FEDERAL HOME LOAN MORTGAGE CORP
Form 10-Q
May 01, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended March 31, 2019
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to
Commission File Number: 001-34139
Federal Home Loan Mortgage Corporation
(Exact name of registrant as specified in its charter)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ý Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ý Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of April 16, 2019, there were 650,059,033 shares of the registrant’s common stock outstanding.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q includes forward-looking statements that are based on current expectations and are subject to significant risks and uncertainties. These forward-looking statements are made as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-Q. Actual results might differ significantly from those described in or implied by such statements due to various factors and uncertainties, including those described in the Forward-Looking Statements sections of this Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2018, or 2018 Annual Report, and the Business and Risk Factors sections of our 2018 Annual Report.

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

You should read the following MD&A in conjunction with our 2018 Annual Report and our condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2019 included in Financial Statements. Throughout this Form 10-Q, we refer to the three months ended March 31, 2019, the three months ended December 31, 2018, the three months ended September 30, 2018, the three months ended June 30, 2018, and the three months ended March 31, 2018 as "1Q 2019," "4Q 2018," "3Q 2018," "2Q 2018," and "1Q 2018," respectively.

INTRODUCTION

Freddie Mac is a GSE chartered by Congress in 1970. Our public mission is to provide liquidity, stability, and affordability to the U.S. housing market. We do this primarily by purchasing residential mortgage loans originated by lenders. In most instances, we package these loans into mortgage-related securities, which are guaranteed by us and sold in the global capital markets. In addition, we transfer mortgage credit risk exposure to private investors through our credit risk transfer programs, which include securities- and insurance-based offerings. We also invest in mortgage loans and mortgage-related securities. We do not originate loans or lend money directly to mortgage borrowers.

We support the U.S. housing market and the overall economy by enabling America's families to access mortgage loan funding with better terms and by providing consistent liquidity to the multifamily mortgage market. We have helped many distressed borrowers keep their homes or avoid foreclosure. We are working with FHFA, our customers, and the industry to build a better housing finance system for the nation.

Business Results

Consolidated Financial Results[(1)]

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

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

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

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

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

Portfolio Balances

Guarantee Portfolios

Investments Portfolios

Total Guarantee Portfolio

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

Total Investments Portfolio

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

Conservatorship and Government Support for Our Business

Since September 2008, we have been operating in conservatorship, with FHFA as our Conservator. The conservatorship and related matters significantly affect our management, business activities, financial condition, and results of operations. Our future is uncertain, and the conservatorship has no specified termination date. We do not know what changes may occur to our business model during or following conservatorship, including whether we will continue to exist.

Our Purchase Agreement with Treasury and the terms of the senior preferred stock we issued to Treasury also affect our business activities. Our ability to access funds from Treasury under the Purchase Agreement is critical to keeping us solvent and avoiding the appointment of a receiver by FHFA under statutory mandatory receivership provisions. We believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to have adequate liquidity to conduct normal business activities.

Treasury, as the holder of the senior preferred stock, is entitled to receive cumulative quarterly cash dividends, when, as, and if declared by the Conservator, acting as successor to the rights, titles, powers, and privileges of our Board of Directors. The dividends we have paid to Treasury on the senior preferred stock have been declared by, and paid at the direction of, the Conservator.

Under the August 2012 amendment to the Purchase Agreement, our cash dividend requirement each quarter is the amount, if any, by which our Net Worth Amount at the end of the immediately preceding fiscal quarter, less the applicable Capital Reserve Amount, exceeds zero. Pursuant to the December 2017 Letter Agreement, the Capital Reserve Amount is $3.0 billion. If for any reason we were not to pay our dividend requirement on the senior preferred stock in full in any future period, the unpaid amount would be added to the liquidation preference and our applicable Capital Reserve Amount would thereafter be zero, but this would not affect our ability to draw funds from Treasury under the Purchase Agreement.

MARKET CONDITIONS AND ECONOMIC INDICATORS

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

Interest Rates[1]

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

Unemployment Rate

Source: U.S. Bureau of Labor Statistics

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

- Changes in the national unemployment rate can affect several market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.
- Continued job growth, a declining unemployment rate, and generally favorable economic conditions resulted in strong credit performance.

