

2000 Examination Results and Conclusions Overview Prepared for Freddie Mac's Board of Directors

Members of the Board:

I am writing to share the results and conclusions of OFHEO's 2000 annual risk based examination of Freddie Mac. I am pleased to share the conclusion from our 2000 examination work that Freddie Mac is a well-run company in a financially safe and sound condition. Our judgments of Freddie Mac's condition, shared with you here, were formed during OFHEO's onsite examination and reflect OFHEO's assessment of Freddie Mac's current risk profile and risk management techniques. These judgments are also factored into OFHEO's process for determining Freddie Mac's capital adequacy.

OFHEO's examination program is committed to providing customized communications to ensure that each audience is provided with an appropriate level of information and detail. **Accordingly, this Overview is intended to provide Freddie Mac's Board of Directors with the necessary information about the results and conclusions of OFHEO's 2000 examination.** For more detail, Members of the Board may refer to the Summary Analysis portion of this report. Through the course of the 2000 examination process, OFHEO's examination staff and management had even more detailed communications with personnel across the company. The cooperation, professionalism, responsiveness and courtesies Freddie Mac management and employees extended to OFHEO's examination staff are appreciated.

This Overview and the Analysis Supporting the Overview should be considered in the context of OFHEO's annual risk based examination program. The examination program is described in our *Examination Handbook* which has been provided to management. In brief, OFHEO's annual risk-based examination program encompasses the major areas of financial risk confronting Freddie Mac, and the quality of governance exercised in managing both those risks and Freddie Mac's business. Within OFHEO's examination program there are discrete program areas that evaluate a wide-ranging series of qualitative and quantitative features of those program areas. While conducting work in the discrete program areas, examiners focus on: the quality of Freddie Mac's policies and the adherence to these policies; the quality of the tools used to select and manage risks and portfolios of risk; the expertise of personnel and management; the effectiveness of business processes; the quality of management reporting; and the effectiveness of and adherence to Freddie Mac's control framework. In both this Overview and Analysis Supporting the Overview, we report results and

conclusions for the examination program areas: Credit Risk, Interest Rate Risk, Liquidity Management, Information Technology, Internal Controls, Business Process Controls, Audit, Board Governance, Management Information, and Management Processes.

In accordance with our examination program, the results and conclusions for each program area are reported in relation to safety and soundness standards – whether they meet, exceed, or fail to meet safety and soundness standards. The results of the 2000 examination show that in all of the program areas, Freddie Mac exceeds safety and soundness standards.

Freddie Mac's credit risk management and credit risk management framework exceed safety and soundness standards. The portfolio is diversified and the profile of credit risk is in compliance with the internally prescribed limits. Policies, procedures, internal controls and management reporting for the credit function are effective. Freddie Mac is adequately compensated for the credit risk it assumes. Management prudently manages counterparty exposure. New products and initiatives are well-researched prior to implementation. The process for determining the reserve for credit losses, credit risk sharing strategies, and the credit risk management tools management uses are effective. Freddie Mac effectively identifies, quantifies and tracks its credit risk exposures. Management has an effective means for following up on credit-related issues. The technology and controls supporting the credit risk management function are effective. Management effectively reconciles differences between actual and expected credit portfolio performance.

Freddie Mac's interest rate risk management exceeds safety and soundness standards. The policies, procedures, internal controls and management reporting relating to interest rate risk are effective. Management has a meaningful methodology for quantifying and monitoring the level and nature of interest rate risk. Freddie Mac's management effectively follows up on issues related to interest rate risk. Freddie Mac appropriately researches and controls the extent to which new products and initiatives may impact the interest rate risk profile. The technology and controls supporting the interest rate risk management function are effective. The tools used to model interest rate risk and the strategies to alter the exposures to interest rates are effective. Management effectively incorporates tactical and strategic issues into the management of interest rate risk. The responsibilities for strategy and analytics functions are appropriately separated from those for the execution functions. Derivative instruments are used prudently and in accordance with the standards used by other large financial intermediaries.

Freddie Mac's liquidity management framework exceeds safety and soundness standards. The policies, procedures, internal controls and management reporting relating to liquidity management are effective. Management has an effective methodology for quantifying and monitoring liquidity, and management

appropriately evaluates the impact of events and alternative environments when developing contingency plans. The planning process for liquidity management is effective. Freddie Mac appropriately considers the impact new products and initiatives may have on liquidity. Management effectively follows up on issues and initiatives that influence liquidity. Technology and controls for liquidity management are effective. The quality of tools Freddie Mac uses to manage and monitor liquidity, and the quality of tools used to perform scenario analyses are effective. An appropriate separation of duties exists between the strategy and analytics functions and the execution function. There are no adverse trends or anomalies in funding spreads. Liquidity management is appropriately integrated with other management and with financial performance issues.

The information technology infrastructure and surrounding risk management framework exceed safety and soundness standards. Operating processes are in place to ensure secure, effective and efficient data center processing and problem management. There are effective policies and processes in place to ensure that data, information and computing resources are secure and accessed only by authorized users. There are effective policies and processes in place to ensure the timely and appropriate resumption of business in the event of a disaster. Management has an adequate process to ensure information technology plans effectively address business unit and corporate objectives. Effective processes are in place to ensure appropriate controls are implemented. Documentation for system development and maintenance is complete. Freddie Mac has implemented effective processes to ensure data and information are processed accurately and in a timely manner.

The internal control framework and the management of that framework exceed safety and soundness standards. Management has an accurate and reliable process for identifying risks to business processes and implementing appropriate controls. Implemented controls properly address risks assessed by management. Management has a reliable process for ensuring the timely resolution of control related issues. Internal Audit appropriately identifies and communicates control deficiencies to management and the Board of Directors. There are established policies and procedures that delineate internal control process and standards for the control environment. Management effectively ensures compliance with established internal controls.

The audit functions exceed safety and soundness standards. The Internal and External Audit functions have the appropriate independence. Auditors performing the work possess appropriate professional proficiency. The scope of audit work performed is appropriate, and the audit work is complete. The management of the Internal Audit department is effective. Executive management and the Board of Directors are appropriately involved with and follow up on identified audit issues. The auditor's risk assessment process is effective. Internal Audit is appropriately involved in new products and new initiatives.

