Board of Directors Meeting

Freddie Mac's
Business Strategy

March 2-3, 2007
Contents

I. Existing Franchise

II. Opportunities to Improve

III. Adjacent Markets
I. Existing Franchise
The External and Internal Pressures on the Business Have Intensified

**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)

**Pressure on the franchise**

**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
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**

<table>
<thead>
<tr>
<th>Single Family</th>
<th>Multifamily</th>
</tr>
</thead>
<tbody>
<tr>
<td>new business projected at below 11% ROE on economic capital</td>
<td>ROEs at 11-12%</td>
</tr>
<tr>
<td>• Credit costs are rising – and may be more severe than expected</td>
<td>• Market small</td>
</tr>
<tr>
<td>• Volume set to grow at 8%, in line with total mortgage debt</td>
<td>• Poor competitive position vs. FNM</td>
</tr>
<tr>
<td>• Satisfying escalating housing goals is difficult and costly</td>
<td>• Accretive to housing goals</td>
</tr>
</tbody>
</table>

**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
Expected Returns on New Single Family Guarantee Business Have Declined

Ex-ante lifetime ROE by purchase year*

<table>
<thead>
<tr>
<th>Year</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>15.3%</td>
</tr>
<tr>
<td>2003</td>
<td>17.0%</td>
</tr>
<tr>
<td>2004</td>
<td>15.4%</td>
</tr>
<tr>
<td>2005</td>
<td>12.7%</td>
</tr>
<tr>
<td>2006</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

* Projection at time of funding
Source: Freddie Mac Single Family LOB projections

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)

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

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

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

Source: Freddie Mac

Note: data series starts in 1991

Source: FDIC
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.

Distribution of DEFCAP outcomes for 2006 purchases*

- Top quintile of home price paths (recent experience)
- 50th percentile = 6.0 bp
- Mean = 7.1 bp, based on 4% annual HPA
- 90th percentile loss (corresponds to flat prices through 2011, then rising)

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

Source: Freddie Mac Credit Policy
Our Customers Have Been Originating Riskier Loans

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

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

% of 2006 FRE vintage

% 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

Source: Freddie Mac Credit Policy
Some of Our Current Purchases Have Subprime-Like Risk

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

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

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
External Benchmarks Have an Even More Pessimistic View Than Our Models

Expected default costs for new purchases
(bp on UPB)

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

1.22 scalar factor for GO marks*

DEFCAP  Dealer marks
7.1     8.7

March  June  September  December
35     34     40     45

- 30% increase in 1 year

Rise in GO caused by
- More bearish market
- Purchase of riskier product

* Based on GO cohorts for 2006 purchases

* Default and capital cost components only

Source: Freddie Mac Investments and Capital Markets
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

Credit losses vs. HPA

Source: Freddie Mac Credit Policy

Last housing boom led to losses - 2-3 years later
2006 HPA was just above zero, and in some places, HPA has already turned negative

Preliminary 4Q06 data indicates home price drop in half of all MSAs*

In 3Q06, home prices fell in 1 out of every 4 MSAs

* National Association of Realtors
Source: Freddie Mac

1999-2005 broad housing strength – unique period in 30 years

Unemployment is a secondary driver
Higher unemployment would aggravate losses, while continued robust conditions may mitigate them
Long-Term Market Forces Are Pressuring G-Fees Down

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

- 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

Source: OFHEO 2006 Annual Report
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%)

Credit Card Receivables

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

Prime Mortgage Servicing

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

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

Source: Nilson Report; Inside Mortgage Finance
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
Fannie Mae Enjoys Greater Scale

Single Family MBS Issuance - 2005 ($ in Billions)

- Fannie Mae: $501
- Freddie Mac: $396
- 27% larger

Single Family MBS Outstanding - 2005 ($ in Billions)

- Fannie Mae: $1,538
- Freddie Mac: $954
- 60% larger

TBA Trading Volume* - 2006 ($ in Billions)