U.S. Single-Family Home Prices

Source: Freddie Mac House Price Index.

U.S. Single-Family Originations

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

You should read this discussion of our consolidated results of operations in conjunction with our condensed consolidated financial statements and accompanying notes.

The table below compares our summarized consolidated results of operations.

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

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

Net Interest Income

The table below presents the components of net interest income.

Table 2 - Components of Net Interest Income

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

Key Drivers:

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

Net Interest Yield Analysis

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

Table 3 - Analysis of Net Interest Yield

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

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

Guarantee Fee Income

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

Other Non-Interest Income (Loss)

Mortgage Loans Gains (Losses)

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

Table 4 - Components of Mortgage Loans Gains (Losses)

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

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

Investment Securities Gains (Losses)

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

Debt Gains (Losses)

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

Table 5 - Components of Debt Gains (Losses)

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

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

Derivative Gains (Losses)

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

Table 6 - Components of Derivative Gains (Losses)

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

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

Benefit (Provision) for Credit Losses

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

Other Comprehensive Income (Loss)

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

CONSOLIDATED BALANCE SHEETS ANALYSIS

The table below compares our summarized consolidated balance sheets.

Table 7 - Summarized Consolidated Balance Sheets

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

Key Drivers:

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

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

OUR BUSINESS SEGMENTS

We have three reportable segments, which are based on the way we manage our business.

- Single-Family Guarantee - reflects results from our purchase, securitization, and guarantee of single-family loans and the management of single-family mortgage credit risk.
- Multifamily - reflects results from our purchase, sale, securitization, and guarantee of multifamily loans and securities, our investments in those loans and securities, and the management of multifamily mortgage credit risk and market spread risk.
- Capital Markets - reflects results from managing our mortgage-related investments portfolio (excluding Multifamily segment investments, single-family seriously delinquent loans, and the credit risk of single-family performing and reperforming loans), single-family securitization activities, and treasury function, which includes interest-rate risk management for the company.

Certain activities that are not part of a reportable segment, such as material corporate-level activities that are infrequent in nature and based on decisions outside the control of the management of our reportable segments, are included in the All Other category.

Segment Earnings

We present Segment Earnings by reclassifying certain credit guarantee-related activities and investment-related activities between various line items on our GAAP condensed consolidated statements of comprehensive income and allocating certain revenues and expenses to our three reportable segments. For more information on our segment reclassifications, see Note 13.

Segment Comprehensive Income

The graph below shows our comprehensive income by segment.
(In millions)

Single-Family Guarantee
Business Results

The following tables, graphs, and related discussion present the business results of our Single-family Guarantee segment.

New Business Activity

UPB of Single-Family Loan Purchases and Guarantees by Loan Purpose
(In billions)

Percentage of Single-Family Loan Purchases and Guarantees by Loan Purpose

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

Single-Family Credit Guarantee Portfolio

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

Guarantee Fees

We receive fees for guaranteeing the payment of principal and interest to investors in our mortgage-related securities. These fees consist primarily of a combination of base contractual guarantee fees paid on a monthly basis and initial upfront payments. The average portfolio Segment Earnings guarantee fee rate recognizes upfront fee income over the contractual life of the related loans (usually 30 years). If the related loans prepay, the remaining upfront fee income is recognized immediately. In contrast, the average guarantee fee rate charged on new acquisitions recognizes upfront fee income over the estimated life of the related loans using our expectations of prepayments and other liquidations. See MD&A - Our Business Segments - Single-Family Guarantee - Business Overview - Guarantee Fees in our 2018 Annual Report for more information on our guarantee fees.

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

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

(1) Excludes the legislated 10 basis point increase in guarantee fees.
(2) Reflects an average rate for our total single-family credit guarantee portfolio and is not limited to purchases in the applicable period.

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

CRT Activities

We transfer credit risk on a portion of our single-family credit guarantee portfolio to the private market, which reduces the risk of future losses to us and taxpayers when borrowers go into default. See MD&A - Our Business Segments - Single-Family Guarantee - Business Overview - Products and Activities - Credit Risk Transfer (CRT) Transactions in our 2018 Annual Report for more information on our CRT transactions.