The Board discharges its duties and responsibilities in a manner that exceeds safety and soundness standards. We consider the Board to be appropriately engaged in the development of a strategic direction for the company. From our point of view, the Board ensures that management appropriately defines the operating parameters and risk tolerances of the Enterprise in a manner consistent with the strategic direction; legal standards; and ethical standards. Our examination activities find that the Board has an effective process for hiring and maintaining a quality executive management team, and that the Board has processes in place designed to hold the executive management team accountable for achieving the defined goals and objectives. We consider the Board to be appropriately informed of the condition, activities and operations of the Enterprise. From our perspective, the Board has sufficient, well-organized time to carry out its responsibilities.

The framework used to produce timely, accurate and reliable reports exceeds safety and soundness standards. Management and the Board of Directors receive necessary reports on Freddie Mac's performance relative to established goals and objectives. Management reporting provides the levels of management with the necessary information to carry out their responsibilities efficiently and effectively. Management reporting permits management to gauge the quality of their decisions. Information systems are linked to Freddie Mac's overall strategy, and are developed and refined pursuant to a strategic plan. The reports management uses for decision making are accurate. Management communicates Enterprise strategy, roles and responsibility. Employees have effective channels of communication to provide feedback, report suspected improprieties and suggest enhancements. Communications across the company are adequate.

Key management processes that influence corporate-wide behaviors exceed safety and soundness standards. The strategic planning process is comprehensive and dynamic. Business unit goals are effective. Implementation plans and programs designed to achieve the corporate plan are satisfactory. Management monitors and manages change. Key performance measures are appropriate, effective and align with strategy. The behavior management programs are designed to achieve corporate goals and objectives. Freddie Mac has programs for career and management development, and for recruiting competent people. Freddie Mac's proprietary risk management programs and systems are effective. Management effectively conveys an appropriate message of integrity and ethical values. Management's philosophy and operating style have a pervasive effect on the company. The organizational structure and the assignment of responsibility provide for accountability and controls.

Our 2000 examination work did not identify any matters requiring the direct involvement of the Board of Directors. Had there been any issues meriting your direct involvement or immediate attention, I would have apprised you of that fact earlier. If anything arises during the 2001 examination that you should be aware of or involved with, consistent with our communication standards, I will share that information with you in a timely fashion. In addition, I will continue to provide periodic updates to ensure the Board and executive management are appropriately apprised of our examination judgments about the financial safety and soundness of Freddie Mac.

This Report of the 2000 Examination Results and Conclusions contains both examination-related information gained by OFHEO through its examination process and examiner judgments. We ask that you accord this document appropriate confidential treatment.



G. Scott Calhoun
Chief Examiner
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2000 Examination Results and Conclusions Analysis Supporting the Overview Prepared for Freddie Mac's Board of Directors

This section of the Report provides summary analysis supporting results and conclusions for the Credit Risk, Interest Rate Risk, Liquidity Management, Information Technology, Internal Controls, Business Process Controls, Audit, Management Information, Management Processes and Board Governance examination program areas. The summary analysis describes our assessment of the examination objectives that are unique to each program area.¹ This section provides an assessment of, and support for, the examination objectives and rates each examination objective on a scale of "meets," "exceeds" or "fails to meet" safety and soundness standards.

CREDIT RISK PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the risk management framework surrounding credit risk.*

The risk management framework surrounding credit risk exceeds safety and soundness standards.

- The policies, procedures, internal controls and management reporting for credit risk management are effective. Policies and procedures, including underwriting and servicing guidelines, are thorough, comprehensive, well-documented, appropriately distributed and appropriately updated. The internal controls related to credit risk management are comprehensive. The internal controls are developed, applied and appropriately reviewed and revised by management. Management reporting for credit risk is comprehensive, timely, appropriately detailed, informative, and tracks variances between actual performance and business objectives.
- Freddie Mac has a comprehensive framework that ensures new products, programs and initiatives further the company's mission and objectives, and do not adversely impact the company's credit risk profile. Management effectively uses pilot programs with selected lenders to thoroughly evaluate the impact of new products on the company's credit risk profile.

¹ The examination objectives common to all program areas are not included in this report. The common examination objectives which are set forth in the *Examination Handbook* do not reflect the financial safety and soundness of Freddie Mac, but instead relate to OFHEO's examination process.

- Freddie Mac's loan loss allowance determination process is effective and results in management's making well-informed decisions about the level of the loan loss reserve. The process results in a loan loss reserve that is appropriately based on economic estimates, movements in house prices, projected business volumes, the composition of the existing mortgage portfolio, historical performance, and identifiable performance trends. The conservative approach to the loan loss allowance process is well-documented and utilizes a proven and reliable financial simulation model.
- Freddie Mac has an extensive, high-quality methodology for identifying and quantifying its credit risk exposure. Freddie Mac uses a variety of reliable tools and effective processes that identify and quantify the company's credit exposure. Management thoroughly analyzes Freddie Mac's total mortgage portfolio using appropriate factors such as product type, borrower credit profile, loan-to-value (LTV), origination year, and geographic region. Technology tools and the company's substantial databases allow management to assess the performance, profitability and credit risk exposure of each segment of Freddie Mac's total mortgage portfolio.
- Freddie Mac's effective system of tracking and analyzing credit risk exposures provides appropriate credit-risk related information to different levels of management. The different levels of management receive appropriately detailed, periodic reports that facilitate the effective tracking and analysis of credit risk exposures. Regular reports address portfolio performance, delinquency, foreclosures, credit losses, product composition, geographic and market concentrations, quality control findings, real estate owned (REO), loan repurchase trends, seller/servicer performance, loan loss forecasts and expected economic and market trends. Ad hoc reporting capabilities allow management to conduct focused analyses of emerging credit risk issues.
- Freddie Mac routinely and consistently reconciles differences between actual and expected credit portfolio performance. Material variances between the actual and expected results are effectively and appropriately detailed in management reports. Deviations from expected performance are discussed and addressed during regular management meetings.
- Freddie Mac's management effectively follows up on credit related issues. The company's operating framework and reporting structure support management's ability to follow up on credit related issues in an effective manner. Regular meetings among individuals responsible for credit risk management and effective reporting allow management to track and address significant credit related issues in a timely fashion.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes occurring in the level and quality of credit risk as well as the potential impact on the Enterprise.*

The level and quality of credit risk in the portfolio exceed safety and soundness standards.

- Freddie Mac completed several subprime structured transactions in 2000 and developed new single-family products, some of which have risk profiles that differ from the Enterprise's traditional product line. Neither the structured subprime transactions nor the characteristics and performance of the products introduced in 2000 present a risk profile drastically different from the Enterprise's core business. The transactions and new products do not threaten to compromise the credit quality of the Enterprise's total mortgage portfolio.

