our total equity (deficit) was substantially the same as our net worth except that it excluded non-controlling interests (previously referred to as minority interests). As a result non-controlling interests are now classified as part of total equity (deficit).
(2) Core capital and minimum capital figures for December 31, 2009 are estimates. FHFA is the authoritative source for our regulatory capital.
(3) Core capital as of December 31, 2009 and 2008 excludes certain components of GAAP total equity (deficit) (*i.e.*, AOCI, liquidation preference of the senior preferred stock and non-controlling interests) as these items do not meet the statutory definition of core capital.

Following our entry into conservatorship, we have focused our risk and capital management, consistent with the objectives of conservatorship, on, among other things, maintaining a positive balance of GAAP equity in order to reduce the likelihood that we will need to make additional draws on the Purchase Agreement with Treasury, while returning to long-term profitability. The Purchase Agreement provides that, if FHFA determines as of quarter end that our liabilities have exceeded our assets under GAAP, Treasury will contribute funds to us in an amount equal to the difference between such liabilities and assets.

Under the Reform 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. FHFA notified us that the measurement period for any mandatory receivership determination with respect to our assets and obligations would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days after that date. FHFA advised us that, if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the Purchase Agreement, the Director of FHFA will not make a mandatory receivership determination.

At December 31, 2009, our assets exceeded our liabilities by $4.4 billion. Because we had positive net worth as of December 31, 2009, FHFA has not submitted a draw request on our behalf to Treasury for any additional funding under the Purchase Agreement. Should our assets be less than our obligations, we must obtain funding from Treasury pursuant to its commitment under the Purchase Agreement in order to avoid being placed into receivership by FHFA. We have received $50.7 billion from Treasury under the Purchase Agreement to date. We expect to make additional draws under the Purchase Agreement in future periods due to a variety of factors that could materially affect the level and volatility of our net worth. As of December 31, 2009, the aggregate liquidation preference of the senior preferred stock was $51.7 billion. We paid our quarterly dividend of $370 million, $1.1 billion, $1.3 billion and $1.3 billion, respectively, on the senior preferred stock in cash on March 31, 2009, June 30, 2009, September 30, 2009 and December 31, 2009 at the direction of the Conservator.

Subordinated Debt Commitment

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 that updated those commitments and set forth a process for implementing them. Under the terms of this agreement, we committed to issue qualifying subordinated debt for public secondary market trading and rated by no fewer than two nationally recognized statistical rating organizations in a quantity such that the sum of total capital plus the outstanding balance of qualifying subordinated debt will equal or exceed the sum of 0.45% of our PCs and Structured Securities outstanding and 4% of our on-balance sheet assets at the end of each quarter. Qualifying subordinated debt is defined as subordinated debt that contains a deferral of interest payments for up to five years if: (i) our core capital falls below 125% of our critical capital requirement; or (ii) our core capital falls below our minimum capital requirement and pursuant to our request, the Secretary of the Treasury exercises discretionary authority to purchase our obligations under Section 306(c) of our charter. Qualifying subordinated debt will be discounted for the purposes of this commitment as it approaches maturity with one-fifth of the outstanding amount excluded each year during the instrument s last five years before maturity. When the remaining maturity is less than one year, the instrument is entirely excluded. FHFA, as Conservator of Freddie Mac, has suspended the requirements in the September 2005 agreement with respect to issuance, maintenance and reporting and disclosure of Freddie Mac subordinated debt during the term of conservatorship and thereafter until directed otherwise.

Regulatory Capital Monitoring Framework

In a letter dated January 28, 2004, FHFA created a framework for monitoring our capital. The letter directed that we maintain a 30% mandatory target capital surplus over our minimum capital requirement, subject to certain conditions and variations; that we submit weekly reports concerning our capital levels; and that we obtain prior approval of certain capital transactions. The mandatory target capital surplus was subsequently reduced to 20%.

FHFA, as Conservator of Freddie Mac, has announced that the mandatory target capital surplus will not be binding during the term of conservatorship.

NOTE 12: STOCK-BASED COMPENSATION

Following the implementation of the conservatorship in September 2008, we suspended the operation of our ESPP, and are no longer making grants under our 2004 Stock Compensation Plan, or 2004 Employee Plan, or our 1995 Directors Stock Compensation Plan, as amended and restated, or Directors Plan. Under the Purchase Agreement, we cannot issue any new options, rights to purchase, participations or other equity interests without Treasury s prior approval. However, grants outstanding as of the date of the Purchase Agreement remain in effect in accordance with their terms. Prior to the implementation of the conservatorship, we made grants under three stock-based compensation plans: (a) the ESPP; (b) the 2004 Employee Plan; and (c) the Directors Plan. Prior to the stockholder approval of the 2004 Employee Plan, employee stock-based compensation was awarded in accordance with the terms of the 1995 Stock Compensation Plan, or 1995 Employee Plan. Although grants are no longer made under the 1995 Employee Plan, we currently have awards outstanding under this plan. We collectively refer to the 2004 Employee Plan and 1995 Employee Plan as the Employee Plans.

Common stock delivered under these plans may consist of authorized but previously unissued shares, treasury stock or shares acquired in market transactions on behalf of the participants. No restricted stock units were granted in 2009, which, discussed below, are generally forfeitable for at least one year after the grant date, with vesting provisions contingent upon service requirements.

Stock Options

Stock options allow for the purchase of our common stock at an exercise price equal to the fair market value of our common stock on the grant date. The 2004 Employee Plan was amended to change the definition of fair market value to the closing sales price of a share of common stock from the average of the high and low sales prices, effective for all grants after December 6, 2006. Options generally may be exercised for a period of 10 years from the grant date, subject to a vesting schedule commencing on the grant date.

Stock options that we previously granted included dividend equivalent rights. Depending on the terms of the grant, the dividend equivalents may be paid when and as dividends on our common stock are declared. Alternatively, dividend equivalents may be paid upon exercise or expiration of the stock option. Subsequent to November 30, 2005, dividend equivalent rights were no longer granted in connection with awards of stock options to grantees to address Internal Revenue Code Section 409A.

Restricted Stock Units

A restricted stock unit entitles the grantee to receive one share of common stock at a specified future date. Restricted stock units do not have voting rights, but do have dividend equivalent rights, which are (a) paid to restricted stock unit holders who are employees as and when dividends on common stock are declared or (b) accrued as additional restricted stock units for non-employee members of our Board of Directors.

Restricted Stock

Restricted stock entitles participants to all the rights of a stockholder, including dividends, except that the shares awarded are subject to a risk of forfeiture and may not be disposed of by the participant until the end of the restriction period established at the time of grant.

Stock-Based Compensation Plans

The following is a description of each of our stock-based compensation plans under which grants were made prior to our entry into conservatorship on September 6, 2008. After such date, we suspended operation of our ESPP and will no longer make grants under the Employee Plans or Director s Plan.

ESPP

Our ESPP is qualified under Internal Revenue Code Section 423. Prior to conservatorship, under the ESPP, substantially all full-time and part-time employees that chose to participate in the ESPP had the option to purchase shares of common stock at specified dates, with an annual maximum market value of $20,000 per employee as determined on the grant date. The purchase price was equal to 85% of the lower of the average price (average of the daily high and low prices) of the stock on the grant date or the average price of the stock on the purchase (exercise) date.

At December 31, 2009, the maximum number of shares of common stock authorized for grant to employees totaled 6.8 million shares, of which approximately 1.0 million shares had been issued and approximately 5.8 million shares remained available for grant. At December 31, 2009, no options to purchase stock were exercisable under the ESPP.

2004 Employee Plan

Prior to conservatorship, under the 2004 Employee Plan, we granted employees stock-based awards, including stock options, restricted stock units and restricted stock. In addition, we have the right to impose performance conditions with respect to these awards. Employees may have also been granted stock appreciation rights; however, at December 31, 2009, no stock appreciation rights had been granted under the 2004 Employee Plan. At December 31, 2009, the maximum number of shares of common stock authorized for grant to employees in accordance with the 2004 Employee Plan totaled 30.4 million shares, of which approximately 5.7 million shares had been issued and approximately 24.7 million shares remained available for grant.

Directors Plan

Prior to conservatorship, under the Directors Plan, we were permitted to grant stock options, restricted stock units and restricted stock to non-employee members of our Board of Directors. At December 31, 2009, the maximum number of shares of common stock authorized for grant to members of our Board of Directors in accordance with the Directors Plan totaled 2.4 million shares, of which approximately 0.9 million shares had been issued and approximately 1.5 million shares remained available for grant.

See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for a description of the accounting treatment for stock-based compensation, including grants under the ESPP, Employee Plans and Directors Plan.

Estimates used to determine the assumptions noted in the table below are determined as follows:

(a) the expected volatility is based on the historical volatility of the stock over a time period equal to the expected life;

(b) the weighted average volatility is the weighted average of the expected volatility;

(c) the weighted average expected dividend yield is based on the most recent dividend announcement relative to the grant date and the stock price at the grant date;

(d) the weighted average expected life is based on historical option exercise experience; and

(e) the weighted average risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant.

Changes in the assumptions used to calculate the fair value of stock options could result in materially different fair value estimates. The actual value of stock options will depend on the market value of our common stock when the stock options are exercised.

Table 12.1 summarizes the assumptions used in determining the fair values of options granted under our stock-based compensation plans using a Black-Scholes option-pricing model as well as the weighted average grant-date fair value of options granted and the total intrinsic value of options exercised.

Table 12.1 Assumptions and Valuations(1)

	ESPP			Employee Plans and Directors Plan		
	2009(2)	**2008**	**2007**	**2009(3)**	**2008(3)**	**2007(3)**
	(dollars in millions, except share-related amounts)					
Assumptions:						
Expected volatility	N/A	120.1% to 141.3%	11.1% to 45.4%	N/A	N/A	N/A
Weighted average:						
Volatility	N/A	136.05%	26.22%	N/A	N/A	N/A
Expected dividend yield	N/A	8.73%	3.44%	N/A	N/A	N/A
Expected life	N/A	3 months	3 months	N/A	N/A	N/A
Risk-free interest rate	N/A	1.68%	4.57%	N/A	N/A	N/A
Valuations:						
Weighted average grant-date fair value of options granted	N/A	$5.81	$11.25	N/A	N/A	N/A
	N/A	$1	$2	N/A	N/A	$7

Total intrinsic value of options exercised

(1) Following the implementation of the conservatorship, we have suspended the operation of our ESPP and are no longer making grants under the Employee Plans or Directors Plan.
(2) No options to purchase stock were granted or exercised under the ESPP in 2009.
(3) No options were granted under the Employee Plans and Directors Plan in 2009, 2008 or 2007. No options were exercised under the Employee Plans and Directors Plan in 2009 and 2008.

Table 12.2 provides a summary of option activity under the Employee Plans and Directors Plan for the year ended December 31, 2009, and options exercisable at December 31, 2009.

Table 12.2 Employee Plans and Directors Plan Option Activity[1]

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2009	4,468,262	$ 59.51		
Granted				
Exercised				
Forfeited or expired	(694,420)	60.01		
Outstanding at December 31, 2009	3,773,842	59.39	2.74 years	$
Exercisable at December 31, 2009	3,748,517	59.39	2.72 years	$

(1) Following the implementation of the conservatorship, we are no longer making grants under our Employee Plans and our Directors Plan.

During 2009, 2008 and 2007, we did not pay cash to settle share-based liability awards granted under share-based payment arrangements associated with the Employee Plans and the Directors Plan.

Table 12.3 provides a summary of activity related to restricted stock units and restricted stock under the Employee Plans and the Directors Plan.

Table 12.3 Employee Plans and Directors Plan Restricted Stock Units and Restricted Stock Activity[1]

	Restricted Stock Units	Weighted Average Grant-Date Fair Value	Restricted Stock	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2009	5,180,301	$ 30.00	41,160	$ 60.75
Granted				
Lapse of restrictions	(1,758,668)	33.87		
Forfeited	(538,137)	25.15		
Outstanding at December 31, 2009	2,883,496	28.14	41,160	60.75

(1) Following the implementation of the conservatorship, we are no longer making grants under our Employee Plans and our Directors Plan.

The total fair value of restricted stock units vested during 2009, 2008 and 2007 was $1 million, $22 million and $44 million, respectively. No restricted stock vested in 2009, 2008 and 2007. We realized a tax benefit of less than $1 million as a result of tax deductions available to us upon the lapse of restrictions on restricted stock units and restricted stock under the Employee Plans and the Directors Plan during 2009.

Table 12.4 provides information on compensation expense related to stock-based compensation plans.

Table 12.4 Compensation Expense Related to Stock-based Compensation

	Year Ended December 31, 2009	2008	2007
	(in millions)		
Stock-based compensation expense recorded on our consolidated statements of equity (deficit)	$ 58	$ 74	$ 81
Other stock-based compensation expense[1]	(1)	2	1
Total stock-based compensation expense[2]	$ 57	$ 76	$ 82
Tax benefit related to compensation expense recognized on our consolidated statements of operations[3]	$ 20	$ 25	$ 28
Compensation expense capitalized within other assets on our consolidated balance sheets		1	7

(1) Primarily consist of dividend equivalents paid on stock options and restricted stock units that have been or are expected to be forfeited and related subsequent adjustments. Also included expense related to share-based liability awards granted under share-based payment arrangements.

(2) Component of salaries and employee benefits expense as recorded on our consolidated statements of operations.
(3) Amounts represent the tax effect of each years book compensation expense resulting in a deferred tax asset. As we determined that the deferred tax asset cannot be realized, a valuation allowance was established and, therefore, no tax benefit was recognized.

As of December 31, 2009, $42 million of compensation expense related to non-vested awards had not yet been recognized in earnings. This amount is expected to be recognized in earnings over the next three years. During 2009, the modification of individual awards, which provided for continued or accelerated vesting, was made to 1 employee, and resulted in incremental compensation expense of less than $1 million. During 2008 and 2007, the modifications of individual awards, which provided for continued or accelerated vesting, were made to fewer than 120 and 60 employees, respectively, and resulted in a reduction of compensation expense of $3 million and less than $1 million, respectively.

NOTE 13: DERIVATIVES

Use of Derivatives

We use derivatives primarily to:

- hedge forecasted issuances of debt;
- synthetically create callable and non-callable funding;
- regularly adjust or rebalance our funding mix in order to more closely match changes in the interest-rate characteristics of our mortgage assets; and
- hedge foreign-currency exposure.

Hedge Forecasted Debt Issuances

We regularly commit to purchase mortgage investments on an opportunistic basis for a future settlement, typically ranging from two weeks to three months after the date of the commitment. To facilitate larger and more predictable debt issuances that contribute to lower funding costs, we use interest-rate derivatives to economically hedge the interest-rate risk exposure from the time we commit to purchase a mortgage to the time the related debt is issued.

Create Synthetic Funding

We also use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined period and a pay-fixed interest rate swap with the same maturity as the last debt issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. Similarly, the combination of non-callable debt and a call swaption, or option to enter into a receive-fixed interest rate swap, with the same maturity as the non-callable debt, is the substantive economic equivalent of callable debt. These derivatives strategies increase our funding flexibility and allow us to better match asset and liability cash flows, often reducing overall funding costs.

Adjust Funding Mix

We generally use interest-rate swaps to mitigate contractual funding mismatches between our assets and liabilities. We also use swaptions and other option-based derivatives to adjust the contractual terms of our debt funding in response to changes in the expected lives of our investments in mortgage-related assets. As market conditions dictate, we take rebalancing actions to keep our interest-rate risk exposure within management-set limits. In a declining interest-rate environment, we typically enter into receive-fixed interest rate swaps or purchase Treasury-based derivatives to shorten the duration of our funding to offset the declining duration of our mortgage assets. In a rising interest-rate environment, we typically enter into pay-fixed interest rate swaps or sell Treasury-based derivatives in order to lengthen the duration of our funding to offset the increasing duration of our mortgage assets.

Foreign-Currency Exposure

We use foreign-currency swaps to eliminate virtually all of our exposure to fluctuations in exchange rates related to our foreign-currency denominated debt by entering into swap transactions that effectively convert foreign-currency denominated obligations into U.S. dollar-denominated obligations.

Types of Derivatives

We principally use the following types of derivatives:

- LIBOR- and Euribor-based interest-rate swaps;
- LIBOR- and Treasury-based options (including swaptions);
- LIBOR- and Treasury-based exchange-traded futures; and
- Foreign-currency swaps.

In addition to swaps, futures and purchased options, our derivative positions include the following:

Written Options and Swaptions

Written call and put swaptions are sold to counterparties allowing them the option to enter into receive- and pay-fixed interest rate swaps, respectively. Written call and put options on mortgage-related securities give the counterparty the right to execute a contract under specified terms, which generally occurs when we are in a liability position. We use these written options and swaptions to manage convexity risk over a wide range of interest rates. Written options lower our overall hedging costs, allow us to hedge the same economic risk we assume when selling guaranteed final maturity REMICs with a more liquid instrument and allow us to rebalance the options in our callable debt and REMIC portfolios. We may, from time to time, write other derivative contracts such as caps, floors, interest-rate futures and options on buy-up and buy-down commitments.

Forward Purchase and Sale Commitments

We routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Most of these commitments are derivatives subject to the requirements of derivatives and hedge accounting.

Swap Guarantee Derivatives

We issue swap guarantee derivatives that guarantee the payments on (a) multifamily mortgage loans that are originated and held by state and municipal housing finance agencies to support tax-exempt multifamily housing revenue bonds and (b) Freddie Mac pass-through certificates which are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans. In connection with some of these guarantees, we may also guarantee the sponsor s or the borrower s performance as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk.

Credit Derivatives

We have entered into credit derivatives, including risk-sharing agreements. Under these risk-sharing agreements, default losses on specific mortgage loans delivered by sellers are compared to default losses on reference pools of mortgage loans with similar characteristics. Based upon the results of that comparison, we remit or receive payments based upon the default performance of the referenced pools of mortgage loans. In addition, we have entered into agreements whereby we assume credit risk for mortgage loans held by third parties in exchange for a monthly fee, where we are obligated to purchase delinquent mortgage loans in certain circumstances.

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In addition, we have purchased mortgage loans containing debt cancellation contracts, which provide for mortgage debt or payment cancellation for borrowers who experience unanticipated losses of income dependent on a covered event. The rights and obligations under these agreements have been assigned to the servicers. However, in the event the servicer does not perform as required by contract, under our guarantee, we would be obligated to make the required contractual payments.

Table 13.1 presents the location and fair value of derivatives reported in our consolidated balance sheets.

Table 13.1 Derivative Assets and Liabilities at Fair Value

	At December 31, 2009			At December 31, 2008		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
		Assets(1)	Liabilities(1)		Assets(1)	Liabilities(1)
			(in millions)			
Total derivative portfolio						
Derivatives not designated as hedging instruments under the accounting standards for derivatives and hedging(2)						
Interest-rate swaps:						
Receive-fixed	$ 271,403	$ 3,466	$ (5,455)	$ 279,609	$ 22,285	$ (19)
Pay-fixed	382,259	2,274	(16,054)	404,359	104	(51,894)
Basis (floating to floating)	52,045	1	(61)	82,190	209	(101)
Total interest-rate swaps	705,707	5,741	(21,570)	766,158	22,598	(52,014)
Option-based:						
Call swaptions						
Purchased	168,017	7,764		177,922	21,089	
Written	1,200		(19)			
Put Swaptions						
Purchased	91,775	2,592		41,550	539	
Written				6,000		(46)
Other option-based derivatives(3)	141,396	1,705	(12)	68,583	1,913	(49)
Total option-based	402,388	12,061	(31)	294,055	23,541	(95)
Futures	80,949	5	(89)	128,698	234	(1,105)
Foreign-currency swaps	5,669	1,624		12,924	2,982	
Forward purchase and sale commitments	13,872	81	(70)	108,273	537	(532)
Credit derivatives	14,198	26	(11)	13,631	45	(7)
Swap guarantee derivatives	3,521		(34)	3,281		(11)
Total Derivatives not designated as hedging instruments	1,226,304	19,538	(21,805)	1,327,020	49,937	(53,764)

Netting Adjustments(4)		(19,323)	21,216		(48,982)	51,487
Total Derivative Portfolio, net	$ 1,226,304	$ 215	$ (589)	$ 1,327,020	$ 955	$ (2,277)

(1) The value of derivatives on our consolidated balance sheets is reported as derivative assets, net and derivative liabilities, net.

(2) See Use of Derivatives for additional information about the purpose of entering into derivatives not designated as hedging instruments and our overall risk management strategies.

(3) Primarily represents purchased interest rate caps and floors as well as certain written options, including guarantees of stated final maturity of issued Structured Securities and written call options on agency mortgage-related securities.

(4) Represents counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable. The net cash collateral posted and net trade/settle receivable were $2.5 billion and $1 million, respectively, at December 31, 2009. The net cash collateral posted and net trade/settle payable were $1.5 billion and $ million, respectively, at December 31, 2008. The net interest receivable (payable) of derivative assets and derivative liabilities was approximately $(0.6) billion and $1.1 billion at December 31, 2009 and 2008, respectively, which was mainly related to interest rate swaps that we have entered into.

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Table 13.2 presents the gains and losses of derivatives reported in our consolidated statements of operations.

Table 13.2 Gains and Losses on Derivatives[1]

tives in Cash Flow g Relationships[3]	Amount of Gain or (Loss) Recognized in AOCI on Derivative (Effective Portion) Year Ended December 31, 2009	2008	2007	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) Year Ended December 31, 2009	2008	2007	Amount of or (Loss Recognize Other Inco (Ineffecti Portion a Amount Exc from Effectiven Testing) Year End December 2009	2008
				(in millions)				
ed interest rate swaps[4]	$	$ (564)	$	$	$ (92)	$	$	$ (16)
d sale commitments		17	(46)					
cash flow hedges[5]				(1,165)	(1,283)	(1,543)		
	$	$ (547)	$ (46)	$ (1,165)	$ (1,375)	$ (1,543)	$	$ (16)

tives not designated as hedging nents under the accounting standards ivatives and hedging[7]	Derivative Gains (Losses)[6] Year Ended December 31, 2009	2008	2007
		(in millions)	
-rate swaps:			
-fixed			
-currency denominated	$ 64	$ 489	$ (335)
llar denominated	(13,337)	29,732	4,240
ceive-fixed swaps	(13,273)	30,221	3,905
ed	27,078	(58,295)	(11,362)
loating to floating)	(194)	109	
terest-rate swaps	13,611	(27,965)	(7,457)
based:			
aptions			
ed	(10,566)	17,242	2,472
	248	14	(121)
ptions			
ed	323	(1,095)	(4)

	(321)	156	(72)
ption-based derivatives[8]	(370)	763	9
ption-based	(10,686)	17,080	2,284
	(300)	(2,074)	142
-currency swaps[9]	138	(584)	2,341
d purchase and sale commitments	(708)	(112)	445
lerivatives	(4)	27	11
uarantee derivatives	(20)	(4)	(2)
)	12	(27)	
l	2,043	(13,659)	(2,236)
of periodic settlements:			
-fixed interest rate swaps[11]	5,817	1,928	(327)
ed interest rate swaps	(9,964)	(3,482)	703
-currency swaps	89	319	(48)
	115	(60)	4
ccrual of periodic settlements	(3,943)	(1,295)	332
	$ (1,900)	$ (14,954)	$ (1,904)

(1) For all derivatives in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in net interest income on our consolidated statements of operations. For derivatives not in qualifying hedge accounting relationships, the accrual of periodic cash settlements is recorded in derivative gains (losses) on our consolidated statements of operations.

(2) Gain or (loss) arises when the fair value change of a derivative does not exactly offset the fair value change of the hedged item attributable to the hedged risk, and is a component of other income in our consolidated statements of operations. No amounts have been excluded from the assessment of effectiveness.

(3) Derivatives that meet specific criteria may be accounted for as cash flow hedges. Changes in the fair value of the effective portion of open qualifying cash flow hedges are recorded in AOCI, net of taxes. Net deferred gains and losses on closed cash flow hedges (*i.e.*, where the derivative is either terminated or redesignated) are also included in AOCI, net of taxes, until the related forecasted transaction affects earnings or is determined to be probable of not occurring.

(4) In 2008, we ceased designating derivative positions as cash flow hedges associated with forecasted issuances of debt in conjunction with our entry into conservatorship on September 6, 2008. As a result of our discontinuance of this hedge accounting strategy, we transferred the previous deferred amount of $(472) million related to the fair value changes of these hedges from open cash flow hedges to closed cash flow hedges within AOCI on September 6, 2008.

(5) Amounts reported in AOCI related to changes in the fair value of commitments to purchase securities that are designated as cash flow hedges are recognized as basis adjustments to the related assets which are amortized in earnings as interest income. Amounts linked to interest payments on long-term debt are recorded in long-term debt interest expense and amounts not linked to interest payments on long-term debt are recorded in expense related to derivatives.

(6) Gains (losses) are reported as derivative gains (losses) on our consolidated statements of operations.

(7) See Use of Derivatives for additional information about the purpose of entering into derivatives not designated as hedging instruments and our overall risk management strategies.

(8) Primarily represents purchased interest rate caps and floors, purchased put options on agency mortgage-related securities, as well as certain written options, including guarantees of stated final maturity of issued Structured Securities and written call options on agency mortgage-related securities.

