



Federal Housing Finance Agency

OFFICE OF SUPERVISION

August 22, 2008

Mr. Richard F. Syron
Chairman and Chief Executive Officer
Federal Home Loan Mortgage Corporation
8200 Jones Branch Drive
McLean, VA 22102-3110

Re: Notice of Proposed Capital Classification at June 30, 2008
FRE-OCS-2008-712

Dear Mr. Syron:

Section 1364 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act, Division A of the Housing and Economic Recovery Act of 2008, Public Law No. 110-289, 122 Stat. 2654 (2008), and 12 C.F.R. § 1777.21 require that the Federal Housing Finance Agency (FHFA) determines the capital classification of the Federal Home Loan Mortgage Corporation (Freddie Mac) not less than quarterly. FHFA hereby provides Freddie Mac with notice that the proposed capital classification of Freddie Mac is adequately capitalized at June 30, 2008. The proposed capital classification takes into account the capital management actions being undertaken and planned to ensure capital is maintained above the 20 percent FHFA-directed requirement.

In making this proposed capital classification, FHFA reviewed Freddie Mac's minimum capital reports submitted on July 30, 2008 and, relying on the information contained in such reports, determined that Freddie Mac's core capital exceeds the FHFA-directed minimum capital requirement, as well as the statutory minimum capital requirement.

FHFA also applied the risk-based capital (RBC) stress test specified in FHFA regulation to the RBC Report data delivered by Freddie Mac on August 11, 2008 and determined that Freddie Mac's total capital exceeded the required level. The proposed capital classification is based upon financial information that is certified and represented as true and correct by Freddie Mac's management.

Freddie Mac is required to maintain a capital surplus in accordance with the capital directive issued by FHFA on January 28, 2004 and in accordance with approved capital plans. As outlined in the May 13, 2008 letter to Freddie Mac, FHFA will reduce the amount of the FHFA-directed requirement to 15 percent following the successful raising of new capital in the amount of at least \$5.5 billion, assuming no adverse changes to ongoing regulatory compliance. FHFA will continue to expect that Freddie Mac's capital plans demonstrate compliance with the FHFA-directed capital requirement.

Despite the statutory classification of "adequately capitalized," we remain seriously concerned about the current level of Freddie Mac's capital in view of the potential magnitude of future credit losses and Freddie Mac's failure to raise equity as agreed last March. As a reminder, FHFA's Director has the discretionary authority to downgrade a capital classification.

Separately, FHFA determined that Freddie Mac's total capital and qualifying subordinated debt exceeded the requirements outlined in the agreement dated September 1, 2005.

The enclosures summarize FHFA's calculation of Freddie Mac's critical, minimum, and risk-based capital levels and total qualifying subordinated debt levels at June 30, 2008.

Please provide a written response to this notice not later than September 5, 2008. The response must provide either Freddie Mac's concurrence with the proposed classification or additional information for FHFA's consideration in classifying or reclassifying Freddie Mac. Freddie Mac's failure to respond within the allotted response period, unless otherwise extended by FHFA, shall waive any right of Freddie Mac to comment on or object to the proposed classification. The notice should be provided to me with a copy to Scott Smith, Associate Director, Office of Capital Supervision. If you have any questions please feel free to contact Scott or me.

Sincerely,



Christopher H. Dickerson
Acting Deputy Director
Division of Enterprise Regulation

Enclosures

cc: Jerry Weiss

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FEDERAL HOME LOAN MORTGAGE CORPORATION
Minimum Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

COMPONENTS OF THE MINIMUM CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	21,667
OFF-BALANCE SHEET OBLIGATIONS	
MBS and Equivalents	6,262
Commitments	551
OTHER OFF-BALANCE SHEET OBLIGATIONS	
Interest Rate and Foreign Exchange Rate Contracts	139
Sold Portfolio Remittances Pending	10
Other Off-Balance Sheet Obligations	80
MINIMUM CAPITAL - Statutory Requirement	28,709
MINIMUM CAPITAL - FHFA-directed 20% Requirement	34,451
CORE CAPITAL	37,128
SURPLUS (DEFICIENCY) (based on FHFA-directed Requirement)	2,676

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Critical Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

COMPONENTS OF THE CRITICAL CAPITAL LEVEL	
ON-BALANCE SHEET ASSETS	10,833
OFF-BALANCE SHEET OBLIGATIONS	3,913
CRITICAL CAPITAL LEVEL	14,746
CORE CAPITAL	37,128
SURPLUS (DEFICIENCY)	22,382

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Risk-Based Capital Level
June 30, 2008

SUMMARY

(Dollars in millions)

STRESS TEST SCENARIO RESULTS	
UP-RATE SCENARIO	237
DOWN-RATE SCENARIO	20,139
RISK-BASED CAPITAL LEVEL	20,139
TOTAL CAPITAL	42,916
SURPLUS (DEFICIENCY)	22,777

Note: Totals may not add due to rounding.

FEDERAL HOME LOAN MORTGAGE CORPORATION
Qualifying Subordinated Debt
June 30, 2008

SUMMARY

(Dollars in millions)

QUALIFYING SUBORDINATED DEBT PLUS TOTAL CAPITAL RESULTS (1, 2)	
TOTAL CAPITAL	42,916
TOTAL QUALIFYING SUBORDINATED DEBT	3,669
TOTAL CAPITAL AND QUALIFYING SUBORDINATED DEBT	46,585
CAPITAL REQUIREMENT FOR 4.0% OF ON-BALANCE SHEET ASSETS AND 0.45% OF NET MBS/PCs OUTSTANDING	41,509
SURPLUS (DEFICIENCY)	5,076

1. Totals may not add due to rounding
2. Qualifying Subordinated Debt is defined as subordinated debt that contains the interest deferral feature. The interest deferral requires the deferral of interest payments for up to 5 years if:
 - a) The corporation's core capital falls below 125% of critical capital, or
 - b) The corporation's core capital falls below minimum capital AND, pursuant to the corporation's request, the Secretary of the Treasury exercised discretionary authority to purchase the company's obligations under Section 306(c) of the Freddie Mac Charter Act and Section 304(c) of the Fannie Mae Charter Act

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