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

Table 8 - Single-Family Credit Guarantee Portfolio CRT Issuance

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

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

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

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

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

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

Credit Enhancements

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

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

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

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

Referenced footnotes are included after the next table.

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

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

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

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

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

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

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

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

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

Mortgage Loan Credit Risk

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

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

	March 31, 2019								
	CLTV ≤ 80		CLTV > 80 to 100		CLTV > 100		All Loans		
(Credit score)	% Portfolio	SDQ Rate	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate(1)	% Portfolio	SDQ Rate	% Modified
Core single-family loan portfolio:									
< 620	0.3 %	2.19 %	0.1 %	3.39 %	— %	NM	0.4 %	2.36 %	3.6 %
620 to 659	2.1	1.10	0.3	1.18	—	NM	2.4	1.11	2.0
≥ 660	69.4	0.17	10.3	0.25	—	NM	79.7	0.18	0.3
Not available	0.1	1.25	—	NM	—	NM	0.1	2.32	3.7
Total	71.9 %	0.21 %	10.7 %	0.30 %	— %	NM	82.6 %	0.22 %	0.4 %
Legacy and relief refinance single-family loan portfolio:									
< 620	1.1 %	4.12 %	0.2 %	8.52 %	0.1 %	14.42 %	1.4 %	4.85 %	22.1 %
620 to 659	1.7	3.08	0.2	7.11	0.1	11.82	2.0	3.64	19.4
≥ 660	12.5	1.11	1.1	3.65	0.3	6.02	13.9	1.31	7.0
Not available	0.1	4.58	—	NM	—	NM	0.1	4.90	19.8
Total	15.4 %	1.60 %	1.5 %	4.85 %	0.5 %	8.38 %	17.4 %	1.91 %	9.8 %

(1) NM - Not meaningful due to the percentage of the portfolio rounding to zero.

Alt-A and Subprime Loans

While we have referred to certain loans as subprime or Alt-A for purposes of the discussion below and elsewhere in this Form 10-Q, there is no universally accepted definition of subprime or Alt-A, and the classification of such loans may differ from company to company. We do not rely on these loan classifications to evaluate the credit risk exposure relating to such loans in our single-family credit guarantee portfolio.

Participants in the mortgage market have characterized single-family loans based upon their overall credit quality at the time of origination, including as prime or subprime. While we have not historically characterized the loans in our single-family credit guarantee portfolio as either prime or subprime, we monitor the amount of loans we have guaranteed with characteristics that indicate a higher degree of credit risk. In addition, we estimate that approximately $0.8 billion and $0.9 billion of security collateral underlying our other securitization products at March 31, 2019 and December 31, 2018, respectively, were identified as subprime based on information provided to us when we entered into these transactions.

Mortgage market participants have classified single-family loans as Alt-A if these loans have credit characteristics that range between the prime and subprime categories, if they are underwritten with lower or alternative income or asset documentation requirements compared to a full documentation loan, or both. Although we have discontinued new purchases of loans with lower documentation standards, we continue to purchase certain amounts of such loans in cases where the loan was either purchased pursuant to a previously issued guarantee, as part of our relief refinance initiative, or as part of another refinance loan initiative and the pre-existing loan was originated under less than full documentation standards. In the event we purchase a refinance loan and the original loan had been previously identified as Alt-A, such refinance loan may no longer be categorized or reported as an Alt-A loan in this Form 10-Q and our other financial reports because the new refinance loan replacing the original loan would not be identified by the seller/servicer as an Alt-A loan. As a result, our reported Alt-A balances may be lower than would otherwise be the case had such refinancing not occurred. From the time the relief refinance initiative began in 2009 to March 31, 2019, we have purchased approximately $36.4 billion of relief refinance loans that were previously categorized as Alt-A loans in our portfolio, including $0.1 billion in 1Q 2019.

The table below contains information on Alt-A loans in our single-family credit guarantee portfolio.