(9)

Foreign-currency swaps are defined as swaps in which the net settlement is based on one leg calculated in a foreign-currency and the other leg calculated in U.S. dollars.

(10) Related to the bankruptcy of Lehman Brothers Holdings, Inc., or Lehman.

(11) Includes imputed interest on zero-coupon swaps.

During 2008 we elected cash flow hedge accounting relationships for certain commitments to sell mortgage-related securities; however, we discontinued hedge accounting for these derivative instruments in December 2008. In addition, during 2008, we designated certain derivative positions as cash flow hedges of changes in cash flows associated with our forecasted issuances of debt, consistent with our risk management goals, in an effort to reduce interest rate risk related volatility in our consolidated statements of operations. In conjunction with our entry into conservatorship on September 6, 2008, we determined that we could no longer assert that the associated forecasted issuances of debt were probable of occurring and, as a result, we ceased designating derivative positions as cash flow hedges associated with forecasted issuances of debt. The previous deferred amount related to these hedges remains in our AOCI balance and will be recognized into earnings over the expected time period for which the forecasted issuances of debt impact earnings. Any subsequent changes in fair value of those derivative instruments are included in derivative gains (losses) on our consolidated statements of operations. As a result of our discontinuance of this hedge accounting strategy, we transferred $27.6 billion in notional amount and $(488) million in fair value from open cash flow hedges to closed cash flow hedges on September 6, 2008.

The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable, net trade/settle receivable or payable and is net of cash collateral held or posted, where allowable by a master netting agreement. Derivatives in a net asset position are reported as derivative assets, net. Similarly, derivatives in a net liability position are reported as derivative liabilities, net. Cash collateral we obtained from counterparties to derivative contracts that has been offset against derivative assets, net at December 31, 2009 and December 31, 2008 was $3.1 billion and $4.3 billion, respectively. Cash collateral we posted to counterparties to derivative contracts that has been offset against derivative liabilities, net at December 31, 2009 and December 31, 2008 was $5.6 billion and $5.8 billion, respectively. We are subject to collateral posting thresholds based on the credit rating of our long-term senior unsecured debt securities from S&P or Moody s. In the event our credit ratings fall below certain specified rating triggers or are withdrawn by S&P or Moody s, the counterparties to the derivative instruments are entitled to full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2009, is $6.0 billion for which we have posted collateral of $5.6 billion in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2009, we would be required to post an additional $0.4 billion of collateral to our counterparties.

At December 31, 2009 and December 31, 2008, there were no amounts of cash collateral that were not offset against derivative assets, net or derivative liabilities, net, as applicable. See NOTE 19: CONCENTRATION OF CREDIT AND OTHER RISKS for further information related to our derivative counterparties.

As shown in Table 13.3 the total AOCI, net of taxes, related to derivatives designated as cash flow hedges was a loss of $2.9 billion and $3.7 billion at December 31, 2009 and 2008, respectively, composed of deferred net losses on closed cash flow hedges. Closed cash flow hedges involve derivatives that have been terminated or are no longer designated as cash flow hedges. Fluctuations in prevailing market interest rates have no impact on the deferred portion of AOCI relating to losses on closed cash flow hedges.

Over the next 12 months, we estimate that approximately $665 million, net of taxes, of the $2.9 billion of cash flow hedging losses in AOCI, net of taxes, at December 31, 2009 will be reclassified into earnings. The maximum remaining length of time over which we have hedged the exposure related to the variability in future cash flows on forecasted transactions, primarily forecasted debt issuances, is 24 years. However, over 70% and 90% of AOCI, net of taxes, relating to closed cash flow hedges at December 31, 2009, will be reclassified to earnings over the next five and ten years, respectively.

Table 13.3 presents the changes in AOCI, net of taxes, related to derivatives designated as cash flow hedges. Net change in fair value related to cash flow hedging activities, net of tax, represents the net change in the fair value of the derivatives that were designated as cash flow hedges, after the effects of our federal statutory tax rate of 35% for cash flow hedges closed prior to 2008 and a tax rate of 35%, with a full valuation allowance for cash flow hedges closed during 2008, to the extent the hedges were effective. Net reclassifications of losses to earnings, net of tax, represents the AOCI amount that was recognized in earnings as the originally hedged forecasted transactions affected earnings, unless it was deemed probable that the forecasted transaction would not occur. If it is probable that the forecasted transaction will not occur, then the deferred gain or loss associated with the hedge related to the forecasted transaction would be reclassified into earnings immediately. For further information on our deferred tax assets, net valuation allowance see NOTE 15: INCOME TAXES.

Table 13.3 AOCI, Net of Taxes, Related to Cash Flow Hedge Relationships

	Year Ended December 31, 2009	2008	2007
	(in millions)		
Beginning balance(1)	$ (3,678)	$ (4,059)	$ (5,032)
Cumulative effect of change in accounting principle(2)		4	
Net change in fair value related to cash flow hedging activities, net of tax(3)		(522)	(30)
Net reclassifications of losses to earnings, net of tax(4)	773	899	1,003
Ending balance(1)	$ (2,905)	$ (3,678)	$ (4,059)

(1) Represents the effective portion of the fair value of open derivative contracts (*i.e.*, net unrealized gains and losses) and net deferred gains and losses on closed (*i.e.*, terminated or redesignated) cash flow hedges.
(2) Represents adjustment to initially apply the accounting standards on the fair value option for financial assets and financial liabilities. Net of tax benefit of $ million for the year ended December 31, 2008.
(3) Net of tax benefit of $ million, $25 million, and $16 million for years ended December 31, 2009, 2008 and 2007, respectively.
(4) Net of tax benefit of $392 million, $476 million and $540 million for years ended December 31, 2009, 2008 and 2007, respectively.

Table 13.4 summarizes hedge ineffectiveness recognized related to our hedge accounting categories.

Table 13.4 Hedge Accounting Categories Information

	Year Ended December 31, 2009	2008	2007
	(in millions)		
Fair value hedges			
Hedge ineffectiveness recognized in other income pre-tax(1)	$	$	$
Cash flow hedges			
Hedge ineffectiveness recognized in other income pre-tax(1)	$	$ (16)	$

(1) No amounts have been excluded from the assessment of effectiveness.

NOTE 14: LEGAL CONTINGENCIES

We are involved as a party to a variety of legal and regulatory proceedings arising from time to time in the ordinary course of business including, among other things, contractual disputes, personal injury claims, employment-related litigation and other legal proceedings incidental to our business. We are frequently involved, directly or indirectly, in litigation involving mortgage foreclosures. From time to time, we are also involved in proceedings arising from our termination of a seller/servicer s eligibility to sell mortgages to, and/or service mortgages for, us. In these cases, the former seller/servicer sometimes seeks damages against us for wrongful termination under a variety of legal theories. In addition, we are sometimes sued in connection with the origination or servicing of mortgages. These suits typically involve claims alleging wrongful actions of seller/servicers. Our contracts with our seller/servicers generally provide for indemnification against liability arising from their wrongful actions with respect to mortgages sold to Freddie Mac.

Litigation and claims resolution are subject to many uncertainties and are not susceptible to accurate prediction. In accordance with the accounting standards for contingencies, we reserve for litigation claims and assessments asserted or threatened against us when a loss is probable and the amount of the loss can be reasonably estimated.

Putative Securities Class Action Lawsuits. *Ohio Public Employees Retirement System (OPERS) vs. Freddie Mac, Syron, et al.* This putative securities class action lawsuit was filed against Freddie Mac and certain former officers on January 18, 2008 in the U.S. District Court for the Northern District of Ohio purportedly on behalf of a class of purchasers of Freddie Mac stock from August 1, 2006 through November 20, 2007. The plaintiff alleges that the defendants violated federal securities laws by making false and misleading statements concerning our business, risk management and the procedures we put into place to protect the company from problems in the mortgage industry. On April 10, 2008, the court appointed OPERS as lead plaintiff and approved its choice of counsel. On September 2, 2008, defendants filed a motion to dismiss plaintiff s amended complaint, which purportedly asserted claims on behalf of a class of purchasers of Freddie Mac stock between August 1, 2006 and November 20, 2007. On November 7, 2008, the plaintiff filed a second amended complaint, which removed certain allegations against Richard Syron, Anthony Piszel, and Eugene McQuade, thereby leaving insider-trading allegations against only Patricia Cook. The second amended complaint also extends the damages period, but not the class period. The complaint seeks unspecified damages and interest, and reasonable costs and expenses, including attorney and expert fees. On November 19, 2008, the Court granted FHFA s motion to intervene in its capacity as Conservator. On April 6, 2009, defendants filed a motion to dismiss the second amended complaint, which motion remains pending. At present, it is not possible for us to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition, or results of operations.

Kuriakose vs. Freddie Mac, Syron, Piszel and Cook. Another putative class action lawsuit was filed against Freddie Mac and certain former officers on August 15, 2008 in the U.S. District Court for the Southern District of New York for alleged violations of federal securities laws purportedly on behalf of a class of purchasers of Freddie Mac stock from November 21, 2007 through August 5, 2008. The plaintiff claims that defendants made false and misleading statements about Freddie Mac s business that artificially inflated the price of Freddie Mac s common stock, and seeks unspecified damages, costs, and attorneys fees. On January 20, 2009, FHFA filed a motion to intervene and stay the proceedings. On February 6, 2009, the court granted FHFA s motion to intervene and stayed the case for 45 days. On May 19, 2009, plaintiffs filed an amended consolidated complaint, purportedly on behalf of a class of purchasers of Freddie Mac stock from November 30, 2007 through September 7, 2008. Freddie Mac served a motion to dismiss the complaint on all parties on September 23, 2009, which motion remains pending. At present, it is not possible for us to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition, or results of operations.

Shareholder Demand Letters. In late 2007 and early 2008, the Board of Directors received three letters from purported shareholders of Freddie Mac, which together contain allegations of corporate mismanagement and breaches of fiduciary duty in connection with the company s risk management, alleged false and misleading financial disclosures, and the alleged sale of stock based on material non-public information by certain current and former officers and directors of Freddie Mac. One letter demands that the board commence an independent investigation into the alleged conduct, institute legal proceedings to recover damages from the responsible individuals, and implement corporate governance initiatives to ensure that the alleged problems do not recur. The second letter demands that Freddie Mac commence legal proceedings to recover damages from responsible board members, senior officers, Freddie Mac s outside auditors, and other parties who allegedly aided or abetted the improper conduct. The third letter demands relief similar to that of the second letter, as well as recovery for unjust enrichment. Prior to the conservatorship, the Board of Directors formed a Special Litigation Committee, or SLC, to investigate the purported shareholders allegations, and engaged counsel for that purpose. Pursuant to the conservatorship, FHFA, as the Conservator, has succeeded to the powers of the Board of Directors, including the power to conduct investigations such as the one conducted by the SLC of the prior Board of Directors. The counsel engaged by the former SLC is continuing the investigation pursuant to instructions from FHFA. As described below, each of these purported shareholders subsequently filed lawsuits against Freddie Mac.

Shareholder Derivative Lawsuits. A shareholder derivative complaint, purportedly on behalf of Freddie Mac, was filed on March 10, 2008, in the U.S. District Court for the Southern District of New York against certain former officers and current and former directors of Freddie Mac and a number of third parties. An amended complaint was filed on August 21, 2008. The complaint, which was filed by Robert Bassman, an individual who had submitted a shareholder demand letter to the Board of Directors in late 2007, alleges breach of fiduciary duty, negligence, violations of the Sarbanes-Oxley Act of 2002 and unjust enrichment in connection with various alleged business and risk management failures. It also alleges insider selling and false assurances by the company regarding our financial exposure in the subprime financing market, our risk management and our internal controls. The plaintiff seeks unspecified damages, declaratory relief, an accounting, injunctive relief, disgorgement, punitive damages, attorneys fees, interest and costs. On November 20, 2008, the court transferred the case to the Eastern District of Virginia.

On July 24, 2008, The Adams Family Trust and Kevin Tashjian filed a purported derivative lawsuit in the U.S. District Court for the Eastern District of Virginia against certain current and former officers and directors of Freddie Mac, with Freddie Mac named as a nominal defendant in the action. The Adams Family Trust and Kevin Tashjian had previously sent a derivative demand letter to the Board of Directors in early 2008 requesting that it commence legal proceedings against senior management and certain directors to recover damages for their alleged wrongdoing. Similar to the Bassman case described above, this complaint alleges that the defendants breached their fiduciary duties by failing to implement and/or maintain sufficient risk management and other controls; failing to adequately reserve for uncollectible loans and other risks of loss; and making false and misleading statements regarding the company s exposure to the subprime market, the strength of the company s risk management and internal controls, and the company s underwriting standards in response to alleged abuses in the subprime industry. The plaintiffs also allege that certain of the defendants breached their fiduciary duties and unjustly enriched themselves through their sale of stock based on material non-public information. The complaint seeks the imposition of a constructive trust for the proceeds of alleged insider stock sales, unspecified damages and equitable relief, disgorgement of proceeds of alleged insider stock sales, costs, and attorneys , accountants and experts fees.

On August 15, 2008, a purported shareholder derivative lawsuit was filed by the Louisiana Municipal Police Employees Retirement System, or LMPERS, in the U.S. District Court for the Eastern District of Virginia against certain current and former officers and directors of Freddie Mac. The plaintiff alleges that the defendants breached their fiduciary duties and violated federal securities laws in connection with the company s recent losses, including by unjustly enriching themselves with salaries, bonuses, benefits and other compensation, and through their sale of stock based on material non-public information. The plaintiff seeks unspecified damages, constructive trusts on proceeds associated with insider trading and improper payments made to defendants, restitution and disgorgement, an order requiring reform and improvement of corporate governance, costs and attorneys fees.

On October 15, 2008, the U.S. District Court for the Eastern District of Virginia consolidated the LMPERS and Adams Family Trust cases. On October 24, 2008, a motion was filed to have LMPERS appointed lead plaintiff. On November 3, 2008, the Court granted FHFA s motion to intervene in its capacity as Conservator. In that capacity, FHFA also filed a motion to stay all proceedings and to substitute for plaintiffs in the action. On December 12, 2008, the Court consolidated the Bassman litigation with the LMPERS and Adams Family Trust cases. On December 19, 2008, the Court stayed the consolidated cases pending further order from the Court. On July 27, 2009, the Court granted FHFA s motion to substitute for plaintiffs and lifted the stay. On August 20, 2009, the plaintiffs filed an appeal of the Court s order substituting FHFA for the plaintiffs. On October 29, 2009, FHFA filed a motion to dismiss the appeal for lack of appellate jurisdiction, which motion remains pending. On November 16, 2009, the Court issued an Order granting the parties consent motion to stay all proceedings, including the deadlines for the Defendants to answer or otherwise respond to the complaints, to June 1, 2010. At present, it is not possible for us to predict the probable outcome of these lawsuits or any potential impact on our business, financial condition or results of operations.

A shareholder derivative complaint, purportedly on behalf of Freddie Mac, was filed on June 6, 2008 in the U.S. District Court for the Southern District of New York against certain former officers and current and former directors of Freddie Mac by the Esther Sadowsky Testamentary Trust, which had submitted a shareholder demand letter to the Board of Directors in late 2007. The complaint alleges that defendants caused the company to violate its charter by engaging in unsafe, unsound and improper speculation in high risk mortgages to boost near term profits, report growth in the company s mortgage-related investments portfolio and guarantee business, and take market share away from its primary competitor, Fannie Mae. Plaintiff asserts claims for alleged breach of fiduciary duty and declaratory and injunctive relief. Among other things, plaintiff also seeks an accounting, an order requiring that defendants remit all salary and compensation received during the periods they allegedly breached their duties, and an award of pre-judgment and post-judgment interest, attorneys fees, expert fees and consulting fees, and other costs and expenses. On November 13, 2008, in its capacity as Conservator, FHFA filed a motion to intervene and substitute for plaintiffs. FHFA also filed a motion to stay all proceedings for a period of 90 days. On January 28, 2009, the magistrate judge assigned to the case issued a report recommending that FHFA s motion to substitute as plaintiff be granted. By order dated May 6, 2009, the Court adopted and affirmed the magistrate judge s report substituting FHFA as plaintiff in place of the Trust and stayed the case for an additional 45 days. Plaintiff has filed a notice of appeal with respect to the Court s May 6 ruling, and proposed intervenor Bassman has filed his notice of appeal with respect to the May 6 ruling and the Court s denial of his earlier motion to intervene or, alternatively, appear as amicus curiae. On October 29, 2009, FHFA filed a motion to dismiss the appeal for lack of appellate jurisdiction. On November 16, 2009, the Court approved a stipulation by the parties extending the time for the Defendants to answer, move, or otherwise respond to the complaint to June 1, 2010. At present, it is not possible for us to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition or results of operations.

Government Investigations and Inquiries. On September 26, 2008, Freddie Mac received a federal grand jury subpoena from the U.S. Attorney s Office for the Southern District of New York. The subpoena sought documents relating to accounting, disclosure and corporate governance matters for the period beginning January 1, 2007. Subsequently, we were informed that the subpoena was withdrawn, and that an investigation is being conducted by the U.S. Attorney s Office for the Eastern District of Virginia. On September 26, 2008, Freddie Mac received notice from the Staff of the Enforcement Division of the U.S. Securities and Exchange Commission that it is also conducting an inquiry to determine whether there has been any violation of federal securities laws, and directing the company to preserve documents. On October 21, 2008, the SEC issued to the company a request for documents. The SEC staff is also conducting interviews of company employees. Beginning January 23, 2009, the SEC issued subpoenas to Freddie Mac and certain of its employees pursuant to a formal order of investigation. Freddie Mac is cooperating fully in these matters.

Indemnification Requests. By letter dated October 17, 2008, Freddie Mac received formal notification of a putative class action securities lawsuit, *Mark v. Goldman, Sachs & Co., J.P. Morgan Chase & Co., and Citigroup Global*

Markets Inc., filed on September 23, 2008, in the U.S. District Court for the Southern District of New York, regarding the company s November 29, 2007 public offering of 8.375% Fixed to Floating Rate Non-Cumulative Perpetual Preferred Stock. On April 30, 2009, the Court consolidated the Mark case with the Kreysar case discussed below, and the plaintiffs filed a consolidated class action complaint in the Kreysar case on July 2, 2009. The defendants filed a motion to dismiss the consolidated class action complaint on September 30, 2009. On January 14, 2010, the Court granted the defendants motion to dismiss the consolidated action with leave to file an amended complaint on or before March 15, 2010. Freddie Mac is not named as a defendant in the consolidated lawsuit, but the underwriters previously gave notice to Freddie Mac of their intention to seek full indemnity and contribution under the Underwriting Agreement in the Mark case, including reimbursement of fees and disbursements of their legal counsel. At present, it is not possible for us to predict the probable outcome of the lawsuit or any potential impact on our business, financial condition or results of operations.

By letter dated June 5, 2009, Freddie Mac received formal notification of a putative class action lawsuit, *Liberty Mutual Insurance Company, Peerless Insurance Company, Employers Insurance Company of Wausau, Safeco Corporation, and Liberty Assurance Company of Boston v. Goldman, Sachs & Co.*, filed on April 6, 2009 in the Superior Court for the Commonwealth of Massachusetts, County of Suffolk and removed to the U.S. District Court for the District of Massachusetts on April 24, 2009. The complaint alleges that Goldman, Sachs & Co. omitted and made untrue statements of material facts, committed unfair or deceptive trade practices, common law fraud, and negligent misrepresentation, and violated the laws of the Commonwealth of Massachusetts and the State of Washington while acting as the underwriter of 240,000,000 shares of Freddie Mac preferred stock (Series Z) issued December 4, 2007. On April 24, 2009, Goldman Sachs joined with defendants in the Jacoby case discussed below and in the Mark and Kreysar cases in filing a motion to transfer the Liberty Mutual and Jacoby cases to the judge hearing the Mark and Kreysar cases. Freddie Mac is not named as a defendant in this lawsuit, but the underwriters gave notice to Freddie Mac of their intention to seek full indemnity and contribution under the Underwriting Agreement, including reimbursement of fees and disbursements of their legal counsel. The Liberty Mutual case was transferred to the U.S. District Court for the Southern District of New York on August 11, 2009, and voluntarily dismissed by the plaintiffs without prejudice on August 17, 2009.

Related Third Party Litigation. On December 15, 2008, a plaintiff filed a putative class action lawsuit in the U.S. District Court for the Southern District of New York against certain former Freddie Mac officers and others styled *Jacoby v. Syron, Cook, Piszel, Banc of America Securities LLC, JP Morgan Chase & Co., and FTN Financial Markets*. The complaint, as amended on December 17, 2008, contends that the defendants made material false and misleading statements in connection with Freddie Mac s September 2007 offering of non-cumulative, non-convertible, perpetual fixed-rate preferred stock, and that such statements grossly overstated Freddie Mac s capitalization and failed to disclose Freddie Mac s exposure to mortgage-related losses, poor underwriting standards and risk management procedures. The complaint further alleges that Syron, Cook and Piszel made additional false statements following the offering. Freddie Mac is not named as a defendant in this lawsuit.

On January 29, 2009, a plaintiff filed a putative class action lawsuit in the U.S. District Court for the Southern District of New York styled *Kreysar v. Syron, et al*. As noted above, on April 30, 2009, the Court consolidated the Mark case with the Kreysar case, and the plaintiffs filed a consolidated class action complaint on July 2, 2009. The consolidated complaint alleges that former Freddie Mac officers Syron, Piszel, and Cook, certain underwriters and Freddie Mac s auditor, PricewaterhouseCoopers LLP, violated federal securities laws by making material false and misleading statements in connection with an offering by Freddie Mac of $6 billion of 8.375% Fixed to Floating Rate Non-Cumulative Perpetual Preferred Stock Series Z that commenced on November 29, 2007. The complaint further alleges that certain defendants and others made additional false statements following the offering. The complaint names as defendants Syron, Piszel, Cook, Goldman, Sachs & Co., JPMorgan Chase & Co., Banc of America Securities LLC, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated, UBS Securities LLC and PricewaterhouseCoopers LLP. Freddie Mac is not named as a defendant in this lawsuit. As discussed above, the Court dismissed the case with leave to file an amended complaint on or before March 15, 2010.

Lehman Bankruptcy. On September 15, 2008, Lehman filed a chapter 11 bankruptcy petition in the Bankruptcy Court for the Southern District of New York. Thereafter, many of Lehman s U.S. subsidiaries and affiliates also filed bankruptcy petitions (collectively, the Lehman Entities). Freddie Mac had numerous relationships with the Lehman Entities which give rise to several claims. On September 22, 2009, Freddie Mac filed proofs of claim in the Lehman bankruptcies aggregating approximately $2.1 billion.

Taylor, Bean & Whitaker Bankruptcy. On August 24, 2009, Taylor, Bean & Whitaker Mortgage Corp., or TBW, filed for bankruptcy. Prior to that date, Freddie Mac had terminated TBW s status as a seller/servicer of loans. Our current estimate of potential exposure to TBW at December 31, 2009 for loan repurchase obligations, excluding the estimated fair value of servicing rights, was approximately $700 million. We anticipate pursuing various claims against TBW. In addition to this amount, Freddie Mac filed a proof of claim aggregating approximately $595 million against Colonial Bank. The proof of claim relates to monies that remain, or should remain, on deposit 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.

We continue to evaluate our other potential exposures and are working with the debtor in possession, the FDIC and other creditors to quantify these exposures. At this time, we are unable to estimate our total potential exposure related to TBW s bankruptcy; however, the amount of additional losses related to such exposures could be significant.

NOTE 15: INCOME TAXES

We are exempt from state and local income taxes. Table 15.1 presents the components of our provision for income taxes for 2009, 2008, and 2007.

Table 15.1 Provision for Federal Income Taxes

	Year Ended December 31, 2009	2008	2007
	(in millions)		
Current income tax benefit (expense)	$ 160	$ (45)	$ (1,056)
Deferred income tax benefit (expense)	670	(5,507)	3,943
Total income tax benefit (expense)[1]	$ 830	$ (5,552)	$ 2,887

(1) Does not reflect (a) the deferred tax effects of unrealized (gains) losses on available-for-sale securities, the tax effects of net (gains) losses related to the effective portion of derivatives designated in cash flow hedge relationships, and the tax effects of certain changes in our defined benefit plans which are reported as part of AOCI, (b) certain stock-based compensation tax effects reported as part of additional paid-in capital, and (c) the tax effect of cumulative effect of change in accounting principles.

A reconciliation between our federal statutory income tax rate and our effective tax rate for 2009, 2008, and 2007 is presented in Table 15.2.