- Fannie Mae: $10,748
- Freddie Mac: $1,387
- 8x the volume

Equates to a 44% share for Freddie Mac

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

Fannie TBAs trade with a disproportionately higher volume

Source: OFHEO 2006 Annual Report, TradeWeb
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)

Source: Company Financial Statements; BlackRock analysis
Rising Headcount Has Been a Driver

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

Expenses ($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006*</th>
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<tbody>
<tr>
<td>Salaries,</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800*</td>
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<tr>
<td>benefits, and</td>
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<td>occupancy</td>
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<td></td>
<td></td>
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<tr>
<td>Other</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>400*</td>
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<tr>
<td>Administrative</td>
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<tr>
<td>services*</td>
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<tr>
<td>Total Mortgage</td>
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<tr>
<td>Portfolio at</td>
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<tr>
<td>year-end</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>($ Billions)</td>
<td>976</td>
<td>1,151</td>
<td>1,317</td>
<td>1,414</td>
<td>1,505</td>
<td>1,684</td>
<td>1,826</td>
</tr>
</tbody>
</table>

Headcount

<table>
<thead>
<tr>
<th>Headcount including Contingent Workers*</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800</td>
<td>800*</td>
</tr>
</tbody>
</table>

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

Source: Company financial statements; Internal Financial Management

*Contingent Workers not available prior to 2002
Freddie and Fannie securities trade roughly at the same price

Prices on 5.5% coupon, 30-year TBAs

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

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

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

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

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

Source: Bloomberg

The difference is the greater liquidity of Fannie securities – 5x trading volume vs. Freddie (TBA)
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.

![Market Adjusted Pricing Costs](chart)

* Excludes December

Source: Mortgage Funding
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)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Fannie Mae Purchases</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>$420B</td>
<td>2%</td>
</tr>
<tr>
<td>Non-Agency Securitization</td>
<td>$360B</td>
<td></td>
</tr>
<tr>
<td>Subprime</td>
<td>$250B</td>
<td>17%</td>
</tr>
<tr>
<td>Unsecuritized</td>
<td>$120B</td>
<td></td>
</tr>
</tbody>
</table>

$315B CAGR = 50%

$380B CAGR = 28%

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

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

Fixed

ARM/Hybrid*

Fannie Mae Purchases = $115B

$1,050B
CAGR = 2%

Mostly hybrid ARMs

Freddie Mac Purchases = $715B

Non-Agency Securitization = $335B

Mostly option ARMs

Unsecuritized = $65B

Market = $315B
(CAGR = 50%)

$380B
CAGR = 28%

Prime

Subprime

$120B
CAGR = 17%

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

Mortgage Holdings for the Thrift Industry*

<table>
<thead>
<tr>
<th>Year</th>
<th>Fixed-Rate Mortgages</th>
<th>Adjustable-Rate Mortgages**</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>1996</td>
<td>66%</td>
<td>34%</td>
</tr>
<tr>
<td>1998</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>2000</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>2002</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>2004</td>
<td>65%</td>
<td>35%</td>
</tr>
</tbody>
</table>

* 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)

Medium-Term ARMs | 34% | Other ARMs | 13% | Fixed-Rate Mortgages | 46% | Options ARMs | 7%

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

Typical Duration of Assets and Liabilities (in years)

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Year FRM Portfolio</td>
<td>4-6 years</td>
</tr>
<tr>
<td>ARM Portfolio</td>
<td>1-3 years</td>
</tr>
<tr>
<td>Deposits*</td>
<td>1-4 years</td>
</tr>
</tbody>
</table>

Eliminating duration risk requires swaps or other hedges/offsets

* 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
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

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

* 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 CE's in default cost estimates

Source: Single Family
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

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**Retained Portfolio Growth Slowing ($ billions)**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
</tr>
</tbody>
</table>

2003-2005 CAGR = 4%

**Mortgage Spreads Are Tight**

Agency option-adjusted spreads – near zero, despite recent improvements in funding costs

**Mortgage Debt Outstanding**

2003-2005: 13% CAGR

**Source:** OFHEO 2006 Annual Report

**Source:** LehmanLive
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
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