Table 11 - Alt-A Loans in Our Single-Family Credit Guarantee Portfolio

	March 31, 2019				December 31, 2018			
(Dollars in billions)	UPB	CLTV	% Modified	SDQ Rate	UPB	CLTV	% Modified	SDQ Rate
Alt-A	$23.1	63 %	22.7 %	4.17%	$23.9	63 %	23.2 %	4.13%

The UPB of Alt-A loans in our single-family credit guarantee portfolio is continuing to decline due to borrowers refinancing into other mortgage products, foreclosure sales, and other liquidation events.

Single-Family Loan Performance

Serious Delinquency Rates

Percentage of Single-Family Loans One Month and Two Months Past Due

- The total serious delinquency rate on our single-family credit guarantee portfolio was 0.67% as of March 31, 2019. However, 33% of the seriously delinquent loans at March 31, 2019 were covered by credit enhancements designed to reduce our credit risk exposure. See Note 4 for additional information on our single-family delinquency rates.
- Our total single-family serious delinquency rate was lower as of March 31, 2019 compared to March 31, 2018 due to our continued loss mitigation efforts, sales of certain seriously delinquent loans, home price appreciation, a low unemployment rate, and the reduced impacts from the hurricanes in the third quarter of 2017. This improvement was also driven by the continued shift in the single-family credit guarantee portfolio mix, as the legacy and relief refinance single-family loan portfolio runs off and we add higher credit quality loans to our core single-family loan portfolio. The percentage of our single-family loans two months past due was affected in a similar manner. However, the percentage of our single-family loans one month past due slightly increased as of March 31, 2019, compared to March 31, 2018.

The table below contains certain credit performance metrics for our single-family credit guarantee portfolio.

Table 12 - Single-Family Credit Guarantee Portfolio Credit Performance Metrics

(Dollars in millions)	1Q 2019	1Q 2018
Charge-offs, gross	$605	$372
Recoveries	(106)	(96)
Charge-offs, net	499	276
REO operations expense	33	34
Total credit losses	$532	$310
Total credit losses (in bps)	11.5	6.7

The table below summarizes the carrying value for individually impaired single-family loans on our condensed consolidated balance sheets for which we have recorded an allowance determined on an individual basis.

Table 13 - Single-Family Individually Impaired Loans with an Allowance Recorded

	March 31, 2019		March 31, 2018	
(Dollars in millions)	Loan Count	Amount	Loan Count	Amount
TDRs, at January 1	290,255	$42,254	364,704	$54,415
New additions	8,734	1,347	23,699	3,800
Repayments and reclassifications to held-for-sale	(21,347)	(3,809)	(8,908)	(1,522)
Foreclosure sales and foreclosure alternatives	(1,373)	(185)	(2,083)	(282)
TDRs, at March 31	276,269	39,607	377,412	56,411
Loans impaired upon purchase	2,403	158	4,364	290
Total impaired loans with an allowance recorded	278,672	39,765	381,776	56,701
Allowance for loan losses		(3,820)		(6,968)
Net investment, at March 31		$35,945		$49,733

The tables below present information about the UPB of single-family TDRs and non-accrual loans on our condensed consolidated balance sheets.

Table 14 - Single-Family TDR and Non-Accrual Loans

(In millions)	March 31, 2019	December 31, 2018
TDRs on accrual status	$39,409	$41,839
Non-accrual loans	10,983	11,197
Total TDRs and non-accrual loans	$50,392	$53,036
Allowance for loan losses associated with:		
TDRs on accrual status	$3,141	$3,612
Non-accrual loans	902	1,003
Total	$4,043	$4,615

(In millions)	1Q 2019	1Q 2018
Foregone interest income on TDRs and non-accrual loans[1]	$312	$446

(1) Represents the amount of interest income that we did not recognize but would have recognized during the period for loans outstanding at the end of each period, had the loans performed according to their original contractual terms.

- As of March 31, 2019, 44% of the allowance for loan losses for single-family mortgage loans related to interest rate concessions provided to borrowers as part of loan modifications.
- Most of our modified single-family loans, including TDRs, were current and performing at March 31, 2019.
- We expect our allowance for loan losses associated with existing single-family TDRs to decline over time as we continue to sell reperforming loans. In addition, the allowance for loan losses will decline as borrowers continue to make monthly payments under the modified terms and interest rate concessions are amortized into earnings.
- See Note 4 for information on our single-family allowance for loan losses.

