FEDERAL HOME LOAN MORTGAGE CORP
Form 10-K
February 18, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
Commission File Number: 001-34139
Federal Home Loan Mortgage Corporation
(Exact name of registrant as specified in its charter)
Freddie Mac

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

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Voting Common Stock, no par value per share (OTCQB: FMCC)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCI)
5% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKK)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCG)
5.1% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCH)
5.79% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCK)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCL)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCM)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCN)
5.81% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCO)
6% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCP)
Variable Rate, Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCCJ)
5.7% Non-Cumulative Preferred Stock, par value $1.00 per share (OTCQB: FMCKP)
Variable Rate, Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCS)
6.42% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCCT)
5.9% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKO)
5.57% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKM)
5.66% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKN)
6.02% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKL)
6.55% Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKI)
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, par value $1.00 per share (OTCQB: FMCKJ)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] 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 [ ] 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 [ ]
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). Yes [X] 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 [X]	Accelerated filer [ ]
Non-accelerated filer (Do not check if a smaller reporting company) [ ]	Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] 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, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was $1.4 billion.
As of February 4, 2016, there were 650,045,962 shares of the registrant's common stock outstanding.
DOCUMENTS INCORPORATED BY REFERENCE: None

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INTRODUCTION

This Annual Report on Form 10-K 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-K. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Form 10-K. 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 "ABOUT FREDDIE MAC - Forward-Looking Statements" and "RISK FACTORS" sections of this Form 10-K.

Throughout this Form 10-K, we use certain acronyms and terms that are defined in the "GLOSSARY."

ABOUT FREDDIE MAC

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. We also invest in mortgage loans and mortgage-related securities. We do not originate loans or lend money directly to consumers.

We support the U.S. housing market and the overall economy by enabling America's families to access mortgage loan funding at lower rates and by providing consistent liquidity to the multifamily mortgage market, which we do primarily by providing financing for workforce housing. 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 stronger housing finance system for the nation.

EXECUTIVE SUMMARY

CONSERVATORSHIP AND GOVERNMENT SUPPORT FOR OUR BUSINESS

Since September 2008, we have been operating in conservatorship, with FHFA acting 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 constrain our business activities. However, we believe that the support provided by Treasury pursuant to the Purchase Agreement currently enables us to have adequate liquidity to conduct our normal business activities. The Purchase Agreement also requires our future profits to effectively be distributed to Treasury, and we cannot retain capital from the earnings generated by our business operations (other than a limited amount that will decrease to zero in 2018) or return capital to stockholders other than Treasury. Consequently, 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.

For more information on the conservatorship and government support for our business, see "Conservatorship and Related Matters" and Note 2.

The tables below show our cumulative draws from Treasury and cumulative dividend payments to Treasury under the Purchase Agreement. The Treasury draw amounts shown are the total draws requested based on our quarterly net deficits for the periods presented. Draw requests are funded in the quarter subsequent to any net deficit. Under the Purchase Agreement, the payment of dividends does not reduce the outstanding liquidation preference of the senior preferred stock, which remains $72.3 billion. The amount of available funding remaining under the Purchase Agreement is $140.5 billion, and would be reduced by any future draws.

Draws From Treasury

(in billions)	Total
Total Senior Preferred Stock Outstanding	$72.3
Less: Initial Liquidation Preference	$1.0
Treasury Draws	$71.3

Dividend Payments to Treasury

(in billions)	Total
Dividend Payments as of 12/31/15	$96.5
Q1 2016 Dividend Obligation	$1.7
Total Dividend Payments	$98.2

CONSOLIDATED FINANCIAL RESULTS

Comprehensive Income

Our comprehensive income for 2015 declined compared to 2014, primarily as a result of the following items:

- Lower other income, as we did not have any significant litigation settlements in 2015 related to our investments in non-agency mortgage-related securities. By comparison, we had a number of significant litigation settlements in 2014;
- We recorded fair value losses in 2015 on certain mortgage loans and mortgage-related securities that are measured at fair value due to spread widening, while in 2014 we recorded gains due to spread tightening; partially offset by
- Lower derivative fair value losses in 2015 than in 2014. Longer-term interest rates declined less in 2015 than in 2014, when the yield curve also flattened, leading to lower losses.

Our comprehensive income for 2014 declined compared to 2013, primarily as a result of events that occurred in 2013 but which did not occur in 2014, including:

- The release of the valuation allowance on our deferred tax asset; and
- Representation and warranty settlements related to our pre-conservatorship single-family loan purchases.

Variability of Earnings

Our financial results are subject to significant earnings variability from period to period. This variability is primarily driven by:

- Interest-Rate Volatility — We hold assets and liabilities that expose us to interest-rate risk. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. However, the way we account for our financial assets and liabilities (i.e., some are measured at amortized cost, while others are measured at fair value), including derivatives, creates volatility in our earnings when interest rates fluctuate. Based upon the composition of our financial assets and liabilities, including derivatives, at December 31, 2015, we generally recognize fair value losses in earnings when interest rates decline. This volatility generally is not indicative of the underlying economics of our business. This volatility and the declining capital reserve required under the terms of the Purchase Agreement (ultimately reaching zero in 2018) will increase the risk of our having a negative net worth and being required to draw from Treasury. We are exploring ways in which we can limit or manage our exposure to this volatility. For information about the sensitivity of our financial results to interest-rate volatility, see "MD&A - Risk Management - Interest-Rate Risk and Other Market Risks."
- Spread Volatility — Spread volatility (i.e., credit spreads, liquidity spreads, risk premiums, etc.), or OAS, is the risk associated with changes in interest rates in excess of benchmark rates. We hold assets and liabilities that expose us to spread volatility, which may contribute to significant earnings volatility. For financial assets and liabilities measured at fair value, we generally recognize fair value losses when spreads widen. However, we may enter into transactions or take other steps to limit or manage our exposure to spread volatility.
- Non-Recurring Events — From time to time, we have experienced and will likely continue to experience significant earnings volatility from non-recurring events, including events such as settlements with counterparties and changes in certain valuation allowances.