Table 15.2 Reconciliation of Statutory to Effective Tax Rate

	Year Ended December 31, 2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in millions)					
Statutory corporate tax rate	$ 7,834	35.0%	$ 15,597	35.0%	$ 2,096	35.0%
Tax-exempt interest	252	1.1	266	0.6	255	4.3
Tax credits	594	2.7	589	1.3	534	8.9
Unrecognized tax benefits and related interest/contingency reserves	(12)	(0.1)	167	0.4	(32)	(0.5)
Valuation allowance	(7,860)	(35.1)	(22,172)	(49.8)		
Other	22	0.1	1		34	0.5
Effective tax rate	$ 830	3.7%	$ (5,552)	(12.5)%	$ 2,887	48.2%

The change in the 2009 valuation allowance of $7.9 billion for the year ended December 31, 2009 in Table 15.2 is reduced by the $5.1 billion related to the adoption of an amendment to the accounting standards for investments in debt and equity securities recorded through retained earnings in the second quarter, resulting in a net $2.7 billion increase in our valuation allowance, as presented in Table 15.3 below. See NOTE 6: INVESTMENTS IN SECURITIES for additional information on our adoption of the amendment to the accounting standards for investments in debt and equity securities.

In 2008 and 2009, our effective tax rate differs from the federal statutory tax rate of 35% primarily due to the establishment of a partial valuation allowance against our net deferred tax assets in the third quarter of 2008. Those tax benefits recognized represent primarily the current tax benefits associated with our ability to carry back net operating tax losses expected to be generated in 2009 to previous tax years. In 2007, our effective tax rate differs from the federal statutory tax rate of 35% primarily due to the benefits of our investments in LIHTC partnerships and tax-exempt housing-related securities.

The sources and tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities for the years ended December 31, 2009 and 2008 are presented in Table 15.3.

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Deferred Tax Assets, Net

Table 15.3 Deferred Tax Assets, Net

	December 31, 2009			December 31, 2008		
	Amount	Adjust for Valuation Allowance	Adjusted Amount	Amount	Adjust for Valuation Allowance	Adjusted Amount
	(in millions)					
Deferred tax assets:						
Deferred fees	$ 1,613	$ (1,613)	$	$ 3,027	$ (3,027)	$
Basis differences related to derivative instruments	4,473	(4,473)		5,969	(5,969)	
Credit related items and reserve for loan losses	16,296	(16,296)		7,478	(7,478)	
Basis differences related to assets held for investment	1,361	(1,361)		5,504	(5,504)	
Unrealized (gains) losses related to available-for-sale securities	11,101		11,101	15,351		15,351
LIHTC and AMT credit carryforward	1,598	(1,598)		526	(526)	
Other items, net	67	(67)		186	(186)	
Total deferred tax assets	36,509	(25,408)	11,101	38,041	(22,690)	15,351
Deferred tax liabilities:						
Basis differences related to debt	(300)	300		(314)	314	
Total deferred tax (liability)	(300)	300		(314)	314	
Deferred tax assets, net	$ 36,209	$ (25,108)	$ 11,101	$ 37,727	$ (22,376)	$ 15,351

We use the asset and liability method to account for income taxes in accordance with the accounting standards for income taxes. Under this method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. Valuation allowances are recorded to reduce net deferred tax assets when it is more likely than not that a tax benefit will not be realized. The realization of our net deferred tax assets is dependent upon the generation of sufficient taxable income or upon our intent and ability to hold available-for-sale debt securities until the recovery of any temporary unrealized losses. On a quarterly basis, we consider all evidence currently available, both positive and negative, in determining whether, based on the weight of that evidence, the net deferred tax assets will be realized and whether a valuation allowance is necessary and whether the allowance should be adjusted.

Events since our entry into conservatorship, including those described in NOTE 2: CONSERVATORSHIP AND RELATED DEVELOPMENTS, fundamentally affect our control, management and operations and are likely to affect our future financial condition and results of operations. These events have resulted in a variety of uncertainties regarding our future operations, our business objectives and strategies and our future profitability, the impact of which cannot be reliably forecasted at this time. In evaluating our need for a valuation allowance, we considered all of the events and evidence discussed above, in addition to: (1) our three-year cumulative loss position; (2) our carryback and carryforward availability; (3) our difficulty in predicting unsettled circumstances; and (4) our conclusion that we have the intent and ability to hold our available-for sale securities to the recovery of any temporary unrealized losses.

Subsequent to the date of our entry into conservatorship, we determined that it was more likely than not that a portion of our deferred tax assets, net 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 the events and developments related to our conservatorship, other events in the market, and related difficulty in forecasting future profit levels, we reached a similar conclusion in the fourth quarter of 2009. We increased our valuation allowance by $2.7 billion in total during 2009, including a $3.1 billion increase in the fourth quarter. The $2.7 billion increase during 2009 was primarily attributable to temporary differences generated during the year, partially offset by a $5.1 billion reduction attributable to the second quarter adoption of an amendment to the accounting standards for investments in debt and equity securities. See NOTE 6: INVESTMENTS IN SECURITIES for additional information on our adoption of the amendment to the accounting standards for investments in debt and equity securities. Our total valuation allowance as of December 31, 2009 was $25.1 billion. As of December 31, 2009, after consideration of the valuation allowance, we had a net deferred tax asset of $11.1 billion representing the tax effect of unrealized losses on our available-for-sale securities. Management believes these unrealized losses are more likely than not to be realized because of our conclusion that we have the intent and ability to hold our available-for-sale securities until any temporary unrealized losses are recovered. Our view of our ability to realize the deferred tax assets, net may change in future periods, particularly if the mortgage and housing markets continue to decline.

In 2008, our income tax liability under the AMT was greater than our regular income tax liability by $133 million. As a result, we paid $133 million in additional taxes on our 2008 federal income tax return and will carryforward this tax credit to be applied against our regular tax liability in future years.

In addition, we were not able to use the LIHTC tax credits generated in 2008 and 2009. For 2008, we have unused tax credits of $608 million that will carryforward into future years because we were in an AMT tax position. For 2009, we have unused tax credits of $594 million that will carryforward into future years because we anticipate being in a taxable loss position for 2009.

As of December 31, 2009, a full valuation allowance was established against the LIHTC and AMT tax credits based on our 2009 deferred tax asset valuation allowance assessment.

Unrecognized Tax Benefits

Table 15.4 Unrecognized Tax Benefits

	2009	2008	2007
		(in millions)	
Balance at January 1	$ 636	$ 637	$ 677
Changes based on tax positions in prior years	4	(74)	
Changes to tax positions that only affect timing	165	73	(40)
Balance at December 31	$ 805	$ 636	$ 637

At December 31, 2009, we had total unrecognized tax benefits, exclusive of interest, of $805 million. Included in the $805 million are $6 million of unrecognized tax benefits that, if recognized, would favorably affect our effective tax rate. The unrecognized tax benefits on tax positions prior to 2009 changed by $4 million due to a settlement with the IRS. The settlement had an unfavorable impact on our effective tax rate. The remaining $799 million of unrecognized tax benefits at December 31, 2009 related to tax positions for which ultimate deductibility is highly certain, but for which there is uncertainty as to the timing of such deductibility.

We continue to recognize interest and penalties, if any, in income tax expense. Total accrued interest receivable remained unchanged at $245 million at December 31, 2009 compared to December 31, 2008. Amounts included in total accrued interest relate to: (a) unrecognized tax benefits; (b) pending claims with the IRS for open tax years; (c) the tax benefit related to the settlement; and (d) the impact of payments made to the IRS in prior years in anticipation of potential tax deficiencies. Of the $245 million of accrued interest receivable as of December 31, 2009, approximately $233 million of accrued interest payable is allocable to unrecognized tax benefits. We recognized approximately $ million of interest income or expense in 2009, $160 million of interest income in 2008 and $18 million of interest expense in 2007. We have accrued no amounts for penalties during 2009, 2008 or 2007.

The period for assessment under the statute of limitations for federal income tax purposes is open on corporate income tax returns filed for years 1985 to 2008. Tax years 1985 to 1997 are before the U.S. Tax Court. In June 2008, we reached agreement with the IRS on a settlement regarding the tax treatment of the customer relationship intangible asset recognized upon our transition from non-taxable to taxable status in 1985. As a result of this agreement, we re-measured the tax benefit from this uncertain tax position and recognized $171 million of tax benefit and interest income in the second quarter of 2008. This settlement, which was approved by the Joint Committee on Taxation of Congress, resolves the last matter to be decided by the U.S. Tax Court in the current litigation. Those matters not resolved by settlement agreement in the case, including the favorable financing intangible asset decided favorably by the Court in 2006, are subject to appeal.

The IRS has completed its examinations of years 1998 to 2005 and is currently examining years 2006 and 2007. The principal matter in controversy as the result of the 1998 to 2005 examinations involves questions of timing and potential penalties regarding our tax accounting method for certain hedging transactions. It is reasonably possible that the hedge accounting method issue will be resolved within the next 12 months. Management believes adequate reserves have been provided for settlement on reasonable terms. Changes could occur in the gross balance of unrecognized tax benefits within the next 12 months that could have a material impact on income tax expense or benefit in the period the issue is resolved. However, we have no information that would enable us to estimate such impact at this time.

Effect of Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction for certain non-performance-based compensation payments made to certain executive officers of publicly held corporations. Because our common stock previously was not required to be registered under the Exchange Act, we were not a publicly-held corporation under Section 162(m) and applicable Treasury regulations. The Housing and Economic Recovery Act of 2008 specifically eliminated the Exchange Act registration exemption for our equity securities. Accordingly, our stock is required to be registered under the Exchange Act, and we are therefore subject to Section 162(m). The impact has not been material.

Tax Status of REITs

On September 19, 2008, FHFA, as Conservator, advised us of FHFA s determination that no further common or preferred stock dividends should be paid by our REIT subsidiaries. FHFA specifically directed us, as the controlling stockholder of both REIT subsidiaries and the boards of directors of both companies, not to declare or pay any dividends on the preferred stock of the REITs until FHFA directs otherwise. However, at our request and with Treasury s consent, FHFA directed us and the boards of directors of our REIT subsidiaries during fourth quarter 2009 to (i) declare and pay a preferred stock dividend for one quarter, which the REITs paid for the quarter ended September 30, 2008 and (ii) take all steps necessary to effect the elimination of the REITs by merger in a timely and expeditious manner. No other common or preferred stock dividends were declared by our REIT subsidiaries during 2009. Consequently, absent further direction from FHFA to declare and pay dividends (within the time constraints set forth in the Internal Revenue Code) on the REIT preferred and common stock, the REITs will no longer qualify as REITs for federal income tax purposes retroactively to January 1, 2009. Upon losing REIT status, both REITs will be eligible to file a consolidated federal income tax return with Freddie Mac for the year ended December 31, 2009.

NOTE 16: EMPLOYEE BENEFITS

Defined Benefit Plans

We maintain a tax-qualified, funded defined benefit pension plan, or Pension Plan, covering substantially all of our employees. Pension Plan benefits are based on an employee s years of service and highest average compensation, up to legal plan limits, over any consecutive 36 months of employment. Our Pension Plan assets are invested in various combinations of equity, fixed income, and other types of investments. In addition to our Pension Plan, we maintain a nonqualified, unfunded defined benefit pension plan for our officers, as part of our Supplemental Executive Retirement Plan, or SERP. The related retirement benefits for our SERP are paid from our general assets. Our qualified and nonqualified defined benefit pension plans are collectively referred to as defined benefit pension plans.

We maintain a defined benefit postretirement health care plan, or Retiree Health Plan, that generally provides postretirement health care benefits on a contributory basis to retired employees age 55 or older who rendered at least 10 years of service (five years of service if the employee was eligible to retire prior to March 1, 2007) and who, upon separation or termination, immediately elected to commence benefits under the Pension Plan in the form of an annuity. Our Retiree Health Plan is currently unfunded and the benefits are paid from our general assets. This plan and our defined benefit pension plans are collectively referred to as the defined benefit plans.

Prior to 2008, for financial reporting purposes, we used a September 30 valuation measurement date for all of our defined benefit plans. Effective January 1, 2008, we changed the measurement date of our defined benefit plan assets and obligations from September 30 to our fiscal year-end date of December 31 using the 15-month transition method in accordance with an amendment to the measurement date provisions in accounting requirements for defined benefit pension and other post retirement plans. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for further information regarding the change to our measurement date.

We accrue the estimated cost of retiree benefits as employees render the services necessary to earn their pension and postretirement health benefits. Our pension and postretirement health care costs related to these defined benefit plans for 2009, 2008 and 2007 presented in the following tables were calculated using assumptions as of December 31, 2008, September 30, 2007 and 2006, respectively. The funded status of our defined benefit plans for 2009 and 2008 presented in the following tables was calculated using assumptions as of December 31, 2009 and 2008, respectively.

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Table 16.1 shows the changes in our benefit obligations and fair value of plan assets using December 31, 2009 and 2008 valuation measurement dates for amounts recognized on our consolidated balance sheets at December 31, 2009 and 2008, respectively.

Table 16.1 Obligation and Funded Status of our Defined Benefit Plans

	Pension Benefits		Postretirement Health Benefits	
	2009	2008	2009	2008
	(in millions)			
Change in benefit obligation:				
Benefit obligation at January 1, 2009 and October 1, 2007	$ 581	$ 539	$ 133	$ 127
Adjustments due to adoption of an amendment to the measurement date provisions in accounting requirements for defined benefit pension and other post retirement plans:				
Service cost and interest cost[1]		17		4
Benefits paid[1]		(2)		(1)
Service cost	32	35	7	9
Interest cost	34	33	8	8
Net actuarial gain	(3)	(30)	9	(13)
Benefits paid	(15)	(10)	(2)	(1)
Curtailments		(1)		
Benefit obligation at December 31	629	581	155	133
Change in plan assets:				
Fair value of plan assets at January 1, 2009 and October 1, 2007	446	559		
Adjustments due to adoption of an amendment to the measurement date provisions in accounting requirements for defined benefit pension and other post retirement plans:				
Benefits paid[1]		(2)		
Actual return on plan assets	68	(119)		
Employer contributions	80	18		
Benefits paid	(15)	(10)		
Fair value of plan assets at December 31	579	446		
Funded status at December 31	$ (50)	$ (135)	$ (155)	$ (133)
Amounts recognized on our consolidated balance sheets at December 31:				
Other assets	$ 12	$	$	$
Other liabilities	(62)	(135)	(155)	(133)
AOCI, net of taxes related to defined benefit plans:[2]				
Net actuarial loss (gain)	$ 123	$ 174	$ 3	$ (5)
Prior service cost (credit)	1	1		(1)
Total AOCI, net of taxes	$ 124	$ 175	$ 3	$ (6)

(1) Represent changes in our benefit obligations related to service cost and interest cost as well as benefits paid and changes in our plan assets related to benefits paid from October 1, 2007 to December 31, 2007.
(2) Includes the effect of the establishment of a valuation allowance against our deferred tax assets, net.

The accumulated benefit obligation for all defined benefit pension plans was $507 million and $464 million at December 31, 2009 and 2008, respectively. The accumulated benefit obligation represents the actuarial present value of future expected benefits attributed to employee service rendered before the measurement date and based on employee service and compensation prior to that date.

Table 16.2 provides additional information for our defined benefit pension plans. The aggregate accumulated benefit obligation and fair value of plan assets are disclosed as of December 31, 2009 and 2008, respectively, with the projected benefit obligation included for illustrative purposes.

Table 16.2 Additional Information for Defined Benefit Pension Plans

	2009			2008		
	Pension Plan	SERP	Total	Pension Plan	SERP	Total
	(in millions)					
Projected benefit obligation	$ 567	$ 62	$ 629	$ 524	$ 57	$ 581
Fair value of plan assets	$ 579	$	$ 579	$ 446	$	$ 446
Accumulated benefit obligation	460	47	507	419	45	464
Fair value of plan assets over (under) accumulated benefit obligation	$ 119	$ (47)	$ 72	$ 27	$ (45)	$ (18)

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The measurement of our benefit obligations includes assumptions about the rate of future compensation increases included in Table 16.3.

Table 16.3 Weighted Average Assumptions Used to Determine Projected and Accumulated Benefit Obligations

	Pension Benefits		Postretirement Health Benefits	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Discount rate	6.00%	6.00%	6.00%	6.00%
Rate of future compensation increase	5.10% to 6.50%	5.10% to 6.50%		

Table 16.4 presents the components of the net periodic benefit cost with respect to pension and postretirement health care benefits for the years ended December 31, 2009, 2008 and 2007. Net periodic benefit cost is included in salaries and employee benefits on our consolidated statements of operations.

Table 16.4 Net Periodic Benefit Cost Detail

	Pension Benefits			Postretirement Health Benefits		
	Year Ended December 31,			Year Ended December 31,		
	2009	2008	2007	2009	2008	2007
	(in millions)					
Net periodic benefit cost detail:						
Service cost	$ 32	$ 35	$ 34	$ 7	$ 9	$ 9
Interest cost on benefit obligation	34	33	30	8	8	7
Expected return on plan assets	(33)	(41)	(37)			
Recognized net (gain) loss	14	2	4			1
Recognized prior service cost (credit)				(1)	(1)	(1)
Net periodic benefit cost	$ 47	$ 29	$ 31	$ 14	$ 16	$ 16

Table 16.5 presents the changes in AOCI, net of taxes, related to our defined benefit plans recorded to AOCI throughout the year, after the effects of our federal statutory tax rate of 35%. As of December 31, 2009 and 2008, a portion of the valuation allowance established against the deferred tax asset, net related to our defined benefit plans was recorded to AOCI in the amounts of $28 million and $44 million, respectively. See NOTE 15: INCOME TAXES for further information on our deferred tax assets valuation allowance. The estimated net actuarial gain (loss) for our defined benefit plans that will be amortized from AOCI into net periodic benefit cost in 2010 is $(8) million. These amounts reflect the impact of the valuation allowance against our net deferred tax assets.

Table 16.5 AOCI, Net of Taxes, Related to Defined Benefit Plans

Year Ended

	December 31, 2009	2008
	(in millions)	
Beginning balance	$ (169)	$ (44)
Amounts recognized in AOCI, net of tax:(1)		
Recognized net gain (loss)	29	(126)
Net reclassification adjustments, net of tax:(1)(2)		
Recognized net loss (gain)	14	2
Recognized prior service cost (credit)	(1)	(1)
Ending balance(1)	$ (127)	$ (169)

(1) Includes the effect of the establishment of a valuation allowance against our deferred tax assets, net.
(2) Represent amounts subsequently recognized as adjustments to other comprehensive income as those amounts are recognized as components of net periodic benefit cost.

Table 16.6 includes the assumptions used in the measurement of our net periodic benefit cost.

Table 16.6 Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost

	Pension Benefits Year Ended December 31,			Postretirement Health Benefits Year Ended December 31,		
	2009	2008	2007	2009	2008	2007
Discount rate	6.00%	6.25%	6.00%	6.00%	6.25%	6.00%
Rate of future compensation increase	5.10% to 6.50%	5.10% to 6.50%	5.10% to 6.50%			
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%			

For the 2009 and 2008 benefit obligations, we determined the discount rate using a yield curve consisting of spot interest rates at half-year increments for each of the next 30 years, developed with pricing and yield information from high-quality bonds. The future benefit plan cash flows were then matched to the appropriate spot rates and discounted back to the measurement date. Finally, a single equivalent discount rate was calculated that, when applied to the same cash flows, results in the same present value of the cash flows as of the measurement date.

The expected long-term rate of return on plan assets was estimated using a portfolio return calculator model. The model considered the historical returns and the future expectations of returns for each asset class in our defined benefit plans in conjunction with our target investment allocation to arrive at the expected rate of return. The resulting expected long-term rate of return is selected based on the median projected return generated net of expenses using a weighted average of the major categories of assets as described in Table 16.8.

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation as of December 31, 2009 are 9.00% for pre 65 employees and 9.30% for post 65 employees in 2010, gradually declining to an ultimate rate of 4.5% in 2029 and remaining at that level thereafter.

Table 16.7 sets forth the effect on the accumulated postretirement benefit obligation for health care benefits as of December 31, 2009, and the effect on the service cost and interest cost components of the net periodic postretirement health benefit cost that would result from a 1% increase or decrease in the assumed health care cost trend rate.

Table 16.7 Selected Data Regarding our Retiree Medical Plan

	1% Increase	1% Decrease
	(in millions)	
Effect on the accumulated postretirement benefit obligation for health care benefits	$ 31	$ (24)
Effect on the service and interest cost components of the net periodic postretirement health benefit cost	4	(3)

Plan Assets

The Pension Plan s retirement investment committee has fiduciary responsibility for establishing and overseeing the investment policies and objectives of our Pension Plan and they review the appropriateness of our Pension Plan s investment strategy on an ongoing basis. In 2009 and 2008, our Pension Plan investment committee employed a total return investment approach whereby a diversified blend of equities and fixed income investments was used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan characteristics, such as benefit commitments, demographics and actuarial funding policies. In 2009, the investment committee changed the Pension Plan asset allocation strategy to a liability-driven investment philosophy with target allocations of 40% equity securities, 40% fixed income securities, and 20% asset allocation funds. Our Pension Plan assets are invested in various combinations of equity, fixed income, and other types of investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements and periodic asset and liability studies. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in their values will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits. However, the Pension Plan asset allocation is designed to be well diversified, in order to limit exposure to significant concentrations of risk.

Our Pension Plan assets did not include any direct ownership of our securities at December 31, 2009 and 2008.

Plan Assets Subject to Fair Value Hierarchy

We categorized our pension plan assets that are measured at fair value within the fair value hierarchy of the accounting standards for fair value measurements and disclosures based on the valuation techniques used to derive the fair value. Certain other assets in our pension plan assets, such as cash and cash equivalents, are recorded at their carrying amounts which approximate fair value. These are presented as a reconciling item below.

Table 16.8 sets forth our Pension Plan assets at December 31, 2009 by asset category. See NOTE 18: FAIR VALUE DISCLOSURES for additional information about the fair value hierarchy.

Table 16.8 Pension Plan Assets Measured at Fair Value by Asset Category

	Plan Assets at December 31, 2009			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Asset Category:				
Equity:				
U.S. large-cap	$	$ 120	$	$ 120
U.S. small/mid cap	63			63
International Equity		64		64
Fixed Income:				
Government/Corporate Bonds		40		40
Synthetic Fixed Income		180		180
Other Types of Investments:				
Asset Allocation Funds		110		110
Subtotal	$ 63	$ 514	$	577
Cash and Cash Equivalents				2
Total				$ 579

For U.S. small/mid cap equity securities that are measured using individual price quotes available on nationally-recognized exchanges, we classify these investments as Level 1 under the fair value hierarchy since they represent unadjusted quoted prices in active markets that we have the ability to access on the measurement date. Our other Pension Plan assets are measured using net asset values and are classified as Level 2. The net asset value is calculated by aggregating the fair value of the assets held by the fund as of the measurement date divided by the number of ownership units in the fund and represents our exit price.

Valuation Methods and Assumptions for Pension Plan Assets Subject to the Fair Value Hierarchy

Our Pension Plan assets are invested in various combinations of equity, fixed income, and other types of investments. Equity investments are diversified across U.S. and non-U.S. companies with small and large capitalizations. Fixed income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. treasury securities. The following is a description of the major asset categories and the significant investment strategies for the investment funds in which our Pension Plan s assets are invested, and that are subject to the fair value hierarchy:

Equity

U.S. Large Cap: Investments in this category consist of an S&P 500 equity index fund, measured at the net asset value of the fund shares held by the Pension Plan.

U.S. Small/Mid Cap: Investments in this category include separately managed portfolios that invest in stocks of small- and mid-capitalization U.S. companies, which are measured at the closing price reported on nationally-recognized exchanges.

International Equity: Investments in this category include commingled as well as mutual fund products. These strategies invest in stocks of companies located in developed and emerging market countries, whether traded on U.S. or international exchanges. These investments are measured at the net asset value of fund shares held by the Pension Plan.

Fixed Income

Government/Corporate Bonds: Investments in this category consist of a passively managed bond fund constructed to correspond to the characteristics of the Barclays Capital Government/Credit index. These investments are measured at the net asset value of fund shares held by the Pension Plan.

Synthetic Fixed Income: Investments in this category include a commingled fund of fixed income and derivative instruments designed to provide protection against interest rate exposure arising from expected liability payments. These investments are measured at the net asset value of fund shares held by the Pension Plan.

Other Types of Investments

Asset Allocation Funds: This category comprises commingled funds that invest in multiple asset classes, including U.S. and international equities, bonds and real estate assets. These investments are measured at the net asset value of fund shares held by the Pension Plan.

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Cash Flows Related to Defined Benefit Plans

Our general practice is to contribute to our Pension Plan an amount equal to at least the minimum required contribution, if any, but no more than the maximum amount deductible for federal income tax purposes each year. We made a contribution to our Pension Plan of $74 million during 2009 in an effort to fully fund the Pension Plan s projected benefit obligation. In 2008, we made a contribution to our Pension Plan of approximately $16.5 million. We have not yet determined whether a contribution to our Pension Plan is required for 2010.

In addition to the Pension Plan contributions noted above, we paid $6 million during 2009 and $2 million during 2008 in benefits under our SERP. Allocations under our SERP, as well as our Retiree Health Plan, are in the form of benefit payments, as these plans are unfunded.

Table 16.9 sets forth estimated future benefit payments expected to be paid for our defined benefit plans. The expected benefits are based on the same assumptions used to measure our benefit obligation at December 31, 2009.