Loss Mitigation Activities

Loan Workout Activity[1]
(UPB in billions, number of loan workouts in thousands)

(1) Foreclosure alternatives consist of short sales and deeds in lieu of foreclosure. Home retention actions consist of forbearance agreements, repayment plans, and loan modifications.

- Our loan workout activity decreased in 1Q 2019 compared to 1Q 2018 driven by the reduced impact from the hurricanes in the third quarter of 2017.
- We continue our loss mitigation efforts through our relief refinance, modification, and other initiatives.

REO Activity

The table below presents a summary of our single-family REO activity.

Table 15 - Single-Family REO Activity

(Dollars in millions)	1Q 2019 Number of Properties	1Q 2019 Amount	1Q 2018 Number of Properties	1Q 2018 Amount
Beginning balance — REO	7,100	$780	8,299	$900
Additions	2,156	208	2,620	246
Dispositions	(2,542)	(234)	(3,201)	(306)
Ending balance — REO	6,714	754	7,718	840
Beginning balance, valuation allowance		(11)		(14)
Change in valuation allowance		1		5
Ending balance, valuation allowance		(10)		(9)
Ending balance — REO, net		$744		$831

- Our REO ending inventory declined in 1Q 2019, primarily due to a decrease in REO acquisitions driven by fewer loans in foreclosure and a large proportion of property sales to third parties at foreclosure.

Financial Results

The table below presents the components of Segment Earnings and comprehensive income for our Single-family Guarantee segment.

Table 16 - Single-Family Guarantee Segment Financial Results

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Guarantee fee income	$1,633	$1,590	$43	3 %
Benefit (provision) for credit losses	8	41	(33)	(80)
Financial instrument gains (losses)(1)	(62)	28	(90)	(321)
Other non-interest income (loss)	249	81	168	207
Administrative expense	(374)	(336)	(38)	(11)
REO operations income (expense)	(38)	(39)	1	3
Other non-interest expense	(488)	(379)	(109)	(29)
Segment Earnings before income tax expense	928	986	(58)	(6)
Income tax (expense) benefit	(188)	(200)	12	6
Segment Earnings, net of taxes	740	786	(46)	(6)
Total other comprehensive income (loss), net of tax	(4)	(4)	—	—
Total comprehensive income (loss)	$736	$782	($46)	(6)%

(1) Consists of fair value gains and losses on debt for which we have elected the fair value option and derivatives.

Key Business Drivers:

- 1Q 2019 vs. 1Q 2018
  - Higher guarantee fee income due to continued growth in our single-family credit guarantee portfolio.
  - Fair value losses due to higher losses on STACR transactions driven by changes in market spreads.
  - Higher other non-interest income primarily due to higher gains on single-family seasoned loan reclassifications between held-for-investment and held-for-sale.
  - Higher other non-interest expense primarily due to higher outstanding cumulative volumes of CRT transactions that resulted in increased CRT expense (interest expense on STACR debt notes and premium expense for ACIS and STACR Trust contracts).

Multifamily
Business Results

The graphs, tables, and related discussion below present the business results of our Multifamily segment.

New Business Activity

Multifamily New Business Activity

- The 2019 Conservatorship Scorecard annual production cap is $35.0 billion, unchanged from 2018. The production cap is subject to reassessment throughout the year by FHFA to determine whether an increase in the cap is appropriate based on a stronger than expected overall market. Reclassifications between new business activity subject to the production cap and new business activity not subject to the production cap may occur during 2019.
- Outstanding commitments, including index lock commitments and commitments to purchase or guarantee multifamily assets, were $20.8 billion and $17.5 billion as of March 31, 2019 and March 31, 2018, respectively. Both period-end balances include loan purchase commitments for which we have elected the fair value option.
- The combination of our new business activity and outstanding commitments was higher during 1Q 2019 compared to 1Q 2018 due to continued strong demand for multifamily financing and healthy multifamily market fundamentals resulting in continued growth in the overall multifamily mortgage debt outstanding.
- Excluding our LIHTC new business activity, approximately 44% of our multifamily new business activity in 1Q 2019 counted towards the 2019 Conservatorship Scorecard production cap, while the remaining 56% was considered uncapped.
- Our uncapped new business activity increased slightly during 1Q 2019 compared to 1Q 2018 as we continued our efforts to support affordable housing and borrowers in underserved markets.
- Approximately 92% of our 1Q 2019 and 1Q 2018 new loan purchase activity was intended for our securitization pipeline. Combined with market demand for our securities, our 1Q 2019 new securitization pipeline purchase activity will be a driver for securitizations in the next two quarters of 2019.

