Offering Circular dated December 31, 2003

Freddie Mac

Debentures
Medium-Term Notes
Discount Notes

Offered Securities:	Debentures, Medium-Term Notes and Discount Notes.
Reference Securities℠:	We may designate some Securities as Reference Bills® securities (''Reference Bills''), which are regularly scheduled issues auctioned in large principal amounts.
Amount:	Unlimited.
Maturities:	One day or longer, but not more than one year in the case of Discount Notes.
Offering Terms:	We will offer the Securities primarily through dealers on the terms described in this Offering Circular and, for Debentures and Medium-Term Notes, related Pricing Supplements.
Priority:	The Securities will be unsecured general obligations or unsecured subordinated obligations of Freddie Mac.
Tax Status:	The Securities are not tax-exempt.
Form of Securities:	Book-entry (Federal Reserve Banks or Depository Trust Company).

You should consider carefully the risks involved in investing in the Securities because the Securities may not be suitable investments for you. You should purchase Securities only if you understand this Offering Circular, the related Pricing Supplement for the Debentures or Medium-Term Notes you are considering and the documents that we incorporate by reference in this Offering Circular. You should consider carefully the *Risk Factors* described beginning on page 8.

The Securities are obligations of Freddie Mac only. The Securities, including any interest or return of discount on the Securities, are not guaranteed by, and are not debts or obligations of, the United States or any agency or instrumentality of the United States other than Freddie Mac.

Because of applicable securities law exemptions, we have not registered the Securities with any federal or state securities commission. No securities commission has reviewed this Offering Circular.

The *Index of Terms* (Appendix A) shows where definitions of defined terms appear in this Offering Circular.

''Reference Securities℠'' is a service mark of Freddie Mac and ''Reference Bills®'' is a registered trademark of Freddie Mac.

The Securities generally will not have an established trading market when issued. Certain Dealers have advised Freddie Mac that they intend to use reasonable efforts to make a secondary market in the Securities that they offer. However, they are not obligated to do so. These Dealers could discontinue their secondary market activities at any time without notice. There is no assurance that a secondary market for any of the Securities will develop or, if such a market develops, that it will continue or will be liquid. Consequently, you may not be able to sell your Securities readily or at prices that will enable you to realize your anticipated yield.

If you intend to purchase Securities, you should rely only on the information in this Offering Circular and in any related Pricing Supplement for the Securities that you are considering, including the information in any documents that we incorporate by reference. We have not authorized anyone to provide you with different information. We are not offering the Securities in any jurisdiction that prohibits their offer. This Offering Circular, any related Pricing Supplement and any incorporated documents speak only as of their dates, regardless of the date you receive these documents or purchase Securities.

This Offering Circular replaces and supersedes our Offering Circular dated April 4, 2003 for issues of Debentures, Medium-Term Notes and Discount Notes priced on or after the date of this Offering Circular. This Offering Circular relates to our Debentures, Medium-Term Notes (including Estate Notes^{SM} securities and FreddieNotes^{SM} securities) and Discount Notes (including Reference Bills®) and not to any other securities of Freddie Mac, including €Reference Securities^{SM} or other securities offered under the Freddie Mac Global Debt Facility.

''Estate Notes^{SM},'' ''FreddieNotes^{SM}'' and ''€Reference Securities^{SM}'' are service marks of Freddie Mac and ''Reference Bills®'' is a registered trademark of Freddie Mac.

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*We use defined terms throughout this Offering Circular. Appendix A provides the page locations of the definitions of these terms.

SUMMARY

This Summary contains selected information about the Securities. It does not contain all of the information you should consider before purchasing the Securities. You should refer to the remainder of this Offering Circular and to any related Pricing Supplement for further information. If a Pricing Supplement contains different information from this Offering Circular, you should rely on the Pricing Supplement.

Issuer .... Federal Home Loan Mortgage Corporation or ''Freddie Mac,'' a shareholder owned government-sponsored enterprise.

Securities Offered .... Debentures, Medium-Term Notes and Discount Notes (the ''Securities'').

Legal Status .... Unless otherwise specified in the applicable Pricing Supplement, the Securities will be unsecured general obligations having the same priority as all of our other unsecured and unsubordinated debt and ranking senior to any subordinated debt. If specified in the applicable Pricing Supplement, the Securities will be unsecured subordinated obligations with the terms, including but not limited to terms relating to payment priority or payment suspension, limitation or deferral (if any), set forth in the applicable Pricing Supplement (''Subordinated Securities''). The United States does not guarantee the Securities or any interest or return of discount on the Securities. The Securities are not debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac.

Pricing Supplement .... We will offer Debentures and Medium-Term Notes by means of Pricing Supplements, which will describe the specific terms of the Securities (each, a ''Pricing Supplement''). If a Pricing Supplement contains different information from this Offering Circular, you should rely on the Pricing Supplement.

Debentures and Medium-Term Notes .... A Debenture or Medium-Term Note will:

- pay principal in one or more of the following methods: (i) only at maturity, (ii) periodically until maturity or (iii) upon redemption or repayment before maturity;
- bear interest at a fixed or variable interest rate or bear no interest; and
- have a maturity of one day or more from its issue date.

Discount Notes .... A Discount Note will:

- have a maturity of one year or less from its issue date;
- be sold at a discount to its stated principal amount;
- not bear interest; and
- be paid only at maturity.

Reference Securities .... We will designate some Securities as Reference Securities, which are regularly scheduled issues auctioned in large principal amounts. For example, Reference Bills® are U.S. Dollar denominated Discount Notes.

Form of Securities . . . . *Fed Book-Entry.* Most Securities will be issued, held and transferable on the book-entry system of the Federal Reserve Banks (''Fed Book-Entry System''). Securities on the Fed Book-Entry System may be held of record only by entities eligible to maintain book-entry accounts with a Federal Reserve Bank (''Fed Participants'').

DTC Book-Entry. Certain Debentures and Medium-Term Notes will be represented by one or more certificates held by, or on behalf of, The Depository Trust Company or its successor (''Depository''). The Depository will maintain each such issue through its book-entry facilities (''DTC Book-Entry System'').

Other Trading Arrangements. If so specified in the related Pricing Supplement, Debentures and Medium-Term Notes may be made eligible for trading on the clearing systems operated by the Euroclear System and Clearstream Banking, société anonyme, through custody accounts maintained by them with certain Fed Participants.

Holders . . . . The term ''Holders'' means:

- the Fed Participants appearing on the book-entry records of a Federal Reserve Bank as Holders, in the case of an issue of Securities on the Fed Book-Entry System; or
- the Depository or its nominee, in the case of an issue of Securities on the DTC Book-Entry System.

A Holder of a Security is not necessarily the beneficial owner of that Security. Beneficial owners ordinarily will hold Securities through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Security, and each other financial intermediary in the chain between the Holder and the beneficial owner, will be responsible for establishing and maintaining accounts for their respective customers and for remitting payments to those accounts.

See ''Description of the Securities — Holders.''

Securities Agreements . . . . We will issue Debentures and Medium-Term Notes under the Debenture and Medium-Term Note Agreement, dated the same date as this Offering Circular, among Freddie Mac and the Holders of Debentures and Medium-Term Notes (''Debenture and Medium-Term Note Agreement'').

We will issue Discount Notes under the Discount Note Agreement, dated the same date as this Offering Circular, among Freddie Mac and the Holders of Discount Notes (''Discount Note Agreement'').

Redemption and Repayment . . . . We may have the option to redeem some Debentures or Medium-Term Notes, in whole or in part, before their Maturity Dates (including redemption by installment). Also, certain Holders of some Debentures or Medium-Term Notes may have the option to require repayment of their Securities, in whole or in part, before their Maturity Dates. The Pricing Supplement for an

	issue of Debentures or Medium-Term Notes will say whether the Debentures or Medium-Term Notes are redeemable at our option or repayable at your option and will describe the redemption or repayment right.
Estate Notes[SM] and FreddieNotes[SM]	Medium-Term Notes that permit persons acting on behalf of deceased beneficial owners to require us to repay principal prior to their Maturity Date.
Payment Terms	The related Pricing Supplement will specify the payment terms of the Debentures and Medium-Term Notes.
Principal:	
Fixed Principal Repayment Amount	Either (i) an amount equal to 100% of the principal amount of a Debenture or Medium-Term Note, payable on the applicable Maturity Date or date of redemption or repayment, or (ii) a specified amount above or below its principal amount, payable on that date.
Variable Principal Repayment Amount	A principal amount determined by reference to one or more indices, such as interest or exchange rate indices or other formulas, payable on the applicable Maturity Date or date of redemption or repayment of a Debenture or Medium-Term Note.
Amortizing Principal Repayment Amounts	Amounts of periodic payments of principal made during the term of a Debenture or Medium-Term Note.
Interest:	
Fixed Rate	Debentures or Medium-Term Notes that bear interest at a single fixed rate.
Variable Rate	Debentures or Medium-Term Notes that bear interest at a variable rate determined by reference to one or more specified indices.
Fixed/Variable Rate	Debentures or Medium-Term Notes that bear interest at a fixed rate during one or more periods and at a variable rate during other periods.
Step	Debentures or Medium-Term Notes that bear interest at different fixed rates during different periods.
Zero Coupon	Debentures or Medium-Term Notes that do not bear interest and are issued at a discount to their principal amount.
Tax Status	The Securities and income or return of discount derived from the Securities are generally subject to taxation by the United States and are generally not exempt from taxation. See "Certain United States Federal Tax Consequences."
Method of Payment	The Federal Reserve Banks will credit payments on Securities maintained on the Fed Book-Entry System on applicable payment dates to the accounts of Fed Participants. Each Holder, and each other financial intermediary in the chain to the benefi-

cial owner, will be responsible for remitting payments to their customers.

We will make payments on Securities maintained on the DTC Book-Entry System to the Depository in immediately available funds. The Depository will be responsible for crediting payments to the accounts of the appropriate Depository Participants in accordance with the Depository's normal procedures. Each Depository Participant, and each other financial intermediary in the chain to the beneficial owner, will be responsible for remitting payments to their customers.

Denominations .... We will issue and maintain the Securities in minimum principal amounts and additional increments of $1,000, unless otherwise indicated in the related Pricing Supplement.

Method of Distribution .... We generally will sell Debentures and Medium-Term Notes to one or more Dealers, acting as principals, that are named in the related Pricing Supplement. Alternatively, we may allow Dealers to solicit purchases of Debentures and Medium-Term Notes on an agency basis or we may sell Debentures and Medium-Term Notes directly to investors.

In general, we will sell Discount Notes through Dealers, acting as our agents.

AVAILABLE INFORMATION

We prepare an annual Information Statement that describes our business and operations and contains important financial and other information, including our consolidated financial statements (the ''Information Statement''). We also prepare quarterly and other periodic Information Statement Supplements that include unaudited consolidated financial data and other information concerning our business and operations (each, an ''Information Statement Supplement''). These documents are (or upon publication will be) incorporated by reference in this Offering Circular, which means that we are disclosing information to you by referring you to those documents. These documents are considered part of this Offering Circular. You should read this Offering Circular, and any applicable supplements or amendments, in conjunction with our most recent Information Statement and any subsequent Information Statement Supplements we incorporate by reference in this Offering Circular. As of the date of this Offering Circular, our five most recent Information Statement Supplements (which are attached as Appendices B, C, D, E and F to this Offering Circular) are dated November 21, 2003, December 8, 2003, December 10, 2003, December 18, 2003 and December 23, 2003. The Information Statement Supplement dated November 21, 2003 contains the results of our restatement of previously issued consolidated financial statements for the years 2000 and 2001 and the first three quarters of 2002 and the revision of fourth quarter and full-year consolidated financial statements for 2002. The Information Statement Supplement dated December 23, 2003 and attached as Appendix F contains information about our most recent business performance and risk measures. You should rely only on the most current information provided or incorporated by reference in this Offering Circular and any applicable supplement or amendment.

You can obtain any of these documents and any other documents that we make available from:

Freddie Mac
Debt Securities Marketing Office
1551 Park Run Drive
McLean, Virginia U.S.A. 22102-3110
E-Mail: debt_securities@freddiemac.com
www.freddiemac.com*

You also can read the Information Statement and other information about Freddie Mac at the offices of the New York Stock Exchange.

* We are providing this Internet address solely for the information of prospective investors. We do not intend this Internet address to be an active link and are not using reference to this address to incorporate additional information into this Offering Circular or any Pricing Supplement.

FREDDIE MAC

Freddie Mac is one of the largest participants in the U.S. mortgage market. We are a shareholder-owned government-sponsored enterprise, or GSE, chartered by Congress on July 24, 1970 under the Federal Home Loan Mortgage Corporation Act, which we refer to in this Offering Circular as the ''Freddie Mac Act.'' Our statutory purposes are:

- to provide stability in the secondary market for residential mortgages;
- to respond appropriately to the private capital market;
- to provide ongoing assistance to the secondary market for residential mortgages; and
- to promote access to mortgage credit throughout the United States (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

We fulfill these statutory purposes primarily by purchasing residential mortgages and mortgage securities from mortgage lenders, other mortgage sellers and securities dealers. We finance our purchases with debt and equity securities and by guaranteeing the timely payment of principal and interest on mortgage securities.

RISK FACTORS

This section describes some of the general risks and considerations that you should examine before investing in the Securities. There may be other risks and considerations not discussed below or discussed in the applicable Pricing Supplement that you should consider. These risks and considerations may vary depending on your particular circumstances and on various economic and interest rate scenarios. Therefore, you should consult your own financial and legal advisors to determine the suitability for you of a particular issue of Securities.

The Securities May Not Be Suitable For You

The Securities are not suitable investments for all investors. Before investing in a particular issue of Securities, you should:

- possess, either alone or with an investment advisor, the expertise and analytical tools necessary to evaluate, in the context of your financial situation, the particular features of the Securities, the risks and benefits of investing in the Securities and the effect of the Securities on your overall investment portfolio;
- have sufficient financial resources and liquidity to bear the risks associated with the Securities;
- understand the information contained and incorporated in this Offering Circular and any related Pricing Supplement;
- understand the terms of the Securities; and
- understand any applicable legal investment restrictions.

Sophisticated institutional investors generally do not purchase complex securities as stand-alone investments. Rather, they invest in certain types of complex securities to reduce the risk of their overall portfolio or to enhance their yield by adding an appropriate level of risk to their overall portfolio. You should not purchase any Securities unless you understand and are able to bear the associated yield, market, liquidity and structure risks, including risks associated with any redemption provisions, periodic interest rate adjustments and exchange rates and controls. You should decide whether to invest in an issue of Securities based on your own financial needs and the anticipated performance of the Securities under a variety of economic, interest rate and exchange rate scenarios.

Structured Securities May Be Complex and Involve Greater Risks

Historically, the majority of the Debentures and Medium-Term Notes we issue have been fixed rate debt obligations, including those that are redeemable at our option beginning on a specified date. Although these Securities present certain risks to investors, they do not present all of the risks associated with more complex Securities.

More complex Securities (such as Variable Rate, Variable Principal Repayment Amount and Amortizing Debentures and Medium-Term Notes) may involve greater risk. They may have principal or interest payments determined, either directly or inversely, by reference to one or more indices (including interest rate, exchange rate, currency, swap or equity indices or formulas). An investment in such Debentures or Medium-Term Notes entails risks not associated with an investment in a conventional fixed rate debt security. These risks include the possibility that:

- the applicable index or indices may change significantly;
- changes in the applicable index or indices may not correlate with changes in interest rates or currencies, generally, or with changes in other indices;
- changes in the applicable index or indices will be magnified or diminished if the Securities' principal or interest formula contains a leverage factor or a deleverage factor;
- the applicable index or indices may be subject to maximum (''Cap'') or minimum (''Floor'') interest rate or exchange rate limitations;
- the timing of changes in an applicable index or indices may affect your actual yield, even if the average level is consistent with your expectations (in general, the earlier the change in the applicable index or indices, the greater the effect on yield);
- two or more indices or formulas that you may expect to move in tandem or in some other relationship to each other may unexpectedly converge, diverge or otherwise not move as expected;
- currency devaluations may occur or monetary authorities may impose or modify currency exchange controls;
- the resulting interest rate may be less than the interest rate payable on a conventional fixed rate debt security we issued at the same time and, in some cases, may be as low as zero;
- you may receive repayments of principal at times other than you expect;
- you may lose all or a substantial portion of the principal of your Security (whether payable at maturity, upon redemption or otherwise); and
- the value of Securities with complex formulas or other terms may be volatile.

These risks may depend on a number of interrelated factors that we cannot control, including financial, economic, regulatory and political developments. In the past, certain interest rates, currencies, currency units, exchange rates, swap, equity and other indices have been highly volatile. Past fluctuations, moreover, do not necessarily indicate fluctuations that may occur in the future.

You should have knowledge of, and access to, appropriate analytical tools to evaluate quantitatively the effect of the particular features of the Securities you are considering purchasing and the resulting effects upon their yields and values.

Various Factors Could Adversely Affect the Trading Value and Yield of Your Securities

Secondary Markets and Market Values

The Securities generally will not have an established trading market when issued. Certain Dealers have advised us that they intend to use reasonable efforts to make a secondary market in the Securities that they offer, but, in general, they are not obligated to do so. These Dealers may discontinue any such secondary market making at any time without notice. Consequently:

- a secondary market for any of the Securities may not develop, particularly for those Securities that are especially sensitive to interest rate or market risks or that are structured to meet the investment requirements of limited categories of investors; or
- if a secondary market develops, it may not be liquid at all times.

As a result, you may not be able to sell your Securities readily or at prices comparable to similar instruments with a developed secondary market. If you are seeking to purchase or sell very small or very large amounts of Securities, you may not be able to do so at prices comparable to those available to other investors.

The market values of the Securities likely will fluctuate over time, perhaps significantly. These fluctuations could cause significant losses to your investment in Securities, especially if you dispose of your Securities prior to their maturity. The market prices of Securities issued at either a substantial discount (such as Zero Coupon Debentures) or a substantial premium (such as Securities that have significantly above-market interest rates) from their principal amount tend to fluctuate more in relation to general changes in interest rates than do the prices of Securities with comparable maturities that are not issued at such a discount or premium.

A number of factors may affect any secondary market for, and the market value of, an issue of Securities, including:

- the creditworthiness of Freddie Mac;
- the value, complexity and volatility of any applicable index or indices;
- the method of calculating the principal or any interest payments on the Securities;
- the time remaining to the maturity of the Securities;
- any redemption or repayment features of the Securities;
- the outstanding amount of the Securities;
- the amount of other securities linked to any applicable index or indices;
- the amount of Securities being sold in any secondary market from time to time;
- the subordinated status or other terms of any Subordinated Securities;
- any legal restrictions or tax treatment that limits demand for the Securities;
- the availability of comparable securities, including comparable U.S. Treasury securities;
- fluctuations in the ''spread'' of the Securities to comparable U.S. Treasury securities; and
- the level, direction and volatility of market interest rates generally.

You should not purchase any Securities unless you understand and can bear the risks that you may not be able to resell them easily, that their value will fluctuate over time and that these fluctuations may be significant and cause losses to you. Illiquidity may have a severely adverse effect on the market values of the Securities. These risks of limited liquidity and price volatility are greatest for Securities that are:

- especially sensitive to interest rate, currency or market risks;
- designed for specific investment objectives or strategies;
- structured to meet the investment requirements of limited categories of investors; or
- not held until maturity.

Subordinated Securities

If specified in the applicable Pricing Supplement, the indebtedness represented by Subordinated Securities and the payment of principal of and interest on Subordinated Securities may be subordinated to prior payment in full of all of our ''Senior Obligations'' which are due and payable. Therefore, we will not be permitted to make any payments of principal of or interest on the Subordinated Securities (including redeeming any redeemable Subordinated Securities) while we are in default on any of our Senior Obligations. In the event of a liquidation or dissolution of Freddie Mac, our assets would not be available to pay obligations under the Subordinated Securities until our Senior Obligations have been paid in full. Such Senior Obligations will be identified by category in the applicable Pricing Supplement.

In addition, there may be other terms applicable to specific offerings of Subordinated Securities that would defer, limit or suspend our obligation to make any payment of principal of or interest on these Subordinated Securities under certain specified conditions. Moreover, Events of Default that apply to Senior Obligations may not necessarily be Events of Default for Subordinated Securities. As a result, the Holders of Subordinated Securities may not have the same acceleration rights as Holders of other Securities. See ''The Agreements — Events of Default'' and '' — Rights Upon Event of Default — Debentures and Medium-Term Notes.'' The terms and conditions of any issue of Subordinated Securities will be described in the applicable Pricing Supplement.

Redeemable Debentures and Medium-Term Notes

We will have the option to redeem certain Debentures and Medium-Term Notes after a specified date if we so provide in the related Pricing Supplement. The redemption price typically is 100% of the principal amount plus accrued interest, in the case of Debentures and Medium-Term Notes which bear interest, and the accreted value to the redemption date, in the case of Zero Coupon Debentures and Medium-Term Notes. These optional redemption provisions are likely to restrict the market values that the Securities would otherwise have. For example, the market price of such Securities generally will not rise substantially above their redemption price during (and possibly before) any period when we may redeem the Securities because of the increased likelihood of redemption. If we redeem a portion of an issue of Securities, the market for the Securities left outstanding may become less liquid.

In general, we are most likely to redeem such Debentures and Medium-Term Notes when prevailing interest rates and our borrowing costs are relatively low and least likely to redeem them when prevailing interest rates and our borrowing costs are relatively high. Our decision to redeem or not to redeem an issue of Debentures or Medium-Term Notes may also be affected by any related hedge or derivative position that we hold. If we redeem Debentures or Medium-Term Notes when prevailing interest rates are relatively low, you may not be able to reinvest the redemption proceeds in comparable securities with similar yields.

Some Debentures and Medium-Term Notes may be redeemable at a variable amount determined by reference to one or more interest rate, exchange rate or other indices. The redemption proceeds of such Securities will vary depending on the level of the applicable index, and you may receive less than 100% of your original principal amount upon redemption.

Fixed Rate Debentures and Medium Term Notes

Fixed Rate Debentures and Medium-Term Notes, if held to maturity, will provide return of their principal and the certainty of interest payments at a fixed rate. However, the market values of these Securities are likely to fluctuate with changes in prevailing interest rates.

The market values of fixed rate Securities generally will rise in a falling interest rate environment and will fall in a rising interest rate environment. This fluctuation creates risk of loss of investment capital if you dispose of these Securities prior to maturity. This effect on market values is generally greater for Securities having relatively long remaining terms to maturity than for Securities having relatively short remaining terms to maturity. For example, this effect on market values is generally greater for Debentures and Medium-Term Notes than for Discount Notes because of the generally short terms to maturity of Discount Notes.

Zero Coupon Debentures and Medium-Term Notes

An investment in Zero Coupon Debentures and Medium-Term Notes presents certain risks that are different from an investment in fixed-rate Securities that pay interest periodically. If you hold the Zero Coupon Debentures and Medium-Term Notes to maturity, they will provide return of your principal, including return of the discount, but their market value is likely to fluctuate substantially with changes in prevailing interest rates. The market values of Zero Coupon Debentures and Medium-Term Notes generally will fall in a rising interest rate environment, creating a risk of loss of your investment capital if your circumstances do not permit you to hold the Zero Coupon Debentures and Medium-Term Notes to maturity. The market values of Zero Coupon Debentures and Medium-Term Notes generally will rise in a falling interest rate environment. The possibility of substantial price volatility, combined with the fact that payments on Zero Coupon Debentures and Medium-Term Notes will be made only at maturity, also could affect the secondary market for, and the liquidity of, Zero Coupon Debentures and Medium-Term Notes. Zero Coupon Debentures and Medium-Term Notes that are redeemable involve certain additional risks. See ‘‘Risk Factors — Various Factors Could Adversely Affect the Trading Value and Yield of Your Securities — Redeemable Debentures and Medium-Term Notes.’’

The market values of Zero Coupon Debentures and Medium-Term Notes and other Securities issued at substantial discounts tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer their remaining term, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Step Debentures and Medium-Term Notes

Step Debentures and Medium-Term Notes provide for one or more prescribed increases (or decreases) in their interest rates on specified dates. However, we may have the option to redeem Step Debentures and Medium-Term Notes before, at the beginning of or during one or more step periods. Therefore, you should consider the likelihood that we will redeem Step Debentures and Medium-Term Notes if their subsequent interest rates exceed the interest rates then available to us for comparable borrowings.

Although the interest rate on a Step Debenture or Medium-Term Note may increase on specified dates, the increased interest rate may be below the interest rate that you would receive on newly issued but otherwise comparable instruments with the same remaining term to maturity.

Variable Rate Debentures and Medium-Term Notes

If the interest rate on a Variable Rate Debenture or Medium-Term Note bears a direct relationship to a specified index or indices, lower than anticipated levels of such index or indices could result in actual yields that are lower than anticipated. Conversely, if the interest rate on a Variable Rate Debenture or Medium-Term Note bears an inverse relationship to a specified index or indices, higher than anticipated levels of such index or indices could result in actual yields that are lower than anticipated.

Inverse Variable Rate Securities have an interest rate equal to a fixed rate minus a rate based upon an applicable index. The market values of inverse Variable Rate Securities typically are more volatile than market values of our conventional Variable Rate Securities based on the same applicable index (and with otherwise comparable terms). Inverse Variable Rate Securities are more volatile because an increase in the applicable index not only decreases the interest rate of the inverse Variable Rate Security, but also often reflects an increase in prevailing interest rates, which further adversely affects the market value of these Securities.

The indices applicable to Variable Rate Debentures and Medium-Term Notes are not likely to remain constant at any level. The timing of a change in the level of an applicable index may affect the actual yield you receive, even if the average level is consistent with your expectation. In general, the earlier a change in the level of an applicable index, the greater the effect on the yield you receive, especially for Debentures and Medium-Term Notes that provide for repayment of principal at one or more times prior to maturity. As a result, the effect on the yield you receive of an index level that is lower (or higher) than the anticipated level during earlier periods is not likely to be offset by a later equivalent increase (or reduction). Moreover, changes in the index applicable to a particular Variable Rate Debenture or Medium-Term Note may not correlate with changes in interest rates generally or with changes in other indices. Your yield could be adversely affected if changes in the index applicable to your Variable Rate Debenture or Medium-Term Note do not reflect changes in interest rates generally.

The interest rate formula for a Variable Rate Debenture or Medium-Term Note may include a multiplier that is applied to an index in determining the applicable interest rate. In general, a multiplier of greater than one will cause changes in the interest rate of the Debentures or Medium-Term Notes to be more pronounced than changes in the value of the applicable index, while a multiplier of less than one will have the opposite effect. Variable Rate Debentures or Medium-Term Notes with multipliers of greater than one are ''leveraged,'' and those with multipliers of less than one are ''deleveraged.''

In general, the volatility associated with the level of an applicable index is higher for leveraged Debentures or Medium-Term Notes and lower for deleveraged Debentures or Medium-Term Notes. For example, the interest rate of a leveraged Variable Rate Debenture or Medium-Term Note bearing an inverse relationship to a specified index generally will decline sharply as the value of the applicable index increases. By contrast, the interest rate of a deleveraged Variable Rate Debenture or Medium-Term Note bearing an inverse relationship to a specified index generally will decline more slowly as the value of the applicable index increases.

Investors in Variable Rate Debentures or Medium-Term Notes should also consider the effects on their interest rates and yields of any applicable Caps or Floors and of any delays in periodic interest rate adjustments. Some Variable Rate Debentures and Medium-Term Notes may provide for no interest to accrue during periods when the applicable index is outside a specified range. The market values of Variable Rate Debentures and Medium-Term Notes with Caps or Floors or with such a range feature generally are more volatile than those of Variable Rate Debentures and Medium-Term Notes linked to the same applicable index without Caps or Floors or a range feature, especially when the applicable index approaches or passes the Cap or Floor or the endpoint of the applicable range.

Fixed / Variable Rate Securities

Some Fixed / Variable Rate Securities may bear interest at a rate that we may elect to convert from a fixed rate to a variable rate, or from a variable rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of the Securities since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a variable rate, the ''spread'' above or below the applicable index may be less favorable than the prevailing spreads on our conventional Variable Rate Securities tied to the same index. In addition, the new variable rate at any time may be lower than the rates on our other Variable Rate Securities. If we convert from a variable rate to a fixed rate, the fixed rate may be lower than then prevailing rates on our other Fixed Rate Securities.

Debentures and Medium-Term Notes with Variable or Amortizing Principal Repayment Amounts

Debentures and Medium-Term Notes with Variable or Amortizing Principal Repayment Amounts provide for payments of principal or their redemption price to be determined based on one or more indices. Before purchasing such a Debenture or Medium-Term Note you should understand the indices used in calculating payments. Such indices may fluctuate independently of other indices. Fluctuations in such indices may cause you to receive principal at a different time or in a lesser amount than you anticipate.

Securities Eligible for Stripping

Some issues of Fixed Rate Securities and Step Securities will be eligible to be separated (''stripped'') into Interest Components and Principal Components. The related Pricing Supplement will indicate which issues of Securities are eligible to be stripped. The secondary market, if any, for the Interest Components and Principal Components of stripped Securities may be more limited and have less liquidity than the secondary market for Securities of the same issue that have not been stripped. The liquidity of an issue of Securities also may be reduced if a significant portion of the Securities are stripped. See ''Description of the Securities — Debentures and Medium-Term Notes — Stripped Debentures and Medium-Term Notes'' for more information on stripping.

Exchange Rate Risks and Exchange Controls May Affect the Timing or Amount of Interest and Principal Paid on Your Securities

The amount of principal or interest to be paid on Debentures and Medium-Term Notes may be determined by reference to one or more currencies or currency units (including exchange rates and swap indices between currencies or currency units). Government and monetary authorities have imposed, and may impose in the future, exchange controls that could adversely affect an applicable exchange rate. As a result, you may receive less interest or principal than expected, or no interest or principal at all.

Principal and interest on most Debentures and Medium-Term Notes will be payable in U.S. dollars. This presents risks relating to currency conversions if you conduct business in another currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of your currency) and the risk that government or monetary authorities may impose or modify exchange controls. Any appreciation in the value of your currency relative to the U.S. dollar would decrease the currency-equivalent yield and value of your Debenture or Medium-Term Note.

Legal Investment Considerations May Restrict Certain Investors

You should consult your own legal advisors in determining whether the Securities are legal investments for you and whether you can pledge the Securities as collateral for various types of borrowings. In addition, if you are a financial institution, you should consult your legal advisors or regulators to determine how to treat Securities under any applicable risk-based capital or similar rules.

Certain legal investment laws and regulations or regulatory authorities may restrict an institution's investment in certain types of Securities or in Securities generally. An institution under the jurisdiction of regulatory agencies should review any applicable regulations, policy statements and guidelines before purchasing or pledging Securities.

Credit Ratings May Not Reflect All Risks

Rating agencies may assign credit ratings to the Securities. Any credit ratings assigned to the Securities may not reflect the potential impact of all risks related to structure, yield, market, liquidity and other factors affecting their value. A credit rating is not a recommendation to buy, sell or hold the Securities and may be revised or withdrawn by the rating agency.

DESCRIPTION OF THE SECURITIES

General

The Securities will be issued pursuant to:

- Section 306(a) of the Freddie Mac Act;
- in the case of Debentures and Medium-Term Notes, the Debenture and Medium-Term Note Agreement and the related Pricing Supplement; and
- in the case of Discount Notes, the Discount Note Agreement.

Copies of the Debenture and Medium-Term Note Agreement and the Discount Note Agreement (''Agreements'') and any applicable Pricing Supplement are available as described under ''Available Information'' above. By receiving and accepting a Security, or an interest in a Security, you agree to be bound by the terms and conditions of the applicable Agreement, as supplemented or amended from time to time. See ''The Agreements — Binding Effect of the Agreements.''

The Securities are obligations of Freddie Mac only. The Securities, including any interest or return of discount on the Securities, are not guaranteed by and are not debts or obligations of the United States or any agency or instrumentality of the United States other than Freddie Mac.

Debentures and Medium-Term Notes

Status of the Securities

The Debentures and Medium-Term Notes will be unsecured general obligations of Freddie Mac or, if specified in the applicable Pricing Supplement, unsecured subordinated obligations of Freddie Mac. See ''Description of the Securities — Debentures and Medium-Term Notes — Subordinated Securities.'' The Debenture and Medium-Term Note Agreement does not limit other indebtedness that we may incur and does not contain any financial or similar restrictions on us or any restrictions on our ability to secure our indebtedness. We may issue an unlimited amount of Debentures and Medium-Term Notes under the Debenture and Medium-Term Note Agreement.

We may designate some Debentures and Medium-Term Notes as ''Reference Securities^{SM},'' which are regularly scheduled issues auctioned in large principal amounts.

Maturity, Redemption and Optional Repayment

Each Debenture and Medium-Term Note will mature on a date (the ''Maturity Date'') one day or longer from its issue date, unless redeemed earlier at our option or repaid at your option, as specified in the applicable Pricing Supplement. The Pricing Supplement will specify whether an issue of Debentures or Medium-Term Notes may be redeemable at our option or repayable at your option, in whole or in part, prior to its Maturity Date. An issue of Debentures or Medium-Term Notes may be redeemable or repayable:

- in whole or from time to time in part as applicable;
- on one or more specified dates;
- at any time on or after a specified date; or
- during one or more specified periods of time.

The principal amount payable on the Maturity Date or upon redemption or repayment of a Debenture or Medium-Term Note will be determined as described in the related Pricing Supplement and may be either:

- a fixed amount (the ''Fixed Principal Repayment Amount'') equal to 100% of the principal amount (*i.e.*, par), or a specified amount above or below that principal amount; or
- an amount (the ''Variable Principal Repayment Amount'') determined by reference to one or more interest rate or exchange rate indices or otherwise.

In addition, we may issue ''Amortizing Debentures or Medium-Term Notes'' on which we make periodic payments of principal during their terms as described in the related Pricing Supplement. Amortizing Debentures or Medium-Term Notes may bear interest at fixed or variable rates.

Unless a different notice period is specified in the Pricing Supplement, we will give you notice of optional redemption from 5 Business Days to 60 calendar days before the redemption date in the manner described under ''The Agreements — Notice.'' Notice provisions relating to Holders' exercise of any option to require repayment will be provided in the related Pricing Supplement.

In the case of a partial redemption of an issue of Debentures or Medium-Term Notes, we will redeem a pro rata portion of each outstanding Debenture or Medium-Term Note of the affected issue.

Estate Notes℠ and FreddieNotes℠ are types of repayable Medium-Term Notes. They are repayable at the option of a representative of a deceased beneficial owner subject to limits on both the amount of repayments on Estate Notes℠ and FreddieNotes℠ owned by one person or estate and the aggregate amount of repayments on an Estate Notes℠ or FreddieNotes℠ issue.

Interest Payments

The Securities may bear interest at one or more fixed rates or variable rates or may not bear interest. The applicable Pricing Supplement will specify how frequently interest, if any, is payable on an issue of Debentures or Medium-Term Notes. Interest on Debentures and Medium-Term Notes will be payable in arrears on each date specified in the Pricing Supplement (each, an ''Interest Payment Date''). Zero Coupon Debentures and Medium-Term Notes will not bear interest.

Each issue of interest-bearing Debentures or Medium-Term Notes will bear interest (i) from and including the immediately preceding Interest Payment Date or, if no interest has been paid or made available for payment on the issue of Securities, from and including the date on which we issue the Securities (''Issue Date'') or any other date specified in the Pricing Supplement (ii) to but excluding the next succeeding Interest Payment Date or the applicable Principal Payment Date (each such period is an ''Interest Payment Period''). The Maturity Date or, if applicable, the earlier date of redemption or repayment is the ''Principal Payment Date'' for the principal of Debentures or Medium-Term Notes redeemable or repayable on that date. No interest will accrue on the principal of any Debenture or Medium-Term Note on or after the Principal Payment Date.

Interest on Debentures and Medium-Term Notes accrues on the then outstanding principal amount. Interest payments will be rounded to the nearest cent (with one-half cent being rounded upwards).

The terms of our Subordinated Securities may require the deferral of interest payments under certain circumstances. See ''Risk Factors — Various Factors Could Adversely Affect the Trading Value and Yield of Your Securities — Subordinated Securities.''

If any jurisdiction imposes any withholding or other tax, we will not pay additional interest or other amounts, or redeem the Debentures or Medium-Term Notes prior to maturity, as a result.

Fixed Rate Debentures and Medium-Term Notes

The Pricing Supplement will specify the single fixed interest rate per annum on a Fixed Rate Debenture or Medium-Term Note. Unless we otherwise specify in the Pricing Supplement, we compute interest on a Fixed Rate Debenture or Medium-Term Note on the basis of a 360-day year of twelve 30-day months.

Step Debentures and Medium-Term Notes

Each Step Debenture or Medium-Term Note will bear interest from its Issue Date to a specified date at an initial fixed interest rate and then at one or more different fixed interest rates. A Step Debenture or Medium-Term Note can have one or more step periods. Step Debentures and Medium-Term Notes may contain provisions giving us the option to redeem them before, at the beginning of or during one or more step periods. The Pricing Supplement will specify the fixed interest rate payable for each step period from issuance to maturity. Unless we otherwise specify in the Pricing Supplement, we compute interest on a Step Debenture or Medium-Term Note on the basis of a 360-day year of twelve 30-day months.

Zero Coupon Debentures and Medium-Term Notes

Zero Coupon Debentures and Medium-Term Notes will not bear interest and will be issued at a price that is less than the principal amount payable on the Maturity Date. Some Zero Coupon Debentures and Medium-Term Notes may be redeemable. If an issue is subject to redemption, the Pricing Supplement will show, in percentage terms, the amount of principal that will be paid upon redemption for each potential redemption date.

Variable Rate Debentures and Medium-Term Notes

Variable Rate Debentures and Medium-Term Notes will bear interest at a variable rate, determined on the basis of either a direct or an inverse relationship to one or more specified indices. Variable Rate Debentures and Medium-Term Notes also may bear interest in any other manner described in the applicable Pricing Supplement.

The interest rate formula for a Variable Rate Debenture or Medium-Term Note may contain a Spread or Multiplier. A ''Spread'' means a constant or variable number to be added to or subtracted from the relevant index or formula. A ''Multiplier'' means a constant or variable number (which may be greater or less than one) to be multiplied by the relevant index or formula.

Variable Rate Debentures and Medium-Term Notes also may have Caps and Floors. In addition, some Variable Rate Debentures and Medium-Term Notes may provide for no interest to accrue during periods when the applicable index is outside a specified range.

We will specify in the applicable Pricing Supplement the accrual method (*i.e.*, the day count convention) for calculating interest or any other relevant accrual factor on the related Variable Rate Debentures or Medium-Term Notes. The accrual method may incorporate one or more of the following defined terms:

- ''Actual/360'' means that interest will be calculated on the basis of the actual number of days elapsed in a year of 360 days.
- ''Actual/365 (fixed)'' means that interest will be calculated on the basis of the actual number of days elapsed in a year of 365 days, regardless of whether payment occurs during a calendar leap year.
- ''Actual/Actual'' means that interest will be calculated on the basis of (i) the actual number of days elapsed in the Interest Payment Period divided by 365, or (ii) if any portion of the Interest Payment Period falls in a leap year, (A) the actual number of days in that portion divided by 366 plus (B) the actual number of days in the remaining portion divided by 365.

We will also specify in the Pricing Supplement (i) how frequently the rate of interest will reset and (ii) the dates on which a new rate of interest becomes effective (each, a ''Reset Date'').

If the interest rate will reset within an Interest Payment Period, then:

- the interest rate in effect on the sixth Business Day preceding an Interest Payment Date will be the interest rate for the remainder of that Interest Payment Period; and
- the first day of each Interest Payment Period also will be a Reset Date.

Variable Rate Debentures or Medium-Term Notes may bear interest prior to the initial Reset Date at an initial interest rate specified in the related Pricing Supplement. If so, then the first day of the initial Interest Payment Period will not be a Reset Date.

Each period beginning on the applicable Reset Date and ending on the calendar day preceding the next Reset Date is an ''Interest Reset Period.'' The rate of interest applicable to each Interest Reset Period will be determined as described below under ''LIBOR,'' ''Prime Rate'' and ''Treasury Rate.''

If the rate of interest will reset within an Interest Payment Period, we will calculate accrued interest by multiplying the principal amount of the Variable Rate Debenture or Medium-Term Note by an accrued interest factor. Unless we otherwise specify in the applicable Pricing Supplement, we will calculate this accrued interest factor by adding the interest factor for each Interest Reset Period in such Interest Payment Period and rounding the sum to nine decimal places. The interest factor for each such Interest Reset Period will be computed by (i) multiplying the number of days in the Interest Reset Period by the interest rate (expressed as a decimal) applicable to such Interest Reset Period and (ii) dividing the product by the number of days in the year referred to in the accrual method specified in the applicable Pricing Supplement.

If the source of an index changes in format, but the Calculation Agent determines that the index source continues to disclose the information necessary to determine the related interest rate substantially as required, the Calculation Agent will amend the procedure for obtaining information from that source to reflect the changed format.

The Calculation Agent's determination of an index value or interest rate will be final and binding on all parties, absent manifest error. The ''Calculation Agent'' will be Freddie Mac unless we specify otherwise in the applicable Pricing Supplement. See ''Description of the Securities — Corrections'' below.

Information concerning the current interest rate on an issue of Variable Rate Debentures or Medium-Term Notes will be available from us by contacting our Debt Securities Marketing Office as shown under ''Available Information'' and, if we are not the Calculation Agent, from the Calculation Agent.

Indices

The Pricing Supplement will specify the applicable interest rate index for an issue of Variable Rate Debentures or Medium-Term Notes. The provisions set forth below under the heading of the specific interest rate index will apply to the related Variable Rate Debentures or Medium-Term Notes.

LIBOR

''LIBOR'' means the daily average of the London interbank offered rates for Deposits in the Index Currency having the Index Maturity, as determined by the Calculation Agent. If we specify LIBOR as the interest rate for Variable Rate Debentures or Medium-Term Notes, LIBOR for any Reset Date will be determined as follows (in the following order of priority):

(1) LIBOR will be the rate that is displayed, at 11:00 a.m. (London time) on the LIBOR Determination Date, on the Designated Telerate Page for Deposits in the Index Currency having the Index Maturity;

(2) if that rate is not displayed, LIBOR will be the rate that is displayed, at 11:00 a.m. (London Time) on the LIBOR Determination Date, on the Designated Reuters Page for Deposits in the Index Currency having the Index Maturity;

(3) if that rate is not displayed, the Calculation Agent will request the principal London offices of four leading banks in the London interbank market selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such banks' offered quotations to prime banks in the London interbank market for Deposits in the Index Currency having the Index Maturity at 11:00 a.m. (London time) on the LIBOR Determination Date and in a Representative Amount. If at least two quotations are provided, LIBOR will be the arithmetic mean (if necessary rounded upwards) of such quotations;

(4) if fewer than two such quotations are provided, the Calculation Agent will request four major banks in the Principal Financial Center selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide such banks' offered quotations to leading European banks for a loan in the Index Currency for a period of time corresponding to the Index Maturity, starting on the Reset Date, at approximately 11:00 a.m. in the Principal Financial Center on the LIBOR Determination Date and in a Representative Amount. If at least two quotations are provided, LIBOR will be the arithmetic mean (if necessary rounded upwards) of such quotations; and

(5) if fewer than two quotations are provided, LIBOR will be LIBOR as determined for the immediately preceding Reset Date or, in the case of the first Reset Date, will be the rate for Deposits in the Index Currency having the Index Maturity at 11:00 a.m. (London time) on the most recent London Banking Day preceding the LIBOR Determination Date for which the rate was displayed on either the Designated Telerate Page or the Designated Reuters Page for deposits starting on the second London Banking Day following such date (and if such rate appears on both such screens on that London Banking Day, using the Designated Telerate Page).

The following definitions apply to the preceding description of LIBOR:

- ''Deposits'' means deposits commencing on the applicable Reset Date.
- ''Designated Reuters Page'' means the display on the Reuters Page ISDA (or any successor page) of interbank rates from London for Deposits in the Index Currency.
- ''Designated Telerate Page'' means the display of rates on the Telerate Capital Markets Report Page 3750 (or any successor page) for Deposits in the Index Currency.
- ''Index Currency'' means the currency or currency unit specified in the related Pricing Supplement with respect to which LIBOR will be calculated for a Variable Rate Debenture or Medium-Term Note. If no such currency or currency unit is specified in the related Pricing Supplement, the Index Currency will be U.S. dollars.
- ''Index Maturity'' means the period with respect to which LIBOR will be calculated that is specified in the related Pricing Supplement.
- ''LIBOR Determination Date'' means the second London Banking Day preceding the applicable Reset Date unless the Index Currency is British pounds sterling, in which case it means the applicable Reset Date.
- ''London Banking Day'' means any day on which commercial banks are open for business (including dealings in foreign exchange and deposits in the Index Currency) in London.
- ''Principal Financial Center'' means (i) with respect to U.S. dollars, British pounds sterling, the euro, Japanese yen and Swiss francs, the City of New York, London,

Brussels, Tokyo and Zurich, respectively, or (ii) with respect to any other Index Currency, the city specified in the related Pricing Supplement.

- ''Representative Amount'' means a principal amount of not less than U.S. $1,000,000 (or, if the Index Currency is other than U.S. dollars, a principal amount not less than the equivalent in the Index Currency) that, in the Calculation Agent's sole judgment, is representative for a single transaction in the relevant market at the relevant time.

Prime Rate

The ''Prime Rate'' means, with respect to any Reset Date (in the following order of priority):

(1) the arithmetic mean, determined by the Calculation Agent, of the rates (after eliminating certain rates, as described below in this clause (1)) that appear, at 11:00 a.m. on the Prime Rate Determination Date, on Reuters USPRIME1 Page as the U.S. dollar prime rate or base lending rate of each bank appearing on that page, *provided that* at least 3 rates appear. In determining the arithmetic mean:

- if 20 or more rates appear, the highest 5 rates (or in the event of equality, 5 of the highest) and the lowest 5 rates (or in the event of equality, 5 of the lowest) will be eliminated,

- if fewer than 20 but 10 or more rates appear, the highest 2 rates (or in the event of equality, 2 of the highest) and the lowest 2 rates (or in the event of equality, 2 of the lowest) will be eliminated, or

- if fewer than 10 but 5 or more rates appear, the highest rate (or in the event of equality, 1 of the highest) and the lowest rate (or in the event of equality, 1 of the lowest) will be eliminated;

(2) if fewer than 3 rates so appear, then the Prime Rate will be the arithmetic mean, determined by the Calculation Agent, of the rates (after eliminating certain rates, as described below in this clause(2)) that appear, at 11:00 a.m. on the Prime Rate Determination Date, on Telerate Page 38 as the U.S. dollar prime rate or base lending rate of each bank appearing on that page, *provided that* at least 3 rates appear. In determining the arithmetic mean:

- if 20 or more rates appear, the highest 5 rates (or in the event of equality, 5 of the highest) and the lowest 5 rates (or in the event of equality, 5 of the lowest) will be eliminated,
- if fewer than 20 but 10 or more rates appear, the highest 2 rates (or in the event of equality, 2 of the highest) and the lowest 2 rates (or in the event of equality, 2 of the lowest) will be eliminated, or
- if fewer than 10 but 5 or more rates appear, the highest rate (or in the event of equality, 1 of the highest) and the lowest rate (or in the event of equality, 1 of the lowest) will be eliminated;

(3) if fewer than 3 rates so appear, then the Calculation Agent will request 5 major banks in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide a quotation of such banks' U.S. dollar prime rates or base lending rates on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. If at least 3 quotations are provided, then the Prime Rate will be the arithmetic mean, determined by the Calculation Agent, of the quotations obtained (and, if 5 quotations are provided, eliminating the highest quotation (or in the event of equality, 1 of the highest) and the lowest quotation (or in the event of equality, 1 of the lowest));

(4) if fewer than 3 quotations are so provided, the Calculation Agent will request 5 banks or trust companies organized and doing business under the laws of the United States or any

state, each having total equity capital of at least U.S. $500,000,000 and being subject to supervision or examination by federal or state authority, selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent), to provide a quotation of such banks' or trust companies' U.S. dollar prime rates or base lending rates on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. In making such selection of 5 banks or trust companies, the Calculation Agent will include each bank, if any, that provided a quotation as requested in clause (3) above and exclude each bank that failed to provide a quotation as requested in clause (3). If at least 3 quotations are provided, then the Prime Rate will be the arithmetic mean, determined by the Calculation Agent, of the quotations obtained; and

(5) if fewer than 3 quotations are so provided, then the Prime Rate will be the Prime Rate determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Prime Rate will be the rate calculated pursuant to clause (1) or (2) for the most recent New York Banking Day preceding the Reset Date for which at least 3 rates appeared at 11:00 a.m. on either Reuters USPRIME1 Page or Telerate Page 38 (and, if rates appear on both screens on such New York Banking Day, using Reuters USPRIME1 Page).