Table 16.9 Estimated Future Benefit Payments

	Pension Benefits	Postretirement Health Benefits
	(in millions)	
2010	$ 13	$ 3
2011	15	4
2012	17	4
2013	20	5
2014	22	5
Years 2015-2019	160	36

Defined Contribution Plans

Our Thrift/401(k) Savings Plan, or Savings Plan, is a tax-qualified defined contribution pension plan offered to all eligible employees. Employees are permitted to contribute from 1% to 25% of their eligible compensation to the Savings Plan, subject to limits set by the Internal Revenue Code. We match employees contributions up to 6% of their eligible compensation per year, with such matching contributions being made each pay period; the percentage matched depends upon the employee s length of service. Employee contributions and our matching contributions are immediately vested. We also have discretionary authority to make additional contributions to our Savings Plan that are allocated to each eligible employee, based on the employee s eligible compensation. Employees become vested in our discretionary contributions ratably over such employee s first five years of service, after which time employees are fully vested in their discretionary contribution accounts. In addition to our Savings Plan, we maintain a non-qualified defined contribution plan for our officers, designed to make up for benefits lost due to limitations on eligible compensation imposed by the Internal Revenue Code, and to make up for deferrals of eligible compensation under both our Executive Deferred Compensation Plan and our Mandatory Executive Deferred Base Salary Plan. We incurred costs of $40 million, $33 million and $36 million for the years ended December 31, 2009, 2008 and 2007, respectively, related to these plans. These expenses were included in salaries and employee benefits on our consolidated statements of operations.

Executive Deferred Compensation Plan and Mandatory Executive Deferred Base Salary Plan

Our Executive Deferred Compensation Plan is an unfunded, non-qualified plan that allows officers to elect to defer substantially all or a portion of their corporate-wide annual cash bonus and up to 80% of their eligible annual salary for any number of years specified by the employee.

In December 2009, we adopted, with the approval of FHFA and in consultation with Treasury, the Mandatory Executive Deferred Base Salary Plan covering compensation of our officers at the level of senior vice president and above. This plan is unfunded and is effective beginning in 2009 and is part of a compensation design for senior executives that we believe will remain in place throughout the conservatorship. Part of this design requires that a portion of a senior executive s base salary be mandatorily deferred until the following year. The Mandatory Executive Deferred Base Salary Plan is a mechanism by which these deferrals and the corresponding cash distributions are made. Our SERP has also been amended to generally include compensation deferred under the Mandatory Executive Deferred Base Salary Plan.

Distributions under these two deferred compensation plans are paid from our general assets. We record a liability equal to the accumulated deferred salary, cash bonus and accrued interest, as applicable, net of any related distributions made to plan participants.

NOTE 17: SEGMENT REPORTING

Effective December 1, 2007, management determined that our operations consist of three reportable segments. As discussed below, we use Segment Earnings to measure and assess the financial performance of our segments. Segment Earnings is calculated for the segments by adjusting GAAP net income (loss) attributable to Freddie Mac for certain investment-related activities and credit guarantee-related activities. The Segment Earnings measure is provided to the chief operating decision maker. We conduct our operations solely in the U.S. and its territories. Therefore, we do not generate any revenue from geographic locations outside of the U.S. and its territories.

Segments

Our operations include 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 segment are included in the All Other category. We evaluate our performance and allocate resources based on Segment Earnings, which we describe and present in this note, subject to the conduct of our business under the direction of the Conservator. See NOTE 2: CONSERVATORSHIP AND RELATED DEVELOPMENTS for further information about the conservatorship. We do not consider our assets by segment when making these evaluations or allocations.

Investments

In this segment, we invest principally in mortgage-related securities and single-family mortgage loans through our mortgage-related investments portfolio. Segment Earnings consists primarily of the returns on these investments, less the related financing costs and administrative expenses. Within this segment, our activities may include the purchase of mortgage loans and mortgage-related securities with less attractive investment returns and with incremental risk in order to achieve our affordable housing goals and subgoals. We maintain a cash and other investments portfolio in this segment to help manage our liquidity. We fund our investment activities, including investing activities in our Multifamily segment, primarily through issuances of short- and long-term debt in the capital markets. Results also include derivative transactions we enter into to help manage interest-rate and other market risks associated with our debt financing and mortgage-related investments portfolio.

Single-Family Guarantee

In our Single-family Guarantee segment, we purchase single-family mortgages originated by our lender customers in the primary mortgage market, primarily through our guarantor swap program. We securitize certain of the mortgages we purchase and issue mortgage-related securities that can be sold to investors or held by us in our Investments segment. In this segment, we also guarantee the payment of principal and interest on single-family mortgage-related securities, including those held in our mortgage-related investments portfolio, in exchange for management and guarantee fees received over time and other up-front compensation. Earnings for this segment consist primarily of management and guarantee fee revenues, including amortization of upfront payments, less the related credit costs (*i.e.*, provision for credit losses) and operating expenses. Also included is the interest earned on assets held in the Investments segment related to single-family guarantee activities, net of allocated funding costs and amounts related to net float benefits.

Multifamily

In this segment, we guarantee, securitize and invest in multifamily mortgages and CMBS. We also securitize and guarantee the payment of principal and interest on multifamily mortgage-related securities and mortgages underlying multifamily housing revenue bonds. These activities support our mission to supply financing for affordable rental housing. This segment also includes certain equity investments in various limited partnerships that sponsor the development and ongoing operations for low-and moderate-income multifamily rental apartments that provide federal income tax credits and deductible operating losses to their equity investors. Also included is the interest earned on assets held in the Investments segment related to multifamily activities, net of allocated funding costs.

All Other

All Other includes corporate-level expenses not allocated to any of our reportable segments, such as costs associated with remediating our internal controls and near-term restructuring costs, costs related to the resolution of certain legal matters and certain income tax items.

Segment Allocations

Results of each reportable segment include directly attributable revenues and expenses. Administrative expenses that are not directly attributable to a segment are allocated ratably using alternative quantifiable measures such as headcount distribution or segment usage if considered semi-direct or on a pre-determined basis if considered indirect. Expenses not allocated to segments consist primarily of costs associated with remediating our internal controls and near-term restructuring costs and are included in the All Other category. Net interest income for each segment includes an allocation related to the interest earned on each segment s assets and off-balance sheet obligations, net of allocated funding costs (*i.e.* debt expenses) related to such assets and obligations. These allocations, however, do not include the effects of dividends paid on our senior preferred stock. The tax benefits generated by the LIHTC partnerships are allocated to the Multifamily segment. All remaining taxes are calculated based on a 35% federal statutory rate as applied to pre-tax Segment Earnings.

Segment Earnings

In managing our business, we present the operating performance of our segments using Segment Earnings. Segment Earnings differs significantly from, and should not be used as a substitute for, net income (loss) attributable to Freddie Mac as determined in accordance with GAAP. There are important limitations to using Segment Earnings as a measure of our financial performance. Among them, the need to obtain funding under the Purchase Agreement is based on our GAAP results, as are our regulatory capital requirements (which are suspended during conservatorship). Segment Earnings adjusts for the effects of certain gains and losses and mark-to-fair value items which, depending on market circumstances, can significantly affect, positively or negatively, our GAAP results and which, in recent periods, have contributed to our significant GAAP net losses. GAAP net losses will adversely impact our GAAP total equity (deficit), as well as our need for funding under the Purchase Agreement, regardless of results reflected in Segment Earnings. Also, our definition of Segment Earnings may differ from similar measures used by other companies. However, we believe that the presentation of Segment Earnings highlights the results from ongoing operations and the underlying results of the segments in a manner that is useful to the way we manage and evaluate the performance of our business.

Segment Earnings presents our results on an accrual basis as the cash flows from our segments are earned over time. The objective of Segment Earnings is to present our results in a manner more consistent with our business models. The business model for our investment activity is one where we generally buy and hold our investments in mortgage-related assets for the long term, fund our investments with debt and use derivatives to minimize interest rate risk. The business model for our credit guarantee activity is one where we are a long-term guarantor in the conforming mortgage markets, manage credit risk and generate guarantee and credit fees, net of incurred credit losses. We believe it is meaningful to measure the performance of our investment and guarantee businesses using long-term returns, not short-term value. As a result of these business models, we believe that an accrual-based metric is a meaningful way to present our results as actual cash flows are realized, net of credit losses and impairments. We believe Segment Earnings provides us with a view of our financial results that is more consistent with our business objectives and helps us better evaluate the performance of our business, both from period-to-period and over the longer term.

As described below, Segment Earnings is calculated for the segments by adjusting GAAP net income (loss) attributable to Freddie Mac for certain investment-related activities and credit guarantee-related activities. Segment Earnings includes certain reclassifications among income and expense categories that have no impact on net income (loss) but provide us with a meaningful metric to assess the performance of each segment and our company as a whole. Segment earnings does not include the effect of the establishment of the valuation allowance against our deferred tax assets, net.

Investment Activity-Related Adjustments

The most significant risk inherent in our investing activities is interest rate risk, including duration, convexity and volatility. We actively manage these risks through asset selection and structuring, financing asset purchases with a broad range of both callable and non-callable debt and the use of interest rate derivatives, designed to economically hedge a significant portion of our interest rate exposure. Our interest rate derivatives include interest rate swaps, exchange-traded futures and both purchased and written options (including swaptions). GAAP-basis earnings related to investment activities of our Investments segment are subject to significant period-to-period variability, which we believe is not necessarily indicative of the risk management techniques that we employ and the performance of this segment.

Our derivative instruments not in hedge accounting relationships are adjusted to fair value under GAAP with resulting gains or losses recorded in GAAP-basis results. Certain other assets are also adjusted to fair value under GAAP with resulting gains or losses recorded in GAAP-basis results. These assets consist primarily of mortgage-related securities classified as trading and mortgage-related securities classified as available-for-sale when a decline in fair value of available-for-sale securities is deemed to be other than temporary.

In preparing Segment Earnings, we make the following adjustments to earnings as determined under GAAP. We believe Segment Earnings enhances the understanding of operating performance for specific periods, as well as trends in results over multiple periods, as this measure is consistent with assessing our performance against our investment objectives and the related risk-management activities.

Derivative and debt-related adjustments:

Fair value adjustments on derivative positions, recorded pursuant to GAAP, are not recognized in Segment Earnings as these positions economically hedge the volatility in fair value of our investment activities and debt financing that are not recognized in GAAP earnings.

Payments or receipts to terminate derivative positions are amortized prospectively into Segment Earnings on a straight-line basis over the associated term of the derivative instrument.

The accrual of periodic cash settlements of all derivatives not in qualifying hedge accounting relationships is reclassified from derivative gains (losses) into net interest income for Segment Earnings as the interest component of the derivative is used to economically hedge the interest associated with the debt.

Payments of up-front premiums (*e.g.*, payments made to third parties related to purchased swaptions) are amortized prospectively on a straight-line basis into Segment Earnings over the contractual life of the instrument. The up-front payments, primarily for option premiums, are amortized to reflect the periodic cost associated with the protection provided by the option contract.

Foreign-currency translation gains and losses as well as the unrealized fair value adjustments associated with foreign-currency denominated debt for which we elected the fair value option along with the foreign currency derivatives gains and losses are excluded from Segment Earnings because the fair value adjustments on the foreign-currency swaps that we use to manage foreign-currency exposure are also excluded through the fair value adjustment on derivative positions as described above as the foreign currency exposure is economically hedged.

Investment sales, debt retirements and fair value-related adjustments:

Gains and losses on investment sales and debt retirements that are recognized at the time of the transaction pursuant to GAAP are not immediately recognized in Segment Earnings. Gains and losses on securities sold out of our mortgage-related investments portfolio and cash and other investments portfolio are amortized prospectively into Segment Earnings on a straight-line basis over five years and three years, respectively. Gains and losses on debt retirements are amortized prospectively into Segment Earnings on a straight-line basis over the original terms of the repurchased debt.

Trading losses or impairments that reflect expected or realized credit losses are realized immediately pursuant to GAAP and in Segment Earnings since they are not economically hedged. In contrast, the following fair value and impairment-related items are not included in Segment Earnings: (1) fair value adjustments to trading securities related to investments that are economically hedged; (2) impairment on LIHTC partnership investments; (3) impairments on securities we intend to sell or more likely than not will be required to sell prior to the anticipated recovery; (4) non-credit-related impairments on securities recorded in our GAAP results within AOCI; and (5) GAAP-basis accretion income that may result from impairment adjustments that were not included in Segment Earnings.

Fully taxable-equivalent adjustment:

Interest income generated from tax-exempt investments is adjusted in Segment Earnings to reflect its equivalent yield on a fully taxable basis.

We fund our investment assets with debt and derivatives to manage interest rate risk as evidenced by our PMVS and duration gap metrics. As a result, in situations where we record gains and losses on derivatives, securities or debt buybacks, these gains and losses are offset by economic hedges that we do not mark-to-fair-value for GAAP purposes. For example, when we realize a gain on the sale of a security, the debt which is funding the security has an embedded loss that is not recognized under GAAP, but instead over time as we realize the interest expense on the debt. As a result, in Segment Earnings, we defer and amortize the security gain to interest income to match the interest expense on the debt that funded the asset. Because of our risk management strategies, we believe that amortizing gains or losses on economically hedged positions in the same periods as the offsetting gains or losses is a meaningful way to assess performance of our investment activities.

The adjustments we make to present our Segment Earnings are consistent with the financial objectives of our investment activities and related hedging transactions and provide us with a view of expected investment returns and effectiveness of our risk management strategies that we believe is useful in managing and evaluating our investment-related activities. Although we seek to mitigate the interest rate risk inherent in our investment-related activities, our hedging and portfolio management activities do not eliminate risk. We believe that a relevant measure of performance should closely reflect the economic impact of our risk management activities. Thus, we amortize the impact of terminated derivatives, as well as gains and losses on asset sales and debt retirements, into Segment Earnings. Although our interest rate risk and asset/liability management processes ordinarily involve active management of derivatives, asset sales and debt retirements, we believe that Segment Earnings, although it differs significantly from, and should not be used as a substitute for GAAP-basis results, is indicative of the longer-term time horizon inherent in our investment-related activities.

Credit Guarantee Activity-Related Adjustments

Credit guarantee activities consist largely of our guarantee of the payment of principal and interest on mortgages and mortgage-related securities in exchange for management and guarantee and other fees. Over the longer-term, earnings consist almost entirely of the management and guarantee fee revenues, which include management guarantee fees collected throughout the life of the loan and up-front compensation received, trust management fees less related credit costs (*i.e.*, provision for credit losses) and operating expenses. Our measure of Segment Earnings for these activities consists primarily of these elements of revenue and expense. We believe this measure is a relevant indicator of operating performance for specific periods, as well as trends in results over multiple periods because it more closely aligns with how we manage and evaluate the performance of the credit guarantee business.

We purchase mortgages from seller/servicers in order to securitize and issue PCs and Structured Securities. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for a discussion of the accounting treatment of these transactions. In addition to the components of earnings noted above, GAAP-basis earnings for these activities include gains or losses upon the execution of such transactions, subsequent fair value adjustments to the guarantee asset and amortization of the guarantee obligation.

Our credit guarantee activities also include the purchase of significantly past due mortgage loans from loan pools that underlie our guarantees. Pursuant to GAAP, at the time of our purchase the loans are recorded at fair value. To the extent the adjustment of a purchased loan to fair value exceeds our own estimate of the losses we will ultimately realize on the loan, as reflected in our loan loss reserve, an additional loss is recorded in our GAAP-basis results.

When we determine Segment Earnings for our credit guarantee-related activities, the adjustments we apply to earnings computed on a GAAP-basis include the following:

- Amortization and valuation adjustments pertaining to the guarantee asset and guarantee obligation are excluded from Segment Earnings. Cash compensation exchanged at the time of securitization, excluding buy-up and buy-down fees, is amortized into earnings.

- The initial recognition of gains and losses prior to January 1, 2008 and in connection with the execution of either securitization transactions that qualify as sales or guarantor swap transactions, such as losses on certain credit guarantees, is excluded from Segment Earnings.

- Fair value adjustments recorded upon the purchase of delinquent loans from pools that underlie our guarantees are excluded from Segment Earnings. However, for Segment Earnings reporting, our GAAP-basis loan loss provision is adjusted to reflect our own estimate of the losses we will ultimately realize on such items.

While both GAAP-basis results and Segment Earnings include a provision for credit losses determined in accordance with the accounting standards for contingencies, GAAP-basis results also include, as noted above, measures of future cash flows (the guarantee asset) that are recorded at fair value and, therefore, are subject to significant adjustment from period-to-period as market conditions, such as interest rates, change. Over the longer-term, Segment Earnings and GAAP-basis results both capture the aggregate cash flows associated with our guarantee-related activities. Although Segment Earnings differs significantly from, and should not be used as a substitute for GAAP-basis results, we believe that excluding the impact of changes in the fair value of expected future cash flows from our Segment Earnings provides a meaningful measure of performance for a given period as well as trends in performance over multiple periods because it more closely aligns with how we manage and evaluate the performance of the credit guarantee business.

In the third quarter of 2009, we reclassified our investments in commercial mortgage-backed securities and all related income and expenses from the Investments segment to the Multifamily segment. This reclassification better aligns the financial results related to these securities with management responsibilities. Prior periods have been reclassified to conform to the current presentation.

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Reconciliation of Segment Earnings to GAAP Net Income (Loss) Attributable to Freddie Mac

Table 17.1 reconciles Segment Earnings to GAAP net income (loss) attributable to Freddie Mac.

Table 17.1 Reconciliation of Segment Earnings to GAAP Net Income (Loss)

	Year Ended December 31, 2009	2008	2007
	(in millions)		
Segment Earnings, net of taxes:			
Investments	$ (646)	$ (1,400)	$ 1,816
Single-family Guarantee	(17,831)	(9,318)	(256)
Multifamily	261	589	610
All Other	(17)	134	(103)
Total Segment Earnings (loss), net of taxes	(18,233)	(9,995)	2,067
Reconciliation to GAAP net income (loss) attributable to Freddie Mac:			
Derivative- and debt-related adjustments	4,247	(13,219)	(5,667)
Credit guarantee-related adjustments	2,416	(3,928)	(3,268)
Investment sales, debt retirements and fair value-related adjustments	321	(10,462)	987
Fully taxable-equivalent adjustments	(387)	(419)	(388)
Total pre-tax adjustments	6,597	(28,028)	(8,336)
Tax-related adjustments(1)	(9,917)	(12,096)	3,175
Total reconciling items, net of taxes	(3,320)	(40,124)	(5,161)
GAAP net loss attributable to Freddie Mac	$ (21,553)	$ (50,119)	$ (3,094)

(1) 2009 and 2008 include a non-cash charge related to the establishment of a partial valuation allowance against our deferred tax assets, net of approximately $7.9 billion and $22 billion that are not included in Segment Earnings, respectively.

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Table 17.2 presents certain financial information for our reportable segments and All Other.

Table 17.2 Segment Earnings and Reconciliation to GAAP Results

Year Ended December 31, 2009										
	Non-Interest Income (Loss)			Non-Interest Expense				Income Tax Provision		
Net Interest Income	Management and Guarantee Income	LIHTC Partnerships	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	Other Non-Interest Expense	LIHTC Partnerships Tax Credit	Income Tax (Expense) Benefit	Net Income (Loss)
(in millions)										
$ 7,641	$	$	$ (8,090)	$ (512)	$	$	$ (32)	$	$ 347	$ (6
123	3,670		334	(867)	(30,273)	(287)	(132)		9,601	(17,8
852	90	(502)	(124)	(220)	(573)	(20)	(18)	594	180	2
			14	(52)			(3)		25	
8,616	3,760	(502)	(7,866)	(1,651)	(30,846)	(307)	(185)	594	10,153	(18,
2,635			1,612							4,
204	(956)		7,144		967		(4,943)			2,4
1,633		(3,653)	2,450				(109)			3
(387)										(
4,372	229		(4,950)		349					
									(9,917)	(9,9
8,457	(727)	(3,653)	6,256		1,316		(5,052)		(9,917)	(3,
$ 17,073	$ 3,033	$ (4,155)	$ (1,610)	$ (1,651)	$ (29,530)	$ (307)	$ (5,237)	$ 594	$ 236	$ (21,

Year Ended December 31, 2008										
	Non-Interest Income (Loss)			Non-Interest Expense				Income Tax Provision		
Net	Management and		Other Non-Interest		Provision for	REO	Other	LIHTC	Income Tax	Net

	Interest Income	Guarantee Income	LIHTC Partnerships	Income (Loss)	Administrative Expenses	Credit Losses	Operations Expense	Non-Interest Expense	Partnerships Tax Credit	(Expense) Benefit	Incon (Los
						(in millions)					
	$ 3,734	$	$	$ (4,304)	$ (473)	$	$	$ (1,111)	$	$ 754	$ (1,4
	209	3,729		385	(812)	(16,657)	(1,097)	(92)		5,017	(9,3
	771	76	(453)	39	(190)	(229)		(17)	589	1	5
				2	(30)			(16)		183	1
	4,714	3,805	(453)	(3,878)	(1,505)	(16,886)	(1,097)	(1,236)	589	5,955	(9,9
	(58)			(13,161)							(13,2
	73	(633)		(1,711)		258		(1,915)			(3,9
	1,184			(11,646)							(10,4
	(419)										(4
	1,302	198		(1,696)		196					
										(12,096)	(12,0
t											
	2,082	(435)		(28,214)		454		(1,915)		(12,096)	(40,
	$ 6,796	$ 3,370	$ (453)	$ (32,092)	$ (1,505)	$ (16,432)	$ (1,097)	$ (3,151)	$ 589	$ (6,141)	$ (50,

	Year Ended December 31, 2007										
		Non-Interest Income (Loss)			Non-Interest Expense				Income Tax Provision		
	Net Interest Income	Management and Guarantee Income	LIHTC Partnerships	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	Other Non-Interest Expense	LIHTC Partnerships Tax Credit	Income Tax (Expense) Benefit	Net Income (Loss)
	(in millions)										
	$ 3,300	$	$	$ 40	$ (515)	$	$	$ (31)	$	$ (978)	$ 1,816
ntee	703	2,889		117	(806)	(3,014)	(205)	(78)		138	(256)
	752	59	(469)	24	(189)	(38)	(1)	(25)	534	(40)	607
	(1)			11	(164)			(12)		58	(108)
ings AAP	4,754	2,948	(469)	192	(1,674)	(3,052)	(206)	(146)	534	(822)	2,059
nents	(1,066)			(4,601)							(5,667)
ated	36	(342)		915		56		(3,933)			(3,268)
bt ments	266			721							987
alent	(388)										(388)
	(503)	29		332		142					
ents										3,175	3,175
ms,	(1,655)	(313)		(2,633)		198		(3,933)		3,175	(5,161)
ed ons	$ 3,099	$ 2,635	$ (469)	$ (2,441)	$ (1,674)	$ (2,854)	$ (206)	$ (4,079)	$ 534	$ 2,353	$ (3,102)

(1) Includes the reclassification of: (a) the accrual of periodic cash settlements of all derivatives not in qualifying hedge accounting relationships from other non-interest income (loss) to net interest income within the Investments segment; (b) implied management and guarantee fees from net interest income to other non-interest income (loss) within our Single-family Guarantee and Multifamily segments; (c) net buy-up and buy-down fees from management and guarantee income to net interest income within the Investments segment; (d) interest income foregone on impaired loans from net interest income to provision for credit losses within our Single-family Guarantee segment; and (e) certain hedged interest benefit (cost) amounts related to trust management income from other non-interest income (loss) to net interest income within our Investments segment.

(2) 2009 and 2008 include a non-cash charge related to the establishment of a partial valuation allowance against our deferred tax assets, net of approximately $7.9 billion and $22 billion that is not included in Segment Earnings, respectively.

NOTE 18: FAIR VALUE DISCLOSURES

Fair Value Hierarchy

Effective January 1, 2008, we adopted an amendment to the accounting standards for fair value measurements and disclosures which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is 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. Observable inputs reflect market data obtained from independent sources. Unobservable inputs reflect assumptions based on the best information available under the circumstances. We use valuation techniques that maximize the use of observable inputs, where available, and minimize the use of unobservable inputs.

The three levels of the fair value hierarchy under this amendment are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2: Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; inputs other than quoted market prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data for substantially the full term of the assets; and

Level 3: Unobservable inputs for the asset or liability that are supported by little or no market activity and that are significant to the fair values.

As required by this amendment, assets and liabilities are classified in their entirety within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement. Table 18.1 sets forth by level within the fair value hierarchy assets and liabilities measured and reported at fair value on a recurring basis in our consolidated balance sheets at December 31, 2009 and 2008.