Multifamily Portfolio and Market Support

Multifamily Market Support

The following table summarizes our support of the multifamily market.

Table 17 - Multifamily Market Support

(In millions)	March 31, 2019	December 31, 2018
Guarantee portfolio	$243,179	$237,323
Mortgage-related investments portfolio:		
Unsecuritized mortgage loans held-for-sale	$21,220	23,959
Unsecuritized mortgage loans held-for-investment	10,654	10,828
Mortgage-related securities[1]	7,140	7,385
Total mortgage-related investments portfolio	39,014	42,172
Other investments[2]	1,185	708
Total multifamily portfolio	283,378	280,203
Add: Unguaranteed securities[3]	36,570	35,835
Less: Acquired mortgage-related securities[4]	(6,925)	(7,160)
Total multifamily market support	$313,023	$308,878

(1) Includes mortgage-related securities acquired by us from our securitizations.

(2) Includes the carrying value of LIHTC investments and the UPB of non-mortgage loans, including financing provided to whole loan funds.

(3) Reflects the UPB of unguaranteed securities issued as part of our securitizations and amounts related to loans sold to whole loan funds that were not financed by Freddie Mac.

(4) Reflects the UPB of mortgage-related securities that were both issued as part of our securitizations and acquired by us. This UPB must be removed to avoid double-counting the exposure, as it is already reflected within the guarantee portfolio or unguaranteed securities.

- Our total multifamily portfolio increased during 1Q 2019, primarily due to our strong loan purchase and securitization activity. We expect continued growth in our total portfolio in 2019 as purchase and securitization activities should outpace run off.
- At March 31, 2019, approximately 81% of our held-for-sale loans and held-for-sale loan commitments, both of which are measured at fair value, were fixed-rate, while the remaining 19% were floating-rate.
- We expect our guarantee portfolio to continue to grow as a result of ongoing securitizations, which we expect to be driven by continued strong new business activity.

Net Interest Yield and K Certificate Benchmark Spreads

Net Interest Yield Earned & Average Investment Portfolio Balance

K Certificate Benchmark Spreads

- Net interest yield remained relatively flat in 1Q 2019 compared to 1Q 2018.
- The weighted average portfolio balance of interest-earning assets decreased during 1Q 2019 compared to 1Q 2018 due to the run-off of our legacy held-for-investment loans.
- The valuation of our securitization pipeline and the profitability of our primary risk transfer securitization product, the K Certificate, are affected by both changes in K Certificate benchmark spreads and deal-specific attributes, such as tranche size, risk distribution, and collateral characteristics (loan term, coupon type, prepayment restrictions, and underlying property type). These market spread movements and deal-specific attributes contribute to our earnings volatility, which we manage by controlling the size of our securitization pipeline and by entering into certain spread-related derivatives. Spread tightening generally results in fair value gains, while spread widening generally results in fair value losses.
- K Certificate benchmark spreads tightened during 1Q 2019, primarily resulting in fair value gains on our mortgage loans and commitments.

Risk Transfer Activity

UPB of Assets Subject to Risk Transfer Activity

Credit Risk Transfer Activity [1]

(1) The amounts disclosed in the graph above represent the net credit risk transferred to third parties.