OUR BUSINESS
PRIMARY BUSINESS STRATEGIES

Our primary business strategies describe how we plan to pursue our Charter Mission over a timeframe of three to five years, or approximately through 2018 to 2020. Our core assumption is that the conservatorship will continue with no material changes during that period. These strategies complement FHFA's annual Conservatorship Scorecards.

Charter Mission

We are a government-sponsored enterprise with a specific and limited corporate purpose (i.e., “Charter Mission”) to support the liquidity, stability and affordability of U.S. housing mortgage markets as a participant in the secondary mortgage market, while operating as a commercial enterprise earning an appropriate return. Everything we do must be done within the specific constraints of our Charter Mission.

Our Twin Goals

We established overarching twin goals to enable us to reach our Charter Mission:

- A Better Freddie Mac; and
- A Better Housing Finance System

Our Key Strategies

A Better Freddie Mac

We are focused on operating as a very well-run large financial institution, by:

- Being a very effective operating organization;
- Being a market leader through customer focus and innovation; and
- Managing risk and economic capital for quality risk-adjusted returns.

A Better Housing Finance System

We are focused on providing leadership, through innovation and constructive forward-looking engagement with FHFA to improve the liquidity, stability, and affordability of the U.S. housing markets, by:

- Modernizing and improving the functioning of the mortgage markets;
- Developing greater responsible access to housing finance; and
- Reducing taxpayer exposure to mortgage risks.

For further information on our goals and detailed strategies for each of our business segments, see "MD&A — Our Business Segments."

OUR CHARTER

Our Charter forms the framework for our business activities. Our statutory mission as defined in our Charter is to:

- Provide stability in the secondary market for residential loans;
- Respond appropriately to the private capital market;
- Provide ongoing assistance to the secondary market for residential loans (including activities relating to loans for low- and moderate-income families, involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- Promote access to mortgage loan credit throughout the U.S. (including central cities, rural areas, and other underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

Our Charter permits us to purchase first-lien single-family loans with LTV ratios at the time of our purchase of less than or equal to 80%. Our Charter also permits us to purchase first-lien single-family loans that do not meet this criterion if we have certain specified credit protections, which include mortgage insurance on the portion of the UPB of the loan that exceeds an 80% LTV ratio, a seller's agreement to repurchase or replace a defaulted loan, or the retention by the seller of at least a 10% participation interest in the loan.

This Charter requirement does not apply to multifamily loans or to loans that have the benefit of any guarantee, insurance or other obligation by the U.S. or any of its agencies or instrumentalities (e.g., the FHA, the VA, or the USDA Rural Development). Additionally, as part of HARP, we purchase single-family loans that refinance loans we currently own or guarantee without obtaining additional credit enhancement in excess of that already in place for any such loan, even when the LTV ratio of the new loan is above 80%.

Our Charter does not permit us to originate loans or lend money directly to consumers in the primary mortgage market. Our Charter limits our purchase of single-family loans to the conforming loan market, which consists of loans originated with UPBs at or below limits determined annually based on changes in FHFA’s housing price index. Since 2006, the base conforming loan limit for a one-family residence has been set at $417,000, and higher limits have been established in certain “high-cost” areas (currently, up to $625,500 for a one-family residence). Higher limits also apply to two- to four-family residences and to loans secured by properties in Alaska, Guam, Hawaii, and the U.S. Virgin Islands.

BUSINESS SEGMENTS

We have three reportable segments: Single-family Guarantee, Multifamily, and Investments. Certain activities that are not part of a reportable segment are included in the All Other category. For more information on our segments, see "MD&A - Our Business Segments" and Note 12.

EMPLOYEES

At February 4, 2016, we had 5,416 full-time and 46 part-time employees.

PROPERTIES

Our principal offices consist of four office buildings we own in McLean, Virginia, comprising approximately 1.3 million square feet. We operate our business in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

AVAILABLE INFORMATION

We file reports and other information with the SEC. In view of the Conservator's succession to all of the voting power of our stockholders, we have not prepared or provided proxy statements for the solicitation of proxies from stockholders since we entered into conservatorship, and do not expect to do so while we remain in conservatorship. Pursuant to SEC rules, our annual reports on Form 10-K contain certain information typically provided in an annual proxy statement.

We make available, free of charge through our website at www.freddiemac.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with the SEC. In addition, materials that we file with the SEC are available for review and copying at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding companies that file electronically with the SEC. We are providing our website addresses and the website address of the SEC here and elsewhere in this Form 10-K solely for your information. Information appearing on our website or on the SEC's website is not incorporated into this Form 10-K.

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Freddie Mac's securities offerings are exempted from SEC registration requirements. As a result, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report these types of obligations either in offering circulars or supplements thereto that we post on our website or in a current report on Form 8-K, in accordance with a "no-action" letter we received from the SEC staff. In cases where the information is disclosed in an offering circular posted on our website, the document will be posted within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The website address for disclosure about our debt securities is www.freddiemac.com/debt. From this address, investors can access the offering circular and related supplements for debt securities offerings under Freddie Mac's global debt facility, including pricing supplements for individual issuances of debt securities. Similar information about our STACR debt notes is available at www.freddiemac.com/creditriskofferings.

Disclosure about the mortgage-related securities we issue, some of which are off-balance sheet obligations (e.g., K Certificates), can be found at www.freddiemac.com/mbs. From this address, investors can access information and documents about our mortgage-related securities, including offering circulars and related offering circular supplements.

FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, the news media, securities analysts, and others as part of our normal operations. Some of these communications, including this Form 10-K, contain "forward-looking statements." Examples of forward-looking statements include, but are not limited to, statements pertaining to the conservatorship, our current expectations and objectives for the Single-family Guarantee, Multifamily, and Investments segments of our business, our efforts to assist the housing market, our liquidity and capital management, economic and market conditions and trends, our market share, the effect of legislative and regulatory developments and new accounting guidance, the credit quality of loans we own or guarantee, and our results of operations and financial condition on a GAAP, Segment Earnings and fair value basis. Forward-looking statements involve known and unknown risks and uncertainties, some of which are beyond our control.