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Table 18.1 Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Fair Value at December 31, 2009				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) (in millions)	Netting Adjustment(1)	Total
Assets:					
Investments in securities:					
Available-for-sale, at fair value:					
Mortgage-related securities:					
Freddie Mac	$	$ 202,660	$ 20,807	$	$ 223,467
Subprime			35,721		35,721
Commercial mortgage-backed securities			54,019		54,019
Option ARM			7,236		7,236
Alt-A and other		16	13,391		13,407
Fannie Mae		35,208	338		35,546
Obligations of states and political subdivisions			11,477		11,477
Manufactured housing			911		911
Ginnie Mae		343	4		347
Total mortgage-related securities		238,227	143,904		382,131
Non-mortgage-related securities:					
Asset-backed securities		2,553			2,553
Total available-for-sale securities, at fair value		240,780	143,904		384,684
Trading, at fair value:					
Mortgage-related securities:					
Freddie Mac		168,150	2,805		170,955
Fannie Mae		33,021	1,343		34,364
Ginnie Mae		158	27		185
Other			28		28
Total mortgage-related securities		201,329	4,203		205,532
Non-mortgage-related securities:					
Asset-backed securities		1,492			1,492
Treasury Bills	14,787				14,787
FDIC-guaranteed corporate medium-term notes		439			439

Total non-mortgage-related securities	14,787	1,931			16,718
Total trading securities, at fair value	14,787	203,260	4,203		222,250
Total investments in securities	14,787	444,040	148,107		606,934
Mortgage Loans:					
Held-for-sale, at fair value			2,799		2,799
Derivative assets, net	5	19,409	124	(19,323)	215
Guarantee asset, at fair value			10,444		10,444
Total assets carried at fair value on a recurring basis	$ 14,792	$ 463,449	$ 161,474	$ (19,323)	$ 620,392
Liabilities:					
Debt securities recorded at fair value	$	$ 8,918	$	$	$ 8,918
Derivative liabilities, net	89	21,162	554	(21,216)	589
Total liabilities carried at fair value on a recurring basis	$ 89	$ 30,080	$ 554	$ (21,216)	$ 9,507

	Fair Value at December 31, 2008				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Netting Adjustment(1)**	**Total**
			(in millions)		
Assets:					
Investments in securities:					
Available-for-sale, at fair value					
Mortgage-related securities	$	$ 344,364	$ 105,740	$	$ 450,104
Non-mortgage-related securities		8,794			8,794
Subtotal available-for-sale, at fair value		353,158	105,740		458,898
Trading, at fair value					
Mortgage-related securities		188,161	2,200		190,361
Total investments in securities		541,319	107,940		649,259
Mortgage loans:					
Held-for-sale, at fair value			401		401
Derivative assets, net	233	49,567	137	(48,982)	955
Guarantee asset, at fair value			4,847		4,847
	$ 233	$ 590,886	$ 113,325	$ (48,982)	$ 655,462

Total assets carried at fair value on a recurring basis										
Liabilities:										
Debt securities denominated in foreign currencies	$		$	13,378	$		$		$	13,378
Derivative liabilities, net		1,150		52,577		37		(51,487)		2,277
Total liabilities carried at fair value on a recurring basis	$	1,150	$	65,955	$	37	$	(51,487)	$	15,655

(1) Represents counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable. The net cash collateral posted and net trade/settle receivable were $2.5 billion and $1 million, respectively, at December 31, 2009. The net cash collateral posted and net trade/settle payable were $1.5 billion and $ million, respectively, at December 31, 2008. The net interest receivable (payable) of derivative assets and derivative liabilities was approximately $(0.6) billion and $1.1 billion at December 31, 2009 and 2008, respectively, which was mainly related to interest rate swaps that we have entered into.

Fair Value Measurements (Level 3)

Level 3 measurements consist of assets and liabilities that are supported by little or no market activity where observable inputs are not available. The fair value of these assets and liabilities is measured using significant inputs that are considered unobservable. Unobservable inputs reflect assumptions based on the best information available under the circumstances. We use valuation techniques that maximize the use of observable inputs, where available, and minimize the use of unobservable inputs.

Our Level 3 items mainly consist of non-agency residential mortgage-related securities, CMBS, certain agency mortgage-related securities and our guarantee asset. During 2009 the market for CMBS and during 2008 the market for securities backed by subprime, option ARM, Alt-A and other loans became significantly less liquid, resulting in lower transaction volumes, wider credit spreads and less transparency. We transferred our holdings of these securities into the Level 3 category as inputs that were significant to their valuation became limited or unavailable. We concluded that the prices on these securities received from pricing services and dealers were reflective of significant unobservable inputs. Our guarantee asset is valued either through obtaining dealer quotes on similar securities or through an expected cash flow approach. Because of the broad range of discounts for liquidity applied by dealers to these similar securities and because the expected cash flow valuation approach uses significant unobservable inputs, we classified the guarantee asset as Level 3. See NOTE 4: RETAINED INTERESTS IN MORTGAGE-RELATED SECURITIZATIONS for more information about the valuation of our guarantee asset.

Table 18.2 provides a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value using significant unobservable inputs (Level 3).

Table 18.2 Fair Value Measurements of Assets and Liabilities Using Significant Unobservable Inputs

	For The Year Ended December 31, 2009							
		Realized and unrealized gains (losses)						
	Balance, January 1, 2009	Included in earnings[1][2][3][4]	Included in other comprehensive income[1][2]	Total	Purchases, issuances, sales and settlements, net[5]	Net transfers in and/or out of Level 3[6]	**Balance, December 31, 2009**	Unrealize gains (losses) still held[7]
	(in millions)							
estments in securities:								
ailable-for-sale, at fair value:								
rtgage-related securities:								
ddie Mac	$ 18,320	$ (2)	$ 1,833	$ 1,831	$ 1,035	$ (379)	$ 20,807	$
bprime	52,266	(6,526)	2,958	(3,568)	(12,977)		35,721	(6,52
mmercial mortgage-backed urities	2,861	(137)	6,940	6,803	(2,284)	46,639	54,019	(13
ion ARM	7,378	(1,726)	3,416	1,690	(1,832)		7,236	(1,72
-A and other	13,236	(2,572)	6,130	3,558	(3,404)	1	13,391	(2,57
nie Mae	396		6	6	(42)	(22)	338	
igations of states and political divisions	10,528	2	1,955	1,957	(1,008)		11,477	
nufactured housing	743	(51)	336	285	(117)		911	(5
nie Mae	12				(2)	(6)	4	
al mortgage-related securities	105,740	(11,012)	23,574	12,562	(20,631)	46,233	143,904	(11,01
n-mortgage-related securities:								
et-backed securities		(7)	8	1	(1)			
al available-for-sale urities, at fair value	105,740	(11,019)	23,582	12,563	(20,632)	46,233	143,904	(11,01
ding, at fair value:								
rtgage-related securities:								
ddie Mac	1,575	971		971	(90)	349	2,805	96
nie Mae	582	514		514	187	60	1,343	51
nie Mae	14	2		2	(2)	13	27	
er	29	(1)		(1)	(3)	3	28	
al mortgage-related securities	2,200	1,486		1,486	92	425	4,203	1,47
n-mortgage-related securities:								
IC-guaranteed corporate dium-term notes					250	(250)		

al trading securities, at fair ue	2,200	1,486		1,486	342	175	4,203	1,47
rtgage loans:								
d-for-sale, at fair value	401	(81)		(81)	2,479		2,799	(9
arantee asset[8]	4,847	5,298		5,298	299		10,444	5,29
derivatives[9]	100	(388)		(388)	(142)		(430)	(40

	For The Year Ended December 31, 2008								
				Realized and unrealized gains (losses)					
	Balance, December 31, 2007	Cumulative effect of change in accounting principle[10]	**Balance, January 1, 2008**	Included in earnings[1][2][3][4]	Included in other comprehensive income[1][2]	Total	Purchases, issuances, sales and settlements, net[5]	Net transfers in and/or out of Level 3[6]	**Balance, December 31, 2008**
						(in millions)			
n securities:									
-sale, at fair									
ated securities	$ 19,859	$ (443)	$ 19,416	$ (16,589)	$ (25,020)	$ (41,609)	$ (28,232)	$ 156,165	$ 105,740
ir value:									
ated securities	2,710	443	3,153	(2,267)		(2,267)	1,325	(11)	2,200
ns:									
, at fair value				(14)		(14)	415		401
et[8]	9,591		9,591	(5,341)		(5,341)	597		4,847
es[9]	(216)		(216)	392	3	395	(79)		100

(1) Changes in fair value for available-for-sale investments are recorded in AOCI, net of taxes while gains and losses from sales are recorded in other gains (losses) on investments on our consolidated statements of operations. For mortgage-related securities classified as trading, the realized and unrealized gains (losses) are recorded in other gains (losses) on investments on our consolidated statements of operations. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for additional information about our assessment of other-than-temporary impairment for unrealized losses on available-for-sale securities.

(2) Changes in fair value of derivatives are recorded in derivative gains (losses) on our consolidated statements of operations for those not designated as accounting hedges, and AOCI, net of taxes for those accounted for as a cash flow hedge to the extent the hedge is effective. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for additional information.

(3) Changes in fair value of the guarantee asset are recorded in gains (losses) on guarantee asset on our consolidated statements of operations. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for additional information.

(4) For held-for-sale mortgage loans with fair value option elected, gains (losses) on fair value changes and sale of mortgage loans are recorded in gains (losses) on investments on our consolidated statements of operations.

(5) For non-agency mortgage-related securities, primarily represents principal repayments.

(6) Transfer in and/or out of Level 3 during the period is disclosed as if the transfer occurred at the beginning of the period.

(7) Represents the amount of total gains or losses for the period, included in earnings, attributable to the change in unrealized gains (losses) related to assets and liabilities classified as Level 3 that are still held at December 31, 2009 and 2008, respectively. Included in these amounts are credit-related other-than-temporary impairments

recorded on available-for-sale securities.

(8) We estimate that all amounts recorded for unrealized gains and losses on our guarantee asset relate to those amounts still in position. Cash received on our guarantee asset is presented as settlements in the table. The amounts reflected as included in earnings represent the periodic mark-to-fair value of our guarantee asset.

(9) Net derivatives include derivative assets and derivative liabilities prior to counterparty netting, cash collateral netting, net trade/settle receivable or payable and net derivative interest receivable or payable.

(10) Represents adjustment to initially apply the accounting standards on the fair value option for financial assets and financial liabilities.

Nonrecurring Fair Value Changes

Certain assets are measured at fair value on our consolidated balance sheets only if certain conditions exist as of the balance sheet date. We consider the fair value measurement related to these assets to be nonrecurring. These assets include low-income housing tax credit partnership equity investments, single-family held-for-sale mortgage loans and REO net, as well as impaired held-for-investment multifamily mortgage loans. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. These adjustments to fair value usually result from the application of lower-of-cost-or-fair-value accounting or the write-down of individual assets to current fair value amounts due to impairments.

For a discussion related to our fair value measurement of our investments in LIHTC partnerships see Valuation Methods and Assumptions Subject to Fair Value Hierarchy *Low-Income Housing Tax Credit Partnership Equity Investments.* Our investments in LIHTC partnerships are valued using unobservable inputs and as a result are classified as Level 3 under the fair value hierarchy.

For a discussion related to our fair value measurement of single-family held-for-sale mortgage loans see Valuation Methods and Assumptions Subject to Fair Value Hierarchy *Mortgage Loans, Held-for-Sale.* Since the fair values of these mortgage loans are derived from observable prices with adjustments that may be significant, they are classified as Level 3 under the fair value hierarchy.

The fair value of multifamily held-for-investment mortgage loans is generally based on market prices obtained from a third-party pricing service provider for similar mortgages, considering the current credit risk profile for each loan, adjusted for differences in contractual terms. However, given the relative illiquidity in the marketplace for these loans, and differences in contractual terms, we classified these loans as Level 3 in the fair value hierarchy.

For GAAP purposes, subsequent to acquisition REO is carried at the lower of its carrying amount or fair value less estimated costs to sell. The subsequent fair value less estimated costs to sell is an estimated value based on relevant recent historical factors, which are considered to be unobservable inputs. As a result, REO is classified as Level 3 under the fair value hierarchy.

Table 18.3 presents assets measured and reported at fair value on a non-recurring basis in our consolidated balance sheets by level within the fair value hierarchy at December 31, 2009 and 2008, respectively.

Table 18.3 Assets Measured at Fair Value on a Non-Recurring Basis

	Fair Value at December 31, 2009				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Gains (Losses)[5]
			(in millions)		
Assets measured at fair value on a non-recurring basis:					
Mortgage loans:[1]					
Held-for-investment	$	$	$ 894	$ 894	$ (231)
Held-for-sale			13,393	13,393	(64)
REO, net[2]			1,532	1,532	607
LIHTC partnership equity investments[3]					(3,669)

Accounts and other receivables, net[4]					(109)
Total assets measured at fair value on a non-recurring basis	$	$	$ 15,819	$ 15,819	$ (3,466)

	Fair Value at December 31, 2008				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Gains (Losses)[5]
			(in millions)		
Assets measured at fair value on a non-recurring basis:					
Mortgage loans:[1]					
Held-for-investment	$	$	$ 72	$ 72	$ (12)
Held-for-sale			1,022	1,022	(7)
REO, net[2]			2,029	2,029	(495)
LIHTC partnership equity investments[3]			6	6	(2)
Total gains (losses)	$	$	$ 3,129	$ 3,129	$ (516)

(1) Represents carrying value and related write-downs of loans for which adjustments are based on the fair value amounts. These loans include held-for-sale mortgage loans where the fair value is below cost and impaired multifamily mortgage loans, which are classified as held-for-investment and have a related valuation allowance.
(2) Represents the fair value and related losses of foreclosed properties that were measured at fair value subsequent to their initial classification as REO, net. The carrying amount of REO, net was written down to fair value of $1.5 billion, less estimated costs to sell of $106 million (or approximately $1.4 billion) at December 31, 2009. The carrying amount of REO, net was written down to fair value of $2.0 billion, less estimated costs to sell of $169 million (or approximately $1.8 billion) at December 31, 2008.
(3) Represents the carrying value and related write-downs of impaired low-income housing tax credit partnership equity investments for which adjustments are based on the fair value amounts.
(4) Represents the carrying value and related write-downs of impaired low-income housing tax credit partnership consolidated investments for which adjustments are based on fair value amounts.
(5) Represents the total gains (losses) recorded on items measured at fair value on a non-recurring basis as of December 31, 2009 and 2008, respectively.

Fair Value Election

On January 1, 2008, we adopted the accounting standards related to the fair value option for financial assets and financial liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not required to be measured at fair value. We elected the fair value option for certain available-for-sale mortgage-related securities, investments in securities classified as available-for-sale securities and identified as in the scope of the accounting standards for investments in beneficial interests in securitized financial assets and foreign-currency denominated debt. In addition, we elected the fair value option for multifamily held-for-sale mortgage loans in the third quarter of 2008.

Certain Available-For-Sale Securities with Fair Value Option Elected

We elected the fair value option for certain available-for-sale mortgage-related securities to better reflect the natural offset these securities provide to fair value changes recorded on our guarantee asset. We record fair value changes on our guarantee asset through our consolidated statements of operations. However, we historically classified virtually all of our securities as available-for-sale and recorded those fair value changes in AOCI. The securities selected for the fair value option include principal only strips and certain pass-through and Structured Securities that contain positive duration features that provide an offset to the negative duration associated with our guarantee asset. We continually evaluate new security purchases to identify the appropriate security mix to classify as trading to match the changing duration features of our guarantee asset.

For available-for-sale securities identified as within the scope of the accounting standards for investments in beneficial interests in securitized financial assets, we elected the fair value option to better reflect the valuation changes that occur subsequent to impairment write-downs recorded on these instruments. Under the accounting standards for investments in beneficial interests in securitized financial assets for available-for-sale securities, when an impairment is considered other-than-temporary, the impairment amount is recorded in our consolidated statements of operations and subsequently accreted back through interest income as long as the contractual cash flows occur. Any subsequent periodic increases in the value of the security are recognized through AOCI. By electing the fair value option for these instruments, we will instead reflect valuation changes through our consolidated statements of operations in the period they occur, including any such increases in value.

For mortgage-related securities and investments in securities that are selected for the fair value option and subsequently classified as trading securities, the change in fair value was recorded in gains (losses) on investment activity in our consolidated statements of operations. See NOTE 6: INVESTMENTS IN SECURITIES for additional information regarding the net unrealized gains (losses) on trading securities, which include gains (losses) for other items that are not selected for the fair value option. Related interest income continues to be reported as interest income in our consolidated statements of operations using effective interest methods. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities for additional information about the measurement and recognition of interest income on investments in securities.

Foreign-Currency Denominated Debt with Fair Value Option Elected

In the case of foreign-currency denominated debt, we have entered into derivative transactions that effectively convert these instruments to U.S. dollar denominated floating rate instruments. We historically recorded the fair value changes on these derivatives through our consolidated statements of operations in accordance with the accounting standards for derivatives and hedging. However, the corresponding offsetting change in fair value that occurred in the debt as a result of changes in interest rates was not permitted to be recorded in our consolidated statements of operations unless we pursued hedge accounting. As a result, our consolidated statements of operations reflected only the fair value changes of the derivatives and not the offsetting fair value changes in the debt resulting from changes in interest rates.

Therefore, we have elected the fair value option on the debt instruments to better reflect the economic offset that naturally results from the debt due to changes in interest rates. We currently do not issue foreign-currency denominated debt and use of the fair value option in the future for these types of instruments will be evaluated on a case-by-case basis for any new issuances of this type of debt.

The changes in fair value of foreign-currency denominated debt of $(405) million and $406 million for the year ended December 31, 2009 and 2008, respectively, were recorded in gains (losses) on debt recorded at fair value in our consolidated statements of operations. The changes in fair value related to fluctuations in exchange rates and interest rates were $(202) million and $96 million for the year ended December 31, 2009 and 2008, respectively. The remaining changes in the fair value of $(203) million and $310 million for the year ended December 31, 2009 and 2008, respectively, were attributable to changes in the instrument-specific credit risk.

The changes in fair value attributable to changes in instrument-specific credit risk were determined by comparing the total change in fair value of the debt to the total change in fair value of the interest rate and foreign currency derivatives used to hedge the debt. Any difference in the fair value change of the debt compared to the fair value change in the derivatives is attributed to instrument-specific credit risk.

The difference between the aggregate fair value and aggregate unpaid principal balance for foreign-currency denominated debt due after one year was $141 million and $445 million at December 31, 2009 and 2008, respectively. Related interest expense continues to be reported as interest expense in our consolidated statements of operations. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Debt Securities Issued for additional information about the measurement and recognition of interest expense on debt securities issued.

Multifamily Held-For-Sale Mortgage Loans with the Fair Value Option Elected

Beginning in the third quarter of 2008, we elected the fair value option for multifamily mortgage loans purchased through our Capital Market Execution program to reflect our strategy in this program. Under this program, we acquire loans we intend to sell. While this is consistent with our overall strategy to expand our multifamily loan holdings, it differs from the buy-and-hold strategy that we have traditionally used with respect to multifamily loans. These multifamily mortgage loans are classified as held-for-sale mortgage loans in our consolidated balance sheets to reflect our intent to sell these loans in the future.

We recorded $(81) million and $(14) million from the change in fair value in gains (losses) on investment activity in our consolidated statements of operations for the year ended December 31, 2009 and 2008, respectively. The fair value changes that were attributable to changes in the instrument-specific credit risk were $24 million and $(69) million for the year ended December 31, 2009 and 2008, respectively. The gains and losses attributable to changes in instrument specific credit risk were determined primarily from the changes in OAS level.

The difference between the aggregate fair value and the aggregate unpaid principal balance for multifamily held-for-sale loans with the fair value option elected was $(97) million and $(14) million at December 31, 2009 and 2008, respectively. Related interest income continues to be reported as interest income in our consolidated statements of operations. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Mortgage Loans for additional information about the measurement and recognition of interest income on our mortgage loans.

Valuation Methods and Assumptions Subject to Fair Value Hierarchy

We categorize assets and liabilities that we measured and reported at fair value in our consolidated balance sheets within the fair value hierarchy based on the valuation process used to derive the fair value and our judgment 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 based on current market conditions. In formulating 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 fair values are observable in active markets or the markets are inactive.

On April 1, 2009, we adopted an amendment to the accounting standards for fair value measurements and disclosures, which provides additional guidance for estimating fair value when the volume and level of activities have significantly decreased. The adoption of this standard had no impact on our consolidated financial statements.

Our Level 1 financial instruments consist of exchange-traded derivatives where quoted prices exist for the exact instrument in an active market and our investment in Treasury bills.

Our Level 2 instruments generally consist of high credit quality agency mortgage-related securities, non-mortgage-related asset-backed securities, interest-rate swaps, option-based derivatives and foreign-currency denominated debt. These instruments are generally valued through one of the following methods: (a) dealer or pricing service values derived by comparison to recent transactions of similar securities and adjusting for differences in prepayment or liquidity characteristics; or (b) modeled through an industry standard modeling technique that relies upon observable inputs such as discount rates and prepayment assumptions.

Our Level 3 financial instruments primarily consist of non-agency residential mortgage-related securities, commercial mortgage-backed securities, certain agency mortgage-related securities, our guarantee asset and multifamily mortgage loans held-for-sale. While the non-agency mortgage-related securities market has become significantly less liquid, resulting in lower transaction volumes, wider credit spreads and less transparency since 2008, we value our non-agency mortgage-related securities based primarily on prices received from third party pricing services and prices received from dealers. The techniques used to value these instruments generally are either (a) a comparison to transactions of instruments with similar collateral and risk profiles; or (b) an industry standard modeling technique such as the discounted cash flow model. For a description of how we determine the fair value of our guarantee asset, see NOTE 4: RETAINED INTERESTS IN MORTGAGE-RELATED SECURITIZATIONS.

Mortgage Loans, Held for Investment

Mortgage loans, held for investment include impaired multifamily mortgage loans, which are not measured at fair value on an ongoing basis but have been written down to fair value due to impairment. We classify these impaired multifamily mortgage loans as Level 3 in the fair value hierarchy as their valuation includes significant unobservable inputs.

Mortgage loans, held for investment also include single-family mortgage loans, including delinquent single-family loans purchased out of pools. For valuation purposes, these loans are cohorted based on similar characteristics and then the information is sent to several dealers who provide price quotes.

Mortgage Loans, Held for Sale

Mortgage loans, held for sale consist of both single-family and multifamily mortgage loans. For single-family mortgage loans, we determine the fair value of these mortgage loans to calculate lower-of-cost-or-fair-value adjustments for mortgages classified as held-for-sale for GAAP purposes, therefore they are measured at fair value on a non-recurring basis and subject to classification under the fair value hierarchy. Beginning in the third quarter of 2008, we elected the fair value option for multifamily mortgage loans that were purchased through our Capital Market Execution program to reflect our strategy in this program. Thus, these multifamily mortgage loans are measured at fair value on a recurring basis.

We determine the fair value of single-family mortgage loans, excluding delinquent single-family loans purchased out of pools, based on comparisons to actively traded mortgage-related securities with similar characteristics. To calculate the fair value, we include adjustments for yield, credit and liquidity differences. Part of the adjustments represents an implied management and guarantee fee. To accomplish this, the fair value of the single-family mortgage loans, excluding delinquent single-family loans purchased out of pools, includes an adjustment representing the estimated present value of the additional cash flows on the mortgage coupon in excess of the coupon expected on the notional mortgage-related securities. The implied management and guarantee fee for single-family mortgage loans is also net of the related credit and other components inherent in our guarantee obligation. The process for estimating the related credit and other guarantee obligation components is described in the *Guarantee Obligation* section below. The valuation methodology for these single-family mortgage loans was enhanced during 2009 to reflect delinquency status based on non-performing loan values from dealers and transition rates to default. Since the fair values of these loans are derived from observable prices with adjustments that may be significant, they are classified as Level 3 under the fair value hierarchy.

The fair value of multifamily mortgage loans is generally based on market prices obtained from a third-party pricing service provider for similar mortgages, adjusted for differences in contractual terms and the current credit risk profile for each loan. However, given the relative illiquidity in the marketplace for these loans, and differences in contractual terms, we classified these loans as Level 3 in the fair value hierarchy.

Investments in Securities

Investments in securities consist of mortgage-related and non-mortgage-related securities. Mortgage-related securities represent pass-throughs and other mortgage-related securities issued by us, Fannie Mae and Ginnie Mae, as well as non-agency mortgage-related securities. They are classified as available for sale or trading, and are already reflected at fair value on our GAAP consolidated balance sheets. Effective January 1, 2008, we elected the fair value option for selected mortgage-related securities that were classified as available-for-sale securities and available-for-sale securities identified as in the scope of interest income recognition analysis under the accounting standards for investments in beneficial interests in securitized financial assets. In conjunction with our adoption of the accounting standards on the fair value option for financial assets and financial liabilities, we reclassified these securities from available-for-sale securities to trading securities on our GAAP consolidated balance sheets and recorded the changes in fair value during the period for such securities to gains (losses) on investment activities as incurred.

The fair value of securities with readily available third-party market prices is generally based on market prices obtained from broker/dealers or third-party pricing service providers. Such fair values may be measured by using third-party quotes for similar instruments, adjusted for differences in contractual terms. Generally, these fair values are classified as Level 2 in the fair value hierarchy. For other securities, a market OAS approach based on observable market parameters is used to estimate fair value. OAS for certain securities are estimated by deriving the OAS for the most closely comparable security with an available market price, using proprietary interest-rate and prepayment models. If necessary, our judgment is applied to estimate the impact of differences in prepayment uncertainty or other unique cash flow characteristics related to that particular security. Fair values for these securities are then estimated by using the estimated OAS as an input to the interest-rate and prepayment models and estimating the net present value of the projected cash flows. The remaining instruments are priced using other modeling techniques or by using other securities as proxies. These securities may be classified as Level 2 or 3 depending on the significance of the inputs that are not observable. In addition, the fair values of the retained interests in our PCs and Structured Securities reflect that they are considered to be of high credit quality due to our guarantee. Our exposure to credit losses on loans underlying these securities is recorded within our reserve for guarantee losses on Participation Certificates. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Investments in Securities for additional information.