- The UPB of our primary risk transfer securitization transactions was lower in 1Q 2019 compared to 1Q 2018, primarily due to a higher share of certain products in our securitization pipeline that require longer aggregation periods.
- As of March 31, 2019, we had cumulatively transferred a large majority of credit risk on the multifamily guarantee portfolio.
  - Conservatorship capital needed for credit risk was reduced by approximately 90% through CRT transactions on new business activity in the twelve months ended March 31, 2018; we plan similar risk reduction transactions for this year's new business activity.
  - The reduction in the amount of conservatorship capital needed for credit risk on new business activity is calculated as conservatorship credit capital released from CRT transactions (primarily through K Certificates and SB Certificates) divided by total conservatorship credit capital on new business activity. For more information on the CCF and the calculation of conservatorship capital, see Liquidity and Capital Resources - Capital Resources - Conservatorship Capital Framework - Return on Conservatorship Capital.
- In addition to transferring a large majority of credit risk, nearly all of our risk transfer securitization activities also shifted substantially all the interest-rate and liquidity risk associated with the underlying collateral away from Freddie Mac to third-party investors.

Guarantee Activities

Unearned Guarantee Fee Assets on New Guarantee Contracts

Remaining Unearned Guarantee Fees

- We earn guarantee fees in exchange for providing our guarantee of some or all of the securities we issue as part of our risk transfer securitization activities. Each time we enter into a financial guarantee contract, we initially recognize unearned guarantee fee assets on our balance sheet, which represent the present value of future guarantee fees we expect to receive in cash. We recognize these fees in Segment Earnings over the remaining average guarantee term, which was eight years as of March 31, 2019. While we expect to collect these future fees based on historical performance, the actual amount collected will depend on the credit and prepayment performance of the underlying collateral subject to our financial guarantee.
- New unearned guarantee fees increased during 1Q 2019 compared to 1Q 2018, primarily due to a decline in interest rates and a longer average guarantee term, partially offset by a lower average guarantee fee rate.
- The balance of unearned guarantee fees increased during 1Q 2019 due to the continued growth of our multifamily guarantee business, as our risk transfer securitization volume continued to be strong, outpacing run off.

Financial Results

The table below presents the components of Segment Earnings and comprehensive income for our Multifamily segment.

Table 18 - Multifamily Segment Financial Results

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Net interest income	$247	$271	($24)	(9)%
Guarantee fee income	216	195	21	11
Benefit (provision) for credit losses	(1)	16	(17)	(106)
Financial instrument gains (losses)[1]	(29)	161	(190)	(118)
Administrative expense	(112)	(100)	(12)	(12)
Other non-interest income (expense)	93	51	42	82
Segment Earnings before income tax expense	414	594	(180)	(30)
Income tax (expense) benefit	(84)	(121)	37	31
Segment Earnings, net of taxes	330	473	(143)	(30)
Total other comprehensive income (loss), net of tax	65	(68)	133	196
Total comprehensive income (loss)	$395	$405	($10)	(2)%

(1) Consists of fair value gains and losses on loan purchase commitments, mortgage loans and debt for which we have elected the fair value option, certain investment securities, and derivatives.

Key Business Drivers:

- 1Q 2019 vs. 1Q 2018
  - Decrease in net interest income due to a decline in our weighted average portfolio balance of interest-earning assets, partially offset by higher net interest yields on an increased balance of interest-only securities.
  - Higher guarantee fee income due to continued growth in our multifamily guarantee portfolio.
  - Decrease in fair value gains primarily due to higher fair value losses on swaptions on credit indices and lower gains on available-for-sale securities, partially offset by spread-related fair value gains on held-for-sale loans and commitments in 1Q 2019.

Capital Markets
Business Results

The graphs and related discussion below present the business results of our Capital Markets segment.

Investing Activity

The following graphs present the Capital Markets segment's total investments portfolio and the composition of its mortgage investments portfolio by liquidity category.