EXAMINATION OBJECTIVE: *Assess the overall adequacy and effectiveness of credit risk management. Determine how well the Enterprise manages and/or hedges credit risk.*

Credit risk management at Freddie Mac exceeds safety and soundness standards.

- Freddie Mac's retained and guaranteed credit portfolios are appropriately diversified and are in compliance with management's prescribed limits and guidelines. The bulk of the mortgage portfolio consists of long-term fixed-rate loans which present a relatively low credit risk profile. The mortgage portfolio is appropriately diversified in terms of overall credit risk profile. The total portfolio is geographically diversified and Freddie Mac is not unduly exposed to credit losses attributable to regional economic fluctuations. The concentrations of mortgages in highly-populated states and metropolitan areas are not excessive and do not raise safety and soundness concerns.
- Freddie Mac is adequately compensated for the credit risk it assumes, and credit models produce reliable results. Freddie Mac uses a variety of effective analytical tools, processes, and tracking mechanisms to ensure that the company is adequately compensated for the credit risk it assumes. Freddie Mac's credit models provide reliable predictions of future mortgage performance; identify delinquent loans that are most likely to result in default and foreclosure; generate dependable quality ratings of seller/servicers; recommend methods of property valuation; evaluate repair/increased value scenarios for REO; and analyze mortgage pools to identify the highest grade pieces. Management appropriately assesses the credit models periodically and identifies those models that should be enhanced or replaced.

- Freddie Mac prudently manages counterparty exposure. Freddie Mac's effective counterparty risk management framework protects the Enterprise against the risk that seller/servicers, private mortgage insurers (MIs) and multifamily lenders will fail to meet their obligations. Freddie Mac establishes appropriate performance benchmarks for seller/servicers, and effectively measures, analyzes and tracks seller/servicer performance. Freddie Mac requires MIs to meet and maintain appropriate financial strength and performance measures. Freddie Mac also manages its counterparty exposure by establishing concentration limits for MIs. Freddie Mac addresses the risk of a multifamily lender's failure by monitoring the multifamily lenders' financial performance, and evaluating the lenders' practices and performance.
- Freddie Mac's credit risk management tools are comprehensive, reliable and effective. Management appropriately assesses the effectiveness of credit risk management tools on a regular basis, and revises/replaces them as warranted. Loan Prospector is an effective risk assessment/decision support tool. Freddie Mac uses effective credit risk tools to select the method of collateral valuation, to approve seller/servicers as business partners, to negotiate terms of business, price credit risk exposures, and to monitor and track lenders and servicers.
- Freddie Mac's risk sharing strategies effectively reduce the company's exposure to credit risk. The predominant form of risk sharing Freddie Mac uses is private mortgage insurance, and Freddie Mac requires mortgage insurance companies to maintain appropriate financial capacity. Its monitoring of mortgage insurance companies' performance and condition position Freddie Mac to anticipate, rather than merely react to, developments that could impair the effectiveness of risk sharing strategies. Freddie Mac also effectively monitors the performance of its other risk sharing strategies, including government guarantees and recourse arrangements.
- The technology and controls supporting Freddie Mac's credit risk management function are effective. Business unit personnel receive appropriate technology support, and technology tools are appropriately integrated with business needs. There is a strong and effective control environment surrounding credit risk management functions across Freddie Mac.

INTEREST RATE RISK PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the risk management framework surrounding interest rate risk.*

The management framework surrounding interest rate risk exceeds safety and soundness standards.

- Policies, procedures, internal controls and management reporting relating to interest rate risk are effective. All departments that manage interest rate risk have appropriately detailed and current policies and procedures. Policies and procedures relating to hedging and derivatives have been revised to reflect the impact of FAS 133. The personnel involved with interest rate risk know and comply with these policies and procedures. The risk limits for portfolio market value sensitivity (PMVS) and other risk measures such as changes in volatility and LIBOR-discount note spread are clearly communicated. The control framework includes the appropriate separation of interest rate risk analysis functions from the transaction functions. Management reports provide clear, concise information on the market environment, its impact on Freddie Mac's interest rate risk profile and the company's earnings projections.
- Management effectively follows up on issues related to interest rate risk. Management effectively monitors its interest rate risk profile on a continuous basis, and throughout 2000 Freddie Mac's interest rate sensitivity remained below both operating- and Board-limits. Freddie Mac thoroughly analyzes and follows up on interest rate risk issues such as: risk/reward relationships, balance sheet sensitivity, potential changes in duration and convexity, and the effects of rebalancing transactions in appropriate daily, weekly and monthly settings.
- The impact of new products, programs and initiatives on the company's interest rate risk profile is well researched and receives appropriate senior management and Board review prior to implementation. Significant corporate resources were devoted to researching the impact of FAS 133 on the volatility of Freddie Mac's earnings and capital. The new Euro-Reference Note program enhanced Freddie Mac's risk management and improves the company's risk profile.
- The appropriate separation of responsibilities exists between the strategy and analytics function and the execution function. Within the Funding and Investments Division, one unit is responsible for executing transactions for the retained portfolio while another unit is responsible for strategy and analysis. No personnel who execute trades are in the units responsible for developing

and coding various interest rate risk models. The Market Risk Oversight unit is independent of the division that manages interest rate risk and executes trades.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes occurring in the level and quality of interest rate risk as well as the potential impact on the Enterprise.*

Freddie Mac's management of changes in the level and quality of interest rate risk exceeds safety and soundness standards.

- In 2000 Freddie Mac enhanced its PMVS reports by developing duration estimates for non-parallel movements of the yield curve, and included this new metric in the daily PMVS process.
- In preparation for the implementation of FAS 133, Freddie Mac developed a hedging strategy that will enable the company to continue to derive the economic benefits of its risk management strategy while minimizing the volatility of earnings caused by adoption of the accounting standard.
- Freddie Mac upgraded its accounting systems to produce financial statements and documentation that meet FAS 133 requirements.
- Freddie Mac took advantage of favorable market conditions to initiate a program that uses short-dated options to effectively manage interest rate risk.
- During the third quarter of 2000, Freddie Mac priced its first \$5 billion 10-year Euro-Reference Note.
- Management continued its efforts to enhance the depth and expertise of the staff associated with the derivatives transactions, and developed the *Business Change Management* function to monitor and coordinate changes impacting debt and derivatives baseline resources.