The following definitions apply to the preceding description of Prime Rate:

- ''New York Banking Day'' means any day other than (a) a Saturday, (b) a Sunday, (c) a day on which banking institutions in the City of New York are required or permitted by law or executive order to close or (d) a day on which the Federal Reserve Bank of New York is closed.
- ''Prime Rate Determination Date'' means the New York Banking Day preceding the applicable Reset Date.
- ''Reuters USPRIME1 Page'' means the display designated as page ''USPRIME1'' (or any successor page) on Reuters.
- ''Telerate Page 38'' means the display designated as ''Page 38'' (or any successor page) provided by Telerate Capital Markets.

Treasury Rate

The ''Treasury Rate'' means, with respect to any Reset Date (in the following order of priority):

(1) the auction average rate for direct obligations of the United States (''Treasury Bills'') having the Index Maturity obtained from the most recent auction of Treasury Bills prior to the Reset Date (''Reference Treasury Bill Auction'') as announced by the United States Department of the Treasury (''Treasury Department'') in the form of a press release under the heading ''Investment Rate'' by 3:00 p.m. on such Reset Date;

(2) if such rate is not so announced, then the Treasury Rate will be the auction average rate for Treasury Bills having the Index Maturity obtained from the Reference Treasury Bill Auction as otherwise announced by the Treasury Department by 3:00 p.m. on the Reset Date as determined by the Calculation Agent;

(3) if such rate is not so announced, the Calculation Agent will request 5 leading primary United States government securities dealers in the City of New York selected by the Calculation Agent (after consultation with Freddie Mac, if Freddie Mac is not then acting as Calculation Agent) to provide a quotation of such dealers' secondary market bid yields, as of 3:00 p.m. on such Reset Date, for Treasury Bills with a remaining maturity closest to the Index Maturity (or, in the event that the remaining maturities are equally close, the longer remaining maturity). If at least 3 quotations are provided, then the Treasury Rate will be the arithmetic mean, determined by the Calculation Agent, of the quotations obtained; and

(4) if fewer than 3 quotations are so provided, the Treasury Rate will be the Treasury Rate for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date,

the Treasury Rate will be the auction average rate for Treasury Bills having the Index Maturity from the most recent auction of Treasury Bills prior to the Reset Date for which such rate was announced by the Treasury Department in the form of a press release under the heading ''Investment Rate.''

The auction average rate for Treasury Bills and the secondary market bid yield for Treasury Bills will be obtained expressed as a bond equivalent yield on the basis of a year of 365 or 366 days, as applicable (or, if not so expressed, will be converted by the Calculation Agent to such a bond equivalent yield).

Fixed / Variable Rate Debentures and Medium-Term Notes

Fixed / Variable Rate Debentures and Medium-Term Notes will bear interest at a fixed rate for one or more periods and at a variable rate for one or more other periods. Fixed / Variable Rate Debentures and Medium-Term Notes also may bear interest at a rate that we may elect to convert from a fixed rate to a variable rate or from a variable rate to a fixed rate, as further described in the applicable Pricing Supplement. See ''Description of the Securities — Debentures and Medium-Term Notes — Fixed Rate Debentures and Medium-Term Notes'' as to fixed rates and ''Description of the Securities — Debentures and Medium-Term Notes — Variable Rate Debentures and Medium-Term Notes'' as to variable rates.

If we can convert the interest rate on a Fixed / Variable Rate Debenture or Medium-Term Note from a fixed rate to a variable rate, or from a variable rate to a fixed rate, accrued interest for each Interest Payment Period generally will be calculated using an accrued interest factor in the manner described under ''Description of the Securities — Variable Rate Debentures and Medium-Term Notes.''

Amortizing Debentures and Medium-Term Notes

Amortizing Debentures and Medium-Term Notes are those on which we make periodic payments of principal during their terms as described in the related Pricing Supplement. Amortizing Debentures and Medium-Term Notes may bear interest at fixed or variable rates.

Debentures and Medium-Term Notes with Variable Principal Repayment Amounts

Variable Principal Repayment Amount, or ''Indexed,'' Debentures and Medium-Term Notes are those on which the amount of principal payable is determined with reference to an index specified in the related Pricing Supplement.

Subordinated Securities

If specified in the applicable Pricing Supplement, the indebtedness represented by Subordinated Securities and the payment of principal of and interest on Subordinated Securities will be subordinated to prior payment in full of all Senior Obligations of Freddie Mac which are due and payable. Such Senior Obligations will be identified by category in the applicable Pricing Supplement. In addition, there may be other terms applicable to specific offerings of Subordinated Securities that would defer, limit or suspend our obligation to make any payment of principal of or interest on these Subordinated Securities under certain specified conditions. Any such terms and conditions will be specified in the applicable Pricing Supplement.

Stripped Debentures and Medium-Term Notes

We may designate certain issues of Debentures and Medium-Term Notes (the ''Eligible Securities'') as eligible to be stripped into their separate Interest Components and Principal

Components (each, a ''Component'') on the book-entry records of the Federal Reserve Bank of New York (the ''FRBNY''). The Components of an Eligible Security are:

(i) each future interest payment or portion of an interest payment (each, an ''Interest Component'') due on or prior to the Maturity Date or, if the Eligible Security is subject to redemption or repayment prior to the Maturity Date, the first date on which the Eligible Security is subject to redemption or repayment (in either case, the ''Cut-off Date''); and

(ii) the principal payment plus any interest payments that either are due after the Cut-off Date or are specified as ineligible for stripping in the applicable Pricing Supplement (the ''Principal Component'').

The initial or final interest payment on an issue of Eligible Securities will not be an Interest Component if the applicable Interest Payment Period is shorter or longer than other Interest Payment Periods, based on a 360-day year consisting of twelve 30-day months. In such case, the initial or final interest payment will remain with the Principal Component. Each Component of an issue of Eligible Securities will receive a different CUSIP Number.

We may designate an issue of Debentures or Medium-Term Notes as Eligible Securities either at the time of original issuance or at any later time prior to the Cut-off Date. We are under no obligation, however, to designate any issue of Debentures or Medium-Term Notes as Eligible Securities.

For an Eligible Security to be stripped into Components, its principal amount must produce an interest payment of $1,000 or a multiple of $1,000 on each Interest Payment Date, based on the stated interest rate of the Eligible Security. The minimum principal amount required to strip an Eligible Security at its original issuance will be specified in the related Pricing Supplement.

You may request that an Eligible Security be stripped into its Components at any time beginning on the date it becomes eligible for stripping until the Cut-off Date. You must make your request to the FRBNY and comply with any requirements and procedures, including payment of any fees, of the FRBNY.

If any modification, amendment or supplement of the terms of an issue of Eligible Securities requires the consent of Holders, only the Holders of Principal Components will be entitled to give or withhold that consent. Holders of Interest Components will have no right to give or withhold such consent. See ''The Agreements — Amendment.''

Currently, the FRBNY will restore (''reconstitute'') the Principal Components and unmatured Interest Components of a stripped Eligible Security at the request of a Holder holding a Principal Component and all applicable unmatured Interest Components. The Holder must pay a reconstitution fee (currently the FRBNY's fee applicable to on-line book-entry securities transfers). Generally, the Principal Component of an issue of Eligible Securities may be combined with either Interest Components of the same issue or Interest Components from other issues of Eligible Securities that have the same CUSIP Number. (Interest Components of two or more issues due on the same date sometimes have the same CUSIP Number). Holders wishing to reconstitute Components into an Eligible Security must also comply with all applicable FRBNY requirements and procedures relating to the stripping and reconstitution of securities.

The preceding discussion is based on our understanding of the way the FRBNY currently strips and reconstitutes securities on the Fed Book-Entry System. The FRBNY may cease stripping or reconstituting Eligible Securities or may change the way this is done or the applicable requirements, procedures or charges at any time without notice.

Reopened Issues

In our discretion and at any time, we may ''reopen'' an issue by offering additional Debentures or Medium-Term Notes with terms identical (other than issue date, interest commencement date and issue price) to those of existing Debentures or Medium-Term Notes for which settlement has previously occurred or been scheduled. The additional and existing Debentures or Medium-Term Notes will be consolidated and will form a single series of Securities as specified in the applicable Pricing Supplement.

Discount Notes

Discount Notes will:

- be unsecured general obligations of Freddie Mac;
- be offered on a continuous basis;
- have maturities of one year or less from their issue date;
- not bear interest;
- be paid only on their Maturity Dates at their principal amounts; and
- be issued, maintained and transferred in minimum principal amounts and additional increments of $1,000 (in each case expressed in terms of the principal amount payable on the Maturity Date).

We will offer each Discount Note at a fixed price representing a discount from the principal amount payable at maturity. The initial offering price of a Discount Note will be the difference between the face amount of the Discount Note and the amount derived from the following formula:

$$\frac{\text{Face Amount} \times \begin{array}{c}\text{Applicable Discount}\\ \text{Expressed as}\\ \text{a Decimal}\end{array} \times \begin{array}{c}\text{Number of Days}\\ \text{From Issue Date to}\\ \text{Maturity Date}\end{array}}{\text{360 days}}$$

We generally will not offer a Discount Note having a Maturity Date that is not a Business Day. If the Maturity Date of a Discount Note should fall on a day that is not a Business Day, its Maturity Date will become the first Business Day following such day. We will pay interest for the days from the original Maturity Date to (but excluding) the revised Maturity Date based on the percentage of discount at which this Discount Note was issued.

We may designate some Discount Notes as Reference Bills, which are regularly scheduled issues auctioned in large principal amounts.

Corrections

If a principal or interest payment error occurs, we may correct it by adjusting payments to be made on later Interest Payment Dates or Principal Payment Dates (as appropriate) or in any other manner we consider appropriate.

All index values used to determine principal or interest payments are subject to correction within 30 days from the applicable payment. The source of a corrected value must be the same source from which the original value was obtained. A correction might result in an adjustment on a later date to the amount paid to you or a subsequent investor.

For example, if the index value initially used for determining the rate of interest on an issue of Securities is superseded by a corrected value from the original source, the Calculation Agent will use that corrected value to determine the rate of interest payable on such Securities on the applicable Interest Payment Date. To illustrate, assume that LIBOR is the applicable interest rate index for determining the rate of interest payable on a Security. If the Calculation Agent obtains LIBOR for a Reset Date from a Designated Telerate Page, only a corrected rate for that Reset Date obtained from the same Designated Telerate Page may supersede the initial rate. The Calculation Agent will use the corrected rate to determine the rate of interest payable on the Security as of the applicable Interest Payment Date.

We will notify any exchange on which Securities are listed if the Calculation Agent corrects an applicable rate for such Securities.

Business Day Convention

Unless otherwise specified in the applicable Pricing Supplement, if the specified date for a payment is not a Business Day, we will pay the interest or principal of the Security on the next Business Day with the same force and effect as if such payment was made on the applicable Interest Payment Date or Principal Payment Date. Except in the case of Discount Notes, and unless otherwise specified in the applicable Pricing Supplement for an issue of Debentures or Medium-Term Notes, no interest on such payment will accrue for the period from such specified date to the actual date of the payment.

''Business Day'' means a day other than (1) a Saturday, (2) a Sunday, (3) as to any Securities on the Fed Book-Entry System, a day on which the FRBNY is closed, (4) as to any Holder of a Security on the Fed Book-Entry System, a day on which the Federal Reserve Bank that maintains the Holder's account is closed, (5) as to any Securities on the DTC Book-Entry System, a day on which the Depository is closed, or (6) a day on which our offices are closed.

Form and Denominations

Only Fed Participants may be Holders of Securities held on the Fed Book-Entry System. The Federal Reserve Banks will be our fiscal agents for Securities held on the Fed Book-Entry System. There is a Fiscal Agency Agreement between us and the FRBNY, acting on behalf of the Federal Reserve Banks (''Fiscal Agency Agreement''), which makes generally applicable to the Securities:

- The Department of Housing and Urban Development regulations (24 C.F.R. Part 81, Subpart H) applicable to Freddie Mac's book-entry securities (''Book-Entry Rules''); and

- Any procedures to which we and the FRBNY may agree.

These regulations and procedures relate to the issuance and recordation of, and transfers of interests (including security interests) in, all of our book-entry securities held on the Fed Book-Entry System, regardless of when such securities were issued. Fed Participants' individual accounts are governed by operating circulars and letters of the Federal Reserve Banks.

The Depository is a limited purpose trust company organized under the laws of the State of New York that provides book-entry holding and settlement services for its participants (''Depository Participants''), mostly brokerage firms and other financial institutions. Securities held on the DTC Book-Entry System will be represented by certificates registered in the name of the Depository or its nominee.

The Fed Book-Entry System and the DTC Book-Entry System use a unique nine-character designation, known as a ''CUSIP Number,'' to identify each issue of Securities and, for Eligible Securities, the Components of an issue. Each issue of Discount Notes having the same Maturity Date will have the same CUSIP Number.

The Fed Book-Entry System or the DTC Book-Entry System will hold and transfer Securities in minimum original principal amounts of $1,000 and additional increments of $1,000. You may not transfer a Security if, as a result of the transfer, you would have remaining in your account Securities of any issue having a principal amount less than the applicable minimum. Transfers of Securities on the Fed Book-Entry System will also have to comply with any Federal Reserve Bank minimum wire transfer requirements.

The laws of some jurisdictions require that certain purchasers of securities take physical delivery of such securities in certificated form. Such laws may impair the ability to transfer beneficial interests in Securities held on the Fed Book-Entry System or the DTC Book-Entry System.

Holders

A Holder is not necessarily the beneficial owner of a Security. Beneficial owners ordinarily hold Securities through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. For example, an investor may hold a Security through a brokerage firm which, in turn, holds the Security through a Fed Participant. In that case, you would be the beneficial owner and the Fed Participant appearing as the holder on the records of a Federal Reserve Bank would be the Holder.

In the case of a Security maintained on the DTC Book-Entry System, your beneficial ownership will be recorded on the records of the brokerage firm, bank, thrift institution or other financial intermediary where you maintain an account for that purpose. In turn, the financial intermediary's interest in the Security will be recorded on the records of the Depository (or of a Depository Participant that acts as agent for the financial intermediary, if the intermediary is not itself a Depository Participant).

A Holder that is not also the beneficial owner of a Security, and each other financial intermediary in the chain between the Holder and the beneficial owner, will be responsible for establishing and maintaining accounts for their customers. Beneficial owners of a Security may exercise their rights against Freddie Mac, the Federal Reserve Banks and the Depository only through the Holder of the Security. Freddie Mac, the Federal Reserve Banks and the Depository will not have a direct obligation to a beneficial owner of a Security (unless the beneficial owner is also the Holder). A Federal Reserve Bank or the Depository will act only upon the instructions of the Fed Participant or Depository Participant, as applicable, in recording transfers of a Security. Freddie Mac, the Federal Reserve Banks and the Depository may treat the Holder as the absolute owner of a Security for the purpose of making payments and for all other purposes, regardless of any notice to the contrary.

Payment Procedures

A Federal Reserve Bank will credit payments to Holders on the Fed Book-Entry System. Holders of a Security on the records of a Federal Reserve Bank will be entitled to any payments on the Security made on the related Payment Date.

We will make payments on Securities held on the DTC Book-Entry System to the Depository in immediately available funds. The Depository will be responsible for crediting the payment to the accounts of the appropriate Depository Participants in accordance with its normal procedures. Each Depository Participant and each other financial intermediary in the chain to the beneficial owner of a Security will be responsible for remitting payments to the beneficial owner.

THE AGREEMENTS

The following summary describes certain provisions of the Agreements not otherwise described in this Offering Circular.

Binding Effect of the Agreements

You and any financial intermediary or the Holder acting on your behalf agree that the receipt and acceptance of a Security indicates acceptance of the terms and conditions of the applicable Agreement, as that Agreement may be supplemented or amended by its terms.

The Agreements will be binding upon and inure to the benefit of any successor to Freddie Mac.

Various Matters Regarding Freddie Mac

The Agreements provide that Freddie Mac and its directors, officers, employees or agents will not be liable to the Holders for any action taken or omitted in good faith under the Agreements or for errors in judgment. However, they will not be protected against any liability imposed by reason of willful misfeasance, bad faith or gross negligence or by reason of reckless disregard of their obligations and duties.

We may employ agents or independent contractors to perform our responsibilities under the Agreements.

Except upon an Event of Default (as defined below), we will not be subject to the control of the Holders in any manner in the discharge of our responsibilities under the Agreements. Except with regard to our payment obligations, we will have no liability to you other than for any direct damage resulting from our failure to exercise that degree of ordinary care which we exercise in the conduct and management of our own affairs. We will have no liability of any nature for consequential damages.

In addition, the Agreements provide that we need not appear in any legal action that is not incidental to our responsibilities under the Agreements and that we believe may result in any expense or liability. However, we may undertake any legal action that we believe is necessary or desirable in the interests of the Holders in our discretion. We will bear the legal costs of any such action.

Events of Default

An ''Event of Default'' under the Debenture and Medium-Term Note Agreement (other than for Subordinated Securities) will consist of:

- any failure by us to pay principal or interest that continues unremedied for 30 days;
- any failure by us to perform in any material way any other obligation under the Debenture and Medium-Term Note Agreement if the failure continues unremedied for 60 days after we receive notification by the Holders of at least 25% of the outstanding balance of an issue of Debentures or Medium-Term Notes; or
- specified events of bankruptcy, insolvency or similar proceedings involving us.

The appointment of a conservator (or other similar official) by a regulator having jurisdiction over us, whether or not we consent to such appointment, will not constitute an Event of Default.

The applicable Pricing Supplement for any issue of Subordinated Securities will specify Events of Default that will apply to any such Subordinated Securities.

The Discount Note Agreement does not define events of default or specify the remedies available to you in the event of our default.

Rights Upon Event of Default—Debentures and Medium-Term Notes

If an Event of Default under the Debenture and Medium-Term Note Agreement continues unremedied, Holders of at least 50% of the outstanding principal amount or notional principal amount of an issue of Debentures or Medium-Term Notes to which such Event of Default relates may, by written notice to us, declare such Debentures or Medium-Term Notes due and payable.

No Holder has the right under the Debenture and Medium-Term Note Agreement to institute any action or proceeding at law or in equity or in bankruptcy or otherwise, or for the appointment of a receiver or trustee, or for any other remedy, unless:

- the Holder previously has given us written notice of an Event of Default;
- the Holders of not less than 50% of the outstanding principal amount or notional principal amount of the same issue of Debentures or Medium-Term Notes have given us written notice of the Event of Default; and
- the Event of Default continues uncured for 60 days following such notice.

You do not have any right under the Debenture and Medium-Term Note Agreement to disturb or prejudice the rights of any other investor, to obtain or seek to obtain preference or priority over any other investor or to enforce any right under the Debenture and Medium-Term Note Agreement, except as provided in the Debenture and Medium-Term Note Agreement and for the ratable and common benefit of all such Holders and except for the priority rights of Holders of Senior Obligations over the rights of Holders of Subordinated Securities.

Events of Default that apply to an issue of Senior Obligations may not necessarily be Events of Default for an issue of Subordinated Securities. As a result, the Holders of an issue of Subordinated Securities may not have the same acceleration rights as Holders of other Securities.

The Holders of not less than 50% of the outstanding principal amount or notional principal amount of an issue of Debentures or Medium-Term Notes may waive, rescind or annul an Event of Default at any time.

Amendment

We may amend either Agreement without your consent:

- to cure any ambiguity or to correct any provision in the Agreement if the amendment does not materially and adversely affect any Holder;
- to add to our covenants for your benefit or surrender any right or power conferred upon us;
- to evidence the succession of another entity to us and its assumption of our covenants;
- to conform the terms of an issue of Securities to, or cure any ambiguity or discrepancy resulting from any changes in, the Book-Entry Rules;
- to increase the amount of an issue of Securities; or
- in any other manner we may determine that will not adversely affect your interests in any material way.

With the consent of the Holders of at least 50% of the outstanding balance of an issue of Securities, we may from time to time and at any time amend the terms of such Securities, but no such amendment may, without the written consent or affirmative vote of each affected Holder of a Security,

- change the Maturity Date or Interest Payment Date of such Security;
- materially modify the redemption or repayment provisions, if any, relating to the redemption or repayment price of, or any redemption or repayment date or period for, such Security;
- reduce the principal amount of, delay the principal payment of, or materially modify the rate of interest or the calculation of the rate of interest on, such Security; or
- reduce the percentage of Holders whose consent or affirmative vote is necessary to amend the terms of the relevant issue of Securities.

Any instrument given by a Holder on your behalf relating to a consent will be irrevocable once given and will be conclusive and binding on all subsequent Holders of that Security or any substitute or replacement Security. Any amendment of an Agreement or of the terms of Securities will be conclusive and binding on all Holders of those Securities, whether or not they have given such consent or were present at any meeting.

Securities Owned by Freddie Mac

We may, from time to time, repurchase or otherwise acquire (either for cash or in exchange for newly-issued Securities) some or all of any issue of Securities at any price or prices, in the open market or otherwise. We may hold, sell or cancel any Securities that we repurchase. Any Securities we own will have an equal and proportionate benefit under the provisions of the applicable Agreement, without preference, priority or distinction as among those Securities. However, in determining whether the required percentage of Holders of an issue of Securities have given any required demand, authorization, notice, consent or waiver, Securities we own, directly or indirectly, will be deemed not to be outstanding.

Notice

Any notice, demand or other communication which is required or permitted to be given to a Holder may be given in writing by mail addressed to the Holder or, in the case of a Holder of a Security maintained on the Fed Book-Entry System, by transmission through the communication system linking the Federal Reserve Banks. The communication will be deemed to have been sufficiently given or made upon mailing or transmission.

Any notice, demand or other communication which is required or permitted to be delivered to us must be given in writing addressed as follows: Freddie Mac, 8200 Jones Branch Drive, McLean, Virginia 22102, Attention: Executive Vice President—General Counsel and Secretary. The communication will be deemed to have been sufficiently given or made only upon actual receipt of the writing by us.

Governing Law

The Agreements and the rights and obligations of the Holders and Freddie Mac with respect to the Securities each are to be interpreted in accordance with U.S. federal law. If there is no applicable U.S. federal law precedent, and if the application of New York law would not frustrate the purposes of the Freddie Mac Act or any provision of the applicable Agreement or the transactions governed by the Agreements, then the laws of the State of New York will be deemed to reflect U.S. federal law.

CERTAIN UNITED STATES FEDERAL TAX CONSEQUENCES

The Securities and payments on the Securities generally are not exempt from taxation by the United States or other U.S. or non-U.S. taxing jurisdictions.

The following summary addresses certain U.S. tax consequences of an investment in those Securities (referred to as ''Debt Obligations'' in this section) that do not have a Variable Principal Repayment Amount. This summary is based upon U.S. laws, regulations and decisions now in effect, all of which are subject to change, potentially with retroactive effect, or to differing interpretations.

This summary discusses only Debt Obligations held by investors as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended to the date of this Offering Circular (the ''Code''). It does not discuss all of the tax consequences that may be relevant to an investor in light of its particular circumstances or to investors subject to special rules, such as certain financial institutions, insurance companies, dealers or investors holding Debt Obligations as part of a hedging transaction, straddle or synthetic security transaction. Moreover, this summary does not address Debt Obligations held by a foreign partnership or other foreign flow-through entities. Further, the tax consequences arising from the ownership of any Debt Obligations with special characteristics (*e.g.*, subordinated Debt Obligations providing for deferral of, limitation on or suspension of payments of principal or interest in some circumstances) may be set forth in the related Pricing Supplement. In all cases, you are advised to consult your own tax advisor regarding the U.S. tax consequences to you of purchasing, owning and disposing of Debt Obligations (or of stripped payment rights derived from such Debt Obligations), including the advisability of making any of the elections described below, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

For purposes of this summary, ''U.S. Person'' means:

- an individual who, for U.S. income tax purposes, is a citizen or resident of the United States;

- a corporation, partnership or other entity created or organized in or under the laws of the United States, any state thereof, or the District of Columbia, other than a partnership that is not treated as a U.S. Person under any applicable U.S. Treasury regulations (''Regulations'');

- an estate the income of which is subject to U.S. income taxation regardless of its source; or

- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. Certain trusts in existence on or before August 20, 1996, that were treated as U.S. persons under the law in effect on such date but fail to qualify as U.S. persons under current law, may elect to continue to be treated as U.S. persons to the extent prescribed in the Regulations.

''U.S. Owner'' means a U.S. Person that beneficially owns a Debt Obligation. ''Non-U.S. Owner'' means a beneficial owner of a Debt Obligation other than a U.S. Person. ''Owner'' means either a U.S. Owner or a Non-U.S. Owner.

If we issue Debentures or Medium-Term Notes having a Variable Principal Repayment Amount, the U.S. federal tax treatment of investors in such Debentures or Medium-Term Notes will be described in the related Pricing Supplement.

As a condition to our payment on a Security or to the transfer or exchange of such Security, we may require a Holder to present a certificate in a prescribed form to enable us to determine our duties and liabilities with respect to any taxes or other charges required to be deducted or withheld under United States law or any reporting or other requirements.

U.S. Owners

In General

Income derived from a Debt Obligation by a U.S. Owner is subject to U.S. income taxation. In addition, a Debt Obligation owned by an individual who, at the time of death, is a U.S. citizen or domiciliary is subject to U.S. federal estate tax.

The U.S. Internal Revenue Service (''IRS'') has ruled that Freddie Mac is an instrumentality of the United States for purposes of Section 7701(a)(19) of the Code; therefore, domestic building and loan associations and savings banks are permitted to invest in Debt Obligations to meet the percentage of total assets required to be invested in, among other things, stock or obligations of a corporation which is an instrumentality of the United States. Further, Debt Obligations held by a real estate investment trust will constitute ''Government securities'' within the meaning of Section 856(c)(4)(A) of the Code, and Debt Obligations held by a regulated investment company will constitute ''Government securities'' within the meaning of Section 851(b)(3) of the Code.

The Freddie Mac Act does not contain any specific exemption from any taxes on the principal of or interest on obligations issued by Freddie Mac imposed by any state or possession of the United States or by any local taxing authority. Purchasers residing in states of the United States that impose intangible property or income taxes should consult their own tax advisors as to the status of the Debt Obligations and interest paid on them under applicable tax laws.

Payments of Interest

Interest paid on a Debt Obligation generally will be taxable to a U.S. Owner as ordinary interest income at the time it accrues or is received in accordance with the U.S. Owner's method of accounting for U.S. federal income tax purposes.

Debt Obligations with Original Issue Discount

Debt Obligations that are Zero Coupon Debentures will, and other Debt Obligations may, be issued with original issue discount. The Code and Regulations concerning the tax treatment of debt instruments issued with original issue discount (''OID Regulations'') provide that the excess of the ''stated redemption price at maturity'' of a Debt Obligation over its ''issue price'' will be original issue discount unless such excess is *de minimis* (defined below). The ''stated redemption price at maturity'' of a Debt Obligation is equal to the sum of all payments on the Debt Obligation other than interest based on a fixed rate (or a variable rate, unless a related Pricing Supplement provides otherwise) and payable unconditionally at least annually. The ''issue price'' of a Debt Obligation is the first price at which a substantial amount of the issue of which the Debt Obligation is a part is sold to persons other than those acting as placement agents, underwriters, brokers or wholesalers. The issue price of a Debt Obligation generally includes any pre-issuance accrued interest unless a U.S. Owner excludes such amount from the issue price and treats a portion of the stated interest payable on the first interest payment date as a return of that accrued interest rather than as an amount payable under the Debt Obligation. Original issue discount is considered to be *de minimis* if it is less than one-quarter of one percent of a Debt Obligation's stated redemption price at maturity multiplied by the number of complete years to its maturity (weighted average maturity if principal is payable in installments). A Debt Obligation having original issue discount is referred to as an ''OID Debt Obligation.'' A U.S. Owner of a Debt Obligation with *de minimis* original issue discount will include any *de minimis* original issue discount in income, as capital gain, on a pro rata basis as principal payments are made on the Debt Obligation.

Special rules apply to Debt Obligations that are callable by us, including Debt Obligations that are Step Debentures and Medium-Term Notes that have an initial fixed interest rate that will change to a different fixed rate on the first day on which such Debt Obligations may be redeemed (''Step Debt Obligations''). See ''Certain United States Federal Tax Consequences — U.S. Owners — Callable Debt Obligations.'' Other special rules may apply to Debt Obligations that are Variable Rate Notes, Debt Obligations that provide for a fixed rate and a variable rate in different periods, Debt Obligations with a zero or reduced interest rate for certain periods, and certain other situations.

Subject to certain special rules for Debt Obligations having a maturity of one year or less (discussed below), U.S. Owners are required to include original issue discount on OID Debt Obligations in income as it accrues, which may be before the receipt of the cash attributable to such income, based on a compounding of interest at a constant rate (using the yield to maturity of the Debt Obligation when originally issued). Under these rules, the portion of the original issue discount includible in income is lowest in the first accrual period and increases in each successive accrual period. The OID Regulations permit U.S. Owners to use accrual periods of any length up to one year to compute accruals of original issue discount, provided each scheduled payment of principal or interest occurs either on the first or the last day of an accrual period.

Callable Debt Obligations

The OID Regulations provide special rules for determining the yield and maturity of debt instruments that are unconditionally callable prior to their final maturity date. Under these rules, we will be presumed to exercise a call right if such exercise would minimize the yield to maturity of the Debt Obligation. If a call right with respect to an OID Debt Obligation is presumed to be exercised but we do not in fact exercise the call right, the Debt Obligation will be treated as reissued at the ''adjusted issue price'' on the call date solely for purposes of determining future accruals of interest and original issue discount. The adjusted issue price is defined as the sum of the issue price of the

Debt Obligation and the aggregate amount of previously accrued original issue discount (determined without regard to the acquisition premium rules), less any prior payments of amounts included in its stated redemption price at maturity.

For example, a fixed rate Debt Obligation that is issued at a discount and is callable at par will not be deemed to be called because exercise of the call right will not minimize the yield of such Debt Obligation. A Step Debt Obligation that is issued at par and is callable at par on the dates specified for increases in interest rates will be deemed to be called on the first step date because the yield to maturity on the Debt Obligation will be lower than if the interest rate were stepped up. If the Step Debt Obligation is not called on that date, or is called only in part, the Step Debt Obligation (to the extent of its remaining outstanding principal amount) will be deemed to be called and reissued at par. As a result of these special rules, a Step Debt Obligation issued at par will not have any original issue discount and stated interest will be taken into account by a U.S. Owner under its regular method of accounting.

If a principal purpose in structuring a debt instrument is to achieve a result that is unreasonable in light of the purposes of the statutes relating to original issue discount, then the OID Regulations provide that the IRS can apply or depart from the OID Regulations, including the rules relating to the exercise of call rights described above, as necessary or appropriate to achieve a reasonable result. We intend to report income on any Step Debt Obligations with the features described above assuming this anti-abuse rule does not apply.

Debt Obligations with a Term of One Year or Less

A Debt Obligation that matures one year or less from the date of its issuance is referred to as a ''Short-Term Debt Obligation.'' For purposes of determining whether a Debt Obligation is a Short-Term Debt Obligation, the maturity date of the Debt Obligation is the last possible date it could be outstanding under its terms. For example, a Step Debt Obligation that has a maturity of more than one year but, under the rules described in the previous section, is presumed to be called on a date that is one year or less from the issue date, will not constitute a Short-Term Debt Obligation.

Accrual method U.S. Owners and certain other U.S. Owners described in Section 1281(b) of the Code, regardless of their method of accounting, are required to include original issue discount and stated interest (if any) with respect to a Short-Term Debt Obligation in income as it accrues. Original issue discount and stated interest must be accrued on a straight-line basis unless the U.S. Owner makes an irrevocable election to accrue such amounts on the basis of the Short-Term Debt Obligation's yield to maturity and daily compounding. U.S. Owners described in this paragraph may irrevocably elect to accrue ''acquisition discount'' (*i.e.*, the excess of the stated redemption price at maturity over the U.S. Owner's basis in the Short-Term Debt Obligation) rather than original issue discount. Such U.S. Owners should consult their tax advisors before making this election.

Cash method U.S. Owners of a Short-Term Debt Obligation generally include original issue discount and stated interest (if any) in income as payments are received. A cash method U.S. Owner of a Short-Term Debt Obligation described in Section 1281(b) of the Code, however, is subject to the rules described in the preceding paragraph. In addition, a cash method U.S. Owner of a Short-Term Debt Obligation (that is not otherwise required to account for interest or original issue discount on such Short-Term Debt Obligation as it accrues) may nevertheless elect to include in income interest and original issue discount as they accrue (under the rules discussed above) on all obligations having a maturity of one year or less held by the U.S. Owner in the taxable year of the election and in all subsequent years. This election is irrevocable without the consent of the IRS. In the case of a U.S. Owner that is not required and that does not elect to include original issue discount in income currently, (i) any gain realized upon the sale, exchange or retirement of a Short-Term Debt Obligation will be ordinary income to the extent of accrued original issue discount and (ii) such U.S. Owner will be required to defer deductions for interest expense on any indebtedness incurred or continued to purchase or carry the Short-Term Debt Obligation, in an amount not exceeding the deferred interest income, until the deferred interest income is recognized.

Acquisition Premium and Market Discount

In the event that a U.S. Owner purchases an OID Debt Obligation at an ''acquisition premium'' (*i.e.*, at a price in excess of its adjusted issue price but less than its remaining stated redemption price at maturity), an adjustment must be made to the amount includible in income in each taxable year as original issue discount. Unless a U.S. Owner makes the accrual method election described below, the original issue discount includible for any taxable year is reduced by the product of the amount of original issue discount otherwise accruing during that taxable year under the rules described above and a constant fraction, the numerator of which is the excess of the purchase price of the Debt Obligation over the adjusted issue price of the Debt Obligation as of the acquisition date, and the denominator of which is the remaining original issue discount on the Debt Obligation as of the acquisition date.

A U.S. Owner that purchases a Debt Obligation (other than a Short-Term Debt Obligation) at a ''market discount'' (*i.e.*, at a price less than its stated redemption price at maturity or, in the case of an OID Debt Obligation, its adjusted issue price) will be required (unless such difference is a *de minimis* amount) to treat any principal payments on, or any gain realized in a taxable disposition or retirement of, such Debt Obligation as ordinary income to the extent of the market discount that accrued while such U.S. Owner held such Debt Obligation, unless the U.S. Owner elects to include such market discount in income on a current basis. Market discount is considered to be *de minimis* if it is less than one-quarter of one percent of the Debt Obligation's stated redemption price at maturity multiplied by the number of complete years to maturity (weighted average maturity if principal is payable in installments) after the U.S. Owner acquired such Debt Obligation. If a Debt Obligation with more than a *de minimis* amount of market discount is disposed of in a transaction that is nontaxable in whole or in part (other than certain transactions described in Section 1276(d) of the Code), accrued market discount will be includible as ordinary income to the U.S. Owner as if such U.S. Owner had sold the Debt Obligation at its then fair market value. Generally, market discount accrues ratably over the number of days from the date of acquisition to the date of maturity. A U.S. Owner may, however, irrevocably elect with respect to any Debt Obligation to use a constant interest method. A U.S. Owner of a Debt Obligation that acquired it at a market discount and that does not elect under Section 1278(b) of the Code to include market discount in income on a current basis also may be required to defer the deduction for a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Debt Obligation until the deferred income is realized.

Debt Obligations Purchased at a Premium

Except as noted below, a U.S. Owner that purchases a Debt Obligation for an amount in excess of its remaining stated redemption price at maturity will be treated as having premium with respect to such Debt Obligation in the amount of such excess. A U.S. Owner that purchases an OID Debt Obligation at a premium is not required to include in income any original issue discount with respect to such Debt Obligation. If such a U.S. Owner makes an election under Section 171(c)(2) of the Code to treat such premium as ''amortizable bond premium,'' the amount of interest on a Debt Obligation that must be included in such U.S. Owner's income for each accrual period (where such Debt Obligation is not optionally redeemable prior to its maturity date) will be reduced (but not below zero) by the portion of the premium allocable to such period based on the Debt Obligation's yield to maturity. If such Debt Obligation may be called prior to maturity after the U.S. Owner has acquired it, the U.S. Owner generally may not assume that the call will be exercised and must amortize premium to the maturity date. If the Debt Obligation is in fact called, any unamortized premium may be deducted in the year of the call. If a U.S. Owner makes the election under Section 171(c)(2) of the Code, the election also shall apply to all bonds the interest on which is not excludable from gross income (''Fully Taxable Bonds'') held by the U.S. Owner at the beginning of, or acquired during, the first taxable year to which the election applies and to all Fully Taxable Bonds acquired by it in subsequent years. This election is irrevocable without the consent of the IRS. If such an election is not made, such a U.S. Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will take the premium into account in computing its gain or loss upon the sale or other disposition or retirement of the Debt Obligation. Thus, the premium may reduce capital gain or increase capital loss realized on the disposition or retirement. See ''Certain United States Federal Tax Consequences — U.S. Owners — Disposition or Retirement of Debt Obligations.''

Accrual Method Election

Under the OID Regulations, a U.S. Owner of a Debt Obligation is permitted to elect to include in gross income its entire return on a Debt Obligation (*i.e.*, the excess of all remaining payments to be received on the Debt Obligation over the amount paid for the Debt Obligation by such U.S. Owner) based on the compounding of interest at a constant rate. If the U.S. Owner has not made an election under Section 171(c)(2) of the Code to amortize bond premium, an accrual method election for a Debt Obligation with amortizable bond premium will result in a deemed election under Section 171(c)(2) of the Code for all of the U.S. Owner's debt instruments with amortizable bond premium acquired during the current year and all subsequent years. Similarly, an accrual method election for a Debt Obligation with market discount by a U.S. Owner that has not made an election under Section 1278(b) of the Code to include market discount in income on a current basis will result in a deemed election under Section 1278(b) of the Code. Such a deemed election will apply to all debt instruments with market discount acquired by the U.S. Owner during the current year and all subsequent years. Neither the bond premium election under Section 171(c)(2) of the Code nor the market discount election under Section 1278(b) of the Code may be revoked without the permission of the IRS.

Disposition or Retirement of Debt Obligations

Upon the sale, exchange or other disposition of a Debt Obligation, or upon the retirement of a Debt Obligation (including by redemption), a U.S. Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement (not including any amount attributable to accrued but unpaid interest) and the U.S. Owner's tax basis in the Debt Obligation. A U.S. Owner's tax basis for determining gain or loss on the disposition or retirement of a Debt Obligation is the cost of such Debt Obligation to such U.S. Owner, increased by the amount of original issue discount and any market discount includible in such U.S. Owner's gross income with respect to such Debt Obligation, and decreased by (i) the amount of any payments under the Debt Obligation that are part of its stated redemption price at maturity and (ii) the portion of any premium applied to reduce interest payments as described above.

Gain or loss upon the disposition or retirement of a Debt Obligation will be capital gain or loss, except to the extent the gain represents accrued original issue discount or market discount on the Debt Obligation not previously included in gross income, to which extent such gain or loss would be treated as ordinary income. Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Debt Obligation has been held for more than one year. With respect to Step Debt Obligations described above, if a call that is presumed exercised is not in fact exercised, the deemed reissuance of the Debt Obligations for purposes of computing subsequent accruals of interest and original issue discount will not result in a deemed disposition or retirement of the Step Debt Obligations.

Stripped Debt Obligations

Tax Treatment of Purchasers of Principal or Interest Components. Pursuant to Section 1286 of the Code, the separation of ownership of the right to receive some or all of the interest payments on a debt obligation from ownership of the right to receive some or all of the principal payments results in the creation of ''stripped bonds'' with respect to principal payments and ''stripped coupons'' with respect to interest payments. Consequently, a purchaser of a Principal Component or an Interest Component will be considered to own stripped bonds or stripped coupons, respectively.

Section 1286 of the Code treats a stripped bond or a stripped coupon, for purposes of applying the original issue discount rules, as a debt instrument issued with original issue discount on the date that such stripped bond or stripped coupon is purchased. Accordingly, the tax consequences to a purchaser of a Component are determined as if the Component were an OID Debt Obligation issued on the date of purchase or, in the case of a Component maturing one year or less from the date of purchase, a Short-Term Debt Obligation issued on that date. See ''Certain United States Federal Tax Consequences — U.S. Owners — Debt Obligations with Original Issue Discount'' and '' — Debt Obligations with a Term of One Year or Less'' and ''Certain United States Federal Tax Consequences — Non-U.S. Owners — Interest.'' The amount of original issue discount is equal to the excess (if any) of the Component's stated redemption price at maturity (in the case of an Interest Component, the amount payable on the due date of such Component), over the purchase price.

If a U.S. Owner purchases in one transaction a pro rata share of the Principal Component and applicable unmatured Interest Components relating to the same Debt Obligation, while the matter is not free from doubt, such U.S. Owner should be treated as purchasing an undivided interest in the Debt Obligation rather than the separate Components. If such Components are purchased in separate transactions, then the U.S. Owner likely should be treated as purchasing the separate Components for U.S. federal income tax purposes. Such a U.S. Owner must account for taxable income with respect to such Components as described in the preceding paragraph.

Tax Treatment of Person That Strips the Debt Obligation and Disposes of Some of the Components. A U.S. Owner of a Debt Obligation that strips the Debt Obligation into its related Components and disposes of some of such Components will also be subject to the rules of Section 1286 of the Code. On the date of disposition, the U.S. Owner must (i) include in income all interest and market discount accrued on the Debt Obligation and not previously included in income, (ii) increase its basis in the Debt Obligation by the same amount, (iii) allocate its basis in the Debt Obligation among the Principal Component and Interest Components retained and disposed of according to their respective fair market values, and (iv) recognize gain or loss with respect to the Principal Component and Interest Components disposed of. Such U.S. Owner will be treated as having purchased the retained Components for an amount equal to the basis allocable to such Components.

Tax Treatment of Stripping and Reconstitution Transactions. An exchange by a U.S. Owner of a Debt Obligation for the related Components will not constitute a taxable exchange to the U.S. Owner. Similarly, a reconstitution of Components into a single instrument will not constitute a taxable exchange. In either case, the U.S. Owner will be treated as continuing to own for Federal income tax purposes the property that it owned prior to the exchange.

Non-U.S. Owners

Interest

Interest (including original issue discount) on a Debt Obligation held by a Non-U.S. Owner will be subject to a 30-percent U.S. federal income and withholding tax, unless an exemption applies. An exemption generally exists in the following circumstances:

Exemption for Certain Short-Term Obligations. Interest on a Debt Obligation held by a Non-U.S. Owner that is not effectively connected with a trade or business of the Non-U.S. Owner within the United States will be exempt from U.S. federal income and withholding taxes if the Debt Obligation is payable in full within 183 days after the date of original issue.

Exemption for Portfolio Interest. Interest on a Debt Obligation held by a Non-U.S. Owner that is not effectively connected with a trade or business of the Non-U.S. Owner within the United States generally will be exempt from U.S. federal income and withholding taxes if the person otherwise required to withhold receives, in the manner provided by U.S. tax authorities, a certification that the Non-U.S. Owner is not a U.S. Person. A Non-U.S. Owner may provide this certification by providing a properly completed Form W-8BEN or other documentation prescribed by U.S. tax authorities. The appropriate documentation must be effective as to the interest and be provided prior to the payment of such interest. If a change in circumstances makes any information on such documentation incorrect, then the Non-U.S. Owner must report the change within 30 days and provide new documentation.

The portfolio interest exemption will not apply if: (i) the interest is determined by reference to any receipts, sales or other cash flow of Freddie Mac or a related person, the income or profits of Freddie Mac or a related person, a change in value of any property of Freddie Mac or a related person, or any other item specified in Section 871(h)(4)(A) of the Code, (ii) the Non-U.S. Owner is a bank that receives payments on the Debt Obligations that are described in Section 881(c)(3)(A) of the Code, (iii) the Non-U.S. Owner is a 10-percent shareholder of Freddie Mac within the meaning of Section 871(h)(3)(B) of the Code or (iv) the Non-U.S. Owner is a ''controlled foreign corporation'' related to Freddie Mac within the meaning of Section 881(c)(3)(C) of the Code.

Exemption or Reduced Rate for Non-U.S. Owners Entitled to the Benefits of a Treaty. Interest on a Debt Obligation held by a Non-U.S. Owner may be exempt from U.S. federal income and withholding taxes (or subject to such tax at a reduced rate) under an income tax treaty between the United States and a foreign jurisdiction. In general, the exemption (or reduced rate) applies only if the Non-U.S. Owner provides a properly completed Form W-8BEN or other documentation prescribed by U.S. tax authorities. The appropriate documentation must be effective as to the interest and be provided prior to the payment of such interest. If a change in circumstances makes any information on such documentation incorrect, then the Non-U.S. Owner must report the change, generally within 30 days, and provide new documentation.

A treaty exemption (or reduced rate of tax) generally will not apply if the Non-U.S. Owner holds the Debt Obligation through an entity that is ''fiscally transparent'' for U.S. federal income tax purposes but not fiscally transparent under the laws of the Non-U.S. Owner's jurisdiction of residence. An entity is considered fiscally transparent if its interest holders currently take into account their respective shares of the entity's income and determine the character of such income as if they realized it directly.

Exemption for Non-U.S. Owners with Effectively Connected Income. Interest on a Debt Obligation held by a Non-U.S. Owner will be exempt from the 30-percent U.S. federal withholding tax if it is effectively connected with the conduct of a trade or business within the United States and the Non-U.S. Owner establishes this exemption by providing a properly completed Form W-8ECI or other documentation prescribed by U.S. tax authorities. The appropriate documentation must be effective as to the interest and be provided prior to the payment of such interest. If a change in circumstances makes any information on such documentation incorrect, then the Non-U.S. Owner must report the change, generally within 30 days, and provide new documentation. Interest on a Debt Obligation that is, or is deemed to be, effectively connected with the conduct of a trade or business in the United States by a Non-U.S. Owner, although exempt from the withholding tax, generally will be subject to U.S. federal income tax at graduated rates and, in the case of a foreign corporation, U.S. federal branch profits tax.

Disposition or Retirement of Debt Obligations

Except as provided in the discussion of backup withholding below, a Non-U.S. Owner of a Debt Obligation will not be subject to U.S. federal income and withholding taxes on any gain realized on the sale, exchange, retirement or other disposition of a Debt Obligation unless (i) such gain is, or is deemed to be, effectively connected with a trade or business in the United States of the Non-U.S. Owner or (ii) such Non-U.S. Owner is an individual who is present in the United States for 183 days or more in the taxable year of sale, exchange, retirement or other disposition and certain conditions are met.

U.S. Federal Estate and Gift Tax

Debt Obligations owned by an individual who is not a citizen or domiciliary of the United States will not be subject to U.S. federal estate tax if interest paid on the Debt Obligations to such individual at the time of his or her death would have been exempt from U.S. federal income and withholding tax as described above under either ''Certain United States Federal Tax Consequences — Non-U.S. Owners — Interest —Exemption for Portfolio Interest'' (without regard to the requirement that a non-U.S. beneficial ownership statement be received) or ''Certain United States Federal Tax Consequences — Non-U.S. Owners — Interest — Exemption for Certain Short-Term Obligations.'' A Non-U.S. Owner of a Debt Obligation will not be subject to U.S. gift tax on a transfer of the Debt Obligation, unless the Non-U.S. Owner is an expatriate subject to Section 2501(a)(3) of the Code.

Information Reporting and Backup Withholding

Payments of interest on a Debt Obligation to a U.S. Owner (other than a corporation or other exempt recipient) are required to be reported to the IRS and the U.S. Owner. Payments of interest on a Debt Obligation to a Non-U.S. Owner (other than interest described above under ''Certain United States Federal Tax Consequences — Non-U.S. Owners — Interest — Exemption for Certain Short-Term Obligations'') generally will be reported to U.S. tax authorities and the Non-U.S. Owner. Form W-8BEN, Form W-8ECI or other documentation or information about the Non-U.S. Owner may be provided to U.S. tax authorities.

Backup withholding of U.S. federal income tax at a rate of 28% may apply to a payment made in respect of a Debt Obligation, as well as a payment of proceeds from the sale of a Debt Obligation, to an Owner (other than a corporation or other exempt recipient), unless the Owner provides certain information.

If an Owner (other than a corporation or other exempt person) sells a Debt Obligation before the stated maturity to (or through) certain brokers, the broker must report the sale to the IRS and the Owner unless, in the case of a Non-U.S. Owner, the Non-U.S. Owner certifies that it is not a U.S. Person (and certain other conditions are met). The broker may be required to withhold U.S. federal income tax at a rate of 28% on the entire sale price unless such Owner provides certain information and, in the case of a Non-U.S. Owner, the Non-U.S. Owner certifies that it is not a U.S. Person (and certain other conditions are met).

THE U.S. FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. OWNERS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE DEBT OBLIGATIONS, INCLUDING THE TAX CONSEQUENCES UNDER THE TAX LAWS OF THE UNITED STATES, STATES, LOCALITIES, COUNTRIES OTHER THAN THE UNITED STATES AND ANY OTHER TAXING JURISDICTIONS AND THE POSSIBLE EFFECTS OF CHANGES IN SUCH TAX LAWS.