Investments Portfolio

Mortgage Investments Portfolio

- The balance of our mortgage investments portfolio remained relatively flat from December 31, 2018 to March 31, 2019. See Conservatorship and Related Matters - Managing Our Mortgage-Related Investments Portfolio for additional details.
- The balance of our other investments portfolio increased by 21.9%, primarily due to higher near-term cash needs as of March 31, 2019 compared to December 31, 2018 for upcoming maturities and anticipated calls of other debt.
- The percentage of less liquid assets relative to our total mortgage investments portfolio declined from 26.6% at December 31, 2018 to 24.8% at March 31, 2019, primarily due to repayments, sales, and securitizations of our less liquid assets. We continued to actively reduce our holdings of less liquid assets during 1Q 2019 by selling $2.1 billion of reperforming loans. Our sales of reperforming loans involved securitization of the loans using senior subordinate securitization structures.
- The overall liquidity of our mortgage investments portfolio continued to improve as our less liquid assets decreased while our liquid assets increased during 1Q 2019.
- We continue to participate in transactions that support the development of the Secured Overnight Financing Rate (SOFR) as an alternative rate to LIBOR. These transactions include investment in and issuance of SOFR indexed floating-rate debt securities and execution of SOFR indexed derivatives.

Net Interest Yield and Average Balances

Net Interest Yield & Average Investments Portfolio Balances
(UPB in billions)

- Net interest yield increased 9 basis points during 1Q 2019 compared to 1Q 2018, primarily due to:
  - Higher yields on newly acquired mortgage-related assets and other investments as a result of increases in interest rates;
  - Changes in our investment mix due to a reduction in our less liquid assets, offset by an increase in the percentage of our other investments portfolio relative to our total investments portfolio; and
  - Larger benefit from funding provided by non-interest bearing liabilities due to an increase in short-term interest rates.
- Net interest yield for the Capital Markets segment is not affected by our hedge accounting programs, due to reclassifications made for Segment Earnings. See Note 13 in our 2018 Annual Report for more information.

Financial Results

The table below presents the components of Segment Earnings and comprehensive income for our Capital Markets segment.

Table 19 - Capital Markets Segment Financial Results

(Dollars in millions)	1Q 2019	1Q 2018	Change $	Change %
Net interest income	$758	$771	($13)	(2)%
Investment securities gains (losses)	195	37	158	427
Debt gains (losses)	(7)	105	(112)	(107)
Derivative gains (losses)	(667)	1,302	(1,969)	(151)
Other non-interest income (expense)	236	(37)	273	738
Administrative expense	(92)	(84)	(8)	(10)
Segment Earnings before income tax expense	423	2,094	(1,671)	(80)
Income tax (expense) benefit	(86)	(427)	341	80
Segment Earnings, net of taxes	337	1,667	(1,330)	(80)
Total other comprehensive income (loss), net of tax	197	(704)	901	128
Total comprehensive income (loss)	$534	$963	($429)	(45)%

The portion of total comprehensive income (loss) driven by interest rate-related and market spread-related fair value changes, after-tax, is presented in the table below. These amounts affect various line items in the table above, including net interest income, investment securities gains (losses), debt gains (losses), derivative gains (losses), income tax (expense) benefit, and total other comprehensive income (loss), net of tax.

Table 20 - Capital Markets Segment Interest Rate-Related and Market Spread-Related Fair Value Changes, Net of Tax

(Dollars in billions)	1Q 2019	1Q 2018	Change $	Change %
Interest rate-related	$0.1	$—	$0.1	N/A
Market spread-related	—	0.2	(0.2)	(100)

Key Business Drivers:

n 1Q 2019 vs. 1Q 2018

l Net interest income was relatively unchanged.

l Relatively flat interest rate-related fair value gains. Long-term interest rates decreased during 1Q 2019, resulting in fair value gains on many of our investments in securities (some of which are recorded in other comprehensive income) and fair value losses on derivatives. The net amount of these changes in fair value was mostly offset by the change in the fair value of the hedged items attributable to interest-rate risk in our hedge accounting programs.

l Lower spread related gains primarily due to spread widening on our agency securities combined with less spread tightening on a lower balance of our non-agency securities.

l Decrease in debt gains (losses) primarily due to lower gains from the extinguishment of fixed-rate PCs, as market interest rates declined between the time of issuance and repurchase.

l Increase in non-interest income primarily due to the mismatch related to fair value hedge accounting, partially offset by lower amortization of debt securities of consolidated trusts driven by lower prepayments.