EXAMINATION OBJECTIVE: *Identify and evaluate the use of derivative instruments.*

Freddie Mac's framework for managing the use of derivative instruments exceeds safety and soundness standards.

- Freddie Mac uses derivative instruments in a prudent manner. Derivatives are used in a manner that is consistent with the corporate risk management policies. Freddie Mac uses derivatives primarily for reducing interest rate risk, with the majority of the derivative contracts used as a substitute for non-callable debt. Interest rate futures are used to mitigate the risk of anticipated debt issuances. The swaptions portfolio is used as a substitute for callable debt, and the interest rate caps and floors are used to hedge the rollover of Discount Notes or floating rate debt. Basis swaps are used to convert the index of floating rate debt, and foreign currency swaps are used to hedge the foreign exchange risk associated with foreign denominated debt. Our examination found no instance of the company's using derivatives as a speculative vehicle. Derivatives are marked to market daily, and are included in interest rate risk sensitivity analyses and in cash management forecasts. The staffs that analyze and execute derivative transactions are experienced and well trained professionals. Systems for data capture, processing, settlement and management reporting are adequate and will be enhanced with the full implementation of the ALADDIN trading system. Management reports for derivatives are comprehensive and identify important attributes of the instruments.
- Management governs the use of derivatives in accordance with the standards used by other large financial intermediaries. Freddie Mac measures the credit risk and market risk of its derivatives portfolio independently of the portfolio management function. Freddie Mac has a sound method for determining mark to market exposure for collateral obligations. Counterparty risk is appropriately diversified. Management places appropriate emphasis on the derivative counterparty's credit rating as well as its business experience and reputation. Management effectively monitors and measures counterparty exposures.

EXAMINATION OBJECTIVE: *Assess the overall adequacy and effectiveness of interest rate risk management. Determine how well the Enterprise manages and/or hedges interest rate risk.*

Freddie Mac's management of interest rate risk exceed safety and soundness standards.

- Management has established a meaningful methodology for quantifying and monitoring the level and nature of interest rate risk. Freddie Mac uses a robust PMVS measurement to gauge market value sensitivity. Freddie Mac sends detailed balance sheet data to BlackRock Financial which produces the "Green Package" that contains duration and convexity information on all of Freddie Mac's assets and liabilities. Every day, Freddie Mac's management

estimates the company's PMVS, an estimate of how much market value Freddie Mac would lose if the yield curve moved parallel 50 basis points, up or down. Freddie Mac's Rebalancing Committee meets weekly to assess the PMVS and to determine what actions are appropriate to keep the PMVS within the desired range. While Freddie Mac's PMVS is monitored and managed everyday based on parallel yield curve shifts, management performs other analyses including rate scenarios incorporated into stress test models. During 2000, Freddie Mac worked to enhance its PMVS reports by developing duration estimates for non-parallel movements of the yield curve.

- Throughout 2000 Freddie Mac's interest rate sensitivity remained below both operating- and Board-limits.
- Technology and controls supporting the interest rate risk management function are effective. Freddie Mac has specialists who develop new tools, maintain a reliable hardware infrastructure and enhance and maintain existing applications for interest rate risk management. Controls are in place to ensure the integrity of data used in interest rate risk and portfolio management models. Freddie Mac has a rigorous reconciliation process for ensuring the data entered into interest rate risk models are complete and correct.
- The tools used to model interest rate risk and the strategies to alter the exposures to interest rates are effective. Freddie Mac has tools that evaluate the effect of changing interest rates on all areas of its balance sheet. The NIMFEST model has enhanced Freddie Mac's capabilities for estimating the sensitivity of net interest income to changing interest rates. The prepayment models are well documented and incorporate a wide range of appropriate factors. Interest rate generation models incorporate appropriate parameters and are rigorously tested and documented. The assumptions and parameters of models used to manage interest rate risk are continuously reviewed for reasonableness by both the developers and users of the models.

LIQUIDITY MANAGEMENT PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the liquidity positions and surrounding management framework.*

Freddie Mac's management of its liquidity exceeds safety and soundness standards

- The policies, procedures, internal controls, and management reporting relating to liquidity management are effective. The Funding and Investments Division's policies and procedures detail the nature of liquidity risk and how it is managed. Risk limits and lines of authority are clearly identified in policies and procedures. There are guidelines with respect to credit, maturity and issuer diversification, as well as for who may initiate transactions relating to non-mortgage investments, derivatives and debt issues. The types of investments in the Liquidity and Contingency Portfolios are consistent with Freddie Mac's goals and strategies. The internal controls for liquidity management are strong and operate as intended. Management reports are timely, accurate and provide meaningful information on liquidity. Reporting on the Liquidity and Contingency Portfolio was enhanced by adding ABS deal information. The various daily, weekly and monthly reports are appropriately distributed and support management's ability to make tactical and strategic decisions.
- Management has established an effective methodology for quantifying and monitoring liquidity. Management routinely evaluates the impact of events and alternative environments, and develops appropriate contingency plans. Management reviews short term cash requirements, purchase commitments and funding costs daily. Freddie Mac assesses the adequacy of its liquidity in simulated interest rate environments through various effective models and stress tests.
- The planning process for liquidity management, including tactical, strategic and contingency planning is effective. Freddie Mac's planning takes short term cash needs, access to capital markets, cost of capital and the ability to liquidate market positions into consideration. The Funding and Investments Division plans and forecasts cash needs on a daily, weekly, monthly and quarterly basis. Capital allocation strategies allow Freddie Mac to take advantage of opportunities to increase mortgage purchases. The planning process will be enhanced by the "Voluntary Commitment" Freddie Mac entered into which requires the company to maintain three months of liquidity.