EUROPEAN UNION DIRECTIVE ON TAXATION OF SAVINGS INCOME

The European Union has adopted a Directive regarding the taxation of savings income (the ''EU Tax Directive''). Subject to a number of important conditions being met, it is proposed that countries that are member states of the European Union (''Member States'') will be required from a date not earlier than January 1, 2005 to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

The withholding tax provisions of the EU Tax Directive could apply to payments on Debt Securities made through any Luxembourg paying agent. It is expected that holders will be able to take steps to keep payments from being subject to such withholding tax, for example, by using a procedure (or procedures) to be made available pursuant to the EU Tax Directive (namely, releasing the paying agent of its professional secrecy duty to the extent permitted by law or by producing an appropriate tax certificate), or by receiving payments from a paying agent within the European Union but outside Luxembourg, Belgium and Austria, although we cannot preclude the possibility that withholding tax will eventually be levied in some situations. In any event, details of payments made on Debt Securities from a Member State will likely have to be reported to the tax or other relevant authorities under the EU Tax Directive or local law, including, for example, to Member States in cases where recipients are located in the jurisdiction where payments are actually made.

APPLICATION OF PROCEEDS

The net proceeds we receive from sales of the Securities will provide funds for general corporate purposes, including the purchase and financing of mortgages.

LEGAL INVESTMENT CONSIDERATIONS

You should consult your own legal advisors to determine whether the Securities constitute legal investments for you and whether the Securities can be used as collateral for borrowings. In addition, financial institutions should consult their legal advisors or regulators to determine the appropriate treatment of the Securities under risk-based capital and similar rules.

If you are subject to legal investment laws and regulations or to review by regulatory authorities, you may be subject to restrictions on investing in certain types of Securities generally. Institutions regulated by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, the Treasury Department or any other federal or state agency with similar authority should review applicable regulations, policy statements and guidelines before purchasing or pledging Securities.

DISTRIBUTION ARRANGEMENTS

Debentures and Medium Term-Notes

We will offer the Debentures and Medium-Term Notes to or through Dealers under the terms and conditions set forth in a Master Dealer Agreement, dated as of January 31, 2001 and as further amended, supplemented or modified or replaced from time to time (the ''Dealer Agreement''), between us and certain Dealers. Dealers are firms that engage in the business of dealing or trading in Securities as agents, brokers or principals. Under the terms of the Dealer Agreement, we may add other securities dealers or banks in connection with the distribution of the Securities or any particular issue of Securities. These securities dealers or banks, together with the initial Dealers with whom Freddie Mac executed the Dealer Agreement, are referred to in this Offering Circular collectively as the ''Dealers.'' The Dealer Agreement also provides that we may remove Dealers from time to time.

We will sell Debentures and Medium-Term Notes to Dealers as principals, either individually or as part of a syndicate. These sales may be by auction or other methods. Dealers will resell the Securities to investors at a fixed offering price or at varying offering prices related to market prices prevailing at the time of resale as determined by such Dealers. Offering prices may be established through negotiations with dealers, auctions (which may include standard auctions, Dutch auctions or other formats) or otherwise. The Dealer Agreement entitles the Dealers or us to terminate such sale in certain circumstances before payment for the Securities is made to us. Except under certain circumstances, any such Dealer may sell the Debentures or Medium-Term Notes it has purchased as principal to other dealers at a concession, in the form of a discount that other dealers may receive. The applicable Dealers will advise us whether an offering is on a fixed price or variable price basis and of any concessions or reallowances that will be provided to other dealers in connection with such offering. We will include this information that the Dealers provide in the applicable Pricing Supplement. After the initial offering of any issue of Debentures or Medium-Term Notes, the offering price (in the case of a fixed price offering), the concession and the reallowance may be changed. There will be no underwriting compensation where such sales are by auction.

Debentures and Medium-Term Notes also may be offered through certain Dealers as our agents. We will have the sole right to accept offers to purchase such Securities and may reject any proposed purchase of such Securities. Each Dealer will have the right, in its reasonable discretion, without notice to us, to reject any proposed purchase of the Securities through it as agent. Each Dealer is acting solely as our agent in soliciting offers to purchase Securities as agent, and not as principal, and does not assume any obligation towards or relationship of agency or trust with any purchaser of Securities.

We also may sell Debentures and Medium-Term Notes directly to investors on our own behalf. We will not pay a commission to any Dealer on these direct sales. These sales may be by auction or other method.

A Dealer acting as a principal for a fixed price offering may engage in certain transactions that stabilize, maintain or otherwise affect the market price, or that support the market price at a higher level than that which might otherwise prevail, in connection with any offering of Debentures or Medium-Term Notes. Those transactions may include stabilizing bids or purchases for the purpose of pegging, fixing or maintaining the market price of the Debentures or Medium-Term Notes and the purchase of Debentures or Medium-Term Notes to cover syndicate short positions created in connection with an offering of Debentures or Medium-Term Notes. Any such transactions will be conducted in compliance with all applicable laws, regulations and rules.

A Dealer may create a short position in the Debentures or Medium-Term Notes in connection with the offering by selling Debentures or Medium-Term Notes with a principal amount greater than that set forth on the cover of the applicable Pricing Supplement, and may reduce that short position by purchasing Debentures or Medium-Term Notes in the open market.

In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases. We and the Dealers make no representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Debentures or Medium-Term Notes. In addition, we and the Dealers make no representation that the Dealers will engage in such transactions or that such transactions, once commenced, will be continued. A Dealer that engages in such transactions does so on its own behalf and not as our agent.

We and the Dealers have agreed to indemnify each other against and contribute toward certain liabilities.

Discount Notes

We offer Discount Notes for sale through one or a combination of methods, including auction, allocation to selected Dealers for reoffering or placement with investors, and direct placement with Dealers or investors.

Discount Notes generally are offered on a continuous basis for sale to Dealers. The sales may be held on a daily basis and there may be more than one sale on a given day. Current quotations for Discount Notes of varying maturities can be obtained by contacting any Dealer for Discount Notes.

Freddie Mac may compensate Dealers in connection with sales of Discount Notes by allowing a concession to the Dealers. Part of any concession allowed by Freddie Mac may be in the form of a commission payable by Freddie Mac to Dealers that place customer bids during an auction that are subsequently awarded to the Dealer's customer.

General

The Dealers and certain affiliates of the Dealers engage in transactions with and perform services for us in the ordinary course of business. We may enter into hedging transactions in connection with any particular issue of Securities, including forwards, futures, options, interest rate or exchange rate swaps and repurchase or reverse repurchase transactions with, or arranged by, the applicable Dealer, an affiliate of the Dealer or an unrelated entity. We, the Dealers or other parties may receive compensation, trading gain or other benefits in connection with these transactions. We are not required to engage in any of these transactions. If we commence these transactions, we may discontinue them at any time. Counterparties to these hedging activities also may engage in market transactions involving Securities.

Payment of the purchase price of Securities to us must be made in immediately available funds and will be effective only upon our receipt of such funds.

You can obtain lists of Dealers for the Securities by contacting our Investor Relations Department.

We may request the Dealers to provide us with information relating to the Securities that they sell, including the identities of investors that have made purchases of Securities.

Selling Restrictions

The Securities may be offered and sold only where it is legal to make such offers and sales.

LEGAL MATTERS

The legality of Securities that are offered in underwritten transactions will be passed upon for us by our General Counsel (or one of our Deputy General Counsels).

SELECTED FINANCIAL INFORMATION

The Information Statement and Information Statement Supplements typically include capitalization tables as of the end of the related annual and quarterly periods. The Information Statement Supplement dated November 21, 2003 (which is attached as Appendix B) contains the results of our restatement of previously issued consolidated financial statements for the years 2000 and 2001 and the first three quarters of 2002 and the revision of fourth quarter and full-year consolidated financial statements for 2002.

Appendix A

Index of Terms

The following is a list of defined terms used in this Offering Circular and the pages where their definitions appear.

Appendix B

Supplement dated November 21, 2003 to
Information Statement dated March 29, 2002

Freddie Mac

On November 21, 2003, Freddie Mac announced the results of its restatement of previously issued consolidated financial statements for the years 2000 and 2001 and the first three quarters of 2002 and the revision of fourth quarter and full-year consolidated financial statements for 2002 (collectively referred to as the "restatement"). This Information Statement includes the contents of that announcement as follows:

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FOR IMMEDIATE RELEASE
November 21, 2003
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FREDDIE MAC ANNOUNCES RESTATEMENT RESULTS

Cumulative Net Adjustment Increased December 31, 2002 Retained Earnings by $5.0 Billion And Regulatory Core Capital by $5.2 Billion

Business Fundamentals Remain Strong

Highlights:

- For periods ended December 31, 2002:
  - Cumulative net income increased by $5.0 billion
  - Regulatory core capital increased by $5.2 billion
  - Stockholders' equity increased by $6.7 billion
- Fair value of net assets (net of tax effect) grew $4.6 billion during 2002
- Business fundamentals remain strong, with the retained portfolio growing at an annualized rate of 17 percent during the first nine months of 2003
- Risks remain low, with September 2003 monthly average duration gap of negative one month
- The company expects to provide its 2002 annual report and hold its related annual stockholders' meeting in first quarter 2004
- The company's objective is to release quarterly and full-year 2003 results by June 30, 2004 and to provide its 2003 annual report and hold its related stockholders' meeting as soon as practicable thereafter
- The company's objective is to return to timely reporting as soon as practicable after its release of 2003 results. The company remains committed to completing voluntary 1934 Act common stock registration with the Securities and Exchange Commission ("SEC"), with the objective of completing the process as soon as possible after the company's return to timely reporting.

McLean, VA—Freddie Mac (NYSE:FRE) today announced the results of its restatement of previously issued consolidated financial statements for the years 2000 and 2001 and the first three quarters of 2002 and the revision of fourth quarter and full-year consolidated financial statements for 2002 (collectively referred to as the "restatement").

The net cumulative effect of the restatement through December 31, 2002 was an increase to the company's net income of $5.0 billion, which includes a net cumulative increase of $4.4 billion for 2000, 2001 and 2002 and $0.6 billion related to periods prior to 2000. While the net cumulative effect of the restatement provided a significant increase in net income, 2001's net income decreased by $1.0 billion compared to previously reported results, primarily due to unrealized losses on derivatives not in hedge accounting relationships. The restatement also resulted in a net increase in regulatory core capital for each of the year ends affected and in a cumulative increase of $5.2 billion in the company's regulatory core capital as of December 31, 2002. For Freddie Mac, core capital equals Stockholders' equity excluding Accumulated Other Comprehensive Income. *See* "Summary of Restatement Results," below, as well as Freddie Mac's consolidated financial statements and tables and the detailed appendices available on the company's website at www.freddiemac.com.

"The restatement is a significant step in Freddie Mac's progress toward achieving accurate and timely financial reporting and controls," said Shaun F. O'Malley, chairman of Freddie Mac's Board of Directors. "Freddie Mac completed this restatement while maintaining our business momentum and delivering on our congressional mandate to lower mortgage costs for America's homeowners."

"The Board's Governance Committee is directing a remediation program to ensure the integrity of Freddie Mac's financial reporting and prevent these types of problems from recurring," said George D. Gould, presiding director and chairman of the Board's Governance Committee. "The company has brought in a host of experienced accounting professionals and a new Senior Vice President for Compliance, conducted Sarbanes-Oxley training for our employees and retained leading experts to assist us in implementing exemplary disclosure and governance practices."

"We are building the accounting expertise and controls we need to provide transparent financial information to the public," said Martin F. Baumann, Executive Vice President—Finance and Chief Financial Officer. "We are working hard to provide results for 2003, resume timely reporting and complete our voluntary SEC common stock registration process. We have additional work ahead of us, but today's release signals that we are on our way to resolving these issues."

Baumann concluded, "The bottom line is that the restatement did not affect the fundamental strength of Freddie Mac's balance sheet. During 2002, we achieved outstanding growth in the fair value of net assets. Our capital position remains strong and our risk profile remains conservative, with an average monthly duration gap of negative one month for September 2003."

Summary of Restatement Results

The restatement and related re-audit arose from Freddie Mac's re-evaluation, in conjunction with PricewaterhouseCoopers LLP ("PwC"), the company's independent auditors, of numerous accounting policies and their application to the company's transactions. Freddie Mac's Board of Directors appointed PwC in March 2002, replacing Arthur Andersen LLP. Management is responsible for the preparation, integrity and fair presentation of the company's

Freddie Mac Restatement Results
November 21, 2003
Page 3

consolidated financial statements. Table 1 summarizes key results of the restatement for the three years ended December 31, 2002.

Table 1: Restated Financial Results for the Three Years Ended December 31, 2002

	Net Income (in millions) (1)			Diluted EPS (in dollars)			Regulatory Core Capital (in millions) (2)			Stockholders' Equity (in millions)		
Year Ended	As Previously Reported	As Restated	Change	As Previously Reported	As Restated	Change	As Previously Reported	As Restated	Change	As Previously Reported	As Restated	Change
December 31, 2000	$2,547	$3,666	$1,119	$3.40	$5.01	$1.61	$14,380	$16,273	$1,893	$14,837	$17,357	$2,520
December 31, 2001	$4,147	$3,158	($989)	$5.64	$4.23	($1.41)	$19,336	$20,181	$ 845	$15,373	$19,624	$4,251
December 31, 2002	$5,764	$10,090	$4,326	$7.95	$14.18	$6.23	$23,792	$28,990	$5,198	$24,629	$31,330	$6,701

(1) *The net cumulative effect of the restatement through December 31, 2002 also includes $0.6 billion for periods prior to 2000. Included in 2002 results is $82 million of net income related to events occurring in 2003 but affecting 2002. The $82 million of net income is comprised of $155 million of tax benefit attributable to favorable U.S. Tax Court rulings occurring in 2003 offset by $73 million in additional expense, net of tax, related to adjustments in reserves and accruals due to events occurring in 2003.*
(2) *The Office of Federal Housing Enterprise Oversight ("OFHEO"), Freddie Mac's safety-and-soundness regulator, is the authoritative source of the capital calculation that underlies management's estimate of regulatory core capital. See Table 3, below.*

Restatement Performance Overview

Net income for 2002, 2001 and 2000 totaled $10.1 billion, $3.2 billion and $3.7 billion, respectively. These results were primarily driven by increases in net interest income and fluctuations in total non-interest income.

Net interest income totaled $8.9 billion, $7.0 billion and $3.8 billion for 2002, 2001 and 2000, respectively. The increases in net interest income were attributable to a decrease in short-term interest rates along with growth in the retained portfolio, which grew by 14 percent in 2002 and 27 percent in 2001. The decrease in short-term interest rates, along with an increase in amortization income, was chiefly responsible for a 40 basis point increase in net interest yield, to 137 basis points in 2001 from 97 basis points in 2000. Net interest yield increased by 3 basis points in 2002 to 140 basis points. This modest increase was the result of generally falling interest rates offset by accelerated amortization expense due to a decrease in the estimated life of the mortgage assets in the retained portfolio.

Non-interest income totaled $7.8 billion in 2002, compared to expense of $1.1 billion in 2001 and income of $2.6 billion in 2000. The volatility in non-interest income was largely due to the amount of derivatives, mortgage securities and guarantee assets and guarantee obligations marked to fair value through earnings, with the most significant driver being derivatives gains and losses.

For a complete discussion of Freddie Mac's Consolidated Results of Operations and Financial Condition, *see* Appendix I, "Selected Restatement Topics," on Freddie Mac's website.

Restatement Effect on Volatility of Income

Freddie Mac's restated net income reflects significantly greater volatility than previously reported, and the company anticipates that its net income for periods following the restatement will continue to reflect greater volatility than previously reported from quarter to quarter. For example, during 2001 and 2002, quarterly net income ranged from a low of a loss of $111 million in the first quarter of 2001 to a high of a gain of $5.7 billion in the third quarter of 2002. This volatility results in large part from recording in current period earnings changes in fair values of a significantly higher proportion of Freddie Mac's derivatives portfolio, mortgage-related securities, guarantee assets and guarantee obligations.

Freddie Mac is evaluating the re-designation of a portion of its existing derivatives portfolio currently not in a hedge accounting designation (which Generally Accepted Accounting Principles ("GAAP") requires to be marked to fair value through income) into qualifying hedge relationships for purposes of GAAP accounting and designation of a portion of newly purchased derivative instruments into qualifying hedge relationships. In addition, Freddie Mac expects that the income statement effects of the securities portfolio classified as trading ($64 billion at December 31, 2002) will diminish in results reported for periods following restated periods. However, management expects that net income going forward will continue to reflect other potentially significant sources of volatility, including the possible effect of the implementation of Financial Accounting Standards Board Interpretation Number 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which applies to reporting periods beginning in 2003. *See* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," on Freddie Mac's website.

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Restatement Effect on Interest-Rate Risk Measures

Freddie Mac provides investors with monthly interest-rate risk sensitivity disclosures using two separate estimates:

- Portfolio market value sensitivity ("PMVS"), which estimates the percentage of the company's fair value of common stockholders' equity at risk from immediate, adverse interest-rate shifts, and
- Duration gap, which estimates the average daily difference (measured in months) between the estimated weighted-average lives of the company's financial assets, liabilities and derivatives.

As previously announced, in connection with the restatement, management has reviewed the company's interest-rate risk sensitivity disclosures for 2002 and 2001 to assess the impact of securities and derivatives valuation errors, described below in "Summary of Accounting Corrections and Changes by Category – Accounting Corrections – Valuation of Financial Instruments," and to correct other identified errors. Management believes the errors identified in connection with this review do not significantly impact Freddie Mac's interest-rate risk position as previously reported in the company's monthly interest-rate risk sensitivity disclosures. Management estimates that the impact of the errors do not change monthly average portfolio market value sensitivity estimates by more than 2 percentage points or duration gap by more than one month for each previously reported month in 2002 and 2001. For example, Table 2 below summarizes the daily average portfolio market value sensitivity (PMVS – L) and duration gap estimates for December 2002 and December 2001, as originally reported and as restated. *See* Appendix III, "Fair Value and Interest-Rate Risk Measures" for more detail.

Table 2: Impact of Valuation Errors on Portfolio Market Value Sensitivity and Duration Gap Estimates

	Portfolio Market Value Sensitivity Estimate (PMVS-L)		Duration Gap Estimate (in months)	
Monthly Average	As Reported	As Restated	As Reported	As Restated
December 2001	3.9%	3.6%	1	1
December 2002	2.7%	2.3%	0	0

Restatement Effect on Regulatory Capital

The Office of Federal Housing Enterprise Oversight ("OFHEO"), Freddie Mac's safety-and-soundness regulator, is the authoritative source of the capital calculations that underlie the company's capital classification.

Freddie Mac has submitted to OFHEO amended minimum capital reports for the restated periods, including estimates of Freddie Mac's capital surpluses. The estimated minimum capital

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surpluses for year-end 2000 and each quarter in 2001 and 2002, as reported to OFHEO in Freddie Mac's amended minimum capital reports, are set forth in the table below. Based on these estimates, management believes that Freddie Mac was in compliance with its regulatory capital requirements for each of these periods.

Table 3: Estimated Regulatory Minimum Capital Surplus as Reported to OFHEO[1]

($ in millions)									
	2000	2001				2002			
	Year-End	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
As Reported Regulatory Minimum Capital Surplus	$202	$606	$567	$408	$821	$1,169	$1,925	$2,118	$2,172
As Restated Regulatory Minimum Capital Surplus	$1,877	$1,393	$1,122	$2,117	$1,174	$1,020	$2,520	$6,639	$6,652

(1) *Freddie Mac is required to hold "Core Capital" generally equal to the sum of 2.5 percent of aggregate on-balance sheet assets, as measured under GAAP, and 0.45 percent of aggregate off-balance sheet obligations. Core capital available to meet the minimum capital requirement is effectively equal to Stockholders' equity less Accumulated Other Comprehensive Income. This table shows the excess of estimated Core Capital over the regulatory minimum capital requirement for prior periods.*

Freddie Mac also has submitted to OFHEO information regarding the impacts of the restatement on risk-based capital surpluses and will provide any additional information that OFHEO may require to re-assess Freddie Mac's capital classifications during the restatement period.

Management believes the current level of the company's capital is adequate to meet regulatory capital requirements. Management does not expect to engage in share repurchases until the company resumes timely financial reporting.

Fair Value Balance Sheets for December 31, 2002 and 2001

Management believes fair value measures provide an important view of Freddie Mac's business economics and risks because fair value takes a consistent approach to the representation of all financial assets and liabilities, rather than an approach that combines historical cost and fair value techniques, as is the case with Freddie Mac's GAAP-based consolidated financial statements.

At December 31, 2002, the fair value of net assets (net of tax effect) was $22.9 billion, a $4.6 billion increase from December 31, 2001, as restated. For the same period, the fair value of net assets attributable to common stockholders was $18.3 billion, a $4.5 billion increase from

December 31, 2001. Among the primary contributors to the increase in 2002 fair value balance sheet net assets were core spread income (defined as the option-adjusted spread from the retained portfolio) and fee-based income. In 2002, core spread income benefited from strong retained portfolio growth of approximately 14 percent and the attractiveness of mortgage-to-debt option-adjusted spreads at the time mortgages were purchased.

Freddie Mac's increase in 2002 fair value balance sheet net assets demonstrates that Freddie Mac's investment and risk management discipline can foster fair value growth in a year when there was high interest rate volatility and a wide range of interest rate environments. Management cautions, however, that the strong fair value results achieved in 2002 exceed management's long-run expectations for fair value net asset growth. In addition to the factors noted above, tighter mortgage-to-debt spreads, which were the result of the continuing high demand for mortgage-related securities by other investors, also contributed significantly to the overall increase in Freddie Mac's 2002 fair value results. This effect was partially offset by a significant decline in the fair value of the company's existing guarantee portfolio. As discussed in Appendix III, "Fair Value and Interest-Rate Risk Measures," management believes that changes in mortgage-to-debt spreads affecting the fair value of the existing retained portfolio and fair value changes in the existing guarantee portfolio will fluctuate from year to year but will not have a significant impact on fair value balance sheet net assets over the longer term.

The basic assumptions used and the estimates disclosed with respect to the consolidated fair value balance sheets represent the company's best judgment of appropriate valuation methods. Where applicable, management uses the same valuation techniques for preparing the fair value balance sheet as it does for those elements of Freddie Mac's consolidated financial statements that are recorded at fair value, such as derivatives and securities as well as guarantee contracts for a portion of Freddie Mac's Participation Certificate portfolio. There are, however, inherent limitations in any estimation technique. The consolidated fair value balance sheets do not purport to present the net realizable, liquidation or market value of the company as a whole. Furthermore, amounts ultimately realized by the company from the disposal of assets and settlement of liabilities may vary significantly from the fair values presented. *See* Appendix III, "Fair Value and Interest-Rate Risk Measures," on Freddie Mac's website for information on the company's valuation methods and assumptions. In addition, Freddie Mac has made a number of corrections to its fair value balance sheet for December 31, 2001 arising from errors in valuation and calculations made in prior years' consolidated financial statements, which are also described in Appendix III, "Fair Value and Interest-Rate Risk Measures," on Freddie Mac's website.

Restatement Background and Remediation Program

The company announced the need to restate its financial results in January 2003. In connection with that announcement, the outside directors of Freddie Mac's Board of Directors retained Baker Botts L.L.P. ("Baker Botts") as its independent investigative counsel to review the facts and circumstances relating to certain of the accounting errors identified during the restatement process. In June, Freddie Mac reported on Baker Botts' preliminary findings presented to the Audit Committee and the Board of Directors as to the factors contributing to the need for the restatement. In July, Freddie Mac released the Baker Botts report. Since then, Baker Botts has submitted to the Board additional findings covering certain transactions known to require further inquiry or raised after delivery of the original report. The specific events described in the additional review have been considered by the Board and appropriate remedial action has been taken by the Board and management. Baker Botts' additional findings are available on the company's website, and certain of the transactions reviewed in it are discussed in Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes." Freddie Mac accepts the conclusions of Baker Botts, which are consistent with those identified in the company's June 25, 2003 press release, available on Freddie Mac's website at www.freddiemac.com. *See* Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes."

In connection with their ongoing audits of the restatement of the previously issued financial statements and the company's 2002 financial statements, PwC has identified and communicated to management and the Audit Committee that "material weaknesses" (as defined under standards established by the American Institute of Certified Public Accountants) in internal controls existed during the time periods covered by the restated financial statements.

The Board of Directors is overseeing management's implementation of a comprehensive remediation program to address each of the principal factors that contributed to the need for the restatement. This year, the Board's Governance Committee overseeing the remediation program, and the Audit and Ad Hoc Committees overseeing the restatement, have held individual or joint committee meetings on 55 separate occasions. The remediation program addresses areas of improvement identified by the Board of Directors and management, by Baker Botts in the course of their reviews and reports to the Board of Directors, and by PwC. It is effecting sweeping changes in the company's financial reporting and management functions. The program includes initiatives relating to corporate culture, governance, accounting staffing and expertise, accounting policies, processes and controls as well as financial reporting and disclosure. Management reports its progress on this initiative on an ongoing basis to the Governance Committee.

To date, Freddie Mac has made significant progress in strengthening resources and personnel dedicated to accounting, control and reporting issues. The company has hired a host of accounting professionals, including a significant number of new officers and senior managers. In addition, in October the company announced the creation of a new position of SVP-Chief Compliance Officer, a function reporting directly to the Executive Vice President—Finance and Chief Financial Officer. Freddie Mac also has retained David Martin, the immediate-past Director of the SEC's Division of Corporation Finance, to assist the company in designing and implementing exemplary disclosure processes and practices, and Charles Elson, the Edgar S. Woolard, Jr. Chair in Corporate Governance and the Director of the John L. Weinberg Center for Corporate Governance at the University of Delaware, to assist the company in designing and implementing exemplary corporate governance principles and practices.

In addition to addressing accounting staffing and expertise issues, remediation activities include an assessment of corporate culture, significant enhancements to the documentation of all accounting policies and implementation of corporate-wide employee training on the Sarbanes-Oxley Act and the company's Code of Conduct.

Summary of Accounting Corrections and Changes By Category

Table 4 summarizes the net cumulative impact of the changes to net income through December 31, 2002. As described in Freddie Mac's June 25, 2003 press release, management has classified the accounting errors and related corrections that have been addressed by the restatement into the five categories listed in Table 4 below. The five error categories involve subjective judgments by management regarding classification of amounts and particular accounting errors that may fall within more than one category. While such classifications are not required under GAAP, management believes these classifications may assist investors in understanding the nature and impact of the corrections made in completing the restatement. The descriptions of the five classifications provide only a summary of primary accounting issues and are not a comprehensive discussion of accounting errors and corrections. In addition, management made changes in its accounting for two other matters as reported in the "Other Accounting Changes" caption in Table 4. These errors and accounting changes are described in the discussion following the table. *See* Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes," on Freddie Mac's website for detailed information concerning the company's restatement adjustments.

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Table 4: Net Cumulative Income (Expense) Impact Through December 31, 2002

	Net Cumulative Income (Expense) Impact Through 12/31/02 ***($ in millions)***
Security Classification (pre-tax)	$1,700
Accounting for Derivative Instruments (pre-tax)	4,980
Asset Transfers and Securitizations (pre-tax)	181
Valuation of Financial Instruments (pre-tax)	214
All Other Corrections (pre-tax)	383
Subtotal of Accounting Corrections (pre-tax)	7,458
Other Accounting Changes (pre-tax) [1]	168
Total Accounting Corrections and Changes (pre-tax)	7,626
Tax Impact of Accounting Corrections and Changes [2]	(2,591)
Total Net Income Impact (including subsequent events) [3]	**$5,035**
Total Net Income Impact (excluding subsequent events)	**$4,953**

[1] *Represents the net cumulative impact of (i) accounting changes Freddie Mac elected to make related to stock-based compensation and (ii) enhancements to the methodology used to estimate the lives used in the amortization of certain premiums and discounts.*

[2] *Virtually all of the $2.6 billion tax impact represents an increase in deferred taxes not currently payable. See "Tax-Related Adjustments" in Appendix II for details.*

[3] *Included in 2002 results is $82 million of net income related to events occurring in 2003 but affecting 2002. The $82 million of net income is comprised of $155 million of tax benefit attributable to favorable U.S. Tax Court rulings occurring in 2003 offset by $73 million in additional expense, net of tax, related to adjustments in reserves and accruals due to events occurring in 2003.*

Accounting Corrections

Security Classification — Freddie Mac is required to classify its investments in one of three categories – held-to-maturity, available-for-sale, or trading – primarily based on management's investment intention at the time the company acquires a security. The company reports held-to-maturity securities at amortized cost on the balance sheet, while marking available-for-sale securities to fair value through Stockholders' equity and marking trading securities to fair value through the income statement. During the restatement period, Freddie Mac engaged in transactions involving securities in the held-to-maturity category that management accounted for as financings, but should have accounted for as sales. Because management has concluded that it should account for such transactions as sales, GAAP requires management to reclassify all securities previously classified as held-to-maturity into the available-for-sale category and to discontinue use of the held-to-maturity accounting classification for all securities until at least 2004, approximately two years after the last transaction giving rise to this error. As a result, for accounting purposes, Freddie Mac has reclassified all of its held-to-maturity securities to the available-for-sale category for each restated period and recorded all unrealized gains and losses at each reporting period to the Stockholders' equity section of the balance sheet, specifically through Accumulated Other Comprehensive Income.

During the restatement period, management also transferred mortgage-related securities that it had designated for accounting purposes as trading into both the held-to-maturity and available-for-sale classifications when it should have retained the trading classification for these securities. To correct this error, management has reversed the misclassification and recorded unrealized gains and losses on the securities in earnings for the appropriate period.

Accounting for Derivative Instruments — As part of management's ongoing risk management activities, Freddie Mac uses derivatives to manage the interest-rate risk associated with its financial assets and liabilities. Management believes the accounting issues associated with derivatives identified in the restatement have not affected the performance of the company's derivatives from a risk management perspective. *See* Appendix III, "Fair Value and Interest-Rate Risk Measures," on Freddie Mac's website for more information concerning the economic effectiveness of these derivatives. As part of the restatement, management has corrected several errors in the company's accounting for derivatives. These corrections consisted of removing from earnings previously reported gains and losses related to hedged items for a portion of the company's fair value hedges and recording in earnings previously deferred gains and losses for a portion of the company's cash flow hedges. These errors were the result of the following factors:

- Management had accounted for some of the company's cash market instruments as derivatives that did not meet the GAAP accounting definition of a derivative, and as a result incorrectly applied hedge accounting.

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- Management did not adequately test and document a significant portion of the hedge accounting relationships the company previously determined to be "effective" for hedge accounting purposes.

In addition, Freddie Mac incorrectly accounted for certain commitments to purchase and sell mortgage-related securities, including those executed in conjunction with intracompany transactions. To correct these errors, management has properly accounted for the commitments as derivatives and has either recorded the change in fair value of commitments to earnings or to Stockholders' equity (to the extent the commitment was effective as a cash flow hedge). Furthermore, Freddie Mac has eliminated the financial statement effect of the intracompany transactions.

Asset Transfers and Securitizations — Freddie Mac issues Participation Certificates to enhance the liquidity of the underlying mortgages in the secondary mortgage market. Whenever the company sells such securities, GAAP requires Freddie Mac to record the guarantee fee stream as a retained interest (*i.e.,* the guarantee asset) and the associated obligation, including its guarantee of payments of principal and interest to security holders, as a liability (*i.e.*, the guarantee obligation), which Freddie Mac failed to do. To correct this error, management has recorded the guarantee asset and guarantee obligation for Participation Certificates and multiclass certificates sold by the company during the restatement period and included these amounts in the determination of gain or loss on sale. Subsequent to the sale, the company has reported the guarantee asset and obligation at fair value with changes included in earnings. In addition, as part of the restatement, management is correcting its accounting for securitization transactions involving interest-only securities ("IOs"), primarily to record previously unrecognized IOs and to apply proper security classification and impairment accounting to those securities.

Valuation of Financial Instruments — During the restatement period, management made numerous errors in estimating the fair value of the company's derivatives and securities. Management concluded that the reported fair values of its option-based derivatives portfolio (*e.g.,* call options on interest-rate swaps, put options on interest-rate swaps, interest-rate caps and floors) for certain periods within the restatement did not incorporate all relevant market pricing data. Therefore, management revised fair values for these options to incorporate such data. In addition, management also corrected errors in estimating the fair value of the company's securities, which principally occurred due to the use of models that failed to incorporate all relevant market data and consider key contractual terms of securities as well as process errors involving model input and application of pricing methodologies.

As part of the restatement, the company engaged in an extensive review of its valuation methodologies and results. Based on this review, management corrected valuation and other errors identified during its review and enhanced the accuracy of the market pricing data it uses when determining fair values. In addition to the corrections affecting the financial statements, management has incorporated the results of this re-valuation in Freddie Mac's Fair Value Balance Sheets as of December 31, 2002 and 2001. *See* Appendix III, "Fair Value and Interest-

Rate Risk Measures," on Freddie Mac's website for a discussion of the effects of these errors on the restated Fair Value Balance Sheet for December 31, 2001.

All Other Corrections — During the course of the restatement process, management identified numerous other accounting policies and practices requiring correction. These changes touch on many aspects of Freddie Mac's consolidated financial statements, and its restated results reflect these corrections. In addition, Freddie Mac previously reported several accounting corrections it had deemed immaterial through earnings in the periods in which it discovered the errors. As part of the restatement process, the company is now recording these corrections in the periods to which they relate. In addition, certain accruals and reserves recorded in the fourth quarter of 2002 were revised for events occurring subsequent to December 31, 2002 that met the requirements for adjustment under GAAP.

Other Accounting Changes

In addition to corrections made in connection with the restatement, management changed the company's accounting related to stock-based compensation by selecting the retroactive restatement transition method for stock awards granted on or after January 1, 1995 and, in the fourth quarter 2002, enhanced its methodology for estimating the underlying lives used in the amortization of certain premiums and discounts. Details regarding these accounting policy changes are included in Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes," on the company's website.

Supplemental Performance Measures

As announced in the company's June 25, 2003 press release, Freddie Mac will no longer report its previously used "operating earnings" measure, a non-GAAP supplemental performance measure derived from GAAP financial statements that the company reported during 2001 and 2002. As a result of changes in its accounting policies occasioned by the restatement, particularly those affecting derivatives accounting, management has concluded that operating earnings results would have been materially affected.

To enhance investor understanding of Freddie Mac's performance and results, management anticipates providing additional supplemental performance measures on a quarterly basis, including a quarterly fair value balance sheet and a non-GAAP supplemental performance measure, to the extent management concludes it would be helpful to investors in understanding the company's business performance.

Timetable for Additional Financial Reporting, Annual Meeting and SEC Registration

Management expects to provide an annual report for 2002 and to hold Freddie Mac's related annual stockholders' meeting in the first quarter of 2004. Management's objective is to release combined quarterly and full-year results for 2003 by June 30, 2004. Management believes that preparing and releasing quarterly and full-year 2003 results at the same time will expedite the company's return to timely financial reporting. Freddie Mac's objective is to provide its 2003 annual report and hold its related annual stockholders' meeting as soon as practicable after June 30, 2004. Freddie Mac has previously announced its intention to register Freddie Mac's common stock voluntarily with the SEC in order to become a reporting company under the 1934 Act. Freddie Mac reiterates its commitment to return to timely reporting and complete the voluntary registration process with the SEC as soon as practicable.

Recent Events

Additional information about Freddie Mac and its business is set forth in Appendix I, "Selected Restatement Topics," on the company's website.

Announcement of Conference Call and Webcast

Freddie Mac will host a conference call discussing today's announcement at 8 a.m. Eastern Time on Friday, November 21, 2003. Domestic investors should call 1-888-423-3280 and international investors can access the call at 612-326-0027. The conference call will be Web cast live on Freddie Mac's website. A telephone recording of this conference call will be available continuously beginning at approximately 3 p.m. Eastern Time on November 21, 2003 until midnight on December 5, 2003. To access this recording in the United States, call 1-800-475-6701 and use access code 707293. Outside of the United States, call 320-365-3844 and use access code 707293.

This release summarizes financial and company information relating to the restatement. Additional materials, including financial statements and accompanying appendices providing important disclosures and analyses, are available on Freddie Mac's corporate website, at www.freddiemac.com. Freddie Mac encourages all investors and interested members of the public to review these materials for a more complete understanding of its restatement and related company disclosures. These materials are organized as follows:

Consolidated Financial Statements and Tables

Appendix I, "Selected Restatement Topics"

Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes"

Appendix III, "Fair Value and Interest-Rate Risk Measures"

Appendix IV, "Summary of Significant Accounting Policies for Restated Periods"

November 21, 2003 Investor Conference Call Presentation, "Freddie Mac Restatement Results"

The information in this press release is included in Freddie Mac's Information Statement Supplement dated November 21, 2003, which is posted on the Investor Relations page of Freddie Mac's website.

* * * *

Freddie Mac's press releases sometimes contain forward-looking statements pertaining to management's current expectations as to Freddie Mac's future business plans, results of operations and/or financial condition. Management's expectations for the company's future necessarily involve a number of assumptions and estimates, and various factors could cause actual results to differ materially from these expectations. These assumptions and factors are discussed in Appendix I, "Selected Restatement Topics."

Freddie Mac is a stockholder-owned company established by Congress in 1970 to support homeownership and rental housing. Freddie Mac fulfills its mission by purchasing residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-related securities and debt instruments in the capital markets. Over the years, Freddie Mac has opened doors for one in six homebuyers in America.

Freddie Mac's earnings releases and other financial disclosures are available on the Investors' page of the company's website at www.freddiemac.com.

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FREDDIE MAC
CONSOLIDATED STATEMENTS OF INCOME
(dollars in millions, except share-related amounts)

Line:		Year Ended December 31, 2002 (Revised)	2001 (Restated)	2000 (Restated)
	Interest income			
1	Mortgage loans	$ 4,290	$ 4,385	$ 4,177
2	Mortgage-related securities in the retained portfolio	30,039	26,847	20,536
3	Cash and investments	4,147	4,136	4,469
4	Total interest income	38,476	35,368	29,182
	Interest expense			
5	Short-term debt	(4,303)	(9,056)	(10,492)
6	Long-term debt	(21,025)	(17,466)	(14,639)
7	Total interest expense on debt securities	(25,328)	(26,522)	(25,131)
8	Due to Participation Certificate investors	(1,236)	(1,027)	(352)
9	Total interest expense	(26,564)	(27,549)	(25,483)
10	Income (expense) related to derivatives	(3,026)	(827)	59
11	***Net interest income***	8,886	6,992	3,758
	Non-interest income			
12	Management and guarantee income	1,516	1,392	1,252
13	Gains (losses) on "Guarantee asset for Participation Certificates, at fair value"	(2,176)	(789)	(1,197)
14	Gains (losses) on "Guarantee obligation for Participation Certificates, at fair value"	592	203	443
15	Derivative gains (losses)	5,941	(1,857)	1,483
16	Hedge accounting gains (losses)	187	(294)	-
17	Gains (losses) on investment activity	1,812	191	492
18	Gains (losses) on debt retirement	(674)	(356)	13
19	Resecuritization fees	276	135	15
20	Other income	308	229	146
21	***Non-interest income***	7,782	(1,146)	2,647
	Non-interest expense			
22	Provision for credit losses	(128)	(32)	(79)
23	REO operations income (expense)	13	(7)	4
24	Salaries and employee benefits	(593)	(537)	(433)
25	Occupancy expense	(42)	(35)	(35)
26	Housing tax credit partnerships	(160)	(121)	(104)
27	Minority interest in earnings of consolidated subsidiaries	(184)	(208)	(231)
28	Other expenses	(771)	(452)	(357)
29	***Non-interest expense***	(1,865)	(1,392)	(1,235)
30	Income before income tax expense and cumulative effect of change in accounting principles	14,803	4,454	5,170
31	Income tax expense	(4,713)	(1,339)	(1,504)
32	Income before cumulative effect of change in accounting principles, net of taxes	10,090	3,115	3,666
33	Cumulative effect of change in accounting principles, net of taxes of $24	-	43	-
34	***Net income***	$ 10,090	$ 3,158	$ 3,666
35	Preferred stock dividends	(234)	(217)	(179)
36	***Net income available to common stockholders***	$ 9,856	$ 2,941	$ 3,487
37	Basic earnings per common share before cumulative effect of change in accounting principles, net of taxes	$ 14.23	$ 4.19	$ 5.04
38	Cumulative effect of change in accounting principles, net of taxes	-	0.06	-
39	Basic earnings per common share after cumulative effect of change in accounting principles, net of taxes	$ 14.23	$ 4.25	$ 5.04
40	Diluted earnings per common share before cumulative effect of change in accounting principles, net of taxes	$ 14.18	$ 4.17	$ 5.01
41	Cumulative effect of change in accounting principles, net of taxes	-	0.06	-
42	Diluted earnings per common share after cumulative effect of change in accounting principles, net of taxes	$ 14.18	$ 4.23	$ 5.01
	Weighted average common shares outstanding (thousands)			
43	Basic	692,727	692,603	692,097
44	Diluted	695,116	695,973	695,307
45	Dividends per common share	$ 0.88	$ 0.80	$ 0.68

See Appendix IV for a summary of Freddie Mac's significant accounting policies, which is available on the company's website at www.freddiemac.com.

FREDDIE MAC
CONSOLIDATED BALANCE SHEETS
(dollars in millions)

Line:			December 31, 2002 (Revised)		December 31, 2001 (Restated)
	Assets				
	Retained portfolio				
	Mortgage loans:				
1	Held for investment, at amortized cost	$	57,483	$	58,313
2	Reserve for losses on mortgage loans held for investment		(177)		(103)
3	Held for sale, at lower of cost or market		6,635		4,409
4	Mortgage loans, net of reserve		63,941		62,619
	Mortgage-related securities:				
5	Available-for-sale, at fair value (includes $367 and $167 pledged as collateral at December 31, 2002 and 2001, respectively)		496,265		398,921
6	Trading, at fair value (includes $89 and $136 pledged as collateral at December 31, 2002 and 2001, respectively)		29,104		41,400
7	Participation Certificate residuals, at fair value		412		726
8	Total mortgage-related securities		525,781		441,047
9	*Retained portfolio*		589,722		503,666
	Cash and Investments				
10	Cash and cash equivalents		10,792		3,464
	Investments:				
	Mortgage-related securities:				
11	Trading, at fair value (includes $2 and $6 pledged as collateral at December 31, 2002 and 2001, respectively)		32,363		27,666
	Non-mortgage-related securities:				
12	Available-for-sale, at fair value (includes $350 and $125 pledged as collateral at December 31, 2002 and 2001, respectively)		66,419		54,810
13	Trading, at fair value (includes $62 and $25 pledged as collateral at December 31, 2002 and 2001, respectively)		2,556		1,087
14	Total non-mortgage-related securities		68,975		55,897
15	Total mortgage-related and non-mortgage-related securities		101,338		83,563
16	Securities purchased under agreements to resell and Federal funds sold		22,907		33,500
17	*Cash and investments*		135,037		120,527
18	Guarantee asset for Participation Certificates, at fair value		2,445		3,156
19	Accounts and other receivables, net		10,611		8,714
20	Real estate owned, net		594		447
21	Derivative assets, at fair value		10,393		1,996
22	Other assets		3,447		2,594
23	*Total assets*	$	752,249	$	641,100
	Liabilities and stockholders' equity				
	Debt securities, net				
	Senior debt:				
24	Due within one year	$	244,429	$	264,227
25	Due after one year		415,662		311,013
26	Subordinated debt, due after one year		5,605		3,128
27	*Total debt securities, net*		665,696		578,368
28	Due to Participation Certificate investors		35,080		27,375
29	Guarantee obligation for Participation Certificates, at fair value		1,427		1,155
30	Reserve for guarantee losses on Participation Certificates		88		121
31	Derivative liabilities, at fair value		967		2,644
32	Accrued interest payable		7,286		6,043
33	Other liabilities		8,066		3,151
34	*Total liabilities*		718,610		618,857
35	*Minority interest in consolidated subsidiaries*		2,309		2,619
	Stockholders' equity				
36	Preferred stock, at redemption value		4,609		4,596
37	Common stock, $0.21 par value, 726,000,000 shares authorized, 725,882,280 shares issued		152		152
38	Additional paid-in capital		744		671
39	Retained earnings		24,955		15,710
	Accumulated other comprehensive income (loss), net of taxes, related to:				
40	Available-for-sale securities		12,217		4,200
41	Cash flow hedge relationships		(9,877)		(4,757)
42	Total accumulated other comprehensive income (loss), net of taxes		2,340		(557)
43	Treasury stock, at cost, 38,506,281 shares and 30,578,510 shares, respectively		(1,470)		(948)
44	*Total stockholders' equity*		31,330		19,624
45	*Total liabilities and stockholders' equity*	$	752,249	$	641,100

See Appendix IV for a summary of Freddie Mac's significant accounting policies, which is available on the corporation's website at www.freddiemac.com.

FREDDIE MAC
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(dollars in millions)

Line:		Year Ended December 31, 2002 (Revised)	2001 (Restated)	2000 (Restated)
	Preferred stock, at redemption value			
1	Balance, beginning of year	$ 4,596	$ 3,195	$ 3,195
2	Preferred stock issuances	300	1,401	-
3	Preferred stock redemptions	(287)	-	-
4	*Preferred stock, end of year*	4,609	4,596	3,195
	Common stock, par value			
5	Balance, beginning of year	152	152	152
6	*Common stock, end of year*	152	152	152
	Additional paid-in capital			
7	Balance, beginning of year - as previously reported			474
8	Beginning balance adjustment			150
9	Balance, beginning of year - as restated	671	624	624
10	Stock-based compensation	65	60	39
11	Income tax benefit from employee stock option exercises	16	30	28
12	Preferred stock issuance costs	(2)	(13)	-
13	Common stock issuances	(6)	(30)	(67)
14	*Additional paid-in capital, end of year*	744	671	624
	Retained earnings			
15	Balance, beginning of year - as previously reported			9,736
16	Beginning balance adjustment			576
17	Balance, beginning of year - as restated	15,710	13,326	10,312
18	Net income	10,090	3,158	3,666
19	Preferred stock dividends declared	(234)	(217)	(179)
20	Common stock dividends declared	(611)	(557)	(473)
21	*Retained earnings, end of year*	24,955	15,710	13,326
	Accumulated other comprehensive income (loss), net of taxes (AOCI)			
22	Balance, beginning of year - as previously reported			(1,166)
23	Beginning balance adjustment			(5,356)
24	Balance, beginning of year - as restated	(557)	1,084	(6,522)
25	Changes in unrealized gains (losses) related to available-for-sale securities, net of reclassification adjustment	8,017	3,116	7,606
26	Changes in unrealized gains (losses) related to cash flow hedge relationships, net of reclassification adjustment	(5,120)	(2,117)	-
27	Cumulative effect of change in accounting principle	-	(2,640)	-
28	*AOCI, end of year*	2,340	(557)	1,084
	Treasury stock, at cost			
29	Balance, beginning of year	(948)	(1,024)	(866)
30	Common stock issuances	33	76	100
31	Common stock repurchases	(555)	-	(258)
32	*Treasury stock, end of year*	(1,470)	(948)	(1,024)
33	*Total stockholders' equity*	**$ 31,330**	**$ 19,624**	**$ 17,357**
	Comprehensive income			
34	Net income	$ 10,090	$ 3,158	$ 3,666
35	Changes in AOCI, net of reclassification adjustment	2,897	(1,641)	7,606
36	*Total comprehensive income*	**$ 12,987**	**$ 1,517**	**$ 11,272**

See Appendix IV for a summary of Freddie Mac's significant accounting policies, which is available on the company's website at www.freddiemac.com.