Forward-looking statements are often accompanied by, and identified with, terms such as "objective," "expect," "possible," "trend," "forecast," "anticipate," "believe," "intend," "could," "future," "may," "will," and similar phrases. These statements ar historical facts, but rather represent our expectations based on current information, plans, judgments, assumptions, estimates, and projections. Actual results may differ significantly from those described in or implied by such forward-looking statements due to various factors and uncertainties, including those described in the "RISK FACTORS" section of this Form 10-K, and:

- The actions the U.S. government (including FHFA, Treasury, and Congress) may take, or require us to take, including to support the housing markets or to implement FHFA's Conservatorship Scorecards and other objectives for us;
- The effect of the restrictions on our business due to the conservatorship and the Purchase Agreement, including our dividend obligation on the senior preferred stock;
- Our ability to maintain adequate liquidity to fund our operations;
- Changes in our Charter or in applicable legislative or regulatory requirements (including any legislation affecting the future status of our company);
- Changes in the fiscal and monetary policies of the Federal Reserve, including any changes to its policy of maintaining sizable holdings of mortgage-related securities and any future sales of such securities;

- The success of our efforts to mitigate our losses on our Legacy single-family book and our investments in non-agency mortgage-related securities;
- The success of our strategy to transfer mortgage credit risk through STACR debt note, ACIS, K Certificate and other credit risk transfer transactions;
- Our ability to maintain the security of our operating systems and infrastructure (e.g., against cyberattacks);
- Changes in economic and market conditions, including changes in employment rates, interest rates, spreads, and home prices;
- Changes in the U.S. residential mortgage market, including changes in the supply and type of loan products (e.g., refinance versus purchase, and fixed-rate versus ARM);
- Our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- The adequacy of our risk management framework;
- Our ability to manage mortgage credit risks, including the effect of changes in underwriting and servicing practices;
- Our ability to limit or manage our exposure to interest-rate volatility and spread volatility, including the availability of derivative financial instruments needed for interest-rate risk management purposes;
- Changes or errors in the methodologies, models, assumptions, and estimates we use to prepare our financial statements, make business decisions, and manage risks;
- Changes in investor demand for our debt or mortgage-related securities (e.g., single-family PCs and multifamily K Certificates);
- Changes in the practices of loan originators, investors and other participants in the secondary mortgage market; and
- Other factors and assumptions described in this Form 10-K, including in the “MD&A” section.

Forward-looking statements are made only as of the date of this Form 10-K, and we undertake no obligation to update any forward-looking statements we make to reflect events or circumstances occurring after the date of this Form 10-K.

Selected Financial Data

SELECTED FINANCIAL DATA

The selected financial data presented below should be reviewed in conjunction with MD&A and our consolidated financial statements and accompanying notes.

	At or For the Year Ended December 31,				
(dollars in millions, except share-related amounts)	2015	2014	2013	2012	2011
Statements of Comprehensive Income Data					
Net interest income	$14,946	$14,263	$16,468	$17,611	$18,397
(Provision) benefit for credit losses	2,665	(58)	2,465	(1,890)	(10,702)
Non-interest income (loss)	(3,599)	(113)	8,519	(4,083)	(10,878)
Non-interest expense	(4,738)	(3,090)	(2,089)	(2,193)	(2,483)
Income tax (expense) benefit	(2,898)	(3,312)	23,305	1,537	400
Net income (loss)	6,376	7,690	48,668	10,982	(5,266)
Comprehensive income (loss)	5,799	9,426	51,600	16,039	(1,230)
Net loss attributable to common stockholders	(23)	(2,336)	(3,531)	(2,074)	(11,764)
Net loss per common share - basic and diluted	(0.01)	(0.72)	(1.09)	(0.64)	(3.63)
Cash dividends per common share	—	—	—	—	—
Weighted average common shares outstanding - basic and diluted (in millions)	3,235	3,236	3,238	3,240	3,245
Balance Sheets Data					
Loans held-for-investment, at amortized cost by consolidated trusts (net of allowances for loan losses)	$1,625,184	$1,558,094	$1,529,905	$1,495,932	$1,564,131
Total assets	1,986,050	1,945,539	1,966,061	1,989,856	2,147,216
Debt securities of consolidated trusts held by third parties	1,556,121	1,479,473	1,433,984	1,419,524	1,471,437
Other Debt	414,306	450,069	506,767	547,518	660,546
All other liabilities	12,683	13,346	12,475	13,987	15,379
Total stockholders' equity (deficit)	2,940	2,651	12,835	8,827	(146)
Portfolio Balances - UPB					
Mortgage-related investments portfolio	$346,911	$408,414	$461,024	$557,544	$653,313
Total Freddie Mac mortgage-related securities	1,729,493	1,637,086	1,592,511	1,562,040	1,624,684
Total mortgage portfolio	1,941,587	1,910,106	1,914,661	1,956,276	2,075,394
TDRs on accrual status	82,347	82,908	78,708	66,590	45,254
Non-accrual loans	22,649	33,130	43,457	63,005	76,575
Ratios					
Return on average assets	0.3%	0.4%	2.5%	0.5%	(0.2)%
Allowance for loan losses as percentage of loans, held-for-investment	0.9	1.3	1.4	1.8	2.2

Equity to assets	0.1	0.4	0.5	0.2	—

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

KEY ECONOMIC INDICATORS

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

SINGLE-FAMILY HOME PRICES

NATIONAL HOME PRICES

(December 2000 = 100)

EFFECT ON FINANCIAL RESULTS

- 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.
- Declines in home prices typically result in increases in expected credit losses on the mortgage-related securities we hold.
- Declines in home prices may result in declines in the value of our non-agency mortgage-related securities as lower home values may increase default rates and affect the prepayment activities of the borrowers.