<table>
<thead>
<tr>
<th></th>
<th>Duration (months)</th>
<th>Convexity (months)</th>
<th>Volatility (equity-at-risk*)</th>
<th>Yield Curve (equity-at-risk*)</th>
<th>Total (equity-at-risk in $ Millions*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007 Planned Position</td>
<td>0.5</td>
<td>3.0</td>
<td>0.5%</td>
<td>0.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Management Limit</td>
<td>1.0</td>
<td>4.0</td>
<td>1.5%</td>
<td>1.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Board Limit</td>
<td>3.0</td>
<td>6.0</td>
<td>2.5%</td>
<td>2.0%</td>
<td>11.0%</td>
</tr>
</tbody>
</table>

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

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

Anticipated losses 1-2 times every two years
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
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)  **Multifamily purchases** (in $ billions)

Source: OFHEO 2006 Annual Report
The Multifamily Opportunity Is Too Small to Drive Overall Profitability

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

9,150

Single family market is 14x larger than multifamily

670

Single Family
Multifamily

Our Holdings Are Commensurately Smaller* ($ Billions)

1,341

23x (for whole loans)

1,341

Single Family
96

CMBS = 37
Whole Loans = 55
Multifamily

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

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. Opportunities to Improve
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**

<table>
<thead>
<tr>
<th>Origination</th>
<th>Aggregation / Pooling</th>
<th>Structuring / Issuing securities</th>
<th>Distribution</th>
<th>Investing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prime credit</strong></td>
<td><strong>Prohibited by charter</strong></td>
<td><strong>Captured by originators</strong></td>
<td><strong>Single Family</strong></td>
<td><strong>Captured by dealers</strong></td>
</tr>
</tbody>
</table>

**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)
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*
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

Economic Capital
(100% = $21.1B)

Credit Risk Capital
(100% = $7.7B)

Operational

Credit

Multifamily

Retained Portfolio

Market

Single Family

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

Market risk was discussed on page 27
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
What Are Opportunities for Efficiencies?

- 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
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
As of December 31, 2006

Comp per Employee: $786,048

Comp per Employee: $205,762

Comp per Employee: $115,822

Comp per Employee: $86,946

Comp per Employee: $75,105

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
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
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

Source: Internal Freddie Mac Estimate
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 security fungibility

- 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

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

- Rewiring FRE platform
- Altering market conventions
Partially Closing the Gap Would Bring Significant Returns

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

Note: All estimates assume SF portfolio grows at 8% per year (in line with market MDO)
Source: Internal Freddie Mac Estimate
Our systems are hardwired for a 45-day delay – we will need to reconfigure

Servicers and service bureaus will need to follow suit

<table>
<thead>
<tr>
<th>Necessary Implementation Steps</th>
<th>Resources required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Activities</td>
<td>○</td>
</tr>
<tr>
<td>Costing and Pricing</td>
<td>○</td>
</tr>
<tr>
<td>Portfolio Management</td>
<td>○</td>
</tr>
<tr>
<td>Contracting &amp; Loan Setup</td>
<td>○</td>
</tr>
<tr>
<td>Loan Delivery / Certification / Funding</td>
<td>○</td>
</tr>
<tr>
<td>Cash Pooling</td>
<td>○</td>
</tr>
<tr>
<td>Security Trade, Confirmation, Delivery, and Validation</td>
<td>○</td>
</tr>
<tr>
<td>Security Setup</td>
<td>○</td>
</tr>
<tr>
<td>Trade and Security Settlement</td>
<td>○</td>
</tr>
<tr>
<td>Loan Administration</td>
<td>○</td>
</tr>
<tr>
<td>Security Administration</td>
<td>○</td>
</tr>
<tr>
<td>Default Management</td>
<td>N/A</td>
</tr>
<tr>
<td>Forward Commitment Accounting</td>
<td>○</td>
</tr>
<tr>
<td>Loan Purchase Accounting</td>
<td>○</td>
</tr>
<tr>
<td>FAS 140 / FIN 45 or Valuation Accounting</td>
<td>○</td>
</tr>
<tr>
<td>Security Purchase and Sales Accounting</td>
<td>○</td>
</tr>
<tr>
<td>Portfolio Accounting</td>
<td>○</td>
</tr>
<tr>
<td>Financial Reporting and Disclosure</td>
<td>○</td>
</tr>
<tr>
<td>Tax Returns</td>
<td>○</td>
</tr>
<tr>
<td>Management, Regulatory and Performance Reporting</td>
<td>○</td>
</tr>
</tbody>
</table>