FREDDIE MAC
SUMMARY OF QUARTERLY AND ANNUAL SELECTED FINANCIAL INFORMATION [1]
TABLE 1
2002 and 2001
(unaudited)

Line:		1Q 2001 (Restated)	2Q 2001 (Restated)	3Q 2001 (Restated)	4Q 2001 (Restated)	1Q 2002 (Restated)	2Q 2002 (Restated)	3Q 2002 (Restated)	4Q 2002 (Revised)	Full-Year 2001 (Restated)	Full-Year 2002 (Revised)
	Net Income: (dollars in millions, except share-related amounts)										
1	Net interest income	$ 1,295	$ 1,518	$ 2,158	$ 2,021	$ 2,414	$ 2,123	$ 2,079	$ 2,270	$ 6,992	$ 8,886
2	Non-interest income	(1,211)	(135)	1,688	(1,488)	(650)	1,212	6,695	525	(1,146)	7,782
3	Non-interest expense	(355)	(301)	(395)	(341)	(354)	(401)	(333)	(777)	(1,392)	(1,865)
4	Income (loss) before income tax (expense) benefit	(271)	1,082	3,451	192	1,410	2,934	8,441	2,018	4,454	14,803
5	Income tax (expense) benefit	82	(326)	(1,037)	(58)	(463)	(963)	(2,779)	(508)	(1,339)	(4,713)
6	Income (loss) before cumulative effect of change in accounting principle, net of taxes	(189)	756	2,414	134	947	1,971	5,662	1,510	3,115	10,090
7	Cumulative effect of change in accounting principles, net of taxes	78	(35)	-	-	-	-	-	-	43	-
8	**Net income (loss)**	**$ (111)**	**$ 721**	**$ 2,414**	**$ 134**	**$ 947**	**$ 1,971**	**$ 5,662**	**$ 1,510**	**$ 3,158**	**$ 10,090**
9	Preferred stock dividends	(48)	(53)	(58)	(58)	(60)	(59)	(57)	(58)	(217)	(234)
10	**Net income (loss) available to common stockholders**	**$ (159)**	**$ 668**	**$ 2,356**	**$ 76**	**$ 887**	**$ 1,912**	**$ 5,605**	**$ 1,452**	**$ 2,941**	**$ 9,856**
11	Weighted average common shares outstanding - diluted (thousands)	691,470	695,583	696,239	696,530	695,924	696,724	695,391	691,454	695,973	695,116
12	**Diluted earnings (loss) per common share after cumulative effect of change in accounting principles, net of taxes [2]**	**$ (0.23)**	**$ 0.96**	**$ 3.38**	**$ 0.11**	**$ 1.27**	**$ 2.74**	**$ 8.06**	**$ 2.10**	**$ 4.23**	**$ 14.18**
13	Effective tax rate	30%	30%	30%	30%	33%	33%	33%	25%	30%	32%
	Regulatory Core Capital: (dollars in millions)										
14	Total stockholders' equity	$ 16,569	$ 16,685	$ 21,812	$ 19,624	$ 19,371	$ 24,079	$ 31,309	$ 31,330	$ 19,624	$ 31,330
15	Less: Accumulated other comprehensive income (loss), net of taxes	(157)	(963)	1,898	(557)	(1,575)	1,380	3,271	2,340	(557)	2,340
16	Regulatory core capital [3]	$ 16,726	$ 17,648	$ 19,914	$ 20,181	$ 20,946	$ 22,699	$ 28,038	$ 28,990	$ 20,181	$ 28,990

[1] For more information, see Freddie Mac's press release dated November 21, 2003.

[2] Earnings per share is computed independently for each of the quarters presented. Due to the use of weighted-average common shares outstanding when calculating earnings per share, the sum of the four quarters may not equal the full-year amount. Earnings per share amounts may not recalculate due to rounding.

[3] The Office of Federal Housing Enterprise Oversight ("OFHEO"), Freddie Mac's safety-and-soundness regulator, is the authoritative source of the capital calculation that underlies the company's capital calculation. These figures represent management's estimate of regulatory core capital. Core capital, as defined in 12 C.F.R. Sec 1750.2, includes qualifying components of Stockholder's equity including the sum of *(i)* the stated value of outstanding common stock; *(ii)* the stated value of outstanding perpetual, non-cumulative preferred stock; *(iii)* paid-in-capital, and *(iv)* retained earnings, less treasury stock.

FREDDIE MAC
QUARTERLY AND ANNUAL RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED RESULTS[1]
TABLE 1A
2002
(unaudited)
(dollars in millions)

Line:		1Q 2002	2Q 2002	3Q 2002	4Q 2002	Full-Year 2002
1	Net interest income, as previously reported	$ 1,723	$ 1,560	$ 1,811	$ 1,683	$ 6,777
	Impact of accounting errors and corrections:					
2	Security classification	-	-	-	-	-
3	Accounting for derivative instruments	147	14	(228)	(344)	(411)
4	Asset transfers and securitizations	183	238	206	345	972
5	Valuation of financial instruments	-	-	-	-	-
6	All other corrections	361	311	290	281	1,243
7	Other accounting changes [2]	-	-	-	305	305
8	Net interest income, as revised/restated	$ 2,414	$ 2,123	$ 2,079	$ 2,270	$ 8,886
9	Non-interest income, as previously reported	$ 623	$ 273	$ 390	$ 1,362	$ 2,648
	Impact of accounting errors and corrections:					
10	Security classification	(180)	723	416	(49)	910
11	Accounting for derivative instruments	(902)	1,153	7,162	(294)	7,119
12	Asset transfers and securitizations	(55)	(500)	(1,064)	(204)	(1,823)
13	Valuation of financial instruments	89	(170)	31	(37)	(87)
14	All other corrections	(225)	(267)	(240)	(253)	(985)
15	Other accounting changes	-	-	-	-	-
16	Non-interest income, as revised/restated	$ (650)	$ 1,212	$ 6,695	$ 525	$ 7,782
17	Non-interest expense, as previously reported	$ (294)	$ (245)	$ 40	$ (543)	$ (1,042)
	Impact of accounting errors and corrections:					
18	Security classification	-	-	-	-	-
19	Accounting for derivative instruments	(49)	(49)	(47)	(27)	(172)
20	Asset transfers and securitizations	-	-	-	-	-
21	Valuation of financial instruments	-	-	-	-	-
22	All other corrections	(3)	(101)	(322)	(203)	(629)
23	Other accounting changes [3]	(8)	(6)	(4)	(4)	(22)
24	Non-interest expense, as revised/restated	$ (354)	$ (401)	$ (333)	$ (777)	$ (1,865)
25	Income tax expense, as previously reported	$ (639)	$ (478)	$ (703)	$ (799)	$ (2,619)
26	Impact of accounting errors and corrections [4]	176	(485)	(2,076)	291	(2,094)
27	Income tax expense, as revised/restated	$ (463)	$ (963)	$ (2,779)	$ (508)	$ (4,713)

[1] For more information, see Freddie Mac's press release dated November 21, 2003.

[2] Represents the impact of enhancements to the methodology used to estimate the lives used in the amortization of certain premiums and discounts.

[3] Represents the impact of accounting changes Freddie Mac made related to stock-based compensation.

[4] See "Summary of Accounting Corrections and Changes by Category" in Freddie Mac's press release dated November 21, 2003 for additional information concerning the tax impact of the restatement.

FREDDIE MAC
QUARTERLY AND ANNUAL RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED RESULTS [1]
TABLE 1B
2002
(unaudited)
(dollars in millions)

Line:		1Q 2002	2Q 2002	3Q 2002	4Q 2002	Full-Year 2002
1	Income before cumulative effect of change in accounting principle, net of taxes, as previously reported	$ 1,413	$ 1,110	$ 1,538	$ 1,703	$ 5,764
	Impact of accounting errors and corrections:					
2	Security classification	(180)	723	416	(49)	910
3	Accounting for derivative instruments	(804)	1,118	6,887	(665)	6,536
4	Asset transfers and securitizations	128	(262)	(858)	141	(851)
5	Valuation of financial instruments	89	(170)	31	(37)	(87)
6	All other corrections	133	(57)	(272)	(175)	(371)
7	Other accounting changes [2]	(8)	(6)	(4)	301	283
8	Tax impact of accounting corrections and changes [3]	176	(485)	(2,076)	291	(2,094)
9	Income before cumulative effect of change in accounting principle, net of taxes, as revised/restated	947	1,971	5,662	1,510	10,090
10	Cumulative effect of change in accounting principle, net of taxes	-	-	-	-	-
11	Net income as revised/restated	$ 947	$ 1,971	$ 5,662	$ 1,510	$ 10,090
12	Diluted earnings per common share after cumulative effect of change in accounting principle, net of taxes, as previously reported [4]	$ 1.94	$ 1.50	$ 2.13	$ 2.38	$ 7.95
13	Effect of adjustments	(0.67)	1.24	5.93	(0.28)	6.23
14	Diluted earnings per common share after cumulative effect of change in accounting principle, net of taxes, as revised/restated [4]	$ 1.27	$ 2.74	$ 8.06	$ 2.10	$ 14.18

[1] For more information, see Freddie Mac's press release dated November 21, 2003.

[2] Represents the net impact of *(i)* accounting changes Freddie Mac made related to stock-based compensation and *(ii)* enhancements to the methodology used to estimate the lives used in the amortization of certain premiums and discounts.

[3] See "Summary of Accounting Corrections and Changes by Category" in Freddie Mac's press release dated November 21, 2003 for additional information concerning the tax impact of the restatement.

[4] Earnings per share is computed independently for each of the quarters presented. Due to the use of weighted-average common shares outstanding when calculating earnings per share, the sum of the four quarters may not equal the full-year amount. Earnings per share amounts may not recalculate due to rounding.

FREDDIE MAC
QUARTERLY AND ANNUAL RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED RESULTS [1]
TABLE 1C
2001 and 2000
(unaudited)
(dollars in millions)

Line		1Q 2001	2Q 2001	3Q 2001	4Q 2001	Full-Year 2001	Full-Year 2000
1	Net interest income, as previously reported	$ 976	$ 1,190	$ 1,438	$ 1,876	$ 5,480	$ 2,838
	Impact of accounting errors and corrections:						
2	Security classification	-	-	-	-	-	-
3	Accounting for derivative instruments	(95)	(41)	42	89	(5)	283
4	Asset transfers and securitizations	296	159	236	34	725	510
5	Valuation of financial instruments	-	-	-	-	-	-
6	All other corrections	118	210	442	22	792	127
7	Other accounting changes	-	-	-	-	-	-
8	Net interest income, as restated	$ 1,295	$ 1,518	$ 2,158	$ 2,021	$ 6,992	$ 3,758
9	Non-interest income, as previously reported	$ 445	$ 357	$ 299	$ 429	$ 1,530	$ 1,631
	Impact of accounting errors and corrections:						
10	Security classification	284	(455)	1,420	(770)	479	640
11	Accounting for derivative instruments	(765)	(345)	854	(1,281)	(1,537)	817
12	Asset transfers and securitizations	(449)	204	(52)	(186)	(483)	(1,002)
13	Valuation of financial instruments	(555)	230	(440)	280	(485)	626
14	All other corrections	(171)	(126)	(393)	40	(650)	(65)
15	Other accounting changes	-	-	-	-	-	-
16	Non-interest income, as restated	$ (1,211)	$ (135)	$ 1,688	$ (1,488)	$ (1,146)	$ 2,647
17	Non-interest expense, as previously reported	$ (246)	$ (244)	$ (253)	$ (322)	$ (1,065)	$ (923)
	Impact of accounting errors and corrections:						
18	Security classification	-	-	-	-	-	-
19	Accounting for derivative instruments	(68)	(55)	(57)	(49)	(229)	(225)
20	Asset transfers and securitizations	-	-	-	-	-	4
21	Valuation of financial instruments	-	-	-	-	-	-
22	All other corrections	(40)	7	(75)	41	(67)	(73)
23	Other accounting changes [2]	(1)	(9)	(10)	(11)	(31)	(18)
24	Non-interest expense, as restated	$ (355)	$ (301)	$ (395)	$ (341)	$ (1,392)	$ (1,235)
25	Income tax expense, as previously reported	$ (343)	$ (389)	$ (452)	$ (619)	$ (1,803)	$ (999)
26	Impact of accounting errors and corrections [3]	425	63	(585)	561	464	(505)
27	Income tax expense, as restated	$ 82	$ (326)	$ (1,037)	$ (58)	$ (1,339)	$ (1,504)

(1) For more information, see Freddie Mac's press release dated November 21, 2003.

(2) Represents the impact of accounting changes Freddie Mac made related to stock-based compensation.

(3) See "Summary of Accounting Corrections and Changes by Category" in Freddie Mac's press release dated November 21, 2003 for additional information concerning the tax impact of the restatement.

FREDDIE MAC
QUARTERLY AND ANNUAL RECONCILIATION OF PREVIOUSLY REPORTED TO RESTATED RESULTS [1]
TABLE 1D
2001 and 2000
(unaudited)
(dollars in millions)

Line:		1Q 2001	2Q 2001	3Q 2001	4Q 2001	Full-Year 2001	Full-Year 2000
1	Income before cumulative effect of change in accounting principle, net of taxes, as previously reported	$ 832	$ 914	$ 1,032	$ 1,364	$ 4,142	$ 2,547
	Impact of accounting errors and corrections:						
2	Security classification	284	(455)	1,420	(770)	479	640
3	Accounting for derivative instruments	(928)	(441)	839	(1,241)	(1,771)	875
4	Asset transfers and securitizations	(153)	363	184	(152)	242	(488)
5	Valuation of financial instruments	(555)	230	(440)	280	(485)	626
6	All other corrections	(93)	91	(26)	103	75	(11)
7	Other accounting changes [2]	(1)	(9)	(10)	(11)	(31)	(18)
8	Tax impact of accounting corrections and changes [3]	425	63	(585)	561	464	(505)
9	Income (loss) before cumulative effect of change in accounting principle, net of taxes, as restated	(189)	756	2,414	134	3,115	3,666
10	Cumulative effect of change in accounting principle, net of taxes, as previously reported	5	-	-	-	5	-
	Impact of accounting errors and corrections:						
11	Security classification	445	-	-	-	445	-
12	Accounting for derivative instruments	(486)	-	-	-	(486)	-
13	Asset transfers and securitizations	-	(53)	-	-	(53)	-
14	Valuation of financial instruments	160	-	-	-	160	-
15	All other corrections	(7)	-	-	-	(7)	-
16	Other accounting changes	-	-	-	-	-	-
17	Tax impact of cumulative effect of change in accounting principle [3]	(39)	18	-	-	(21)	-
18	Cumulative effect of change in accounting principle, net of taxes, as restated	78	(35)	-	-	43	-
19	Net income (loss), as restated	$ (111)	$ 721	$ 2,414	$ 134	$ 3,158	$ 3,666
20	Diluted earnings per common share after cumulative effect of change in accounting principle, net of taxes, as previously reported [4]	$ 1.13	$ 1.24	$ 1.40	$ 1.87	$ 5.64	$ 3.40
21	Effect of adjustments	(1.36)	(0.28)	1.98	(1.76)	(1.41)	1.61
22	Diluted earnings (loss) per common share after cumulative effect of change in accounting principle, net of taxes, as restated [4]	$ (0.23)	$ 0.96	$ 3.38	$ 0.11	$ 4.23	$ 5.01

(1) For more information, see Freddie Mac's press release dated November 21, 2003.

(2) Represents the impact of accounting changes Freddie Mac made related to stock-based compensation.

(3) See "Summary of Accounting Corrections and Changes by Category" in Freddie Mac's press release dated November 21, 2003 for additional information concerning the tax impact of the restatement.

(4) Earnings per share is computed independently for each of the quarters presented. Due to the use of weighted-average common shares outstanding when calculating earnings per share, the sum of the four quarters may not equal the full-year amount. Earnings per share amounts may not recalculate due to rounding.

FREDDIE MAC
PREVIOUSLY REPORTED AND RESTATED SELECTED BALANCE SHEET CAPTIONS [1]
TABLE 1E
For All Quarters in 2001 and 2002 and Year-End 2000
(unaudited)
(dollars in millions)

Line:		1Q 2002		2Q 2002		3Q 2002		4Q 2002	
		As Previously Reported	As Restated [2]	As Previously Reported	As Restated [2]	As Previously Reported	As Restated [2]	As Previously Reported	As Revised [2]
1	Retained portfolio	$ 527,640	$ 539,993	$ 524,904	$ 541,368	$ 542,415	$ 555,910	$ 583,269	$ 589,722
2	Cash and investments	84,802	115,115	80,372	116,210	96,471	140,360	86,598	135,037
3	Total assets	646,397	672,126	644,013	674,341	681,980	719,371	721,739	752,249
4	Total debt securities, net	603,446	620,145	601,363	619,112	623,267	640,315	648,894	665,696
5	Total liabilities	630,532	650,222	626,079	647,807	659,414	685,662	697,110	718,610
6	Minority interest in consolidated subsidiaries	-	2,533	-	2,455	-	2,400	-	2,309
7	Total stockholders' equity	15,865	19,371	17,934	24,079	22,566	31,309	24,629	31,330

Line:		1Q 2001		2Q 2001		3Q 2001		4Q 2001	
		As Previously Reported	As Restated [2]	As Previously Reported	As Restated [2]	As Previously Reported	As Restated [2]	As Previously Reported	As Restated [2]
8	Retained portfolio	$ 421,754	$ 430,778	$ 442,549	$ 452,615	$ 474,886	$ 484,876	$ 494,259	$ 503,666
9	Cash and investments	50,055	65,345	64,296	83,981	66,547	92,497	82,933	120,527
10	Total assets	497,839	508,549	537,590	550,673	571,907	592,859	617,340	641,100
11	Total debt securities, net	461,338	462,851	496,712	501,528	534,434	542,595	565,071	578,368
12	Total liabilities	485,018	489,115	523,610	531,204	557,401	568,345	601,967	618,857
13	Minority interest in consolidated subsidiaries	-	2,865	-	2,784	-	2,702	-	2,619
14	Total stockholders' equity	12,821	16,569	13,980	16,685	14,506	21,812	15,373	19,624

Line:		Year-End 2000	
		As Previously Reported	As Restated [2]
15	Retained portfolio	$ 385,117	$ 391,961
16	Cash and investments	48,572	57,630
17	Total assets	459,297	462,803
18	Total debt securities, net	426,899	428,250
19	Total liabilities	444,460	442,502
20	Minority interest in consolidated subsidiaries	-	2,944
21	Total stockholders' equity	14,837	17,357

[1] For more information, see Freddie Mac's press release dated November 21, 2003.

[2] See Appendix I, "Selected Restatement Topics - Effect of Restatement on Freddie Mac's Previously Reported GAAP Results - Summary of Certain Balance Sheet Captions" accompanying Freddie Mac's press release dated November 21, 2003 for additional information.

FREDDIE MAC

EFFECTS OF RESTATEMENT ADJUSTMENTS ON THE BEGINNING BALANCE OF STOCKHOLDERS' EQUITY ON JANUARY 1, 2000 [1]

TABLE 1F

(unaudited)

(dollars in millions)

Line:		January 1, 2000				
		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Preferred Stock, at Redemption Value	Common Stock, Additional Paid-in Capital and Treasury Stock	Total Stockholders' Equity
	Impact of accounting errors and corrections:					
1	Security classification	$ (774)	$ (8,403)	$ -	$ -	$ (9,177)
2	Accounting for derivative instruments	(174)	(12)	-	-	(186)
3	Asset transfers and securitizations	1,331	183	-	-	1,514
4	Valuation of financial instruments	-	-	-	-	-
5	All other corrections	694	(8)	-	4	690
6	Total accounting errors [1]	1,077	(8,240)	-	4	(7,159)
7	Other accounting changes [2]	(66)	-	-	77	11
8	Total Adjustments	1,011	(8,240)	-	81	(7,148)
9	Tax impact of accounting corrections and changes [3]	(435)	2,884	-	69	2,518
10	Subtotal: Beginning balance adjustment	576	(5,356)	-	150	(4,630)
11	Stockholders' equity, beginning balance, net of taxes where applicable, as previously reported	9,736	(1,166)	3,195	(240)	11,525
12	Stockholders' equity, beginning balance, net of taxes where applicable, as restated	$ 10,312	$ (6,522)	$ 3,195	$ (90)	$ 6,895

(1) The restatement affects periods prior to 2000. The impact of the restatement on periods prior to 2000 is reflected as an adjustment to the opening balance of retained earnings as of January 1, 2000. For more information, see Freddie Mac's press release dated November 21, 2003.

(2) Represents the cumulative impact of accounting changes Freddie Mac made related to stock-based compensation.

(3) The adjustment to Additional paid-in capital represents the income tax benefit from employee stock option exercises that management previously recorded on a cumulative basis in 2001 because the company had determined that the impact on current and prior periods to be immaterial. However, because the periods prior to 2001 are being restated, the cumulative adjustment has been reversed and instead reflected in the proper years. This correction has no impact on cumulative pre-tax income.

FREDDIE MAC
MORTGAGE PORTFOLIO ACTIVITY (BASED ON UNPAID PRINCIPAL BALANCES) (1)
TABLE 2
Quarterly and Annual 2002 and 2001
(unaudited)
(dollars in billions)

Line:		1Q 2001 (Restated)	2Q 2001 (Restated)	3Q 2001 (Restated)	4Q 2001 (Restated)	1Q 2002 (Restated)	2Q 2002 (Restated)	3Q 2002 (Restated)	4Q 2002 (Revised)	Full-Year 2001 (Restated)	Full-Year 2002 (Revised)
	Retained Portfolio (2) (3) (4)										
1	Retained purchases (5)	$ 65	$ 57	$ 55	$ 76	$ 81	$ 43	$ 66	$ 107	$ 253	$ 297
2	Sales and other (6)	(14)	(4)	(8)	(13)	(9)	(23)	(20)	(16)	(39)	(68)
3	Liquidations	(16)	(28)	(27)	(37)	(34)	(28)	(40)	(58)	(108)	(160)
4	Net additions (reductions)	35	25	20	26	38	(8)	6	33	106	69
5	Ending balance	$ 427	$ 452	$ 472	$ 498	$ 536	$ 528	$ 534	$ 567	$ 498	$ 567
6	**Percent growth (annualized)**	**36%**	**23%**	**18%**	**22%**	**31%**	**(6%)**	**5%**	**25%**	**27%**	**14%**
7	Liquidation rate (annualized) (7)	16%	26%	24%	32%	27%	21%	30%	44%	28%	32%
8	Retained portfolio as percentage of total mortgage portfolio	43%	43%	43%	44%	45%	42%	42%	43%	44%	43%
	Retained Portfolio Components										
9	PCs held in retained portfolio (3)	$ 271	$ 278	$ 293	$ 308	$ 344	$ 337	$ 332	$ 340	$ 308	$ 340
10	Non-Freddie Mac mortgage-related securities	96	113	119	127	132	132	141	163	127	163
11	Mortgage loans	60	61	60	63	60	59	61	64	63	64
12	Retained portfolio commitments outstanding, net (8)	$ 8	$ 10	$ 8	$ 24	$ 1	$ -	$ 35	$ 29	$ 24	$ 29
	Outstanding PCs (3) (9) (10)										
13	PC original issuances	$ 55	$ 103	$ 111	$ 121	$ 139	$ 101	$ 111	$ 196	$ 390	$ 547
14	PC purchases into retained portfolio (7)	(37)	(32)	(40)	(53)	(66)	(27)	(27)	(65)	(162)	(185)
15	PC sales from retained portfolio (7)	10	7	7	12	8	17	5	15	36	45
16	Liquidations	(32)	(45)	(40)	(74)	(53)	(43)	(79)	(130)	(191)	(305)
17	Net additions (reductions)	(4)	33	38	6	28	48	10	16	73	102
18	Subtotal (includes other PCs held by Freddie Mac)	$ 563	$ 596	$ 634	$ 640	$ 668	$ 716	$ 726	$ 742	$ 640	$ 742
19	Less: Other PCs held by Freddie Mac (11)	13	15	14	22	15	19	19	20	22	20
20	Ending balance	$ 550	$ 581	$ 620	$ 618	$ 653	$ 697	$ 707	$ 722	$ 618	$ 722
21	**Percent growth (annualized)**	**-**	**23%**	**27%**	**(1%)**	**23%**	**27%**	**6%**	**8%**	**12%**	**17%**
22	Liquidation rate based on subtotal (annualized)	23%	32%	27%	47%	33%	26%	44%	72%	34%	48%
	Total PCs Issued (2) (10)										
23	PC issuances	$ 55	$ 103	$ 111	$ 121	$ 139	$ 101	$ 111	$ 196	$ 390	$ 547
24	Liquidations	(43)	(63)	(58)	(100)	(75)	(60)	(106)	(172)	(264)	(413)
25	Net additions	12	40	53	21	64	41	5	24	126	134
26	Ending balance	$ 834	$ 874	$ 927	$ 948	$ 1,012	$ 1,053	$ 1,058	$ 1,082	$ 948	$ 1,082
27	**Percent growth (annualized)**	**6%**	**19%**	**24%**	**9%**	**27%**	**16%**	**2%**	**9%**	**15%**	**14%**
28	Liquidation rate (annualized)	21%	30%	26%	43%	32%	24%	40%	65%	32%	44%
29	Structured securitizations	$ 24	$ 48	$ 50	$ 70	$ 77	$ 72	$ 76	$ 107	$ 192	$ 332

(1) For more information, see Freddie Mac's press release dated November 21, 2003.

(2) Excludes mortgages and mortgage-related securities traded, but not yet settled.

(3) Excludes mortgage-related securities held in connection with PC market making and support activities, which are reflected in the "Investments" caption on the Consolidated Balance Sheets.

(4) The "Retained portfolio" caption reflected on the company's Consolidated Balance Sheets differs from the retained portfolio on this table because the consolidated balance sheet caption includes valuation adjustments (e.g., fair value adjustments for securities classified as available-for-sale and trading and the "Reserve for losses on mortgage loans held for investment") and deferred balances (e.g., premiums and discounts).

(5) Includes certain mortgage-related securities that have been reclassified from Cash and investments.

(6) "Other" includes delinquent mortgages repurchased from Total PCs Issued pursuant to the terms of such securities and balloon/reset mortgages and securities held in the retained portfolio that have been called by a third party.

(7) The sale of mortgages and mortgage-related securities do not affect the calculation of liquidation rates.

(8) Includes commitments outstanding at period end to purchase mortgages and mortgage-related securities for the retained portfolio. Purchase commitments are reported net of commitments to sell securities.

(9) Equal to ending balance of Total PCs Issued (Line 26), less PCs held in retained portfolio (Line 9) and other PCs held by Freddie Mac (Line 19).

(10) PCs includes securities issued by Freddie Mac and other securities issued by third parties and guaranteed by Freddie Mac, excludes securities backed by Ginnie Mae collateral. PC balances and activities are based on the collateral underlying the PCs.

(11) Represents PCs held by Freddie Mac in connection with PC market making and support activities, which are reflected in the "Investments" caption on the Consolidated Balance Sheets.

FREDDIE MAC
NET INTEREST YIELD ANALYSIS[1]
TABLE 3
Quarterly and Annual 2002 and 2001
(unaudited)

Line:		1Q 2001 (Restated)	2Q 2001 (Restated)	3Q 2001 (Restated)	4Q 2001 (Restated)	1Q 2002 (Restated)	2Q 2002 (Restated)	3Q 2002 (Restated)	4Q 2002 (Revised)	Full-Year 2001 (Restated)	Full-Year 2002 (Revised)
	Income: (dollars in millions)										
	Interest income:										
1	Mortgage loans	$ 1,076	$ 1,092	$ 1,109	$ 1,108	$ 1,091	$ 1,049	$ 1,053	$ 1,097	$ 4,385	$ 4,290
2	Mortgage-related securities in the retained portfolio	6,342	6,611	7,172	6,722	7,481	7,516	7,345	7,697	26,847	30,039
3	Total retained portfolio	7,418	7,703	8,281	7,830	8,572	8,565	8,398	8,794	31,232	34,329
4	Cash and investments	1,054	1,051	1,050	981	893	946	1,155	1,153	4,136	4,147
5	Total interest-earning assets	$ 8,472	$ 8,754	$ 9,331	$ 8,811	$ 9,465	$ 9,511	$ 9,553	$ 9,947	$ 35,368	$ 38,476
	Interest expense:										
6	Short-term debt	$ (2,587)	$ (2,449)	$ (2,214)	$ (1,806)	$ (1,363)	$ (1,129)	$ (960)	$ (851)	$ (9,056)	$ (4,303)
7	Long-term debt[2]	(4,289)	(4,229)	(4,550)	(4,398)	(4,809)	(5,226)	(5,431)	(5,559)	(17,466)	(21,025)
8	Total interest expense on debt securities	(6,876)	(6,678)	(6,764)	(6,204)	(6,172)	(6,355)	(6,391)	(6,410)	(26,522)	(25,328)
9	Due to Participation Certificate investors	(180)	(313)	(201)	(333)	(266)	(203)	(302)	(465)	(1,027)	(1,236)
10	Total expense on interest-bearing liabilities	$ (7,056)	$ (6,991)	$ (6,965)	$ (6,537)	$ (6,438)	$ (6,558)	$ (6,693)	$ (6,875)	$ (27,549)	$ (26,564)
11	Income (expense) related to derivatives[3]	(121)	(245)	(208)	(253)	(613)	(830)	(781)	(802)	(827)	(3,026)
12	Net interest income	$ 1,295	$ 1,518	$ 2,158	$ 2,021	$ 2,414	$ 2,123	$ 2,079	$ 2,270	$ 6,992	$ 8,886
13	Fully taxable equivalent adjustment[4]	57	63	59	58	66	65	66	55	237	252
14	Net interest income (fully taxable equivalent basis)	$ 1,352	$ 1,581	$ 2,217	$ 2,079	$ 2,480	$ 2,188	$ 2,145	$ 2,325	$ 7,229	$ 9,138
	Average Balances: (dollars in billions)[5]										
15	Mortgage loans	$ 60	$ 60	$ 61	$ 62	$ 61	$ 59	$ 60	$ 63	$ 61	$ 61
16	Mortgage-related securities	347	381	402	423	457	467	471	487	388	471
17	Total retained portfolio	407	441	463	485	518	526	531	550	449	532
18	Cash and investments	69	80	87	104	106	109	123	145	85	121
19	Total earning assets	$ 476	$ 521	$ 550	$ 589	$ 624	$ 635	$ 654	$ 695	$ 534	$ 653
20	Short-term debt	$ 180	$ 206	$ 222	$ 238	$ 232	$ 210	$ 199	$ 197	$ 211	$ 210
21	Long-term debt[2]	271	280	297	316	357	396	421	454	292	408
22	Total debt securities	451	486	519	554	589	606	620	651	503	618
23	Due to Participation Certificate investors	10	17	11	18	15	12	18	28	14	18
24	Total interest-bearing liabilities	461	503	530	572	604	618	638	679	517	636
25	Net non-interest-bearing funding	15	18	20	17	20	17	16	16	17	17
26	Total funding of interest-earning assets	$ 476	$ 521	$ 550	$ 589	$ 624	$ 635	$ 654	$ 695	$ 534	$ 653
	Yield/Cost:										
27	Mortgage loans	7.23%	7.24%	7.27%	7.19%	7.14%	7.12%	7.02%	6.91%	7.23%	7.04%
28	Mortgage-related securities	7.30%	6.95%	7.14%	6.36%	6.55%	6.44%	6.24%	6.33%	6.91%	6.38%
29	Total retained portfolio	7.29%	6.99%	7.16%	6.46%	6.62%	6.51%	6.32%	6.39%	6.96%	6.46%
30	Cash and investments	6.14%	5.21%	4.74%	3.71%	3.36%	3.46%	3.71%	3.14%	4.82%	3.41%
31	*Yield on total interest earning assets*	7.12%	6.72%	6.78%	5.97%	6.07%	5.99%	5.83%	5.71%	6.62%	5.89%
32	Short-term debt	(5.75%)	(4.70%)	(3.91%)	(2.97%)	(2.35%)	(2.12%)	(1.89%)	(1.69%)	(4.23%)	(2.03%)
33	Long-term debt[2]	(6.34%)	(6.03%)	(6.11%)	(5.57%)	(5.38%)	(5.28%)	(5.15%)	(4.89%)	(5.99%)	(5.16%)
34	Total debt securities	(6.10%)	(5.47%)	(5.17%)	(4.45%)	(4.19%)	(4.18%)	(4.10%)	(3.92%)	(5.25%)	(4.09%)
35	Due to Participation Certificate investors	(7.20%)	(7.35%)	(7.44%)	(7.13%)	(7.17%)	(7.03%)	(6.77%)	(6.59%)	(7.27%)	(6.82%)
36	*Cost of interest-bearing liabilities*	(6.13%)	(5.53%)	(5.22%)	(4.54%)	(4.27%)	(4.24%)	(4.18%)	(4.03%)	(5.30%)	(4.17%)
37	Income (expense) related to derivatives	(0.10%)	(0.19%)	(0.16%)	(0.18%)	(0.39%)	(0.53%)	(0.48%)	(0.46%)	(0.16%)	(0.47%)
38	Impact of net non-interest bearing funding	0.20%	0.19%	0.20%	0.13%	0.15%	0.13%	0.11%	0.10%	0.18%	0.12%
39	*Net interest yield*[6]	1.09%	1.18%	1.59%	1.39%	1.55%	1.34%	1.27%	1.31%	1.32%	1.36%
40	Fully taxable equivalent adjustment[4]	0.05%	0.05%	0.04%	0.04%	0.04%	0.04%	0.04%	0.03%	0.04%	0.04%
41	*Net interest yield (fully taxable equivalent basis)*[6]	1.14%	1.23%	1.63%	1.43%	1.59%	1.38%	1.32%	1.34%	1.37%	1.40%

(1) For more information, see Freddie Mac's press release dated November 21, 2003.
(2) Includes current portion of long-term debt.
(3) Includes amortization of deferred balances related to cash flow hedges and periodic cash settlements in accordance with the contractual terms of all derivatives, except the linked swaps and certain other swaps, which are discussed in more detail in Appendix II to Freddie Mac's restatement press release dated November 21, 2003. Periodic cash settlements related to these swaps are presented in "Non-interest income" on the Consolidated Statements of Income.
(4) Represents the adjustment necessary to calculate the tax exempt income and/or yield on a tax equivalent basis.
(5) Based on balances of mortgage loans and mortgage-related securities as of their settlement date, net of deferred fees and costs (including premiums and discounts).
(6) May not sum due to rounding.

FREDDIE MAC
NON-INTEREST INCOME [1]
TABLE 4
Quarterly and Annual 2002 and 2001
(unaudited)
(dollars in millions)

Line:		1Q 2001 (Restated)	2Q 2001 (Restated)	3Q 2001 (Restated)	4Q 2001 (Restated)	1Q 2002 (Restated)	2Q 2002 (Restated)	3Q 2002 (Restated)	4Q 2002 (Revised)	2001 (Restated)	2002 (Revised)
	Non-interest income										
1	Management and guarantee income	$ 347	$ 340	$ 396	$ 309	$ 372	$ 385	$ 370	$ 389	$ 1,392	$ 1,516
2	Gains (losses) on "Guarantee asset for Participation Certificates, at fair value"[2]	(261)	24	(454)	(98)	(213)	(658)	(890)	(415)	(789)	(2,176)
3	Gains (losses) on "Guarantee obligation for Participation Certificates, at fair value"[2]	(181)	41	190	153	146	156	62	228	203	592
4	Derivative gains (losses)[3]	(1,145)	(105)	440	(1,047)	(986)	866	6,415	(354)	(1,857)	5,941
5	Hedge accounting gains (losses)[4]	(88)	(82)	(109)	(15)	(10)	45	31	121	(294)	187
	Gains (losses) on investment activity:										
6	Gains (losses) on trading securities	$ 152	$ (398)	$ 1,136	$ (746)	$ (152)	$ 346	$ 564	$ 163	$ 144	$ 921
7	Gains (losses) on Participation Certificate residuals, at fair value	(56)	32	(97)	-	(28)	(140)	(203)	(67)	(121)	(438)
8	Gains (losses) on sale of mortgage loans and available-for-sale securities	96	11	233	189	216	249	527	842	529	1,834
9	Security impairments	(149)	(3)	(48)	(60)	-	(16)	(281)	(229)	(260)	(526)
10	Mortgage LOCOM adjustments[5]	-	(27)	25	(99)	(5)	15	(1)	(1)	(101)	8
11	Other	8	2	(9)	(1)	-	6	7	-	-	13
12	Total gains (losses) on investment activity	$ 51	$ (383)	$ 1,240	$ (717)	$ 31	$ 460	$ 613	$ 708	$ 191	$ 1,812
13	Gains (losses) on debt retirement	-	(56)	(99)	(201)	(106)	(148)	(82)	(338)	(356)	(674)
14	Resecuritization fees	16	38	37	44	58	56	71	91	135	276
15	Other income	50	48	47	84	58	50	105	95	229	308
16	Total non-interest income	$ (1,211)	$ (135)	$ 1,688	$ (1,488)	$ (650)	$ 1,212	$ 6,695	$ 525	$ (1,146)	$ 7,782

[1] For more information, see Freddie Mac's press release dated November 21, 2003.

[2] Represents the change in fair value of the "Guarantee asset for Participation Certificates, at fair value" or "Guarantee obligation for Participation Certificates, at fair value" related to Participation Certificates held by third parties that have previously been sold.

[3] Includes the mark-to-fair value of derivative financial instruments that are not in a qualifying hedge relationship from an accounting perspective under GAAP.

[4] "Hedge accounting gains (losses)," or hedge accounting ineffectiveness, relates to derivative financial instruments that are in a qualifying hedge relationship. For derivative financial instruments designated as fair value hedges, hedge accounting ineffectiveness arises when the fair value change of a derivative financial instrument is not equal to the fair value change of the hedged item. For derivative financial instruments designated as cash flow hedges, hedge accounting ineffectiveness generally arises when the change in fair value of a derivative financial instrument from the inception of the hedge is greater than the cumulative change in the fair value of the expected future cash flows on the hedged transaction.

[5] LOCOM refers to lower of cost or market.

FREDDIE MAC
MANAGEMENT AND GUARANTEE INCOME AND GAINS (LOSSES) ON GUARANTEE ASSETS AND GUARANTEE OBLIGATIONS FOR PARTICIPATION CERTIFICATES[1]
TABLE 5
Quarterly and Annual 2002 and 2001
(unaudited)
(dollars in millions)

Line:	1Q 2001 (Restated)	2Q 2001 (Restated)	3Q 2001 (Restated)	4Q 2001 (Restated)	1Q 2002 (Restated)	2Q 2002 (Restated)	3Q 2002 (Restated)	4Q 2002 (Revised)	2001 (Restated)	2002 (Revised)
Outstanding PCs										
1 Management and guarantee income [2]	$ 347	$ 340	$ 396	$ 309	$ 372	$ 385	$ 370	$ 389	$ 1,392	$ 1,516
2 Average outstanding PCs	556,597	571,456	607,169	623,866	640,816	686,180	708,003	716,770	589,772	687,942
3 Management and guarantee rate (in basis points)	24.9 bp	23.8 bp	26.1 bp	19.8 bp	23.2 bp	22.4 bp	20.9 bp	21.7 bp	23.6 bp	22.0 bp
4 Guarantee asset for Participation Certificates, at fair value	$ 2,692	$ 3,035	$ 2,918	$ 3,156	$ 3,343	$ 3,016	$ 2,439	$ 2,445	$ 3,156	$ 2,445
5 Guarantee obligation for Participation Certificates, at fair value	$ (1,043)	$ (1,166)	$ (1,127)	$ (1,155)	$ (1,226)	$ (1,282)	$ (1,420)	$ (1,427)	$ (1,155)	$ (1,427)
6 Gains (losses) on "Guarantee asset for Participation Certificates, at fair value" [3]	$ (261)	$ 24	$ (454)	$ (98)	$ (213)	$ (658)	$ (890)	$ (415)	$ (789)	$ (2,176)
7 Gains (losses) on "Guarantee obligation for Participation Certificates, at fair value" [3]	$ (181)	$ 41	$ 190	$ 153	$ 146	$ 156	$ 62	$ 228	$ 203	$ 592
8 Percentage of outstanding PCs for which a guarantee asset and obligation have been established	56%	55%	55%	55%	55%	56%	56%	55%	55%	55%

[1] For more information, see Freddie Mac's press release dated November 21, 2003.
[2] Excludes amounts related to PCs held by the company that are reported in "Net interest income."
[3] Represents the change in fair value of the "Guarantee asset for Participation Certificates, at fair value" or "Guarantee obligation for Participation Certificates, at fair value" related to Participation Certificates held by third parties that have previously been sold.

FREDDIE MAC
NON-INTEREST EXPENSE [1]
TABLE 6
Quarterly and Annual 2002 and 2001
(unaudited)
(dollars in millions)

Line:		1Q 2001 (Restated)	2Q 2001 (Restated)	3Q 2001 (Restated)	4Q 2001 (Restated)	1Q 2002 (Restated)	2Q 2002 (Restated)	3Q 2002 (Restated)	4Q 2002 (Revised)	2001 (Restated)	2002 (Revised)
1	Provision for credit losses	$ (15)	$ 13	$ (73)	$ 43	$ (14)	$ (33)	$ (4)	$ (77)	$ (32)	$ (128)
2	REO operations income (expense)	(3)	(1)	(5)	2	(1)	3	6	5	(7)	13
3	Salaries and employee benefits	(123)	(123)	(123)	(168)	(137)	(133)	(140)	(183)	(537)	(593)
4	Occupancy expense	(8)	(9)	(9)	(9)	(9)	(9)	(11)	(13)	(35)	(42)
5	Housing tax credit partnerships	(30)	(31)	(30)	(30)	(40)	(41)	(39)	(40)	(121)	(160)
6	Minority interest in earnings of consolidated subsidiaries	(54)	(53)	(51)	(50)	(48)	(47)	(45)	(44)	(208)	(184)
	Other expenses:										
7	Charitable contributions[2]	(6)	(7)	(7)	(12)	(11)	(20)	(1)	(228)	(32)	(260)
8	Professional services	(27)	(33)	(39)	(46)	(27)	(28)	(37)	(54)	(145)	(146)
9	Technology-related expenses	(26)	(25)	(25)	(28)	(25)	(25)	(34)	(35)	(104)	(119)
10	Other	(63)	(32)	(33)	(43)	(42)	(68)	(28)	(108)	(171)	(246)
11	Total other expenses	$ (122)	$ (97)	$ (104)	$ (129)	$ (105)	$ (141)	$ (100)	$ (425)	$ (452)	$ (771)
12	Total non-interest expense	$ (355)	$ (301)	$ (395)	$ (341)	$ (354)	$ (401)	$ (333)	$ (777)	$ (1,392)	$ (1,865)

[1] For more information, see Freddie Mac's press release dated November 21, 2003.

[2] During 4Q 2002, Freddie Mac announced a $225 million cash contribution to its philanthropic program which includes the Freddie Mac Foundation and corporate giving programs. The company's 4Q 2002 contribu is expected to provide operating funds to the Freddie Mac Foundation for six to eight years. This special contribution should result in lower "Other expenses" as it reduces the corporation's need to make annual contributions to the Freddie Mac Foundation over this period.

FREDDIE MAC
CREDIT QUALITY INDICATORS[1]
TABLE 7
Quarterly and Annual 2002 and 2001
(unaudited)
(dollars in millions)

Line:		1Q 2001 (Restated)	2Q 2001 (Restated)	3Q 2001 (Restated)	4Q 2001 (Restated)	1Q 2002 (Restated)	2Q 2002 (Restated)	3Q 2002 (Restated)	4Q 2002 (Revised)	Full-Year 2001 (Restated)	Full-Year 2002 (Revised)
	Credit Enhancements										
1	Credit-enhanced percentage of new business purchases	38 %	29 %	27 %	24 %	19 %	24 %	24 %	17 %	28 %	20 %
2	Credit-enhanced percentage of total mortgage portfolio	40 %	38 %	36 %	35 %	32 %	31 %	30 %	27 %	35 %	27 %
	Delinquencies[2]										
	Single-family: [3]										
	Non-credit-enhanced portfolio										
3	Delinquency rate	0.28 %	0.27 %	0.28 %	0.30 %	0.28 %	0.26 %	0.27 %	0.29 %	0.30 %	0.29 %
4	Total number of delinquent loans	17,168	17,094	18,342	20,133	19,980	18,883	19,508	21,426	20,133	21,426
	Credit-enhanced portfolio										
5	Delinquency rate	0.95 %	0.99 %	1.13 %	1.38 %	1.39 %	1.37 %	1.62 %	2.07 %	1.38 %	2.07 %
6	Total number of delinquent loans	31,475	32,752	37,837	44,349	43,214	42,709	48,460	58,431	44,349	58,431
	Multifamily: [4]										
7	Delinquency rate of total portfolio	0.05 %	0.02 %	0.03 %	0.15 %	0.14 %	0.02 %	0.01 %	0.13 %	0.15 %	0.13 %
8	Net carrying value of delinquent loans	$ 11	$ 4	$ 7	$ 44	$ 43	$ 5	$ 5	$ 49	$ 44	$ 49
	REO Balances										
9	Single-family	$ 361	$ 378	$ 390	$ 446	$ 487	$ 508	$ 578	$ 593	$ 446	$ 593
10	Multifamily	3	3	1	1	1	1	1	1	1	1
11	Total	$ 364	$ 381	$ 391	$ 447	$ 488	$ 509	$ 579	$ 594	$ 447	$ 594
	REO Inventory (number of units)										
12	Properties acquired	2,313	2,401	2,393	2,984	2,981	3,231	3,563	3,745	10,091	13,520
13	Properties disposed	(2,177)	(2,343)	(2,218)	(2,204)	(2,463)	(2,922)	(2,863)	(3,763)	(8,942)	(12,011)
14	Ending property inventory	4,700	4,758	4,933	5,713	6,231	6,540	7,240	7,222	5,713	7,222
	REO Operations Income (Expense)										
15	Single-family	$ (3)	$ (1)	$ (4)	$ 2	$ (1)	$ 3	$ 6	$ 5	$ (6)	$ 13
16	Multifamily	-	-	(1)	-	-	-	-	-	(1)	-
17	Total	$ (3)	$ (1)	$ (5)	$ 2	$ (1)	$ 3	$ 6	$ 5	$ (7)	$ 13
	Loan Loss Reserves										
18	Provision for credit losses	$ 15	$ (13)	$ 73	$ (43)	$ 14	$ 33	$ 4	$ 77	$ 32	$ 128
19	Charge-offs - single-family, net	(17)	1	(8)	(15)	(19)	(19)	(27)	(23)	(39)	(88)
20	Charge-offs - multifamily, net	-	1	-	1	1	-	-	-	2	1
21	Ending balance	227	216	281	224	220	234	211	265	224	265
22	Annualized charge-offs/average total mortgage portfolio [5]	0.8 bp	(0.1) bp	0.3 bp	0.6 bp	0.7 bp	0.7 bp	1.0 bp	0.8 bp	0.4 bp	0.8 bp
	Total Credit Losses (Gains) [6]										
23	Total credit losses (gains)	$ 20	$ (1)	$ 13	$ 12	$ 19	$ 16	$ 21	$ 18	$ 44	$ 74
24	Annualized credit losses (gains)/average total mortgage portfolio [5]	0.9 bp	(0.1) bp	0.5 bp	0.5 bp	0.7 bp	0.6 bp	0.8 bp	0.6 bp	0.5 bp	0.7 bp

[1] For more information, see Freddie Mac's press release dated November 21, 2003.
[2] Includes Mortgage loans and PCs purchased for Freddie Mac's total mortgage portfolio.
[3] Based on the number of mortgages 90 days or more delinquent or in foreclosure.
[4] Based on net carrying value of mortgages 60 days or more delinquent or in foreclosure.
[5] Average total mortgage portfolio excludes non-Freddie Mac mortgage-related securities.
[6] Equal to "REO operations income (expense)" (Line 17) plus charge-offs, net (Lines 19 and 20).

FREDDIE MAC
FAIR VALUE BALANCE SHEETS [1][2]
TABLE 8
Annual 2002 and 2001
(unaudited)
(dollars in billions)

Line:		December 31, 2002		December 31, 2001			
				Carrying Amount [3]		Fair Value	
		Carrying Amount [3]	Fair Value	As Previously Reported	As Restated	As Previously Reported	As Restated
	Assets						
1	Mortgage loans	$ 63.9	$ 67.6	$ 62.5	$ 62.6	$ 63.8	$ 63.6
2	Mortgage-related securities	525.8	526.3	431.8	441.1	435.5	441.5
3	Retained portfolio	589.7	593.9	494.3	503.7	499.3	505.1
4	Cash and cash equivalents	10.8	10.8	1.5	3.5	1.5	3.5
5	Investments [4]	101.3	101.3	69.2	83.6	69.2	83.5
6	Securities purchased under agreements to resell and Federal funds sold	22.9	22.9	12.2	33.5	12.2	33.5
7	Guarantee asset for Participation Certificates	2.4	3.8	-	3.1	2.1	4.7
8	Derivative assets	10.4	10.4	1.6	2.0	1.6	2.0
9	Other assets [5]	14.7	14.2	38.5	11.7	38.6	11.9
10	Total assets	$ 752.2	$ 757.3	$ 617.3	$ 641.1	$ 624.5	$ 644.2
	Liabilities and Minority Interest						
11	Total debt securities, net	$ 665.7	$ 683.6	$ 565.0	$ 578.4	$ 569.1	$ 583.0
12	Guarantee obligation for Participation Certificates	1.4	2.1	-	1.2	-	1.8
13	Reserve for guarantee losses on Participation Certificates	0.1	-	0.5	0.1	-	-
14	Derivative liabilities	1.0	1.0	2.5	2.6	2.5	2.6
15	Other liabilities	50.4	45.1	33.9	36.6	35.2	35.7
16	Minority interest in consolidated subsidiaries	2.3	2.6	-	2.6	-	2.8
17	Total liabilities and minority interest	720.9	734.4	601.9	621.5	606.8	625.9
	Net Assets Attributable to Stockholders						
18	Preferred stockholders	4.6	4.6	4.6	4.6	4.5	4.5
19	Common stockholders	26.7	18.3	10.8	15.0	13.2	13.8
20	Total net assets	31.3	22.9	15.4	19.6	17.7	18.3
21	Total liabilities and net assets	$ 752.2	$ 757.3	$ 617.3	$ 641.1	$ 624.5	$ 644.2

(1) For explanation of restatement adjustments, see Appendix III accompanying Freddie Mac's press release dated November 21, 2003.
(2) The consolidated fair value balance sheets do not purport to present the net realizable, liquidation or market value of the company as a whole.
(3) Carrying amount agrees to the company's GAAP-based consolidated balance sheets.
(4) Includes mortgage-related securities held in connection with PC market making and supporting activities.
(5) Fair values at December 31, 2002 and 2001 (as restated) include estimated income taxes on the difference between fair value balance sheets and the GAAP balance sheets.