COMMENTARY

- Home prices continued to appreciate during 2015, increasing 6.2%, compared to an increase of 5.2% during 2014, based on our own non-seasonally adjusted price index of single-family homes funded by loans owned or guaranteed by us or Fannie Mae.
- National home prices at the end of 2015 remained approximately 6% below their June 2006 peak levels, based on our index.
- We expect near-term home price growth rates to moderate gradually and return to growth rates consistent with long-term historical averages of approximately 2% to 5% per year.

INTEREST RATES

KEY MARKET INTEREST RATES AT QUARTER END

EFFECT ON FINANCIAL RESULTS

- The 30-year Primary Mortgage Market Survey ("PMMS") interest rate represents the national average of mortgage rates on new 30-year fixed-rate mortgages. Declines in the PMMS rate typically result in increases in refinancing activity and originations.
- Changes in interest rates affect the fair value of certain of our assets and liabilities, including derivatives, on our consolidated balance sheets measured at fair value on a recurring basis.
- For additional information on the effect of LIBOR swap rates on our financial results, see "Our Business Segments - Investments - Market Conditions."

COMMENTARY

- Mortgage interest rates for 30-year fixed-rate loans are typically closely related to other long-term interest rates such as the 10-year Treasury rate and the 10-year LIBOR rate. When these rates decline, mortgage interest rates for 30-year fixed-rate loans usually also decline.
- Mortgage interest rates, as indicated by the 30-year PMMS rate, increased at the end of 2015. However, the average 30-year PMMS rate was 3.85% in 2015 compared to 4.17% in 2014, resulting in higher refinancing activity and higher overall origination activity during 2015.
- Longer-term interest rates, as indicated by the 10-year LIBOR rate and the 10-year Treasury rate, declined sharply in 2014 but moderated in 2015.
- The Federal Reserve decided in December 2015 to begin raising short-term interest rates but committed to a measured pace of monetary tightening. However, the magnitude and timing of the impact of the Federal Reserve’s action on mortgage and other longer-term rates is uncertain.

UNEMPLOYMENT RATE

UNEMPLOYMENT RATE AND JOB CREATION

Source: U.S. Bureau of Labor Statistics

EFFECT ON FINANCIAL RESULTS

- Changes in the unemployment rate can affect several market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies.
- Increases in the unemployment rate typically result in higher levels of delinquencies, which often result in an increase in expected credit losses on our total mortgage portfolio.
- Decreases in the unemployment rate typically result in lower levels of delinquencies, which often result in a decrease in expected credit losses on our total mortgage portfolio.

COMMENTARY

- Monthly net new job growth decreased during 2015, but remained above 200,000 per month on average.
- The unemployment rate continued to decline from the peak of 10.0% reached in October 2009.
- We expect the unemployment rate to decline slightly throughout 2016 and 2017.

CONSOLIDATED RESULTS OF OPERATIONS

You should read this discussion of our consolidated results of operations in conjunction with our consolidated financial statements and accompanying notes. See “Critical Accounting Policies and Estimates” for information concerning certain significant accounting policies and estimates applied in determining our reported results of operations and Note 1 for information on our accounting policies.

The table below compares our consolidated results of operations for the past three years.

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(dollars in millions)	2015	2014	2013	$	%	$	%
Net interest income	$14,946	$14,263	$16,468	$683	5 %	$(2,205)	(13)%
Benefit (provision) for credit losses	2,665	(58)	2,465	2,723	(4,695)%	(2,523)	(102)%
Net interest income after benefit (provision) for credit losses	17,611	14,205	18,933	3,406	24 %	(4,728)	(25)%
Non-interest income (loss):							
Gains (losses) on extinguishment of debt	(240)	(422)	446	182	(43)%	(868)	(195)%
Derivative gains (losses)	(2,696)	(8,291)	2,632	5,595	(67)%	(10,923)	(415)%
Net impairment of available-for-sale securities recognized in earnings	(292)	(938)	(1,510)	646	(69)%	572	(38)%
Other gains (losses) on investment securities recognized in earnings	508	1,494	301	(986)	(66)%	1,193	396 %
Other income (loss)	(879)	8,044	6,650	(8,923)	(111)%	1,394	21 %
Total non-interest income (loss)	(3,599)	(113)	8,519	(3,486)	3,085 %	(8,632)	(101)%
Non-interest expense:							
Administrative expense	(1,927)	(1,881)	(1,805)	(46)	2 %	(76)	4 %
REO operations (expense) income	(338)	(196)	140	(142)	72 %	(336)	(240)%
Temporary Payroll Tax Cut Continuation Act of 2011 expense	(967)	(775)	(533)	(192)	25 %	(242)	45 %
Other (expense) income	(1,506)	(238)	109	(1,268)	533 %	(347)	(318)%
Total non-interest expense	(4,738)	(3,090)	(2,089)	(1,648)	53 %	(1,001)	48 %
Income before income tax (expense) benefit	9,274	11,002	25,363	(1,728)	(16)%	(14,361)	(57)%
Income tax (expense) benefit	(2,898)	(3,312)	23,305	414	(13)%	(26,617)	(114)%
Net income	6,376	7,690	48,668	(1,314)	(17)%	(40,978)	(84)%
Total other comprehensive income (loss), net of taxes and reclassification adjustments	(577)	1,736	2,932	(2,313)	(133)%	(1,196)	(41)%
Comprehensive income	$5,799	$9,426	$51,600	$(3,627)	(38)%	$(42,174)	(82)%

Key Drivers:

- Net interest income increased in 2015 compared to 2014, primarily due to an increase in management and guarantee fee income and amortization of upfront fees and basis adjustments as a result of higher prepayment rates. This increase was partially offset by a reduction in the amount of contractual net interest income derived from our mortgage-related investments portfolio, as this portfolio has continued to decline pursuant to the portfolio limits established by the Purchase Agreement and by FHFA. Net interest income decreased in 2014 compared to 2013, primarily due to a reduction in our mortgage-related investments portfolio and less amortization of upfront fees and basis adjustments as a result of lower prepayment rates. See “Net Interest Income” for more information.
- Benefit (provision) for credit losses was a benefit in 2015 and was driven by the reclassification of loans from held-for-investment to held-for-sale. Excluding the effect of the reclassification of loans,

the amount of our benefit was not significant. The (provision) for credit losses in 2014 reflects a decline in the volume of newly impaired loans and a smaller benefit from settlement agreements with certain sellers to release specified loans from certain repurchase obligations in 2014 compared to 2013. See "Benefit (Provision) For Credit Losses" for more information.

