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Freddie Mac's Business Strategy

Board of Directors Meeting

March 2-3, 2007

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Contents

I. Existing Franchise

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The External and Internal Pressures on the Business Have Intensified

Pressure on the franchise

Competition in existing franchise

- Fannie Mae is larger and operates at lower costs, in a commoditized business
- G-fees declining

Regulation

- Burdens of capital surcharge, growth cap
- Housing goals escalating
- Further legislative constraints possible (e.g., housing fund)

Market

- Narrowing spreads
- Originator consolidation
- Credit may be worsening
- Limited GSE participation in nonprime mortgages / products

Internal challenges

- Management attention and resources strained by financial remediation
- Escalating cost structure

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We Are at Risk of Falling Below Our Return Aspirations

Over a 3-5 year horizon, profitability in our businesses threaten to bring our fair value returns below our low-to-mid-teens guidance

Existing franchise

Single Family – new business projected at below 11% ROE *on economic capital*

- Credit costs are rising – and may be more severe than expected
- Volume set to grow at 8%, in line with total mortgage debt
- Satisfying escalating housing goals is difficult and costly

Multifamily

- ROEs at 11-12%
- Market small
- Poor competitive position vs. FNM
- Accretive to housing goals

Retained Portfolio – ~15% ROE projected at current spreads, but slow growth*

Capital surcharge – a further drag on fair value returns (~4 percentage points drag on returns on fair value of net assets)

We still enjoy a window of opportunity to adjust course

- Rapid house price appreciation has lowered credit costs on existing book
- Continued healthy earnings from Retained Portfolio

Note: All line of business ROEs in this document refer to returns on economic capital, net of G&A allocations

* Does not include returns from interest rate risk management

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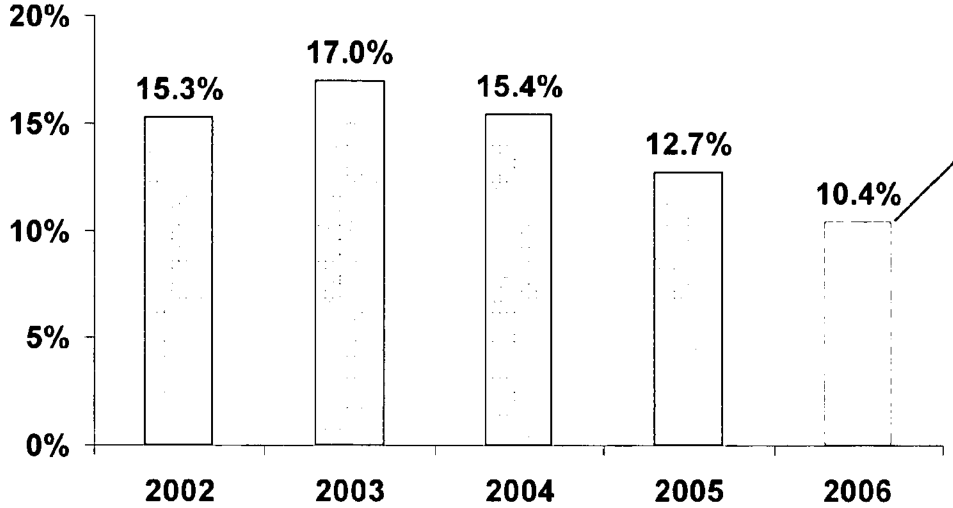
Expected Returns on New Single Family Guarantee Business Have Declined

Ex-ante lifetime ROE by purchase year*



* Projection at time of funding

Source: Freddie Mac Single Family LOB projections

Rule of thumb: ± 1 bp in revenue gains / expense cut = ± 1% ROE point increase

Credit is the key unknown

Primary drivers behind projections:

1. **Credit costs** ↑ (used to be projected at 4 bp, now **7 bp** – equivalent to 3% ROE drop)
2. **G-fees** in decline (e.g., 1% ROE point fall in '07)
3. **G&A** remains high (traditionally 1-2 bp higher than FNM)
4. **Capital** – risk-based capital up nearly 50% since 2004 (for business reasons, not regulation)

*And we continue to suffer a **funding disadvantage** vs. FNM (3-4 bp)*

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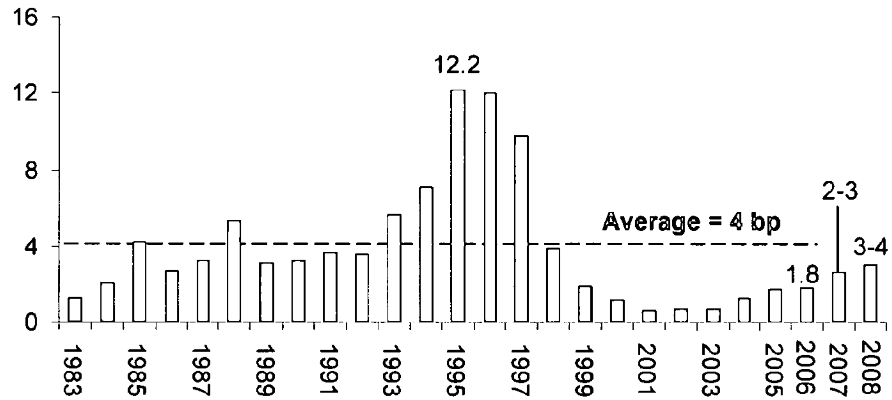
Credit Losses Have Been Very Low, But We Project Them to Increase

We and the mortgage industry have enjoyed very low credit losses 2000-2006, primarily driven by rapid home price appreciation (HPA)

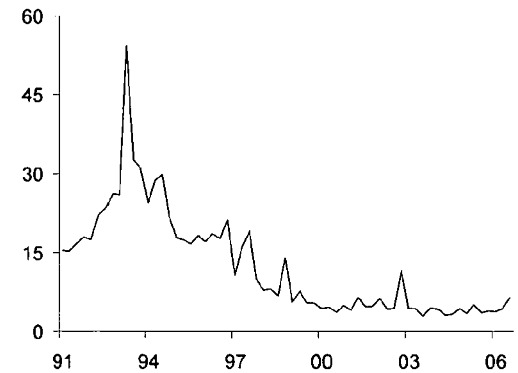
FRE realized credit losses* (bp)



* Includes net-charge-offs, REO operations expense, and lost interest

Source: Freddie Mac

Thrifts' net charge-offs on residential mortgages (bp)



Note: data series starts in 1991

Source: FDIC

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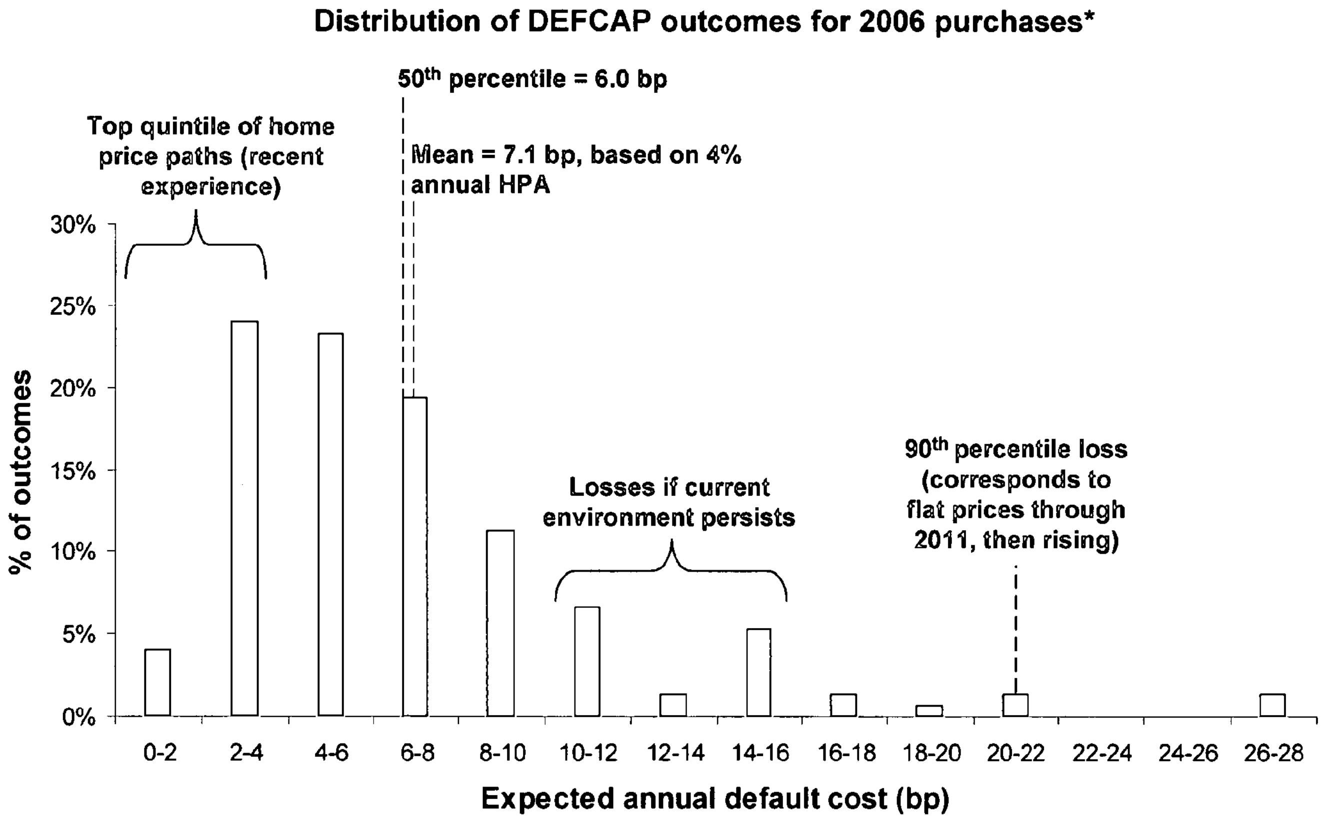
Our Models Project Higher Losses for New Business

For '06 book, credit losses are projected at 7 bp on average, assuming 4% home price appreciation (HPA) per year

This translates into losses on the *portfolio* of 3-4 bp in coming years, buoyed by prior vintages



* YTD purchases through November. Distribution based on 150 paths from PortVal.

Source: Freddie Mac Credit Policy

Our Customers Have Been Originating Riskier Loans

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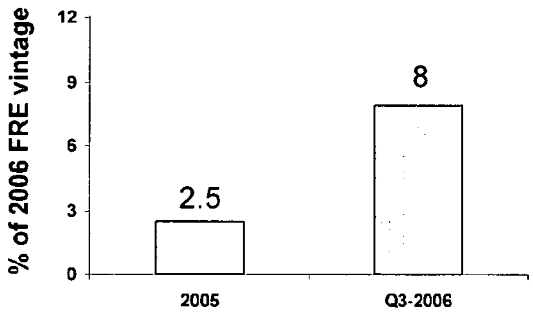
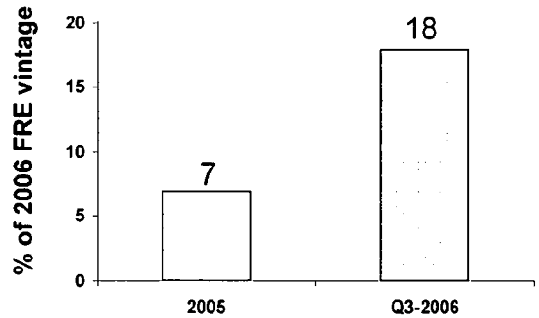
We are already taking on riskier products in our flow business …

Proportion of TLTV* > 95% loans have more than tripled



% of interest-only (IO) mortgages in product mix is increasing

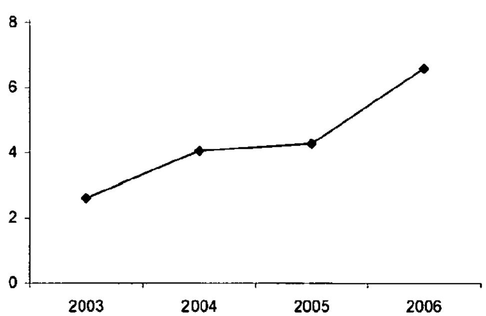


In addition, we are obtaining less credit protection

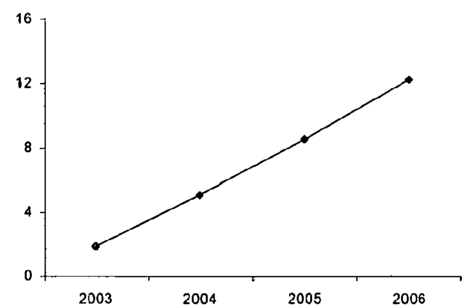
- Credit enhancement is near historic lows
- Mortgage insurance is absorbing a reduced share of losses

… and increasing risk layering, leading to more “Caution” scores

% of flow purchases with TLTV* > 90% *and* FICO < 680**



Defect rate (% of flow purchases)**



“Caution” loans typically have 2-3X greater default costs

* Total loan-to-value includes second-lien mortgages

** FICO credit score, the industry standard offered by Fair Isaac, using an 850 point scale

** Portion of flow deliveries scored as LP “Caution” without compensation

Source: Freddie Mac Credit Policy

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Some of Our Current Purchases Have Subprime-Like Risk

We already purchase subprime-like loans to help achieve our HUD goals

	Product/Deal	LTV	FICO	ROE**	G-fee (all-in)	Subgoal Eligible	Hit Rates Low-Mod Income	Special Affordable
Example purchases in 2006	Home Possible & Similar Product	98%	687	0.5%	31	80%	82%	37%
	Wachovia CRA Deal	97%	662	-8.0%	9	100%	100%	100%
	Manufactured Housing	75%	724	1.0%	25	34%	68%	34%
	Mtg Revenue Bonds	94%	699	5.0%	29	86%	94%	50%
	Worst 10% of Flow Business*	80%	674	0.0%	26	21%	72%	35%
	Subprime (fixed rate)	88%	650	?	125-150	50%	90%	35%

But we receive considerably lower fees than subprime loans would fetch in the market

* Excludes Home Possible, Manufactured Housing, and Mortgage Revenue Bonds
** ROEs based on fully-loaded G&A

Source: Single Family Profitability

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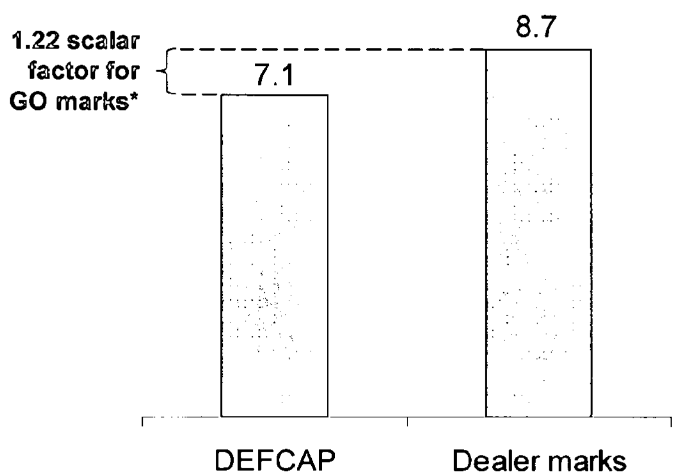
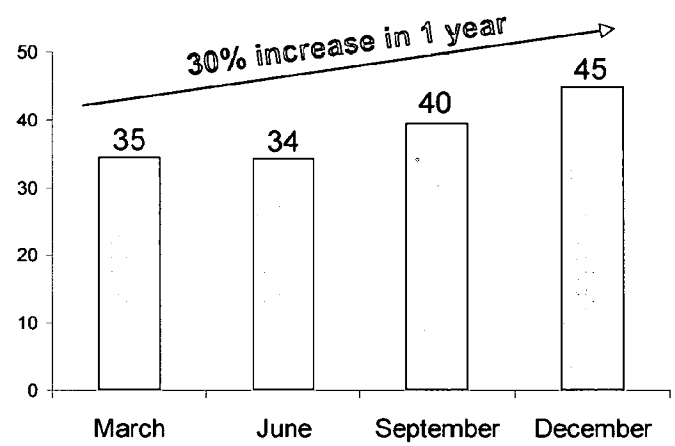
External Benchmarks Have an Even More Pessimistic View Than Our Models

Expected default costs for new purchases
(bp on UPB)



* Based on GO cohorts for 2006 purchases

2006 Guarantee Obligation portfolio credit costs*
(bp on UPB)



* Default and capital cost components only

Rise in GO caused by

- **More bearish market**
- **Purchase of riskier product**

Source: Freddie Mac Investments and Capital Markets

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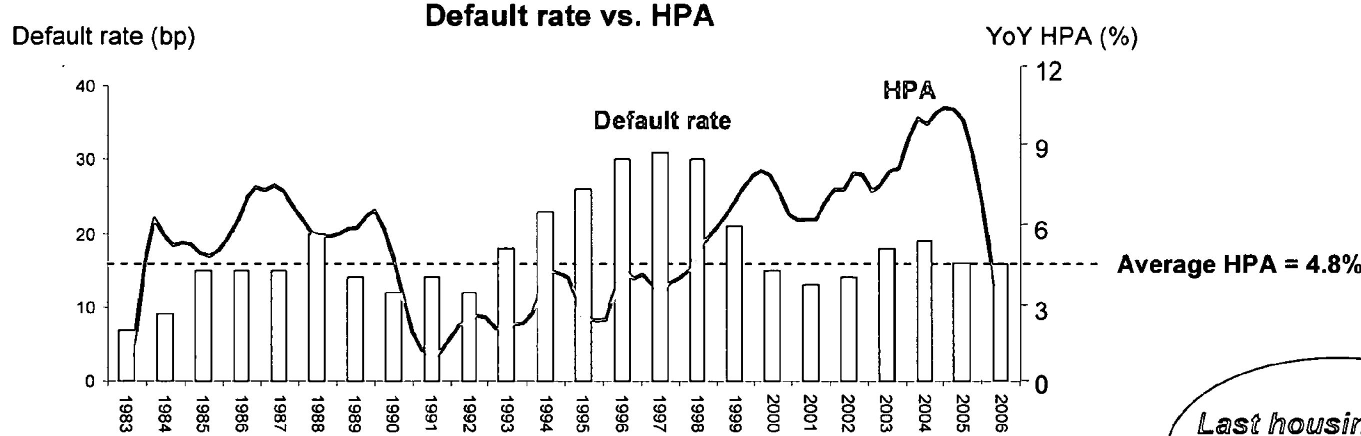
Conditions Could Get Worse Depending on Housing Prices

Rapid HPA in recent years has moderated defaults, and heavily suppressed credit losses

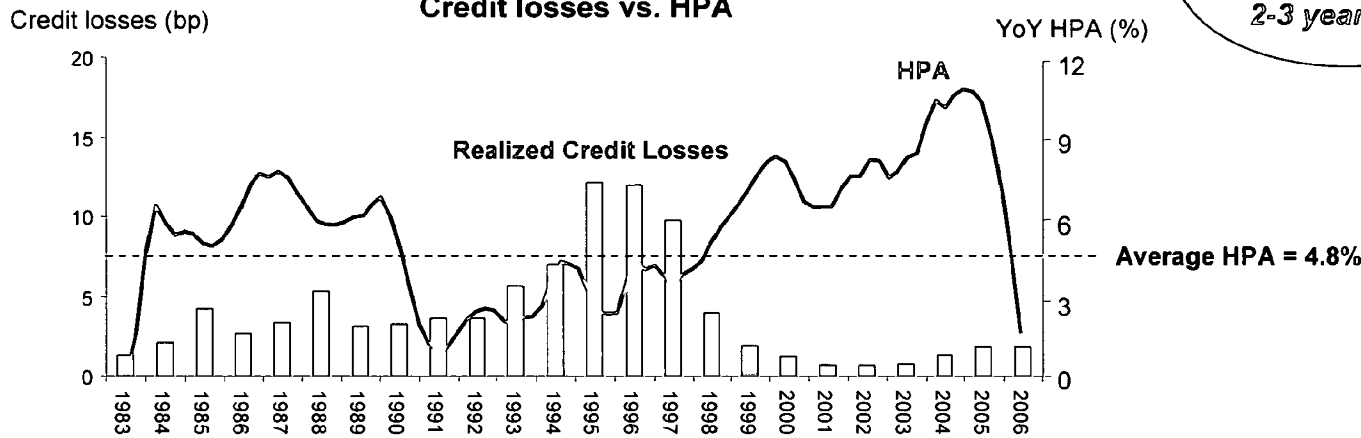
Our models assume 4% HPA in perpetuity, although 2006 HPA was much lower