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Appendix I—Selected Restatement Topics

This appendix is organized into four sections:

- **"Effect of Restatement on Freddie Mac's Previously Reported GAAP Results"** provides a narrative description of the effect of the restatement on selected financial results.
- **"Consolidated Results of Operations and Financial Condition"** provides a narrative description of Freddie Mac's financial performance and condition based on restated financial results.
- **"Recent Events and Contingencies"** provides an update on various regulatory, legal and other matters affecting Freddie Mac.
- **"Forward-Looking Statements"** provides cautionary disclosures about factors that could affect forward-looking statements made by Freddie Mac.

Effect of Restatement on Freddie Mac's Previously Reported GAAP Results

Summary Highlights

The following table summarizes the net cumulative effect as of December 31, 2002 of adjustments made during the restatement. These amounts include all adjustments including those management deemed corrections of errors as well as other accounting changes.

Table 1: Net Cumulative Restatement Effects as of December 31, 2002 ($ in millions)

Retained Earnings	Additional Paid-in Capital	Regulatory Core Capital	Accumulated Other Comprehensive Income	Total Stockholders' Equity
$ 5,031	$ 167	$ 5,198	$ 1,503	$ 6,701

These adjustments were primarily driven by accounting corrections that the company has grouped in five general categories: Security Classification; Accounting for Derivative Instruments; Asset Transfers and Securitizations; Valuation of Financial Instruments; and All Other Corrections. In addition to these corrections, the company implemented other accounting changes that do not involve correction of errors. *See* Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes," for a discussion of the accounting errors and changes included in each category. *Table 2* below provides a summary of the effect of the adjustments by category on net income and Accumulated Other Comprehensive Income.

Table 2: Net Cumulative Restatement Effect by Category ($ in millions)

Category	Net Cumulative Impact to Income (Expense)	Net Cumulative Impact to Accumulated Other Comprehensive Income (Loss) [1]
Security Classification (pre-tax)	$1,700	$2,669
Accounting for Derivative Instruments (pre-tax)	4,980	(163)
Asset Transfers and Securitizations (pre-tax)	181	488
Valuation of Financial Instruments (pre-tax)	214	(268)
All Other Corrections (pre-tax)	383	(86)
Subtotal of Accounting Corrections (pre-tax)	7,458	2,640
Other Accounting Changes (pre-tax) [2]	168	(333)
Total Accounting Corrections and Changes (pre-tax)	7,626	2,307
Tax Impact of Accounting Corrections and Changes [3]	(2,591)	(804)
Total Restatement Effect (including subsequent events) [4]	**$5,035**	**$1,503**
Total Restatement Effect (excluding subsequent events)	**$4,953**	**$1,503**

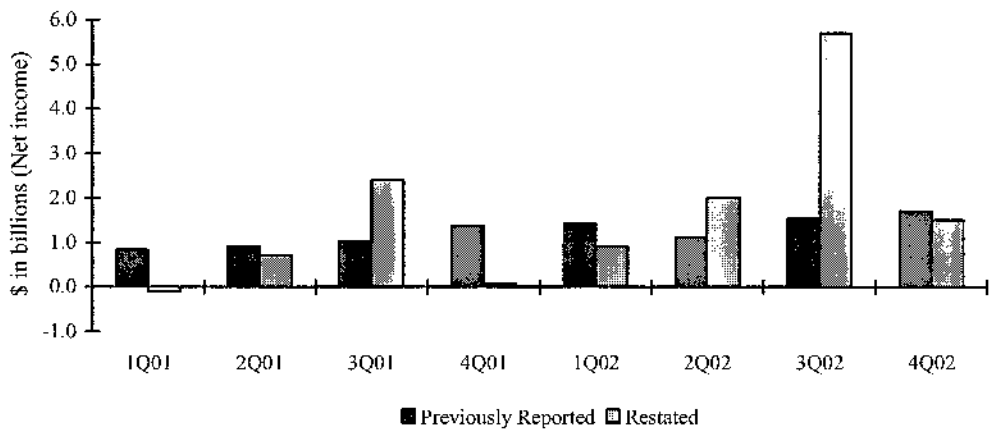
[1] Accumulated Other Comprehensive Income (Loss) is a component of stockholders' equity.
[2] Represents the net cumulative impact of (i) accounting changes Freddie Mac elected to make related to stock-based compensation and (ii) enhancements to the methodology used to estimate the lives used in the amortization of certain premiums and discounts.
[3] Includes the Federal income tax effect of total accounting corrections and the impact of certain corrections related to tax expense. See "Tax-Related Adjustments" in Appendix II.
[4] Included in 2002 results is $82 million of net income related to events occurring in 2003 but affecting 2002. The $82 million of net income is comprised of $155 million of tax benefit attributable to favorable U.S. Tax Court rulings occurring in 2003 offset by $73 million in additional expense, net of tax, related to adjustments in reserves and accruals due to events occurring in 2003.

As reflected in the table above, the majority of the increase in net income is attributable to accounting corrections related to derivatives. Specifically, as a result of the restatement, a large majority of the company's derivative portfolio is not eligible for hedge accounting treatment, primarily due to (i) errors in security classification that caused hedged items to be ineligible and (ii) documentation or testing requirements that were not met during the restatement period as required by Statement of Financial Accounting Standards ("SFAS") 80, "Accounting for Futures Contracts" ("SFAS 80"), applicable through December 31, 2000, and SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), effective January 1, 2001. As a result, the fair value changes for these derivatives are now reported through current period earnings instead of being deferred and amortized over the life of the hedged item. In addition, a significant amount of the increase in net income was driven by corrections related to securities that the company now classifies as trading, but previously classified for accounting purposes as either held-to-maturity or available-for-sale.

Quarterly Analysis

While the net cumulative effect of the restatement was an increase to net income, the restatement resulted in both increases and decreases to net income on a quarterly basis in 2001 and 2002 as illustrated in *Table 3.*

Table 3: Net Quarterly Restatement Effects for 2001 and 2002



The restatement had the most significant impact on the third and fourth quarters of 2001 when restated results were $1.4 billion higher and $1.2 billion lower, respectively, compared to previously reported amounts, and in the third quarter of 2002 when restated results were $4.1 billion higher. The restatement also resulted in the company reporting a net loss of $111 million in the first quarter of 2001, compared to net income of $837 million as previously reported. These changes were primarily due to volatility in restated results caused by gains and losses on derivatives not accounted for in a hedge relationship and gains and losses on trading securities, both of which were driven by changes in interest rates and the implied volatility of interest rates. For further information regarding derivative and trading gains and losses, *see* "Results of Operations – Non-Interest Income – Derivative Gains (Losses)" and " – Gains (Losses) on Investment Activity."

Summary of Certain Income Statement Captions

The restatement had the largest impact on the following income statement components: net interest income; management and guarantee income; gains (losses) on guarantee asset; gains (losses) on guarantee obligation; derivative gains and losses; and gains and losses on investment activity. *Tables 4* through *7* and accompanying text describe the change in reporting for each of these income statement components. The following discussion should be read in conjunction with Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes," and Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," which provide a more comprehensive description of the accounting errors and changes identified through the restatement, and Freddie Mac's revised accounting policies.

Net Interest Income

Table 4: Reconciliation of Net Interest Income ($ in millions)

	2002	2001	2000
Net interest income, as previously reported	$ 6,777	$ 5,480	$ 2,838
Corrections related to:			
Reclassification of guarantee income on retained PCs from "Management and guarantee income"	762	711	587
Reclassification of spot-forward difference to "Gain (loss) on investment activity"	938	431	103
Reclassification of REIT preferred dividends to "Minority interest in earnings of consolidated subsidiaries"	184	208	231
Other accounting corrections	(80)	162	(1)
Total impact of corrections	1,804	1,512	920
Other accounting changes related to accounting for certain premiums and discounts	305	-	-
Net interest income, as restated	$ 8,886	$ 6,992	$ 3,758

Restated net interest income is higher than previously reported due to the following reclassifications:

- Management and guarantee income on retained PCs – Management and guarantee income related to Freddie Mac Participation Certificates and Multiclass Certificates (hereafter, collectively referred to as PCs) held by the company that was previously reported primarily in "Management and guarantee income" is now reported in "Net interest income." This change resulted in an increase in net interest income with an equal and offsetting decline in management and guarantee income (*see Table 5*).

- Income Statement classification of spot-forward difference – The company previously reported the spot-forward difference on certain forward sale commitments executed in conjunction with Freddie Mac's PC market making and support activities as interest expense within net interest income. As a result of the restatement, the company is now reporting this loss in "Gains (losses) on investment activity" (*see Table 7*).

- REIT preferred dividends – The company previously reported dividends on the preferred stock issued by Freddie Mac's two majority-owned real estate investment trust (REIT) subsidiaries as interest expense within net interest income. As a result of the restatement, the company is now reporting these dividend payments as "Minority interest in earnings of consolidated subsidiaries."

- Other accounting corrections – This category includes corrections primarily related to the reversal of hedge accounting and other errors affecting the timing and amount of interest accruals or amortization reported through net interest income.

- Accounting for certain premiums and discounts – In the fourth quarter of 2002, the company made several enhancements to the methodology used to calculate the amortization of certain premiums and discounts. These enhancements, which are described in the section entitled "Other Accounting Changes – Accounting for Certain Premiums and Discounts" in Appendix II, resulted in a $305 million increase in net interest income in the fourth quarter of 2002.

Management and Guarantee Income

Table 5: Reconciliation of Management and Guarantee Income ($ in millions)

	2002	2001	2000
Management and guarantee income, as previously reported	$ 1,911	$ 1,639	$ 1,489
Corrections related to:			
Reclassification of guarantee fee income on retained PCs to "Net interest income"	(762)	(711)	(587)
Buy-up, buy-down and credit fees	483	660	358
Other accounting corrections	(116)	(196)	(8)
Total impact of corrections	(395)	(247)	(237)
Management and guarantee income, as restated	$ 1,516	$ 1,392	$ 1,252

The restatement resulted in a decrease in reported management and guarantee income due to the following reclassifications and errors:

- Management and guarantee income on retained PCs – As described above, guarantee fees related to Freddie Mac PCs held in its portfolio and previously reported as management and guarantee income are now included in net interest income.

- Buy-up, buy-down and credit fees – The company previously deferred and amortized amounts paid and received in connection with the issuance of PCs with the amortization of these amounts being primarily reported through management and guarantee income. As a result of the restatement, the company now accounts for these deferred amounts in the following manner:

- The assets associated with buy-up fees are marked to fair value through either "Gains (losses) on 'Guarantee asset for Participation Certificates, at fair value'" or "Gains (losses) on investment activity" depending upon whether the associated PC is held by a third party or held by the company, respectively. Accordingly, buy-up fees are no longer amortized through management and guarantee income.
- Buy-down and credit fees related to PCs issued through the Guarantor Swap program and not repurchased by the company continue to be amortized through management and guarantee income. Otherwise, these fees are amortized through net interest income when the PC is held by the company or included in the calculation of the gain or loss on sale when the PC has been transferred to a third party in a transaction accounted for as a sale.

- Other accounting corrections – This category includes corrections primarily related to the timing and amount of amortization income and expense reported through management and guarantee income.

Gains (Losses) on Guarantee Asset and Guarantee Obligation

As part of the restatement, Freddie Mac determined that its accounting for transfers of PCs in transactions accounted for as sales was incorrect in that Freddie Mac should have recognized the cash flows related to the contractual guarantee fee rate as a retained beneficial interest and should have recorded the fair value of the associated obligation as a liability. These amounts are now recorded in the consolidated balance sheets as "Guarantee asset for Participation Certificates, at fair value" and "Guarantee obligation for Participation Certificates, at fair value." Changes in the fair value of these amounts are recorded to income as "Gains (losses) on 'Guarantee asset for Participation Certificates, at fair value'" and "Gains (losses) on 'Guarantee obligation for Participation Certificates, at fair value'." A discussion of the changes in these amounts during the restatement period is included in "Results of Operations – Non-Interest Income – Gains (Losses) on Guarantee Asset and Guarantee Obligation."

Derivative Gains and Losses

Table 6: Reconciliation of Derivative Gains and Losses ($ in millions)

	2002	2001	2000
Derivative gains (losses), as previously reported	$ 270	$ (157)	$ -
Corrections related to accounting for derivative instuments	5,671	(1,700)	1,483
Derivative gains (losses), as restated	$ 5,941	$ (1,857)	$ 1,483

As previously noted, Freddie Mac determined that many of the accounting hedges established during the restatement period failed to qualify for hedge accounting treatment. As a result of these errors these derivatives are now marked to fair value through "Derivative gains (losses)." A discussion of the changes in these amounts during the restatement period is included in "Results of Operations – Non-Interest Income – Derivative Gains (Losses)."

Gains and Losses on Investment Activity

Table 7: Reconciliation of Gains and Losses on Investment Activity ($ in millions)

	2002	2001	2000
Gains (losses) on investment activity, as previously reported	$ 94	$ 115	$ 56
Corrections related to:			
Reclassification of spot-forward difference from "Net interest income"	(938)	(431)	(103)
Security classification	884	573	639
Accounting for transfers of PCs and Multiclass Certificates	263	394	2
Transactions cleared through the GSCC	734	195	(3)
Commitments - Intracompany transactions	921	(317)	(215)
Impairments and LOCOM adjustments	(109)	(339)	(56)
Other accounting corrections	(37)	1	172
Total impact of corrections	1,718	76	436
Gains (losses) on investment activity, as restated	$ 1,812	$ 191	$ 492

Restated gains on investment activity are higher than previously reported in all periods presented in *Table 7* as a result of the following factors:

- Income Statement classification of spot-forward difference – As indicated under "Net Interest Income," the company has corrected the income statement classification of the spot-forward difference on forward sale commitments executed in conjunction with Freddie Mac's PC market making and support activities from "Net interest income" to "Gains (losses) on investment activity."

- Security classification – During the restatement, it was determined that securities were incorrectly classified under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), including the improper transfer of securities out of trading, resulting in an increase in the balance of trading securities that are marked to fair value though this income statement caption.

- Accounting for transfers of PCs and Multiclass Certificates – As previously noted above under "Gains (Losses) on Guarantee Asset and Guarantee Obligation," Freddie Mac determined that it incorrectly accounted for sales of PCs. These corrections resulted in adjustments to income primarily due to (i) the recognition of the value of the guarantee asset and guarantee obligation at time of sale and (ii) the mark to fair value of Participation Certificate Residuals (PCRs). (PCRs effectively represent the net guarantee asset and guarantee obligation for securities repurchased and held by the company for which a guarantee asset and guarantee obligation were previously recognized.)

- Transactions cleared through the GSCC – Freddie Mac previously accounted for certain Treasury and agency debt security transactions cleared through the Government Securities Clearing Corporation ("GSCC") as derivatives that qualified for hedge accounting. The company has subsequently determined that these transactions should have been accounted for as cash instruments, which do not qualify for hedge accounting. Correction of this error resulted in the related gains and losses being recorded to income through this income statement caption.

- Commitments – intracompany transactions – The company recorded purchases and sales of securities in conjunction with its PC market making and support activities, including intracompany transactions, as trading positions. During the restatement, it was determined that the financial statement effects of intracompany transactions should have been eliminated and that certain securities previously classified as trading should have been accounted for as available-for-sale securities, resulting in the reversal of the related mark to fair value adjustments from income.

- Impairments and LOCOM adjustments – Through the restatement, Freddie Mac determined that it incorrectly calculated impairments on interest-only securities and did not properly value its held-for-sale loans at the lower of cost or market ("LOCOM").

- Other accounting corrections – This category includes miscellaneous errors impacting "Gains (losses) on investment activity," including reclassification of losses related to certain written options that should have been reported as "Derivative gains (losses)" in 2000.

Summary of Certain Balance Sheet Captions

The following table provides a comparison of Freddie Mac's summarized balance sheet as of December 31, 2002, comparing restated amounts to the amounts previously reported. This table should be viewed in conjunction with the complete consolidated balance sheets that accompany Freddie Mac's restatement press release dated November 21, 2003.

Table 8: Comparison of Selected Balance Sheet Items As Previously Reported and As Restated as of December 31, 2002 ($ in millions)

	Previously Reported	Restated	Increase (Decrease)
Retained portfolio	$ 583,269	$ 589,722	$ 6,453
Cash and investments	86,598	135,037	48,439
Guarantee asset for Participation Certificates, at fair value	-	2,445	2,445
Derivative assets, at fair value	10,340	10,393	53
Other items included in total assets	41,532	14,652	(26,880)
Total assets	$ 721,739	$ 752,249	$ 30,510
Total debt securities, net	$ 648,894	$ 665,696	$ 16,802
Due to Participation Certificate investors	36,232	35,080	(1,152)
Guarantee obligation for Participation Certificates, at fair value	-	1,427	1,427
Derivative liabilities, at fair value	1,111	967	(144)
Other items included in total liabilities	10,873	15,440	4,567
Total liabilities	697,110	718,610	21,500
Minority interest in consolidated subsidiaries	-	2,309	2,309
Total stockholders' equity	24,629	31,330	6,701
Total liabilities and stockholders' equity	$ 721,739	$ 752,249	$ 30,510

The following discussion describes the primary adjustments as a result of the restatement to certain line items included in the summarized balance sheet above.

Retained Portfolio

The restated balance of the retained portfolio as of December 31, 2002 increased by $6.5 billion due to (i) the reversal of hedge accounting losses as a result of errors impacting the company's embedded option hedging strategy, and (ii) the recording of unrealized gains on securities previously classified as held-to-maturity and reported at amortized cost but now classified as available-for-sale and reported at fair value as a result of security classification errors.

Cash and Investments and Other Items Included in Total Assets

Cash and investments increased by $48.4 billion as of December 31, 2002 due to the restatement. This increase was primarily due to the following adjustments:

- Transactions cleared through the GSCC – As noted above, certain Treasury and agency debt security transactions cleared through the GSCC previously accounted for as derivatives are now reported as cash instruments. Accordingly, these transactions are recorded as part of "Cash and investments" with an offsetting amount recorded to "Debt securities, net." This correction resulted in an increase to "Cash and investments" and "Total debt securities, net" by approximately $19.4 billion as of December 31, 2002.

- Commitments – third party transactions – Previously, the company recognized securities purchased and sold through its PC market making and support activities on the trade date, which resulted in an increase or decrease in "Cash and investments" and an offsetting adjustment to "Accounts and other receivables, net" or "Other liabilities" to record the related trade receivable or payable. As part of the restatement, the company now records these transactions as derivatives and does not record the effect on the investment balance until the settlement date. This correction resulted in an increase to "Cash and investments" of approximately $29.4 billion at December 31, 2002, with an offsetting decrease in "Accounts and other receivables, net," which is included in the caption "Other items included in total assets" in *Table 8* above.

Guarantee Asset and Guarantee Obligation

As described above under "Gains (Losses) on Guarantee Asset and Guarantee Obligation," "Guarantee asset for Participation Certificates, at fair value" and "Guarantee obligation for Participation Certificates, at fair value" are new captions as a result of corrections to the company's accounting for transfers of mortgage loans, PCs and Multiclass Certificates.

Total Debt Securities, Net and Minority Interest in Consolidated Subsidiaries

The balance of debt securities increased as a result of the restatement due to corrections related to certain transactions cleared through the GSCC as discussed above, net of the effects of reporting the balance of preferred stock issued by Freddie Mac's two majority-owned REIT subsidiaries as "Minority interest in consolidated subsidiaries," which was previously included in the balance of total debt securities. The balance of debt securities was also impacted by the reversal of deferred hedging gains and losses as a result of errors related to accounting for derivative instruments.

Other Items included in Total Liabilities

Adjustments affecting other items included in total liabilities were primarily related to the effect of the cumulative increase in earnings on deferred tax liabilities and the reporting of buy-down fees, credit fees and other amounts received as part of the issuance of PCs through the guarantor program as liabilities (these amounts were previously netted against other deferred items associated with the retained portfolio).

Total Stockholders' Equity

The $6.7 billion increase in total stockholders' equity as a result of the restatement was due to:

- A $5.0 billion increase to retained earnings as a result of the cumulative net increase in net income due to the restatement.
- A $1.5 billion increase in Accumulated Other Comprehensive Income resulting from (i) unrealized gains on securities previously classified as held-to-maturity and reported at amortized cost but now classified as available-for-sale and reported at fair value as a result of security classification errors, and (ii) recording certain net hedging losses to earnings as a result of correcting errors in accounting for derivative instruments that were previously deferred to Accumulated Other Comprehensive Income.
- A $167 million increase to additional paid-in capital as a result of Freddie Mac's decision to implement SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure," using the retroactive restatement transition method.

For further information regarding adjustments to total stockholders' equity, see Table 1F, "Effects of Restatement Adjustments on the Beginning Balance of Stockholders' Equity on January 1, 2000," which is included in the Consolidated Financial Statements and Tables that accompany Freddie Mac's restatement press release dated November 21, 2003.

Consolidated Results of Operations and Financial Condition

The following discussion of Freddie Mac's consolidated results of operations and financial condition is based on the company's restated financial results. This discussion is organized into two sections: (i) "Results of Operations," which provides an overview of the company's results of operations for 2002, 2001 and 2000, followed by a more detailed discussion of the individual components of net income; and (ii) "Balance Sheet Analysis," which discusses changes in Freddie Mac's consolidated balance sheets. These sections should be read in conjunction with the Consolidated Financial Statements and Tables that accompany Freddie Mac's restatement press release dated November 21, 2003. Also *see* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," for more information concerning the company's accounting policies and the financial statement topics discussed below.

In addition to the results of operations discussion below, the company has provided a measurement of its assets, liabilities, derivatives and off-balance sheet financial instruments on a fair value basis in Appendix III, "Fair Value and Interest-Rate Risk Measures." The company believes that this fair value disclosure provides an important view of Freddie Mac's business economics and risks since it takes a consistent approach to measuring financial assets and liabilities at fair value, rather than a hybrid approach mixing historical cost and fair value.

RESULTS OF OPERATIONS

Performance Overview

Net income for 2002, 2001 and 2000 totaled $10.1 billion, $3.2 billion and $3.7 billion, respectively. These results were primarily driven by increases in net interest income and fluctuations in total non-interest income.

Net interest income totaled $8.9 billion, $7.0 billion and $3.8 billion for 2002, 2001 and 2000, respectively. The increases in net interest income were attributable to a decrease in short-term interest rates along with growth in the unpaid principal balance ("UPB") of the retained portfolio, which grew by 14 percent in 2002 and 27 percent in 2001. The decrease in short-term interest rates, along with an increase in amortization income, was chiefly responsible for a 40 basis point increase in net interest yield, from 97 basis points in 2000 to 137 basis points in 2001. However, net interest yield increased by only 3 basis points in 2002 because the environment of generally falling interest rates was offset by accelerated amortization expense due to a decrease in the estimated life of the mortgage assets in the retained portfolio. The change from a net discount, which resulted in amortization income in 2001, to a net premium, which produced amortization expense in 2002, was due to the addition of hedging losses associated with the termination of pay-fixed swaps and an increase in premiums paid on retained portfolio purchases in 2002.

Non-interest income totaled $7.8 billion in 2002, compared to expense of $1.1 billion in 2001 and income of $2.6 billion in 2000. The volatility in non-interest income was largely due to the amount of derivatives, mortgage securities and guarantee assets and guarantee obligations marked to fair value through earnings, with the most significant driver being derivative gains and losses. The components and drivers of non-interest income are explained in detail below.

Net Interest Income

Net interest income, the principal source of earnings for Freddie Mac, is the difference between interest income and interest expense. Net interest income is affected by changes in the balance and contractual rates associated with the company's assets, liabilities and derivative contracts, as adjusted for amortization of purchase premiums and discounts and hedging gains and losses as explained below in "Analysis of Quarterly Results." Freddie Mac discusses net interest income and the related interest yield on a taxable-equivalent basis to consistently reflect income from taxable and tax-exempt investments based on a 35 percent marginal tax rate.

2002 versus 2001

Table 9 summarizes net interest income for 2002 compared to 2001, and the related rate/volume analysis for the changes between 2002 and 2001.

Table 9: Net Interest Income and Rate/Volume Analysis (2002 compared to 2001)
($ in millions)

	2002		2001		Increase (Decrease) to NII	Attributable to Changes in [1]	
	NII	Yield	NII	Yield		Rate	Volume
Interest Income:							
Mortgages	$ 4,290	7.04%	$ 4,385	7.23%	$ (95)	$ (116)	$ 21
Mortgage-Related Securities	30,039	6.38%	26,847	6.91%	3,192	(2,187)	5,379
Total Retained Portfolio	34,329	6.46%	31,232	6.96%	3,097	(2,303)	5,400
Cash and Investments	4,147	3.41%	4,136	4.82%	11	(1,448)	1,459
Total Interest-Earning Assets	38,476	5.89%	35,368	6.62%	3,108	(3,751)	6,859
Interest Expense:							
Short-Term Debt	(4,303)	(2.03%)	(9,056)	(4.23%)	4,753	4,670	83
Long-Term Debt	(21,025)	(5.16%)	(17,466)	(5.99%)	(3,559)	2,678	(6,237)
Total Contractual Debt	(25,328)	(4.09%)	(26,522)	(5.25%)	1,194	7,348	(6,154)
Due to Participation Certificate Investors	(1,236)	(6.82%)	(1,027)	(7.27%)	(209)	66	(275)
Total Interest-Bearing Liabilities	(26,564)	(4.17%)	(27,549)	(5.30%)	985	7,414	(6,429)
Income (Expense) Related to Derivative Contracts	(3,026)	(0.47%)	(827)	(0.16%)	(2,199)	(2,199)	-
Impact of Net Non-Interest-Bearing Funding	-	0.12%	-	0.18%	-	-	-
Net Interest Income [2]	$ 8,886	1.36%	$ 6,992	1.32%	$ 1,894	$ 1,464	$ 430
Fully Taxable Equivalent Adjustment	252	0.04%	237	0.04%	15	4	11
Net Interest Income (Fully Taxable Equivalent Basis) [2]	$ 9,138	1.40%	$ 7,229	1.37%	$ 1,909	$ 1,468	$ 441

[1] Combined rate/volume changes are allocated to the individual rate and volume changes based on their relative size.
[2] May not sum due to rounding.

Net interest income on a fully taxable-equivalent basis increased $1.9 billion, or 26 percent, to $9.1 billion in 2002 from $7.2 billion in 2001. The increase in net interest income was primarily due to a continuation during 2002 of the steep yield curve environment that existed in 2001. A steepening yield curve means that short-term interest rates are decreasing more than long-term rates, or are increasing at a slower rate than long-term rates. This environment resulted in (i) wide initial spreads between the yield on asset purchases and the cost of the debt issued to fund those purchases (referred to as "mortgage-to-debt spreads") since a portion of the debt issued is shorter-term than the corresponding asset funded, as well as (ii) continued decreases in short-term debt costs in 2002. An increase of $83 billion, or 18 percent, in the average balance of the retained portfolio also contributed to the increase in net interest income (*see* "Balance Sheet Analysis -- Retained Portfolio" for a discussion regarding changes in the balance of the retained portfolio).

The positive effects of the steep yield curve and retained portfolio growth on net interest income were partially offset by increased amortization expense associated with (i) net purchase premiums on mortgage investments and (ii) deferred hedging losses related to terminated pay-fixed swaps. These expenses were caused by decreases in long-term rates during 2002, which shortened the expected lives of mortgage investments resulting in accelerated amortization of related premiums, as well as the termination of pay-fixed swaps. As discussed in "Balance Sheet Analysis – Total Debt Securities, Net," Freddie Mac terminated pay-fixed swaps during 2002 as a result of the decrease in the expected lives of mortgage investments and an increase in the balance of long-term debt. For further information regarding amortization of premiums, discounts and hedging gains and losses, *see* "Analysis of Quarterly Results" below and Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Securities" and " – Derivatives."

Net interest yield on a fully taxable-equivalent basis increased by 3 basis points to 140 basis points in 2002 from 137 basis points in 2001. This relatively small change in net interest yield was the net result of the effects of the steep yield curve and increased amortization expense, as discussed above, as well as a shift in the mix of interest-earning assets toward cash and investments. The average balance of cash and investments increased by 42 percent, fueled by cash inflows to the company from prepayments on outstanding PCs. Prepayments on outstanding PCs tend to increase the balance of short-term investments since the prepayments are invested by the company pending remittance to investors. In addition, limited retained portfolio investment opportunities during certain periods of 2002 also contributed to growth in the average balance of cash and investments. When growth in capital, generally driven by net income, outpaces opportunities to grow the retained portfolio, the company may temporarily deploy capital in cash and investments until the capital can be redeployed into retained portfolio investments. Increases in short-term investments contribute to net interest income, but generally decrease net interest yield since the net yield on short-term investments is generally lower than the net yield on longer-term retained portfolio assets.

2001 versus 2000

Table 10 summarizes net interest income for 2001 compared to 2000, and the related rate/volume analysis for the changes between 2001 and 2000.

Table 10: Net Interest Income and Rate/Volume Analysis (2001 compared to 2000)
($ in millions)

	2001		2000		Increase (Decrease) to NII	Attributable to Changes in [1]	
	NII	Yield	NII	Yield		Rate	Volume
Interest Income:							
Mortgages	$ 4,385	7.23%	$ 4,177	7.32%	$ 208	$ (54)	$ 262
Mortgage-Related Securities	26,847	6.91%	20,536	7.01%	6,311	(285)	6,596
Total Retained Portfolio	31,232	6.96%	24,713	7.06%	6,519	(339)	6,858
Cash and Investments	4,136	4.82%	4,469	6.01%	(333)	(1,006)	673
Total Interest-Earning Assets	35,368	6.62%	29,182	6.88%	6,186	(1,345)	7,531
Interest Expense:							
Short-Term Debt	(9,056)	(4.23%)	(10,492)	(6.00%)	1,436	3,535	(2,099)
Long-Term Debt	(17,466)	(5.99%)	(14,639)	(6.39%)	(2,827)	964	(3,791)
Total Contractual Debt	(26,522)	(5.25%)	(25,131)	(6.22%)	(1,391)	4,499	(5,890)
Due to Participation Certificate Investors	(1,027)	(7.27%)	(352)	(6.53%)	(675)	(44)	(631)
Total Interest-Bearing Liabilities	(27,549)	(5.30%)	(25,483)	(6.23%)	(2,066)	4,455	(6,521)
Income (Expense) Related to Derivative Contracts	(827)	(0.16%)	59	0.01%	(886)	(886)	-
Impact of Net Non-Interest-Bearing Funding	-	0.18%	-	0.26%	-	-	-
Net Interest Income [2]	$ 6,992	1.32%	$ 3,758	0.92%	$ 3,234	$ 2,224	$ 1,010
Fully Taxable Equivalent Adjustment	237	0.04%	224	0.05%	13	(16)	29
Net Interest Income (Fully Taxable Equivalent Basis) [2]	$ 7,229	1.37%	$ 3,982	0.97%	$ 3,247	$ 2,208	$ 1,039

(1) Combined rate/volume changes are allocated to the individual rate and volume changes based on their relative size.
(2) May not sum due to rounding.

Net interest income on a fully taxable-equivalent basis increased by $3.2 billion, or 82 percent, to $7.2 billion in 2001 from $4.0 billion in 2000. Net interest income was driven by a significant decrease in short-term interest rates, a steepening of the yield curve, and growth in interest-earning assets, particularly the retained portfolio. The decrease in short-term interest rates coupled with the steepening yield curve resulted in a reduction in short-term debt costs and wider initial mortgage-to-debt spreads on additions to the retained portfolio. Retained portfolio purchases in 2001 totaled approximately $253 billion, which, net of repayments and sales, resulted in a 28 percent increase in the average balance of the retained portfolio.

Also contributing to the increase in net interest income was an increase in amortization income related to net purchase discounts and deferred hedging gains, and the change in accounting for the cost of purchased options as a result of the implementation of SFAS 133 on January 1, 2001. Prior to the implementation of SFAS 133, the company amortized purchased option premiums and amounts paid or received to acquire interest rate swaps to net interest income. This amortization expense totaled $168 million in 2000. After the adoption of SFAS 133, options are marked to fair value with changes in fair value reported as "Derivative gains (losses)."

Net interest yield on a fully taxable-equivalent basis increased by 40 basis points from 97 basis points in 2000 to 137 basis points in 2001. This increase was primarily due to the reduction in short-term interest rates, wider spreads on new purchases as described above and the increase in amortization income.

Analysis of Quarterly Results

Table 11 summarizes quarterly net interest income and net interest yield for 2001 and 2002.

Table 11: Quarterly Net Interest Income (quarterly yields annualized) ($ in millions)

	1Q 2001	2Q 2001	3Q 2001	4Q 2001	2001
Net Interest Income	$ 1,295	$ 1,518	$ 2,158	$ 2,021	$ 6,992
Fully Taxable Equivalent Adjustment	57	63	59	58	237
Net Interest Income (Fully Taxable Equivalent Basis)	$ 1,352	$ 1,581	$ 2,217	$ 2,079	$ 7,229
Net Interest Yield (Fully Taxable Equivalent Basis)	1.14%	1.23%	1.63%	1.43%	1.37%

	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2002
Net Interest Income	$ 2,414	$ 2,123	$ 2,079	$ 2,270	$ 8,886
Fully Taxable Equivalent Adjustment	66	65	66	55	252
Net Interest Income (Fully Taxable Equivalent Basis)	$ 2,480	$ 2,188	$ 2,145	$ 2,325	$ 9,138
Net Interest Yield (Fully Taxable Equivalent Basis)	1.59%	1.38%	1.32%	1.34%	1.40%

Changes in quarterly net interest income and net interest yield in 2001 and 2002 were driven primarily by changes in short-term interest rates and growth in the retained portfolio during 2001 and 2002 as described above in the analysis of annual results. However, quarterly results were also affected by fluctuations in the amortization of deferred purchase premiums and discounts, amortization of hedging gains and losses, interest expense related to amounts due to PC investors and changes in the mix of short- and long-term debt funding. These drivers are described in detail below, followed by a tabular presentation (*see Table 12*) discussing the impact of these drivers on net interest income during the quarterly periods of 2002 and 2001.

- Amortization of premiums and discounts – When Freddie Mac buys mortgage-related securities, the amount it pays for the asset generally does not equal the security UPB. Freddie Mac pays more than the UPB (referred to as a premium) when the coupon on the security is greater than the current market yield for that security. Freddie Mac pays less than the UPB (referred to as a discount) when the coupon on the security is less than the current market yield for that security. During 2001, premiums and discounts related to the retained portfolio resulted in a net discount position. Because of declining interest rates during 2002, the company paid premiums on a higher percentage of the mortgage-related securities acquired during the year. This resulted in a shift to a net premium position during 2002 for the portfolio.

As described in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Securities," these premiums and discounts are amortized over the estimated life of the purchased assets as an adjustment to interest income based on the effective interest method in accordance with SFAS 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" ("SFAS 91"). This method of amortization results in periodic adjustments to interest income when the effective interest rate changes due to differences between actual and estimated prepayments and changes in estimated future prepayments. In addition, the company implemented several enhancements as described in Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes – Other Accounting Changes – Accounting for Certain Premiums and Discounts," resulting in a $305 million increase to net interest income during the fourth quarter of 2002.

- Amortization of hedging gains and losses – Certain derivative contracts are accounted for as cash flow hedges of forecasted debt issuances (primarily pay-fixed swaps and Eurodollar futures), while other derivative contracts are accounted for as fair value hedges of existing debt (primarily receive-fixed swaps). In both cases, termination of the hedge relationship results in the associated deferred hedging gain or loss being amortized into net interest income. Amortization related to terminated cash flow hedges is included in "Income (expense) related to derivative contracts," while amortization related to terminated fair value hedges is included in interest expense on long-term debt. For further information concerning Freddie Mac's accounting policies related to cash flow and fair value hedge relationships, *see* "Appendix IV – Summary of Significant Accounting Policies for Restated Periods – Derivatives – Accounting for Derivatives under SFAS 133." As a result of increased long-term debt issuances and declining interest rates during 2002, Freddie Mac terminated pay-fixed swaps, triggering amortization of deferred hedging losses.

- Interest expense related to amounts due to Participation Certificate investors – As a result of the payment remittance cycle associated with Gold PCs, which is described in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Interest Expense: Due to Participation Certificate Investors on Mortgage Prepayments," interest expense related to amounts due to PC investors will increase during periods of high prepayments and decrease during periods of low prepayments. Because of changes in interest rates and mortgage prepayment rates, interest expense related to amounts due to PC investors fluctuated from period to period in 2001 and 2002.

- <u>Debt funding mix</u> – As discussed in "Balance Sheet Analysis – Total Debt Securities, Net," Freddie Mac uses its derivative portfolio to address differences between outstanding debt and the company's funding needs. Because of declining interest rates in 2002, the expected lives of assets held in the retained portfolio decreased, reducing the need from an asset/liability management perspective for long-term debt. However, the volume of long-term debt issued is generally determined by the company's commitment to its Reference Notes securities calendar. To shorten the effective maturity of its debt and thereby manage the funding mismatch created by the decline in interest rates, Freddie Mac terminated certain pay-fixed swaps and entered into receive-fixed swaps. Receive-fixed swaps effectively convert long-term debt to short-term debt by converting the fixed-rate debt payment into a variable-rate payment, while pay-fixed swaps have the opposite effect.

The following discussion describes the effect of these factors on changes in quarterly net interest income.

Table 12: Explanation of Quarterly Changes in Net Interest Income and Net Interest Yield

Period	Increase (Decrease) in Net Interest Income (in millions)	Increase (Decrease) in Net Interest Yield (in bps)	Comments
2Q01 vs. 1Q01	$ 229	9	Increases were driven by retained portfolio growth of $25 billion and reductions in short-term interest rates. These positive factors were partially offset by an increase in interest expense related to amounts due to PC investors as the liquidation rate on total PCs issued increased to 30 percent from 21 percent in first quarter 2001. Liquidation rate is defined as the balance of scheduled and unscheduled principal payments during the period as a percent of the balance of total PCs issued at the beginning of the period.
3Q01 vs. 2Q01	636	40	Increases were driven by retained portfolio growth of $20 billion and decreases in short-term interest rates. Accelerated amortization income on deferred discounts (due to shortened expected asset lives in response to decreases in long-term interest rates) and a decrease in interest expense related to amounts due to PC investors also contributed to the increase in net interest income and net interest yield. The decrease in interest expense related to amounts due to PC investors was due to a decrease in liquidation rates on total PCs issued, combined with a change in the PC remittance cycle implemented during the quarter that accelerated the remittance of mortgage prepayments to PC investors.

Period	Increase (Decrease) in Net Interest Income (in millions)	Increase (Decrease) in Net Interest Yield (in bps)	Comments
4Q01 vs. 3Q01	(138)	(20)	Decreases were driven by a decrease in amortization income from deferred discounts and an increase in interest expense related to amounts due to PC investors. The decrease in amortization income was due to an increase in long-term interest rates, which resulted in an increase in expected asset lives causing the reversal of amortization income recognized in the prior periods in accordance with SFAS 91. The increase in interest expense related to amounts due to PC investors was driven by an increase in the liquidation rate on total PCs issued to 43 percent due to decreases in long-term interest rates in the third quarter. Liquidation rates are typically driven by changes in interest rates in the prior quarter given the time lag between decreases in interest rates and the mortgage prepayments. These negative factors were partially offset by retained portfolio growth of $26 billion and a decrease in short-term debt costs as a result of continued decreases in short-term interest rates.
1Q02 vs. 4Q01	401	16	Increases were driven by retained portfolio growth of $38 billion and a return to more typical amortization income on the retained portfolio's net deferred discount position as a result of relatively stable interest rates during the quarter. These favorable factors were partially offset by a shift in funding mix from short-term to long-term debt.
2Q02 vs. 1Q02	(292)	(21)	Decreases were driven by a continued shift in debt funding from short-term debt to long-term debt and increased amortization of deferred hedging losses resulting from terminated pay-fixed swaps, as described above in "Debt funding mix."
3Q02 vs. 2Q02	(43)	(6)	Decreases were due to increased amortization expense related to (i) deferred premiums on retained portfolio purchases and (ii) hedging losses associated with terminated pay-fixed swaps. As discussed above in "Amortization of premiums and discounts," the deferred amount related to the retained portfolio shifted to a premium position in 2002. The increase in amortization expense was partially offset by an increase in interest income from derivative contracts as a result of increases in the notional amount of receive-fixed swaps.

Period	Increase (Decrease) in Net Interest Income (in millions)	Increase (Decrease) in Net Interest Yield (in bps)	Comments
4Q02 vs. 3Q02	180	2	Increases were driven by an increase in amortization income and interest income on derivative contracts, partially offset by increased amortization of deferred hedging losses and increased interest expense related to amounts due to PC investors. The increase in amortization income was due to a $305 million adjustment related to the enhancements described above in "Amortization of premiums and discounts." The increase in interest income on derivative contracts and amortization of deferred hedging losses was due to an increase in the notional amount of receive-fixed swaps combined with the termination of pay-fixed swaps. Interest expense on amounts due to PC investors increased as the liquidation rate on total PCs issued increased from 40 percent in third quarter 2002 to 65 percent in fourth quarter 2002.

Non-Interest Income

Management and Guarantee Income

Management and guarantee income primarily represents the net contractual cash flows Freddie Mac receives on mortgage-related securities issued and guaranteed by the company and held by third party investors. For securities held by the company, the associated components of guarantee income are included in "Net interest income."

Table 13 provides summary information about management and guarantee income for 2002, 2001 and 2000.

Table 13: Management and Guarantee Income ($ in millions)

	2002	2001	2000
Management and guarantee income	$ 1,516	$ 1,392	$ 1,252
Average outstanding PCs	$ 687,942	$ 589,772	$ 531,207
Management and guarantee rate (in basis points)	22.0	23.6	23.6

Management and guarantee income increased by $124 million, or 9 percent, to $1.5 billion in 2002 from $1.4 billion in 2001. In 2001, management and guarantee income increased $140 million, or 11 percent. These increases in guarantee income were primarily due to an increase in the average balance of outstanding PCs, which increased by 17 percent in 2002 and 11 percent in 2001.

The effective management and guarantee rate, which is comprised of the contractual management and guarantee rate as adjusted for amortization of deferred fees, including credit fees, buy-down fees and other items as described in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Guarantee Fees, Buy-Up Fees and Buy-Down Fees," decreased by 1.6 basis points to 22.0 basis points in 2002 from 23.6 basis points in 2001 and was unchanged from 23.6 basis points in 2000. These results were driven by decreases in contractual management and guarantee rates as a result of declining market prices for guarantee fees and a shift away from guarantees with buy-up fees, offset by accelerated amortization of deferred fees.

As explained in Appendix IV, buy-up fees are paid by the company to increase the contractual management and guarantee fee rate it receives from the counterparty so that a mortgage loan will "fit" into a PC. Cash inflows resulting from Freddie Mac buying-up the contractual fee rate are included in management and guarantee income, although the buy-up fee asset is marked to fair value through "Gains (losses) on 'Guarantee asset for Participation Certificates, at fair value'." As a result, the average management and guarantee rate reported on guarantees with buy-up fees will tend to be higher than the rate reported on guarantees without buy-up fees.

The effect of declining contractual management and guarantee fee rates was partially offset in 2002 and more than offset in 2001 by an acceleration of amortization income related to deferred fees due to a decrease in the expected lives of outstanding PCs that was driven by declining interest rates and increased prepayments. Upfront fees received by Freddie Mac related to guarantees issued through the guarantor program are deferred and amortized using the interest method in accordance with SFAS 91 and as described above under "Net Interest Income."

Table 14 summarizes management and guarantee income and rates for each quarter in 2001 and 2002.

Table 14: Quarterly Management and Guarantee Income ($ in millions)

	1Q 2001	2Q 2001	3Q 2001	4Q 2001
Management and guarantee income	$ 347	$ 340	$ 396	$ 309
Average outstanding PCs	$ 556,597	$ 571,456	$ 607,169	$ 623,866
Management and guarantee rate (in basis points)	24.9	23.8	26.1	19.8

	1Q 2002	2Q 2002	3Q 2002	4Q 2002
Management and guarantee income	$ 372	$ 385	$ 370	$ 389
Average outstanding PCs	$ 640,816	$ 686,180	$ 708,003	$ 716,770
Management and guarantee rate (in basis points)	23.2	22.4	20.9	21.7

Changes in management and guarantee income and rates on a quarterly basis in 2002 and 2001 were primarily driven by declining contractual management and guarantee rates and changes in amortization of deferred fees, with the largest fluctuations in amortization occurring in the third and fourth quarters of 2001 and fourth quarter of 2002. These were periods marked by significant changes in interest rates and in the expected lives of outstanding PCs, which resulted in changes in the amount of amortization income recognized in those periods.

<u>Gains (Losses) on Guarantee Asset and Guarantee Obligation</u>

"Gains (losses) on 'Guarantee asset for Participation Certificates, at fair value'" and "Gains (losses) on 'Guarantee obligation for Participation Certificates, at fair value'" represent the change in fair value of the guarantee asset and guarantee obligation. For information regarding the accounting for the guarantee asset and guarantee obligation, see Appendix IV, "Summary of Significant Accounting Policies for Restated Periods."

Gains and losses on guarantee asset and guarantee obligation represent the change in fair value of the asset and obligation due to the realization of expected cash flows and changes in the value of future estimated cash flows. With the passage of time, expected cash flows are realized and no longer included in the valuation of the guarantee asset and the guarantee obligation. Because the actual cash flows are reported as income and expense based on the nature of the cash flows (e.g., guarantee fee income, provision for credit losses, etc.) and not as a direct reduction in the asset and obligation, the realization of the expected cash flows results in a corresponding change in the valuation of the guarantee asset and the guarantee obligation.

Changes in the value of future estimated cash flows are driven by the estimated lives of the mortgages underlying the outstanding PCs and other economic factors that influence the amount and timing of the future cash flows. Changes in the estimated lives affect the value of the guarantee asset and the guarantee obligation because Freddie Mac's right to receive guarantee fees and its obligation to pay related expenses cease when the underlying mortgages prepay. Changes in expected lives can also affect the value of the guarantee obligation due to the remittance cycle associated with most Freddie Mac PCs. As described in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Interest Expense: Due to Participation Certificate Investors on Mortgage Prepayments," when a prepayment occurs, Freddie Mac assumes the obligation to pay interest due to the PC investor on the prepayment proceeds from the time the mortgage prepays to the time the PC balance is reduced. Freddie Mac seeks to offset this cost by investing the prepayment proceeds until they are remitted to the PC investor, which typically occurs 15 days after the PC balance is reduced. However, when income expected to be earned from the investment of the prepayment proceeds is less than the interest expected to be due to PC investors, expected prepayments increase the guarantee obligation. When the income expected to be earned is greater than the interest expected to be due to PC investors, expected prepayments decrease the guarantee obligation. The amount and timing of cash flows related to the guarantee obligation are also driven by changes in house price appreciation, short-term interest rates and other economic factors that influence expected credit losses and expected income earned on mortgage principal and interest payments held pending remittance to PC investors.

Table 15 provides information for 2002, 2001 and 2000 regarding gains and losses on guarantee assets and guarantee obligations.

Table 15: Gains (Losses) on Guarantee Asset and Guarantee Obligation ($ in millions)

	2002	2001	2000
Gains (losses) on guarantee asset	$ (2,176)	$ (789)	$ (1,197)
Gains (losses) on guarantee obligation	592	203	443

Losses on the guarantee asset increased in 2002 mainly due to decreases in mortgage interest rates during the year, which reduced the expected lives of the mortgages underlying outstanding PCs and the amount of estimated future guarantee fee cash flows. The reduction in expected lives also resulted in an increase in gains on the guarantee obligation in 2002, although not to the same extent as the loss on the guarantee asset since higher prepayment estimates combined with lower short-term interest rates increased the expected net expense associated with amounts due to PC investors.

During 2001, losses on the guarantee asset and gains on the guarantee obligation decreased compared to 2000. These decreases were primarily driven by interest rate changes in 2001 compared to 2000, which resulted in a slight increase in the expected lives of the mortgages underlying outstanding PCs at the end of 2001 compared to the end of 2000.

Table 16 summarizes gains and losses on guarantee asset and guarantee obligation for each quarter in 2001 and 2002.