- Gains (losses) on extinguishment of debt in 2015, 2014, and 2013 primarily resulted from purchases of single-family PCs (which are accounted for as the extinguishment of debt). We extinguished debt securities of consolidated trusts with a UPB of $54.6 billion, $49.2 billion, and $44.4 billion in 2015, 2014, and 2013, respectively. Losses in 2015 and 2014 were driven by interest rate declines between the time of issuance and the time of repurchase of these debt securities.
- Changes in derivative gains (losses) primarily resulted from changes in interest rates. In 2015, longer-term interest rates declined less than they did in 2014, and resulted in lower fair value losses. Derivative losses also include the accrual of periodic cash settlements, which is the net amount we accrued during the period for interest-rate swap payments that we will make. In 2014, derivative losses primarily resulted from the effect of a flattening of the yield curve on the fair value of our interest-rate swaps. See "Derivative Gains (Losses)" for more information.
- Net impairments of available-for-sale securities recognized in earnings declined in 2015 compared to 2014 because the unrealized losses associated with securities we intend to sell were lower due to improvements in forecasted home prices, declines in market interest rates, and continued tightening of credit spreads for our non-agency mortgage-related securities. Net impairments of available-for-sale securities recognized in earnings declined in 2014 compared to 2013 primarily as a result of increased impairments in 2013 due to the availability of more detailed information which enhanced the assumptions used to estimate the contractual loan terms for certain modified loans collateralizing our non-agency mortgage-related securities. See "Conservatorship And Related Matters - Limits On Our Mortgage-Related Investments Portfolio And Indebtedness" for additional information concerning our efforts to reduce our less liquid assets.
- Other gains (losses) on investment securities recognized in earnings. The decrease in gains in 2015 compared to 2014 was primarily due to a decrease in sales of agency mortgage-related securities. The increase in gains in 2014 compared to 2013 was primarily the result of the effect of a decline in longer-term interest rates on the fair values of our trading securities.
- Changes in other income (loss) were primarily driven by non-agency mortgage-related securities settlements, lower-of-cost-or-fair-value adjustments for mortgage loans transferred to held-for-sale, and changes in fair value of multifamily mortgage loans for which we have elected the fair value option, as discussed below.

The change between 2015 and 2014 was primarily driven by:

- $6.0 billion decline in income from non-agency mortgage-related securities litigation settlements, as there was only one settlement in 2015;
- $2.0 billion increase in write-downs due to lower-of-cost-or-fair-value adjustments for mortgage loans transferred from held-for-investment to held-for-sale (see "Effect of Loan Reclassifications" for more information); and
- $0.7 billion decline in the fair value of these multifamily mortgage loans, due to the widening of K Certificate benchmark spreads observed in the market.

The change between 2014 and 2013 was primarily driven by:

$0.6 billion increase in income from non-agency mortgage-related securities settlements, as the majority of such settlements occurred in 2014;
$1.6 billion increase in the fair value of these multifamily mortgage loans, due to the tightening of K Certificate benchmark spreads observed in the market; and
$0.2 billion increase in write-downs due to lower-of-cost-or-fair-value adjustments for mortgage loans transferred from held-for-investment to held-for-sale.

- Administrative expense increased in 2015 and 2014 primarily because of costs associated with the FHFA-mandated termination of our pension plans. This increase was partially offset by lower professional services expense driven by lower expenses associated with FHFA-led lawsuits regarding our investments in certain non-agency mortgage-related securities.
- REO operations expense increased in 2015 and 2014 compared to the respective prior year. REO property expenses declined in 2015 and 2014, consistent with a decline in REO inventory in each year. However, the REO property expenses were offset to a lesser extent by gains on the disposition of REO properties and recoveries from mortgage insurance, compared to the respective prior year.
- Temporary Payroll Tax Cut Continuation Act of 2011 expense continued to increase as a result of the increase in the population of loans subject to this expense. As of December 31, 2015, $1.1 trillion of loans (or 63% of the single-family credit guarantee portfolio) were subject to these fees. We expect the amount of these fees will continue to increase in the future as we add new business and the population of loans subject to these fees increases.
- Other expense increased during 2015 compared to 2014, primarily driven by property taxes and insurance costs associated with loans reclassified from held-for-investment to held-for-sale. These costs are considered part of the loan loss reserves while the loans are classified as held-for-investment. See "Effect of Loan Reclassifications" for more information. In addition, beginning January 1, 2015, FHFA directed us to allocate funds that will be distributed to certain housing funds pursuant to the GSE Act. During 2015, we completed $393.8 billion of new business purchases subject to this allocation and accrued $165 million of related expense. We expect to pay these amounts in February 2016. Other expense increased during 2014 compared to 2013, due to a settlement with Lehman Brothers Holdings Inc. to resolve our claims related to Lehman’s bankruptcy which reduced other expenses in 2013.
- Income tax expense decreased in 2015 due to a decrease in pre-tax income. Income tax expense in 2014 reflects our return to a normal income tax recognition environment after the release of the valuation allowance against our net deferred tax asset in 2013.
- Other comprehensive income was a loss in 2015 compared to income in 2014, primarily due to less spread tightening for our non-agency mortgage-related securities and less impairment reclassifications from AOCI into earnings. These factors were partially offset by a lower amount of accretion being recognized during 2015 compared to 2014. Other comprehensive income decreased during 2014 compared to 2013, primarily due to less spread tightening for our non-agency mortgage-related securities, partially offset by a flattening of the yield curve during 2014.

The three items discussed below affected multiple line items on our consolidated results of operations.