Default rate vs. HPA



Last housing boom led to losses – 2-3 years later

Credit losses vs. HPA



Source: Freddie Mac Credit Policy

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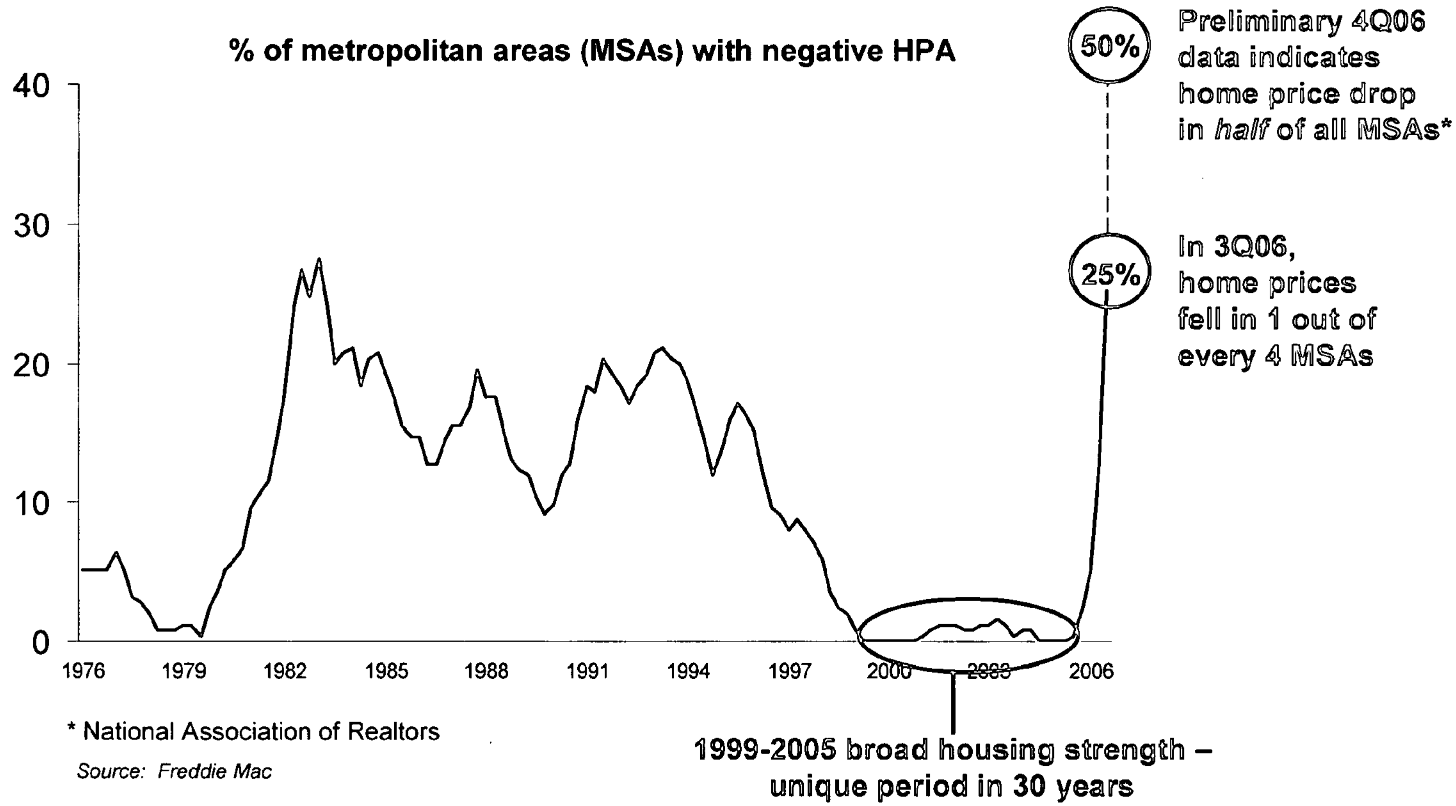
Home Price Declines Are Underway in Many Localities

2006 HPA was just above zero, and in some places, HPA has already turned negative



* National Association of Realtors

Source: Freddie Mac

Unemployment is a secondary driver

Higher unemployment would aggravate losses, while continued robust conditions may mitigate them

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Long-Term Market Forces Are Pressuring G-Fees Down

Freddie Mac average G-fee on the portfolio (bp)

Source: OFHEO 2006 Annual Report

- **Originator-customers are consolidating and gaining more leverage**
- **Fannie Mae has a cost advantage and is committed to near-60% market share**
- **Regulatory pressure may be a factor**
  - Basel II may encourage U.S. banks to hold more whole loans or MBS (reversing 1980s-1990s disintermediation)
  - Housing goals

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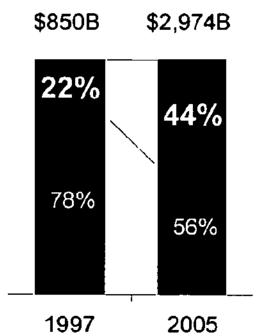
Originators Are Continuing to Consolidate and Gain Leverage

The mortgage market has consolidated considerably in the last 10 years

Consolidation has been driven by the importance of capital and scale, tipping bargaining power in the direction of our large customers

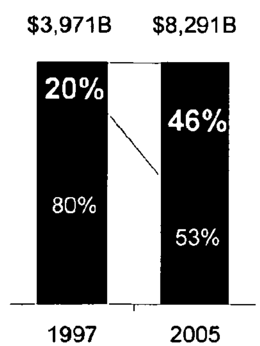
Prime Mortgage Origination



Top 5 Originators

1 Countrywide (15%)
2 Wells Fargo (12%)
3 Washington Mutual (7%)
4 Chase (5%)
5 Bank of America (5%)

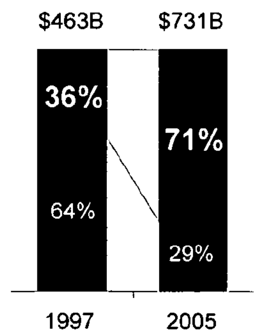
Prime Mortgage Servicing



Top 5 Servicers

1 Countrywide (13%)
2 Wells Fargo (12%)
3 Washington Mutual (9%)
4 Chase (7%)
5 CitiMortgage (5%)

Credit Card Receivables



Top 5 Issuers

1 JPMorgan Chase
2 Citigroup
3 MBNA (since acquired by BofA)
4 Bank of America
5 Discover

Compared to other financial services markets, there is still room to go

Source: Nilson Report; Inside Mortgage Finance

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The Playing Field With Fannie Mae

Market share gains must be won against a committed, larger, historically lower-cost competitor

Perceived Fannie Mae strengths

- Liquidity premium
- Liberal view of credit (a strength for market share)
- Broader product range
- Better front-end systems – easier to deal with
- Historically lower G&A

Perceived Freddie Mac strengths

- Stronger coordination between Retained Portfolio and Single Family businesses
- Superior interest-rate-risk management (e.g., CMOs, REMICs)

Prior efforts to boost our share have been costly

- As Freddie Mac gained share in 2005, Fannie Mae responded by:
  - Pushing G-fees down 2-3 bps
  - Preemptively cutting pricing with leading originators (Countrywide, National City)
  - Lowering bids even where unnecessary to win
- FNM appears intent on a 60% market share

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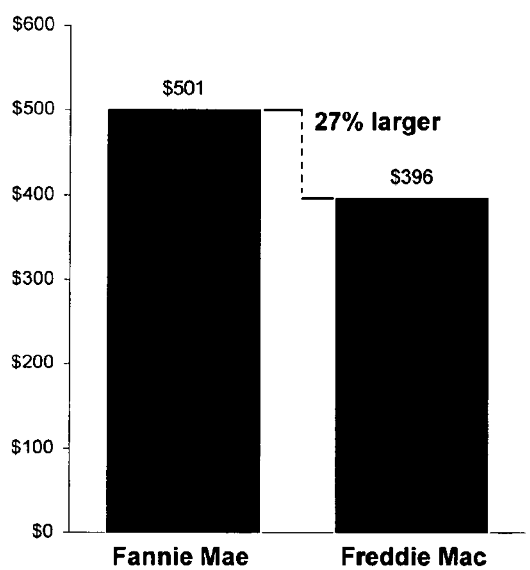
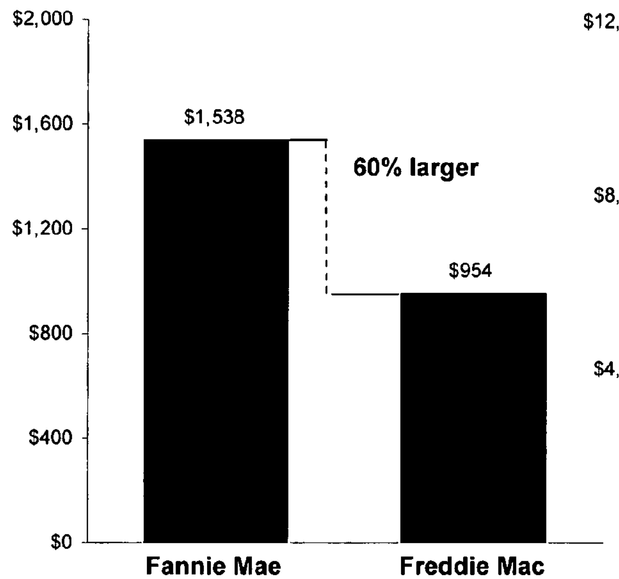
Fannie Mae Enjoys Greater Scale

Single Family MBS Issuance – 2005
($ in Billions)



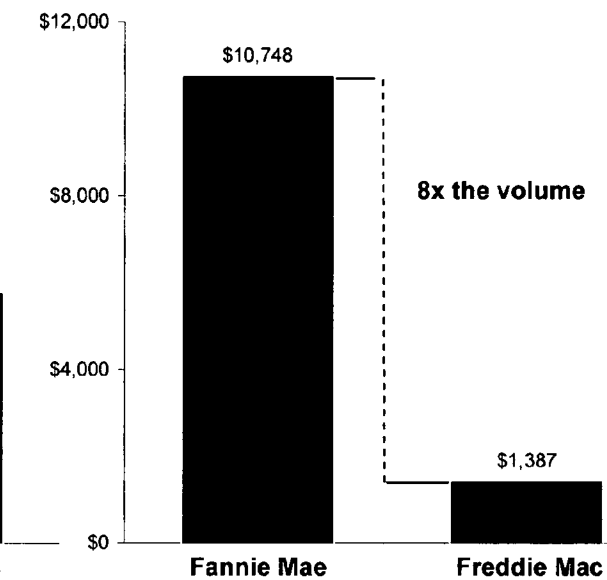
Equates to a 44% share for Freddie Mac

Single Family MBS Outstanding – 2005
($ in Billions)



Including the retained portfolios, Fannie Mae's mortgage portfolio is 40% larger ($2.3 T vs. $1.7 T)

TBA Trading Volume* – 2006
($ in Billions)



* 30-year fixed

Fannie TBAs trade with a disproportionately higher volume

Source: OFHEO 2006 Annual Report; TradeWeb

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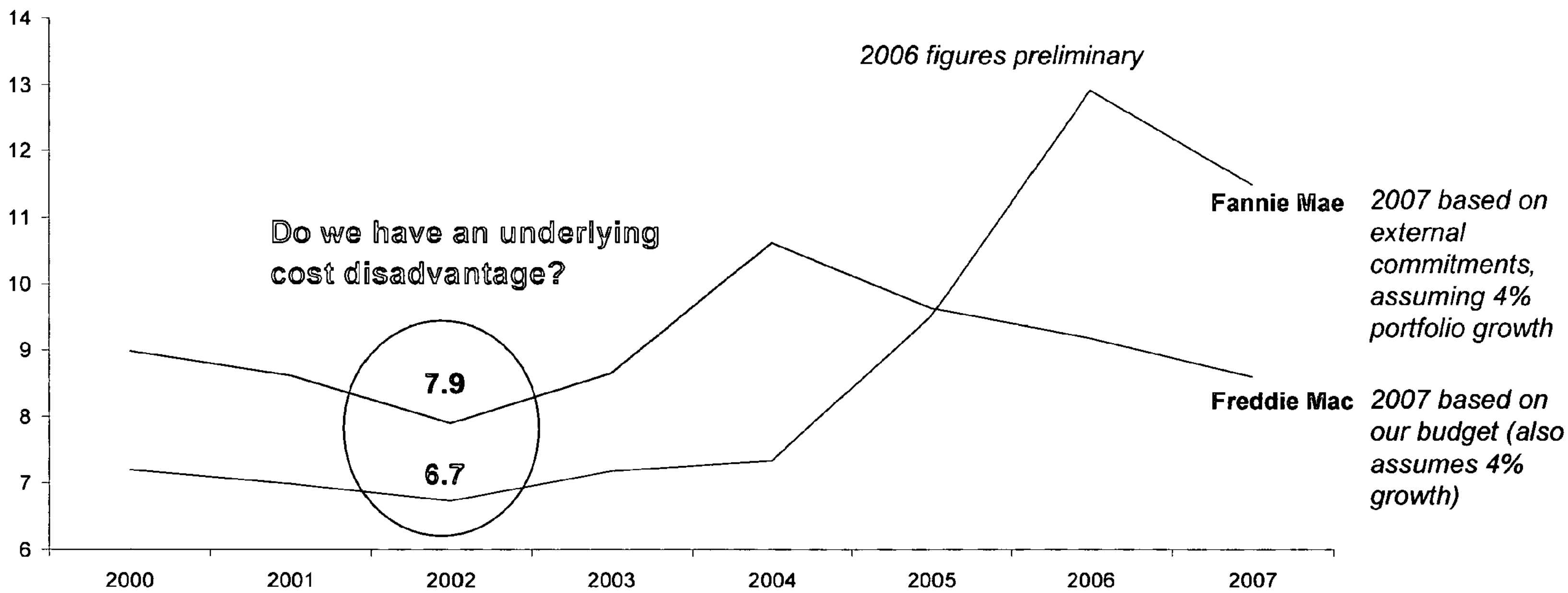
Our Expenses Historically Had Been Higher Than Fannie Mae's

While comparing FRE and FNM financials is difficult now, FRE traditionally has run at higher cost per unit of output (total mortgage portfolio)

Analysts agree (e.g., 5.0 bp G&A for FNM in credit guarantees, vs. 6.1 bp at FRE)*

Administrative expenses / average total mortgage portfolio** (bp)



* Morgan Stanley, "Fannie Mae, Freddie Mac, and the Road to Redemption," 7/6/2005

** Administrative expenses include salaries and benefits, occupancy, professional services, and other administrative expenses. Portfolio size is average of prior and closing-year balances.

Source: Company Financial Statements; BlackRock analysis

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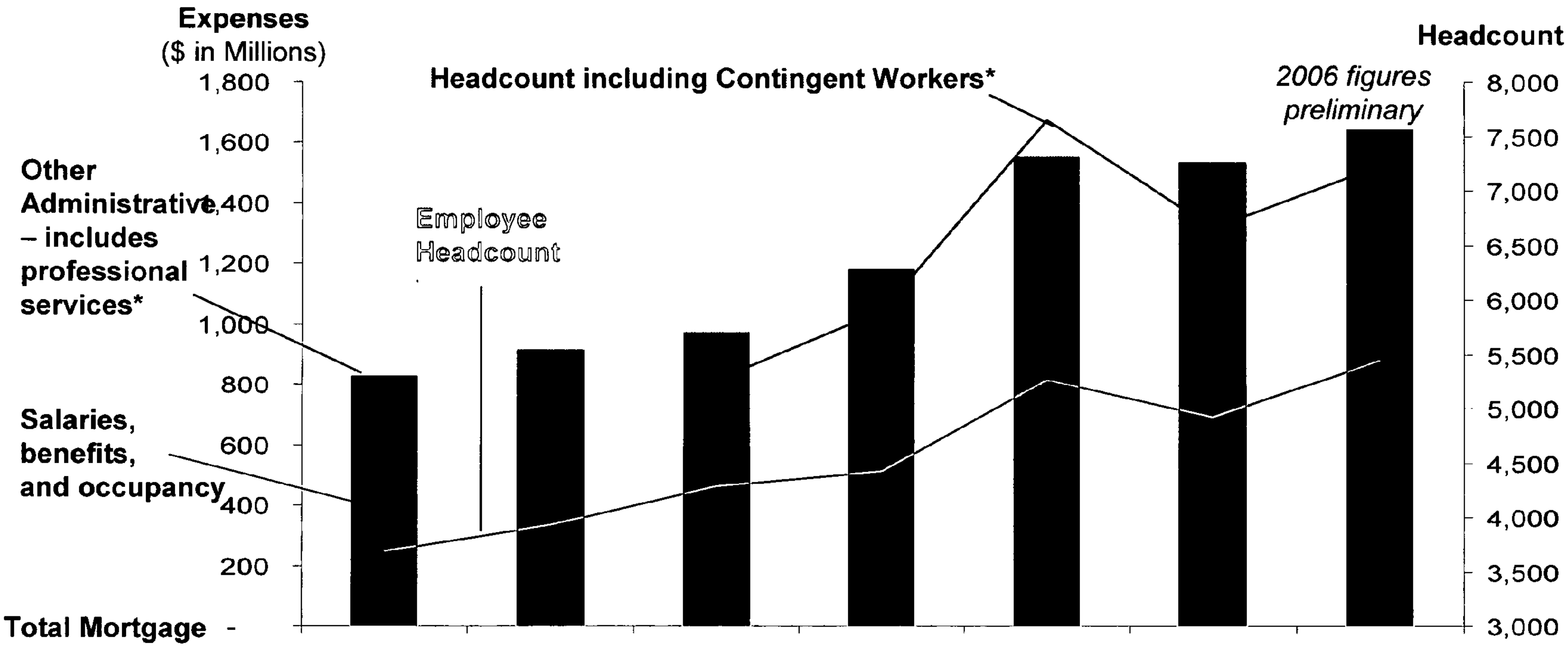
Rising Headcount Has Been a Driver

The surge in expense and headcount occurred 2002-04; portfolio growth has increased efficiency since then



	2000	2001	2002	2003	2004	2005	2006*
Total Mortgage Portfolio at year-end ($ Billions)	976	1,151	1,317	1,414	1,505	1,684	1,826
Administrative Expenses/ total mortgage portfolio (bp)	9.0	8.6	7.9	8.7	10.6	9.7	9.3

<u>2004 vs. 2006</u>
Portfolio +20%
G&A: +6%
Employee headcount: +3%
Contingent Workers: -25%

**Contingent Workers not available prior to 2002*
Source: Company financial statements; Internal Financial Management

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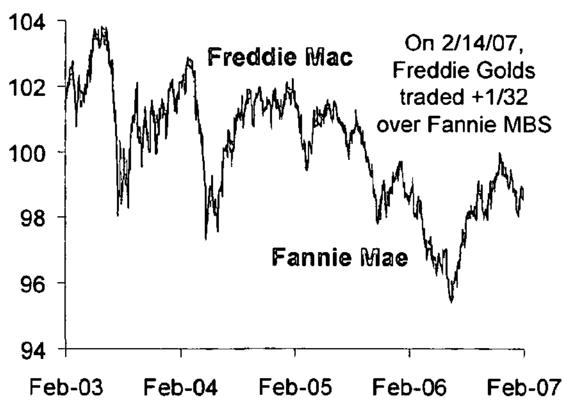
The Security Performance Gap vs. Fannie Mae Remains...