- Management is effective in following up on issues and initiatives that influence liquidity. The Treasurer's Office maintains continuous contact with groups whose activities impact forecasts. The forecasts capture all significant receipt and disbursement activity. Liquidity issues are covered by the audit functions and by the corporate self-assessment of risk process. Both processes have effective follow-up components.
- Technology and controls for liquidity management are effective. Freddie Mac has a sizeable, competent staff dedicated to developing tools such as the Reference Bills Internet Auction System. Financial Engineering developed a new framework for deploying Funding and Investments' models to further strengthen the effectiveness of technology and controls supporting liquidity management.
- The tools used to manage and monitor liquidity and the quality of tools used to perform scenario analyses are effective. Freddie Mac uses a variety of effective tools, including NIMFEST to assess the impact of changing interest rates on its liquidity position. Management assesses the effect of liquid investments in its interest rate risk modeling.
- The duties of the strategy and analytics functions and the execution functions are appropriately separated. Operational Risk Management monitors the compliance with separation of duties policies. The traders and portfolio analysts do not code software used for liquidity management. Regular analysis of the underlying markets is performed independently from the traders.
- Freddie Mac effectively analyzes, and is well positioned to respond to, trends and anomalies in funding spreads. Management regularly reviews and assesses spreads for discount notes, medium term notes, Reference Notes, callable debt, interest rate swaps and mortgages and non-mortgage investments relative to funding benchmarks. Freddie Mac uses information about trends and anomalies in funding spreads to make appropriate choices regarding liquidity. Management was well positioned to adjust to the higher debt costs that resulted from widened debt-to-Treasury spreads and tightened agency-to-LIBOR spreads. Management also demonstrated its ability to handle the volatility that followed Congressional hearings.
- Liquidity management is appropriately integrated into other management and financial performance issues. Liquidity risks are incorporated into corporate and business unit plans. Liquidity management is a key component of the "Voluntary Commitments" Freddie Mac entered into in late 2000. Derivatives management includes appropriate consideration of liquidity. For example, Funding and Investments fully considers the ability to get out of positions quickly and cost effectively when contemplating derivative transactions.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes occurring in the quality of liquidity and the Enterprise's position in the credit markets.*

Freddie Mac's actions in 2000 strengthened its liquidity position. The Enterprise's position in the credit markets exceeds safety and soundness standards.

- Freddie Mac increased the liquidity of its Reference programs by implementing the 2000 Non-Callable Reference Securities Calendar and the weekly internet auctions of Reference Bills, and by issuing its first Euro Reference Note.
- Freddie Mac was the first borrower to offer the full spectrum of short-term debt (1 month to 12 months) in weekly internet auctions.
- The inaugural Euro Reference Note issuance provided Freddie Mac with a diverse, new investor base, attracting more than 200 investors in more than 20 countries. One-third of the Reference securities issued in 2000 were placed with foreign investors.
- Freddie Mac's plan to maintain three months worth of liquidity while maintaining non-mortgage investments of at least 5% of on-balance sheet assets will likely further strengthen the company's position in the credit markets and its liquidity position.

INFORMATION TECHNOLOGY PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the information technology infrastructure and the surrounding risk management framework.*

The Information Technology infrastructure and surrounding risk management framework exceed safety and soundness standards.

- Freddie Mac has processes in place to ensure secure, effective and efficient data center processing and problem management. The Enterprise Capacity Performance Strategy outlines the vision for an Enterprise Capacity and Performance (ECP) function at Freddie Mac. ECP addresses critical corporate technology resources across Freddie Mac. Freddie Mac uses ECP's quantitative reporting and analysis to make timely decisions, cost-effective deployment and optimum usage of technical resources.
- There are effective policies and processes in place to ensure that data, information and computing resources are secure and accessed only by authorized users. There are effective procedures in place for network security, including specific policies limiting and prohibiting the use of "guest accounts". There are effective controls over resetting passwords for GoldWorks customers. Dial-in access is protected through Secur-ID cards and next generation RAN.
- Freddie Mac has effective policies and processes in place to ensure the timely and appropriate resumption of business in the event of a disaster. There is a comprehensive, corporate-wide Business Continuity Plan. A full schedule of tests of the company's recovery abilities was completed in 2000. The tests and results were appropriately documented, and enhancements were identified and continue to be implemented. The recovery site has sufficient equipment and space to accommodate necessary staff.
- Freddie Mac has processes in place which ensure information technology plans effectively address business unit and corporate objectives. Information Systems and Software (ISS) provides technical support at the planning stages and has established Key Performance Indicators to assess performance at the division and department levels. Information technology planning for 2000 was effective and was based on the needs identified to keep the company moving forward. The information technology strategic planning for 2001 is driven by a top-down approach after senior management identified the corporate strategy and priorities.

- Freddie Mac has effective processes in place to ensure appropriate controls are implemented and documentation for system development and maintenance is complete. A new systems development methodology has been introduced and will be fully implemented by year-end 2001. 30 classes have completed certification programs for project managers, and the Project Management Office provides assistance and support to the project managers.

EXAMINATION OBJECTIVE: *Identify and evaluate changes that may influence the risks associated with information technology as well as the potential impact on the Enterprise.*

The manner in which the Enterprise responds to and evaluates changes in Information Technology that may influence the surrounding risk framework exceeds safety and soundness standards.

- Freddie Mac is implementing a new systems development methodology that includes "best practices" for Web-based applications and integration. The new Project Management Office and the Project Management Certification Program have and will continue to enhance Freddie Mac's management of its Information Technology risks.

EXAMINATION OBJECTIVE: *Assess the overall adequacy and effectiveness of risk management and controls for information technology.*

The adequacy and effectiveness of risk management and controls for Information Technology at Freddie Mac exceed safety and soundness standards.

- Freddie Mac has implemented effective processes for the processing of data and information to ensure accuracy and timeliness. The controls surrounding the Reference Bill Auction exemplify the nature and effectiveness of controls. Freddie Mac's change management and system development methodology specify the necessary controls for ensuring data integrity and processing accuracy. Business units, Information Systems & Services and Internal Audit all play effective and appropriate roles in ensuring controls are incorporated into the application development process.

INTERNAL CONTROLS PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the framework for internal controls and the management of this framework.*

The internal control framework and the management of the framework exceed safety and soundness standards.

- Freddie Mac has accurate and reliable processes for identifying risks to business processes and implementing appropriate controls. The management assessment of risk controls (MARC) process is disciplined and provides a consistent framework for the company to discuss and monitor risks. Division Controllers have implemented effective processes that periodically evaluate the integrity of MARC reports. The Business Risk Profile Exposure Report captures Freddie Mac's exposure to ten categories of risk, and includes assessments of the effectiveness of actions designed to control identified risks.
- Freddie Mac's management has reliable processes for ensuring the timely resolution of control-related issues. The Control Issues Resolution Report and its associated tracking reports, which include forecasts for resolution, provide management with an effective means of monitoring efforts to resolve control related issues. The Risk Management Review Board and various Forums provide platforms for senior management to remain apprised of the status of resolution efforts. Internal Audit performs follow-up work within established timeframes to ensure that business units have initiated corrective actions for identified control issues, and that the actions are effective in addressing any control weaknesses.
- Freddie Mac's Internal Audit unit appropriately identifies and communicates internal control deficiencies to management and the Board of Directors. The Internal Audit program appropriately focuses on the effectiveness of controls. All full scope audits include the verification of MARC reports – Internal Audit tests business units' assertions about the effectiveness of their controls. The audit reports effectively provide management with key information about the quality of controls and clearly note identified deficiencies. The audit reports and summaries of the audit findings are appropriately distributed to management. Through its Audit Committee, the Board is appropriately apprised of Internal Audit activities, including findings about the effectiveness of controls.