Effect of Loan Reclassifications

In 2014, management, with the approval of FHFA, decided to pursue sales of certain seriously delinquent single-family mortgage loans. During 2015, we expanded this program to include sales of certain performing loans that are held by consolidated trusts in which we own all of the trusts' outstanding beneficial interests. During 2015 and 2014, we reclassified $13.6 billion and $0.7 billion, respectively, in UPB of single-family mortgage loans from held-for-investment to held-for-sale. The initial reclassifications of these loans affected several line items on our consolidated results of operations, as shown in the table below.

	Year Ended December 31,	
(in millions)	2015	2014
Benefit for credit losses	$2,314	$147
Other income (loss) - lower-of-cost-or-fair-value adjustment	(2,193)	(195)
Other (expense) income - property taxes and insurance associated with these loans	(1,178)	(62)
Effect on income before income tax (expense) benefit	$(1,057)	$(110)

Interest-Rate Risk Management Activities

We fund our business activities primarily through the issuance of unsecured short- and long-term debt. The type of debt we issue is based on a variety of factors including market conditions and our liquidity requirements.

We use derivatives to economically hedge interest-rate sensitivity mismatches between our assets and liabilities. For example, depending on our strategic objectives and the duration of our mortgage-related assets, we may fund our business using longer-term debt or using a mix of derivatives and shorter- and medium-term debt. Through our use of derivatives, we manage our exposure to interest-rate risk on an economic basis to a low level as measured by our models. For more information about our interest-rate risk management and the sensitivity of reported earnings to our interest-rate risk management activities, see “Risk Management - Interest Rate Risk and Other Market Risk.”

We currently favor a mix of derivatives and shorter- and medium-term debt to fund our business and manage interest-rate risk. This funding mix is a less expensive method than relying more extensively on long-term debt, and it provides greater flexibility and opportunity to match the duration of our assets and liabilities in the future as we reduce the mortgage-related investments portfolio in accordance with the requirements of the Purchase Agreement and FHFA.

While our interest-rate risk management activities reduce our economic exposure to interest-rate risk to a low level, as measured by our models, the accounting treatment for our assets and liabilities, including derivatives, creates volatility in our earnings when interest rates fluctuate. Some assets and liabilities are measured at amortized cost and some are measured at fair value, while all derivatives are measured at fair value. These measurement differences create volatility in our earnings that generally is not indicative of the underlying economics of our business.

The table below presents the effect of derivatives used in our interest-rate risk management activities on our comprehensive income, after considering the accrual of periodic cash settlements (which is the economic equivalent of interest expense), and the extent to which the effect of interest rate changes on our derivatives was offset by their effect on other financial instruments. The estimated net effect on comprehensive income is essentially the derivative gains (losses) attributable to financial instruments that are not measured at fair value.

	Year Ended December 31,		
(in billions)	2015	2014	2013
Components of derivative gains (losses)			
Derivative gains (losses)	$(2.7)	$(8.3)	$2.6
Less: Accrual of periodic cash settlements	(2.2)	(2.6)	(3.5)
Derivative fair value changes	$(0.5)	$(5.7)	$6.1
Estimated Net Interest Rate Effect			
Interest rate effect on derivative fair values	$(0.5)	$(5.5)	$5.9
Estimate of offsetting interest rate effect related to financial instruments measured at fair value	0.2	2.0	(4.0)
Income tax benefit (expense)	0.1	1.2	(0.7)
Estimated Net Interest Rate Effect on Comprehensive income	$(0.2)	$(2.3)	$1.2

As this table demonstrates, the estimated net effect of derivatives used in our interest-rate risk management activities on our comprehensive income is volatile, and can be significant. For information about the sensitivity of our financial results to interest-rate volatility, see "Risk Management - Interest-Rate Risk and Other Market Risks."

Effects of Changes in Asset Spreads

Comprehensive income was impacted by an estimated $(0.1) billion, $2.0 billion, and $2.5 billion (after-tax) for 2015, 2014, and 2013, respectively, due to the impact of credit spread tightening (widening) on certain mortgage loans and mortgage-related securities measured at fair value.

NET INTEREST INCOME

EXPLANATION OF KEY DRIVERS OF NET INTEREST INCOME

Net interest income consists of several primary components:

- Contractual net interest income - consists of two primary components:
  - The difference between the interest income earned on the assets in our investments portfolio and the interest expense incurred on the liabilities used to fund those assets; and
  - Management and guarantee fees on loans held by consolidated trusts. We record interest income on loans held by consolidated trusts and interest expense on the debt securities issued by the trusts. The difference between the interest income on the loans and the interest expense on the debt represents the management and guarantee fee income we receive as compensation for our guarantee of the principal and interest payments of the issued debt securities. This difference includes the legislated 10 basis point increase in management and guarantee fees that is remitted to Treasury as part of the Temporary Payroll Tax Cut Continuation Act of 2011.

Contractual net interest income is primarily driven by the volume of assets in the mortgage-related investments and guarantee portfolios and the interest rate differential between those interest-earning assets and the related interest-bearing liabilities.

- Amortization of cost basis adjustments - consists of cost basis adjustments, such as premiums and discounts on loans, investment securities, and debt that are amortized into interest income or interest expense based on the effective yield over the contractual life of the associated financial instrument.

The majority of our total net amortization relates to loans and debt securities of consolidated trusts, while amortization related to investment securities, other debt, and other assets and liabilities makes up a smaller portion. The net amortization of loans and debt securities of consolidated trusts is primarily driven by actual prepayments on the underlying loans.

Net amortization of loans and debt securities of consolidated trusts generally increases net interest income as it includes amortization of the upfront delivery fees we receive when we acquire a loan. Increases in actual prepayments result in higher net amortization, while decreases in actual prepayments result in lower net amortization. The timing of amortization of loans may differ from the timing of amortization of the securities backed by the loans, as the proceeds received from the loans backing these securities are remitted to the security holders at a date subsequent to the date proceeds from the loans are received.

- Expense related to derivatives - consists of deferred gains and losses on closed cash flow hedges related to forecasted debt issuances that are reclassified from AOCI to net interest income when the related forecasted transaction affects net interest income.