Freddie and Fannie securities trade roughly at the same price

Adjusting for timing differences, Freddie securities trade worse than Fannie's

Prices on 5.5% coupon, 30-year TBAs

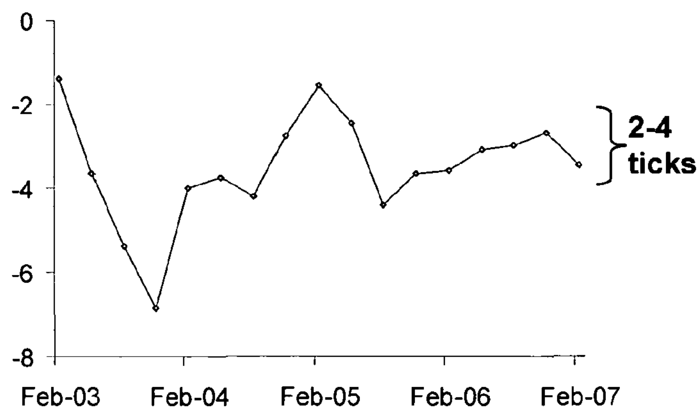


Source: Bloomberg

But Freddie securities are inherently more valuable

- We pay investors 10 days earlier (45-day payment delay for Freddie Golds vs. 55 days for Fannie MBS)
- 10 days of float are worth roughly 4.5 ticks in price

Price difference between FRE and FNM securities, assuming same delay
(in ticks)



* Based on a weighted average of 30- and 15-year single-class securities

Source: Mortgage Funding

In other categories (e.g., 15-years), Freddie securities also trade cheaper than Fannie's

The difference is the greater liquidity of Fannie securities – 8x trading volume vs. Freddie (TBA)

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... Which Leads to Higher Costs in Our Guarantee Business

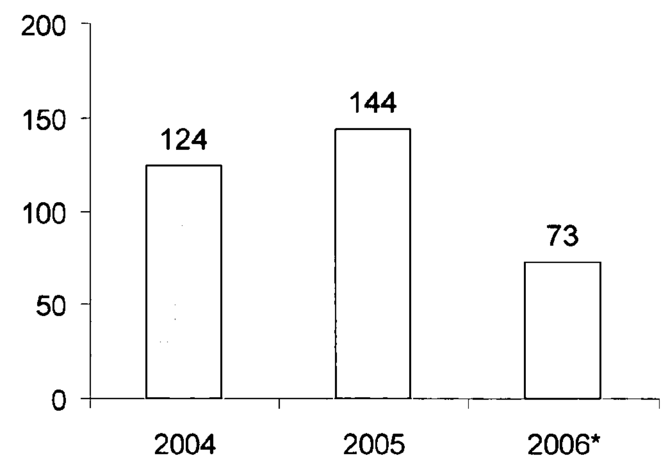
Security performance matters because it is the currency we use with originators for much of our guarantee business

The gap manifests itself in two ways:

1. We have to **lower our average** G-fees to compete with Fannie Mae
2. We also provide originators **variable discounts on G-fees** ("Market Adjusted Pricing") when FRE PCs trade 2+ ticks below FNM

1/32 in price
≈
1 bp in G-fee
≈
1% in ROE

Market Adjusted Pricing Costs ($ millions)



* Excludes December

Source: Mortgage Funding

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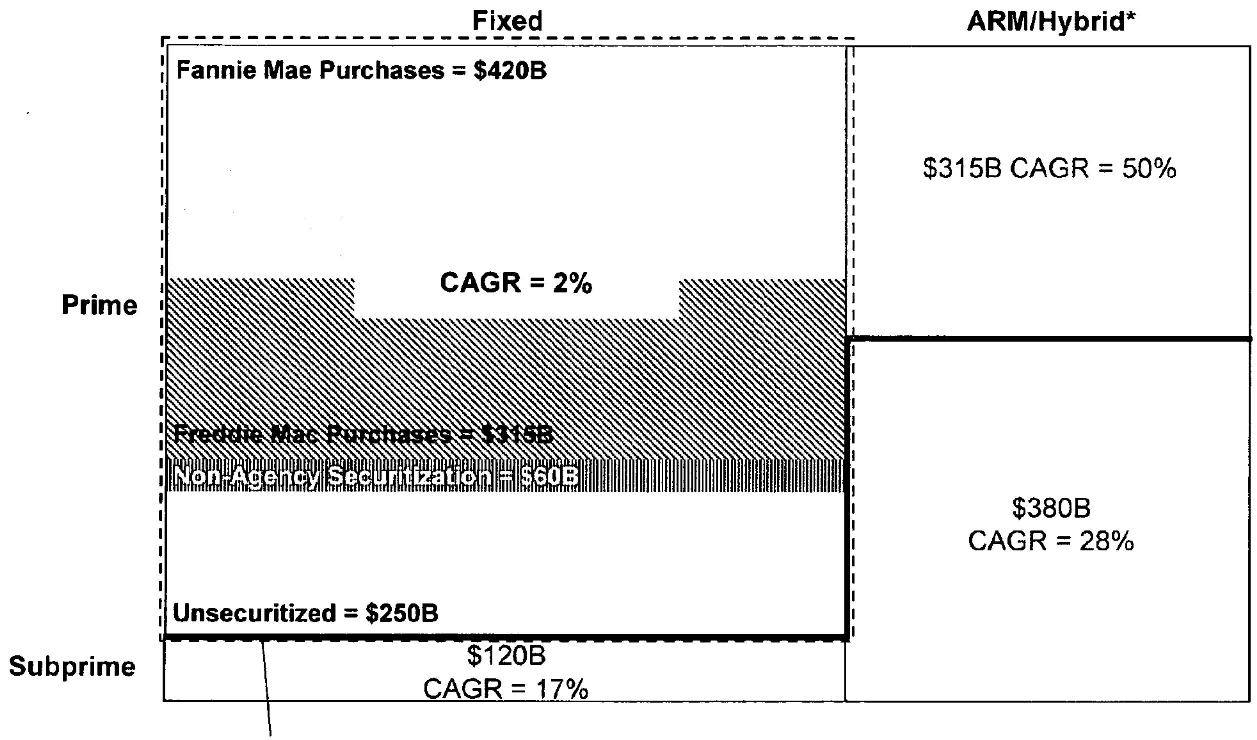
We and Fannie Mae Have a Strong Position in Prime Fixed Rate, But This Segment Has Lower Growth and Returns

2005 Conventional Conforming Originations
(100% = $1.9 Trillion, CAGRs are 2001-2005)



FNM and FRE bids are 2/3 of a point (20-24 ticks) typically higher than the best non-GSE bid

We and FNM have competed away returns in this segment (e.g., single digit ROEs for large customers)

Biggest threat to our position is that prime FRM continues to become less relevant in the mortgage market

* Includes index-based ARMs, Hybrids (3/1, 5/1, 7/1, 10/1, 2/28, and 3/27 product) and balloons
Sources: LoanPerformance LPS; OFHEO 2006 Annual Report; Freddie Mac Strategic Planning and BlackRock analysis

Adjustable-Rate Mortgages Have Been More Profitable, But Offer Limited Room for Growth

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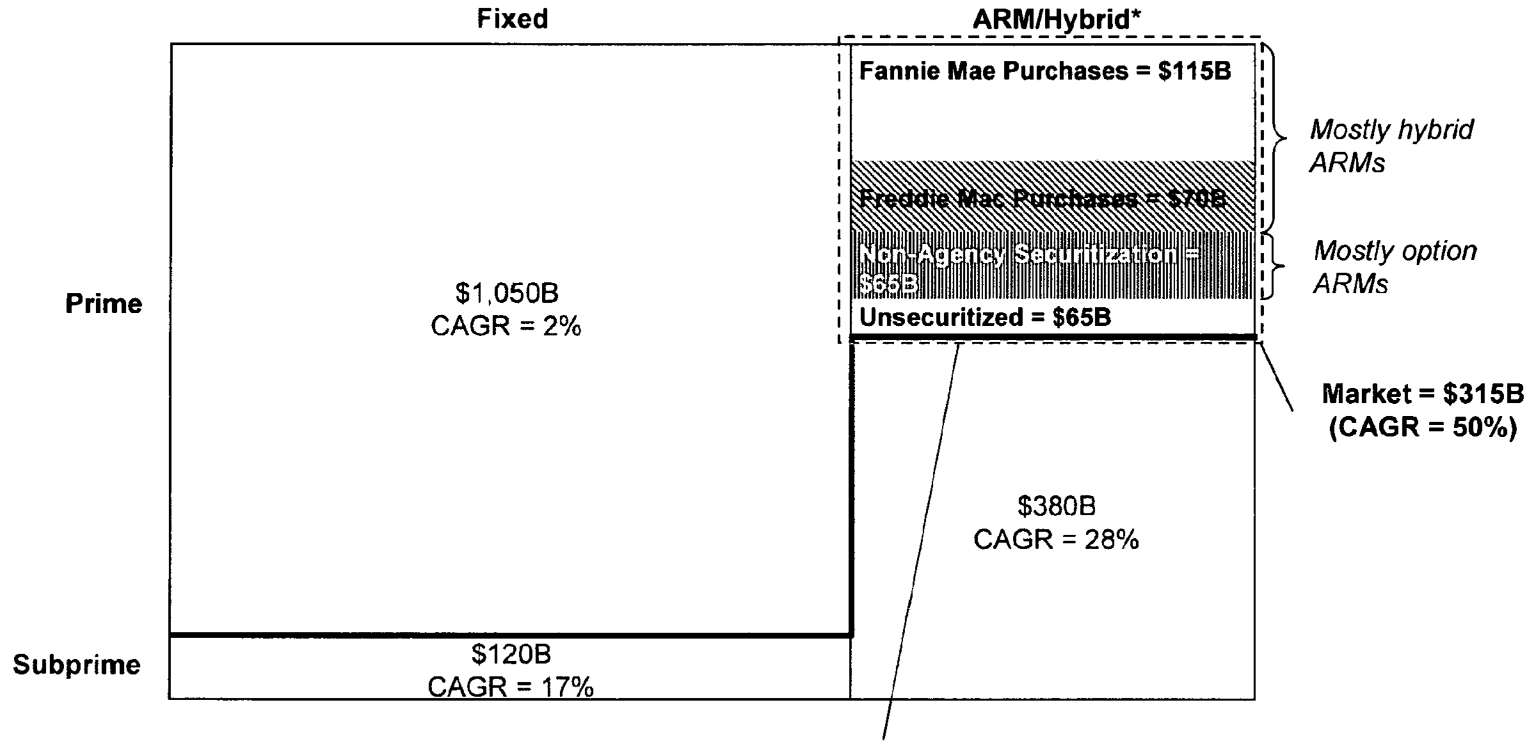
2005 Conventional Conforming Originations
(100% = $1.9 Trillion, CAGRs are 2001-2005)



ARM ROEs are ~20%, largely because we and FNM have not competed as aggressively as in fixed rate

We recently have filled a set of product gaps (e.g., hybrid ARM), leaving a remainder of 15-20% of prime ARM originations we cannot handle

Depositories retain large amounts of ARMs on balance sheet, limiting the size of the securitization market

* Includes index-based ARMs, Hybrids (3/1, 5/1, 7/1, 10/1, 2/28, and 3/27 product) and balloons
Sources: LoanPerformance LPS; OFHEO 2006 Annual Report; Freddie Mac Strategic Planning and BlackRock analysis

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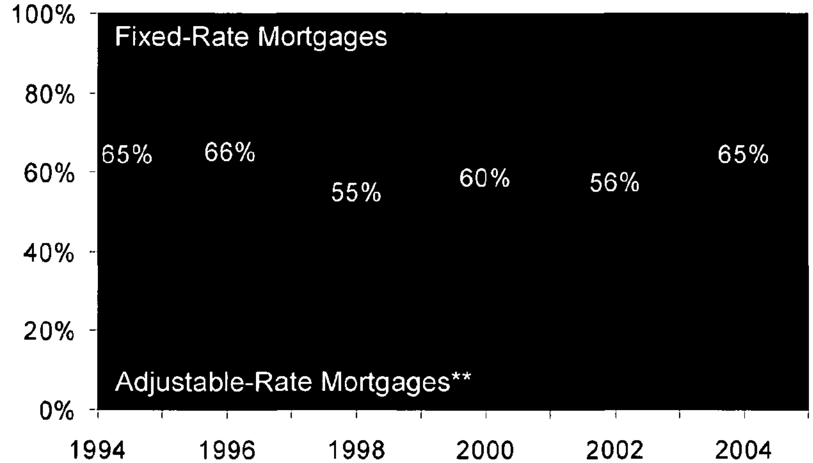
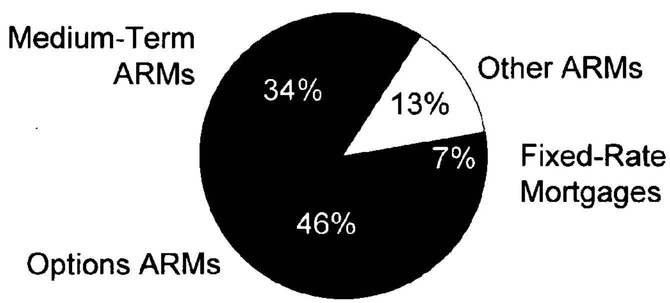
ARMs Are Retained by Depositories, Creating a Much Smaller Securitization Market

Mortgage Holdings for the Thrift Industry*



* Aggregate holdings of OTS-regulated institutions; includes both whole loans and MBS
** Includes balloon products

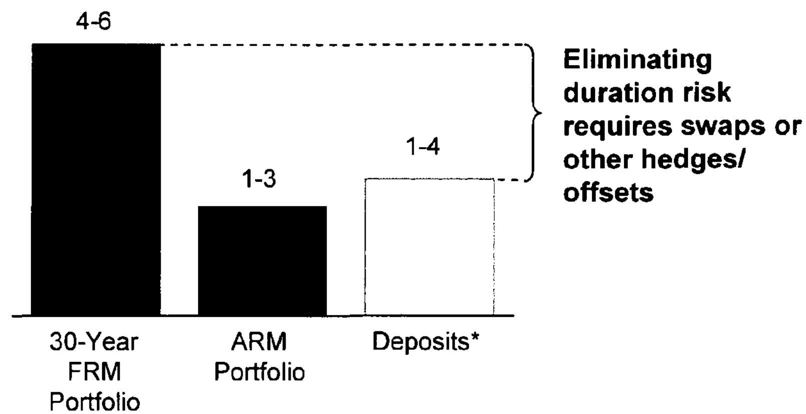
As an Example, More than 90% of Washington Mutual's Portfolio is ARMs* (100% = $140B)



* Single Family loans as of September 2006

ARMs Simplify Banks' ALM and Reduce Earnings Volatility (vs. Fixed-rate mortgages)

Typical Duration of Assets and Liabilities
(in years)



* Varies widely across banks - depends on the mix of deposits and behavioral assumptions

Fixed-rate mortgages also have high negative convexity, which requires swaptions or callable debt to hedge, and generates earnings volatility

Sources: Office of Thrift Supervision; Credit Suisse, "Mortgage Finance: 2007 Industry Outlook"; BlackRock Analysis

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Some Large Customers Have Become Unprofitable

With some large clients, we compete just on pricing, because they don't want to sell us:

- AAA-rated ABS on production where we don't like the credit
- Servicing related assets (unlike other clients)

The result is low-margin business for us

Representative Client's Contract Economics	Actual FY 2006	Projections** Drop G-fee 1.0 bp	Drop G-fee 1.0 bp & 3/4 pt subsidy
Flow Pricing (w/ subsidy*) in bps			
30 year amortizing	13.5	12.5	11
30 year IO	19.8	17.5	16
5/1 ARM amortizing	6.0	6.0	6.0
5/1 ARM IO	11.0	9.0	9.0
Flow Product Mix			
30 year %	68%	73%	73%
ARM %	22%	16%	16%
Flow ROE (point estimates)			
30 year	4%	4%	3%
ARM	25%	25%	25%
Total Client Business	**6%**	**6%**	**5%**
Client's Share of GSE Purchases	6%	8%	8%
FRE's Share of GSE Product	11%	25%	25%

We will likely have to cut G-fees to maintain share

Thin margins on 30-year product

ROEs below our hurdle rate

* Aggregate G-fee equivalent of subsidy on affordable-rich population estimated as price / DVO1 x 7.5% of business
Thus: 3/4 point subsidy equates to aggregate 1.25 bp G-fee cut: 75 bp price / 4.5 x 7.5%

** Used Aug-Sep 06, during which more significant client volumes were purchased, as benchmark.
Note: Assumed YTD06 corporate average spread impacts for projection purposes, and zero CEs in default cost estimates

Source: Single Family

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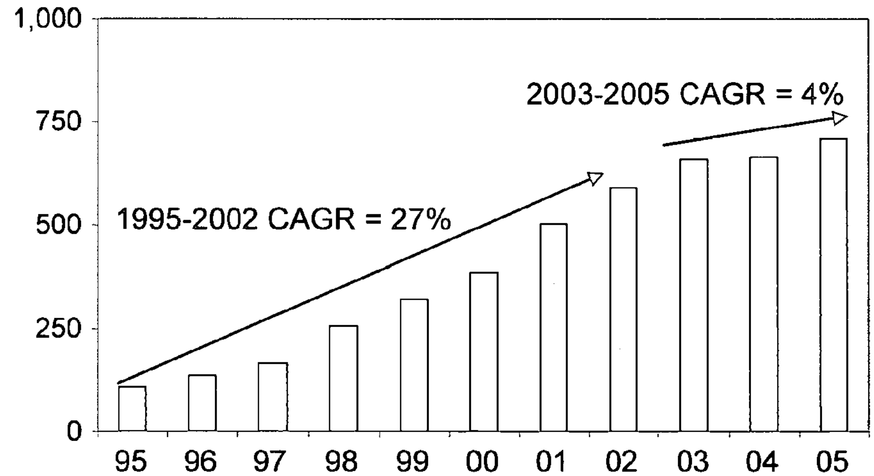
The Retained Portfolio Does Not Appear Poised To Be the Engine of Growth

The rapid growth and profitability of the 1990s is unlikely to be repeated

- **Regulatory/political pressure** on portfolio size (whether formal cap or implied)
- **Spreads have tightened**, apparently on a secular basis, driven by entry of new class of MBS buyers (Asian central banks, hedge funds, and continued U.S. bank purchasing)
- **Implied volatilities are much lower**, reducing compensation for volatility/convexity risks

~15% ROEs expected but at slow growth (4%, lagging the market); wider spreads would create more purchase opportunities

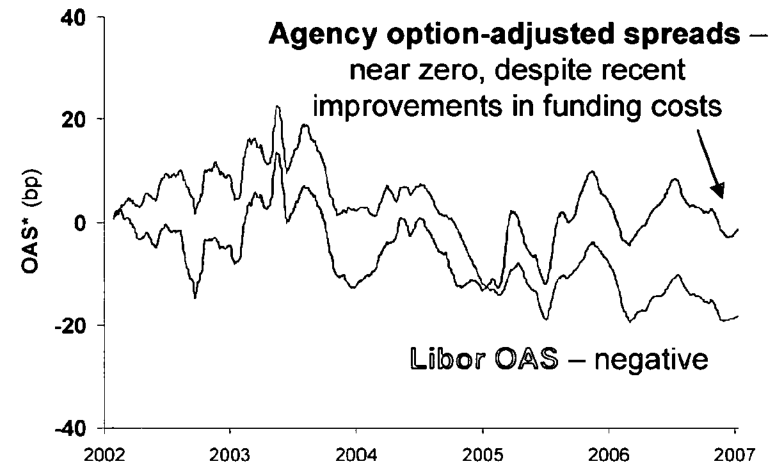
Retained Portfolio Growth Slowing ($ billions)



Source: OFHEO 2006 Annual Report

Mortgage Debt Outstanding 2003-2005: 13% CAGR

Mortgage Spreads Are Tight



* 20-day moving average
Source: LehmanLive

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Absent Wider Spreads, We Have Two Levers to Improve Retained Portfolio Profitability

1. **Deploy new instruments or techniques to meet pockets of demand**
   - Reference REMICs
   - Guaranteed Final Maturity securities
   - Excess servicing IO
   - Structured debt (issued $13 billion in 2006, mostly range accrual notes)
   - Debt buybacks

We are pulling this lever today:
- Aids G-fee business/relationship with originators (seeking solutions, not just lowest price)
- Will yield incremental gains

2. **Increase market risk-taking**
   - Reduce hedge coverage (duration, convexity, volatility, yield curve)
   - Trade assets more actively
   - Return to in-house dealer model (e.g., SS&TG)

Taking more market risk raises several strategic questions – see next page

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Increasing Market Risk Raises Several Strategic Questions

Can we expect higher expected returns from assuming more risk (and which kinds?) – and by deploying what competitive advantages?

Are we prepared for the increased volatility of returns?

What regulatory/political response, if any, should we anticipate?

How do the returns – and the risk – compare to strategies that take on more credit risk?

Example: Additional Risk From Increasing Market Exposure

	Duration (months)	**Convexity** (months)	**Volatility** (equity-at-risk*)	**Yield Curve** (equity-at-risk*)	**Total** (equity-at-risk in $ Millions*)	
2007 Planned Position	0.5	3.0	0.5%	0.5%	715	3.0%
Management Limit	1.0	4.0	1.5%	1.5%	1,540	6.0%
Board Limit	3.0	6.0	2.5%	2.0%	2,940	11.0%

Anticipated losses 1-2 times every two years

We have the capacity to take more market risk... but choose not to, given current risk/return trade-offs

* One month equity-at-risk, 95% confidence level
Source: 2007 ALM Plan

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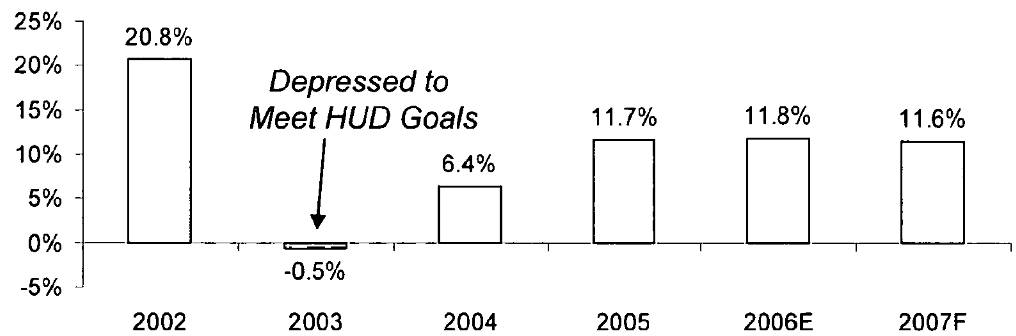
Multifamily Faces Low Returns, Similar to Single Family

Multifamily faces business challenges not unlike Single Family

- Buys and holds low risk (AAA), larger loans ($10-12 million)
- Has saturated target market (30% share of high-quality conventional)
- FNM's business is roughly twice as large, and is already active where we hope to expand:
    - Smaller loans
    - Riskier loans (which they structure and securitize as a conduit)
- Ex ante ROEs hovering below corporate goals (11%-12%)

Multifamily Ex Ante Purchase ROEs



Source: Freddie Mac Multifamily "2007 Operating Plan"

Note: Unlike Single Family, Multifamily purchases are typically housing goal-accretive

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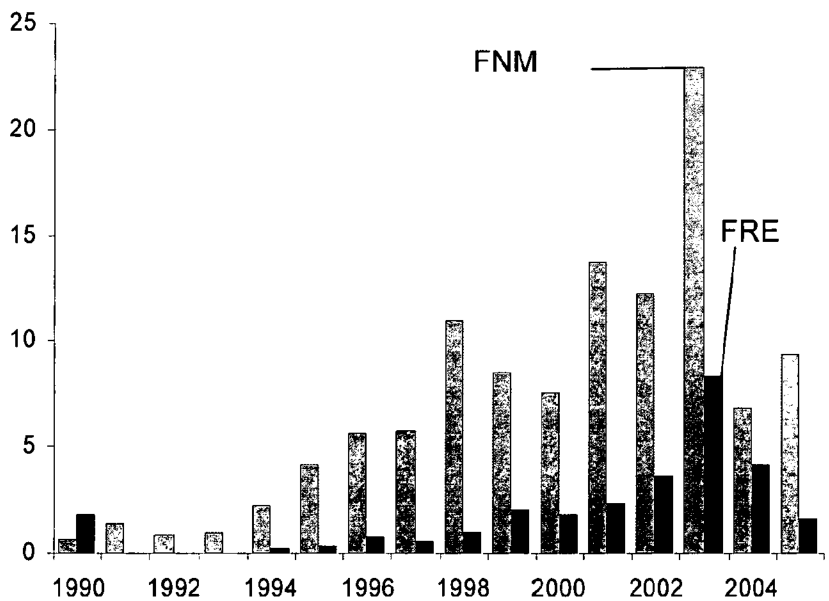
Multifamily Faces Even Greater Competitive Disadvantages vs. FNM