Certain available-for-sale mortgage-related securities whose fair value is determined by reference to prices obtained from broker/dealers or pricing services have been changed from a Level 2 classification to a Level 3 classification since the first quarter of 2008. Previously, these valuations relied on observed trades, as evidenced by both activity observed in the market, and similar prices obtained from multiple sources. In late 2007, however, the divergence among prices obtained from these sources increased, and became significant in the first quarter of 2008. This, combined with the observed significant reduction in transaction volumes and widening of credit spreads, led us to conclude that the prices received from pricing services and dealers were reflective of significant unobservable inputs. During 2009, our Level 3 assets increased because the market for non-agency CMBS continued to experience a significant reduction in liquidity and wider spreads, as investor demand for these assets decreased. As a result, we observed more variability in the quotes received from dealers and third-party pricing services and transferred these amounts into Level 3. These transfers were primarily within non-agency CMBS where inputs that are significant to their valuation became limited or unavailable. We concluded that the prices on these securities received from pricing services and dealers were reflective of significant unobservable inputs, as the markets have become significantly less active, requiring higher degrees of judgment to extrapolate fair values from limited market benchmarks.

Derivative Assets, Net

Derivative assets largely consist of interest-rate swaps, option-based derivatives, futures and forward purchase and sale commitments that we account for as derivatives. The carrying value of our derivatives on our consolidated balance sheets is equal to their fair value, including net derivative interest receivable or payable, trade/settle receivable or payable and is net of cash collateral held or posted, where allowable by a master netting agreement. Derivatives in a net unrealized gain position are reported as derivative assets, net. Similarly, derivatives in a net unrealized loss position are reported as derivative liabilities, net.

The fair values of interest-rate swaps are determined by using the appropriate yield curves to calculate and discount the expected cash flows for both the fixed-rate and variable-rate components of the swap contracts. Option-based derivatives, which principally include call and put swaptions, are valued using option-pricing models. These models use market interest rates and market-implied option volatilities or dealer prices, where available, to calculate the option s fair value. Market-implied option volatilities are based on information obtained from broker/dealers. Since swaps and option-based derivatives fair values are determined through models that use observable inputs, these are generally classified as Level 2 under the fair value hierarchy. To the extent we have determined that any of the significant inputs are considered unobservable, these amounts have been classified as Level 3 under the fair value hierarchy.

The fair value of exchange-traded futures and options is based on end-of-day closing prices obtained from third-party pricing services, therefore they are classified as Level 1 under the fair value hierarchy.

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. Additionally, the fair value of derivative liabilities considers the impact of our institutional credit risk. 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 institutional credit risk arises from counterparties with investment-grade credit ratings of A or above.

Certain purchase and sale commitments are also considered to be derivatives and are classified as Level 2 or Level 3 under the fair value hierarchy, depending on the fair value hierarchy classification of the purchased or sold item, whether security or loan. Such valuation methodologies and fair value hierarchy classifications are further discussed in the *Investments in Securities* and the *Mortgage Loans, Held-for-Sale* sections above.

Guarantee Asset, at Fair Value

For a description of how we determine the fair value of our guarantee asset, see NOTE 4: RETAINED INTERESTS IN MORTGAGE-RELATED SECURITIZATIONS. Since its valuation technique is model based with significant inputs that are not observable, our guarantee asset is classified as Level 3 in the fair value hierarchy.

REO, Net

For GAAP purposes, subsequent to acquisition REO is carried at the lower of its carrying amount or fair value less estimated costs to sell. The subsequent fair value less estimated costs to sell is a model-based estimated value based on relevant recent historical factors, which are considered to be unobservable inputs. As a result REO is classified as Level 3 under the fair value hierarchy.

Low-Income Housing Tax Credit Partnership Equity Investments

Our investments in LIHTC partnerships are reported as consolidated entities or equity method investments in the GAAP financial statements. We present the fair value of these investments in other assets on our consolidated fair value balance sheets. For the LIHTC partnerships, the fair value of expected tax benefits is estimated using expected cash flows discounted at current market yields for newly issued funds obtained by fund sponsors. Expected cash flows represent the tax benefit of a third party holder from the expected tax credits and expected deductible losses generated from the investment. Our investments in LIHTC partnerships are valued using unobservable inputs and as a result are classified as Level 3 under the fair value hierarchy. Our ability to use the federal income tax credits and deductible operating losses generated by these partnerships is limited. As of December 31, 2009, we wrote down the carrying value of our LIHTC investments to zero, as we will not be able to realize any value either through reductions to our taxable income and related tax liabilities or through a sale to a third party as a result of the restriction imposed by Treasury. For more information, see NOTE 5: VARIABLE INTEREST ENTITIES and NOTE 15: INCOME TAXES .

Debt Securities Denominated in Foreign Currencies

Foreign-currency denominated debt instruments are measured at fair value pursuant to our fair value option election. We determine the fair value of these instruments by obtaining multiple quotes from dealers. Since the prices provided by the dealers consider only observable data such as interest rates and exchange rates, these fair values are classified as Level 2 under the fair value hierarchy.

Derivative Liabilities, Net

See discussion under *Derivative Assets, Net* above.

Consolidated Fair Value Balance Sheets

The supplemental consolidated fair value balance sheets in Table 18.4 present our estimates of the fair value of our recorded financial assets and liabilities and off-balance sheet financial instruments at December 31, 2009 and 2008. The valuations of financial instruments on our consolidated fair value balance sheets are in accordance with GAAP fair value guidelines prescribed by the accounting standards for fair value measurements and disclosures and the accounting standards for financial instruments.

In 2009, we enhanced our fair value techniques related to the valuation of several assets and liabilities reported or disclosed in our consolidated fair value balance sheets at fair value, as follows:

- We changed our technique to value the guarantee obligation to reflect changing market conditions, our revised outlook of future economic conditions and the changes in composition of our guarantee loan portfolio. To derive the fair value of our guarantee obligation, we use entry-pricing information for all guaranteed loans that would qualify for purchase under current underwriting guidelines (used for the majority of the guaranteed loans, but translates into a small portion of the overall fair value of the guarantee obligation). We use our internal credit models, which incorporate factors such as loan characteristics, expected losses and risk premiums without further adjustment for those guaranteed loans that would not qualify for purchase under current underwriting guidelines (used for less than a majority of the guaranteed loans, but translates into the vast majority of the overall fair value of the guarantee obligation). We also adjusted certain inputs to our internal models based on actual impacts of the MHA Program and recent data and enhanced our prepayment model to use state-level house price growth data and forecasts instead of national house price growth data.

We changed our valuation technique for single-family mortgage loans that were never securitized to reflect delinquency status based on non-performing loan values from dealers and transition rates to default.

We enhanced our valuation technique for multifamily mortgage loans to consider the current credit risk profile for each loan, to better reflect current market conditions.

We enhanced our valuation technique for single-family REO properties to incorporate relevant recent historical factors using a model-based approach, to more quickly respond to changing market conditions related to REO, net.

Table 18.4 Consolidated Fair Value Balance Sheets[1]

	December 31, 2009		December 31, 2008	
	Carrying Amount[2]	Fair Value	Carrying Amount[2]	Fair Value
	(in billions)			
Assets				
Cash and cash equivalents	$ 64.7	$ 64.7	$ 45.3	$ 45.3
Federal funds sold and securities purchased under agreements to resell	7.0	7.0	10.2	10.2
Investments in securities:				
Available-for-sale, at fair value	384.7	384.7	458.9	458.9
Trading, at fair value	222.2	222.2	190.4	190.4
Total investments in securities	606.9	606.9	649.3	649.3
Mortgage loans	127.9	119.9	107.6	100.7
Derivative assets, net	0.2	0.2	1.0	1.0
Guarantee asset[3]	10.4	11.0	4.8	5.4
Other assets	24.7	26.7	32.8	34.1
Total assets	$ 841.8	$ 836.4	$ 851.0	$ 846.0
Liabilities				
Total debt, net	$ 780.6	$ 795.4	$ 843.0	$ 870.6
Guarantee obligation	12.5	94.0	12.1	59.7
Derivative liabilities, net	0.6	0.6	2.3	2.3
Reserve for guarantee losses on Participation Certificates	32.4		14.9	
Other liabilities	11.3	8.9	9.3	9.0
Total liabilities	837.4	898.9	881.6	941.6
Net assets attributable to stockholders				
Senior preferred stockholders	51.7	51.7	14.8	14.8
Preferred stockholders	14.1	0.5	14.1	0.1
Common stockholders	(61.5)	(114.7)	(59.6)	(110.5)
Total net assets attributable to Freddie Mac	4.3	(62.5)	(30.7)	(95.6)
Noncontrolling interest	0.1		0.1	
Total net assets	4.4	(62.5)	(30.6)	(95.6)
Total liabilities and net assets	$ 841.8	$ 836.4	$ 851.0	$ 846.0

(1) The consolidated fair value balance sheets do not purport to present our net realizable, liquidation or market value as a whole. Furthermore, amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.
(2) Equals the amount reported on our GAAP consolidated balance sheets.

(3) The fair value of our guarantee asset reported exceeds the carrying value primarily because the fair value includes our guarantee asset related to PCs that were issued prior to the implementation of accounting standards for guarantees in 2003 and thus are not recognized on our GAAP consolidated balance sheets.

Limitations

Our consolidated fair value balance sheets do not capture all elements of value that are implicit in our operations as a going concern because our consolidated fair value balance sheets only capture the values of the current investment and securitization portfolios. For example, our consolidated fair value balance sheets do not capture the value of new investment and securitization business that would likely replace prepayments as they occur. Thus, the fair value of net assets attributable to stockholders presented on our consolidated fair value balance sheets does not represent an estimate of our net realizable, liquidation or market value as a whole.

We report certain assets and liabilities that are not financial instruments (such as property and equipment and REO), as well as certain financial instruments that are not covered by the disclosure requirements in the accounting standards for financial instruments, such as pension liabilities, at their carrying amounts in accordance with GAAP on our consolidated fair value balance sheets. We believe these items do not have a significant impact on our overall fair value results. Other non-financial assets and liabilities on our GAAP consolidated balance sheets represent deferrals of costs and revenues that are amortized in accordance with GAAP, such as deferred debt issuance costs and deferred credit fees. Cash receipts and payments related to these items are generally recognized in the fair value of net assets when received or paid, with no basis reflected on our fair value balance sheets.

Valuation Methods and Assumptions Not Subject to Fair Value Hierarchy

The following are valuation assumptions and methods for items not subject to the fair value hierarchy either because they are not measured at fair value other than on the consolidated fair value balance sheets or are only measured at fair value at inception.

Mortgage Loans

Mortgage loans consists of both single-family and multifamily mortgage loans that we hold for investment; however, only our population of held-for-investment single-family mortgage loans are not subject to the fair value hierarchy. For GAAP purposes, we must determine the fair value of our single-family mortgage loans to calculate lower-of-cost-or-fair-

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value adjustments for mortgages classified as held for sale. For fair value balance sheet purposes, we use a similar approach when determining the fair value of mortgage loans, including those held-for-investment. The fair value of multifamily mortgage loans is generally based on market prices obtained from a reliable third-party pricing service provider for similar mortgages, considering the current credit risk profile for each loan, adjusted for differences in contractual terms.

Cash and Cash Equivalents

Cash and cash equivalents largely consists of highly liquid investment securities with an original maturity of three months or less used for cash management purposes, as well as cash held at financial institutions and cash collateral posted by our derivative counterparties. Given that these assets are short-term in nature with limited market value volatility, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value.

Federal Funds Sold and Securities Purchased Under Agreements to Resell

Federal funds sold and securities purchased under agreements to resell principally consists of short-term contractual agreements such as reverse repurchase agreements involving Treasury and agency securities, federal funds sold and Eurodollar time deposits. Given that these assets are short-term in nature, the carrying amount on our GAAP consolidated balance sheets is deemed to be a reasonable approximation of fair value.

Other Assets

Other assets consists of investments in qualified LIHTC partnerships that generate federal income tax credits and deductible operating losses, credit enhancement contracts related to PCs and Structured Securities (pool insurance and recourse and/or indemnification agreements), financial guarantee contracts for additional credit enhancements on certain manufactured housing asset-backed securities, REO, property and equipment and other miscellaneous assets.

For the credit enhancement contracts related to PCs and Structured Securities (pool insurance and recourse and/or indemnification agreements), fair value is estimated using an expected cash flow approach, and is intended to reflect the estimated amount that a third party would be willing to pay for the contracts. On our consolidated fair value balance sheets, these contracts are reported at fair value at each balance sheet date based on current market conditions. On our GAAP consolidated balance sheets, these contracts are initially recorded at fair value at inception, then amortized to expense.

For the credit enhancements on manufactured housing asset-backed securities, the fair value is based on the difference between the market price of non-credit-impaired manufactured housing securities and credit-impaired manufactured housing securities that are likely to produce future credit losses, as adjusted for our estimate of a risk premium attributable to the financial guarantee contracts. The value of the contracts, over time, will be determined by the actual credit-related losses incurred and, therefore, may have a value that is higher or lower than our market-based estimate. On our GAAP consolidated financial statements, these contracts are recognized as cash is received.

The other categories of assets that comprise other assets are not financial instruments required to be valued at fair value under the accounting standards for financial instruments, such as property and equipment. For the majority of these non-financial instruments in other assets, we use the carrying amounts from our GAAP consolidated balance sheets as the reported values on our consolidated fair value balance sheets, without any adjustment. These assets represent an insignificant portion of our GAAP consolidated balance sheets. Certain non-financial assets in other assets on our GAAP consolidated balance sheets are assigned a zero value on our consolidated fair value balance sheets. This treatment is applied to deferred items such as deferred debt issuance costs.

We adjust the GAAP-basis deferred taxes reflected on our consolidated fair value balance sheets to include estimated income taxes on the difference between our consolidated fair value balance sheets net assets attributable to common stockholders, including deferred taxes from our GAAP consolidated balance sheets, and our GAAP consolidated balance sheets equity attributable to common stockholders. To the extent the adjusted deferred taxes are a net asset, this amount is included in other assets. In addition, if our net deferred tax assets on our consolidated fair value balance sheets, calculated as described above, exceed our net deferred tax assets on our GAAP consolidated balance sheets that have been reduced by a valuation allowance, our net deferred tax assets on our consolidated fair value balance sheets are limited to the amount of our net deferred tax assets on our GAAP consolidated balance sheets. If the adjusted deferred taxes are a net liability, this amount is included in other liabilities.

Total Debt, Net

Total debt, net represents short-term and long-term debt used to finance our assets. On our consolidated GAAP balance sheets, total debt, net, excluding debt securities denominated in foreign currencies, is reported at amortized cost, which is net of deferred items, including premiums, discounts and hedging-related basis adjustments. This item includes both non-callable and callable debt, as well as short-term zero-coupon discount notes. The fair value of the short-term zero-coupon discount notes is based on a discounted cash flow model with market inputs. The valuation of other debt securities represents the proceeds that we would receive from the issuance of debt and is generally based on market prices obtained from broker/

dealers, reliable third-party pricing service providers or direct market observations. We elected the fair value option for debt securities denominated in foreign currencies and certain other debt securities and reported them at fair value on our GAAP consolidated balance sheets.

Guarantee Obligation

We did not establish a guarantee obligation for GAAP purposes for PCs and Structured Securities that were issued through our guarantor swap program prior to adoption of the accounting standards for guarantees. In addition, after it is initially recorded at fair value the guarantee obligation is not subsequently carried at fair value for GAAP purposes. On our consolidated fair value balance sheets, the guarantee obligation reflects the fair value of our guarantee obligation on all PCs regardless of when they were issued. To derive the fair value of our guarantee obligation, we use entry-pricing information for all guaranteed loans that would qualify for purchase under current underwriting guidelines (used for the majority of the guaranteed loans, but translates into a small portion of the overall fair value of the guarantee obligation). We use our internal credit models, which incorporate factors such as loan characteristics, expected losses and risk premiums without further adjustment for those guaranteed loans that would not qualify for purchase under current underwriting guidelines (used for less than a majority of the guaranteed loans, but translates into the vast majority of the overall fair value of the guarantee obligation). For information concerning our valuation approach and accounting policies related to our guarantees of mortgage assets for GAAP purposes, see NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and NOTE 3: FINANCIAL GUARANTEES AND MORTGAGE SECURITIZATIONS.

Reserve for Guarantee Losses on PCs

The carrying amount of the reserve for guarantee losses on PCs on our GAAP consolidated balance sheets represents the estimated losses inherent in the loans that back our PCs. This line item has no basis on our consolidated fair value balance sheets, because the estimated fair value of all expected default losses (both contingent and non-contingent) is included in the guarantee obligation reported on our consolidated fair value balance sheets.

Other Liabilities

Other liabilities principally consist of funding liabilities associated with investments in LIHTC partnerships, accrued interest payable on debt securities and other miscellaneous obligations of less than one year. We believe the carrying amount of these liabilities is a reasonable approximation of their fair value, except for funding liabilities associated with investments in LIHTC partnerships, for which fair value is estimated using expected cash flows discounted at our cost of funds. Furthermore, certain deferred items reported as other liabilities on our GAAP consolidated balance sheets are assigned zero value on our consolidated fair value balance sheets, such as deferred credit fees. Also, as discussed in *Other Assets,* other liabilities may include a deferred tax liability adjusted for fair value balance sheet purposes.

Net Assets Attributable to Senior Preferred Stockholders

Our senior preferred stock held by Treasury in connection with the Purchase Agreement is recorded at the stated liquidation preference for purposes of the consolidated fair value balance sheets. As the senior preferred stock is restricted as to its redemption, we consider the liquidation preference to be the most appropriate measure for purposes of the consolidated fair value balance sheets.

Net Assets Attributable to Preferred Stockholders

To determine the preferred stock fair value, we use a market-based approach incorporating quoted dealer prices.

Net Assets Attributable to Common Stockholders

Net assets attributable to common stockholders is equal to the difference between the fair value of total assets and the sum of total liabilities reported on our consolidated fair value balance sheets, less the value of net assets attributable to senior preferred stockholders, the fair value attributable to preferred stockholders and the fair value of noncontrolling interests.

Noncontrolling Interests in Consolidated Subsidiaries

Noncontrolling interests in consolidated subsidiaries primarily represent preferred stock interests that third parties hold in our two majority-owned REIT subsidiaries. In accordance with GAAP, we consolidated the REITs. The preferred stock interests are not within the scope of disclosure requirements in the accounting standards for financial instruments. However, we present the fair value of these interests on our consolidated fair value balance sheets. Since the REIT preferred stock dividend suspension, the fair value of the third-party noncontrolling interests in these REITs is based on Freddie Mac s preferred stock quotes. For more information, see NOTE 20: NONCONTROLLING INTERESTS to our consolidated financial statements.

NOTE 19: CONCENTRATION OF CREDIT AND OTHER RISKS

Mortgages and Mortgage-Related Securities

Our business activity is to participate in and support the residential mortgage market in the United States, which we pursue by both issuing guaranteed mortgage securities and investing in mortgage loans and mortgage-related securities. We primarily invest in and securitize single-family mortgage loans. However, we also invest in and securitize multifamily mortgage loans, which totaled $98.6 billion and $87.6 billion in unpaid principal balance as of December 31, 2009 and 2008, respectively. Approximately 29% and 30% of these multifamily loans related to properties located in the Northeast region of the U.S. and 26% and 25% of these loans related to properties located in the West region of the U.S. as of December 31, 2009 and 2008, respectively.

Table 19.1 summarizes the geographical concentration of single-family mortgages that are held by us or that underlie our issued PCs and Structured Securities, excluding $0.9 billion and $1.1 billion of mortgage-related securities issued by Ginnie Mae that back Structured Securities at December 31, 2009 and 2008, respectively, because these securities do not expose us to meaningful amounts of credit risk. See NOTE 6: INVESTMENTS IN SECURITIES and NOTE 7: MORTGAGE LOANS AND LOAN LOSS RESERVES for information about other concentrations in loans and mortgage-related securities that we hold.

Table 19.1 Concentration of Credit Risk Single-Family Loans

	December 31,			
	2009		2008	
	Amount[1]	Delinquency Rate[2]	Amount[1]	Delinquency Rate[2]
	(dollars in millions)			
Single-Family Loans:				
By Region[3]				
West	$ 511,588	5.18%	$ 482,534	1.99%
Northeast	468,325	3.03	447,361	1.27
North Central	348,952	3.16	348,697	1.50
Southeast	339,798	5.47	339,347	2.60
Southwest	233,910	2.14	231,307	1.14
	$ 1,902,573	3.87%	$ 1,849,246	1.72%
By State				
California	$ 283,863	5.66%	$ 259,050	2.27%
Florida	122,074	10.22	125,084	4.92
Arizona	51,633	7.29	52,245	2.83
Nevada	22,486	11.17	23,187	4.11
Michigan	59,537	3.55	61,243	1.61
All others	1,362,980	N/A	1,328,437	N/A

	$ 1,902,573	3.87%	$ 1,849,246	1.72%

(1) Based on the unpaid principal balance of single-family mortgage loans held by us and those underlying our issued PCs and Structured Securities less Structured Securities backed by Ginnie Mae Certificates and Structured Transactions and other guarantees of HFA bonds.
(2) Based on the number of single-family mortgages 90 days or more delinquent or in foreclosure. Delinquencies on mortgage loans underlying certain Structured Securities and long-term standby commitments may be reported on a different schedule due to variances in industry practice. Excludes loans underlying our Structured Transactions.
(3) Region 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); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY).

Table 19.2 summarizes the attribute concentration of multi-family mortgages that are held by us or that underlie our issued PCs, Structured Securities and other mortgage guarantees.

Table 19.2 Concentration of Credit Risk Multifamily Loans

	December 31,			
	2009		2008	
	Amount(1)	Delinquency Rate(2)	Amount(1)	Delinquency Rate(2)
	(dollars in millions)			
Original Loan-to-Value (OLTV)				
OLTV < 75%	$ 63,362	0.05%	$ 53,210	0.00%
75% to 80%	28,514	0.07	27,318	0.00
OLTV > 80%	6,676	1.48	7,002	0.18
	$ 98,552	0.15%	$ 87,530	0.01%
Original Debt Service Coverage Ratio				
Below 1.10	$ 3,508	1.61%	$ 3,643	0.34%
1.10 to 1.25	13,254	0.32	12,022	0.00
Above 1.25	81,790	0.06	71,865	0.00
	$ 98,552	0.15%	$ 87,530	0.01%
Original Loan Size Distribution				
< $5 million	$ 7,658	0.07%	$ 7,493	0.00%
$5 million to $25 million	54,798	0.26	50,418	0.02
> $25 million	36,096	0.00	29,619	0.00
	$ 98,552	0.15%	$ 87,530	0.01%

(1) Based on the unpaid principal balance of multifamily mortgage loans held by us and those underlying our issued PCs and Structured Securities excluding Structured Transactions and other mortgage guarantees, including those of HFA bonds.
(2) Based on the net carrying value of multifamily mortgages 90 days or more delinquent or in foreclosure, excluding Structured Transactions and other mortgage guarantees of HFA bonds.

One indicator of risk for mortgage loans in our multifamily mortgage portfolio is the amount of a borrower s equity in the underlying property. A borrower s equity in a property decreases as the LTV ratio increases. Higher LTV ratios negatively affect a borrower s ability to refinance or sell a property for an amount at or above the balance of the outstanding mortgage. The DSCR is another indicator of future credit performance. The DSCR estimates a multifamily borrower s ability to service its mortgage obligation using the secured property s cash flow, after deducting non-mortgage expenses from income. The higher the DSCR, the more likely a multifamily borrower is to continue servicing its mortgage obligation. Loan size at origination does not generally indicate the degree of a loan s risk; however, it does indicate our potential exposure to a credit event. Credit enhancement reduces our exposure to an eventual credit loss. The majority of multifamily loans included in our delinquency rates are credit-enhanced for which we believe the credit enhancement will mitigate our expected losses on those loans.

Credit Performance of Certain Higher Risk Single-Family Loan Categories

There are several residential loan products that are designed to offer borrowers greater choices in their payment terms. For example, interest-only mortgages allow the borrower to pay only interest for a fixed period of time before the loan begins to amortize. Option ARM loans permit a variety of repayment options, which include minimum, interest-only, fully amortizing 30-year and fully amortizing 15-year payments. The minimum payment alternative for option ARM loans allows the borrower to make monthly payments that may be less than the interest accrued for the period. The unpaid interest, known as negative amortization, is added to the principal balance of the loan, which increases the outstanding loan balance.