In 2007, we have funded a small internal team to assess infrastructure feasibility
III. Adjacent Markets
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.
Subprime Has Grown Rapidly Over the Last Five Years

Subprime Conforming Originations ($ in Billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Originations ($ in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$128</td>
</tr>
<tr>
<td>2001</td>
<td>110</td>
</tr>
<tr>
<td>2002</td>
<td>212</td>
</tr>
<tr>
<td>2003</td>
<td>297</td>
</tr>
<tr>
<td>2004</td>
<td>504</td>
</tr>
<tr>
<td>2005</td>
<td>545</td>
</tr>
<tr>
<td>2006**</td>
<td>525</td>
</tr>
</tbody>
</table>

Subprime as a % of conforming originations

- 2000: 18%
- 2001: 7%
- 2002: 10%
- 2003: 10%
- 2004: 24%
- 2005: 28%
- 2006**: 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)
A Significant Retrenchment Is Underway

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

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
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

<table>
<thead>
<tr>
<th>Subgoa</th>
<th>Low / Mod subgoal</th>
<th>Underserved subgoal</th>
<th>Special Affordable subgoal</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>46%</td>
<td>33%</td>
<td>17%</td>
</tr>
<tr>
<td>25%</td>
<td>37%</td>
<td>28%</td>
<td>12%</td>
</tr>
<tr>
<td>50%</td>
<td>90%</td>
<td>26%</td>
<td>38%</td>
</tr>
<tr>
<td>75%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Risk management

- Minimal interest rate risk (portfolio effective duration = 0.08; effective convexity = 0)
- Minimal credit risk (all AAA purchases)
We Have Taken Steps to Avoid Abusive Lending Practices and Provide Market Leadership

- 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

- 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
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?
1. How and why has the market grown?

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

GSE Securitizations Have Fallen As Share of Conforming Mortgages Outstanding*

($ in Billions)

<table>
<thead>
<tr>
<th>1985</th>
<th>1987</th>
<th>1989</th>
<th>1991</th>
<th>1993</th>
<th>1995</th>
<th>1997</th>
<th>1999</th>
<th>2001</th>
<th>2003</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>75%</td>
<td>61%</td>
<td>48%</td>
<td>46%</td>
<td>54%</td>
<td>45%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Two trends behind nonprime growth:
1. Expansion of credit
2. Product innovation

* Single Family Conventional Conforming

Sources: Freddie Mac Strategic Analysis; Inside Mortgage Finance
1. How and why has the market grown?

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

<table>
<thead>
<tr>
<th>Typical borrower</th>
<th>Typical margin over index (e.g., Treasury)</th>
<th>Typical annual delinquency rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>680-800 FICO*</td>
<td>~0.5%</td>
</tr>
<tr>
<td>Alt-A (alternative to Agency)</td>
<td>650-800 FICO, less documentation / credit history</td>
<td>300 bp</td>
</tr>
<tr>
<td>Subprime</td>
<td>&lt; 650 FICO, prior credit problems</td>
<td>650 bp**</td>
</tr>
</tbody>
</table>

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
1. How and why has the market grown?

New Product Types Have Also Grown

**Hybrid ARM Issuance ($ in Billions)**

- 2000: $52
- 2001: $122
- 2002: $306
- 2003: $536
- 2004: $897
- 2005: $867

Sources: Loan Performance; JP Morgan

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

- 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

* September 2006 YTD
Source: Freddie Mac Strategic Analysis; Inside Mortgage Finance
Three Forces Have Driven Nonprime Growth

1. How and why has the market grown?

- Borrower demand
- Investor supply of capital

Nonprime markets

Substitution out of FHA

Opportunity to step in?