Fannie Mae has pursued a two-fold strategy of
- Buying for the portfolio (roughly 2x our purchases)
- Structuring and securitizing credit risk

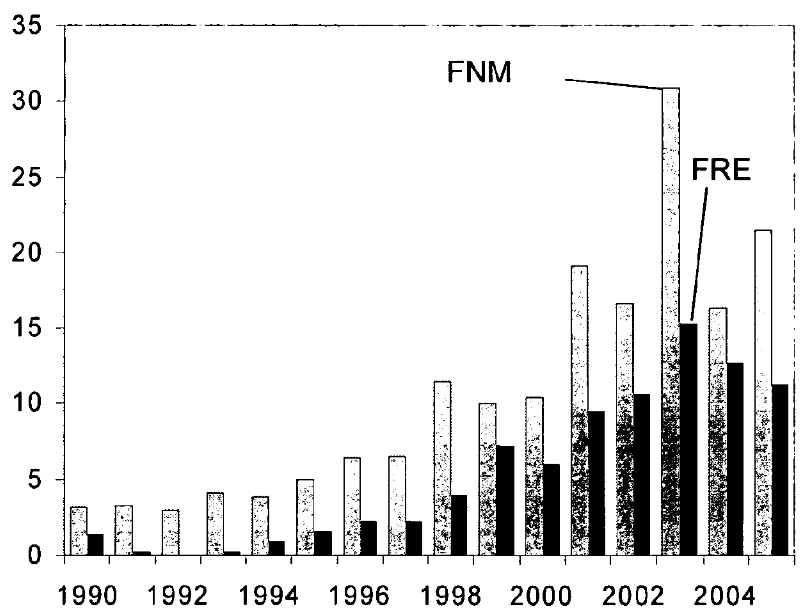
We have traditionally just bought-and-held (in '06, we launched our first credit securitization)

Multifamily MBS issuance (in $ billions)



Source: OFHEO 2006 Annual Report

Multifamily purchases (in $ billions)



Source: OFHEO 2006 Annual Report

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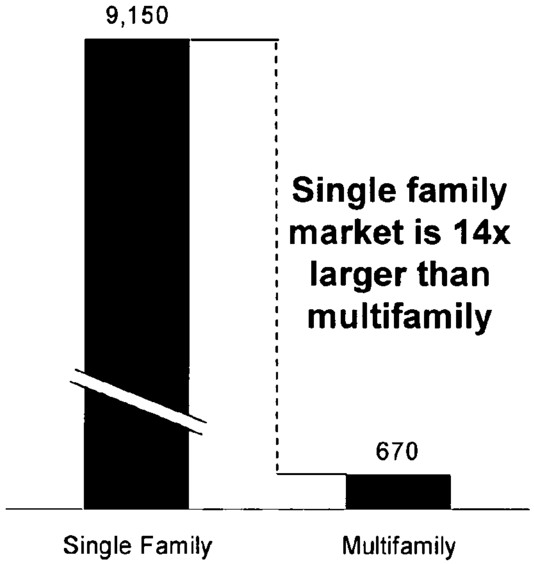
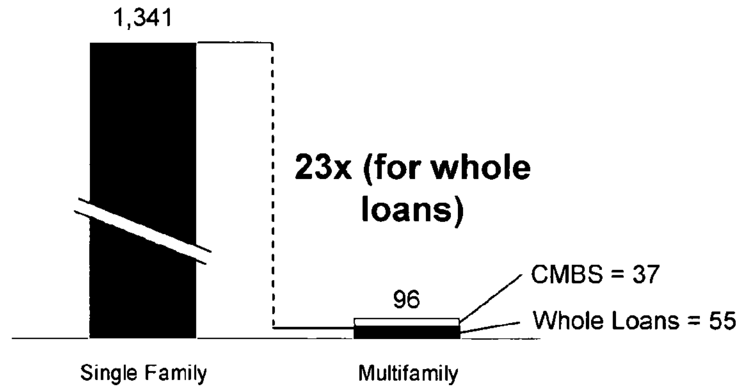
The Multifamily Opportunity Is Too Small to Drive Overall Profitability

The Overall Market Is Much Smaller*
(MDO in $ Billions)



* As of 12/31/05
Sources: Mortgage Banker Association

Our Holdings Are Commensurately Smaller*
($ Billions)



* As of 12/31/05
Note: Sum includes Guaranteed PCs, Structured Securities and Mortgage Loans in the Retained Portfolio for both Single Family and Multifamily
Sources: Freddie Mac 2005 Annual Report; Freddie Mac Multifamily "2007 Operating Plan"

II

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II. Opportunities to Improve

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There Appear to Be Few Other Opportunities to Grow Within Our Existing Franchise

The main opportunity within prime credit – origination – is outside the charter

There are potential slivers of value elsewhere, but none is transformational

Mortgage value chain

	Origination	Aggregation / Pooling	Structuring / Issuing securities	Distribution	Investing
Prime credit	Prohibited by charter	Captured by originators	**Single Family** Comparative advantage in creating securities (liquidity premium)	Captured by dealers	**Retained Portfolio** Comparative advantage in funding costs

Aggregating (from smaller originators to create attractive whole loan packages)
- Would put Freddie Mac in direct competition with large customers (e.g., Countrywide)
- Large servicers are offering aggressive bids

Pooling (creating pools of particular interest to investors)
- Any value captured by Freddie Mac would likely be offset by lower G-fees (efficient market for loan pool attributes)
- Operational risk in handling loans

Distribution of securities – would require:
- Hiring large and highly compensated salesforce
- Risk
- Displacing incumbents (i.e., broker-dealers)

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We Are Pursuing Opportunities to Improve Our Existing Franchise

Increasing market or credit risk	Deploy some of our excess fair value capital
Managing G&A	Increase efficiency (G&A as basis points of mortgage portfolio) as we emerge from financial remediation
Improving security performance	Create security fungibility to improve our funding costs relative to Fannie Mae

Addressing the latter two (structural disadvantages) is a necessity before we can aim to achieve greater market share

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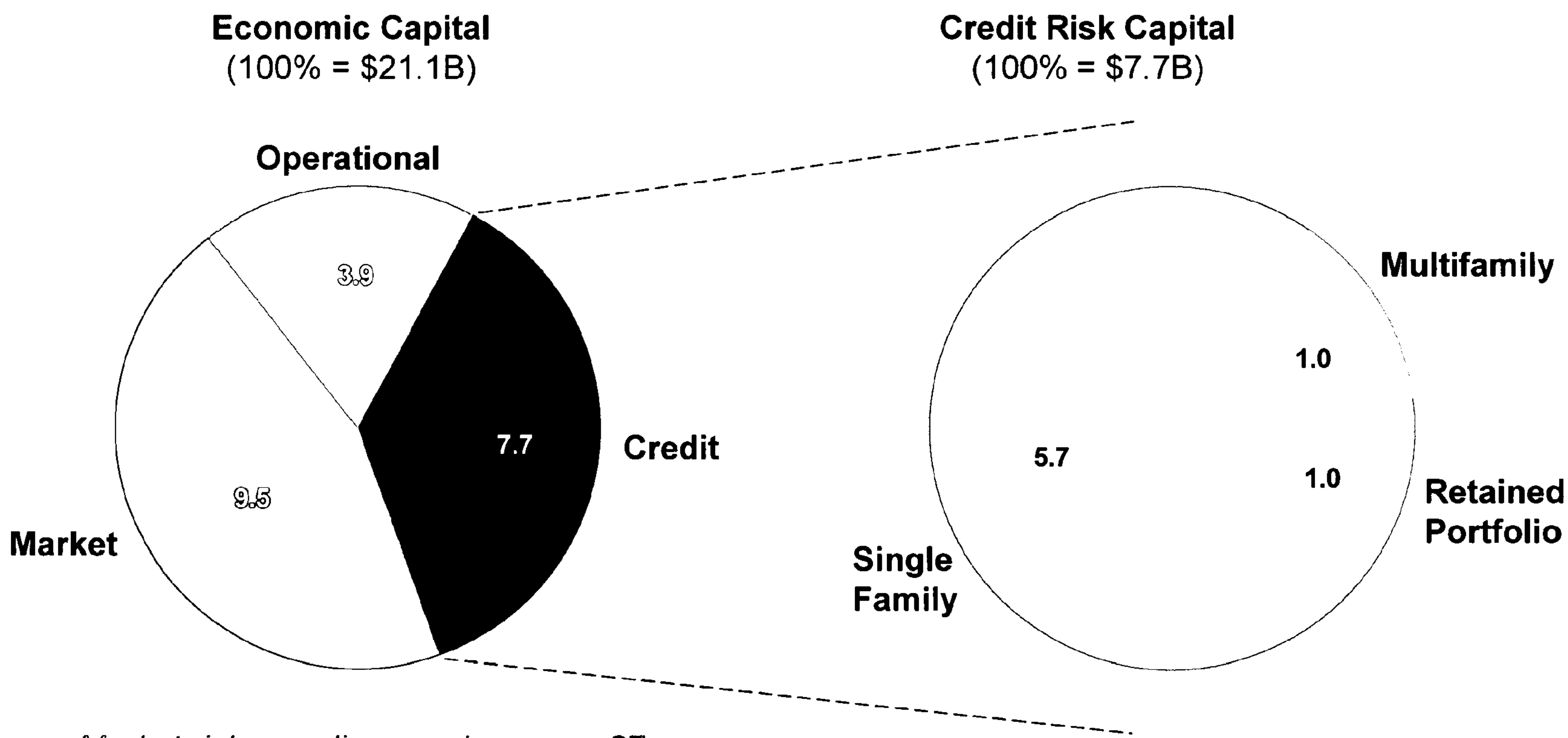
We Could Take More Market or Credit Risk in Our Existing Franchise

We have $10.3 billion in excess fair value capital ($5.4 billion above our targeted surplus) we could deploy



Market risk was discussed on page 27

Note: As of 11/30/2006
Source: Economic Capital Adequacy Report

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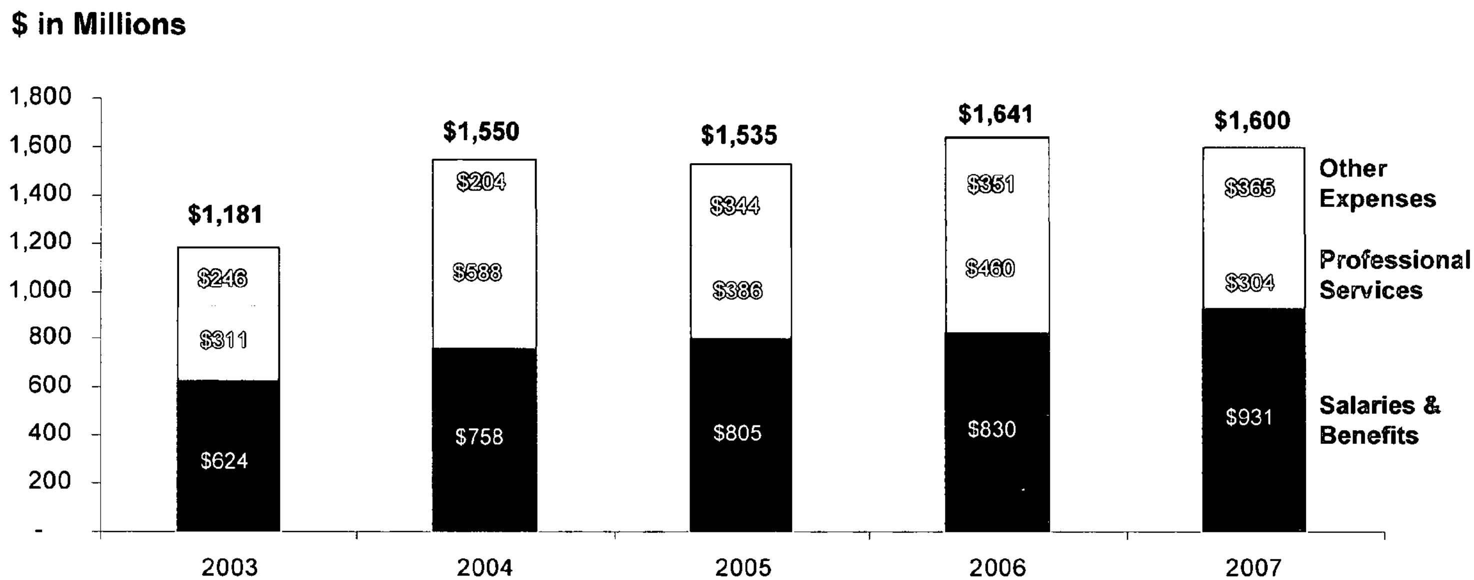
G&A Expenses Are Budgeted to Fall in 2007



- We have held the line on overall G&A growth from last year
- A certain level of Professional Services spending has now been embedded in Salary spending
- We should see a natural decline in Professional Services costs as we exit systems development phase and move into more of a maintenance mode

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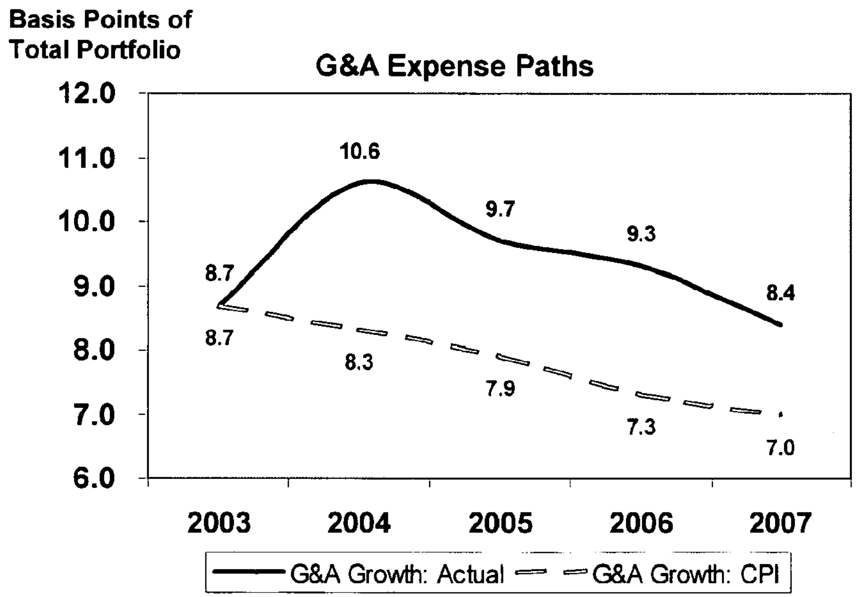
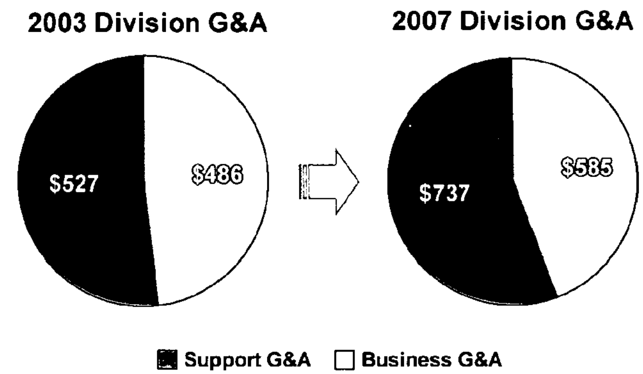
What Are Opportunities for Efficiencies?





Spending Ratio – Support : Business

2003	2007
1.1 : 1	1.3 : 1

- We gain more leverage if we grow total G&A at less than total portfolio growth
- From 2003 through budgeted 2007, support G&A increases relative to business G&A
- Certain costs will naturally decline, for example, consulting and audit fees
- We should also expect efficiencies from major system implementations

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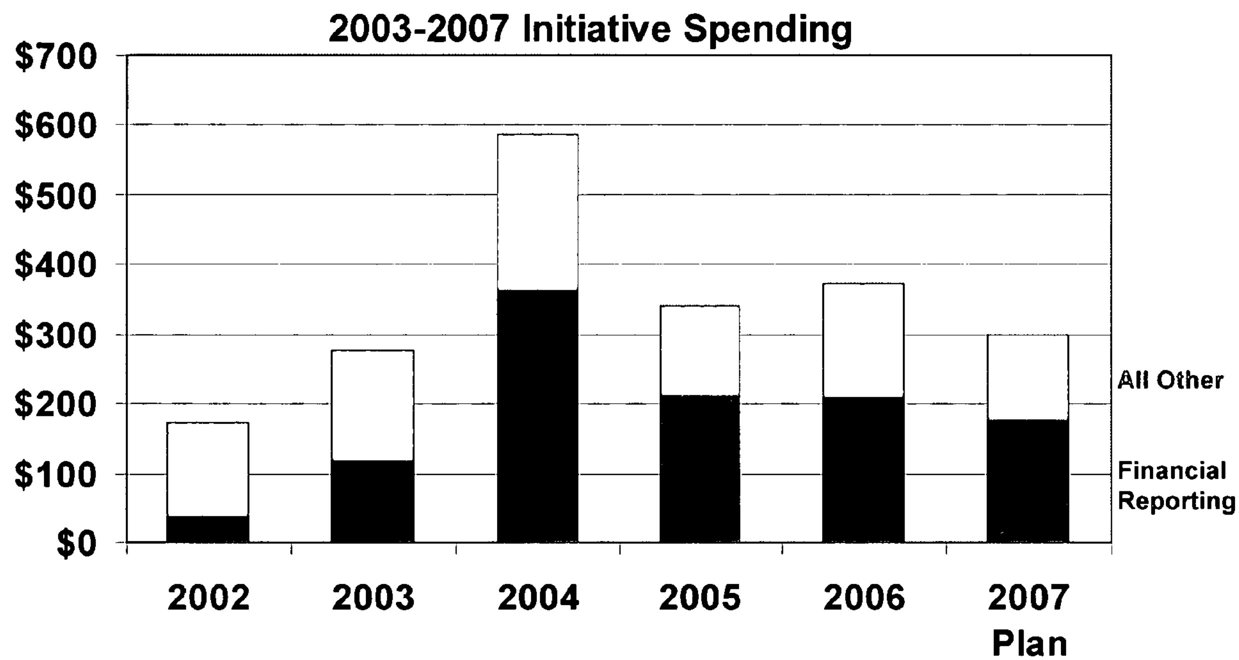
What Is The Right Level and Composition of Spending on Technology?



- Spending on financial reporting should decline over time
- The level of spending required to support business platform development is uncertain

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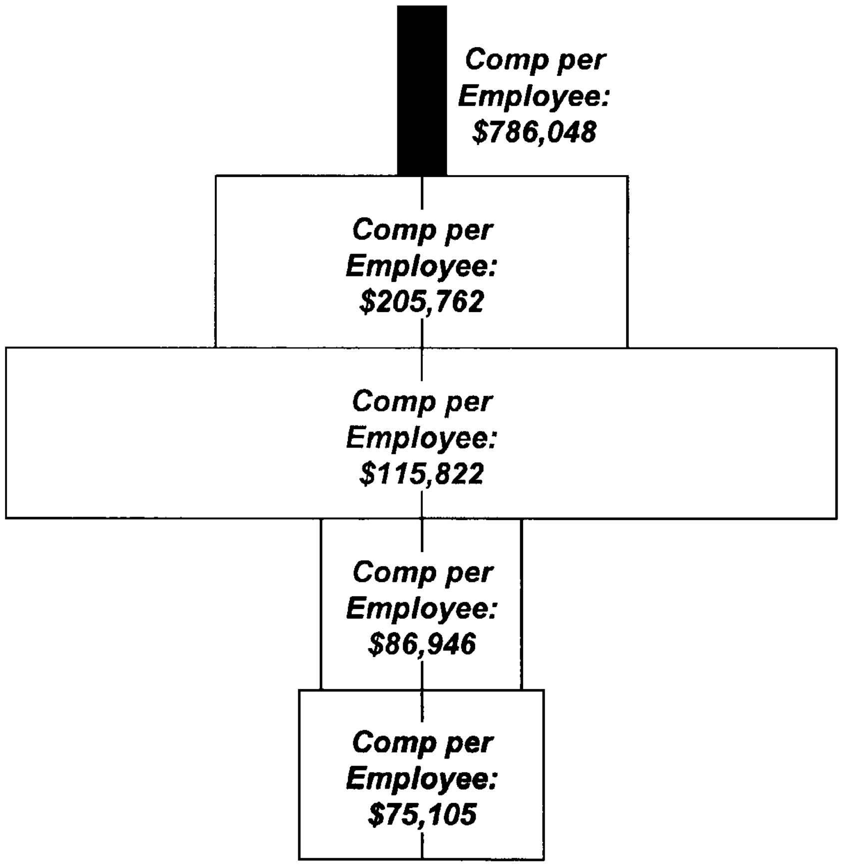
Freddie Mac Organization Structure and Compensation Costs

As of December 31, 2006



Notes: 1. Based on year end headcount
2. Hierarchy (from top): Officer, Director, Manager, Professional, Non-Exempt
3. Compensation per employee allocated above does not include expenses for sign-on bonuses, severance, termination agreements, discretionary stock expenses, retention bonuses, sales bonus programs, or CEO/COO compensation.