Participants in the mortgage market often characterize single-family loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. 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, or they may be underwritten with lower or alternative income or asset documentation requirements compared to a full documentation mortgage loan or both. However, there is no universally accepted definition of subprime or Alt-A. In determining our exposure on loans underlying our single-family mortgage portfolio, we have classified mortgage loans as Alt-A if the lender that delivers them to us has classified the loans as Alt-A, or if the loans had reduced documentation requirements, as well as a combination of certain credit attributes and expected performance characteristics at acquisition which, when compared to full documentation loans in our portfolio, indicate that the loan should be classified as Alt-A. There are circumstances where loans with reduced documentation are not classified as Alt-A because we already own the credit risk on the loans or the loans fall within various programs which we believe support not classifying the loans as Alt-A. For our non-agency mortgage-related securities that are backed by Alt-A loans, we classified securities as Alt-A if the securities were labeled as Alt-A when sold to us.

Although we do not categorize single-family mortgage loans we purchase or guarantee as prime or subprime, we recognize that there are a number of mortgage loan types with certain characteristics that indicate a higher degree of credit risk. For example, since the U.S. mortgage market has experienced declining home prices and home sales for an extended period, there are mortgage loans with higher LTV ratios that have a higher risk of default, especially during housing and economic downturns, such as the one the U.S. has experienced for the past few years. In addition, a borrower s credit score is a useful measure for assessing the credit quality of the borrower. Statistically, borrowers with higher credit scores are more likely to repay or have the ability to refinance than those with lower scores. The industry has viewed those borrowers with credit scores below 620 based on the FICO scale as having a higher risk of default.

Presented below is a summary of the credit performance of certain single-family mortgage loans held by us as well as those underlying our PCs, Structured Securities and other mortgage-related financial guarantees.

Table 19.3 Credit Performance of Certain Higher Risk Single-Family Loans in the Single-Family Mortgage Portfolio(1)

	As of December 31,			
	Percentage of Portfolio(1)		Delinquency Rate(2)	
	2009	2008	2009	2008
Alt-A	8%	10%	12.3%	5.6%
Option ARM loans	1%	1%	17.9%	8.7%
Interest-only loans	7%	9%	17.6%	7.6%
Original LTV greater than 90%(3) loans	8%	8%	9.1%	4.8%
Lower FICO scores (less than 620)	4%	4%	14.9%	7.8%

(1) Based on the unpaid principal balance of the single family loans held by us on our consolidated balance sheets and those underlying our PCs, Structured Securities and other mortgage-related guarantees. Excludes certain Structured Transactions, that portion of Structured Securities that is backed by Ginnie Mae Certificates and other guarantees of HFA bonds.
(2) Based on the number of mortgages 90 days or more delinquent or in foreclosures. Mortgage loans whose contractual terms have been modified under agreement with the borrower are not counted as delinquent, if the borrower is less than 90 days past due under the modified terms. Delinquencies on mortgage loans underlying certain Structured Securities, long-term standby commitments and Structured Transactions may be reported on a different schedule due to variations in industry practice.
(3) Based on our first lien exposure on the property. Includes the credit-enhanced portion of the loan and excludes any secondary financing by third parties.

During 2009 and 2008, a significant percentage of our charge-offs and REO acquisition activity was associated with these loan groups. The percentages in the table above are not exclusive. In other words, loans that are included in the interest-only loan percentage may also be included in the Alt-A documentation loan percentage. Loans with a combination of these attributes will have an even higher risk of default than those with isolated characteristics.

The percentage of our single-family mortgage portfolio, based on unpaid principal balance with estimated current LTV ratios greater than 100% was 18% and 13% at December 31, 2009 and 2008, respectively. 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, regardless of the borrower s financial condition. The delinquency rate for single-family loans with estimated current LTV ratios greater than 100% was 14.80% and 8.08% as of December 31, 2009 and 2008, respectively.

We also own investments in non-agency mortgage-related securities that are backed by subprime, option ARM and Alt-A loans. We classified securities as subprime, option ARM or Alt-A if the securities were labeled as subprime, option ARM or Alt-A when sold to us. See NOTE 6: INVESTMENTS IN SECURITIES for further information on these categories and other concentrations in our investments in securities.

Mortgage Lenders, or Seller/Servicers

A significant portion of our single-family mortgage purchase volume is generated from several large mortgage lenders, or seller/servicers, with whom we have entered into mortgage purchase volume commitments that provide for these customers to deliver us a specified dollar amount or minimum percentage of their total sales of conforming loans. Our top 10 single-family seller/servicers provided approximately 74% of our single-family purchase volume during the twelve months ended December 31, 2009. Wells Fargo Bank, N.A. and Bank of America, N.A. accounted for 27% and 11% of our single-family mortgage purchase volume and were the only single-family seller/servicers that comprised 10% or more of our purchase volume during the twelve months ended December 31, 2009. Our top seller/servicers are among the largest mortgage loan originators in the U.S. in the single-family market. We are exposed to the risk that we could lose purchase volume to the extent these arrangements are terminated without replacement from other lenders.

We are exposed to institutional credit risk arising from the potential insolvency or non-performance by our seller/servicers, including non-performance of their repurchase obligations arising from the breaches of representations and warranties made to us for loans that they underwrote and sold to us. Our seller/servicers also service single-family loans that we hold and that back our PCs, which includes having an active role in our loss mitigation efforts. We also have exposure to seller/servicers to the extent we fail to realize the anticipated benefits of our loss mitigation plans, or seller/servicers complete a lower percentage of the repurchases they are obligated to make. Either of these conditions could cause our losses to be significantly higher than those estimated within our loan loss reserves.

Due to strain on the mortgage finance industry, the financial condition and performance of many of our seller/servicers have been adversely affected. Many institutions, some of which were our customers, have failed, been acquired, received assistance from the U.S. government, received multiple ratings downgrades or experienced liquidity constraints. The resulting consolidation within the mortgage finance industry further concentrates our institutional credit risk among a smaller number of institutions.

In July 2008, IndyMac Bancorp, Inc., or IndyMac, announced that the FDIC had been made a conservator of the bank. In March 2009, we entered into an agreement with the FDIC with respect to the transfer of loan servicing from IndyMac to a third-party, under which we received an amount to partially recover our future losses incurred from IndyMac s repurchase obligations. After the FDIC s rejection of Freddie Mac s remaining claims in August 2009, we declined to pursue further collection efforts.

In September 2008, Lehman and its affiliates declared bankruptcy. Lehman and its affiliates also service single-family loans for us. We have exposure to Lehman for servicing-related obligations due to us, including repurchase obligations. Lehman suspended its repurchases from us after declaring bankruptcy. On September 22, 2009, we filed proofs of claim in the Lehman bankruptcies, which included our claim for repurchase obligations.

In September 2008, Washington Mutual Bank was acquired by JPMorgan Chase Bank, N.A. We agreed to JPMorgan Chase becoming the servicer of mortgages previously serviced by Washington Mutual in return for JPMorgan Chase s agreement to assume Washington Mutual s recourse obligations to repurchase any of such mortgages that were sold to us with recourse. With respect to mortgages that Washington Mutual sold to us without recourse, JPMorgan Chase made a one-time payment to us in the first quarter of 2009 with respect to obligations of Washington Mutual to repurchase any of such mortgages that are inconsistent with certain representations and warranties made at the time of sale.

In total, we received approximately $650 million associated with the IndyMac servicing transfer and the JPMorgan Chase agreement, which was initially recorded as a deferred obligation within other liabilities in our consolidated balance sheets. In 2009, $375 million of this amount was reclassified to our loan loss reserve and the remainder offset delinquent interest to partially offset losses as incurred on related loans covered by these agreements. In the case of IndyMac, the payment we received in the servicing transfer was significantly less than the amount of the claim we filed for existing and potential exposure to losses related to repurchase obligations, which, as discussed above, the FDIC has rejected.

On August 4, 2009, we notified TBW that we had terminated its eligibility as a seller and servicer for us effective immediately. TBW accounted for approximately 1.9% and 5.2% of our single-family mortgage purchase volume activity for 2009 and 2008, respectively. On August 24, 2009, TBW filed for bankruptcy and announced its plan to wind down its operations. We estimate that the amount of potential exposure, excluding the fair value of related servicing rights, to us related to the loan repurchase obligations of TBW is approximately $700 million as of December 31, 2009. Unrelated to our potential exposure arising out of TBW loan repurchase obligations, in its capacity as a servicer of loans owned or guaranteed by Freddie Mac, TBW received and processed certain borrower funds that it held for the benefit of 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 on or about August 14, 2009. Freddie Mac filed a proof of claim aggregating approximately $595 million against Colonial Bank on November 18, 2009. The proof of claim relates to monies that remain, or should remain, on deposit 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. These monies include, among other items, payoff funds, borrower payments of mortgage principal and interest, as well as taxes and insurance payments related to these loans. We continue to evaluate our other potential exposures to TBW and are working with the debtor in possession, the FDIC and other creditors to quantify these exposures. At this time, we are unable to estimate our total potential exposure related to TBW s bankruptcy; however, the amount of additional losses related to such exposures could be significant.

The estimates of potential exposure to our counterparties are higher than our estimates for probable loss which are based on estimated loan losses that have been incurred through December 31, 2009. Our estimate of probable incurred losses for exposure to seller/servicers for their repurchase obligations to us is a component of our allowance for loan losses as of December 31, 2009 and 2008. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guarantee Losses for further information. We believe we have adequately provided for these exposures, based upon our estimates of incurred losses, in our loan loss reserves at December 31, 2009 and 2008; however, our actual losses may exceed our estimates.

During the twelve months ended December 31, 2009, our top three multifamily lenders, CBRE Melody & Company, Deutsche Bank Berkshire Mortgage and Berkadia Commercial Mortgage LLC (which acquired Capmark Finance Inc. in December 2009), each accounted for more than 10% of our multifamily mortgage purchase volume, and represented approximately 40% of our multifamily purchase volume. These top lenders are among the largest mortgage loan originators in the U.S. in the multifamily markets. We are also exposed to the risk that if multifamily seller/servicers come under financial pressure due to the current stressful economic environment, they could be adversely affected, which could potentially cause degradation in the quality of service they provide or, in certain cases, reduce the likelihood that we could recover losses on loans covered by recourse agreements or other credit enhancements. Capmark Finance Inc., which serviced 17.1% of the multifamily loans on our consolidated balance sheet, filed for bankruptcy on October 25, 2009. On November 24, 2009, the U.S. Bankruptcy Court for the District of Delaware gave Capmark Financial Group Inc. (Capmark) approval to complete the sale of its North American servicing and mortgage banking businesses to Berkadia Commercial Mortgage LLC (Berkadia). The sale to Berkadia, a newly formed entity owned by Berkshire Hathaway Inc. and Leucadia National Corporation, was completed in December 2009. As of December 31, 2009, affiliates of Centerline Holding Company serviced 5.0% of the multifamily loans on our consolidated balance sheet. Centerline Holding Company announced that it was pursuing a restructuring plan with its debt holders due to adverse financial conditions. We continue to monitor the status of all our multifamily servicers in accordance with our counterparty credit risk management framework.

Mortgage Insurers

We have institutional credit risk relating to the potential insolvency or non-performance of mortgage insurers that insure mortgages we purchase or guarantee. For our exposure to mortgage insurers, we evaluate the recovery from insurance policies for mortgage loans that we hold for investment as well as loans underlying our PCs and Structured Securities as part of the estimate of our loan loss reserves. See NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Allowance for Loan Losses and Reserve for Guaranty Losses for additional information. At December 31, 2009, these insurers provided coverage, with maximum loss limits of $62.3 billion, for $312.4 billion of unpaid principal balance in connection with our single-family mortgage portfolio, excluding mortgage loans backing Structured Transactions. Our top six mortgage insurer counterparties, Mortgage Guaranty Insurance Corporation (or MGIC), Radian Guaranty Inc., Genworth Mortgage Insurance Corporation, PMI Mortgage Insurance Co., United Guaranty Residential Insurance Co. and Republic Mortgage Insurance Co. each accounted for more than 10% and collectively represented approximately 94% of our overall mortgage insurance coverage at December 31, 2009. All of our mortgage insurance counterparties received credit rating downgrades during the twelve months of 2009, based on the lower of the S&P or Moody s rating scales and stated in terms of the S&P equivalent. All our mortgage insurance counterparties are rated BBB+ or below as of December 31, 2009, based on the S&P rating scale.

The balance of our outstanding accounts receivable from mortgage insurers, net of associated reserves, was approximately $1.0 billion and $678 million as of December 31, 2009 and 2008, respectively. In June 2008, Triad Guaranty Insurance Corporation (or Triad) ceased issuing new policies and entered voluntary run-off. On June 1, 2009, Triad began paying valid claims 60% in cash and 40% in deferred payment obligations. Our outstanding accounts receivable, net of our reserves, from outstanding claims and deferred payment obligations of Triad was less than $100 million as of December 31, 2009. Most of our mortgage insurance counterparties are at risk of falling out of compliance with regulatory capital requirements in several states. In the absence of other alternatives to address their compliance issues, they may be subject to regulatory actions that could restrict the insurer s ability to issue new policies, which could negatively impact our access to mortgage insurance for loans with high LTV ratios. In the event one or more of our mortgage insurers were to become insolvent, it is likely that we would not collect all of our claims from the affected insurer, and it would impact our ability to recover certain credit losses on covered single-family mortgage loans. Except for Triad, we expect mortgage insurers to continue to pay our claims in the near term. We believe that some of our mortgage insurers lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as they emerge. In 2009, several of our mortgage insurers requested that we approve, as eligible insurers, new subsidiaries or affiliates to write new mortgage insurance business in any state where the insurers regulatory capital requirements were breached, and the regulator does not issue a waiver. On February 11, 2010 we approved such a request from MGIC. We are considering the remaining requests. A reduction in the number of eligible mortgage insurers could further concentrate our exposure to the remaining insurers.

Bond Insurers

Bond insurance, including primary and secondary policies, is an additional credit enhancement covering some of our investments in non-agency securities. Primary policies are owned by the securitization trust issuing securities we purchase, while secondary policies are acquired directly by us. At December 31, 2009, we had coverage, including secondary policies on securities, totaling $11.7 billion of unpaid principal balance of our investments in securities. At December 31, 2009, the top five of our bond insurers, Ambac Assurance Corporation, Financial Guaranty Insurance Company (or FGIC), MBIA

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Insurance Corp., Assured Guaranty Municipal Corp. (or AGMC), and National Public Finance Guarantee Corp. or (NPFCG), each accounted for more than 10% of our overall bond insurance coverage and collectively represented approximately 99% of our total coverage. All of our top five bond insurers have had their credit rating downgraded by at least one major rating agency during 2009 and all of our bond insurers, except for AGMC which is rated AA , are rated BBB+ or below, based on the lower of the S&P or Moody s rating scales and stated in terms of the S&P equivalent.

On November 24, 2009, the New York State Insurance Department ordered FGIC to restructure in order to improve its financial condition and to suspend paying any and all claims effective immediately. In April 2009, SGI, a bond insurer for which we had $1.1 billion of exposure to unpaid principal balances on our investments in securities, announced that under an order from the New York State Insurance Department, it suspended payment of all claims in order to complete a comprehensive restructuring of its business. Consequently, S&P assigned an R rating, reflecting that the company is under regulatory supervision. During the second quarter of 2009, as part of its comprehensive restructuring, SGI pursued a settlement with certain policyholders. In July 2009, we agreed to terminate our rights under certain policies with SGI, which provided credit coverage for certain of the bonds owned by us, in exchange for a one-time cash payment of $113 million. We believe that some of our bond insurers lack sufficient ability to fully meet all of their expected lifetime claims-paying obligations to us as they emerge.

We evaluate the recovery from primary monoline bond insurance policies as part of our impairment analysis for our investments in securities. If a monoline bond insurer fails to meet its obligations on our investments in securities, then the fair values of our securities would further decline, which could have a material adverse effect on our results and financial condition. We recognized other-than-temporary impairment losses during 2008 and 2009 related to investments in mortgage-related securities covered by bond insurance as a result of our uncertainty over whether or not certain insurers will meet our future claims in the event of a loss on the securities. See NOTE 6: INVESTMENTS IN SECURITIES for further information on our evaluation of impairment on securities covered by bond insurance.

Securitization Trusts

Effective December 2007 we established securitization trusts for the administration of cash remittances received on the underlying assets of our PCs and Structured Securities. We receive trust management income, which represents the fees we earn as master servicer, issuer, trustee and administrator for our PCs and Structured Securities. These fees, which are included in our non-interest income, are derived from interest earned on principal and interest cash flows held in the trust between the time funds are remitted to the trust by servicers and the date of distribution to our PC and Structured Securities holders. The trust management income is offset by interest expense we incur when a borrower prepays a mortgage, but the full amount of interest for the month is due to the PC investor. We recognized trust management income (expense) of $(761) million, $(70) million and $18 million during 2009, 2008 and 2007, respectively, on our consolidated statements of operations.

We have off-balance sheet exposure to the trust of the same maximum amount that applies to our credit risk of our outstanding guarantees; however, we also have exposure to the trust and its institutional counterparties for any investment losses that are incurred in our role as the securities administrator for the trust. In accordance with the trust agreements, we invest the funds of the trusts in eligible short-term financial instruments that are mainly the highest-rated debt types as classified by a nationally-recognized statistical rating organization. To the extent there is a loss related to an eligible investment for the trust, we, as the administrator are responsible for making up that shortfall. As of December 31, 2009 and 2008, there were $22.5 billion and $11.6 billion, respectively, of cash and other non-mortgage assets in this trust. As of December 31, 2009, these consisted of: (a) $6.8 billion of cash equivalents invested in 7 counterparties that had short-term credit ratings of A-1+ on the S&P s or equivalent scale, (b) $8.2 billion of cash deposited with the Federal Reserve Bank, and (c) $7.5 billion of securities sold under agreements to resell with one counterparty, which had a short-term S&P rating of A-1. During 2008, we recognized $1.1 billion of losses on investment activity associated with our role as securities administrator for this trust on unsecured loans made to Lehman on the trust s behalf. These short-term loans were due to mature on September 15, 2008, the date Lehman filed for bankruptcy; however, Lehman failed to repay these loans and the accrued interest. See NOTE 14: LEGAL CONTINGENCIES for further information on this claim.

Derivative Portfolio

On an ongoing basis, we review the credit fundamentals of all of our 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 events affecting an individual counterparty occur.

Derivative Counterparties

Our use of derivatives exposes us to counterparty credit risk, which arises from the possibility that the derivative counterparty will not be able to meet its contractual obligations. Exchange-traded derivatives, such as futures contracts, do not measurably increase our counterparty 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 counterparty credit risk because transactions are executed and settled between us and our counterparty. Our use of OTC interest-rate swaps, option-based derivatives and foreign-currency swaps is subject to rigorous internal credit and legal reviews. Our derivative counterparties carry external credit ratings among the highest available from major rating agencies. All of these counterparties are major financial institutions and are experienced participants in the OTC derivatives market.

Master Netting and Collateral Agreements

We use master netting and collateral agreements to reduce our credit risk exposure to our active OTC derivative counterparties for interest-rate swaps, option-based derivatives and foreign-currency swaps. Master netting agreements provide for the netting of amounts receivable and payable from an individual counterparty, which reduces our exposure to a single counterparty in the event of default. On a daily basis, the market value of each counterparty s derivatives outstanding is calculated to determine the amount of our net credit exposure, which is equal to derivatives in a net gain position by counterparty after giving consideration to collateral posted. Our collateral agreements require most counterparties to post collateral for the amount of our net exposure to them above the applicable threshold. Bilateral collateral agreements are in place for the majority of our counterparties. Collateral posting thresholds are tied to a counterparty s credit rating. Derivative exposures and collateral amounts are monitored on a daily basis using both internal pricing models and dealer price quotes. Collateral is typically transferred within one business day based on the values of the related derivatives. This time lag in posting collateral can affect our net uncollateralized exposure to derivative counterparties.

Collateral posted by a derivative counterparty is typically in the form of cash, although U.S. Treasury securities, our PCs and Structured Securities or our debt securities may also be posted. In the event a counterparty defaults on its obligations under the derivatives agreement and the default is not remedied in the manner prescribed in the agreement, we have the right under the agreement to direct the custodian bank to transfer the collateral to us or, in the case of non-cash collateral, to sell the collateral and transfer the proceeds to us.

Our uncollateralized exposure to counterparties for OTC interest-rate swaps, option-based derivatives and foreign-currency swaps, after applying netting agreements and collateral, was $128 million and $181 million at December 31, 2009 and 2008, respectively. In the event that all of our counterparties for these derivatives were to have defaulted simultaneously on December 31, 2009, our maximum loss for accounting purposes would have been approximately $128 million. Four of our derivative counterparties each accounted for greater than 10% and collectively accounted for 92% of our net uncollateralized exposure, excluding commitments, at December 31, 2009. These counterparties were JP Morgan Chase Bank, Royal Bank of Canada, Royal Bank of Scotland and Merrill Lynch Capital Services, Inc., all of which were rated A or higher at February 11, 2010.

The total exposure on our OTC forward purchase and sale commitments of $81 million and $537 million at December 31, 2009 and 2008, respectively, which are treated as derivatives, was 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 to ensure that they continue to meet our internal risk-management standards.

NOTE 20: NONCONTROLLING INTERESTS

The equity and net earnings attributable to the noncontrolling interests in consolidated subsidiaries are reported on our consolidated balance sheets as noncontrolling interest and on our consolidated statements of operations as net (income) loss attributable to noncontrolling interest. The majority of the balances in these accounts relate to our two majority-owned REITs.

In February 1997, we formed two majority-owned REIT subsidiaries funded through the issuance of common stock (99.9% of which is held by us) and a total of $4.0 billion of perpetual, step-down preferred stock issued to third party investors. The dividend rate on the step-down preferred stock was 13.3% from initial issuance through December 2006 (the initial term). Beginning in 2007, the dividend rate on the step-down preferred stock was reduced to 1.0%. Dividends on this preferred stock accrue in arrears. The balance of the two step-down preferred stock issuances as recorded within minority interests in consolidated subsidiaries on our consolidated balance sheets totaled $88 million and $89 million at December 31, 2009 and 2008, respectively. The preferred stock continues to be redeemable by the REITs under certain circumstances described in the preferred stock offering documents as a tax event redemption.

On September 19, 2008, FHFA, as Conservator, advised us of FHFA s determination that no further common or preferred stock dividends should be paid by our REIT subsidiaries. FHFA specifically directed us, as the controlling stockholder of both REIT subsidiaries and the boards of directors of both companies, not to declare or pay any dividends on the preferred stock of the REITs until FHFA directs otherwise. However, at our request and with Treasury s consent, FHFA directed us and the boards of directors of our REIT subsidiaries to (i) declare and pay dividends for one quarter on the preferred shares of our REIT subsidiaries during the fourth quarter of 2009 which the REITs paid for the quarter ended September 30, 2008 and (ii) take all steps necessary to effect the elimination of the REITs by merger in a timely and expeditious manner. As a result of this dividend payment, the terms of the REIT preferred stock that permit the preferred stockholders to elect a majority of the members of each REIT s board of directors were not triggered. No other common or preferred dividends were declared by our REIT subsidiaries during 2009. Consequently, absent further direction from FHFA to declare and pay dividends (within the time constraints set forth in the Internal Revenue Code) on the REIT preferred and common stock, the REITs will no longer qualify as REITs for federal income tax purposes retroactively to January 1, 2009. With regard to dividends on the preferred stock of the REITs held by third parties, there were $8 million and $3 million of dividends in arrears as of December 31, 2009 and 2008, respectively.

NOTE 21: EARNINGS (LOSS) PER SHARE

We have participating securities related to options with dividend equivalent rights that receive dividends as declared on an equal basis with common shares but are not obligated to participate in undistributed net losses. Consequently, in accordance with accounting standards for earnings per share, we use the two-class method of computing earnings per share. Basic earnings per common share are computed by dividing net income (loss) available to common stockholders by weighted average common shares outstanding basic for the period. The weighted average common shares outstanding basic during the years ended December 31, 2009 and 2008 include the weighted average number of shares during the periods that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement since the warrant is unconditionally exercisable by the holder at a minimal cost. See NOTE 2: CONSERVATORSHIP AND RELATED DEVELOPMENTS for further information. On January 1, 2009, we adopted an amendment to accounting for earnings per share, which had no significant impact on our earnings (loss) per share.

Diluted earnings (loss) per common share are computed as net income (loss) available to common stockholders divided by weighted average common shares outstanding diluted for the period, which considers the effect of dilutive common equivalent shares outstanding. For periods with net income, the effect of dilutive common equivalent shares outstanding includes: (a) the weighted average shares related to stock options (including our employee stock purchase plan); and (b) the weighted average of non-vested restricted shares and non-vested restricted stock units. Such items are included in the calculation of weighted average common shares outstanding diluted during periods of net income, when the assumed conversion of the share equivalents has a dilutive effect. Such items are excluded from the weighted average common shares outstanding basic.