Table 16: Quarterly Gains (Losses) on Guarantee Asset and Guarantee Obligation ($ in millions)

	1Q 2001	2Q 2001	3Q 2001	4Q 2001
Gains (losses) on guarantee asset	$ (261)	$ 24	$ (454)	$ (98)
Gains (losses) on guarantee obligation	(181)	41	190	153

	1Q 2002	2Q 2002	3Q 2002	4Q 2002
Gains (losses) on guarantee asset	$ (213)	$ (658)	$ (890)	$ (415)
Gains (losses) on guarantee obligation	146	156	62	228

Changes in gains and losses on the guarantee asset and the guarantee obligation reported on a quarterly basis were primarily attributable to changes in the expected lives of the mortgages underlying outstanding PCs, which were driven by changes in mortgage interest rates. Fluctuations in the guarantee obligation were also driven by changes in short-term interest rates and in the credit environment, which also affect the value of future estimated cash flows.

Derivative Gains (Losses)

Derivative gains (losses) represent the change in fair value of derivatives not accounted for in a hedge relationship since these transactions did not qualify for, or the company did not elect to pursue, hedge accounting resulting in fair value changes being recorded to earnings. Although the company executed these transactions to manage interest-rate risk, they increase the volatility of reported net income since they are not accounted for in a hedge relationship.

Derivative gains (losses) totaled $5.9 billion, ($1.9) billion and $1.5 billion in 2002, 2001 and 2000, respectively. These gains and losses were primarily driven by changes in the fair value of certain receive- and pay-fixed interest rate swaps and call and put swaptions executed to manage interest-rate risk related to the retained portfolio.

Freddie Mac uses interest rate swaps to mitigate contractual funding mismatches between its assets and liabilities. A receive-fixed swap, which results in Freddie Mac receiving a fixed interest rate payment in exchange for a variable rate payment, economically converts long-term debt to short-term debt. Conversely, a pay-fixed swap, which requires Freddie Mac to make a fixed interest rate payment in exchange for a variable rate payment, economically converts short-term debt to long-term debt. Call and put swaptions are options to enter into receive- and pay-fixed interest rate swaps, respectively. Freddie Mac uses swaptions and other option-based derivatives to adjust the contractual funding of its debt in response to changes in the expected lives of assets in the retained portfolio. Mortgage borrowers generally have an option to prepay their mortgages prior to contractual maturity, and this prepayment option is sensitive to changes in interest rates.

As previously noted, interest rate swaps and swaptions not accounted for in hedge relationships increase the volatility of reported net income since they are marked to fair value through earnings without the offsetting change in value of the hedged risk being recognized in earnings. The fair value of receive- and pay-fixed interest rate swaps is primarily driven by changes in interest rates, with receive-fixed swaps increasing in value and pay-fixed swaps decreasing in value when interest rates decrease (and the opposite being true when interest rates increase). The fair value of call and put swaptions is sensitive to changes in interest rates in the same manner as receive- and pay-fixed swaps, respectively. Swaption values are also driven by the market's expectation of potential changes in interest rates in the future (referred to as "implied volatility"), with swaptions generally being more valuable as implied volatility increases and less valuable as implied volatility decreases. Because the fair value of options is sensitive to changes in interest rates and the implied volatility of interest rates, changes in the fair value of swaptions can be more significant than changes in the value of the underlying interest rate swaps; however, losses on such instruments are limited to the premium paid to purchase the option plus any unrealized gains previously recognized.

Table 17 provides a quarterly summary of the period-end notional amount and gains and losses related to interest rate swaps and swaptions used to manage interest-rate risk but not accounted for in a hedge relationship.

Table 17: Derivatives Not in Hedge Accounting Relationships ($ in billions)

	1Q 2001		2Q 2001		3Q 2001		4Q 2001		2001
	Notional	Gain (Loss)	Notional	Gain (Loss)	Notional	Gain (Loss)	Notional	Gain (Loss)	Gain (Loss)
Call swaptions	$ 83.0	$ -	$ 88.9	$ (0.7)	$ 96.0	$ 1.8	$ 97.1	$ (1.0)	$ 0.1
Put swaptions	29.8	(0.1)	56.2	0.2	70.4	(0.6)	84.2	1.0	0.5
Receive-fixed swaps	46.8	0.3	61.4	(1.1)	130.1	6.3	131.6	(3.7)	1.8
Pay-fixed swaps	81.9	(1.4)	72.6	1.7	110.7	(7.2)	100.3	2.7	(4.2)
Subtotal		(1.2)		0.1		0.3		(1.0)	(1.8)
Other [1]		0.1		(0.2)		0.1		(0.1)	(0.1)
Total		$ (1.1)		$ (0.1)		$ 0.4		$ (1.1)	$ (1.9)

	1Q 2002		2Q 2002		3Q 2002		4Q 2002		2002
	Notional	Gain (Loss)	Notional	Gain (Loss)	Notional	Gain (Loss)	Notional	Gain (Loss)	Gain (Loss)
Call swaptions	$ 106.6	$ (1.0)	$ 129.0	$ 1.7	$ 120.9	$ 5.3	$ 131.4	$ (0.6)	$ 5.4
Put swaptions	91.4	(0.2)	88.4	(1.3)	73.3	(0.5)	129.9	(0.6)	(2.6)
Receive-fixed swaps	82.3	(0.4)	54.2	2.0	70.2	4.1	65.4	-	5.7
Pay-fixed swaps	63.4	0.8	49.2	(1.9)	55.3	(2.9)	43.4	0.2	(3.8)
Subtotal		(0.8)		0.5		6.0		(1.0)	4.7
Other [1]		(0.2)		0.4		0.4		0.6	1.2
		$ (1.0)		$ 0.9		$ 6.4		$ (0.4)	$ 5.9

[1] Other consists of basis swaps, asset swaps, purchased caps and floors, written options, futures and forward purchase and sale commitments and other derivatives not accounted for in hedge relationships.

Derivative gains (losses) were largest over this time period in the third quarter of 2002 when the gains totaled $6.4 billion. This gain was driven by a $5.3 billion increase in the fair value of call swaptions and a $1.2 billion increase in the fair value of receive-fixed swaps, net of losses on pay-fixed swaps. The increase in the fair value of the call swaptions reflects a decrease in interest rates and an increase in the implied volatility of interest rates during the quarter. The decrease in interest rates increased the fair value of the interest rate swaps underlying the call swaptions, which, combined with the increase in implied volatility, resulted in a significant increase in the value of the call swaptions. While increases in implied volatility also have a favorable effect on the value of put swaptions, the decrease in fair value of the underlying interest rate swaps due to the decrease in interest rates resulted in a net decrease in the fair value of these swaptions.

Hedge Accounting Gains (Losses)

For those derivatives that are accounted for in a hedge relationship, "Hedge accounting gains (losses)," or hedge accounting ineffectiveness, generally arises when the fair value change of a derivative financial instrument does not exactly offset the fair value change of the hedged item. Freddie Mac's hedge relationships primarily consist of derivatives linked to either existing debt in a fair value hedge relationship or the forecasted issuance of debt in a cash flow hedge relationship. Freddie Mac began recording hedge accounting gains (losses) in 2001 in conjunction with the implementation of SFAS 133.

Hedge accounting gains were $187 million in 2002, compared to hedge accounting losses of $294 million in 2001. Hedge ineffectiveness in both years related primarily to the company's fair value hedge relationships. Hedge accounting gains (losses) will vary from period to period based on the notional amount of derivatives accounted for in hedge relationships and the extent to which differences in the characteristics or terms of the derivative and the hedged item result in fair value or cash flow changes that do not exactly offset.

Gains (Losses) on Investment Activity

Gains (losses) on investment activity include gains and losses on certain assets and liabilities marked to fair value through earnings. Also included are gains and losses related to sales, impairments and other valuation adjustments.

The following table summarizes the components of "Gains (losses) on investment activity."

Table 18: Gains (Losses) on Investment Activity ($ in millions)

	2002	2001	2000
Gains (losses) on trading securities	$ 921	$ 144	$ 357
Gains (losses) on PCRs	(438)	(121)	(223)
Gains (losses) on sale of mortgage loans and AFS securities	1,834	529	216
Security impairments	(526)	(260)	(91)
Mortgage LOCOM adjustments	8	(101)	(15)
Gain on termination of options	-	-	235
Other	13	-	13
Total gains (losses) on investment activity	$ 1,812	$ 191	$ 492

Gains (Losses) on Trading Securities

Gains (losses) on trading securities represent changes in the fair value of Freddie Mac's trading position, which includes trading securities held, forward commitments to purchase or sell trading securities, and Treasury and agency debt security "short sale" transactions (also referred to as "securities sold, not yet purchased") executed for asset/liability management purposes. The trading position is comprised of security transactions executed in connection with the company's PC market making and support activities and certain securities held in the retained portfolio, including securities transferred into trading at the beginning of 2001. Specifically, the company transferred approximately $36 billion of securities to the trading category on January 1, 2001 in conjunction with the implementation of SFAS 133, resulting in an unrealized loss of approximately $275 million being recorded to earnings. Excluding this loss, gains (losses) on trading securities were driven by the balance of Freddie Mac's trading position and changes in market prices during each period.

Gains (Losses) on PCRs

As explained in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Participation Certificate Residuals," PCRs associated with certain PCs held by Freddie Mac are marked to fair value as a component of "Gains (losses) on investment activity." Changes in the fair value of PCRs include gains and losses attributable to (i) the realization of cash flows, and (ii) changes in the amount and timing of future cash flows and in market discount rates. Net cash payments on PCRs received by Freddie Mac reduce the valuation of PCRs since those cash flows are reported in the income statement (primarily within net interest income) and not as a direct reduction of the recorded investment. Realization of cash flows and decreases in interest rates, which reduced the expected lives of the associated securities, accounted for the reported loss in 2002. In 2001, the loss was primarily due to the realization of cash flows.

Gains (Losses) on Sale of Mortgage Loans and AFS Securities

Gains (losses) on the sale of mortgage loans and AFS securities were primarily attributable to sales of Treasury and agency debt securities purchased for asset/liability management purposes and the effect of recognizing the guarantee asset and guarantee obligation related to sales of securities guaranteed by Freddie Mac as discussed in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Cash-Based Transfers of Financial Assets." Gains attributable to sale of Treasury and agency debt securities were $848 million, $47 million and $57 million in 2002, 2001 and 2000, respectively.

Security Impairments

Freddie Mac records impairment losses on its investment portfolio when it has concluded that a decrease in the fair value of a security is other than temporary. Impairment losses recognized in 2002, 2001 and 2000 were related to certain investments in manufactured housing securities, corporate bonds and interest-only (IO) securities, with the primary driver being impairments of IO securities. Impairment losses on IO securities totaled $444 million, $235 million and $44 million in 2002, 2001 and 2000, respectively.

The increase in IO security impairment losses in 2001 and 2002 was due to the implementation of Emerging Issues Task Force (EITF) 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("EITF 99-20"), in the second quarter of 2001 and a general decline in interest rates during the third quarter of 2001 and the second half of 2002, which resulted in a decrease in expected cash flows and a corresponding decrease in the fair value of IO securities. EITF 99-20, which was effective April 1, 2001, requires the cost basis of an IO security to be written down to fair value when there is a decrease in estimated cash flows. Prior to EITF 99-20, impairment losses were recognized less often due to a higher threshold that existed before impairment was required. *See* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods – Securities" for more information regarding Freddie Mac's accounting policies concerning impairment of IO securities.

Impairments recorded on non-IO securities totaled $82 million, $25 million and $47 million in 2002, 2001 and 2000, respectively, with impairments on manufactured housing securities totaling $67 million, $23 million and $3 million during the same periods. Impairment losses on manufactured housing securities exclude the effects of financial guarantee contracts since the benefits of such contracts are not recognized until actual losses are realized and claims are made under the contracts. For further information on these guarantee contracts, *see* Appendix III, "Fair Value and Interest-Rate Risk Measures – Fair Value Balance Sheets – Valuation Methods and Assumptions – Assets – Mortgages."

Mortgage LOCOM Adjustments

The company records mortgage loans classified as "held-for-sale" at the lower of cost or market, or LOCOM, with changes in the valuation of its held-for-sale portfolio recorded to this caption. LOCOM losses recorded to the LOCOM valuation account become realized when the company either (i) sells the loans, in which case the loss is recorded to "Gains (losses) on sale of mortgage loans and AFS securities," (ii) transfers the loans from the held-for-sale category to held-for-investment or (iii) securitizes them and classifies the resulting mortgage-related security as available-for-sale. Losses related to transferred loans and securities are recorded as a reduction to the cost basis in the retained assets and amortized back into income over the estimated life of the assets as an addition to net interest income.

Mortgage LOCOM losses were greatest in the fourth quarter of 2001, totaling $99 million. These losses were caused by an increase in interest rates at the end of the quarter, which reduced the value of Freddie Mac's held-for-sale portfolio.

Gain on Termination of Options

Prior to the implementation of SFAS 133 on January 1, 2001, premiums paid to purchase certain options were amortized as expense to net interest income over the life of the option. When the option was terminated, the difference between the fair value received and the amortized cost basis was recognized as a gain or loss on termination. In 2000, the gain on termination of options totaled $235 million. Because all derivatives are recorded at fair value in accordance with SFAS 133 beginning in 2001, the termination of options in 2002 and 2001 did not result in the recognition of a gain or loss.

Gains (Losses) on Debt Retirement

Freddie Mac records gains and losses on debt repurchases based on the difference between the contractual interest rates on the debt securities repurchased, adjusted for deferred premiums, discounts and hedging gains and losses, and current market interest rates. To the extent the company issues new debt securities to replace the debt that it retires, the difference in the debt costs will positively or negatively affect net interest income to be reported in future periods.

During the second quarter of 2002, Freddie Mac modified its reporting of gains (losses) on debt retirements with the adoption of SFAS 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This standard eliminated the treatment of the gains and losses on our debt repurchases as extraordinary items due to their recurring nature. For comparative purposes, all prior periods have been reclassified to conform to the current presentation.

Freddie Mac incurred pre-tax losses of $674 million and $356 million on the retirement of $20.3 billion and $4.7 billion principal amounts of debt outstanding in 2002 and 2001, respectively. During 2000, Freddie Mac realized a pre-tax gain of $13 million on the retirement of $3.6 billion in principal amount of debt.

Resecuritization Fees

Resecuritization fees are revenues earned by Freddie Mac in connection with the creation of structured securitizations, primarily Real Estate Mortgage Investment Conduits ("REMICs") under the Internal Revenue Code.

Resecuritization fees totaled $276 million, $135 million and $15 million in 2002, 2001 and 2000, respectively. Investors' demand for REMIC securities increased significantly in 2001 and 2002 largely due to the steepening of the yield curve during that period. A steep yield curve generally increases the value of structured cash flows, which results in greater value differences between PC and REMIC securities.

Other Income

Other income primarily consists of fees associated with servicing and technology-related programs, including Loan Prospector®, various fees related to multifamily loans (including application and other fees) and various other fees received from mortgage originators and servicers.

"Other income" totaled $308 million, S229 million and $146 million in 2002, 2001 and 2000, respectively. The increases in other income are primarily due to an increase in servicing and transaction fees resulting from increased business volumes and use of Freddie Mac's automated underwriting tools.

Non-Interest Expense

Credit-Related Expenses

Credit-related expenses include the "Provision for credit losses" and "REO operations income (expense)." The "Provision for credit losses" includes provisions for losses incurred on outstanding PCs not subject to sales treatment or SFAS 115 impairment and mortgage loans held in the retained portfolio. "REO operations income (expense)" includes gains and losses on the sale of foreclosed properties held by Freddie Mac, as well as the cost to hold these properties, including real estate taxes, insurance, repairs and fees incurred to prepare the properties for sale, and valuation losses.

Table 19 summarizes the components of credit-related expenses (expenses are reflected as negative amounts in this table).

Table 19: Credit-Related Expenses ($ in millions)

	2002		2001		2000	
Provision for credit losses	$	(128)	$	(32)	$	(79)
REO operations income (expense)		13		(7)		4
Total credit-related expenses	$	(115)	$	(39)	$	(75)

Credit-related expenses increased by $76 million in 2002, compared to a decrease of $36 million in 2001. The increase in total credit-related expenses in 2002 primarily reflects an increase in expected losses on multifamily mortgage loans due to higher vacancy rates and a decrease in the value of multifamily properties in certain areas. The increase in "Provision for credit losses" was partially offset by an increase in "REO operations income (expense)." This increase was due to an increase in gains on single-family REO properties as a result of house price appreciation over the past several years. Strong house price appreciation also accounted for the reduction in credit-related expenses in 2001.

Salaries and Employee Benefits, Occupancy Expense and Other Expenses

Salaries and employee benefits, occupancy expense and other expenses, collectively referred to as administrative expenses, include costs incurred to conduct daily operations and other miscellaneous expenses, such as charitable contributions and professional service fees.

Table 20 summarizes administrative expenses (expenses are reflected as negative amounts in this table.)

Table 20: Administrative Expenses ($ in millions)

	2002	2001	2000
Salaries and employee benefits	$ (593)	$ (537)	$ (433)
Occupancy expense	(42)	(35)	(35)
Other expenses	(771)	(452)	(357)
Total administrative expenses	$ (1,406)	$ (1,024)	$ (825)

Total administrative expenses increased by $382 million, or 37 percent, in 2002 and $199 million, or 24 percent, in 2001. The year-over-year increases were driven by increased compensation costs, a fourth quarter 2002 special contribution to Freddie Mac's philanthropic program and a fourth quarter 2002 loss related to certain technology-related initiatives. Increased compensation costs were largely caused by an increase in the average number of employees, as well as annual salary increases, for all periods presented. During fourth quarter 2002, Freddie Mac announced a special $225 million cash contribution to the Freddie Mac Foundation and corporate giving programs, which is included in "Other expenses" in the table above. This contribution is expected to provide operating funds to the Freddie Mac Foundation for six to eight years. The "Other expenses" caption also includes professional services, such as consulting, legal and audit fees, and technology-related costs, including a $52 million loss recognized in the fourth quarter of 2002 related to the disposition of certain technology-related initiatives.

Housing Tax Credit Partnerships

Housing tax credit partnerships represent the company's share of the net operating losses generated from investments in partnerships that develop or rehabilitate low-income multifamily rental properties. Although these partnerships generate operating losses, the company realizes a return on its investment through reductions in "Income tax expense," which result from tax credits and the deductibility of the operating losses.

Freddie Mac's share of net operating losses generated from its investment in "Housing tax credit partnerships" totaled $160 million, $121 million and $104 million in 2002, 2001 and 2000, respectively. The year-over-year increases in this expense category correspond to Freddie Mac's increased investment in such partnerships. The related tax benefits, which are reported as a reduction in "Income tax expense," totaled $220 million, $172 million and $138 million in 2002, 2001 and 2000, respectively.

Minority Interest in Earnings of Consolidated Subsidiaries

Minority interest in earnings of consolidated subsidiaries represents the earnings due to third party investors in Freddie Mac's consolidated subsidiaries.

Minority interest in earnings of consolidated subsidiaries totaled $184 million, $208 million and $231 million in 2002, 2001 and 2000, respectively. The majority of this amount relates to dividends on the preferred stock issued by Freddie Mac's two majority-owned real estate investment trust, or REIT, subsidiaries. The dividend amount declines over the years in conjunction with the decrease in the reported balance of the preferred stock.

Income Tax Expense

Income tax expense represents the company's current and deferred federal income tax liability associated with current period income. Freddie Mac calculates income tax expense based on the statutory tax rate, which is 35 percent. However, tax credits, interest income on tax-exempt securities and other items that adjust the company's income tax expense, result in its effective tax rate generally being less than the statutory tax rate. Income tax expense excludes the tax effects related to the cumulative effect of change in accounting principle.

Income tax expense totaled $4.7 billion, $1.3 billion and $1.5 billion in 2002, 2001 and 2000, respectively. The company's effective tax rate for 2002, 2001 and 2000 was 32 percent, 30 percent and 29 percent, respectively. The increase in the effective tax rate in 2002 was due to higher growth in pre-tax income than in tax credits and interest income on tax-exempt securities, which reduce Freddie Mac's income tax expense. Income tax expense in 2002 includes an adjustment related to favorable U.S. Tax Court rulings issued in 2003 that caused Freddie Mac to reduce its tax reserves by $155 million in the fourth quarter of 2002.

Cumulative Effect of Change in Accounting Principles, Net of Taxes

Cumulative effect of change in accounting principles includes the effects of adopting SFAS 133 on January 1, 2001 and EITF 99-20 on April 1, 2001. The accounting requirements related to these new accounting standards are described in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods."

The after-tax adjustments required by SFAS 133 resulted in a $78 million increase in net income for the first quarter of 2001. The cumulative effect on earnings from the change in accounting principle is primarily attributable to an after-tax gain of $52 million resulting from recording certain purchased options at their fair value and an after-tax gain of $26 million due to cumulative accounting ineffectiveness on hedge relationships involving receive-fixed swaps previously accounted for under accrual accounting. The adoption of EITF 99-20 resulted in a $35 million decrease to net income in the second quarter of 2001. This after-tax adjustment was related to impairment losses required under EITF 99-20 on certain IO securities held at April 1, 2001.

BALANCE SHEET ANALYSIS

Table 21 provides summary balance sheets as of December 31, 2002 and 2001. This table should be viewed in conjunction with the complete consolidated balance sheets that accompany Freddie Mac's restatement press release dated November 21, 2003.

Table 21: Summary Balance Sheets ($ in millions)

	As of December 31, 2002	2001
Retained portfolio	$ 589,722	$ 503,666
Cash and investments	135,037	120,527
Guarantee asset for Participation Certificates, at fair value	2,445	3,156
Derivative assets, at fair value	10,393	1,996
Other items included in total assets	14,652	11,755
Total assets	$ 752,249	$ 641,100
Total debt securities, net	$ 665,696	$ 578,368
Due to Participation Certificate investors	35,080	27,375
Guarantee obligation for Participation Certificates, at fair value	1,427	1,155
Derivative liabilities, at fair value	967	2,644
Other items included in total liabilities	15,440	9,315
Total liabilities	718,610	618,857
Minority interest in consolidated subsidiaries	2,309	2,619
Total stockholders' equity	31,330	19,624
Total liabilities and stockholders' equity	$ 752,249	$ 641,100

During 2002, Freddie Mac's total assets grew $111.1 billion or 17 percent. This increase was driven by increases in the retained portfolio and cash and investments. During the same period, total liabilities increased by $99.8 billion, driven by an increase in total debt securities, and stockholders' equity increased by $11.7 billion. These and other changes in the company's consolidated balance sheets are discussed below.

Retained Portfolio

The retained portfolio includes mortgage loans and mortgage-related securities that are acquired for investment purposes by the company and primarily consist of Freddie Mac and other Agency securities.

The retained portfolio increased by $86.1 billion, or 17 percent, in 2002, with the largest growth occurring in the first and fourth quarter of 2002. The company generally increases its mortgage-related investment activity when market conditions provide investment returns that exceed threshold levels. Such opportunities are more likely to be available when there is less competition for mortgage-related investments from other investors. The growth in the retained portfolio for the first quarter of 2002 was primarily the result of purchases initiated at the end of 2001, when market conditions were characterized by volatile long-term interest rates and an increase in the supply of mortgage securities in the market. This increased supply resulted in increased investment opportunities, enabling the company to increase its mortgage-related investment activity. Although similar market conditions existed in the second half of 2002, continued high demand for traditional mortgage-related securities (such as Freddie Mac PCs) by other investors resulted in fewer investment opportunities. However, the company was still able to grow the retained portfolio through strong asset selection and by investing in other types of mortgage-related securities, such as asset-backed securities, adjustable-rate mortgage securities and REMICs.

Cash and Investments

Cash and investments includes investments acquired by the company to manage recurring cash flows, provide a source of liquidity, temporarily deploy capital until the capital can be redeployed into retained portfolio investments and manage interest-rate risk exposure. Cash and investments also includes certain mortgage-related securities that are not included in the retained portfolio since they are acquired in conjunction with the company's PC market making and support activities.

Cash and investments increased by $14.5 billion, or 12 percent, in 2002 primarily due to an increase in mortgage prepayments held by the company pending remittance to PC investors (*see* discussion regarding "Due to Participation Certificate Investors" below). An increase in the balance of Treasury securities held by the company in conjunction with its risk management strategies also contributed to the increase.

Guarantee Asset and Guarantee Obligation for Participation Certificates

The guarantee asset and guarantee obligation for Participation Certificates represent the fair value of future cash flows related to PC guarantees issued by Freddie Mac in transactions that qualify as sales. The guarantee asset also includes the fair value of future cash flows related to buy-up fees paid by the company in connection with PCs issued through the Guarantor Program. The company's accounting policies related to the guarantee asset and guarantee obligation are described in Appendix IV, "Summary of Significant Accounting Policies for Restated Periods."

In 2002, the guarantee asset decreased by $711 million, while the guarantee obligation for participation certificates increased by $272 million. The changes in the guarantee asset and guarantee obligation balances during 2001 and 2002 are summarized in *Table 22.*

Table 22: Roll Forward of Guarantee Asset and Guarantee Obligation ($ in millions)

	2002		2001	
	Guarantee Asset	Guarantee Obligation	Guarantee Asset	Guarantee Obligation
Beginning balance	$ 3,156	$ 1,155	$ 2,774	$ 778
Additions, net	1,465	864	1,171	580
Changes in fair value	(2,176)	(592)	(789)	(203)
Ending balance	$ 2,445	$ 1,427	$ 3,156	$ 1,155

Additions include the fair value of the asset and obligation related to guaranteed securities sold during the period, net of reductions attributable to repurchases of guaranteed securities (repurchases result in a reduction of the associated guarantee asset and guarantee obligation and re-establishment of those amounts as PCRs). The increase in net additions to the guarantee asset and guarantee obligation in 2002 compared to 2001 was primarily due to an increase in the volume of sales, which totaled approximately $240 billion and $160 billion, respectively.

As discussed above under "Results of Operation – Non-Interest Income – Gains (Losses) on Guarantee Asset and Guarantee Obligation," changes in the fair value of the guarantee asset and guarantee obligation are attributable to (i) the realization of estimated cash flows and (ii) changes in the value of future estimated cash flows.

Derivative Assets and Liabilities, at Fair Value

All derivatives are reported at fair value in accordance with SFAS 133 with changes in fair value of derivatives accounted for in hedge relationships recorded to Accumulated Other Comprehensive Income or "Hedge accounting gains (losses)." Changes in fair value of derivatives not accounted for in hedge relationships are recorded to "Derivative gains (losses)." Freddie Mac uses derivatives to manage its interest-rate risk exposure. However, hedge accounting has not been applied to all derivative transactions since some transactions did not meet hedge accounting requirements or the company elected not to pursue hedge accounting. For further information, see Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes – Accounting for Derivative Investments."

The fair value of derivatives in a gain position (reported as "Derivative assets, at fair value") increased by $8.4 billion, while the fair value of derivatives in a loss position (reported as "Derivative liabilities, at fair value") decreased by $1.7 billion during 2002. These changes in derivative fair values were driven by an increase in the fair value of swaptions and foreign currency swaps held by the company. Swaptions and foreign currency swaps increased in fair value by approximately $4.1 billion and $5.1 billion, respectively, during 2002. The increase in fair value of swaptions was due to increases in implied volatility, while the increase in fair value of foreign currency swaps was driven by a decrease in the value of the U.S. dollar relative to the Euro.

Freddie Mac purchases foreign currency swaps in connection with its € Reference Notes® securities program and other debt issuances denominated in foreign currencies. This debt and the related foreign currency swaps are accounted for in qualified hedge relationships under SFAS 133. Therefore, changes in fair value of foreign currency swaps are largely offset by changes in fair value of the related debt.

Total Debt Securities, Net

The company issues non-callable and callable short- and long-term debt securities in domestic and global capital markets in a wide range of maturities to meet its funding needs. The balance of debt securities includes deferred premiums, discounts and hedging gains and losses.

Total debt securities increased by $87.3 billion, or 15 percent, during 2002. This increase corresponds to the increase in the retained portfolio as discussed above. During 2002, debt due within one year decreased by $19.8 billion, while debt due after one year increased by $107.1 billion. The shift in the mix of short- and long-term debt was due to Freddie Mac's practice of issuing most of its long-term debt on a regular schedule through its Reference Notes® securities program. Freddie Mac establishes the Reference Notes securities issuance calendar based on expected long-term debt needs. The company adjusts for differences between scheduled long-term debt issuances and actual funding needs by increasing or decreasing the balance of short-term debt and adjusting the composition of its derivative portfolio. Because of declining interest rates in 2002, the expected lives of assets held in the retained portfolio decreased, reducing the need for long-term debt. To shorten the effective weighted average lives of its debt and thereby manage the funding mismatch created by the decline in interest rates, the company extinguished long-term debt through calls and debt repurchases and entered into additional receive-fixed swaps and terminated pay-fixed swaps. Receive-fixed swaps reduce the effective lives of Freddie Mac's debt by converting the fixed-rate debt payment into a variable-rate payment, while pay-fixed swaps have the opposite effect.

Due to Participation Certificate Investors

Timing differences between Freddie Mac's receipt of principal and interest payments from mortgage servicers and the subsequent pass through to PC investors results in the liability "Due to Participation Certificate investors."

Amounts due to PC investors increased by $7.7 billion during 2002. This increase was due to the decrease in interest rates during 2002, which resulted in increased mortgage prepayments. The liquidation rate on total PCs issued, including PCs held by the company, was 65 percent in the fourth quarter of 2002, compared to 43 percent in the fourth quarter of 2001.

Total Stockholders' Equity

Total stockholders' equity increased by $11.7 billion, or 60 percent, during 2002. *Table 23* summarizes the components of stockholders' equity.

Table 23: Total Stockholders' Equity ($ in millions)

	2002	2001
Preferred stock	$ 4,609	$ 4,596
Common stock	152	152
Additional paid-in capital	744	671
Retained earnings	24,955	15,710
Accumulated other comprehensive income (loss) related to:		
Available-for-sale securities	12,217	4,200
Cash flow hedges	(9,877)	(4,757)
Treasury stock	(1,470)	(948)
Total stockholders' equity	$ 31,330	$ 19,624

The primary drivers of the increase in total stockholders' equity were an increase in retained earnings and Accumulated Other Comprehensive Income. Retained earnings increased as a result of net income in 2002, which was driven by net interest income, derivative gains and gains on investment activity as discussed above. The increase in Accumulated Other Comprehensive Income, which is on an after-tax basis, was due to the decrease in interest rates in 2002, which resulted in an increase in the fair value of available-for-sale securities, partially offset by a decrease in the fair value of the effective portion of derivative financial instruments accounted for as cash flow hedges. Derivatives accounted for in cash flow hedge relationships primarily consist of pay-fixed interest rate swaps, which tend to decrease in fair value when interest rates decrease. The carrying value of available-for-sale securities totaled $562.7 billion at December 31, 2002, compared to $453.7 billion at December 31, 2001. The notional amount of derivatives accounted for as cash flow hedges totaled approximately $120.0 billion and $332.9 billion at December 31, 2002 and 2001, respectively.

Recent Events and Contingencies

Legal Proceedings

Class Action Lawsuits. As previously disclosed, on June 9, 2003, Freddie Mac and certain former executive officers were named as defendants in a securities class action lawsuit alleging violations of federal securities laws and regulations. This action was filed in the U.S. District Court for the Southern District of New York. The plaintiffs claim that the defendants disseminated materially false and misleading statements to the market and failed to disclose material information concerning, among others, the following matters: (1) the lack of adequate internal accounting controls and personnel expertise; (2) the failure to follow accounting rules that require derivative securities to be marked to market; (3) the use of accounting techniques to lower earnings results in good times and lift results when business conditions deteriorated; and (4) providing investigators with altered records to conceal improper accounting techniques. These allegations covered the period from January 27, 2003 through June 9, 2003. The plaintiffs sought unspecified compensatory damages, costs and expenses.

Since the filing of that initial lawsuit, 19 additional lawsuits relating to the same matters were filed against Freddie Mac and certain former executive officers. These lawsuits sought class action treatment, included slightly different allegations, covered different class periods (which begin on dates ranging from January 1, 2000 to January 27, 2003, and end on dates ranging from June 6, 2003 to August 22, 2003), and sought unspecified compensatory damages, costs and expenses. These later lawsuits include one filed by the Ohio Public Employees Retirement System and the State Teachers Retirement System of Ohio, and another by the West Virginia Investment Management Board and the Central States, Southeast and Southwest Areas Pension Fund. The latter suit also named Greg Parseghian, Freddie Mac's current CEO, as a defendant and included allegations that he, as well as the former CEO, former President and former Chief Financial Officer, engaged in insider trading. Two of these class action lawsuits were filed by separate participants in Freddie Mac's 401(k) plan against the Company, certain individuals, and the Company's 401(k) committee alleging ERISA violations. In particular, the plaintiffs claim that the defendants breached their fiduciary duty because Freddie Mac stock was an imprudent investment for the 401(k) plan.

Seventeen of the lawsuits described above, which had been filed in either the U.S. District Court for the Eastern District of Virginia or the U.S. District Court for the Southern District of New York, were voluntarily dismissed by the plaintiffs. (These dismissed lawsuits include an ERISA lawsuit that since has been refiled in the U.S. District Court for the Southern District of Ohio.) The dismissal of those suits reduces the locations of the pending lawsuits to two jurisdictions -- the U.S. District Court for the Southern District of New York, with two cases pending (one class action and the shareholder derivative action discussed below), and the U.S. District Court for the Southern District of Ohio, with three cases pending (the two ERISA actions and the action filed by the Ohio Public Employees Retirement System and the State Teachers Retirement System and the State Teachers Retirement System of Ohio).

Shareholder Derivative Lawsuit. As previously disclosed, on July 1, 2003, certain former and current members of the Board of Directors of Freddie Mac were named as defendants in a shareholder derivative action alleging breach of fiduciary duty and abuse of trust. The current members of the Board of Directors were subsequently dismissed as defendants from this lawsuit with the consent of the plaintiff. The individual defendants in this suit are Messrs. Brendsel and Glenn (the former Chairman and Vice Chairman, respectively), Vaughn Clarke and John Gibbons (both former Chief Financial Officers) and Greg Parseghian. Freddie Mac is named as a nominal defendant in that action, which is still pending in the U.S. District Court for the Southern District of New York.

Freddie Mac anticipates that additional lawsuits relating to the matters described above may be filed.

SEC Formal Investigation. As previously disclosed, on June 11, 2003, Freddie Mac announced that it had been informed by the staff of the Securities and Exchange Commission (SEC) that the SEC has commenced a formal investigation. Freddie Mac received a subpoena from the SEC on June 11, 2003 requesting document production and testimony, and Freddie Mac's current CEO, a former member of the Board of Directors and PricewaterhouseCoopers, Freddie Mac's current independent audit firm, have also received subpoenas for documents and testimony. Beginning in August 2003, the SEC has subpoenaed documents and begun to take witness testimony from certain present and former Freddie Mac employees and directors, as well as third parties. Freddie Mac is fully cooperating with the SEC and will continue to do so.

OFHEO Investigation. As previously disclosed, on June 7, 2003, OFHEO directed Freddie Mac and its Board of Directors to take certain actions to address the issues surrounding the restatement. OFHEO also announced that it had deployed a special investigative team to review accounting practices and controls relevant to the restatement process at Freddie Mac and to investigate employee misconduct. The team includes personnel from various OFHEO internal offices, including OFHEO's examination and legal staffs.

Freddie Mac's Board and management have undertaken to comply fully and effectively with OFHEO's directions and have been working diligently to fulfill the requests of OFHEO's investigative team. In this connection, OFHEO has submitted to Freddie Mac multiple requests for documents, and it has also subpoenaed certain current Freddie Mac employees and directors, as well as former employees, requesting testimony and documents. In July 2003, OFHEO began to conduct interviews in which it took sworn testimony from certain Freddie Mac employees and directors, external third parties and, more recently, at least one former employee. Freddie Mac's Board and management are fully cooperating with OFHEO and will continue to do so.

On September 4, 2003, OFHEO announced that it was initiating a regulatory process intended to lead to the termination for cause of Leland Brendsel and Vaughn Clarke, who had originally resigned from their management positions at Freddie Mac. If completed, this process would result in a recalculation of the compensation payable to Messrs. Brendsel and Clarke in connection with their departures from the company. On the same date, Chairman Shaun O'Malley wrote to OFHEO on behalf of the Board of Directors advising OFHEO that Freddie Mac has existing contractual obligations to both former executives, which it is required to perform unless those obligations are superseded by valid authority. The letter also advised OFHEO that the company intends to comply fully with any valid and effective order that OFHEO may issue.

On October 23, 2003, OFHEO announced that it had entered into a consent order with David Glenn, former Vice Chairman, President and Chief Operating Officer of Freddie Mac in which Mr. Glenn agreed to cooperate fully with OFHEO's special examination and also with any supervisory and/or enforcement proceeding initiated by OFHEO, to pay a civil monetary penalty of $125,000, and not to participate in any manner in the conduct of the affairs of Freddie Mac or Fannie Mae without prior OFHEO approval.

U.S. Attorney's Criminal Investigation. As previously disclosed, on June 11, 2003, Freddie Mac was informed that the U.S. Attorney's Office in Alexandria, Virginia had opened a criminal investigation involving the company. As part of its investigation, the U.S. Attorney's Office has made requests for documents and information, interviewed certain Freddie Mac employees and possibly other parties, and taken testimony before the grand jury. Freddie Mac is cooperating in all respects with this investigation.

At present, it is not possible for Freddie Mac to predict the outcome of the civil litigation and the investigations described above or reasonably to estimate the amount of loss (or range of possible loss) that might result from adverse results or settlements of these matters, or their effect on the company's financial condition and results of operations.

Legislative and Regulatory Developments

As previously disclosed, several Members of Congress have introduced bills to change Freddie Mac and Fannie Mae's regulatory oversight. Management believes it is possible that additional bills may be introduced by other Members of Congress before the end of this Congress. At this time, management cannot predict with certainty whether or in what form any of these bills will be enacted.

Each of these bills would abolish OFHEO as the safety and soundness regulator for Freddie Mac and Fannie Mae, and transfer that agency's responsibilities to a bureau of the Department of the Treasury. Each bill would also enhance certain of the safety and soundness regulator's supervisory and enforcement authorities over Freddie Mac and Fannie Mae and transfer certain other authorities from the Secretary of the Department of Housing and Urban Development (HUD) to the new regulatory agency.

On May 7, 2003, Representatives Shays and Markey introduced a bill that would repeal Freddie Mac and Fannie Mae's exemption from registering their securities with the SEC. Representatives Shays and Markey introduced a similar bill in 2002.

Freddie Mac and Fannie Mae are exempt by federal statute from taxation by state, county, municipality or local authorities (except for taxes on real property). On May 15, 2003, Representative Pete Stark introduced a bill that would eliminate this state and local tax exemption.

On September 10, 2003, Representative Ron Paul introduced a bill that would repeal various aspects of the special status accorded to Freddie Mac, Fannie Mae and any Federal Home Loan Bank under federal law.

Freddie Mac has received inquiries from the Internal Revenue Service in connection with its regular audits of the company's tax returns for prior years, some of which relate to matters connected with the restatement. In addition, the Department of Labor (DOL) has advised the company that it has opened an investigation of Freddie Mac's Thrift/401(k) Savings Plan. Freddie Mac has responded to the DOL's preliminary request for the production of certain plan-related material. The DOL also has recently requested interviews with certain individuals who have responsibilities with respect to the Thrift/401(k) Savings Plan.

Tax Contingencies

Recent Tax Court Rulings. In 1998, the Internal Revenue Service (IRS) issued Freddie Mac a Statutory Notice, which asserts income tax deficiencies, for the company's first two tax years, 1985 and 1986. In the first quarter of 1999, Freddie Mac filed a petition in the U.S. Tax Court ("Court") to contest the deficiencies. In the third quarter of 1999, the IRS issued a Statutory Notice for Freddie Mac's tax years 1987 to 1990, and Freddie Mac filed a petition in the Court. Subsequently, the Court combined the 1985 to 1990 tax years into one case. The principal matters in controversy in the case involve questions of tax law as applied to Freddie Mac's transition from non-taxable to taxable status in 1985 and primarily involve the amortization of certain intangible assets, the two most significant of which are:

- *Favorable Financing.* A number of financing arrangements where the contract rates of interest were less than the market rates of interest as of January 1, 1985 due to an increase in interest rates since the date on which Freddie Mac had entered into the respective arrangements; and

- *Customer Relationships.* Freddie Mac's business relationships with a substantial number of mortgage originating institutions that sold mortgages to Freddie Mac on a regular basis.

On September 4, 2003, and September 29, 2003, the Court decided favorably for Freddie Mac on two preliminary motions involving questions of law in the case. On September 4, the Court ruled favorably for Freddie Mac on the question whether Freddie Mac's intangibles are amortizable using the higher of (i) the regular adjusted cost basis or (ii) the fair market value on January 1, 1985, as the adjusted basis. On September 29, the Court ruled favorably for Freddie Mac on the question whether, as a matter of law, "favorable financing" (as defined above) was amortizable for tax purposes. As part of this case, Freddie Mac claimed, and the Court agreed, that the economic benefit of this below-market financing as of January 1, 1985 is an intangible asset subject to amortization. In October 2003, the Court ruled unfavorably on two other less significant issues in the case.

While significant, the Court's rulings to date do not dispose of all of the matters in controversy in the case, which, upon final resolution by the U.S. Tax Court of all such matters, are subject to appeal by the parties. In addition, Freddie Mac still must demonstrate that the intangible assets in question have an ascertainable value and have a limited useful life, the duration of which can be ascertained with reasonable accuracy.

In view of the favorable rulings described above and in accordance with GAAP, Freddie Mac recorded in the fourth quarter of 2002 a reduction in its tax reserves in the amount of $155 million. In addition, if the IRS were to appeal the Court decisions and an adverse ruling resulted, Freddie Mac may reconsider its reserves related to this matter.

If Freddie Mac's tax position on the customer relationship amortization issue described above is upheld through the administrative and legal process, Freddie Mac will be able to recognize additional tax benefits that could be material in the quarter during which they are recognized. However, Freddie Mac is unable to provide assurances that any such tax benefits will be realized.

Tax Treatment of Linked Swaps. As discussed in Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes – Accounting for Derivative Instruments – Linked Swaps," in August and September of 2001, Freddie Mac entered into a series of nine sets of paired trade transactions known as "Linked Swaps." Freddie Mac has reported and paid tax treating each pair of Linked Swaps as a single integrated transaction for federal income tax purposes. There is a risk, however, that the IRS could challenge Freddie Mac's tax treatment of the Linked Swaps and make an adverse determination relating to this tax treatment. If this should occur, the potential aggregate additional tax liability could be as much as approximately $750 million plus interest.

In addition, as discussed in the same section of Appendix II, two additional swaps were executed in November 2001. Although the facts and circumstances surrounding these swaps were different from the Linked Swaps, Freddie Mac also reported and paid tax treating these swaps as a single integrated transaction for federal income tax purposes. Management believes there are no significant tax exposures related to these swaps for the periods covered by the restatement.

Freddie Mac has not provided reserves for any tax issues related to these transactions because management has determined that the potential for loss does not meet the criteria for reserving under SFAS 5. Since the IRS is currently examining Freddie Mac's 2001 tax return, the company does not know whether the IRS will raise any issues related to these transactions as part of that examination and if so, what the final resolution of those issues will be. If the IRS were to propose the maximum potential aggregate assessment and that additional tax liability was upheld through the administrative and legal process, the recognition of such additional liability could have a material adverse impact on Freddie Mac's results of operations in the quarter in which it was recognized.

Based on current knowledge and after consultation with counsel, management does not currently believe that the final resolution of any issues that may arise from these transactions will result in IRS adjustments that would have a material adverse impact on Freddie Mac's financial condition or results of operations.

Other Matters

Additional information about Freddie Mac and its business is set forth in Freddie Mac's Information Statement Supplement dated October 29, 2003, which is available on the Investor Relations page of its website, www.freddiemac.com.

Forward-Looking Statements

Freddie Mac regularly communicates information concerning its business activities to investors, securities analysts, the news media and others as part of its normal operations. Some of these communications include "forward-looking statements" pertaining to management's current expectations as to the company's future business plans, results of operations and/or financial condition. Forward-looking statements are typically accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends," "objectives" and similar phrases. These forward-looking statements reflect management's expectations for the future, which necessarily involve a number of assumptions and estimates. This appendix, the accompanying press release and the other appendices include forward-looking statements. These statements are based on current plans, estimates and projections, and investors should be appropriately careful about relying on them. Factors that could cause actual results to differ materially from the expectations expressed in these and other forward-looking statements by management include, among others:

- Changes in interest rates (including changes in the level and shape of the yield curve and in the volatility of interest rates), house prices, employment rates and the general economy;

- Changes in the company's strategies for and results of credit loss mitigation, interest-rate and other market risk management activities and investment activities;

- The availability of debt funding and equity capital in sufficient quantity and at attractive rates to support continued growth in our retained portfolio, to refinance maturing debt and to meet regulatory capital standards;

- The availability of options, interest-rate and currency swaps, and other derivative financial instruments of the types and in the quantities needed for investment funding and risk management purposes;

- The rate of growth in total outstanding U.S. residential mortgage debt;

- The size of the residential mortgage market;

- Borrower preferences for fixed-rate mortgages or adjustable-rate mortgages, which we refer to as ARMs;

- Preferences of originators to sell mortgages into the secondary market;

- Changes in investor preferences for mortgages and mortgage-backed securities and debt versus other investments;

- Competition in the mortgage market and in the market for mortgage-related and debt securities;

- Freddie Mac's ability to effectively manage operational risk;

- The company's ability to implement solutions to business processing systems issues;

- The company's ability to effectively and timely implement the remediation plan undertaken as a result of the restatement of the company's financial statements, including in particular initiatives relating to technical infrastructure and controls;

- Significant business disruptions resulting from acts of war or terrorism;

- The occurrence of a major natural or other disaster in a geographic area in which Freddie Mac's total mortgage portfolio is heavily concentrated;

- The degree to which the company's business and financial forecasting methods accurately predict actual results;

- The impact of new accounting standards, including the timely development of supporting systems; and

- Changes in the legislative or regulatory environment, regulatory capital requirements or Freddie Mac's Congressional charter.

Freddie Mac undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of the accompanying press release, or to reflect the occurrence of unanticipated events.

Appendix II—Detailed Discussion of Accounting Errors and Other Accounting Changes

Background

Factors Contributing to the Need for the Restatement

The company announced the need to restate its financial results in January 2003. In connection with that announcement, the outside directors of Freddie Mac's Board of Directors retained Baker Botts L.L.P. as its independent investigative counsel to review the facts and circumstances relating to certain of the accounting errors identified during the restatement process. In June 2003, Freddie Mac reported on Baker Botts' preliminary findings presented to the Audit Committee and the Board of Directors as to the factors contributing to the need for the restatement. In July 2003, Freddie Mac released the Baker Botts report. Since then, Baker Botts has submitted to the Board additional findings covering certain transactions known to require further inquiry or raised after delivery of the original report. The specific events described in the additional review have been considered by the Board and appropriate remedial action has been taken by the Board and/or management. Baker Botts' additional findings are available on the company's website, and certain of the transactions reviewed in it are discussed in this appendix.

Freddie Mac accepts the conclusions of Baker Botts, which are consistent with those identified in the company's June 25, 2003 press release, available on Freddie Mac's website at www.freddiemac.com, namely, that the principal factors contributing to the restatement were lack of sufficient accounting expertise and internal control and management weaknesses as a consequence of which Freddie Mac personnel made numerous errors in applying generally accepted accounting principles ("GAAP"). In addition, certain capital market transactions were executed and certain accounting policies were implemented with a view to their effect on earnings in the context of Freddie Mac's goal of achieving steady earnings growth, and the disclosure processes and disclosures in connection with those transactions and policies did not meet the standards that would have been required of Freddie Mac had it been a Securities and Exchange Commission ("SEC") registrant. Certain reserve account and other adjustments, which were known departures from GAAP but were not considered to be material at the time, also were made with a view to their effect on earnings. As noted in the Baker Botts report, in most cases Freddie Mac believed at the time that the accounting for the transactions, policies and adjustments that Baker Botts reviewed were appropriate and reached these conclusions after consultations with its previous independent auditor.

Freddie Mac's Classification of Accounting Corrections

As described in Freddie Mac's June 25 and November 21, 2003 press releases, Freddie Mac has classified the accounting corrections made in connection with the restatement and revision (collectively referred to as the "restatement") of its financial statements into five categories. These classifications involve subjective judgments by Freddie Mac regarding classification of accounting errors and particular aspects of such errors may fall within more than one category. While such classifications are not required under GAAP, Freddie Mac believes these classifications may assist investors in understanding the nature and impact of the corrections made in completing the restatement.

The table below identifies the net cumulative impact of these accounting corrections and changes on Freddie Mac's net income and Accumulated Other Comprehensive Income through December 31, 2002.