Source: Human Resources

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Freddie Mac Organization Structure and Compensation Costs, cont.

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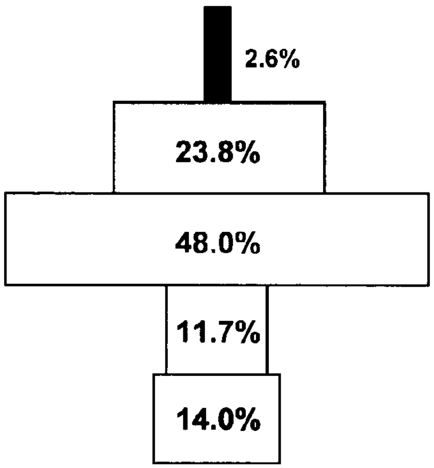
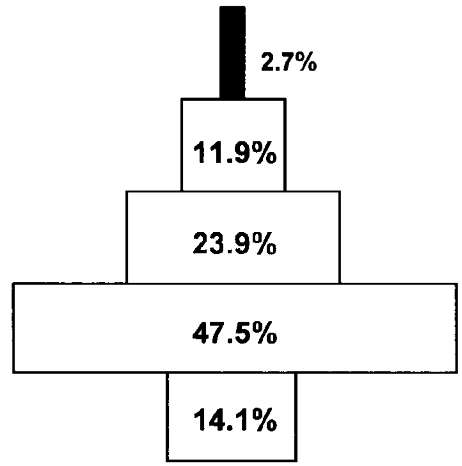


More Typical "Pyramid" For a Complex Financial Organization



Drivers of Freddie Mac's top-heavy organization structure:

- Grade system forces manager to use leader titles to deliver higher compensation
- Sub-optimal technology infrastructure increases need for highly paid subject-matter experts
- Low rate of entry-level hiring results from:
  - Demand for highly experienced personnel to solve short-term remediation/infrastructure crises
  - "Over-hiring" – risk averse to train/develop entry level personnel
- "Premium pay" has been required to compensate for perceived unique job-security "risk"

Source: Human Resources

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Impact of Improving G&A Efficiency on Single Family ROE Gains

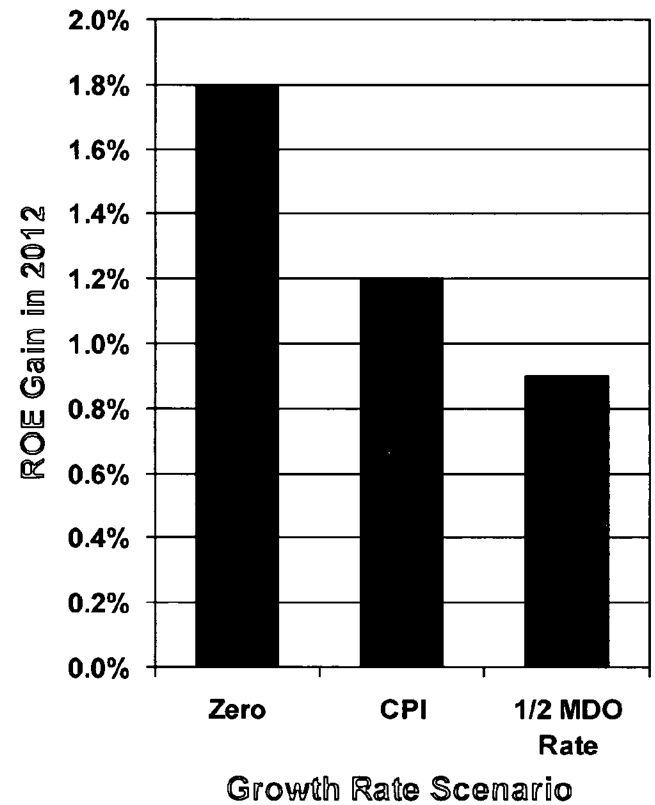
In 2007 we have a lot of preparatory staff work to do

- Diagnostics of underlying cost drivers
- Functional-level external benchmarking
- Assessments of feasibility and impact of changes

We will return to the Board in the fall with:

- Vision for the expense structure in 2008 and beyond
- Prioritized levers for improvement
- Initial action plans

Potential SF ROE Impact by G&A Growth Rates



Source: Internal Freddie Mac Estimate

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What Can Be Done to Close the Security Performance Gap with Fannie Mae?

Closing this gap has been a long-running aspiration (e.g., SS&TG, portfolio management initiatives)

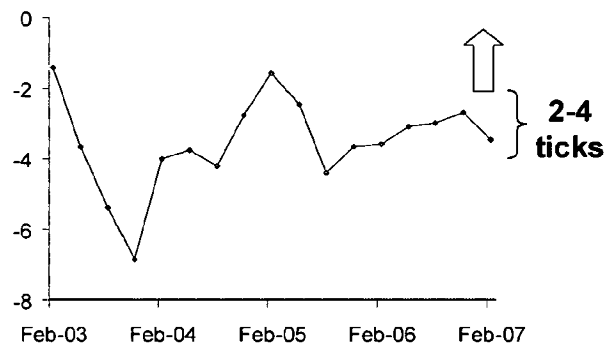
We believe that the only opportunity to address this permanently is <u>security fungibility</u>

- Eliminate differences between securities (match FNM payment delay of 55 days)
- Create standing offer to take delivery on FRE *or* FNM securities ("Agency TBA delivery")
- We could apply payment change just to new securities, or existing 45-day securities as well

This strategy rests on the premise that we can:

- Get market to value increased liquidity provided by trading the combined GSE market
- Minimize transitional costs and maintain liquidity

Price difference between FRE and FNM securities, assuming same delay (in ticks)



* Based on a weighted average of 30- and 15-year single-class securities

Source: Mortgage Funding

Even if successful, the strategy will take years to bear full fruit

- Rewiring FRE platform
- Altering market conventions

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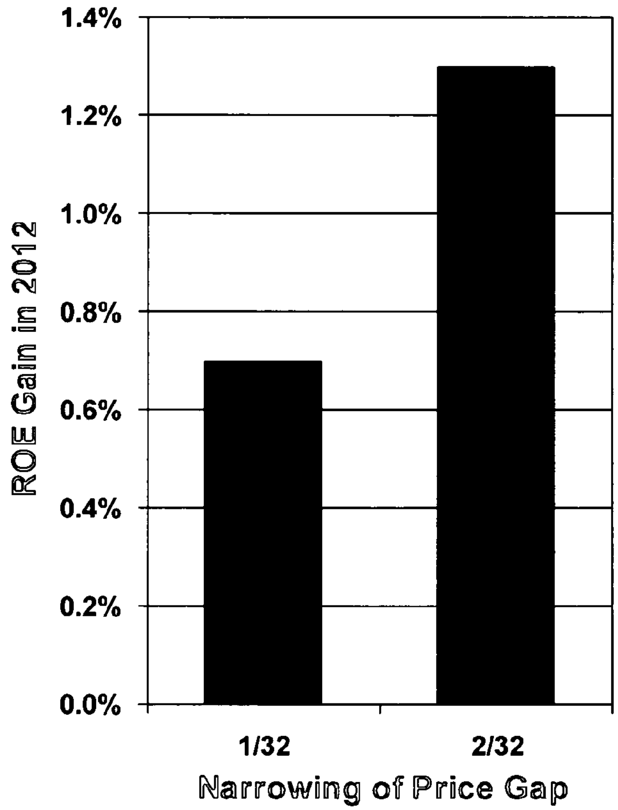
Partially Closing the Gap Would Bring Significant Returns

Potential Impact on Portfolio ROEs
(Change Applied to New Securities Only)



2 tick improvement on new guarantee business = 2% ROE gain

Projections are illustrative, and assume:

- Full implementation in 2007 (not feasible)
- Immediate liquidity gains on new securities

Note: All estimates assume SF portfolio grows at 8% per year (in line with market MDO)
Source: Internal Freddie Mac Estimate

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We Will Need to Re-Wire Our Infrastructure

Our systems are hardwired for a 45-day delay – we will need to reconfigure

Servicers and service bureaus will need to follow suit

	Necessary Implementation Steps	Resources required
Front Office	Marketing Activities	○
	Costing and Pricing	○
	Portfolio Management	○
Acquisition	Contracting & Loan Setup	○
Fulfillment	Loan Delivery / Certification / Funding	○
	Cash Pooling	○
	Security Trade, Confirmation, Delivery, and Validation	○
	Security Setup	○
	Trade and Security Settlement	○
Asset Management	Loan Administration	○
	Security Administration	○
	Default Management	N/A
Finance	Forward Commitment Accounting	○
	Loan Purchase Accounting	○
	FAS 140 / FIN 45 or Valuation Accounting	○
	Security Purchase and Sales Accounting	○
	Portfolio Accounting	○
	Financial Reporting and Disclosure	○
	Tax Returns	○
	Management, Regulatory and Performance Reporting	○

○ Low
○ Medium
○ High

In 2007, we have funded a small internal team to assess infrastructure feasibility

III

III. Adjacent Markets

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Recent Events and Freddie Mac's Involvement in Subprime

The subprime market has grown swiftly over the last five years

A significant retrenchment is underway (market pullback, regulatory pressure)

Our involvement to date has been buying AAA tranches of others' securitizations

We have taken steps to avoid abusive lending practices and provide market leadership

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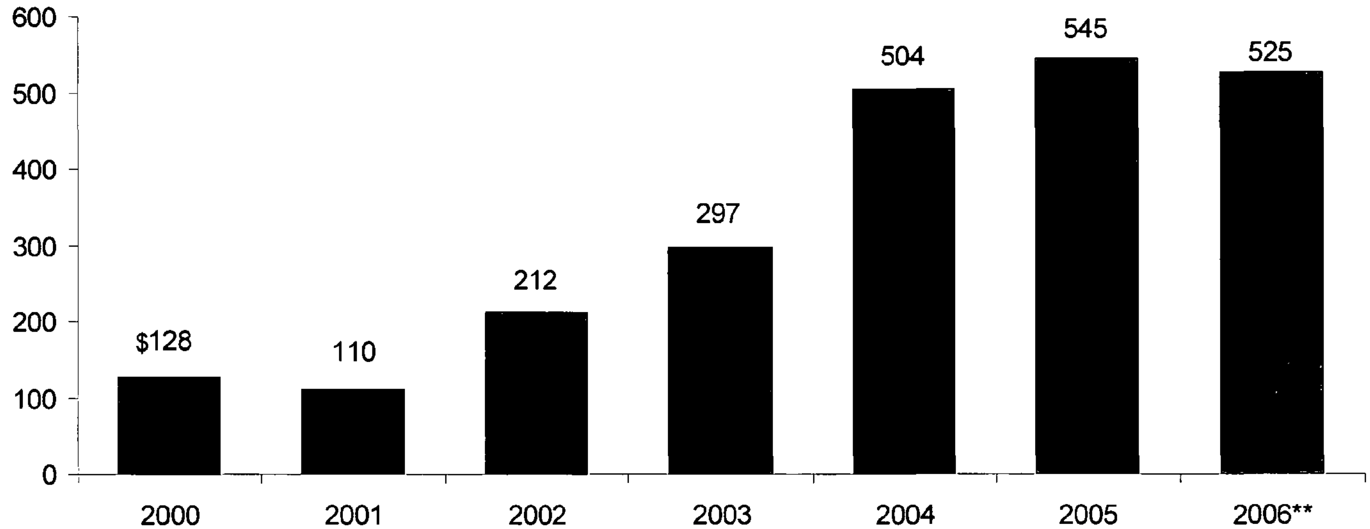
Subprime Has Grown Rapidly Over the Last Five Years

Subprime Conforming Originations ($ in Billions)



Subprime as a % of conforming originations	**18%**	**7%**	**10%**	**10%**	**24%**	**28%**	**29%**

* 1H 2006 annualized
Note: Subprime includes second liens and manufactured housing

Sources: Freddie Mac Strategic Analysis; Inside Mortgage Finance; MBA Mortgage Finance Forecast (January 2007)

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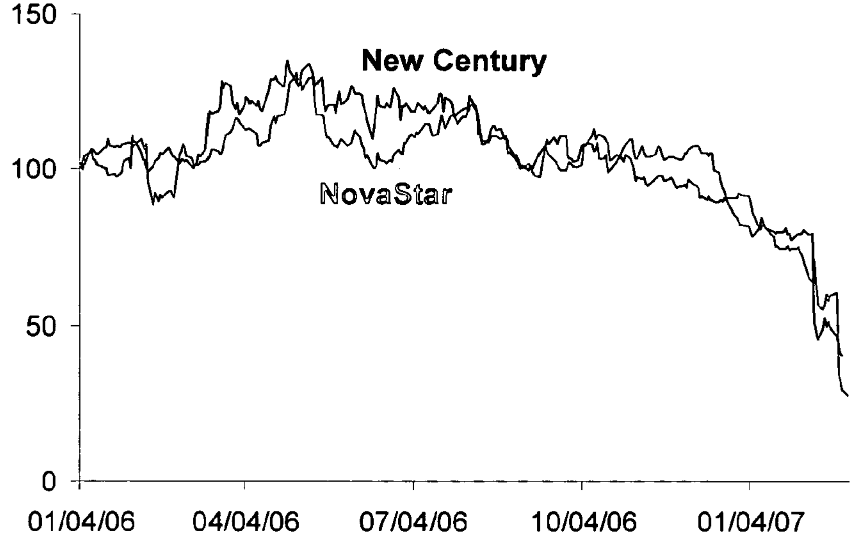
A Significant Retrenchment Is Underway

Stock Prices of Subprime Lenders
(indexed to 100)



Source: Bloomberg

Major lenders have announced credit problems

- **HSBC** announced $1.8 B in additional loan loss reserves (Feb. 2007)
- **New Century** is restating 2006 earnings downwards for insufficient reserves to repurchase loans (Feb. 2007)

More than 20 subprime lenders have gone out of business, most after being forced to buy back "early payment defaults," i.e., loans becoming delinquent in *first three months*

Still other lenders are up for sale, e.g., Ameriquest, Option One

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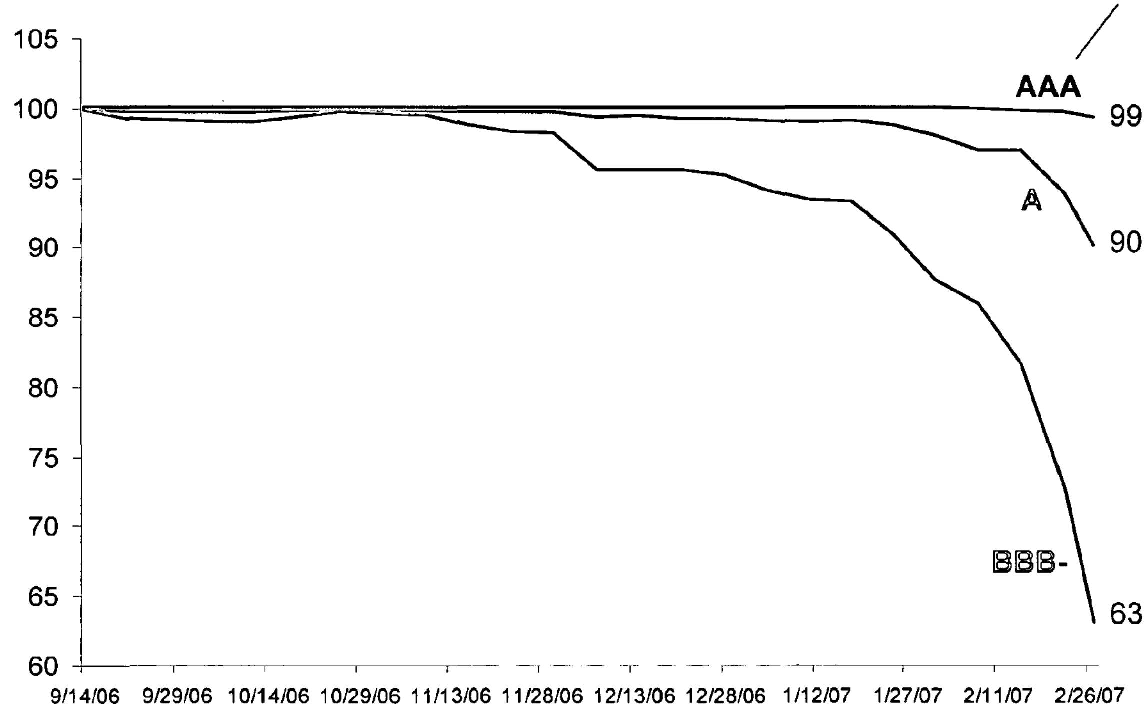
Investors Have Started to Retreat on Credit Fears

Value of Credit-Exposed Bonds Has Fallen Sharply in Recent Weeks (ABX index*)



Little impact on our ABS holdings

Liquidity is drying up

- Whole loan prices are falling
- Pipelines must be sold / marked at a steep loss
- Most originators hold residuals, subordinate tranches, or whole loans that must be written down

Note: Index represents 20 large subprime ABS deals issued in the first half of 2006

Sources: JP Morgan Securities; Markit

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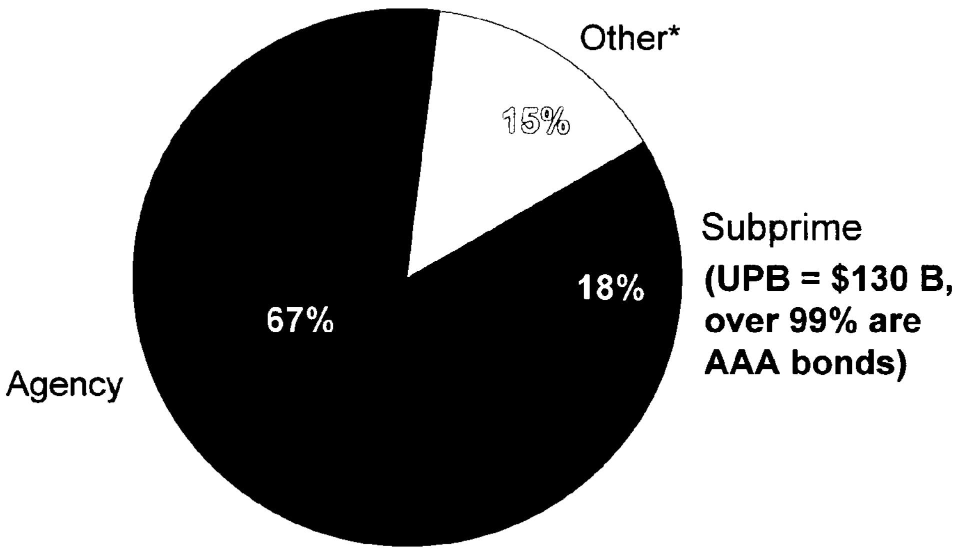
We Participate in Subprime Through AAA Bonds Held in the Retained Portfolio

Assets in Retained Portfolio
(as of 2/19/07; Total UPB = $730 B)



We decided to purchase subprime only where we could lay off the credit risk – buying AAA bonds of others' securitizations instead of whole loans

* Includes CMBS, Alt-A, Option ARMs, Manufactured Housing, Mortgage Revenue Bonds, and HELOCs

Source: Freddie Mac

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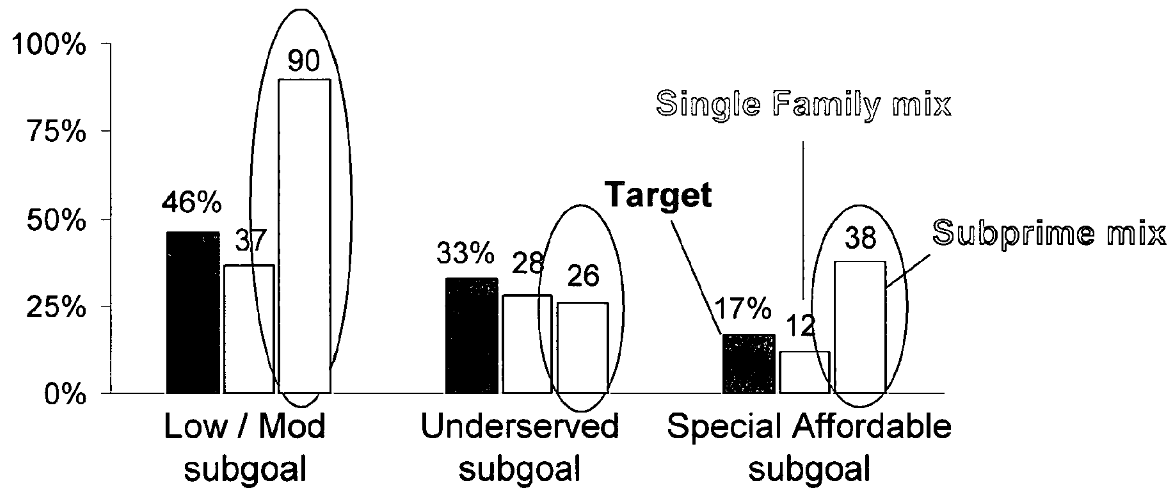
Subprime ABS Provides Several Benefits

Economic benefits

- Purchase volume: $72 billion (29% of total purchases)
- Expected ROE: 17%
- Agency Option-Adjusted Spread: 30 bp

Supports our housing goals / subgoals



Risk management

- Minimal interest rate risk (portfolio effective duration = 0.08; effective convexity = 0)
- Minimal credit risk (all AAA purchases)

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We Have Taken Steps to Avoid Abusive Lending Practices and Provide Market Leadership

Predatory Lending

- We **obtain "reps and warrants"** to ensure:
  - Compliance with applicable anti-predatory lending laws
  - Compliance with HUD-defined good lending practices
  - No high-cost loans in assignee liability states
  - No high-cost loans backing ABS we purchase
- We perform lender due diligence to assess business practices

Market Leadership

- **Freddie Mac is a leader in changing market practices:**
  - No mandatory arbitration
  - No "Home Ownership and Equity Protection Act" loans
  - No single-premium credit insurance or subprime mortgages with prepayment penalty terms of more than three years
  - Full reporting of credit information about borrowers
  - Underwrite 2/28 and 3/27 subprime loans at fully indexed rate with limited use of Stated Income/Assets and No Income/Assets

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Adjacent Markets – Three-to-Five-Year Strategy

What long-term role should we take in the nonprime markets?