Table 21.1 Earnings (Loss) Per Common Share Basic and Diluted

	Year Ended December 31,		
	2009	2008	2007
	(dollars in millions, except per share amounts)		
Net loss attributable to Freddie Mac	$ (21,553)	$ (50,119)	$ (3,094)
	(4,105)	(675)	(404)

Preferred stock dividends and issuance costs on redeemed preferred stock[(1)]						
Amounts allocated to participating security option holders[(2)]				(1)		(5)
Net loss attributable to common stockholders	$	(25,658)	$	(50,795)	$	(3,503)
Weighted average common shares outstanding basic (in thousands)[(3)]		3,253,836		1,468,062		651,881
Dilutive potential common shares (in thousands)						
Weighted average common shares outstanding diluted (in thousands)		3,253,836		1,468,062		651,881
Basic earnings (loss) per common share	$	(7.89)	$	(34.60)	$	(5.37)
Diluted earnings (loss) per common share	$	(7.89)	$	(34.60)	$	(5.37)
Antidilutive potential common shares excluded from the computation of dilutive potential common shares (in thousands)		7,541		10,611		8,580

(1) Consistent with the covenants of the Purchase Agreement, we paid dividends on our senior preferred stock, but did not declare dividends on any other series of preferred stock outstanding subsequent to entering conservatorship.

(2) Represents distributed earnings during periods of net losses. Effective January 1, 2009, we retrospectively adopted an amendment to the accounting standards for earnings per share and began including distributed and undistributed earnings associated with unvested stock awards, net of amounts included in compensation expense associated with these awards.

(3) Includes the weighted average number of shares during 2009 and 2008 that are associated with the warrant for our common stock issued to Treasury as part of the Purchase Agreement. This warrant is included in shares outstanding basic, since it is unconditionally exercisable by the holder at a minimal cost of $0.00001 per share.

NOTE 22: SUBSEQUENT EVENTS

On February 10, 2010, we announced that we will purchase substantially all single-family mortgage loans that are 120 days or more delinquent from our PCs and Structured Securities. The decision to effect these purchases was made based on a determination that the cost of guarantee payments to the security holders will exceed the cost of holding non-performing loans on our consolidated balance sheets. The cost of holding non-performing loans on our consolidated balance sheets was significantly affected by the required adoption of new amendments to accounting standards and changing economics. Due to our January 1, 2010 adoption of new accounting standards for transfers of financial assets and the consolidation of VIEs, the cost of purchasing most delinquent loans from PCs will be less than the cost of continued guarantee payments to security holders. We will continue to review the economics of purchasing loans 120 days or more delinquent in the future and we may reevaluate our delinquent loan purchase practices and alter them if circumstances warrant.

END OF CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

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QUARTERLY SELECTED FINANCIAL DATA

As Previously Reported:	2009 1Q	2009 2Q	2009 3Q
	(in millions, except share-related amounts)		
Net interest income	$ 3,859	$ 4,255	$ 4,462
Non-interest income (loss)	(3,088)	3,215	(1,082)
Provision for credit losses	(8,791)	(5,199)	(7,577)
All other non-interest expense	(2,768)	(1,688)	(965)
Income tax benefit (expense)	937	184	149
Net (income) loss attributable to noncontrolling interests		1	1
Net income (loss) attributable to Freddie Mac	$ (9,851)	$ 768	$ (5,012)
Net loss attributable to common stockholders	$ (10,229)	$ (374)	$ (6,305)
Loss per common share[1]			
Basic	$ (3.14)	$ (0.11)	$ (1.94)
Diluted	$ (3.14)	$ (0.11)	$ (1.94)

As Adjusted:[2]	2009 1Q	2009 2Q	2009 3Q	2009 4Q	2009 Full-Year
	(in millions, except share-related amounts)				
Net interest income	$ 3,859	$ 4,255	$ 4,462	$ 4,497	$ 17,073
Non-interest income (loss)	(3,088)	3,215	(1,082)	(1,777)	(2,732)
Provision for credit losses[2]	(8,915)	(5,665)	(7,973)	(6,977)	(29,530)
All other non-interest expense	(2,768)	(1,688)	(965)	(1,774)	(7,195)
Income tax benefit (expense)	937	184	149	(440)	830
Net (income) loss attributable to noncontrolling interests		1	1	(1)	1
Net income (loss) attributable to Freddie Mac[2]	$ (9,975)	$ 302	$ (5,408)	$ (6,472)	$ (21,553)
Net loss attributable to common stockholders[2]	$ (10,353)	$ (840)	$ (6,701)	$ (7,764)	$ (25,658)
Loss per common share[1][3]					
Basic	$ (3.18)	$ (0.26)	$ (2.06)	$ (2.39)	$ (7.89)
Diluted	$ (3.18)	$ (0.26)	$ (2.06)	$ (2.39)	$ (7.89)

2008

	1Q	2Q	3Q	4Q	Full-Year
	(in millions, except share-related amounts)				
Net interest income	$ 798	$ 1,529	$ 1,844	$ 2,625	$ 6,796
Non-interest income (loss)	614	56	(11,403)	(18,442)	(29,175)
Provision for credit losses	(1,240)	(2,537)	(5,702)	(6,953)	(16,432)
All other non-interest expense	(743)	(897)	(2,064)	(2,049)	(5,753)
Income tax benefit (expense)	422	1,030	(7,970)	966	(5,552)
Net (income) loss attributable to noncontrolling interests	(2)	(2)		1	(3)
Net loss attributable to Freddie Mac	$ (151)	$ (821)	$ (25,295)	$ (23,852)	$ (50,119)
Net loss attributable to common stockholders	$ (424)	$ (1,053)	$ (25,301)	$ (24,017)	$ (50,795)
Loss per common share:[1]					
Basic	$ (0.66)	$ (1.63)	$ (19.44)	$ (7.37)	$ (34.60)
Diluted	$ (0.66)	$ (1.63)	$ (19.44)	$ (7.37)	$ (34.60)

(1) Earnings (loss) per common share is computed independently for each of the quarters presented. Due to the use of weighted average common shares outstanding when calculating earnings (loss) per share, the sum of the four quarters may not equal the full-year amount. Earnings (loss) per common share amounts may not recalculate using the amounts in this table due to rounding.

(2) During the fourth quarter of 2009, we identified two errors in loss severity rate inputs used by our models to estimate our single-family loan loss reserves. These errors affected amounts previously reported. We have concluded that while these errors are not material to our previously issued consolidated financial statements for the first three quarters of 2009 or to our consolidated financial statements for the full year 2009, the cumulative impact of correcting these errors in the fourth quarter would have been material to the fourth quarter of 2009. We revised our previously reported results for the first three quarters of 2009 to correct these errors in the appropriate quarterly period. These revisions resulted in a net increase to provision for credit losses in the amounts of $124 million, $466 million and $396 million for the first, second and third quarters of 2009, respectively, within non-interest expense, which correspondingly decreased net income (loss) attributable to Freddie Mac on our consolidated statements of income. We did not recognize income tax benefit on these errors as we have a valuation allowance recorded against our net deferred tax assets. We will appropriately revise the 2009 results in each of our quarterly filings on Form 10-Q when next presented throughout 2010. See CONTROLS AND PROCEDURES Changes to Internal Control Over Financial Reporting During the Quarter Ended December 31, 2009 *Identification and Remediation of Material Weakness Provision for Credit Losses on Certain Structured Transactions* for additional information regarding our identification and remediation of a material weakness relating to the calculation of our provision for credit losses during the quarter ended December 31, 2009.

(3) We revised our previously reported 2009 quarterly basic and diluted earnings per share in the fourth quarter of 2009 to reflect the adjustments described in endnote (2) above, in the appropriate quarterly period. These adjustments resulted in a net decrease to basic and diluted earnings per share in the amounts of $0.04, $0.15 and $0.12 for the first, second and third quarters of 2009, respectively. We will appropriately revise the 2009 earnings per share in each of our quarterly filings on Form 10-Q when next presented throughout 2010.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

(1) Consolidated Financial Statements

The consolidated financial statements required to be filed in this Amendment No. 1 on Form 10-K/A to the Annual Report on Form 10-K for the year ended December 31, 2009 are included in Part II, Item 8.

(2) Financial Statement Schedules

None.

(3) Exhibits

An Exhibit Index has been filed as part of this Amendment No. 1 on Form 10-K/A to the Annual Report on Form 10-K for the year ended December 31, 2009 beginning on page E-1 and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.
Federal Home Loan Mortgage Corporation

By: /s/Charles E. Haldeman, Jr.

Charles E. Haldeman, Jr.
Chief Executive Officer

Date: March 4, 2010

EXHIBIT INDEX

Exhibit No.	Description*
3.1	Federal Home Loan Mortgage Corporation Act (12 U.S.C. §1451 et seq.), as amended through July 30, 2008 (incorporated by reference to Exhibit 3.1 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, as filed on November 14, 2008)
3.2	Bylaws of the Federal Home Loan Mortgage Corporation, as amended and restated October 9, 2009 (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K as filed on October 9, 2009)
4.1	Eighth Amended and Restated Certificate of Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Voting Common Stock (no par value per share) dated September 10, 2008 (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K as filed on September 11, 2008)
4.2	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated April 23, 1996 (incorporated by reference to Exhibit 4.2 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.3	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 27, 1997 (incorporated by reference to Exhibit 4.3 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.4	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 1998 (incorporated by reference to Exhibit 4.4 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.5	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.1% Non-Cumulative Preferred Stock (par value $1.00 per share), dated September 23, 1998 (incorporated by reference to Exhibit 4.5 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.6	Amended and Restated Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated September 29, 1998 (incorporated by reference to Exhibit 4.6 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.7	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.3% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 28, 1998 (incorporated by reference to Exhibit 4.7 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.8	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.1% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 19, 1999 (incorporated by reference to Exhibit 4.8 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.9	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.79% Non-Cumulative Preferred Stock (par value $1.00 per share), dated July 21, 1999 (incorporated by reference to Exhibit 4.9 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)

4.10	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated November 5, 1999 (incorporated by reference to Exhibit 4.10 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.11	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated January 26, 2001 (incorporated by reference to Exhibit 4.11 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.12	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 2001 (incorporated by reference to Exhibit 4.12 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)

Exhibit No.	Description*
4.13	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated March 23, 2001 (incorporated by reference to Exhibit 4.13 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.14	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Preferred Stock (par value $1.00 per share), dated May 30, 2001 (incorporated by reference to Exhibit 4.14 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.15	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6% Non-Cumulative Preferred Stock (par value $1.00 per share), dated May 30, 2001 (incorporated by reference to Exhibit 4.15 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.16	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.7% Non-Cumulative Preferred Stock (par value $1.00 per share), dated October 30, 2001 (incorporated by reference to Exhibit 4.16 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.17	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.81% Non-Cumulative Preferred Stock (par value $1.00 per share), dated January 29, 2002 (incorporated by reference to Exhibit 4.17 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.18	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Rate, Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 17, 2006 (incorporated by reference to Exhibit 4.18 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.19	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.42% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 17, 2006 (incorporated by reference to Exhibit 4.19 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.20	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.9% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated October 16, 2006 (incorporated by reference to Exhibit 4.20 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.21	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.57% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated January 16, 2007 (incorporated by reference to Exhibit 4.21 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.22	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 5.66% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated April 16, 2007 (incorporated by reference to Exhibit 4.22 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.23	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.02% Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated July 24, 2007 (incorporated by reference to Exhibit 4.23 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.24	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of 6.55% Non-Cumulative Perpetual Preferred Stock

	(par value $1.00 per share), dated September 28, 2007 (incorporated by reference to Exhibit 4.24 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
4.25	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock (par value $1.00 per share), dated December 4, 2007 (incorporated by reference to Exhibit 4.25 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)

Exhibit No.	Description*
4.26	Certificate of Creation, Designation, Powers, Preferences, Rights, Privileges, Qualifications, Limitations, Restrictions, Terms and Conditions of Variable Liquidation Preference Senior Preferred Stock (par value $1.00 per share), dated September 7, 2008 (incorporated by reference to Exhibit 4.2 to the Registrant s Current Report on Form 8-K as filed on September 11, 2008)
4.27	Federal Home Loan Mortgage Corporation Global Debt Facility Agreement, dated April 3, 2009 (incorporated by reference to Exhibit 4.1 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2009, as filed on May 12, 2009)
10.1	Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan (as amended and restated as of June 6, 2008) (incorporated by reference to Exhibit 10.1 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.2	First Amendment to the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.2 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.3	Second Amendment to the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q, as filed on August 7, 2009)
10.4	Form of Nonqualified Stock Option Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for awards on and after March 4, 2005 but prior to January 1, 2006 (incorporated by reference to Exhibit 10.3 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.5	Form of Nonqualified Stock Option Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for awards on and after January 1, 2006 (incorporated by reference to Exhibit 10.4 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.6	Form of Restricted Stock Units Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for awards on and after March 4, 2005 (incorporated by reference to Exhibit 10.5 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.7	Form of Restricted Stock Units Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for supplemental bonus awards on March 7, 2008 (incorporated by reference to Exhibit 10.6 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.8	Form of Performance Restricted Stock Units Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for awards on March 29, 2007 (incorporated by reference to Exhibit 10.7 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.9	Form of Performance Restricted Stock Units Agreement for executive officers under the Federal Home Loan Mortgage Corporation 2004 Stock Compensation Plan for awards on March 7, 2008 (incorporated by reference to Exhibit 10.8 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.10	Federal Home Loan Mortgage Corporation Global Amendment to Affected Stock Options under Nonqualified Stock Option Agreements and Separate Dividend Equivalent Rights, effective December 31, 2005 (incorporated by reference to Exhibit 10.9 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.11	Federal Home Loan Mortgage Corporation Amendment to Restricted Stock Units Agreements and Performance Restricted Stock Units Agreements, dated December 31, 2008 (incorporated by

	reference to Exhibit 10.10 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed on March 11, 2009)
10.12	Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.10 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.13	First Amendment to the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.11 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.14	Second Amendment to the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.12 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)

Exhibit No.	Description*
10.15	Third Amendment to the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.13 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.16	Form of Nonqualified Stock Option Agreement for executive officers under the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.14 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.17	Form of Restricted Stock Units Agreement for executive officers under the Federal Home Loan Mortgage Corporation 1995 Stock Compensation Plan (incorporated by reference to Exhibit 10.15 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.18	Federal Home Loan Mortgage Corporation Employee Stock Purchase Plan (as amended and restated as of January 1, 2005) (incorporated by reference to Exhibit 10.16 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.19	Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan (as amended and restated June 8, 2007) (incorporated by reference to Exhibit 10.17 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.20	Form of Nonqualified Stock Option Agreement for non-employee directors under the Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan for awards prior to 2005 (incorporated by reference to Exhibit 10.18 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.21	Form of Nonqualified Stock Option Agreement for non-employee directors under the Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan for awards in 2005 (incorporated by reference to Exhibit 10.19 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.22	Form of Nonqualified Stock Option Agreement for non-employee directors under the Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan for awards in 2006 (incorporated by reference to Exhibit 10.20 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.23	Resolution of the Board of Directors, dated November 30, 2005, concerning certain outstanding options granted to non-employee directors under the Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan (incorporated by reference to Exhibit 10.21 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.24	Form of Restricted Stock Units Agreement for non-employee directors under the Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan for awards prior to 2005 (incorporated by reference to Exhibit 10.22 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.25	Form of Restricted Stock Units Agreement for non-employee directors under the Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan for awards in 2005 and 2006 (incorporated by reference to Exhibit 10.23 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.26	Form of Restricted Stock Units Agreement for non-employee directors under the Federal Home Loan Mortgage Corporation 1995 Directors Stock Compensation Plan for awards since 2006 (incorporated by reference to Exhibit 10.24 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.27	Federal Home Loan Mortgage Corporation Directors Deferred Compensation Plan (as amended and restated April 3, 1998) (incorporated by reference to Exhibit 10.25 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)

10.28	First Amendment to the Federal Home Loan Mortgage Corporation Directors Deferred Compensation Plan (as amended and restated April 3, 1998) (incorporated by reference to Exhibit 10.27 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed on March 11, 2009)
10.29	Federal Home Loan Mortgage Corporation Executive Deferred Compensation Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.28 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.30	First Amendment to the Federal Home Loan Mortgage Corporation Executive Deferred Compensation Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, as filed on November 14, 2008)
10.31	2009 Officer Short-Term Incentive Program (incorporated by reference to Exhibit 10.30 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed on March 11, 2009)

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Exhibit No.	Description*
10.32	2009 Long-Term Incentive Award Program, as amended (incorporated by reference to Exhibit 10.5 to the Registrant s Quarterly Report on Form 10-Q, as filed on August 7, 2009)
10.33	Forms of award agreements under 2009 Long-Term Incentive Award Program (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009, as filed on August 7, 2009)
10.34	Officer Severance Policy, dated August 17, 2009 (incorporated by reference to Exhibit 10.11 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, as filed on November 6, 2009)
10.35	Federal Home Loan Mortgage Corporation Severance Plan (as restated and amended effective January 1, 1997) (incorporated by reference to Exhibit 10.31 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.36	First Amendment to the Federal Home Loan Mortgage Corporation Severance Plan (incorporated by reference to Exhibit 10.32 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.37	Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (as amended and restated effective January 1, 2008) (incorporated by reference to Exhibit 10.33 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.38	First Amendment to the Federal Home Loan Mortgage Corporation Supplemental Executive Retirement Plan (As Amended and Restated January 1, 2008) (incorporated by reference to Exhibit 10.38 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.39	Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.34 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.40	First Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.35 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.41	Second Amendment to the Federal Home Loan Mortgage Corporation Long-Term Disability Plan (incorporated by reference to Exhibit 10.36 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.42	FHFA Conservatorship Retention Program, Executive Vice President and Senior Vice President, Parameters Document, September 2008 (incorporated by reference to Exhibit 10.4 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, as filed on November 14, 2008)
10.43	Form of cash retention award for executive officers for awards in September 2008 (incorporated by reference to Exhibit 10.7 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, as filed on November 14, 2008)
10.44	Executive Management Compensation Program (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, as filed on December 24, 2009)
10.45	Federal Home Loan Mortgage Corporation Mandatory Executive Deferred Base Salary Plan, Effective as of January 1, 2009 (incorporated by reference to Exhibit 10.45 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.46	Executive Management Compensation Recapture Policy (incorporated by reference to Exhibit 10.4 to the Registrant s Current Report on Form 8-K, as filed on December 24, 2009)
10.47	Memorandum Agreement, dated July 20, 2009, between Freddie Mac and Charles E. Haldeman, Jr. (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, as filed on July 21, 2009)

10.48	Recapture Agreement, dated July 21, 2009, between Freddie Mac and Charles E. Haldeman, Jr. (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K, as filed on July 21, 2009)
10.49	Restrictive Covenant and Confidentiality Agreement, dated July 21, 2009, between Freddie Mac and Charles E. Haldeman, Jr. (incorporated by reference to Exhibit 10.7 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, as filed on November 6, 2009)
10.50	Memorandum Agreement, dated August 13, 2009, between Freddie Mac and Bruce M. Witherell (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, as filed on August 18, 2009)
10.51	Recapture Agreement, dated August 17, 2009, between Freddie Mac and Bruce M. Witherell (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K, as filed on August 18, 2009)

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Exhibit No.	Description*
10.52	Restrictive Covenant and Confidentiality Agreement, dated August 18, 2009, between Freddie Mac and Bruce M. Witherell (incorporated by reference to Exhibit 10.8 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, as filed on November 6, 2009)
10.53	Memorandum Agreement, dated September 24, 2009, between Freddie Mac and Ross J. Kari (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, as filed on September 24, 2009)
10.54	Recapture Agreement, dated September 24, 2009, between Freddie Mac and Ross J. Kari (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K, as filed on September 24, 2009)
10.55	Restrictive Covenant and Confidentiality Agreement, dated September 24, 2009, between Freddie Mac and Ross J. Kari (incorporated by reference to Exhibit 10.9 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, as filed on November 6, 2009)
10.56	Letter Agreement with Michael Perlman, dated July 24, 2007 (incorporated by reference to Exhibit 10.54 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.57	Cash Sign-On Payment Letter Agreement with Michael Perlman, dated July 24, 2007 (incorporated by reference to Exhibit 10.55 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.58	Restrictive Covenant and Confidentiality Agreement with Michael Perlman, effective as of July 25, 2007 (incorporated by reference to Exhibit 10.56 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.59	Restrictive Covenant and Confidentiality Agreement with Michael May, effective as of March 14, 2001 (incorporated by reference to Exhibit 10.57 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.60	Letter Agreement dated July 28, 2005 between Freddie Mac and Paul G. George (incorporated by reference to Exhibit 10.69 to the Registrant s Annual Report on Form 10-K/A, as filed on April 30, 2009)
10.61	Letter Agreement dated January 24, 2006 between Freddie Mac and Robert E. Bostrom (incorporated by reference to Exhibit 10.71 to the Registrant s Annual Report on Form 10-K/A, as filed on April 30, 2009)
10.62	Form of Restrictive Covenant and Confidentiality Agreement between Freddie Mac and each of Paul G. George and Robert E. Bostrom (incorporated by reference to Exhibit 10.10 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, as filed on November 6, 2009)
10.63	Description of non-employee director compensation (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K as filed on December 23, 2008)
10.64	PC Master Trust Agreement dated September 25, 2009 (incorporated by reference to Exhibit 10.12 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009, as filed on November 6, 2009)
10.65	Form of Indemnification Agreement between the Federal Home Loan Mortgage Corporation and executive officers and outside Directors (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K as filed on December 23, 2008)
10.66	Office Lease between West*Mac Associates Limited Partnership and the Federal Home Loan Mortgage Corporation, dated December 22, 1986 (incorporated by reference to Exhibit 10.61 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.67	

	First Amendment to Office Lease, dated December 15, 1990 (incorporated by reference to Exhibit 10.62 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.68	Second Amendment to Office Lease, dated August 30, 1992 (incorporated by reference to Exhibit 10.63 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.69	Third Amendment to Office Lease, dated December 20, 1995 (incorporated by reference to Exhibit 10.64 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.70	Consent of Defendant Federal Home Loan Mortgage Corporation with the Securities and Exchange Commission, dated September 18, 2007 (incorporated by reference to Exhibit 10.65 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
10.71	Letters, dated September 1, 2005, setting forth an agreement between Freddie Mac and FHFA (incorporated by reference to Exhibit 10.67 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)

Exhibit No.	Description*
10.72	Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008, as filed on November 14, 2008)
10.73	Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of May 6, 2009, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.6 to the Registrant s Quarterly Report on Form 10-Q for the period ended March 31, 2009, as filed on May 12, 2009)
10.74	Second Amendment dated as of December 24, 2009, to the Amended and Restated Senior Preferred Stock Purchase Agreement dated as of September 26, 2008, between the United States Department of the Treasury and Federal Home Loan Mortgage Corporation, acting through the Federal Housing Finance Agency as its duly appointed Conservator (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, as filed on December 29, 2009)
10.75	Warrant to Purchase Common Stock, dated September 7, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K as filed on September 11, 2008)
10.76	United States Department of the Treasury Lending Agreement dated September 18, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K as filed on September 23, 2008)
10.77	Memorandum of Understanding Among the Department of the Treasury, the Federal Housing Finance Agency, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation, dated October 19, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K, as filed on October 23, 2009)
10.78	New Issue Bond Program Agreement, dated December 9, 2009, among the United States Department of the Treasury, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (incorporated by reference to Exhibit 10.78 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.79	Form of Placement Agreement, dated as of December 9, 2009, among the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, and the HFA identified on Schedule A (incorporated by reference to Exhibit 10.79 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.80	Form of Settlement Agreement, dated as of December 9, 2009, among the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the U.S. Department of the Treasury, the HFA identified on the signature page and U.S. Bank National Association (incorporated by reference to Exhibit 10.80 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.81	New Issue Bond Program Agreement, dated December 18, 2009, among the United States Department of the Treasury, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (incorporated by reference to Exhibit 10.81 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.82	Form of the Standby Irrevocable Temporary Credit and Liquidity Facility by Fannie Mae and Federal Home Loan Mortgage Corporation (incorporated by reference to Exhibit 10.82 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.83	

	Form of the Agreement to Purchase Participation among the United States Department of the Treasury, Fannie Mae and the Federal Home Loan Mortgage Corporation (incorporated by reference to Exhibit 10.83 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.84	Form of the Reimbursement Agreement among [HFA], [Trustee], Fannie Mae and the Federal Home Loan Mortgage Corporation (incorporated by reference to Exhibit 10.84 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
10.85	Amended and Restated Administration Agreement, dated as of January 22, 2010, among the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 10.85 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)

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Exhibit No.	Description*
12.1	Statement re: computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends (incorporated by reference to Exhibit 12.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
21	List of subsidiaries (incorporated by reference to Exhibit 21 to the Registrant s Registration Statement on Form 10 as filed on July 18, 2008)
24	Powers of Attorney (incorporated by reference to Exhibit 24 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a) (incorporated by reference to Exhibit 31.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
31.2	Certification of Executive Vice President Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a) (incorporated by reference to Exhibit 31.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
31.3	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a) with respect to this Amendment No. 1
31.4	Certification of Executive Vice President Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a) with respect to this Amendment No. 1
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (incorporated by reference to Exhibit 32.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
32.2	Certification of Executive Vice President Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (incorporated by reference to Exhibit 32.2 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed on February 24, 2010)
32.3	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 with respect to this Amendment No. 1
32.4	Certification of Executive Vice President Chief Financial Officer pursuant to 18 U.S.C. Section 1350 with respect to this Amendment No. 1

* The SEC file number for the Registrant s Registration Statement on Form 10, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K is 000-53330.

This exhibit is a management contract or compensatory plan or arrangement.