Freddie Mac
Home Price Appreciation Has Outpaced Income Growth

- Average home price
- Median household income

Product innovation has helped close the affordability gap (e.g., interest-only)

Sources: U.S. Census Bureau; OFHEO House Price Index
1. How and why has the market grown?

A flood of global capital has been seeking yield

Nonprime MBS Issuance Has Grown Rapidly
($ in Billions)

- 1999: 15
- 2000: 60
- 2001: 96
- 2002: 135
- 2003: 203
- 2004: 401
- 2005: 508
- 2006: 560

Alt-A: 203, 332, 365
Subprime: 74, 159

2000-2006 CAGR: 54%

Ratio of Subprime MBS Issuance to Total Subprime Originations

- 1999: 37%
- 2000-2001: 40%
- 2002-2003: 50%
- 2004-2005: 76%

New classes of buyers:
- foreign investors
- hedge funds

Source: Inside Mortgage Finance; BlackRock analysis

Note: Number derived from total, prime and Alt-A issuances as IMF has not yet disclosed 2006 subprime MBS issuance
Source: Inside Mortgage Finance
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
2. Will nonprime grow, stabilize, or shrink?

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?

What pressure will demographics and product innovation exert over the long-term?
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
2. Will nonprime grow, stabilize, or shrink?

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

Graph:
- Vertical axis: Today's origination volumes
- Horizontal axis: 2006 to 2010-2012
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
Minority households are twice as likely to use subprime mortgages, regardless of income.

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

|                    | Low Income
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(≤ 80% of Median Family Income)</td>
</tr>
<tr>
<td><strong>Non-Hispanic White</strong></td>
<td>25% (Subprime)</td>
</tr>
<tr>
<td><strong>Minorities</strong></td>
<td>42% (Subprime)</td>
</tr>
</tbody>
</table>

|                    | Moderate Income
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(80-120% Median Family Income)</td>
</tr>
<tr>
<td><strong>Non-Hispanic White</strong></td>
<td>23% (Subprime)</td>
</tr>
<tr>
<td><strong>Minorities</strong></td>
<td>41% (Subprime)</td>
</tr>
</tbody>
</table>

|                    | Higher Income
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(&gt; 120% Median Family Income)</td>
</tr>
<tr>
<td><strong>Non-Hispanic White</strong></td>
<td>15% (Subprime)</td>
</tr>
<tr>
<td><strong>Minorities</strong></td>
<td>31% (Subprime)</td>
</tr>
</tbody>
</table>

Minority households are expected to account for ~70% of all household growth between 2000 to 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
2. Will nonprime grow, stabilize, or shrink?

Two Scenarios for Nonprime: Low and High Liquidity

Nonprime securitization market*
(in $ Billions)

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

Low liquidity scenario
(~20%)

Today's volume
(40% of 2006 conforming originations)
~$200B in Alt-A
~$400B in subprime

20% retrenchment in 2007
(current analyst consensus)

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

Sources: Inside Mortgage Finance; Freddie Mac Strategic Analysis

* 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
3. What is the opportunity and risk?

We see an alignment of business opportunity and mission fulfillment.

Mission

Adjacent markets

Market Share

Profitability
3. What is the opportunity and risk?

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

U.S. Homeownership Rate Projections (in Percent)

The Homeownership Gap

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Hispanic White</td>
<td>76%</td>
</tr>
<tr>
<td>Minority</td>
<td>50%</td>
</tr>
</tbody>
</table>

Assumes current homeownership gap persists

What can we do to help narrow the gap?

Source: Freddie Mac, Office of the Chief Economist; U.S. Census Bureau
### 3. What is the opportunity and risk?