1. **How and why has the nonprime market grown quickly?**
2. **Will nonprime grow, stabilize, or shrink back into a niche over the next 3-5 years?**
3. **What business and franchise opportunity will future nonprime markets pose? What risks?**
4. **What strategy should we pursue? What are we doing next?**

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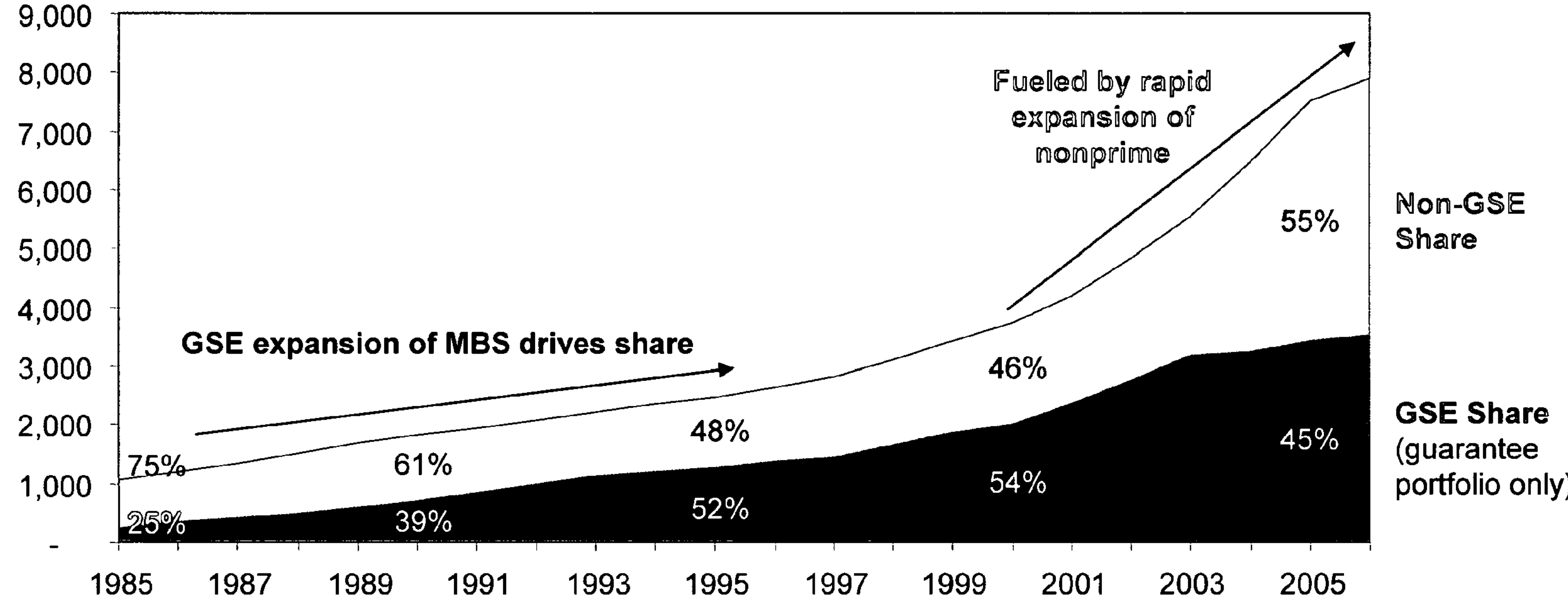
GSE Presence Has Diminished With the Rapid Nonprime Growth in Recent Years

GSE Securitizations Have Fallen As Share of Conforming Mortgages Outstanding*
($ in Billions)



Two trends behind nonprime growth:

1. Expansion of credit
2. Product innovation

* Single Family Conventional Conforming

Sources: Freddie Mac Strategic Analysis; Inside Mortgage Finance

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Nonprime Markets Offer Credit to Borrowers Who Do Not Qualify For Agency Loans

☐ **Nonprime markets**

	Typical borrower	**Typical margin over index (e.g., Treasury)**	**Typical annual delinquency rates**
Prime	680-800 FICO*	250-300 bp	~0.5%
Alt-A (alternative to Agency)	650-800 FICO, less documentation / credit history	300 bp	1-2X prime
Subprime	< 650 FICO, prior credit problems	650 bp**	6-10X prime (or higher)

These are the classic distinctions – but the lines are blurring, with converging practices and channels ("full spectrum lending")

* FICO credit score is the industry standard established by Fair Isaac, using an 850 point scale
** Initial teaser rates may be 200-300bp over index

Sources: IMF; BlackRock; Freddie Mac

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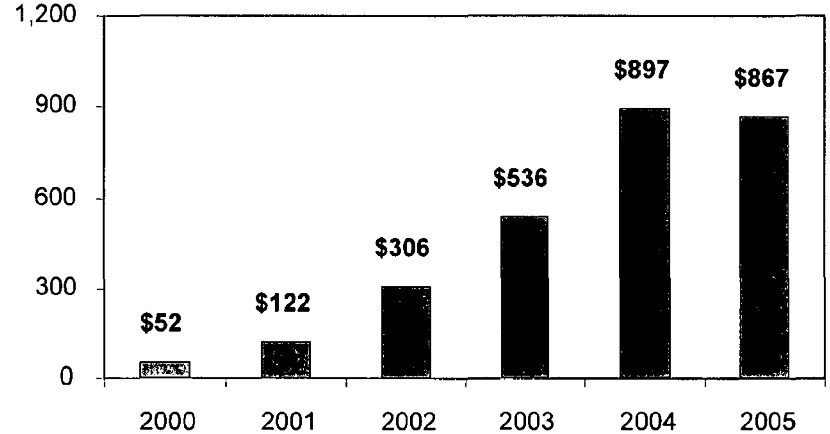
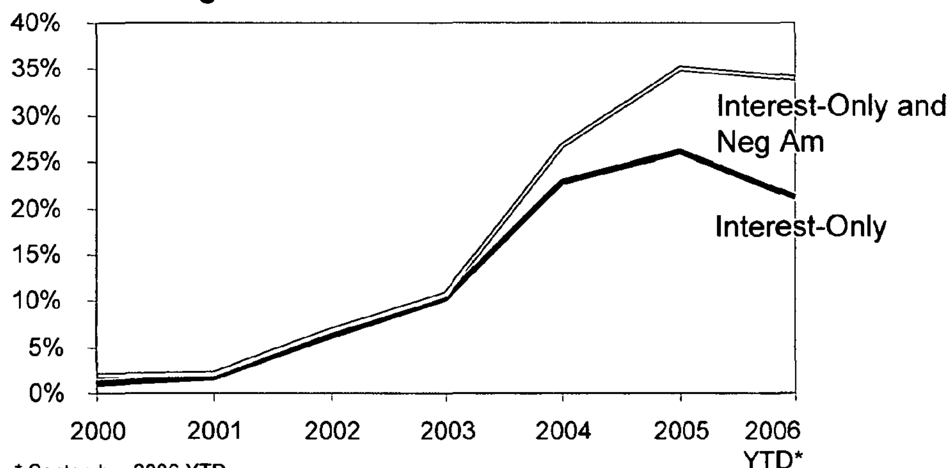
New Product Types Have Also Grown

Hybrid ARM Issuance ($ in Billions)



Sources: Loan Performance; JP Morgan

Interest-Only & Negative Amortization Share of Originations in Private Label Securities



* September 2006 YTD
Source: Freddie Mac Strategic Analysis; Inside Mortgage Finance

Customers are seeking:

- Broader variety of payment options
- Flexibility to **not** pay down principal (e.g., expecting to move within 5 years)
- Ways to bootstrap into pricier homes

Originators are differentiating products to compete

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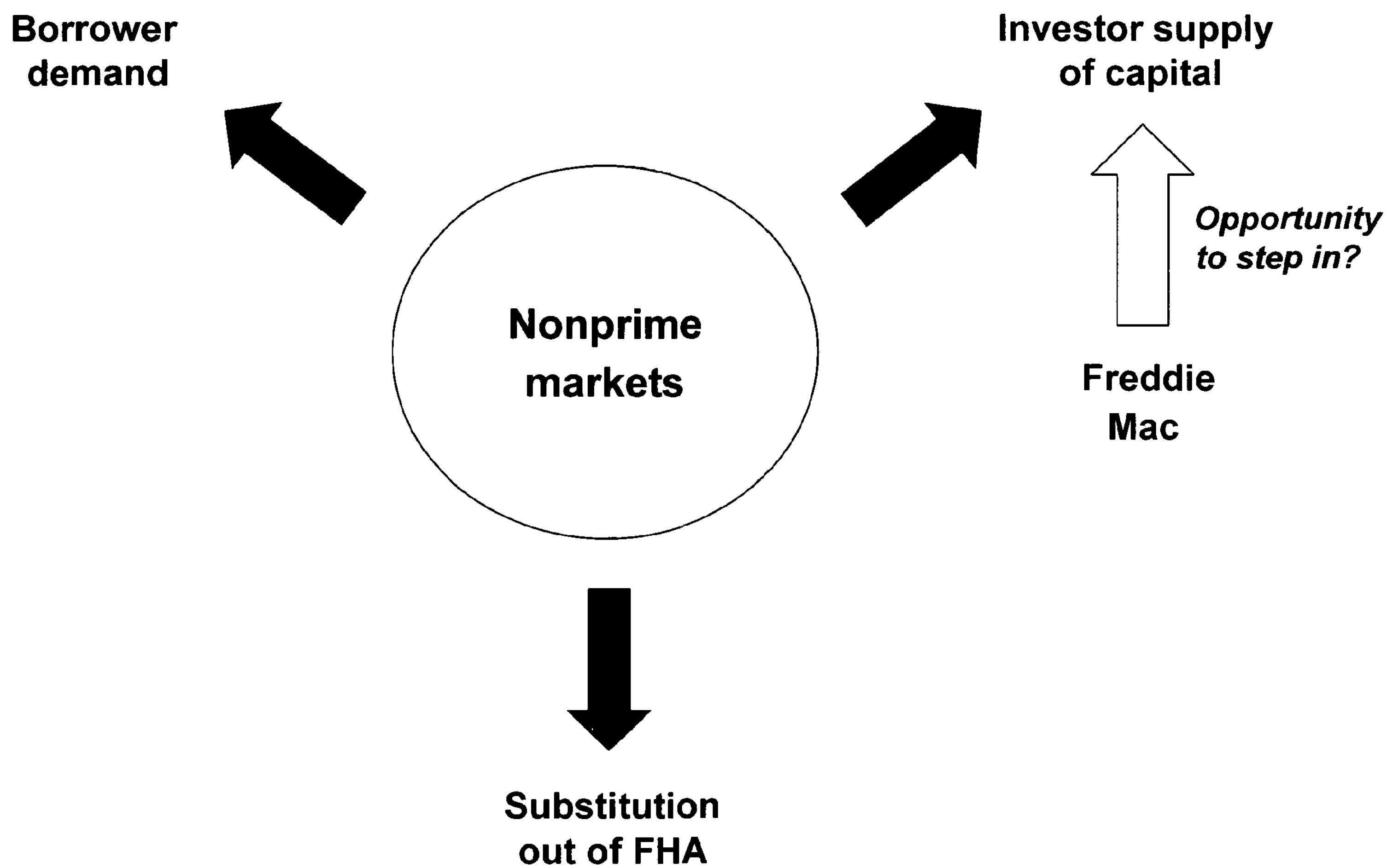
Three Forces Have Driven Nonprime Growth



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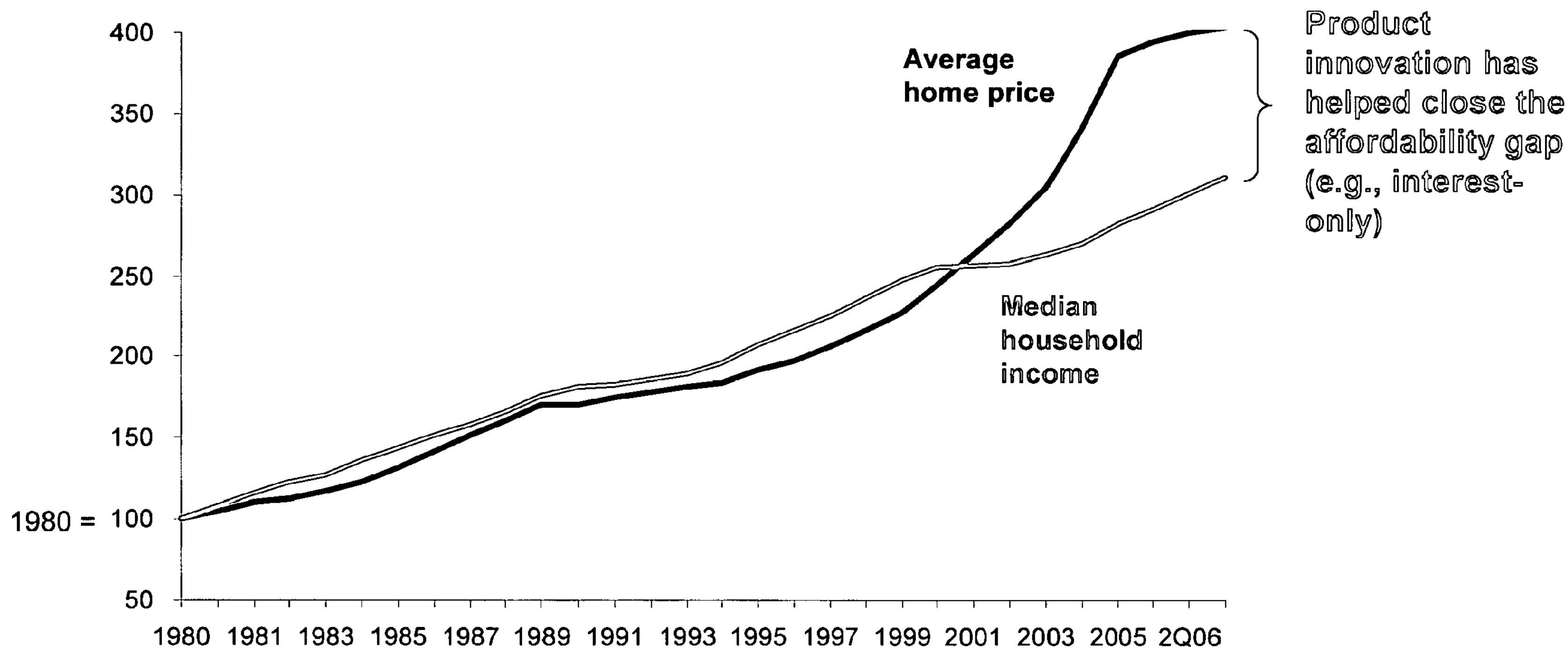
Borrowers Have Required New Types of Mortgages to Address Affordability

Home Price Appreciation Has Outpaced Income Growth



Sources: U.S. Census Bureau; OFHEO House Price Index

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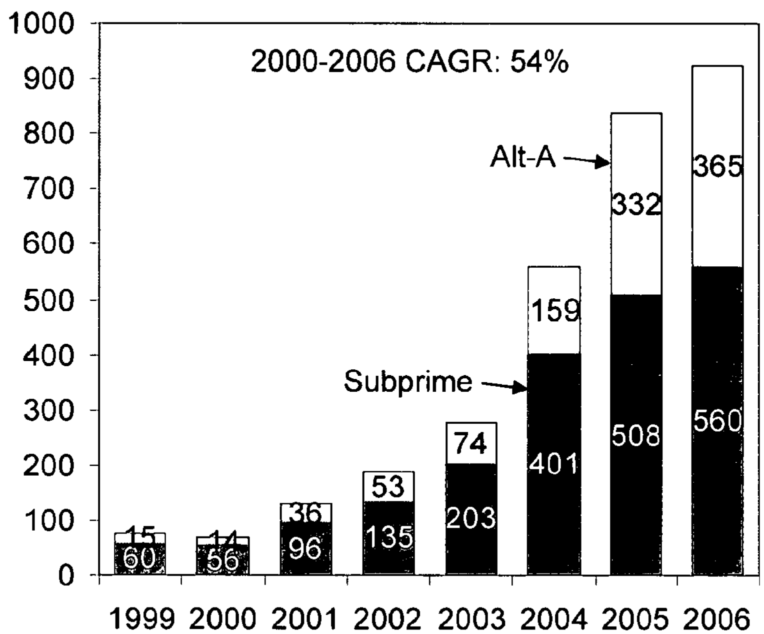
Investor Demand Has Supported This Growth

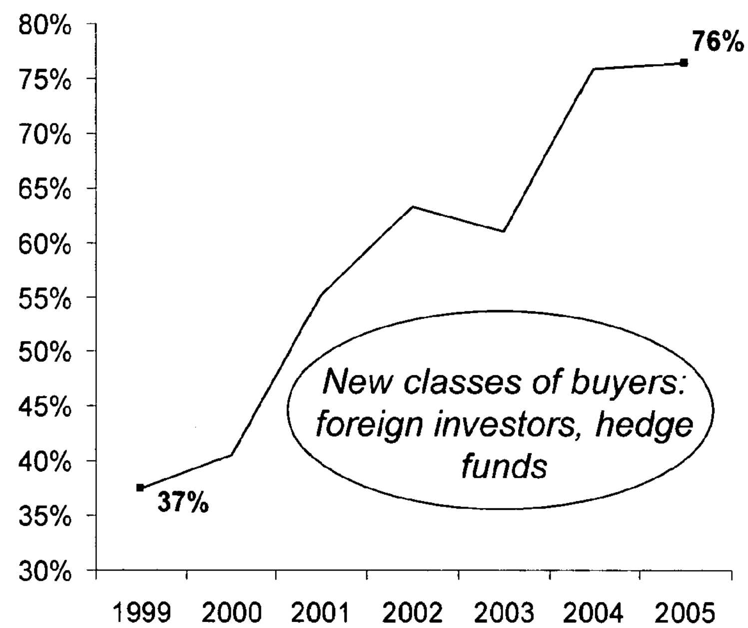
A flood of global capital has been seeking yield

Nonprime MBS Issuance Has Grown Rapidly
($ in Billions)



Note: Number derived from total, prime and Alt-A issuances as IMF has not yet disclosed 2006 subprime MBS issuance
Source: Inside Mortgage Finance

Ratio of Subprime MBS Issuance to Total Subprime Originations



Source: Inside Mortgage Finance; BlackRock analysis

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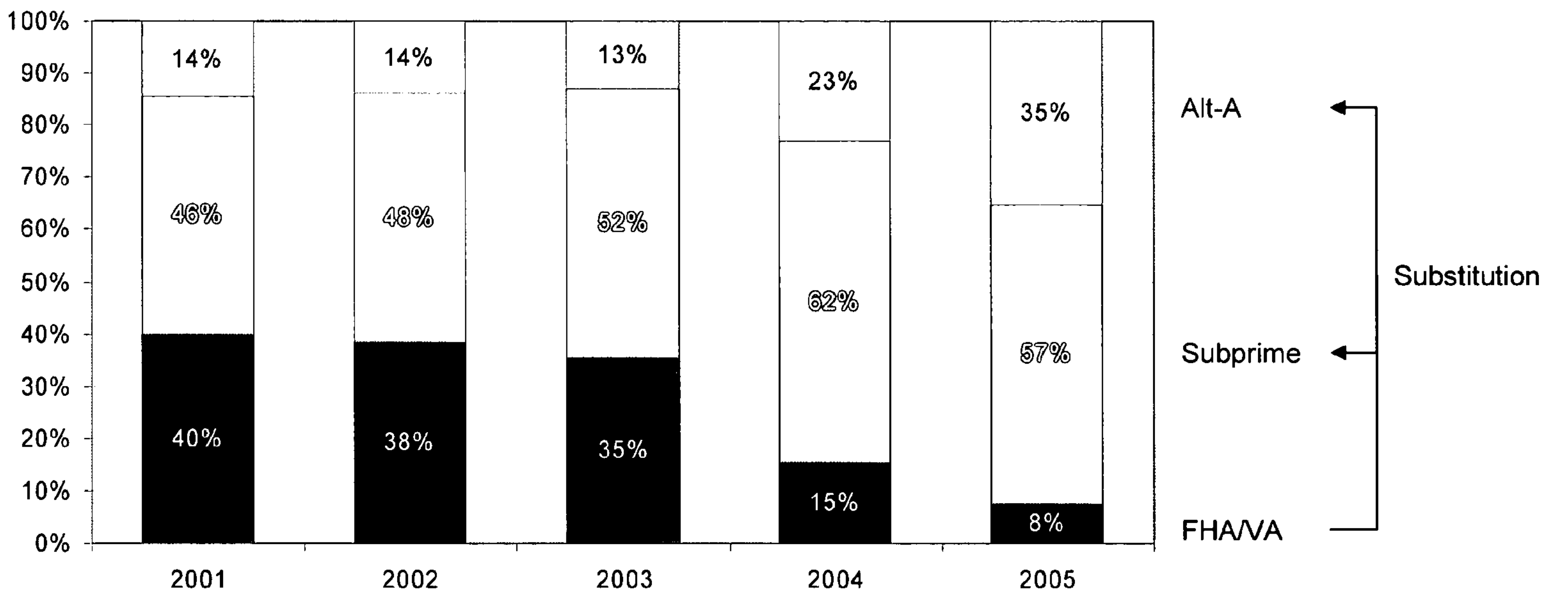
Substitution Out of FHA Has Also Contributed