NET INTEREST YIELD ANALYSIS

The table below presents an analysis of interest-earning assets and interest-bearing liabilities. Mortgage loans on non-accrual status, where interest income is generally recognized when collected, are included in the average balances.

	Year Ended December 31,								
	2015			2014			2013		
(dollars in millions)	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate	Average Balance	Interest Income (Expense)	Average Rate
Interest-earning assets:									
Cash and cash equivalents	$12,482	$8	0.06 %	$13,889	$4	0.03 %	$31,087	$15	0.05 %
Securities purchased under agreements to resell	51,380	62	0.12	42,905	28	0.06	44,897	36	0.08
Mortgage-related securities:									
Mortgage-related securities	226,162	8,706	3.85	256,548	10,027	3.91	313,707	12,787	4.08
Extinguishment of PCs held by Freddie Mac	(107,986)	(3,929)	(3.64)	(111,545)	(4,190)	(3.76)	(127,999)	(5,045)	(3.94)
Total mortgage-related securities, net	118,176	4,777	4.04	145,003	5,837	4.03	185,708	7,742	4.17
Non-mortgage-related securities	10,699	17	0.16	9,983	6	0.06	21,385	26	0.12
Loans held by consolidated trusts[(1)]	1,590,768	55,867	3.51	1,540,570	57,036	3.70	1,511,128	57,189	3.78
Loans held by Freddie Mac[(1)]	157,261	6,359	4.04	170,017	6,569	3.86	203,760	7,694	3.78
Total interest-earning assets	$1,940,766	$67,090	3.46	$1,922,367	$69,480	3.61	$1,997,965	$72,702	3.63
Interest-bearing liabilities:									
Debt securities of consolidated trusts including PCs held by Freddie Mac	$1,611,388	$(49,465)	(3.07)	$1,557,895	$(52,193)	(3.35)	$1,532,032	$(52,395)	(3.42)
Extinguishment of PCs held by Freddie Mac	(107,986)	3,929	3.64	(111,545)	4,190	3.76	(127,999)	5,045	3.94
Total debt securities of consolidated trusts	1,503,402	(45,536)	(3.03)	1,446,350	(48,003)	(3.32)	1,404,033	(47,350)	(3.37)

held by third parties									
Other debt:									
Short-term debt	108,096	(173)	(0.16)	118,211	(145)	(0.12)	132,674	(178)	(0.13)
Long-term debt	313,502	(6,207)	(1.98)	331,887	(6,768)	(2.04)	393,094	(8,251)	(2.10)
Total other debt	421,598	(6,380)	(1.51)	450,098	(6,913)	(1.54)	525,768	(8,429)	(1.60)
Total interest-bearing liabilities	1,925,000	(51,916)	(2.70)	1,896,448	(54,916)	(2.89)	1,929,801	(55,779)	(2.89)
Expense related to derivatives	—	(228)	(0.01)	—	(301)	(0.02)	—	(455)	(0.02)
Impact of net non-interest-bearing funding	15,766	—	0.02	25,919	—	0.04	68,164	—	0.10
Total funding of interest-earning assets	$1,940,766	$(52,144)	(2.69)	$1,922,367	$(55,217)	(2.87)	$1,997,965	$(56,234)	(2.81)
Net interest income/yield		$14,946	0.77 %		$14,263	0.74 %		$16,468	0.82 %

(1) Loan fees, primarily consisting of amortization of delivery fees, included in interest income for loans held by consolidated trusts were $2.0 billion, $1.4 billion, and $1.2 billion, respectively, and were $383 million, $373 million, and $294 million in 2015, 2014, and 2013, respectively, for loans held by Freddie Mac.

NET INTEREST INCOME RATE / VOLUME ANALYSIS

The table below presents a rate and volume analysis of our net interest income. Our net interest income reflects the reversal of interest income accrued, net of interest received on a cash basis, related to mortgage loans that are on non-accrual status.

	2015 vs. 2014 Variance Due to			2014 vs. 2013 Variance Due to		
(in millions)	Rate	Volume	Total Change	Rate	Volume	Total Change
Interest-earning assets:						
Cash and cash equivalents	$6	$(2)	$4	$(5)	$(6)	$(11)
Securities purchased under agreements to resell	24	10	34	(7)	(1)	(8)
Mortgage-related securities:						
Mortgage-related securities	(149)	(1,172)	(1,321)	(508)	(2,252)	(2,760)
Extinguishment of PCs held by Freddie Mac	129	132	261	229	626	855
Total mortgage-related securities, net	(20)	(1,040)	(1,060)	(279)	(1,626)	(1,905)
Non-mortgage-related securities	11	—	11	(10)	(10)	(20)
Loans held by consolidated trusts	(2,991)	1,822	(1,169)	(1,256)	1,103	(153)
Loans held by Freddie Mac	297	(507)	(210)	175	(1,300)	(1,125)
Total interest-earning assets	$(2,673)	$283	$(2,390)	$(1,382)	$(1,840)	$(3,222)
Interest-bearing liabilities:						
Debt securities of consolidated trusts including PCs held by Freddie Mac	$4,476	$(1,748)	$2,728	$1,079	$(877)	$202
Extinguishment of PCs held by Freddie Mac	(129)	(132)	$(261)	(229)	(626)	$(855)
Total debt securities of consolidated trusts held by third parties	4,347	(1,880)	$2,467	850	(1,503)	(653)
Other debt:						
Short-term debt	(41)	13	(28)	15	18	33
Long-term debt	193	368	561	229	1,254	1,483
Total other debt	152	381	533	244	1,272	1,516
Total interest-bearing liabilities	4,499	(1,499)	3,000	1,094	(231)	863
Expense related to derivatives	73	—	73	154	—	154
Total funding of interest-earning assets	$4,572	$(1,499)	$3,073	$1,248	$(231)	$1,017
Net interest income	$1,899	$(1,216)	$683	$(134)	$(2,071)	$(2,205)

COMPONENTS OF NET INTEREST INCOME

The table below presents the components of net interest income.