- Freddie Mac has established policies and procedures that delineate internal control processes and standards for the control environment. Freddie Mac has an effective process for developing corporate wide internal control policies. The business units across the company have appropriate policies and procedures that specify authorization and approval limits. Management controls across the company are comprehensive and well-documented.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes that may influence the quality of internal controls and the potential impact on the Enterprise.*

- There were no significant changes in 2000 influencing the quality of internal controls.

EXAMINATION OBJECTIVE: *Determine the adequacy and effectiveness of the Enterprise's system of internal controls.*

Freddie Mac's system of internal controls and its effectiveness exceed safety and soundness standards.

- The controls Freddie Mac has implemented properly address the risks assessed by management. The effectiveness of Freddie Mac's controls is demonstrated by among other things, measures of credit performance, liquidity, interest rate exposure, as well as by the results of audit activities.
- Freddie Mac's management ensures compliance with established internal controls. Management actively monitors compliance with internal controls and has effective processes in place to support the timely and effective resolution of deviations from established controls.

BUSINESS PROCESS CONTROLS PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the framework for building the control environment surrounding revisions to the business proposition or new initiatives.*

The framework for building the control environment surrounding revisions to the business proposition or new initiatives exceeds safety and soundness standards.

- The processes and control environment Freddie Mac uses when considering or developing new or substantially revised business initiatives is effective. Freddie Mac's Product Development Process manual provides a comprehensive road map for successful launch and introduction of new or substantially revised business initiatives. Freddie Mac's six-level development process lifecycle provides a standard and effective control environment for new or substantially revised business initiatives from concept through feasibility to rollout and post implementation assessment. Internal Audit's SDR, or Systems Development Review process which requires Internal Audit to sign off on the appropriateness and effectiveness of controls surrounding new applications contributes to Freddie Mac's strong control environment for new or substantially revised business initiatives.
- The communication flows associated with the new or substantially revised business initiatives are effective. Freddie Mac's processes for new or substantially revised business initiatives appropriately include communication plans. The regular use of committees, teams and forums in connection with new or substantially revised business initiatives ensure that affected business units throughout the company remain appropriately apprised of initiatives and progress. Routine reports to management and Board of Directors are designed to capture and share information about new or substantially revised business initiatives.
- The balance between risk management, internal controls and the pressure to develop new or substantially revised business initiatives is appropriate. The analysis and review that occur before, during and after a product's rollout is meticulous and deliberate. Although this can have the effect of slowing a product's introduction to the market place, this cautious approach provides management with the ability to evaluate the controls and manage the risks that are desirable for a business initiative relative to the company's strategic goals.

- Freddie Mac effectively uses pilot programs in connection with its new and substantially revised business initiatives.
- Freddie Mac's corporate culture and desired employee behaviors are *appropriately considered when developing plans for managing and marketing new or substantially revised business initiatives.*
- The analyses Freddie Mac conducts to determine whether launched new or substantially revised business initiatives are *successful and/or have aspects that warrant reconsideration or modification, are effective.* The analysis and review that occur after the rollout of an initiative is meticulous and deliberate. Regular management reports and audit reports provide relevant information about the success of new or substantially revised business initiatives and their impact on the company's risk profile.
- Freddie Mac's corporate environment promotes and supports the introduction of new ideas and intellectual capital. Freddie Mac supports and encourages new ideas, and its corporate Needs Database is a storehouse for ideas identified by both internal and external sources. Ideas in the Needs Database are developed into initiatives when there is an identified market need that fits Freddie Mac's risk-management framework.

EXAMINATION OBJECTIVE: *Determine the adequacy and effectiveness of the due diligence process for new or revised business initiatives.*

The due diligence process for new or revised business initiatives exceeds safety and soundness standards.

- The criteria Freddie Mac uses to subject a business initiative to review as new or substantially revised are appropriate. The criteria are standardized across the company, and are appropriately focused on risk.
- The analysis and review Freddie Mac conducts for new or substantially revised business initiatives are appropriate. The Product Development Process Manual is a comprehensive and well-thought out guide that ensures the rigorous review and analysis of business initiatives addresses the management of the means by which the strategic goals are to be achieved, and that the attendant risks are appropriately managed and controlled. The layers of review and analysis conducted by multiple teams of management at different stages of the development lifecycle are effective.

- Freddie Mac's Board of Directors and executive management are appropriately informed about the adequacy of due diligence for new or substantially revised business initiatives. While initiatives are being developed, the teams, committees and forums responsible for the initiatives keep management and the Board of Directors appropriately informed through regular and periodic status reports.

AUDIT PROGRAM

EXAMINATION OBJECTIVE: *Assess the overall adequacy and effectiveness of both internal and external audit functions and the management of the audit program.*

The effectiveness of the internal and external audit functions and the management of the audit program exceed safety and soundness standards.

- Freddie Mac's audit functions have appropriate independence. Audit reports and memos appropriately reflect the observations and control weaknesses made by the auditors. The internal auditors conduct appropriate verification and testing, and all full scope audits assess the reliability of the business unit reports on the effectiveness of controls (MARC). The internal auditor's disagreements with management's assessment of controls (including finding they are stronger than management assesses them to be) evidence the independence of the internal audit function. Both the internal and external auditors meet in executive session with the Audit Committee. The process by which the external auditor is selected supports the independence of that function. The external auditor's plan included appropriate verification and testing work. The Board's direction to management to develop recommendations concerning the non-audit services provided by the external auditor resulted in controls that are considered to be best practices and that enhance the independence of the external auditors.
- The auditors performing work at Freddie Mac possess appropriate professional proficiency. The Internal Audit staff have strong educational backgrounds, impressive professional certifications and significant work experience. The Internal Audit staff are provided with appropriate training, certification and continuing education opportunities that further the professional qualifications of the staff. The process Freddie Mac uses to select its external auditor appropriately includes an analysis of the auditors' experience and credentials. The work completed by both audit functions demonstrates the auditors' professional proficiency.
- The scope of the audit work performed at Freddie Mac is appropriate. The 2000 Internal Audit plan was developed using a strong risk assessment process and robust audit frequency model. The 2000 Internal Audit plan appropriately reflected internal and external changes that impacted, or had the potential to impact risk profiles and assessments. A primary focus of the 2000 Internal Audit plan was on projects related to Freddie Mac's intention to