Borrowers (with help of mortgage brokers and loan officers) have found Alt-A and subprime loans superior alternatives to the Federal Housing Administration:

- Subprime rates have improved – influx of private capital has helped lower rates
- Easier to do business with – FHA loans require a lot of paperwork, and limit size and frequency of refinancings

Shift From FHA/VA to Nonprime Products



Source: Inside Mortgage Finance

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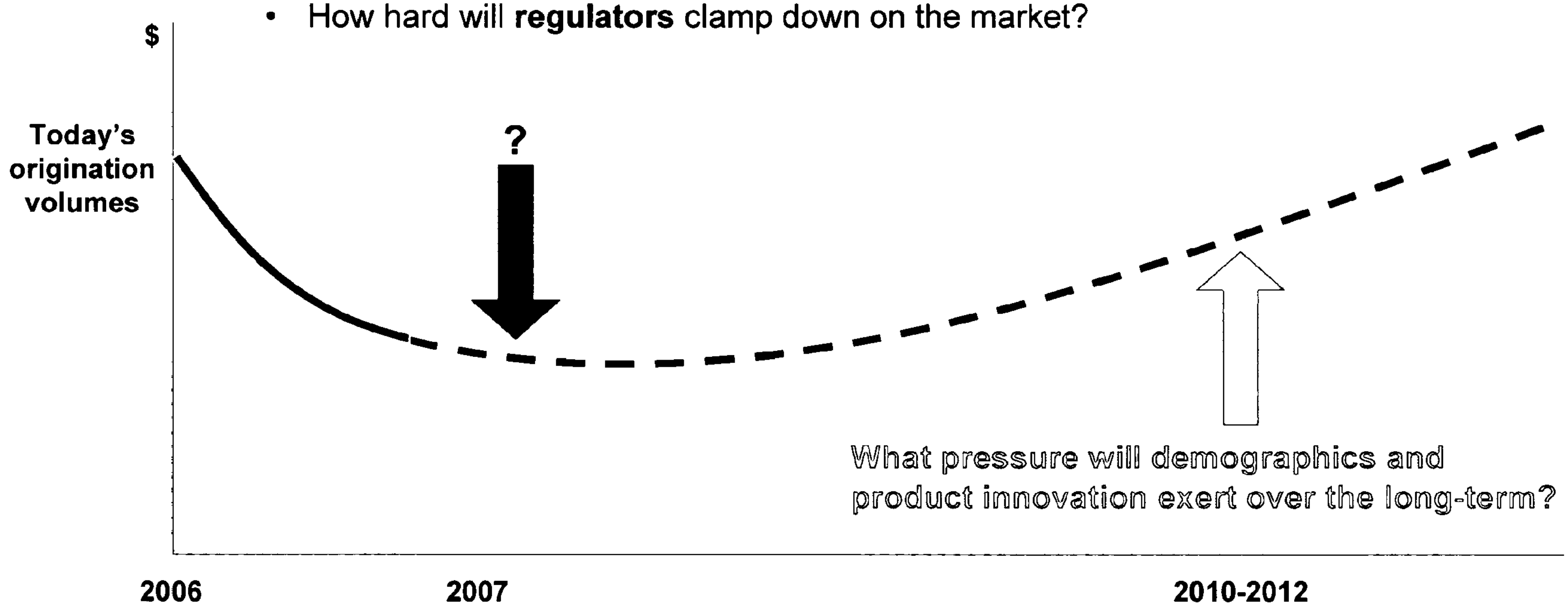
How Severe Will the Retrenchment Be?

Uncertain how deep or long the retrenchment will be

- Can subprime and even Alt-A thrive **without rapidly rising home prices**?
- Will the **gap between home prices and income** suppress or energize nonprime growth?
- Will the **investor retreat** turn into a permanent pullback?
- How hard will **regulators** clamp down on the market?



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Regulatory Landscape Is Changing

1. **Regulators first focused on Interest-Only and Option ARM** →
   - Banking regulators ("Interagency Guidance") tightened underwriting standards (e.g., to fully-indexed rate, not teaser)
   - Clearer disclosure of risks
   - Modest expected impact on originations by itself
   - But what will follow?

2. **Washington debate is now turning to subprime mortgages with large resets** →
   - Underwriting standards, as above
   - Prepayment penalties under fire
   - Mortgage brokerage practices (e.g., steering, ignoring suitability)
   - Lack of price transparency

Political and regulatory pressure will continue to mount as foreclosures rise

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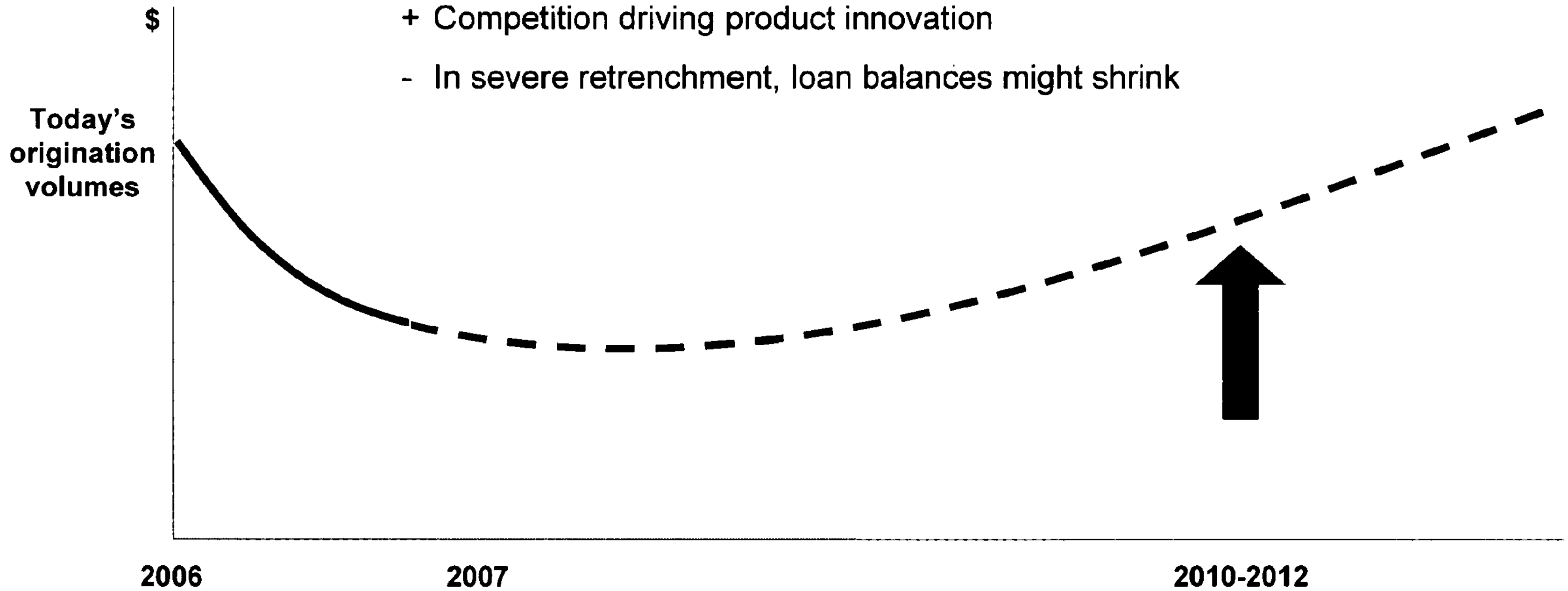
What Pressure Will Demographics and Product Innovation Exert Over the Long-term?

Nonprime is likely to grow faster long-term than overall mortgage market (8%)

+ Growing income disparity
+ Minority households growing faster, disproportionately served by subprime
+ Competition driving product innovation
- In severe retrenchment, loan balances might shrink



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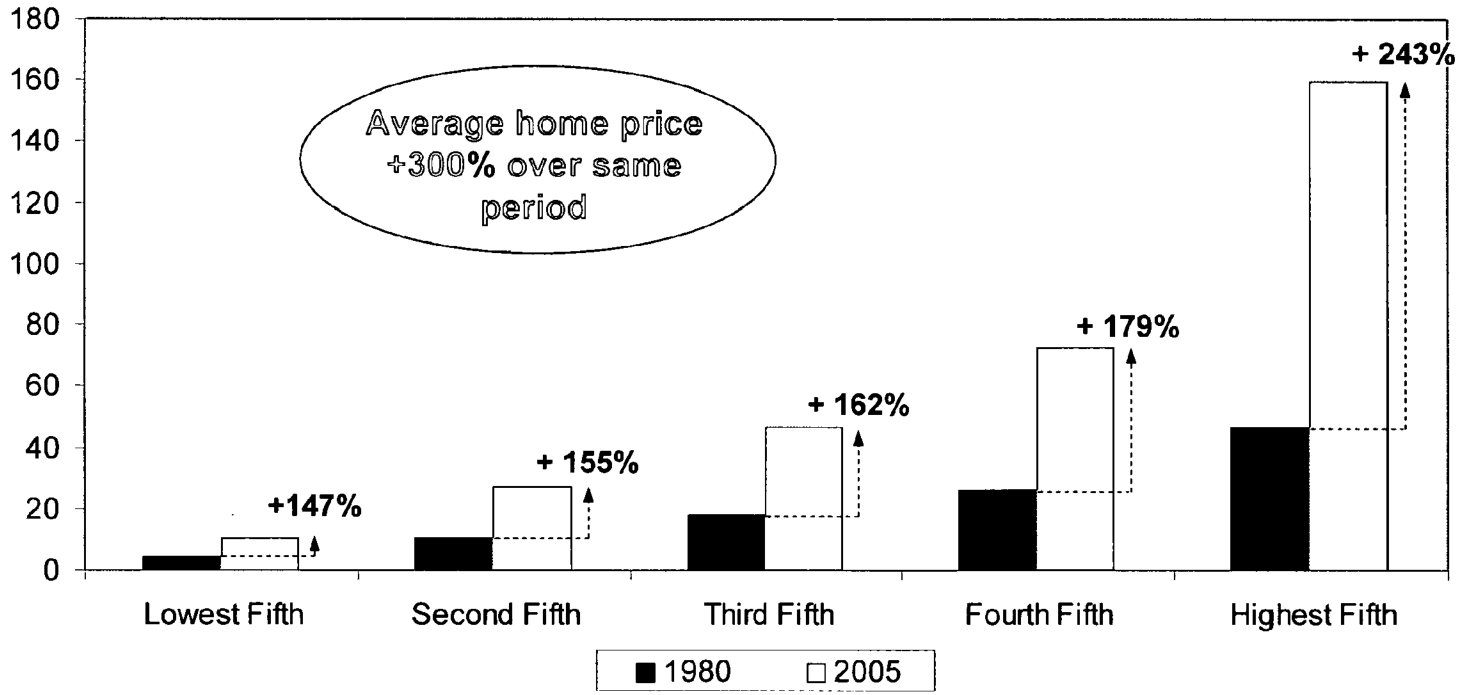
Income Distribution Is Widening

Income growth for households in the bottom half has fallen far behind home price appreciation

Will the widening gap push households into subprime, or renting (multifamily)?

Dichotomy of Household Income Growth – 1980-2005



Source: U.S. Census Bureau

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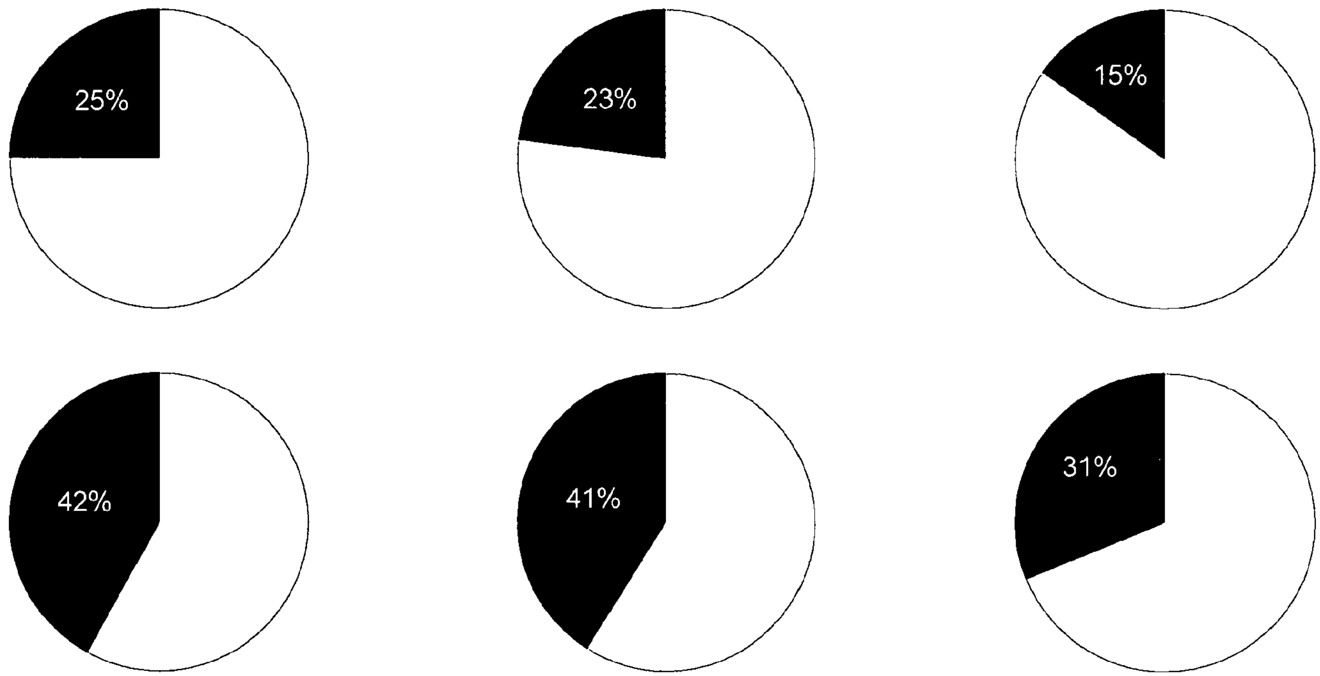
The Subprime Market Serves Lower-Income and Minority Households More than Prime

Minority households are twice as likely to use subprime mortgages, regardless of income

Subprime vs. Prime Loans By Ethnic Group and Income Bracket - 2005

Subprime
Prime

	Low Income (<= 80% of Median Family Income)	**Moderate Income** (80-120% Median Family Income)	**Higher Income** (> 120% Median Family Income)
Non-Hispanic White	25%	23%	15%
Minorities	42%	41%	31%



Source: Freddie Mac, Office of Chief Economist; Home Mortgage Disclosure Act (2005)

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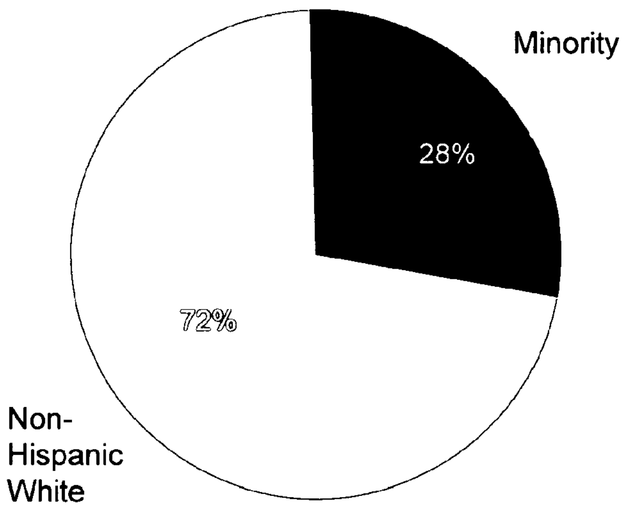
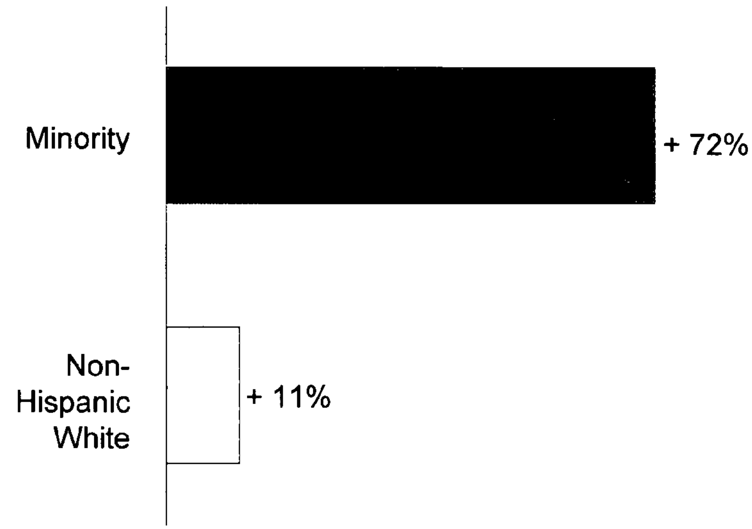
Minority Share of Households Is Rapidly Rising

Minority households are expected to account for ~70% of all household growth between 2000 to 2020

2005 Household Distribution
(100% = 114 Million)



Projected Growth in Households
(2000-2020)



At current usage rates, 3-6 million first-time homebuyers are likely to take out subprime loans over the next 10 years (split evenly between minorities and whites)

Source: Joint Center For Housing Studies of Harvard University

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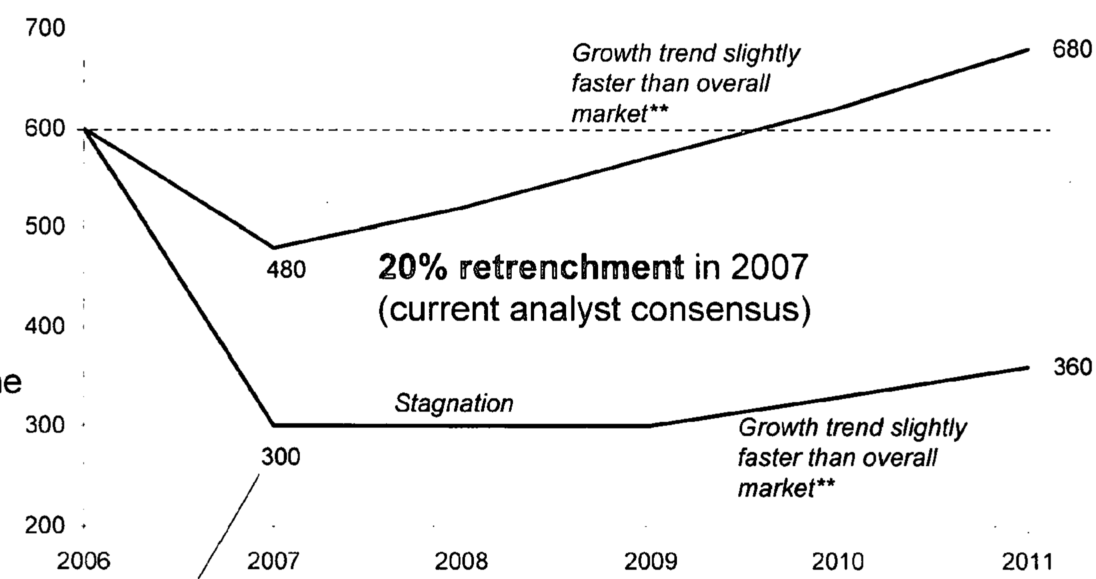
Two Scenarios for Nonprime: Low and High Liquidity

Nonprime securitization market*
(in $ Billions)

Today's volume
(40% of 2006 conforming originations)

~$200B in Alt-A

~$400B in subprime



High liquidity scenario
(Alt-A and subprime at ~35% of total originations)

Low liquidity scenario
(~20%)

Severe retrenchment

- Half of subprime and Alt-A lending disappears (down to pre-2004 levels, 20% of conforming production)
- Global investors turn away, underwriting standards tighten dramatically

* Conventional Conforming. Assumes 80% of Alt-A and subprime originations are securitized