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(in millions)	2015	2014	2013	$	%	$	%
Contractual net interest income:							
Management and guarantee fee income	$2,722	$2,399	$2,111	$323	13 %	$288	14 %
Management and guarantee fee income related to the Temporary Payroll Tax Cut Continuation Act of 2011	957	759	519	198	26 %	240	46 %
Other contractual net interest income	8,106	9,070	11,484	(964)	(11)%	(2,414)	(21)%
Total contractual net interest income	11,785	12,228	14,114	(443)	(4)%	(1,886)	(13)%
Net amortization - loans and debt securities of consolidated trusts	2,883	1,913	2,791	970	51 %	(878)	(31)%
Net amortization - other assets and debt	506	423	18	83	20 %	405	2,250 %
Expense related to derivatives	(228)	(301)	(455)	73	(24)%	154	(34)%
Net interest income	$14,946	$14,263	$16,468	$683	5 %	$(2,205)	(13)%

Key Drivers:

- Management and guarantee fee income increased during 2015, compared to 2014 and 2013, as the rates and volume of our guarantee businesses increased. Specifically, management and guarantee fee rates received on new business are higher than the rates received on older vintages that continue to pay-down. Furthermore, the size of our single-family credit guarantee portfolio continues to grow as we continue to securitize single-family loans into PCs. The increase in management and guarantee fee income, combined with a decline in our other contractual net interest income, resulted in management and guarantee fee income becoming a larger component of our contractual net interest income. We expect this trend to continue in the future. See the Single-family Guarantee segment's "Business Results" section in "Our Business Segments" for additional discussion.
- Other contractual net interest income declined in 2015 and 2014, primarily due to the reduction in the balance of our mortgage-related investments portfolio, as we continue to manage the size and composition of this portfolio pursuant to the limits established by the Purchase Agreement and by FHFA. Although we reinvested a portion of the proceeds received from pay-downs and dispositions, the new mortgage-related assets we acquired have lower yields as a result of a lower interest rate environment. We expect our other contractual net interest income to continue to decline in the near future as we reduce our mortgage-related investments portfolio. See "Conservatorship and Related Matters - Limits on Our Mortgage-Related Investments Portfolio and Indebtedness" for additional discussion of the limits on the mortgage-related investments portfolio.
- Net amortization of loans and debt securities of consolidated trusts increased in 2015 compared to 2014 due to an increase in the amortization of upfront fees and basis adjustments on debt securities of consolidated trusts. This increase was primarily driven by higher prepayment rates on single-family loans in 2015 compared to 2014. Conversely, net amortization of loans and debt securities of consolidated trusts was lower in 2014 compared to 2013, due to slower prepayment rates on single-family loans and timing differences between the amortization of the loan and debt securities basis adjustments.

BENEFIT (PROVISION) FOR CREDIT LOSSES
EXPLANATION OF KEY DRIVERS OF PROVISION FOR CREDIT LOSSES

The benefit (provision) for credit losses predominantly relates to single-family loans and includes components for both collectively impaired loans and individually impaired loans.

- Collectively impaired loans - The provision for collectively impaired loans is primarily driven by the volume of newly delinquent loans and changes in estimated probabilities of default and estimated loss severities for the loans. Estimated probabilities of default and estimated loss severities are based on current conditions and historical data and are heavily influenced by changes in home prices, but are also affected by a number of other factors, such as local and regional economic conditions, changes in reperformance and default rates, and the success of our borrower assistance programs.
- Individually impaired loans - The provision for individually impaired loans is primarily driven by the volume of our loss mitigation activity (e.g., loan modifications) that results in loans being considered TDRs, the payment performance of our individually impaired mortgage portfolio, and changes in estimated probabilities of default and estimated loss severities, which affect the future cash flows we expect to receive from these loans. Estimated probabilities of default and estimated loss severities for individually impaired loans are based on the same current conditions and historical data and are affected by the same factors noted above for collectively impaired loans.

As we continue to perform loss mitigation activities that result in loans being considered individually impaired, the portion of our allowance for loan losses and provision for credit losses related to collectively impaired loans continues to decline.

Our allowance for loan losses and provision for credit losses are significantly affected by the "interest rate concessions" we make on loans that we have modified (i.e., reductions in the contractual interest rate). When a loan is modified and considered individually impaired, we generally measure impairment based on the present value of the expected future cash flows discounted at the loan’s original effective interest rate. Under this methodology, we record a loss at the time a loan is modified equal to the difference in the present value of expected cash flows resulting from the change in the modified loan’s contractual interest rate, which increases the provision for credit losses in that period. When a modified loan subsequently performs according to its new contractual terms and we receive the new contractual cash flows (i.e., principal and interest payments), a portion of the discount that was previously applied to those cash flows is amortized into earnings each period and is recognized as a reduction in the provision for credit losses in the period in which the cash flows are received. We refer to this reduction in the provision for credit losses as the "amortization of interest rate concessions."

Our provision for credit losses and the amount of charge-offs that we record in the future will be affected by a number of factors, such as the actual level of loan defaults; the effect of loss mitigation efforts; any government actions or programs that affect the ability of borrowers to refinance loans with an LTV ratio greater than 100% or obtain modifications; changes in property values; regional economic conditions, including unemployment rates; additional delays in the foreclosure process; and third-party mortgage insurance coverage and recoveries.

BENEFIT (PROVISION) FOR CREDIT LOSSES

The table below presents the components of our benefit (provision) for credit losses.

	Year Ended December 31,			Change 2015-2014		Change 2014-2013	
(dollars in billions)	2015	2014	2013	$	%	$	%
Provision for newly impaired loans	$(0.9)	$(1.7)	$(2.5)	$0.8	47%	$0.8	32%
Amortization of interest rate concessions	1.2	1.4	1.0	(0.2)	(14)%	0.4	40%
Reclassifications of held-for-investment loans to held-for-sale loans	2.3	0.1	—	2.2	2,200%	0.1	N/A
Other, including changes in estimated default probability and loss severity	0.1	0.1	4.0	—	—%	(3.9)	(98)%
Benefit (provision) for credit losses	$2.7	$(0.1)					