re-examine its business strategies. The 2000 Internal Audit plan reflected the intention to use expert consultants on at least three technical audit activities. The 2000 Internal Audit plan effectively positioned Internal Audit to be responsive to changing risk profiles and assessments. Audit activities expanded appropriately when significant issues and/or significant changes occurred in Freddie Mac's structure, activities, risk exposures and/or systems. Arthur Andersen's 2000 audit plan reasonably reflected Freddie Mac's business strategies and risk management framework.

- The audit work performed at Freddie Mac is complete. The audit work conducted was consistent with audit plans, described the objectives of the audit work, listed procedures to be performed, summarized key internal controls, evaluated information received, followed-up on findings and effectively communicated results. The workpapers generated during Internal Audit's activities appropriately document the work performed and support the auditors' conclusions.
- Freddie Mac's Internal Audit Department is effectively managed. Internal Audit plans are met. The 1999 plan approved by the Audit Committee was completed during the "1999 audit year" and by the end of 2000, Internal Audit was well positioned to complete its 2000 plan. The quality of workpapers and reports demonstrate the effectiveness of Internal Audit management. Management provides the audit staff with effective and appropriate tools, and actively promotes and supports training opportunities for the audit staff.
- Freddie Mac's executive management and the Board of Directors are appropriately involved with, and follow up on, identified audit issues. There are effective processes in place to ensure that corporate management and the Board of Directors remain appropriately informed of audit issues, and the status of follow up activities.
- Freddie Mac's auditors have an effective risk assessment process. The risk assessment process used by Internal Audit is comprehensive and updated appropriately. The risk assessment process demonstrates an understanding of the significant business activities and their associated risks, including potential risks resulting from control deficiencies. The External Auditor's risk assessment process appropriately results in concentrating audit activities on activities and processes posing the highest risk to the company.

- Freddie Mac's Internal Audit Department is appropriately involved with new products and initiatives. The 2000 Internal Audit plan dedicated appropriate resources to new products and strategic initiatives. New products and initiatives are subject to timely audits. Through a variety of effective formal and informal means, Internal Audit remains appropriately informed about new products and initiatives. The model used by Internal Audit to generate the audit schedule each year appropriately defaults to audit new products and processes.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes occurring in internal and external audit functions or roles as well as the potential impact on the Enterprise.*

- In 2000 there were no significant changes in the audit functions or roles.

BOARD GOVERNANCE PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the framework for board governance and the management of this framework.*

The framework for board governance and the management of the framework exceed safety and soundness standards.

- Freddie Mac's Board of Directors remains appropriately informed of the condition, activities and operations of the Enterprise. Board packages are of the highest quality. The information contained in the Board packages is comprehensive, and in light of the meeting schedule and Board's expertise, not overwhelming. There are effective processes in place to ensure the integrity and accuracy of materials provided to the Board. The corporate organization, in particular the Management Forum which report to the Board (either directly or through Board Committees) supports the Board's ability to remain appropriately informed about issues that cross organizational lines.
- Freddie Mac's Board of Directors has sufficient well-organized time to carry out its responsibilities. The discipline of providing materials sufficiently in advance of meetings permits the Directors to maximize their time together. The timely adoption of the Audit Committee Charter required by the New York Stock Exchange evidences the Board's ability to meet deadlines.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes occurring in the structure and composition of the Board of Directors as well as the potential impact on the Enterprise.*

- There were no significant changes to the structure, and no changes to the composition of the Board of Directors in 2000.

EXAMINATION OBJECTIVE: *Determine whether the Board effectively discharges its duties and responsibilities.*

The manner in which the Board of Directors discharges its duties and responsibilities exceeds safety and soundness standards.

- Freddie Mac's Board of Directors has been appropriately engaged in the development of a strategic direction for the Enterprise. The Board has input into the company's strategic direction and has opportunities to communicate directly with management.
- Freddie Mac's Board of Directors ensures that executive management appropriately defines the operating parameters and risk tolerances of the Enterprise consistent with the strategic direction; legal standards; and ethical standards. The Board is appropriately informed of performance as it relates to established standards and goals. The Board is appropriately informed about the Code of Conduct and the level of compliance with the Code. In 2000, the Board approved significantly revised Codes of Conduct – one for the employees and one for the Board. The Board's explicit direction to management to establish controls over non-audit services provided by the External Auditor effectively established parameters.
- Freddie Mac's Board of Directors has an effective process for hiring and maintaining a quality executive management team. The individuals in executive management are well qualified for the positions they hold. The length of time it takes to fill executive management positions can be improved.
- Freddie Mac's Board of Directors holds the executive management team accountable for achieving the defined goals and objectives. Freddie Mac's performance and financial results are reflected in the executive management team's total compensation. There are identified key competencies for each member of the executive management team, and as appropriate, the Board assesses the performance of its executive management team.

MANAGEMENT INFORMATION PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the framework employed to produce reliable management information.*

The framework employed to produce reliable management information exceeds safety and soundness standards.

- Freddie Mac's information systems are linked to the company's overall strategy, and are developed and refined pursuant to a strategic plan. The various management Forums position the company to assess developing information needs. An element of the Continuous Budget Process used in 2000 required reviews of information systems and technology. The controlled communications about changes to corporate strategy, initiatives and priorities presented challenges.
- The reports used by management for decision making are accurate. The reports are subject to audit reviews, including verification. Reports used by management for decision making are generated from expected sources and roll up from business lines, through departments to Management Forum, executive management and the Board of Directors.
- Freddie Mac communicates Enterprise strategy, roles, and responsibilities. Individual positions descriptions, the Employee Performance Management Process as well as corporate-wide information sharing vehicles such as "Performance Highlights" serve to reinforce roles and responsibilities. Management Forums play an important role in communicating roles and responsibilities. Freddie Mac recognizes that effective communications enhance the ability of the company to achieve its goals and objectives. Given the volume of new and significantly revised initiatives, it is critical for management to remain vigilant in implementing its communication plans.
- Freddie Mac provides employees with effective means of providing feedback, reporting suspected improprieties, and suggesting enhancements. In addition to establishing the "David Glenn" website on the intranet, Freddie Mac took actions to address concerns identified in the 1999 Employee Preferences survey.