** Projections based on 9% growth in high liquidity scenario, and 10% growth in low liquidity scenario

Sources: Inside Mortgage Finance; Freddie Mac Strategic Analysis

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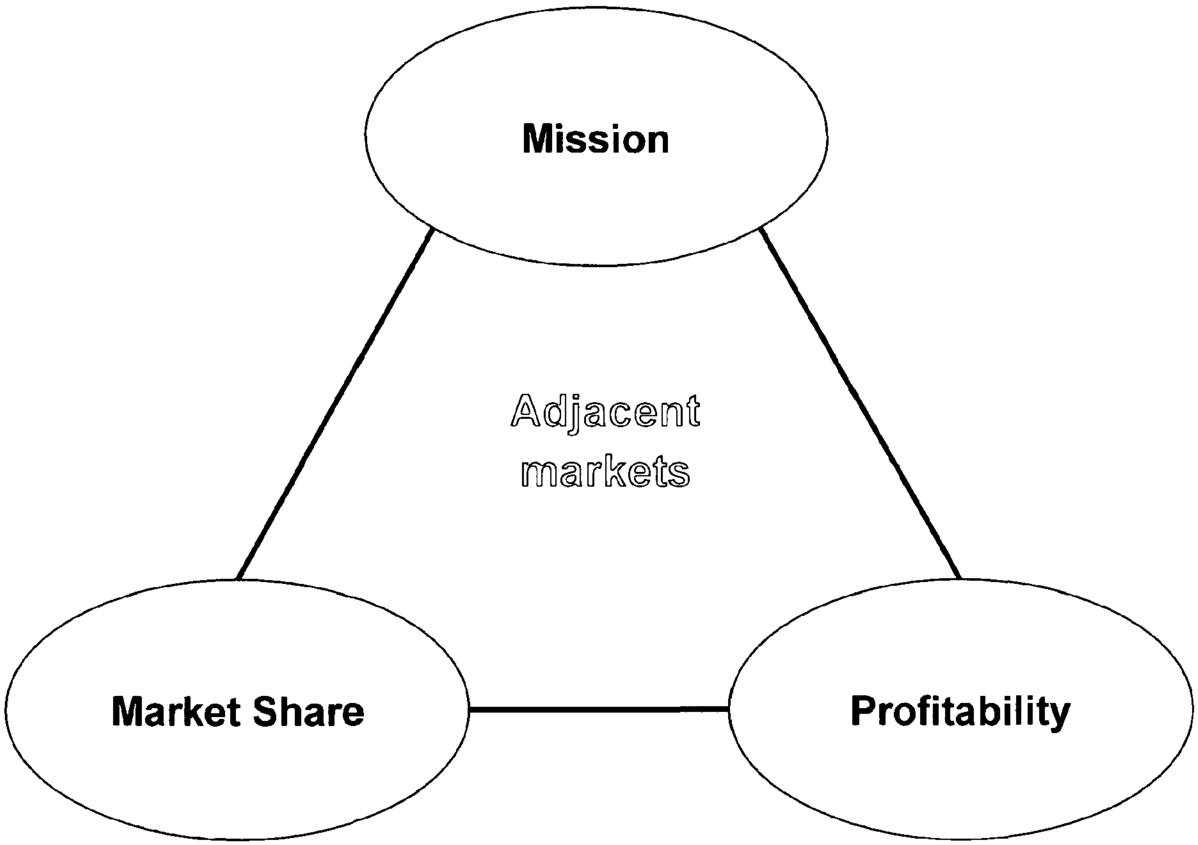
Expanding in Adjacent Markets Fits Multiple Objectives for Freddie Mac

We see an alignment of business opportunity and mission fulfillment



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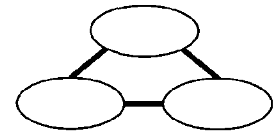
What Balance of Political, Regulatory, and Legal Risks and Mission Fulfillment Does Deeper Participation in Nonprime Present?



- **Current state of the GSE policy debate**
- **Policymakers' views on subprime lending**
- **Our new subprime credit policy - implications**

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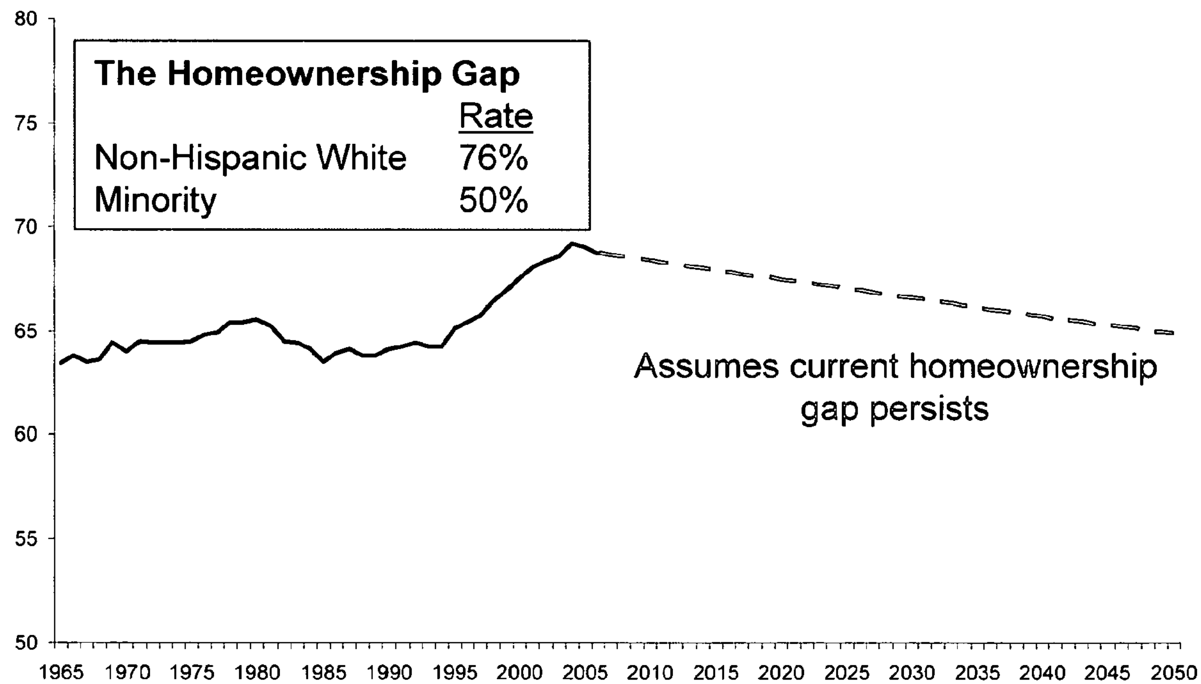
What Does Our Mission Demand?

At current homeownership trends, changing ethnic demographics will reduce the homeownership rate by 1% per decade

U.S. Homeownership Rate Projections (in Percent)



What can we do to help narrow the gap?

Source: Freddie Mac, Office of the Chief Economist; U.S. Census Bureau

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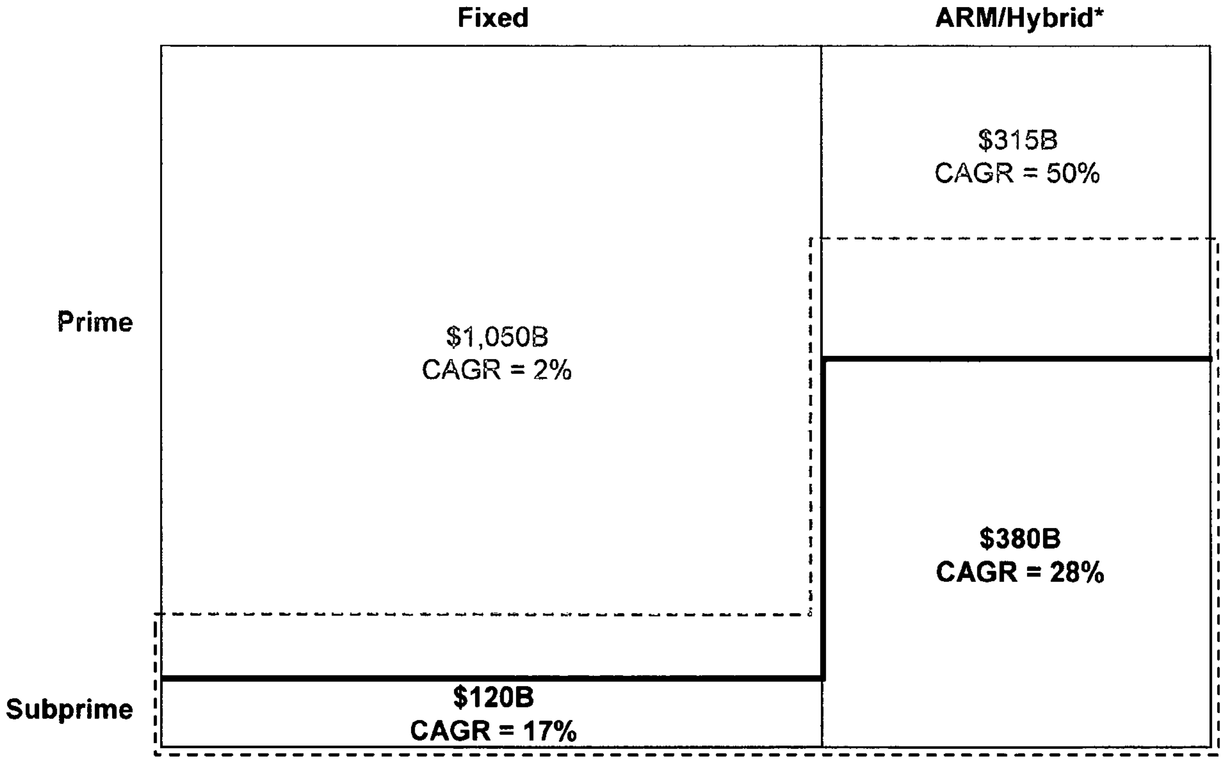
We Have an Opportunity to Expand Into Markets We Have Missed – Subprime and Alt-A

2005 Conventional Conforming Originations
(100% = $1.9 Trillion, CAGRs are 2001-2005)



Where will the mortgage market evolve next (e.g., reverse mortgages)?

* Includes index-based ARMs, Hybrids (3/1, 5/1, 7/1, 10/1, 2/28, and 3/27 product) and balloons

Sources: LoanPerformance LPS; OFHEO 2006 Annual Report; Freddie Mac Strategic Planning and BlackRock analysis

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Well-Capitalized Financial Institutions Have Begun to Dominate Subprime

□ = Well capitalized

2005 Subprime Originations (total market = $665B)

1.	Ameriquest Mortgage
2.	New Century Financial
3.	Countrywide Financial
4.	Wells Fargo Home Mortgage
5.	Option One Mortgage
6.	Washington Mutual
7.	Fremont Investment & Loan
8.	First Franklin Financial Corp.
9.	GMAC-RFC
10.	HSBC Finance
11.	WMC Mortgage / GE
12.	CitiMortgage

2006 Subprime Originations (total market = $640B)

1.	Wells Fargo Home Mortgage	Doubled volumes in 2006
2.	HSBC Finance	Recent credit problems, but long-term commitment to business (~20% of Group profits)
3.	New Century Financial	Restating 2006 earnings for insufficient repurchase reserves
4.	Countrywide Financial	
5.	CitiMortgage	85% increase in volume in 2006
6.	WMC Mortgage / GE	
7.	Fremont Investment & Loan	Delayed quarterly earnings release
8.	Ameriquest Mortgage	Volumes dropped 60% in 2006; Citigroup to infuse capital
9.	Option One Mortgage	
10.	First Franklin Financial Corp.	Acquired by Merrill Lynch
11.	Washington Mutual	
12.	GMAC-RFC	

Subprime volume is flowing to our traditional customers

We strengthen our value proposition by bidding for the majority of their conforming production

What would happen if FNM could give them an all-in bid?

- To our value proposition and pricing?
- To our ability to meet our housing goals?

Sources: Inside Mortgage Finance; News releases

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To Date, We Have Lacked the Capability for Deeper Involvement

We have been limited on the front-end (handling new loan types) and back-end (selling credit risk)

		Credit	
		We like (at market price)	We don't like
Loan Products	We can handle	*Our existing franchise*	AAA Purchases
	We can't handle	T-Deals	

Lack back-end – a way to dispose of undesirable credit risk

- Structured securities
- Credit derivatives

Lack front-end path – cannot process loans due to novel features (e.g., option ARM)

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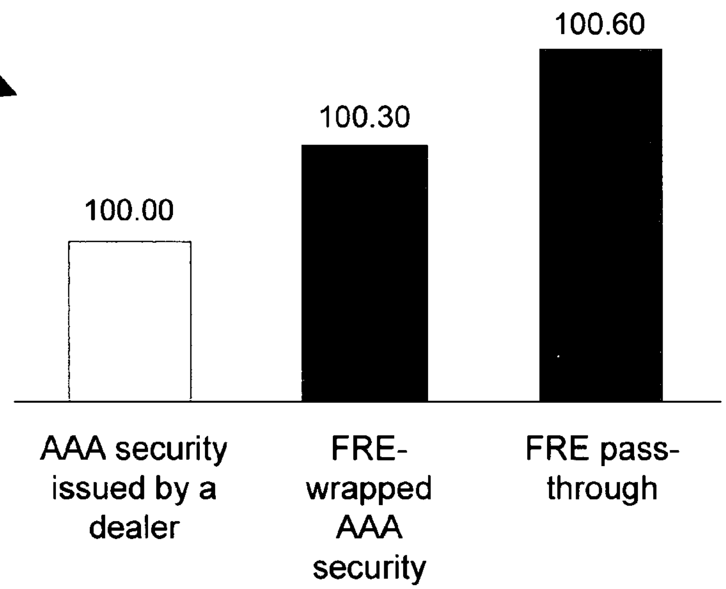
Potential Economics of Nonprime Are Attractive

Freddie Mac has competitive advantages over non-GSE participants in nonprime

1. **Securitization – our securities trade at higher prices**

2. **Holding interest rate and credit risk** – Unlike most conduits, Freddie Mac can take long-term credit and interest rate positions in its portfolio

The core of our value creation: Freddie Mac's liquidity advantage
(security price)



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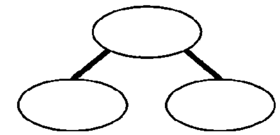
Nonprime Could Contribute Significant Earnings



Illustrative economics in 2011	**New business from existing Single Family franchise (Prime)**	**New business from Nonprime**	
Available Originations ($ B)	$ 1,500	$ 500	
FRE market share	30%*	20%	
Purchases ($ B)	**$ 450**	**$ 100**	
		50%	*50%*
Credit guarantee purchases ($ B)	$ 450	$ 50	
Risk-based capital	100 bp	300-400 bp	
Capital deployed ($ B)	$ 4.5	$ 1.8	
ROE	**10-12%**	**12-15%**	
Potential earnings ($ MM)	**$ 450-550**	**$ 210-260**	+ $50-100 MM in incremental earnings (at high ROEs) from credit intermediation
Growth Rate (2011-2016)	**10%**	**15%**	

We could profitably deploy capital in nonprime, and drive our earnings and fair value growth

We would also expect to grow share

* Equals 45% GSE share

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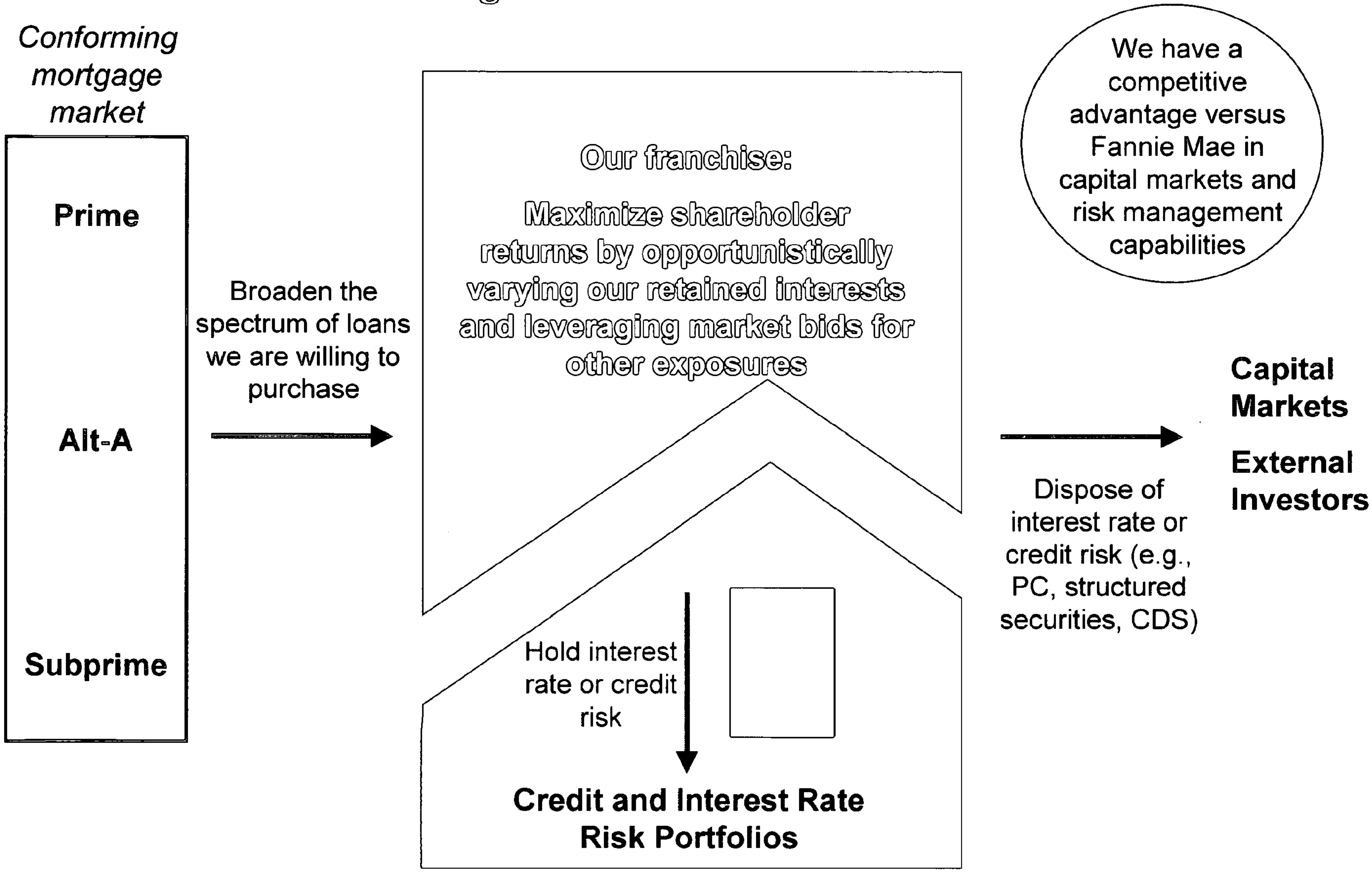
Vision for Freddie Mac: Covering the Whole Conforming Market



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We Need to Close Capability Gaps

From …	To …
Inflexible front end	*Can rapidly adjust to handle loans as originators innovate*
Closed back end	*Can sell credit via subordinate bonds, derivatives, mortgage insurance, whole loans, or structured securities*
Limited experience in nonprime credit investing	*Can model, price, and structure nonprime credit, and capture relative value*

Our greatest operational problems arise from:

- Boarding new types of loans
- Aggregating loans
- Issuing structured securities

We are investigating a parallel platform for adjacent markets, reliant on outsourcing

We need to further enhance our models and expertise, and already have:

- Dedicated a team to nonprime credit
- Purchased external models
- Executed senior/sub-structures and our first CDS

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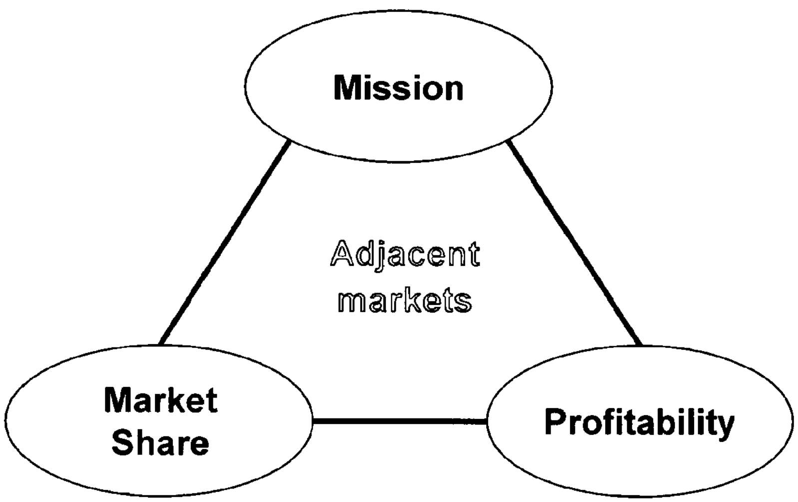
Our Strategy of Expanding into Adjacent Markets Will Advance Our Objectives



To succeed, we must:

- Enhance operational capabilities, especially loan platform
- Enhance expertise in this space
- Improve our risk distribution capabilities
- Dedicate credit capital to subprime (and Alt-A) mortgages

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Conclusions on Our Strategy

We face profitability and growth constraints across our existing franchise, and will pursue the key opportunities to improve

- Manage G&A
- Improve security performance
- Consider taking more market risk

Our major expansion opportunity is adjacent markets (nonprime) – expanding there will advance all our business and franchise objectives

- Mission
- Market share
- Profitability

The next 12 - 24 months of retrenchment and low liquidity may provide an opportunity to recapture what we ceded in the past decade

Our vision is to cover the whole conforming mortgage market – and nimbly go wherever the market evolves

- Offer a bid on all our customers' production
- Profit through securitization / guarantees and the retained portfolio
- Choose to take well-priced credit risk and lay off the remainder