**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)

<table>
<thead>
<tr>
<th>Category</th>
<th>Fixed</th>
<th>ARM/Hybrid*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>$1,050B</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CAGR = 2%</td>
<td>CAGR = 50%</td>
</tr>
<tr>
<td>Subprime</td>
<td>$120B</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CAGR = 17%</td>
<td>CAGR = 28%</td>
</tr>
</tbody>
</table>

*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
3. **What is the opportunity and risk?**

Well-Capitalized Financial Institutions Have Begun to Dominate Subprime

<table>
<thead>
<tr>
<th>2005 Subprime Originations (total market = $665B)</th>
<th>2006 Subprime Originations (total market = $640B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ameriquest Mortgage</td>
<td>1. Wells Fargo Home Mortgage</td>
</tr>
<tr>
<td>2. New Century Financial</td>
<td>2. HSBC Finance</td>
</tr>
<tr>
<td>5. Option One Mortgage</td>
<td>5. CitiMortgage</td>
</tr>
<tr>
<td>7. Fremont Investment &amp; Loan</td>
<td>7. Fremont Investment &amp; Loan</td>
</tr>
<tr>
<td>8. First Franklin Financial Corp.</td>
<td>8. Ameriquest Mortgage</td>
</tr>
<tr>
<td>9. GMAC-RFC</td>
<td>9. Option One Mortgage</td>
</tr>
<tr>
<td>10. HSBC Finance</td>
<td>10. First Franklin Financial Corp.</td>
</tr>
<tr>
<td>12. CitiMortgage</td>
<td>12. GMAC-RFC</td>
</tr>
</tbody>
</table>

- = Well capitalized

Doubled volumes in 2006
- Recent credit problems, but
  - long-term commitment to business (~20% of Group profits)
- Restating 2006 earnings for insufficient repurchase reserves
- 85% increase in volume in 2006
- Delayed quarterly earnings release
- Volumes dropped 60% in 2006; Citigroup to infuse capital
- Acquired by Merrill Lynch

**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
3. What is the opportunity and risk?

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

<table>
<thead>
<tr>
<th>Loan Products</th>
<th>We like (at market price)</th>
<th>We don't like</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Our existing franchise</td>
<td>AAA Purchases</td>
</tr>
<tr>
<td>We can handle</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We can't handle</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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)
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)

- **AAA security issued by a dealer**
- **FRE-wrapped AAA security**
- **FRE pass-through**
## 4. What strategy should we pursue?

**Nonprime Could Contribute Significant Earnings**

### Illustrative economics in 2011

<table>
<thead>
<tr>
<th>New business from existing Single Family franchise (Prime)</th>
<th>New business from Nonprime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Available Originations ($ B)</td>
<td>$1,500</td>
</tr>
<tr>
<td>FRE market share</td>
<td>30%*</td>
</tr>
<tr>
<td>Purchases ($ B)</td>
<td>$450</td>
</tr>
<tr>
<td>Credit guarantee purchases ($ B)</td>
<td>$450</td>
</tr>
<tr>
<td>Risk-based capital</td>
<td>100 bp</td>
</tr>
<tr>
<td>Capital deployed ($ B)</td>
<td>$4.5</td>
</tr>
<tr>
<td>ROE</td>
<td>10-12%</td>
</tr>
<tr>
<td>Potential earnings ($ MM)</td>
<td>$450-550</td>
</tr>
<tr>
<td>Growth Rate (2011-2016)</td>
<td>10%</td>
</tr>
</tbody>
</table>

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
4. What strategy should we pursue?

**Vision for Freddie Mac: Covering the Whole Conforming Market**

- **We make home possible**

**Conforming mortgage market**

- **Prime**
- **Alt-A**
- **Subprime**

Broaden the spectrum of loans we are willing to purchase

**Our franchise:**
Maximize shareholder returns by opportunistically varying our retained interests and leveraging market bids for other exposures

**Credit and Interest Rate Risk Portfolios**

<table>
<thead>
<tr>
<th>Capital Markets</th>
<th>External Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dispose of interest rate or credit risk (e.g., PC, structured securities, CDS)</td>
<td>We have a competitive advantage versus Fannie Mae in capital markets and risk management capabilities</td>
</tr>
</tbody>
</table>

**Hold interest rate or credit risk**
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
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
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