Category	Net Cumulative Impact to Income (Expense) *$ in millions*	Net Cumulative Impact to Accumulated Other Comprehensive Income (Loss) [1] *$ in millions*
Security Classification (pre-tax)	$1,700	$2,669
Accounting for Derivative Instruments (pre-tax)	4,980	(163)
Asset Transfers and Securitizations (pre-tax)	181	488
Valuation of Financial Instruments (pre-tax)	214	(268)
All Other Corrections (pre-tax)	383	(86)
Subtotal of Accounting Corrections (pre-tax)	7,458	2,640
Other Accounting Changes (pre-tax) [2]	168	(333)
Total Accounting Corrections and Changes (pre-tax)	7,626	2,307
Tax Impact of Accounting Corrections and Changes [3]	(2,591)	(804)
Total Restatement Effect (including subsequent events) [4]	**$5,035**	**$1,503**
Total Restatement Effect (excluding subsequent events)	**$4,953**	**$1,503**

[1] *Accumulated Other Comprehensive Income (Loss) is a component of stockholders' equity.*
[2] *Represents the net cumulative impact of (i) accounting changes Freddie Mac elected to make related to stock-based compensation and (ii) enhancements to the methodology used to estimate the lives used in the amortization of certain premiums and discounts.*
[3] *Includes the Federal income tax effect of total accounting corrections and the impact of certain corrections related to tax expense. See "Tax-Related Adjustments" in this appendix for details.*
[4] *Included in 2002 results is $82 million of net income related to events occurring in 2003 but affecting 2002. The $82 million of net income is comprised of $155 million of tax benefit attributable to favorable U.S. Tax Court rulings occurring in 2003 offset by $73 million in additional expense, net of tax, related to adjustments in reserves and accruals due to events occurring in 2003.*

As shown in the table above, the net cumulative effect of the restatement (including subsequent events and other accounting changes) through December 31, 2002 was an increase to Freddie Mac's net income of $5.0 billion. This includes net cumulative increases of $4.4 billion for 2000, 2001 and 2002 and $0.6 billion for periods prior to 2000. In the detailed discussion below, the company has separately quantified the impact of correcting various accounting errors on its 2002, 2001 and 2000 financial statements. The impact of corrections to Freddie Mac's net income for periods prior to 2000 is shown in the aggregate in this appendix and reflected in Freddie Mac's consolidated financial statements as an adjustment to the beginning balance of the company's retained earnings as of January 1, 2000. The $0.6 billion net cumulative increase in net income for periods prior to 2000 was driven primarily by the impact of correcting the accounting for certain transfers of the company's Mortgage Participation Certificates ("PCs") (*see* "Accounting for Transfers of PCs and Multiclass Certificates" below), partially offset by the impact of corrections related to the accounting classification of certain investment securities (*see* "Security Classification" below).

Detailed Discussion of Accounting Errors

Security Classification

Under Statement of Financial Accounting Standards ("SFAS") 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), securities are required to be classified as held-to-maturity, available-for-sale or trading primarily based on the company's intent. Held-to-maturity securities are reported at amortized cost, available-for-sale securities are marked to fair value through stockholders' equity and trading securities are marked to fair value through earnings. Freddie Mac has concluded that a majority of its securities were erroneously classified under SFAS 115. These errors primarily related to sales of securities classified as held-to-maturity and invalid transfers from the trading category. The sales of held-to-maturity securities resulted from, among other reasons, certain transactions that were accounted for as financings but should have been accounted for as sales under SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125") and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125" ("SFAS 140").

In certain transactions (referred to internally as Coupon Trade-Up Giant ("CTUG") and J-6 and J-7), Freddie Mac resecuritized trading securities and then inappropriately classified the retained beneficial interests from those trading securities as either held-to-maturity or available-for-sale. In addition, Freddie Mac erroneously transferred securities from the trading category to either held-to-maturity or available-for-sale. This adjustment also includes the effect of correcting the cost basis of certain securities as described throughout this appendix and the impact on income for trading securities and Accumulated Other Comprehensive Income for available-for-sale securities resulting from carrying these securities at fair value.

To correct these errors, certain held-to-maturity and available-for-sale securities have been reclassified as trading and all remaining held-to-maturity securities have been reclassified as available-for-sale, and recorded at fair value which has resulted in cumulative increases of $1.7 billion and $2.7 billion in Freddie Mac's pre-tax income and pre-tax Accumulated Other Comprehensive Income, respectively. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Security Classification **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$(774)	$640	$924	$910	$1,700
Accumulated Other Comprehensive Income (Loss) Before Taxes [1]	$(8,401)	$8,950	$2,562	$(442)	$2,669

[1] *Accumulated Other Comprehensive Income adjustment for periods prior to 2000 relates to the reclassification of securities from held-to-maturity to available-for-sale.*

Accounting for Derivative Instruments

Embedded Options Hedging Strategy

Upon the adoption of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") on January 1, 2001, Freddie Mac implemented an accounting hedge strategy in which a combination of interest-rate options, swaps and other derivatives were designated as hedges of the changes in fair value of the options embedded in mortgage assets. Because of the security reclassifications discussed above and because securities classified as trading are not eligible for hedge accounting under SFAS 133, Freddie Mac was required to reverse part of the embedded options hedging strategy. In addition, SFAS 133 requires contemporaneous documentation of hedge effectiveness and how it is measured. In the context of the restatement, Freddie Mac concluded that there were errors in identifying and measuring the accounting effectiveness of the hedges employed. As a result, Freddie Mac has concluded that the documentation and testing performed to determine whether the embedded options hedging strategy qualified for hedge accounting under SFAS 133 were inadequate and therefore, the application of hedge accounting in connection with the embedded options hedging strategy did not comply with GAAP. Freddie Mac has corrected this error by reversing the hedge accounting entries recorded for this strategy, including removing gains and losses on the hedged item previously recorded in earnings as part of hedge accounting.

The cumulative effect of correcting the errors described above on Freddie Mac's pre-tax income was an increase of $6.5 billion. The cumulative decrease of $3.9 billion in pre-tax Accumulated Other Comprehensive Income shown in the table below represents the effect of reversing the portion of the $6.5 billion that was originally recorded as an adjustment to the basis of hedged available-for-sale securities. This Accumulated Other Comprehensive Income reversal is necessary because the $3.9 billion had previously been recorded in the carrying amount of available-for-sale securities, which were subsequently marked to fair value under SFAS 115 in Accumulated Other Comprehensive Income. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Embedded Options Hedging Strategy **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	-	$(169)	$6,671	$6,502
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	$(162)	S(3,783)	$(3,945)

Pay-Fixed Swaps – SFAS 133 Transition

Effective December 1, 2000, Freddie Mac combined $86 billion notional amount of pay-fixed swaps and $36 billion notional amount of receive-fixed swaps and designated them in cash flow hedges. This combination, which was undertaken as part of the company's SFAS 133 transition strategy, had the effect of reducing the SFAS 133 transition adjustment to

Accumulated Other Comprehensive Income on January 1, 2001 from $3.2 billion in unrealized losses to $2.5 billion in unrealized losses on an after-tax basis.

On January 1, 2001, in connection with Freddie Mac's implementation of SFAS 133, $75 billion of the original $86 billion notional amount of pay-fixed swaps were redesignated in new cash flow hedge relationships and the majority of the $36 billion notional amount of receive-fixed swaps were redesignated in fair value hedge relationships as part of the SFAS 133 transition. Freddie Mac has concluded that the cash flow hedge relationships for $66 billion of the $75 billion notional amount of pay-fixed swaps redesignated on January 1, 2001 were not valid under SFAS 133 because they failed to meet the requirements for documenting the assessment of hedge accounting effectiveness. Freddie Mac has corrected this error by recognizing in earnings, for each period after January 1, 2001, the change in fair value of the derivatives. In addition, the company should have amortized during 2001 and 2002 the deferred gains and losses on the $66 billion of pay-fixed swaps recorded at the time of SFAS 133 implementation. Accordingly, Freddie Mac has corrected this aspect of the error by amortizing the deferred losses previously recorded in Accumulated Other Comprehensive Income at January 1, 2001 as additional interest expense in 2001 and 2002.

The cumulative effect of correcting these errors was a decrease to pre-tax income and an increase to pre-tax Accumulated Other Comprehensive Income of $3.8 billion. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Pay-Fixed Swaps – SFAS 133 Transition **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	-	$(2,151)	$(1,676)	$(3,827)
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	$ 2,151	$1,676	$3,827

Transactions Cleared Through the Government Securities Clearing Corporation ("GSCC")

Prior to fourth quarter 2000, Freddie Mac typically entered into synthetic forward contracts by purchasing (or selling) Treasury or agency debt securities and simultaneously executing repurchase (or resale) agreements. Freddie Mac executed these synthetic forward contracts using a single counterparty for both the purchase (or sale) and repurchase (or resale) agreements, with settlement occurring directly between Freddie Mac and its counterparty on a net basis. Freddie Mac properly viewed these transactions as derivatives that qualified for hedge accounting treatment. In fourth quarter 2000, Freddie Mac began to clear and settle these agreements through the GSCC and continued to use the same accounting. The use of the GSCC facilitated Freddie Mac's ability to enter into these two transactions with different counterparties, which reduced transaction costs and provided the benefits of GSCC margining while still retaining the ability to net settle the trades. However, the unintended effect of the changes to the transaction structuring was that the transactions no longer qualified as derivatives under GAAP. As a result of correcting these errors, Freddie Mac's balance sheet reflects the components of these transactions on a gross basis rather than reflecting each pair as a single, net transaction. In addition, because the company had viewed these transactions as derivatives and applied hedge accounting, previously deferred hedging gains (losses) have been reversed and recorded in income.

The cumulative effect of correcting this error was an increase to pre-tax income through December 31, 2002 of $768 million and an increase in pre-tax Accumulated Other Comprehensive Income of $404 million. Additional detail regarding the impact of correcting this error is set forth in the following table.

Transactions Cleared Through the Government Securities Clearing Corporation **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	$(3)	$284	$487	$768
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	$20	$(214)	$598	$404

Real Estate Investment Trust ("REIT") Hedges

In February 1997, Freddie Mac formed two majority-owned REIT subsidiaries funded through the issuance of common stock (99.9 percent of which is held by Freddie Mac) and a total of $4 billion of perpetual, step-down preferred stock issued to outside investors. The REITs used these funds to purchase real estate mortgage investment conduit ("REMIC") securities from Freddie Mac.

The REIT preferred stock was initially characterized as equity securities of the REIT subsidiaries and reported as minority interest on the consolidated balance sheets of Freddie Mac and minority interest in earnings of consolidated subsidiaries on the consolidated statements of income. In fourth quarter 1998, Freddie Mac changed its reporting for the REIT preferred stock so that it was reported on the balance sheet as part of debt securities, with dividends included in long-term debt expense. Because the preferred stock was then reported as debt, it could be, and was, used as a hedged item for hedge accounting purposes.

Freddie Mac has concluded that the 1998 change to debt accounting was in error. Freddie Mac has corrected this error by recording the REIT preferred stock on the consolidated balance sheet as minority interest. As minority interest, the REIT preferred stock is not eligible for hedge accounting treatment. Accordingly, Freddie Mac has corrected this error by reversing hedging gains and losses related to the REIT preferred stock. The cumulative effect of correcting this error on Freddie Mac's pre-tax income was an increase of $583 million. In addition to its effect on cumulative pre-tax income, correction of this error also resulted in the reclassification of the related dividends from long-term debt expense to minority interest in earnings of consolidated subsidiaries with no effect on net income. The cumulative effect of this reclassification was to remove $1.1 billion of expense from net interest income and to include this $1.1 billion of expense in minority interest in earnings of consolidated subsidiaries.

Additional detail regarding the impact of correcting this error is set forth in the following table.

Real Estate Investment Trust ("REIT") Hedges Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Net Interest Income (Expense) Before Taxes	$525	$231	$208	$184	$1,148
Minority Interest in Earnings of Consolidated Subsidiaries	$(525)	$(231)	$(208)	$(184)	$(1,148)
Income (Expense) Before Taxes	-	$144	$56	$383	$583
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Forward Purchase and Sale Commitments

Freddie Mac routinely enters into forward purchase and sale commitments for mortgage securities and mortgage loans. As discussed below, Freddie Mac has concluded that its accounting practices with respect to certain commitments, including transactions executed between Freddie Mac business units, were not in accordance with GAAP.

Third Party Transactions—Freddie Mac did not recognize the effects of forward commitments in its consolidated financial statements for certain trades. With respect to commitments executed prior to 2001, Freddie Mac has concluded that it should have recorded changes in the fair values of commitments to acquire available-for-sale securities to Accumulated Other Comprehensive Income in accordance with Emerging Issues Task Force ("EITF") 96-11 "Accounting for Forward Contracts and Purchased Options to Acquire Securities Covered by FASB Statement No. 115" ("EITF 96-11").

For commitments executed in 2001 and 2002, Freddie Mac concluded that substantially all mortgage-related forward purchase and sale commitments were derivatives under SFAS 133. For these commitments, Freddie Mac should have recorded the change in fair value of the forward purchase and sale commitments to Accumulated Other Comprehensive Income to the extent they qualified for hedge accounting under SFAS 133. To the extent the trades did not qualify for hedge accounting treatment, the change in fair value should have been recorded to current period earnings.

For commitments to purchase or sell trading securities, Freddie Mac appropriately recognized the effects of these trades in earnings. However, the company did so by accounting for such trades as trading securities on a trade date basis. The company has concluded that these trades should have been accounted for as derivatives in all periods. To correct this error, the company has reversed the effects of trade date accounting and reported the fair values of such trades as derivative assets or liabilities.

Intracompany Transactions—Freddie Mac recorded all activity related to its PC market making and support activities, including intracompany transactions with the retained portfolio, as trading positions. However, the company failed to properly account for transfers of these securities in accordance with SFAS 115 resulting in the following errors:

- Freddie Mac should have eliminated the financial statement effects of marking intracompany trades to fair value.
- Securities acquired with the intent of holding them in the retained portfolio should not have been marked to fair value through income as trading securities, but instead should have been marked to fair value through Accumulated Other Comprehensive Income as available-for-sale securities.
- Securities acquired in the trading portfolio but subsequently transferred to the retained portfolio and classified as available-for-sale or held-to-maturity securities were not valid transfers under SFAS 115. The correction of this error is described and measured in "Security Classification."

Other Purchase and Sale Commitments—Freddie Mac has concluded that it incorrectly accounted for the forward commitments to sell and purchase PCs involved in a resecuritization transaction for approximately $30 billion (referred to internally as CTUG) entered into as part of its SFAS 133 transition strategy, as discussed under "Security Classification" above. Specifically, Freddie Mac inappropriately executed and erroneously accounted for the forward sale commitments in 2000 under SFAS 80, "Accounting for Futures Contracts" ("SFAS 80"), as a hedge of held-to-maturity PCs in the retained portfolio and did not account for the offsetting forward purchase commitment. Both the forward sale commitments and the forward purchase commitments should have been marked to fair value through earnings because neither transaction met hedge accounting requirements; the correction of this error had no net impact on 2000 net income. In addition, Freddie Mac erroneously accounted for the forward purchase commitments in 2001 as hedged items in its embedded options hedging strategy. These forward purchase commitments met the definition of a derivative, and therefore, did not qualify as hedged items under SFAS 133. The correction of the purchase commitment is included in "Embedded Options Hedging Strategy."

The cumulative effect of correcting these errors was an increase of $495 million in pre-tax income and a decrease in pre-tax Accumulated Other Comprehensive Income of $732 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Forward Purchase and Sale Commitments **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$(2)	$(228)	$(79)	$804	$495
Accumulated Other Comprehensive Income (Loss) Before Taxes	$(12)	$28	$(265)	$(483)	$(732)

Linked Swaps

In August and September of 2001, Freddie Mac entered into nine pairs of "linked" interest-rate swap transactions with an effective notional amount after considering leverage terms of $180 billion ("Linked Swaps"). Each pair consisted of a pay-fixed swap and a receive-fixed swap entered into contemporaneously with a single counterparty with terms that were largely offsetting. For financial accounting purposes, Freddie Mac inappropriately separately accounted for each of the swap transactions within the pairs of Linked Swaps. These transactions and the related, inappropriate accounting effected a reduction in Operating Earnings, a non-GAAP supplemental performance measure previously used by Freddie Mac. As a result of these transactions and the related inappropriate accounting, previously reported Operating net interest income ("Operating NII") was reduced by an estimated $400 million in the third and fourth quarters of 2001. As of December 31, 2001, as a result of these transactions, the company expected Operating NII to increase by an estimated $400 million over the original remaining life of the swaps, which had maturity dates ranging from August 2004 to September 2006. The effect of the transactions on GAAP NII during 2001 was essentially the same as compared to Operating NII, but the net effect on GAAP net income was different due to the impact of hedge accounting.

Freddie Mac has concluded that each pair of Linked Swap transactions should be viewed as a unit (i.e., combined derivative) and accounted for together under SFAS 133 due to a number of factors, including: that the transactions were executed with the same counterparty and in contemplation of each other; the accounting effect was disproportionate to the risk management effect; and after considering the effect of other hedge accounting corrections related to the restatement (*see* "Embedded Options Hedging Strategy" above). This error has been corrected by reversing the hedge accounting entries for the Linked Swaps. In addition, hedge accounting was reversed for certain other derivatives that were designated in the same fair value hedges of debt as several of the receive-fixed components of the Linked Swaps. The cumulative effect of correcting this error on Freddie Mac's pre-tax income was an increase of $283 million. (This amount excludes the effect of the portion of Linked Swaps that were designated in fair value hedges in connection with Freddie Mac's embedded options hedging strategy, which are included in the amounts reported in connection with that error described previously in this appendix.) In addition, correction of this error required the company to reverse hedge accounting adjustments originally recorded related to the pay-fixed swap components designated in cash flow hedges, resulting in a $283 million increase to pre-tax Accumulated Other Comprehensive Income.

Two additional swaps with a notional amount of $4 billion were executed in November 2001 with largely offsetting terms. However, these swaps were executed on different days with different counterparties. In general, the facts and circumstances surrounding the additional swaps executed in November 2001 were different than the Linked Swaps and therefore, hedge accounting was not reversed for these derivatives.

However, the company did reclassify the interest accruals from net interest income to non-interest income (i.e., for the Linked Swaps and the two additional swaps executed in November 2001). The amount of recorded interest expense reclassified to non-interest income totaled $405 million and $217 million in 2001 and 2002, respectively. These reclassifications had no impact on cumulative net income for the restatement period.

Additional detail regarding the impact of correcting this error is set forth in the following table.

Linked Swaps Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	-	$422	$(139)	$283
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	$249	$34	$283

Mortgage Security Hedges

Beginning in 1999, Freddie Mac designated forward sales of to-be-announced ("TBA") securities as accounting hedges of the fair value of certain mortgage-related securities held by the company. Freddie Mac has concluded that some of these hedges failed to qualify for hedge accounting treatment under SFAS 80 and SFAS 133 because: (i) the TBA forward sale commitment designated in the hedge relationship was not properly identified; (ii) the securities identified as the hedged items were not eligible as hedged items because they were classified as trading under SFAS 115; or (iii) there was not proper documentation of hedge effectiveness testing. Freddie Mac has corrected these errors by reversing the effects of hedge accounting treatment.

The cumulative effect of correcting these errors was an increase to pre-tax income of $91 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Mortgage Security Hedges Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/99	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$4	$(28)	$70	$45	$91
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	$(3)	$3	-	-

Agency Forward Agreements

Upon its adoption of SFAS 133, Freddie Mac implemented an accounting hedge strategy in which agency forward agreements were designated as hedges of existing long-term Freddie Mac debt. Freddie Mac's agency forward agreements are essentially cash-settled forward contracts on a specified agency security. For agency forward agreements using Freddie Mac debt, Freddie Mac has concluded that it failed to properly test for hedge accounting effectiveness. As a result, these agreements failed to qualify for hedge accounting treatment.

Freddie Mac has corrected this error by reversing the hedge accounting treatment of these agreements and related amortization. The cumulative effect of correcting this error was an increase to pre-tax income of $57 million. Additional detail regarding the impact of correcting this error is set forth in the following table.

Agency Forward Agreements **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	-	$72	$(15)	$57
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Government National Mortgage Association ("GNMA") Asset Swap Hedge

From July 2001 to June 2002, and from October 2002 through December 2002, the company designated a pay-fixed, amortizing swap of approximately $0.8 billion notional amount as a fair value hedge under SFAS 133 of certain GNMA mortgage-backed securities ("MBS"). Freddie Mac has concluded that the documentation and testing required to ensure that these hedges were effective for accounting purposes was inadequate. Therefore, the changes in fair value of the GNMA MBS recorded due to hedge accounting were reversed from earnings. Freddie Mac also concluded that some of the prices originally used to value the swap were incorrect. Freddie Mac has adjusted each of the affected periods to reflect the correct fair value of the swap.

The cumulative effect of correcting these errors on Freddie Mac's pre-tax income was an increase of $16 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Government National Mortgage Association ("GNMA") Asset Swap Hedge Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception - 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	-	$(1)	$17	$16
Accumulated Other Comprehensive Income (Loss) Before Tax	-	-	-	-	-

Call Swaptions

Prior to 2001, Freddie Mac designated a portion of its call swaptions in hedges of long-term debt. Premiums paid to enter into these call swaptions were deferred and amortized into earnings over the term of the option in accordance with GAAP. As part of the restatement, Freddie Mac has concluded that these were ineffective hedges and therefore, deferral of changes in the option's intrinsic value and amortization of option premiums paid was incorrect. Correction of this error required the company to reverse the deferred gains and losses related to the hedged debt, record the change in fair value of these instruments through earnings each period, and adjust the cumulative SFAS 133 transition adjustment as of January 1, 2001.

The cumulative effect of correcting these errors was an increase in pre-tax income of $12 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Call Swaptions Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception - 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$(253)	$1,032	$(763)	$(4)	$12
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Cash Flow Hedges - 2002 Corrections

Freddie Mac made two adjustments as part of its previously released fourth quarter 2002 financial results to correct for the cumulative effect of errors related to certain cash flow hedges. These adjustments were made on a cumulative basis because the company had determined the impact on current and prior periods to be immaterial. However, because the periods prior to the fourth quarter of 2002 are being restated, these cumulative adjustments have been reversed and recorded in the appropriate prior quarters. These corrections have no impact on cumulative pre-tax income or pre-tax Accumulated Other Comprehensive Income for the restatement, but they do affect quarter-to-quarter results. The two adjustments are as follows:

- In fourth quarter 2002, Freddie Mac determined that certain cash flow hedge relationships were not valid under SFAS 133 because they failed to meet the requirements for hedge accounting effectiveness. The impact of the fourth quarter 2002 adjustment, which has been allocated to other affected quarters, was a decrease to income before taxes of $94 million.
- The second adjustment in fourth quarter 2002 was an increase in income before taxes of $83 million related to the correction of the carrying amount of Accumulated Other Comprehensive Income resulting from cash flow hedges under SFAS 133. This adjustment was needed to correct the amortization of deferred gains/losses related to terminated or redesignated cash flow hedges during 2001 and 2002.

The cumulative effect of correcting these errors on pre-tax income and pre-tax Accumulated Other Comprehensive Income was zero. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Cash Flow Hedges - 2002 Corrections **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	-	$37	$(37)	-
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	$(37)	$37	-

Forward Settling and Written Swaption Trades

From November 1999 to January 2000, Freddie Mac sold $10 billion notional amount of put swaptions held in its derivative portfolio with future settlement dates longer than normal market conventions. More specifically, the settlement dates for these specific put swaptions coincided with the beginning of each quarter starting with first quarter 2000 through the first quarter of 2001. Freddie Mac inappropriately accounted for the sale of these put swaptions on a settlement-date basis as opposed to a trade-date basis. This resulted in the gains associated with these transactions, which were measured as the difference between the cash proceeds and the carrying value of the put swaption on settlement date, being recorded to earnings on the date of settlement; the carrying value at settlement date was net of amortization of the original option premium which continued to be amortized between trade date and settlement date. As part of the restatement, the company has concluded that the resulting gains should instead be recorded on the trade date and has reversed the amortization expense taken between trade date and settlement date.

In addition, during 2000, Freddie Mac wrote $20 billion notional amount of options (mainly swaptions) and received premiums of $245 million. Certain of the premiums received were inappropriately amortized as an increase to net interest income of $155 million in 2000. The remaining fair value change of the written options was recorded to earnings as part of derivative gains (losses). As part of the restatement, Freddie Mac has concluded that the amortization of the premiums received should have been recorded through derivative gains (losses). Therefore, the increases to net interest income described above have been reclassified as increases to derivative gains (losses).

The cumulative effect of correcting these errors on pre-tax income and pre-tax Accumulated Other Comprehensive Income was zero. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Forward Settling and Written Swaption Trades **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$77	$(42)	$(35)	-	-
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Asset Transfers and Securitizations

Accounting for Transfers of Mortgage Loans, PCs and Multiclass Certificates

Freddie Mac executes a variety of transactions that involve the transfer of its PCs and multiclass certificates ("Multiclass Certificates"). The company transfers mortgage loans and PCs to third parties primarily through its Guarantor and Cash Window Programs. The company also purchases and sells PCs in the secondary market after the securities are originally formed. Additionally, the company issues Multiclass Certificates backed by PCs and other mortgage-backed securities held in portfolio or that are provided to the company by third parties.

Freddie Mac has concluded that it erroneously applied SFAS 125 (effective through March 31, 2001) and SFAS 140 (effective from April 1, 2001 through December 31, 2002) and other GAAP guidance issued before SFAS 125 in accounting for transfers of mortgage loans, PCs and Multiclass Certificates that qualified as sales. Specifically, the company did not record as retained interests the guarantee fee receivable under the guarantee contract associated with its transferred assets as required by GAAP, except for upfront cash paid for buy-up fees. (For information on buy-up fees *see* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods.") Instead, the cash flows received from its guarantee contracts were recognized into earnings as received. Additionally, the company did not value its obligation under the guarantee contract when measuring the gain or loss on the asset sale. Instead, expense related to the obligation was accrued over the life of the guarantee contract as incurred.

In order to correct these errors, Freddie Mac has recognized the fair value of its contractual right to receive guarantee fees (referred to as a "guarantee asset") as a retained interest in the transfers of mortgage loans and PCs that qualify as sales. In addition, the company has recognized the fair value of the corresponding guarantee obligation as a reduction of the sales proceeds. Specifically, the difference between cash received less the fair value of obligations incurred upon sale and the cost basis allocated to the PC sold was recorded as the gain or loss at the date of sale. In order to account for these components after the date of sale, the company has elected to record the on-going change in fair value of the guarantee asset and guarantee obligation as part of current period earnings.

During the restatement period, Freddie Mac has concluded that it accounted for repurchases of Freddie Mac mortgage-related securities incorrectly in that (i) cash flows associated with the guarantee contract related to securities held by the company were incorrectly classified as management and guarantee income, and (ii) the company's previous accounting did not consider the effect of PC repurchases on the guarantee asset and guarantee obligation. To correct these errors, the company has reclassified the management and guarantee income on securities held by the company to net interest income. In addition, for repurchased securities for which a guarantee asset and guarantee obligation have been established, Freddie Mac has extinguished the guarantee obligation and reclassified the guarantee asset, after considering any related diminution in value attributable to the guarantee obligation, to the PC balance as Participation Certificate Residual ("PCR"). As with the guarantee asset and guarantee obligation, the PCR continues to be marked to fair value through earnings.

During the restatement, Freddie Mac also determined that it incorrectly accounted for buy-up fees, which represent upfront cash payments made by the company to its counterparties in Guarantor program transactions to increase the guarantee fee rate. The company identified that the accounting during the restatement period was incorrect because it (i) netted buy-ups and buy-downs (buy-down fees represent cash received from counterparties to reduce the guarantee fee rate); (ii) stopped reporting the change in fair value of buy-up fees as a component of Accumulated Other Comprehensive Income as required under SFAS 125 for financial assets with significant prepayment risk on April 1, 2001, the effective date of EITF 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets," ("EITF 99-20"), thereby avoiding recording impairments of these assets; (iii) used an incorrect amortization method, including allocating buy-up and buy-down fee amortization between net interest income and management and guarantee fee income; and (iv) failed to follow an acceptable impairment valuation method.

As a result of corrections made during the restatement, buy-ups and buy-downs are accounted for as follows: (i) buy-ups and buy-downs are accounted for separately; (ii) all buy-ups are accounted for at fair value, with all changes thereto reflected in earnings; (iii) buy-ups that relate to PCs held by third parties are classified as guarantee assets, while buy-ups that relate to PCs held in portfolio are classified as PCR; (iv) cash flows received on buy-ups that relate to PCs held by third parties are recognized in earnings as management and guarantee fees, while cash flows received on buy-ups that relate to PCs held in portfolio are recognized in earnings as interest income; (v) buy-downs that relate to PCs held by third parties are amortized into earnings as management and guarantee fees; and (vi) buy-downs that relate to PCs held in portfolio are extinguished and recognized as basis adjustments to the carrying value of purchased PCs (where such adjustments are amortized into earnings as interest income).

The cumulative effect of correcting the referenced errors on the company's pre-tax income was an increase of $502 million and an increase in pre-tax Accumulated Other Comprehensive Income of $476 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Accounting for Transfers of Mortgage Loans, PCs and Multiclass Certificates Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$1,452	$(477)	$393	$(866)	$502
Accumulated Other Comprehensive Income (Loss) Before Taxes	$183	$307	$(138)	$124	$476

Accounting for Interest-Only Securities and Certain Asset Securitizations

Freddie Mac invests in interest-only ("IO") securities, which are held in its retained portfolio. Interest-only securities represent only the interest portion of cash flows on PCs and other MBS (i.e., excludes principal cash flows). During the restatement period, Freddie Mac classified IO securities in both the available-for-sale and trading category under SFAS 115. Although declines in market value for available-for-sale securities are typically recorded through Accumulated Other Comprehensive Income, decreases in IO fair value are often considered accounting impairments and must be measured and recorded through earnings in accordance with EITF 93-18 "Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in Mortgage-Backed Interest Only Certificate" ("EITF 93-18") (prior to March 31, 2001) and EITF 99-20 (after March 31, 2001). Freddie Mac has concluded it did not properly calculate and record fair value impairments on its IO portfolio. For periods prior to and ended March 31, 2001, the error was due to not measuring impairments. To correct this error, decreases in fair value that met the EITF 93-18 definition of impairment were recorded as a reduction in the cost basis of the security with a corresponding loss recorded through "Gain (losses) on investment activity." An adjustment was also made to interest income to adjust the amount of amortization income recognized as a result of the change in the security cost basis.

For periods after March 31, 2001, impairments were measured and recorded under EITF 99-20. However, the population of IO securities to which EITF 99-20 was applied was not complete or accurate due to the following four issues.

Securitizations Executed in First Quarter 2001

In two securitization transactions executed in first quarter 2001 (internally referred to as J-8 and J-9), Freddie Mac combined IOs and other collateral into synthetic principal and interest securities through two securitization entities. In each case, Freddie Mac held all or substantially all of the new securities issued by the new securitization entities and inappropriately accounted for the securities issued by these entities. The transactions had the effect of reducing the losses on the IOs that otherwise would have resulted in a decrease in earnings upon implementation of EITF 99-20, which became effective on April 1, 2001. Freddie Mac has concluded that the entities created to effect the securitization did not qualify as qualifying special purpose entities under SFAS 125 and must be consolidated. Accordingly, to correct this error, the IO collateral together with other collateral held by the entities should have been accounted for separately. The IO collateral associated with one of these transactions was later erroneously reclassified from available-for-sale to trading. Therefore, the correction presented below appropriately reflects an available-for-sale classification throughout the restatement period and includes the effect of recognizing the changes in fair value of the securities, absent any related impairments, through Accumulated Other Comprehensive Income as opposed to earnings.

Security Purchases in Third Quarter 2002 and Fourth Quarter 2002

In two additional transactions executed in the third and fourth quarters of 2002, Freddie Mac purchased 100 percent of the securities issued by two special purpose entities. However, because Freddie Mac concluded that these entities must be consolidated under the requirements of EITF Topic D-14, "Transactions Involving Special-Purpose Entities" ("EITF Topic D-14"), the collateral held by these entities, which included IOs, should have been separately accounted for and subject to impairment and other requirements of EITF 99-20.

REMIC Purchases in January 2002

In January 2002, Freddie Mac purchased from an unaffiliated dealer 100 percent of two REMICs. In both cases, Freddie Mac participated in the design of the REMIC structuring. Similar to the transaction described above, Freddie Mac erroneously accounted for the REMIC securities rather than the underlying collateral, the result of which had the effect of reducing income since a portion of the REMIC securities held were IO securities and other securities held had the impact of shifting earnings to future periods. Freddie Mac has concluded that the accounting for these transactions should be applied to the aggregate collateral supporting the REMICs as opposed to the securities issued by the REMIC structure. The correction to account for the collateral primarily involved the reversal of IO accounting originally applied to these REMIC securities under EITF 99-20 and the recognition of income based on the attributes of the collateral underlying the REMIC structure.

Certain IO and PO Purchases

In addition to the specific transactions described above, Freddie Mac has concluded that in certain circumstances during the restatement period, individual IO and principal only ("PO") securities (i.e., excludes interest cash flows) purchased simultaneously should have been combined and treated as a whole security. This correction resulted in the reversal of IO impairment accounting for these securities.

The cumulative effect of correcting the errors described above on Freddie Mac's pre-tax income was a decrease of $235 million and an increase to pre-tax Accumulated Other Comprehensive Income of $12 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Accounting for Interest-Only Securities and Certain Asset Securitizations Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	2000	2001	2002	Total
Income (Expense) Before Taxes	$(19)	$(8)	$(231)	$23	$(235)
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	$7	$5	$12

Accounting for Dollar Rolls and Similar Transactions

Dollar rolls are transfers of financial assets generally executed by Freddie Mac during periods of short-term imbalances in the liquidity of the MBS market. These transactions typically consist of (i) a forward sale of a TBA security to a third party for delivery in the current month, and (ii) a concurrent forward purchase of a similar, but not identical, PC or MBS for delivery in a future month. These transactions were also executed in reverse (i.e., forward purchase was executed for delivery in the current month with a concurrent forward sale for delivery in a future month). Dollar roll and other similar security transfer transactions executed by Freddie Mac's retained portfolio were historically accounted for as financing transactions under SFAS 125/140. Freddie Mac has concluded that financing treatment for the majority of these transactions was incorrect because the transactions were structured in ways that did not meet the requirements of SFAS 125/140 to be considered financing transactions. This is because such transactions either were inadequately collateralized or involved the delivery of a PC or MBS in the current month that was not substantially the same as the PC or MBS delivered back to Freddie Mac in the future month.

To correct the accounting for retained portfolio dollar rolls and other similar security transfer transactions, the following adjustments were made:

- The effects of financing treatment were reversed which resulted in the removal of short-term debt and mortgage-related assets and associated interest income and expense.
- The transactions were recorded as purchases and sales, which involved the recognition of gains and losses on sales activity and premiums and discounts on purchase activity in the appropriate periods.
- The forward commitments associated with the security purchase or sale were recorded as a derivative under SFAS 133. The effect of this correction is captured in the "Forward Purchase and Sale Commitments" section.
- All securities were reclassified from held-to-maturity to available-for-sale because dollar roll transactions were executed with collateral classified as held-to-maturity under SFAS 115. The effect of this error is included in the "Security Classification" section.

The cumulative effect on Freddie Mac's pre-tax income of reversing financing accounting and recording these transactions as sales and purchases was a decrease of $86 million. Additional detail regarding the impact of correcting the error described above is set forth in the following table.

Accounting for Dollar Rolls and Similar Transactions Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$ (102)	$ (3)	$ 27	$ (8)	$ (86)
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Special Purpose Entities

In May 1998, Freddie Mac transferred credit risk to a special purpose entity (internally referred to as "MODERNs") in a reinsurance transaction. This entity issued to third parties $243 million of credit-linked securities, which were not recorded in Freddie Mac's financial statements since the entity was not consolidated. However, under the consolidation guidance of EITF Topic D-14, the company has now concluded it must consolidate this entity which will have the effect of increasing both assets and liabilities. Due to redemptions and pay downs of the securities, the effect on Freddie Mac's balance sheet as of December 31, 2002 and 2001 was to increase total assets and liabilities to $41 million and $44 million, respectively.

Cash Collateral on Derivative Contracts

In the ordinary course of business, Freddie Mac enters into interest-rate swap transactions with highly rated counterparties. Under the swap and security agreements that govern such transactions, most of the counterparties are required to post collateral. This collateral is often posted in the form of cash. Under SFAS 125/140, cash collateral must be recorded as an asset on the company's balance sheet with an offsetting liability to return that collateral. For the years 1999, 2000, and 2001, and through June 30, 2002, the company erroneously understated its balance sheets for cash collateral provided by its derivative counterparties. As part of the restatement, the company has corrected its quarterly balance sheets for the respective periods through increases in cash and cash equivalents and other liabilities ranging from $0.9 billion to $3.3 billion.

Valuation of Financial Instruments

Freddie Mac estimates the fair value of its derivatives and securities for risk management purposes as well as financial accounting and reporting purposes. Under GAAP, fair value is defined as the amount at which an asset (liability) could be bought and sold between willing parties, that is, other than in a forced or liquidation sale. GAAP specifies that quoted market prices in active markets are the best evidence of fair value. If a quoted market price is not available, the estimate of fair value should be based on the best information available in the circumstances and should incorporate assumptions that market participants would use in their estimates of values. The use of different pricing models and assumptions could produce materially different estimates of fair value. (*See* Appendix III, "Fair Value and Interest-Rate Risk Measures.")

Option-Based Derivatives

In 2001 and 2002, Freddie Mac designated the entire fair value of its option-based derivatives portfolio as hedges under SFAS 133. *See* "Embedded Options Hedging Strategy" above for a description and quantification of the hedge accounting corrections related to option-based derivatives during 2001 and 2002.

To estimate fair values for option-based derivatives, Freddie Mac used option-pricing models incorporating volatility assumptions. Freddie Mac's implementation of the models failed to incorporate all relevant pricing information available in the market as required under GAAP. First, the fair value of option-based derivatives was misstated at December 31, 2000 because Freddie Mac inappropriately applied constant volatility assumptions as of an earlier date (e.g., November 20, 2000) instead of available contemporaneous market-implied volatilities in the option-pricing model. This had the effect of understating the original fair value of the option-based derivatives by approximately $550 million, which was recorded on January 1, 2001 as part of adopting SFAS 133 in the previously reported financial statements. Second, the fair values of option-based derivatives were misstated during 2001 and 2002 because Freddie Mac failed to incorporate market information about changes in volatilities for out-of-the-money swaptions. The volatility estimates historically used were generally designed to be consistent in methodology with the models used to value the hedged prepayment option in mortgage-related securities.

Correction of these errors resulted in a cumulative net increase to pre-tax income of $361 million. The restated fair values include market-implied volatility inputs to the extent these were available. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Option-Based Derivatives **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception - 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	$626	$(225)	$(40)	$361
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Securities

Under SFAS 115, securities are required to be classified as held-to-maturity, available-for-sale, or trading primarily based on the company's intent. Held-to-maturity securities are reported at amortized cost, available-for-sale securities are marked to fair value through stockholders' equity, and trading securities are marked to fair value through earnings. As discussed in "Security Classification" above, all of Freddie Mac's securities are recorded at fair value as a result of the restatement.

As part of the restatement, Freddie Mac identified numerous errors in estimating the fair value of its investments in securities. In certain instances, the company used models that failed to consider all relevant facts including available market data. For example, the method used to value certain manufactured housing bonds failed to acknowledge significant market price deterioration in 2002, resulting in an overstatement of fair value which has been recognized as an impairment. Also, the method used to value mortgage revenue bonds where prices were not readily available utilized price movements on proxy securities. However, because these proxy securities had different call provisions and other contractual terms, their use in the fair value estimation for Freddie Mac's mortgage revenue bonds led to an overstatement of fair value during the restatement period.

In other cases, process errors involving erroneous inputs into otherwise reasonable models resulted in misstatements of fair value. The fair values of certain mortgage passthrough securities were misstated due to model input errors, including the use of inaccurate price spreads for seasoned securities. In addition, the fair values of other securities were misstated due to process errors, including the use of incorrect interest calculations as well as the use of outdated prices or constant trade prices instead of period-end fair values.

Finally, the company made errors in valuing certain investments in Treasury securities. Instead of using observable market prices, Freddie Mac estimated the value of these investments using models. These errors resulted in the overstatement of fair value.

Correction of these errors resulted in increases or decreases to investments in securities, with offsetting impacts to Accumulated Other Comprehensive Income for available-for-sale securities and to current period earnings for trading securities. The table below reflects the results of the valuation error corrections after correction of the security classification errors (as discussed in "Security Classification" above).

The corrections resulted in a cumulative net decrease to pre-tax income of $147 million and a decrease to pre-tax Accumulated Other Comprehensive Income of $268 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Securities **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception - 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	-	-	$(100)	$(47)	$(147)
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	$(105)	$48	$(211)	$(268)

All Other Accounting Corrections

Income Classification of Spot-Forward Difference on Certain Trading Securities

In conjunction with its PC market making and support activities, Freddie Mac often funds long-term mortgage securities in its trading portfolio with short-term debt. This creates an asset/liability funding mismatch, which is generally hedged by entering into forward sales of mortgage-related securities. Since the settlement of these forward sale trades takes place weeks or months in the future, the sales price ("forward" price) is discounted from the current value ("spot" price) of the security. This discount (spot-forward difference) is generally equal to the net interest income earned over the commitment period based on the difference between the security coupon and current short-term rates.

Because the spot-forward difference between the trading security and forward sale commitment resulted in a loss being recorded to other income while the recognition of interest income on the held position resulted in an offsetting increase in net interest income, Freddie Mac historically reclassified the implied effect of the spot-forward difference on trading securities from other income to net interest income. In the restatement period, the company has concluded that this reclassification was an error. Although this error had no effect on net income, the reclassification adjustments to net interest income and other income are detailed below.

***Income Classification of Spot-Forward Difference on Certain Trading Securities* Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception - 12/31/1999	**2000**	**2001**	**2002**	**Total**
Net Interest Income (Expense) Before Taxes	$251	$103	$431	$938	$1,723
Other Income (Expense) Before Taxes	$(251)	$(103)	$(431)	$(938)	$(1,723)
Income (Expense) Before Taxes	-	-	-	-	-
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Mortgage Loan Accounting Based on Lower of Cost or Market ("LOCOM")

Through its Cash Window Program, Freddie Mac purchases mortgage loans under purchase commitments entered into with lenders that are classified as "held-for-sale" until sold to third parties or transferred to Freddie Mac's retained portfolio in the form of mortgages or mortgage-related securities. SFAS 65, "Accounting for Certain Mortgage Banking Activities" ("SFAS 65") requires mortgage loans classified as held-for-sale to be reported at the lower of cost or fair value, with losses reported through earnings. In measuring the write-down to fair value, the fair value change of open mortgage loan purchase commitments and all outstanding forward sale commitments needs to be considered. Freddie Mac failed to perform a LOCOM test as required by SFAS 65. The cumulative effect of correcting this error was a decrease to pre-tax income of $180 million and a cumulative decrease to pre-tax Accumulated Other Comprehensive Income of $28 million.

Additional detail regarding the impact of correcting these errors is set forth in the following table.

Mortgage Loan Accounting Based on Lower of Cost or Market ("LOCOM") **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$(72)	$(15)	$(101)	$8	$(180)
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	$25	$(53)	$(28)

Asset Amortization

In accordance with SFAS 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" ("SFAS 91"), premiums, discounts and other deferred adjustments associated with mortgage loans and securities for which the company will recover substantially all of its aggregate recorded investment upon prepayment are generally amortized into net interest income over the estimated lives of the mortgage loans and securities using the effective interest method (*see* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods" for further details). Additionally, certain items related to the securitization process are deferred and amortized into income using the effective interest method (e.g., prepaid guarantee fees such as buy-downs). During the restatement, Freddie Mac corrected the income recognition related to these components primarily in the four areas outlined below.

<u>Secondary Impacts Resulting From Corrections in the Cost Basis of Certain Securities</u>—Several accounting corrections described in this appendix had the effect of changing the cost basis of certain securities. The most significant effect was driven by intracompany transactions (*see* "Forward Purchase and Sales Commitments" for further detail). As a result of these corrections, the original deferred premiums and discounts to be amortized were corrected which resulted in a cumulative increase to pre-tax income of $217 million. The other income statement effects resulting from intracompany transactions are included in the section entitled "Forward Purchase and Sale Commitments" above.

<u>Amortization Reserve</u>—As permitted under SFAS 91, Freddie Mac uses actual prepayment experience as well as estimates of expected future prepayments to determine the constant yield needed to apply the effective yield method. As required by SFAS 91, when estimates change, the net investment in the security should be adjusted to the amount that would have existed had the new effective yield been applied since the acquisition of the security. The security's cost basis should be adjusted to the new balance with a corresponding charge to net

interest income for that reporting period. Historically, when estimated prepayments changed, Freddie Mac properly recorded the cumulative adjustment to the cost basis of the security, but the offsetting entry was inappropriately deferred on the balance sheet in a reserve account (referred to internally as the "Amortization Reserve") as opposed to being correctly recorded in earnings, which was a known departure from GAAP but which was not deemed to be material at the time, and which was made with a view toward its effect on earnings. The cumulative effect on pre-tax income of correcting this error was an increase of $11 million. The annual effects on pre-tax income for 2000, 2001 and 2002 were decreases of $74 million, $109 million and $22 million, respectively.

First Quarter 2002 Adjustment—The company also identified that amortization results recorded in first quarter 2002 were derived from prepayment expectations that inappropriately incorporated interest-rate projections that were not supportable. As a result, interest income was understated by $132 million in first quarter 2002. In second quarter 2002, the company utilized supportable interest-rate projections, which effectively reversed the impact of the $132 million related to first quarter 2002. This had the effect of overstating interest income for second quarter 2002, but had no cumulative effect. As part of the restatement, the company has utilized appropriate interest-rate projections, thereby correcting amortization results for both first quarter 2002 and second quarter 2002.

Other Corrections—As part of the restatement, the company identified and corrected certain other data and process errors, including correcting security level assumptions used to project expected cash flows, which changed the timing of premium and discount amortization as well as deferred fee recognition. Additionally, certain deferred fees were amortized using a straight-line methodology as opposed to an effective yield process as required by SFAS 91. The cumulative effect on pre-tax income of correcting these items was an increase of $159 million.

The cumulative effect of correcting these errors was an increase of $492 million in pre-tax income and a decrease to pre-tax Accumulated Other Comprehensive Income of $56 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Asset Amortization **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception - 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$177	$(54)	$187	$182	$492
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	$15	$(71)	$(56)

Loan Loss Reserves and Credit-Related Accounting

Historically, Freddie Mac has maintained a "Reserve for losses on mortgages held for investment" to provide for credit losses on mortgages and PCs held in its retained portfolio and a "Reserve for losses on Participation Certificates" to provide for credit losses on mortgages underlying all PCs either held by third parties or held by the company. The "Reserve for Losses on Mortgages Held for Investment" and the "Reserve for Losses on Participation Certificates" are collectively referred to as "Loan Loss Reserves."

Beginning in the second quarter of 2002 and continuing as part of the restatement process in 2003, Freddie Mac completed a detailed review of its loan loss reserve and credit loss accounting policies, methods and processes. As a result of this work, Freddie Mac has corrected both the population of loans and mortgage-related securities against which Loan Loss Reserves are held as well as the level of Loan Loss Reserves needed for the defined population of mortgage assets. The population of loans against which Loan Loss Reserves are held was corrected in accordance with SFAS 115, SFAS 125/140 and other GAAP guidance due to the nature of Freddie Mac's mortgage guarantee and investment portfolio management activities. The level of Loan Loss Reserves held for the re-defined population was corrected to adjust for errors in the application of SFAS 5 and SFAS 114, as well as the errors in the calculation or aggregation of divisional Loan Loss Reserve estimates. More specifically, the three primary areas that drove these corrections are outlined below:

Reduction of SFAS 5 Loan Population due to the application of SFAS 125/140 and other GAAP guidance—As discussed in "Accounting for Transfers of PCs and Multiclass Certificates" above, Freddie Mac is now recognizing a guarantee obligation at fair value on the date of sale for certain transactions involving the company's PCs. Therefore, it is no longer necessary to hold Loan Loss Reserves against these PCs given that the guarantee obligation includes an estimate of all expected future credit losses. As a result, during the restatement period, the company has removed the Loan Loss Reserves estimated and held for all PCs for which there is a PCR or guarantee obligation recorded and outstanding.

Reduction of SFAS 5 Loan Population due to the application of SFAS 115—As described above, Freddie Mac historically established Loan Loss Reserves for the credit loss incurred on loans securing PCs held by the company. In connection with the correction of the accounting for credit guarantees more broadly as it relates to SFAS 125/140 (*see* "Accounting for Transfers of PCs and Multiclass Certificates" above) and other GAAP guidance, the company concluded that the establishment of Loan Loss Reserves for the credit risk in these securities would not be acceptable under SFAS 115. Therefore, the portion of the Loan Loss Reserve balances related to PCs held by the company was removed. Furthermore, as required by SFAS 115, any impairment in the security values determined to be other-than-temporary should be recorded as a reduction in the security's basis with a corresponding charge to earnings. During the restatement, the company concluded that no impairments under SFAS 115 needed to be recorded.