- Communications across Freddie Mac are satisfactory. Corporate communications are precise, and are subject to effective reviews and controls. The revisions to the Codes of Conduct evidence a commitment to clear and effective corporate-wide communications. The Management Forum are effective means of sharing information across the company that leads to integrated decision making.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes occurring that may substantially alter the production of management information as well as the potential impact on the Enterprise.*

The changes that relate to the production of management information should enhance the management information programs and processes that exceed safety and soundness standards.

- When Freddie Mac implements its IQ program, management information processes and results should be enhanced.

EXAMINATION OBJECTIVE: *Determine whether the Enterprise's management information produces timely, accurate and meaningful information and reports that are appropriately tailored for their audiences.*

Freddie Mac's management information exceeds safety and soundness standards, and produces timely, accurate and meaningful information and reports appropriately tailored for their audiences.

- Freddie Mac's executive management and Board of Directors receive appropriate reports on the Enterprise's performance relative to established goals and objectives. Key regular management and Board reports clearly and consistently indicate whether progress toward meeting goals and objectives is "on", "above" or "below" plan.

- Freddie Mac's management reporting provides the levels of management with the information necessary to carry out their responsibilities efficiently and effectively, and to gauge the quality of their decision making. Management reports include the appropriate level of detail and provide the different levels of management with information needed to identify actions that need to be taken. Management reports include appropriate information about the impact decisions have on business unit and corporate risk profiles.

MANAGEMENT PROCESSES PROGRAM

EXAMINATION OBJECTIVE: *Evaluate the framework for management processes and the management of this framework.*

The framework for management processes and the management of this framework exceed safety and soundness standards.

- Freddie Mac's strategic planning process is comprehensive. The strategic planning process is dynamic. Freddie Mac reviewed and revised its strategic goals and initiatives throughout 2000. The creation of the "Business Strategy Office" demonstrates a commitment to achieving the corporate vision. The Office is designed to position the company to more effectively implement key aspects of the multiyear strategy. The Continuous Budget Process introduced for 2000 is designed to ensure that high priority initiatives are appropriately funded. As a result, we noted that budget constraints were cited during the year as the rationale for delaying or reconsidering strategic initiatives.
- Freddie Mac's key performance measures are appropriate, effective, and align with strategy. The corporate scorecard was redesigned in 2000 to reflect changes in strategy. There are effective mechanisms in place to evaluate progress toward individual, divisional and corporate goals.
- Freddie Mac's behavior management programs are effectively designed to achieve corporate goals and objectives. Initiatives introduced in 2000 enhance the link between individual and corporate performance. The stock grant to all employees provides each employee with a tangible link between his performance and corporate results. The Break Through Awards reinforce the link between individual and corporate goals. The delay in communicating the 2000 corporate scorecard and the significant revisions to the scorecard in the third quarter impacted the ability of supervisors and employees to effectively align their performance goals with the corporate scorecard.
- Freddie Mac's management effectively conveys an appropriate message of integrity and ethical values. Freddie Mac's Code of Conduct is appropriately comprehensive and management dedicates resources to support the administration of and compliance with the Code.

- Freddie Mac's organizational structure and the assignment of responsibilities provide for accountability and controls. Each division has its own controller who brings a strong control focus to the business unit. The corporate wide control policies assign responsibilities and establish accountability.

EXAMINATION OBJECTIVE: *Identify and evaluate any changes occurring that may influence the quality of management processes, as well as the potential impact on the Enterprise.*

Management processes exceed safety and soundness standards. Implementing changes will further strengthen management processes.

- Hiring a Senior Vice President dedicated specifically to Human Resources will enhance management processes, and will relieve the Chief Credit Officer of the additional responsibilities he has assumed since the third quarter of 2000.
- Identifying and hiring a replacement for the Corporate Controller's position will further strengthen the financial management and control team.
- Utilizing an applicant data base and increasing outreach activities are expected to enhance recruitment programs.
- The newly issued Codes of Conduct will enhance the effectiveness of management's communications about integrity and ethical values.

EXAMINATION OBJECTIVE: *Determine the adequacy and effectiveness of management processes to manage the Enterprise on a company-wide basis.*

The adequacy and effectiveness of management processes to manage Freddie Mac on a company-wide basis exceed safety and soundness standards.

- Freddie Mac's business unit goals are effective. Freddie Mac's implementation plans and programs to achieve the corporate plan are adequate. The ability to develop plans is evident throughout the company. The New Capabilities Forum is designed to link to the Business Strategy unit, and to support business units' efforts to achieve their goals. Although business units have well-designed, specific plans and programs to achieve strategic corporate goals, Freddie Mac has experienced difficulty implementing new or revised plans. Certain changing and/or unclear

management priorities impact the ability of business units to develop and implement effective goals, plans and programs to achieve the corporate plan.

- Freddie Mac's management monitors and manages change. The Management Forum concept of having senior managers from across the company meet with each other regularly enhances Freddie Mac's ability to anticipate, identify and react to change. Key management reports such as Performance Management Reports and MARC support the company's ability to anticipate, identify and react to more routine events or activities that affect the achievement of corporate and/or business unit objectives. Freddie Mac's ability to effectively manage change is challenged by the depth of previously identified individuals within the talent pool who are poised to assume all senior management positions.
- Freddie Mac has programs for career and management development. The company recognizes the importance of retaining staff and the role career and management development play in retaining good employees. Human Resources has implemented several measures in an effort to improve employee retention rates.
- Freddie Mac has an effective program for recruiting competent people. The 2000 recruiting efforts resulted in a record number of filled positions from a broader applicant pool than in the past. This was achieved under both budgeted dollar cost and days-to-fill.
- Freddie Mac's proprietary risk management programs and systems are effective. The results of operations, measures of credit performance and market risk indicators demonstrate the effectiveness of Freddie Mac's proprietary risk management programs and systems.
- The philosophy and operating style of Freddie Mac's management have a pervasive effect on the company. The standard reports and measures used throughout Freddie Mac effectively reinforce management's risk management philosophy. Formal internal communications are controlled to ensure that messages are consistent. In addition, the frequent interaction among levels of management across the company reinforce the corporate philosophy and operating style.