Errors in Estimating Loan Loss Reserves—As mentioned above, during second and third quarters 2002, the company performed a detailed review of its Loan Loss Reserve policies, methodologies and processes. Based on this review, Freddie Mac concluded its Loan Loss Reserves were inappropriately maintained in excess of the amounts permitted by GAAP in the amount of $246 million. The company determined at the time that the overstatement of Loan Loss Reserves related primarily to periods prior to 1999. Initially, the company recorded the reduction in Loan Loss Reserves as an aggregate adjustment to current period earnings in the third quarter of 2002, rather than allocating the adjustments among the relevant prior periods in which they arose and restating the financial statements for those periods. However, as part of the restatement, the company reversed the one-time $246 million adjustment recorded to third quarter 2002 earnings and restated prior period results to reflect this adjustment in the correct periods, resulting in no impact to income on a cumulative basis.

As part of the restatement process, Freddie Mac identified and corrected additional accounting errors related to Loan Loss Reserves and credit accounting, including errors in estimating losses on restructured mortgages.

The cumulative effect of correcting these errors was an increase in pre-tax income of $158 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Loan Loss Reserves and Credit-Related Accounting **Summary of Financial Impacts ($ in millions)**					
	Cumulative Effect from Inception - 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$554	$3	$10	$(409)	$158
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

Reserve Adjustments, Other Contributions and Accruals

As part of the restatement, the company has made pre-tax corrections for adjustments related to civil lawsuits (excluding potential litigation risk due to this restatement process), other contingencies as well as other discretionary contributions and asset impairments. Certain of these adjustments were not considered to be material at the time and were made with a view to their effect on earnings. Based upon the review of contemporaneous documentation in place and other relevant factors, Freddie Mac has now concluded that these adjustments were in error.

The cumulative effect of correcting these errors was a decrease to pre-tax income of $55 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Reserve Adjustments, Other Contributions and Accruals Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes [1]	$71	$(12)	$(38)	$(76)	$(55)
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

[1] Amounts exclude reclassifications from interest expense to income tax expense of $71 million for the cumulative effect through 1999, and $14 million, $37 million and $(30) million for the years ended December 31, 2000, 2001, and 2002, respectively, resulting in a net cumulative reclassification of $92 million.

Miscellaneous

In addition to the adjustments individually described above in "All Other Accounting Corrections," Freddie Mac has identified other accounting policies and practices that required correction. These corrections touch on many aspects of Freddie Mac's financial statements and have been reflected in the company's restated results. The cumulative effect of correcting all of these errors was a decrease to pre-tax income of $124 million and a decrease to pre-tax Accumulated Other Comprehensive Income of $2 million. Additional detail regarding the impact of correcting these errors is set forth in the following table.

Miscellaneous Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income (Expense) Before Taxes	$(104)	$53	$(27)	$(46)	$(124)
Accumulated Other Comprehensive Income (Loss) Before Taxes	$(7)	$6	$28	$(29)	$(2)

Other Accounting Changes

Accounting for Certain Premiums and Discounts

Premiums and discounts related to mortgage-related assets arise when such investments are acquired at prices above or below the outstanding contractual principal value of the assets. These amounts are amortized into interest income over the estimated weighted average lives of the underlying mortgages using the effective interest method as prescribed by SFAS 91. In fourth quarter 2002, the company improved its estimate of the expected weighted average lives of mortgage-related assets in its retained portfolio. This change in estimate included enhancements to the prepayment model used in the determination of weighted average lives and to other formulas used to calculate interest income under the effective interest method. In addition, Freddie Mac refined its method for collecting the mortgage asset data that are inputs to its amortization model for premiums and discounts.

These enhancements resulted in the recognition of an additional $305 million in income before taxes in fourth quarter 2002 and a decrease in pre-tax Accumulated Other Comprehensive Income of $333 million and were recorded as a change in estimate in accordance with Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes" ("APB 20"). The adjustment to Accumulated Other Comprehensive Income is necessary because a substantial portion of the $305 million increase to income was related to the amortization of basis adjustments associated with mortgage-related securities classified as available-for-sale. More specifically, a substantial portion of this income adjustment resulted in an increase in the carrying basis of available-for-sale securities, resulting in a corresponding decrease in unrealized gains reported through Accumulated Other Comprehensive Income.

Stock-Based Compensation

Prior to 2002, Freddie Mac accounted for its stock-based compensation plans under the recognition and measurement provisions of APB 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. For option awards, no stock-based compensation cost was reflected in previously reported results because all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. In second quarter of 2002, Freddie Mac elected to prospectively adopt the fair value method of accounting for its stock awards granted, modified or settled on or after January 1, 2002 under the guidance of SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Freddie Mac adopted SFAS 123 for all of its stock-based compensation awards, including stock options, its employee stock purchase plan ("ESPP"), restricted stock and restricted stock units ("RSUs"). After the issuance of SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure" ("SFAS 148"), in December 2002, Freddie Mac selected the retroactive restatement transition method described in SFAS 148, which amended SFAS 123 to permit a retroactive restatement of prior years' financial statements for stock awards granted on or after January 1, 1995.

As a result, Freddie Mac has restated all prior periods presented to reflect the incremental impact of adopting SFAS 123 for awards granted, modified or settled on or after January 1, 1995 on compensation expense, additional paid-in capital and the opening balance of retained earnings. Freddie Mac will continue to apply APB 25 to stock awards granted prior to January 1, 1995. In accordance with SFAS 123, Freddie Mac measures the fair value of a stock-based compensation award at the grant date and recognizes this amount as compensation expense over the vesting period on a straight-line basis.

Retroactive recognition of fair-value based stock compensation expense under SFAS 123/148 for grants between January 1, 1995 and December 31, 2001 resulted in a cumulative reduction to income before taxes through December 2002 of $137 million. This incremental expense from retroactively adopting SFAS 123 relates to stock options and the ESPP. Adoption of SFAS 123 resulted in no incremental expense related to restricted stock and RSU awards, which are effectively measured at fair value under both APB 25 and SFAS 123.

Tax -Related Adjustments

In addition to the accounting corrections and other accounting changes, the company's restated results also include tax-related adjustments. These adjustments were driven by the following factors as outlined below:

Tax Adjustments

Tax adjustment due to accounting corrections and other accounting changes – As a result of the restatement, the cumulative effect on pre-tax income is an increase of $7.6 billion. In light of this increase in income, the company's cumulative income tax expense is higher by approximately $2.6 billion based on the company's statutory federal income tax rate of 35 percent. The $2.6 billion tax impact relates almost entirely to an increase in deferred taxes payable, while approximately $15 million represents an increase in current taxes payable.

Tax adjustment due to tax corrections – Similar to the adjustments discussed as part of the "Reserve Adjustments, Other Contributions and Accruals," the company made adjustments for the level of tax reserves that were not considered material at the time and were made with a view to their effect on earnings. Based upon review of contemporaneous documentation in place and other relevant factors, Freddie Mac has now concluded that these adjustments were in error. As a result of the restatement, the company has corrected certain accruals for tax contingencies, which had an impact of reducing tax expense by $16 million. The company also made additional tax-related corrections, which had an impact of increasing tax expense by $31 million.

Tax Adjustments due to Subsequent Events

Tax adjustment due to recent U.S. Tax Court Rulings – As discussed in the Recent Events and Contingencies section in Appendix I, on September 4, 2003 and September 29, 2003, the U.S. Tax Court ("Court") ruled favorably for Freddie Mac on two preliminary motions involving questions of law in the case. Based upon these rulings and the company's assessment of its reduced tax exposure, the company has recorded a reduction to its tax reserves of $155 million in the fourth quarter of 2002; this reserve reduction decreased the company's income tax expense by $155 million.

Additional detail regarding the impact of all tax-related adjustments is set forth in the following table.

Tax-Related Adjustments Summary of Financial Impacts ($ in millions)					
	Cumulative Effect from Inception – 12/31/1999	**2000**	**2001**	**2002**	**Total**
Income Tax Expense [1]	$364	$491	$(501)	$2,124	$2,478
Accumulated Other Comprehensive Income (Loss) Before Taxes	-	-	-	-	-

[1] In order to reconcile the total income tax expense of $2.478 billion depicted above to the income tax expense impact of $2.591 billion on page 2 of this appendix, $113 million of additional income tax expense must be added which is primarily attributable to a reclassification from interest expense to income tax expense.

Appendix III—Fair Value and Interest-Rate Risk Measures

This appendix discusses Freddie Mac's (i) fair value measure, known as Fair Value Balance Sheet ("FVBS") and (ii) primary interest-rate risk sensitivity measures, known as portfolio market value sensitivity ("PMVS") and duration gap.

Freddie Mac's FVBS as of December 31, 2002 and 2001, as presented in Table 8 of the accompanying November 21, 2003 press release, provides estimates of the fair value of the company's recorded assets and liabilities and off-balance-sheet financial instruments. The FVBS presents the excess of "Total assets" over "Liabilities and minority interests" as "Net assets attributable to stockholders" (referred to in this Appendix as "FVBS net assets"). FVBS net assets increased by $4.6 billion during 2002, from $18.3 billion at December 31, 2001 to $22.9 billion at December 31, 2002. The fair value of net assets attributable to common stockholders (representing the FVBS net assets, less the fair value of net assets attributable to preferred stockholders) increased by an estimated $4.5 billion during 2002, from $13.8 billion at December 31, 2001 to $18.3 billion at December 31, 2002.

The following information about the FVBS is provided in this appendix:

- A description of the primary market risks that affect the fair value of Freddie Mac's FVBS net assets, and the company's market risk management activities,
- An overview of the FVBS, including a description of key components of changes in FVBS net assets,
- A discussion of the key components of the change in Freddie Mac's FVBS net assets from December 31, 2001 to December 31, 2002,
- A description of the methodology and assumptions used to determine the reported fair value for each FVBS caption, and
- A discussion of the impact of the restatement on FVBS net assets at December 31, 2001, including a description of errors requiring a restatement of 2001 FVBS net assets.

Freddie Mac's interest-rate risk sensitivity disclosures provide estimates of the company's exposure to significant changes in the interest-rate environment. PMVS estimates the percentage of Freddie Mac's fair value of net assets attributable to common stockholders at risk from an immediate adverse change in interest rates. Freddie Mac's duration gap estimates the interest-rate sensitivity of Freddie Mac's assets and liabilities (including derivative instruments ("derivatives") and off-balance-sheet financial instruments) and expresses the results in months. The following information about the company's interest-rate risk measures is provided in this appendix:

- A description of PMVS and duration gap disclosures that Freddie Mac publishes on a monthly basis in its Monthly Volume Summary, and

- Restated interest-rate risk sensitivity estimates for the months of December 2002 and December 2001, including a description of the errors that required a restatement of the data for these periods.

Market Risk Management Activities

Freddie Mac actively manages interest rate risk, which is the risk that changes in the level of interest rates or changes in the shape of yield curves could adversely affect the FVBS net assets and future earnings of Freddie Mac. Freddie Mac's interest-rate risk exposure results primarily from uncertainty as to the amount and timing of mortgage prepayments.

- **Duration and convexity risk** – The magnitude of Freddie Mac's interest rate risk is affected by the duration and convexity of Freddie Mac's portfolio. (Duration is a measure of a financial instrument's price sensitivity to changes in interest rates. Convexity is a measure of how much duration itself changes as interest rates move.) Freddie Mac actively manages duration and convexity risk through asset selection (*i.e.*, by identifying securities with attractive prepayment and other characteristics) and by maintaining a consistently high percentage of callable debt and option-based derivatives relative to Freddie Mac's fixed-rate mortgage assets.

  Freddie Mac does not, however, hedge all prepayment option risk at the time a mortgage is purchased or over its life. For the portion of risk not hedged at the time of purchase, Freddie Mac undertakes frequent rebalancing actions in order to keep Freddie Mac's interest-rate risk exposure within management limits. Although these risks are maintained at relatively low levels, fair value gains or losses occur when Freddie Mac's duration gap is positive or negative and is accompanied by a change in the level of interest rates or the shape of the yield curve.

Freddie Mac manages duration and convexity risk within risk limits monitored on a daily basis. These limits are subject to threshold triggers for reporting to senior management and the Board of Directors. Risk levels are estimated and reported through the company's PMVS and duration gap measures. Freddie Mac may also take actions to manage other market risks (subject to the established duration and convexity limits described above) that are not captured within the company's PMVS and duration gap estimation process, specifically:

- **Volatility risk** – This is the risk that the expectation of higher volatility in interest rates will cause mortgage assets to decline in fair value. Higher expected volatility increases the likelihood that interest rates will decline to levels that make mortgage refinancing attractive to homeowners, thereby making their prepayment option more valuable and making Freddie Mac's mortgage assets subject to their prepayment option less valuable. Freddie Mac manages volatility risk through asset selection and by maintaining a consistently high percentage of option-embedded liabilities (*i.e.*, callable debt) and option-based derivatives relative to Freddie Mac's fixed-rate mortgage assets.

- **Basis risk** – This is the risk that interest rates in different markets will not move in a precisely equivalent manner. This risk arises principally from funding mortgage investments with non-mortgage liabilities, such as Freddie Mac debt. The basis risk arising from funding retained portfolio investments with debt, which Freddie Mac does not actively manage, is discussed separately in the section below on "Mortgage-to-debt OAS." Management also incurs basis risk when it uses London Inter-Bank Offered Rate ("LIBOR") or Treasury-based instruments in Freddie Mac's funding or risk management activities. Freddie Mac monitors the fair value fluctuations associated with these basis risk exposures and manages these exposures by adjusting Freddie Mac's mix of LIBOR and Treasury-based instruments and company debt in response to changes in the expected interest rate relationships in these different markets.

- **Prepayment model risk** – This is the risk that actual mortgage prepayment behavior will differ from the prepayment behaviors management forecasts using Freddie Mac's proprietary internal models. These models are used to determine the estimated duration of mortgage assets for PMVS and duration gap measures. To mitigate prepayment model risk, Freddie Mac performs extensive monthly error tracking and sensitivity analysis to facilitate informed asset selection and risk management decisions. However, year-to-year returns can be affected by variances between prepayments forecasted by the models and actual prepayments, or the integrity of data used in the models and risk management systems.

Freddie Mac's fair value results are also affected by market risks that the company does not actively manage. These risks principally include (i) mortgage-to-debt option-adjusted spread ("OAS") risk and (ii) the effects of market risks on the fair value of the company's guarantee portfolio. Although year-to-year changes in these factors may affect fair value significantly in a given period, management believes such fluctuations will not have a significant impact on Freddie Mac's long-term fair value creation.

- **Mortgage-to-debt OAS** – Funding mortgages with debt exposes the fair value of the retained portfolio to OAS risk. The market price of a mortgage-related security or debt issued by the company implies an OAS, or an incremental spread considering all embedded options, over the LIBOR yield of comparable maturity. Any change in the relationship between the OAS on a previously acquired mortgage and the OAS on previously issued debt will lead to a change in the fair value of existing FVBS net assets.

  Freddie Mac considers mortgage-to-debt OAS in its asset purchase activities through established thresholds for expected return on equity ("ROE") for new asset purchases. Once mortgage assets have been purchased for the retained portfolio, Freddie Mac generally holds a substantial portion of these assets for the long-term, with an objective of realizing the expected initial ROE on the existing portfolio over this timeframe. Therefore, management does not take actions attempting to manage or hedge period-to-period fluctuations in the fair value of the existing retained portfolio resulting from changes in mortgage-to-debt OAS. Management does not believe such fluctuations will significantly affect the long-term return on Freddie Mac's existing retained portfolio.

- **Guarantee business** – The fair value of the existing guarantee portfolio fluctuates with changes in interest rates and credit expectations. Beginning in 2002, Freddie Mac hedged changes in the fair value of its existing guarantee portfolio attributable to the interest rate exposure related to net buy-ups (net upfront payments made by Freddie Mac which increase the guarantee fee that Freddie Mac will receive in connection with its PC guarantee) and expected gains/losses due to net interest from security program cycles. See "PMVS and Duration Gap" in this appendix for further details. While year-to-year changes in the fair value of the guarantee portfolio may have a significant impact on annual fair value results, management believes that changes in the fair value of Freddie Mac's existing guarantee portfolio are not a good indication of long-term fair value expectations because such changes do not reflect the strong probability that replacement business will largely replenish guarantee fee income lost because of prepayments over time.

Fair Value Balance Sheets

Overview

The FVBS includes all items recorded in the consolidated balance sheets prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), as well as all off-balance-sheet financial instruments that are not recorded in the GAAP consolidated balance sheets. These off-balance-sheet items consist predominantly of the unrecognized portion of guarantee contracts associated with mortgage participation certificates ("PCs") created under Freddie Mac's guarantor program, as well as commitments to purchase multifamily and single-family whole loans that will be classified as held-for-investment in the GAAP financial statements, and insurance contracts on manufactured housing investments. Refer to Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," for more information about the company's GAAP accounting policies.

The valuation of financial instruments on the FVBS is in accordance with GAAP fair value guidelines prescribed by Statement of Financial Accounting Standards ("SFAS") 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107"). The fair value of a financial instrument is defined in SFAS 107 as ". . . the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale." The assumptions used to determine or estimate fair values reflect management's best judgment regarding appropriate valuation methods.

Under SFAS 107 and other GAAP guidance, the method used to determine fair value for each type of financial instrument depends on the availability of relevant market data. For financial instruments with active markets and readily available market prices, management determines fair value based on price quotations obtained from third-party pricing services and broker-dealers or transaction data, where available. For financial instruments where such prices are not available, management determines fair values using appropriate valuation techniques, including estimates of the present value of expected future cash flows using a discount rate commensurate with the risks involved and internal valuation models that incorporate relevant market data inputs obtained from third-party pricing services and broker-dealers. The use of different pricing models and assumptions could produce materially different estimates of fair value. Management uses the same valuation techniques for preparing the FVBS as it does for those elements of Freddie Mac's GAAP consolidated financial statements which are recorded at fair value, such as derivatives and securities as well as guarantee contracts for a portion of the PC portfolio. *See* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," for more information concerning how Freddie Mac determines fair values for its GAAP consolidated balance sheets. *See also* "Valuation Methods and Assumptions," below, for more information on Freddie Mac's fair value estimates and the valuation methods and assumptions the company uses to prepare the FVBS.

The FVBS does not capture all elements of value that are implicit in Freddie Mac's operations as a going concern since the FVBS only captures the values of the current investment and securitization portfolios. For example, the FVBS does not capture the value of new investment and securitization business that would likely replace prepayments as they occur. In addition, the FVBS also does not capture the value associated with future growth opportunities in Freddie Mac's investment and securitization portfolios. Thus, the fair value of net assets presented in the FVBS does not represent an estimate of the net realizable, liquidation or market value of Freddie Mac as a whole.

Freddie Mac reports assets and liabilities that are not financial instruments (such as Freddie Mac's property, plant and equipment and deferred taxes), as well as certain financial instruments that are not covered by the SFAS 107 disclosure requirements (such as pension liabilities) at their GAAP carrying amounts in the FVBS. Management believes these items do not have a significant impact on Freddie Mac's overall financial prospects or fair value results.

Key Components of Changes in FVBS Net Assets

Changes in the FVBS net assets from period to period result from returns (measured on a fair value basis) and capital transactions. The key components of returns on FVBS net assets are as follows:

- **Core spread income:** Management defines core spread income as returns generated from the option-adjusted spread between interest-bearing assets and liabilities in the retained portfolio. Management estimates core spread income for a given period to include estimated future costs related to the funding and hedging activities that are likely to be required to achieve Freddie Mac's risk management objectives for the retained portfolio.

- **Fee-based income:** This includes the guarantee income from Freddie Mac's single-family and multifamily securitization businesses, adjusted to account for estimated default costs, remittance cycle costs and general and administrative costs. Fee-based income also includes delivery fees on some mortgage purchases, fees collected through Freddie Mac's automated underwriting service, fee income associated with resecuritization activities and unrealized gains (losses) related to securities classified as trading associated with Freddie Mac's PC market making and support activities.

- **Return on market risk positions:** As Freddie Mac's PMVS and duration gap measures indicate, Freddie Mac has maintained low interest-rate risk positions through volatile interest-rate environments. These and other risk positions discussed above (*e.g.*, basis risk, volatility risk, etc.) nonetheless produce year-to-year fair value gains or losses that are reflected in FVBS net assets. Freddie Mac monitors the mark-to-fair value returns associated with duration and convexity risk and reflects those risks in its PMVS and duration gap risk estimates.

- **Changes in mortgage-to-debt OAS:** As discussed previously, any change in the relationship between the option-adjusted yield on a previously acquired mortgage and the option-adjusted yield on previously issued debt will lead to a change in the fair value of existing FVBS net assets. An increase in the mortgage-to-debt OAS will result in a decrease in the fair value of Freddie Mac's existing FVBS net assets. Conversely, a decline in mortgage-to-debt OAS will result in an increase in the fair value of existing FVBS net assets.

  Given the size of Freddie Mac's retained mortgage portfolio, year-to-year changes in mortgage-to-debt OAS could have a significant impact on annual fair value results. However, because Freddie Mac generally holds a substantial portion of these assets for the long-term and realizes core spread income (as described above) over this timeframe, management does not believe period-to-period fluctuations in fair value driven by changes in mortgage-to-debt OAS will significantly affect the long-term return on Freddie Mac's existing retained portfolio.

- **Change in fair value of guarantee portfolio:** The fair value of the existing guarantee portfolio fluctuates with changes in interest rates and credit expectations. As discussed previously, while year-to-year changes in the fair value of the guarantee portfolio may have a significant impact on annual fair value results, management believes that changes in the fair value of Freddie Mac's existing guarantee portfolio are not a good indication of long-term fair value expectations because such changes do not reflect the strong probability that replacement business will largely replenish any guarantee fee income lost because of prepayments over time.

Discussion of Fair Value Results

As described earlier, FVBS net assets increased by $4.6 billion during 2002, from $18.3 billion at December 31, 2001 to $22.9 billion at December 31, 2002. The fair value of net assets attributable to common stockholders (representing the FVBS net assets, less the fair value of net assets attributable to preferred stockholders) increased by an estimated $4.5 billion during 2002, from $13.8 billion at December 31, 2001 to $18.3 billion at December 31, 2002.

The increase in the fair value of net assets attributable to common stockholders in 2002 is presented net of significant capital transactions executed during the year, including common stock repurchases totaling $0.6 billion and common dividends paid totaling $0.6 billion. Both common dividends and common stock repurchases represent returns distributed to common stockholders and thereby reduce the remaining fair value of net assets attributable to common stockholders. The change in fair value of net assets attributable to common stockholders excluding these capital outflows was approximately $5.7 billion in 2002.

Among the primary factors in the increase in 2002 FVBS net assets were core spread income and fee-based income. In addition, returns on market risk positions also provided a positive contribution. Core spread income benefited from strong retained portfolio growth of approximately 14 percent and the attractiveness of mortgage-to-debt OAS at the time the mortgages were purchased. Freddie Mac's increase in 2002 FVBS net assets demonstrates that Freddie Mac's investment and risk management discipline can foster fair value growth in a year when there was high interest-rate volatility and a wide range of interest-rate environments. Management cautions, however, that the strong fair value results achieved in 2002 exceed management's long-run expectations for fair value net asset growth. In addition to the factors noted above, tighter mortgage-to-debt spreads, which were the result of the continuing high demand for mortgage-related securities by other investors, contributed significantly to the overall increase in Freddie Mac's 2002 fair value results. This effect was partially offset by a significant decline in the fair value of the company's existing guarantee portfolio. As noted above, management believes that changes in mortgage-to-debt OAS and the fair value of the existing guarantee portfolio will fluctuate from year to year but will not have a significant impact on the FVBS net assets over the longer term.

Valuation Methods and Assumptions

The following methods and assumptions were used to estimate the fair value of assets and liabilities as of December 31, 2002 and 2001, which can be found in Table 8 of the accompanying November 21, 2003 restatement press release. As noted above, management uses the same valuation techniques for preparing the FVBS as it does for those elements of Freddie Mac's GAAP consolidated financial statements which are recorded at fair value, such as derivatives and securities as well as guarantee contracts for a portion of the PC portfolio.

Assets

- Mortgages

  "Mortgages" represent single-family and multifamily whole loans held in Freddie Mac's retained portfolio. For GAAP purposes, management must determine the fair value of these mortgages to calculate lower of cost or fair value adjustments for mortgages classified as held for sale. Management uses this same approach when determining the fair value of all whole loans, including those held for investment, for FVBS purposes.

Freddie Mac determines the fair value of mortgage loans based on comparisons to actively traded mortgage-backed securities with similar characteristics, with an adjustment for credit and liquidity related to an implied guarantee fee. Specifically, Freddie Mac aggregates mortgage loans into pools by product type, coupon and maturity and then converts the pools into notional mortgage-backed securities based on their specific characteristics. Freddie Mac then calculates fair values for these notional mortgage-backed securities using the process that is described in the "Mortgage-Related Securities" section, below.

As described above, the fair value of these mortgages also includes an adjustment for the implied guarantee fee associated with these whole loans. To accomplish this, the fair value of the single-family whole loans includes an adjustment representing the additional cash flows on the mortgage coupon of the whole loan in excess of the coupon expected on the notional mortgage-backed securities. For multifamily whole loans, the implied guarantee fee is estimated by calculating the net present value of guarantee fees expected to be retained by Freddie Mac. This retained guarantee fee is obtained by subtracting the expected cost of funding and securitizing a multifamily whole loan of a comparable maturity and credit rating from the coupon on the whole loan at the time of purchase.

The implied guarantee fee is also net of the related credit and other components inherent in the company's guarantee obligation. For single-family whole loans, the process for estimating the related credit and other guarantee obligation components is described in the "Liabilities and Minority Interest – Guarantee Obligation for Participation Certificates" section. For multifamily whole loans, the process for estimating the related credit and other guarantee obligation components employs a market-based approach to estimate the potential credit obligation. This obligation is estimated by extracting the credit risk premium that multifamily whole loan investors require from market prices on similar securities. This credit risk premium is net of expected funding, liquidity, and other risk premiums that are embedded in the market price of the reference securities.

- <u>Mortgage-related securities</u>

  "Mortgage-related securities" represent passthroughs and other mortgage-backed securities classified as available-for-sale and trading, which are already reflected at fair value on the GAAP consolidated balance sheets. (Freddie Mac currently has no mortgage-related securities classified as held-to-maturity.) Mortgage-related securities are largely comprised of single and multi-class mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. They also include other mortgage-backed securities such as home equity, commercial mortgage-backed, and manufactured housing securities.

The fair value of securities with readily available third-party market prices is based on market prices obtained from brokers and dealers or reliable third-party pricing service providers. For other securities, an option-adjusted spread approach is used to estimate fair value. This OAS approach uses a model developed from market data and management judgment to estimate the OAS risk premium an investor would require as compensation for a given product's prepayment uncertainty and interest-rate volatility. Once an OAS has been determined, fair value is calculated by using the OAS as an input to Freddie Mac's interest-rate and prepayment models in order to determine the estimated net present value of projected cash flows. The remaining instruments are priced using other modeling techniques or by using other securities as proxies.

For FVBS purposes, "mortgage-related securities" also includes the expected market value of financial guarantee contracts that Freddie Mac purchased to obtain additional credit protection on certain manufactured housing asset-backed securities. These financial guarantee contracts, which had a fair value of approximately $148 million and zero as of December 31, 2002 and December 31, 2001, respectively, are excluded from the fair values used for GAAP consolidated balance sheet purposes. The fair value of these contracts is based on the difference between the market price of non-credit impaired manufactured housing securities and credit-impaired manufactured housing securities that are likely to produce future credit losses, as adjusted for management's estimate of a risk premium attributable to the financial guarantee contracts. The value of the contracts, over time, will be determined by the actual credit-related losses incurred and, therefore, may have a value that is higher or lower than management's market-based estimate.

Mortgage-related securities also include Participation Certificate residuals related to PCs held by Freddie Mac and reported in the mortgage-related securities line item. PC residuals are reported at fair value on Freddie Mac's consolidated balance sheets. Fair value for PC residuals is estimated in the same manner as described for guarantee assets and guarantee obligations for PCs, below. *See* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," for more information about accounting policies related to PC residuals.

- Cash and cash equivalents

"Cash and cash equivalents" is largely comprised of highly liquid investment securities with an original maturity of three months or less and securities used for cash management purposes, as well as cash collateral posted by Freddie Mac's derivative counterparties. Given that these assets are short-term in nature with limited market value volatility, the carrying amount on the GAAP consolidated balance sheets is assumed to be a reasonable approximation of fair value.

- Investments

  "Investments" principally consists of mortgage-related and non-mortgage-related securities classified as either available-for-sale or trading, which are reported at fair value on Freddie Mac's consolidated balance sheets. "Investments" also includes PC residuals related to Freddie Mac PCs reported in the Investments line item.

- Securities purchased under agreements to resell and Federal funds sold

  "Securities purchased under agreements to resell and Federal funds sold" is comprised principally of short-term contractual agreements such as Treasury and agency securities, Federal funds sold and Eurodollar time deposits. Given that these assets are short-term in nature, the carrying amount on the GAAP consolidated balance sheets is assumed to be a reasonable approximation of fair value.

- Guarantee assets for Participation Certificates

  Under GAAP, in certain cases Freddie Mac records the fair value of management and guarantee fees on PCs as guarantee assets in its consolidated balance sheets. In other cases, management and guarantee fees are recognized on an accrual basis. *See* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," for a discussion of the company's accounting policies related to management and guarantee fees.

  For FVBS purposes, guarantee assets reflect the fair value of guarantees on all outstanding PCs held by third parties, including those accounted for at fair value under GAAP and those accounted for using the accrual basis under GAAP. For FVBS purposes, guarantee fee assets are valued using the same method as that used for GAAP fair value purposes. Fair value represents the present value of the difference between (i) the aggregate coupon of securitized mortgage loans less servicing compensation due to third party mortgage servicers and (ii) the coupon rate on the related PC, plus the fair value of certain mortgage pool insurance contracts.

  Specifically, the fair value of the Guarantee asset for PCs represents the present value of guarantee fee income that Freddie Mac expects to receive on its existing PC portfolio. Expected future cash flows are discounted at an interest rate level that reflects both (i) the level of risk-free interest rates and (ii) a two-year trailing average of observed option-adjusted spreads on relevant Interest-Only ("IO") securities. An average of the OASs observed on IO securities is used to adjust for differences between the product, coupon, and weighted-average life characteristics of the loans underlying the guarantee asset for PCs and the mortgage pools underlying IO securities that can be observed in the marketplace.

- Derivative assets

  "Derivative assets, at fair value" is largely comprised of interest-rate swaps, option-based derivatives, futures, and forward commitments to purchase or sell securities, which are already reflected at fair value on the GAAP consolidated balance sheets. The fair values of interest-rate swaps are determined by using LIBOR-based yield curves to calculate the expected cash flows for both the fixed-rate and floating-rate components of the swap contracts. Option-based derivatives, which principally represent call and put swaptions, are valued using an option-pricing model. This model uses market interest rates and market-implied option volatilities, where available, to calculate the option's fair value. Market-implied option volatilities are based on information obtained from broker-dealers. The fair value of exchange-traded futures is based on end-of-day closing prices obtained from third-party pricing sources. Forward commitments to purchase or sell securities are valued using the methods described for mortgage-related securities valuation, above.

  The fair value of derivative assets includes an estimate of the impact of institutional credit risk in the event that the counterparty does not honor its payment obligation. Freddie Mac's fair value of derivatives is not significantly affected by expected credit losses because management obtains collateral from most counterparties on at least a weekly basis and substantially all of Freddie Mac's credit risk arises from counterparties with investment-grade credit ratings of A or above.

- Other assets

  "Other assets" is comprised of accrued interest and other receivables, investments in qualified low-income housing tax credit ("LIHTC") limited partnerships that are eligible for federal tax credits, real estate owned (*e.g.*, properties acquired primarily through foreclosure), fixed assets (such as property, plant and equipment), and other miscellaneous assets.

  The receivables are financial instruments under SFAS 107 and are required to be measured at fair value. Because these receivables are short-term in nature, management believes the carrying amount on the GAAP balance sheet is a reasonable approximation of their fair value. For the LIHTC partnerships, fair value of expected tax credits is estimated using expected cash flows discounted at a market-based yield.

  The other categories of assets that comprise "Other assets" are not financial instruments required to be valued at fair value under SFAS 107 such as deferred taxes. The net deferred tax asset includes GAAP-basis deferred taxes, adjusted for estimated income taxes on the difference between the FVBS and the GAAP balance sheets, using the statutory federal tax rate of 35 percent. This adjustment represents the undiscounted, incremental tax asset related to the excess of GAAP-based stockholders' equity over FVBS net assets. Other non-financial assets included in "other assets" represent an insignificant portion of the GAAP consolidated balance sheets. Because any change in their fair value would not be a meaningful part of

Freddie Mac's FVBS business results, Freddie Mac has not adjusted the carrying amount on the GAAP consolidated balance sheets for estimates of the fair value of these non-financial assets.

Liabilities and Minority Interest

- Total debt securities, net

  "Total debt securities, net" represents short-term and long-term debt used to finance Freddie Mac's assets. It includes both non-callable and callable debt as well as short sales of Treasury securities used for risk management purposes.

  Short-term debt is valued using third-party market prices, where available, or using an OAS approach as described below. For long-term non-callable and callable debt with readily available third-party market prices, fair value is based on bid-side market prices obtained from brokers and dealers and reliable third-party pricing service providers. For all other long-term non-callable and callable debt, an OAS approach is used to estimate fair value. This OAS approach involves using a model based on market observations, with adjustments based on management judgment, to estimate the risk premium an investor would require as compensation to accept liquidity, credit and interest-rate volatility risk. Once an OAS has been determined, fair value is calculated by using the OAS as an input to Freddie Mac's models to determine the estimated fair value of expected cash flows.

- Guarantee obligation for Participation Certificates

  Under GAAP, in certain cases Freddie Mac records the fair value of estimated guarantee-related credit losses on PCs as guarantee obligations in its consolidated balance sheets. In other cases, guarantee-related credit losses are recognized as incurred. *See* Appendix IV, "Summary of Significant Accounting Policies for Restated Periods," for a discussion of the company's accounting policies related to guarantee-related credit losses.

  For FVBS purposes, guarantee obligations reflect the fair value of estimated guarantee-related credit losses on all outstanding PCs held by third parties. For FVBS purposes, guarantee obligations are valued using the same method as that used for GAAP fair value purposes. The fair value of the guarantee obligation is intended to reflect the estimated amount that Freddie Mac would be required to pay a third party to be relieved of Freddie Mac's obligations under the guarantee contract. The components of this calculation include: (i) estimates of expected future credit losses using statistically based models that evaluate a variety of factors (such as default experience, loss severity trends, expected proceeds from primary mortgage insurance, etc.) as well as an estimated risk premium for the uncertainty in expected credit losses that would be required to be paid to a third party with a credit standing, capital structure and regulatory oversight similar to those of Freddie Mac; (ii) estimates of the costs to administer the collection and distribution of payments on the mortgages underlying the PC; and (iii) expected gains / losses due to net interest from security program cycles.

- Reserve for losses on Participation Certificates

  The carrying amount of the "Reserve for losses on Participation Certificates" on the GAAP-basis balance sheet represents GAAP loan loss reserves for off-balance sheet PCs that are not already accounted for under SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This line item has no basis in the FVBS, because the estimated fair value of all expected default losses is included in the guarantee obligation reported on the FVBS, as discussed above.

- Derivative liabilities

  See discussion under "Derivative assets," above.

- Other liabilities

  "Other liabilities" is principally comprised of amounts due to PC investors (*i.e.*, principal and interest), funding liabilities associated with investments in LIHTC partnerships, accrued interest payable on debt securities and other miscellaneous obligations of less than one year. Management believes the carrying amount of these liabilities is a reasonable approximation of their fair value, except for funding liabilities associated with investments in LIHTC partnerships, for which fair value is estimated using expected cash flows discounted at a market-based yield.

- Minority interest in consolidated subsidiaries

  "Minority interest in consolidated subsidiaries" represents interests that third parties hold in Freddie Mac's two majority-owned REIT subsidiaries that issued certain preferred stock to outside investors. In accordance with GAAP, Freddie Mac consolidates the REITs. The fair value of the third party minority interests in these REITs is based on the estimated value of the underlying REIT preferred stock determined by management based on a valuation model adjusted to consider the impact of embedded call options, using market-based information to the extent available.

Net Assets Attributable to Stockholders

- Preferred Stock

  To determine the preferred stock fair value, Freddie Mac uses a market-based approach incorporating quoted dealer prices.

- Common Stockholders

  Net assets attributable to common stockholders is equal to FVBS net assets (the difference between the fair value of Freddie Mac's assets and the fair value of liabilities and minority interest), less the fair value of net assets attributable to preferred stockholders.

Impact of Restatement and Other Corrections on 2001 FVBS Net Assets

The following table summarizes the net impacts of the restatement and other corrections on Freddie Mac's FVBS net assets at December 31, 2001. FVBS net assets at December 31, 2000 have not been restated and therefore are not comparable to the amounts presented for December 31, 2001.

Table 1: Impact of Restatement and Other Corrections on 2001 FVBS Net Assets

($ in billions)	
FVBS net assets at December 31, 2001, as reported	**$17.7**
Net effect of 2001 Errors	
Derivatives	0.2
Mortgage-related investments	(0.1)
Minority interest in consolidated subsidiaries	0.1
Guarantee contracts	0.5
Other effects of restatement, net	(0.1)
Total impact	**$0.6**
FVBS net assets at December 31, 2001, as restated	**$18.3**

2001 Errors

In connection with the restatement of the company's financial statements, Freddie Mac reviewed the appropriateness of the company's valuation techniques and accounting policies and practices. As a result of this review, management concluded that the fair values of certain components of Freddie Mac's previously reported FVBS were incorrect. The following discussion explains these errors, which are detailed in the table above. Correction of these errors, together with certain balance sheet reclassifications, explain the changes in FVBS line items from as-reported to as-restated in Table 8 of the accompanying restatement press release.

- Derivatives — Correction of various errors related to derivatives resulted in a change to FVBS net assets at December 31, 2001. Freddie Mac used models that incorporated volatility assumptions in order to establish fair values for option-based derivatives during the restatement period. Freddie Mac's implementation of the models failed to incorporate all relevant pricing information available in the market. The correction of these errors increased FVBS net assets at December 31, 2001, by $0.2 billion after taxes.

- Mortgage-related investments — Freddie Mac made the following types of errors in its accounting for mortgage-related investments. In some cases the company used incorrect principal balances in the calculation of fair value. In other instances, the company made numerous errors in estimating the fair value of Freddie Mac's mortgage investments. These errors included the use of models or pricing matrices that failed to consider certain relevant market data and inaccurate lockout provisions related to prepayments. Finally, Freddie Mac failed to account for certain mortgage purchase and sale commitments at fair value. The correction of these errors decreased FVBS net assets at December 31, 2001 by $0.1 billion after taxes.

- Minority interest in consolidated subsidiaries — Freddie Mac owns majority interests in two Real Estate Investment Trusts ("REITs"). This caption primarily represents minority interests that third parties hold in Freddie Mac's majority-owned REIT subsidiaries in the form of REIT preferred stock. The valuation methodology used by Freddie Mac for pricing the REIT preferred stock was based on a potential tax event redemption that valued the amount at redemption based on a spread to certain Treasury rates and market implied volatilities. The Treasury rates used to calculate the estimated redemption price, however, were incorrect, causing Freddie Mac to overvalue the estimated redemption price. Correction of this error resulted in an increase to FVBS net assets of $0.1 billion after taxes at December 31, 2001.

- Pricing methodology and other corrections related to guarantee contracts — As part of the restatement, Freddie Mac revised the fair value of its guarantee contracts. The valuation process employed in 2001 was changed to incorporate additional benchmark market data regarding observed option-adjusted spreads on assets similar to the guarantee asset. Also, the company failed to incorporate available market data in estimating the future credit losses associated with the guarantee obligation. Finally, additional errors were made in the aggregation of the unpaid principal balance of mortgage securities and other contractual portfolio data against which prices were applied. The correction of these errors resulted in a $0.5 billion after tax increase in FVBS net assets at December 31, 2001.

- Other effects of restatement, net — Freddie Mac restated the carrying values of a number of assets and liabilities that are presented at their recorded GAAP amounts in the 2001 FVBS. The modification of these balances, together with the related tax effects, resulted in a decrease in FVBS net assets of $0.1 billion at December 31, 2001.

Financial Statement Classifications

As a result of the restatement, Freddie Mac made changes in the accounting classification and presentation of certain items in the financial statements for GAAP accounting purposes. In certain cases, these classification changes have a material impact on GAAP presentation. These classifications, however, have no impact on the FVBS net assets because they do not affect the way management measures fair value. For presentation purposes, all changes in GAAP classifications have been reflected in the presentation of fair values and comparable GAAP carrying amounts for items presented in the FVBS.

PMVS and Duration Gap

Overview

Freddie Mac's monthly interest-rate sensitivity disclosures provide a set of management estimates that convey a useful assessment of the amount of Freddie Mac's interest-rate risk at a given point in time. This section describes Freddie Mac's primary interest-rate measures – Portfolio Market Value Sensitivity, or PMVS, and duration gap.

- PMVS is measured in two ways, one measuring the estimated sensitivity of Freddie Mac's portfolio market value (as defined below) to parallel moves in interest rates and the other to nonparallel movements.
    - PMVS-L shows the estimated loss in pre-tax portfolio market value, expressed as a percentage of Freddie Mac's fair value of net assets attributable to common stockholders (measured as FVBS net assets less the fair value of net assets attributable to preferred stock) from an immediate adverse 50 basis point parallel shift in the level of LIBOR rates. The periodic disclosure reflects the average of the daily PMVS-L estimates for a given reporting period (a month, quarter or year).
    - PMVS-YC shows the estimated loss in pre-tax portfolio market value, expressed as a percentage of Freddie Mac's fair value of net assets attributable to common stockholders, from an immediate adverse 25 basis point change in the slope of the LIBOR yield curve. The periodic disclosure reflects the average of the daily PMVS-YC estimates for a given reporting period (a month, quarter or year).

- Duration gap estimates the net sensitivity of the fair value of Freddie Mac's financial instruments to movements in interest rates. Duration gap is presented in units expressed as months. A duration gap of zero implies that the change in value of assets from an instantaneous rate move will be accompanied by an offsetting change in the value of debt and derivatives thus leaving the net fair value of equity unchanged. However, because duration does not capture convexity exposure (the amount by which duration itself changes as rates move), actual changes in fair value from interest-rate changes may differ from that implied by duration gap alone. For that reason, management believes duration gap is most useful when used in conjunction with PMVS. The periodic duration gap disclosure reflects the average of the daily duration gap estimates for a given reporting period (a month, quarter or year).

In measuring the expected loss in portfolio market value (which is the numerator in the fraction used to calculate the PMVS percentages), management estimates the sensitivity to changes in interest rates of the fair value of all interest-bearing assets and liabilities (including short-term interest-bearing assets and liabilities) and all derivatives on a pre-tax basis. Beginning in 2002, the estimation of the expected loss in portfolio market value and duration gap also included cash flows related to a portion of guarantee contracts. These cash flows included net buy-ups (net upfront payments made by Freddie Mac which increase the guarantee fee that Freddie Mac will receive in connection with its PC guarantee) and expected gains/losses due to net interest from security program cycles. In estimating the expected loss in portfolio market value and duration gap, management does not consider the sensitivity to interest rate changes of the following assets and liabilities:

- Guarantee fee portfolio – Through 2001, the sensitivity of the fair value of the guarantee fee portfolio to changes in interest rates was included in calculating the expected loss in portfolio market value or duration gap. Beginning in 2002, only the components of the guarantee contract described above were included because management believes the expected benefits from replacement business provide an adequate hedge against interest-rate changes.

- Other assets with minimal interest-rate sensitivity -- Other assets, primarily including non-financial instruments, are not included in the calculation of the expected loss in portfolio market value or duration gap because of the minimal impact they would have on both PMVS and duration gap.

However, the fair values of these two items are included in the estimate of the fair value of net assets attributable to common stockholders, which is the denominator of the fraction used to calculate the PMVS-L and PMVS-YC percentages.

As described earlier in this appendix, while PMVS and duration gap estimate the exposure of the fair value of net assets attributable to common stockholders to changes in interest rates, they do not capture the potential impact of certain other market risks, such as changes in mortgage-to-debt OAS, basis risk, and volatility risk. Freddie Mac measures the impact of other market risks on a daily basis. Also, Freddie Mac controls its exposure to basis risk and volatility risk through the use of thresholds which, if exceeded, require reporting to senior management and the Board of Directors.

Freddie Mac's PMVS and duration gap measures provide useful estimates of key interest-rate risk exposures. These estimates are determined using models, including the prepayment model discussed above, that involve assumptions made by management in its best judgment. In addition, in the case of PMVS, daily calculations are based on an estimate of FVBS net assets since a complete FVBS is currently produced only on an annual basis. Management anticipates producing and reporting a quarterly FVBS beginning in 2004. Accordingly, while management believes that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than precise measurements.

Calculation of PMVS measures

Freddie Mac calculates daily the estimated potential loss of portfolio market value based on an immediate adverse 50 basis point parallel shift (up or down) of the LIBOR yield curve (PMVS-L) and based on a non-parallel shift resulting from an immediate 25 basis point shift in the slope of the LIBOR yield curve (PMVS-YC). The more adverse loss on a pre-tax basis under both scenarios is then expressed as a percentage of the after-tax fair value of net assets attributable to common stockholders. These percentages represent the PMVS-L and PMVS-YC data points for the day. The reported monthly PMVS-L and PMVS-YC figures are an average of the daily figures. Neither PMVS-L nor PMVS-YC include the effect on fair value of any potential rebalancing actions that management may actually take in the event these previously defined adverse changes occur.

Calculation of Duration Gap Measure

On a daily basis, Freddie Mac determines the fair value and effective duration of its financial assets and liabilities, including derivatives, as described above. The fair value of each instrument is multiplied by its duration to determine the instrument's duration dollars. Duration dollars are then aggregated to determine the portfolio's net duration dollar exposure. To calculate duration gap, the net duration dollar exposure is divided by the fair value of total financial assets and expressed in months. Freddie Mac's duration gap is disclosed monthly and is the average of each day's calculated duration gap.

Impact of Restatement on PMVS and Duration Gap measures

As previously announced, in connection with the restatement, management has reviewed the company's interest-rate risk sensitivity disclosures for 2002 and 2001 to assess the impact of securities and derivatives valuation errors as described in Appendix II, "Detailed Discussion of Accounting Errors and Other Accounting Changes – Valuation of Financial Instruments," and to correct other errors identified during management's review. Because an estimate of FVBS net assets attributable to common stockholders is used to calculate the PMVS estimates, restated PMVS estimates for both 2002 and 2001 reflect the correction of the valuation errors described earlier in the "2001 Errors" section of this Appendix. In addition, restated PMVS estimates reflect the correction of process errors identified by management in the aggregation of the estimate of the fair value of net assets attributable to common stockholders. The restated duration gap estimates reflect the correction of valuation errors described in the "2001 Errors" section, above, as well as other issues such as certain data errors related to the multifamily portfolio.

Management believes the errors identified in connection with this review do not significantly impact Freddie Mac's interest-rate risk position as previously reported in the company's monthly interest-rate risk sensitivity disclosures. Management estimates that the impact of the errors does not change either monthly average PMVS estimate by more than 2 percentage points or duration gap estimates by more than one month for each previously reported month in 2002 and 2001.

For example, Table 2 below summarizes the daily average PMVS-L and duration gap estimates for December, 2002, and December, 2001, as originally reported and as restated.

Table 2: Impact of Valuation Errors on PMVS-L and Duration Gap Estimates

	PMVS-L		**Duration Gap (in months)**	
Monthly Average	**As Reported**	**As Restated**	**As Reported**	**As Restated**
December 2001	3.9%	3.6%	1	1
December 2002	2.7%	2.3%	0	0

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Appendix IV—Summary of Significant Accounting Policies for Restated Periods

General

Freddie Mac (the "company") is a stockholder-owned, government-sponsored enterprise ("GSE") established by Congress in 1970 to provide a continuous flow of funds for residential mortgages. Freddie Mac's obligations are not insured or guaranteed by the United States ("U.S.") or any agency or instrumentality of the U.S. other than Freddie Mac.

Freddie Mac's financial reporting and accounting policies conform to generally accepted accounting principles in the U.S. ("GAAP").

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The use of certain estimates in preparation of the financial statements is described below.

A significant estimate that is pervasive in the company's financial statements is the determination of fair value for financial instruments required to be recorded at fair value under GAAP. The measurement of fair value is fundamental to the presentation of Freddie Mac's financial condition and results of operations and, in many instances, requires management to make complex judgments. In general, Freddie Mac records financial instruments at the amount at which the instrument could be bought and sold between willing parties, in an active market and not in a forced or liquidation sale. Fair value is generally based on price quotations, where available. If prices are not readily available, fair value is based on internal valuation models using market data inputs or internally developed assumptions, where appropriate. The use of different pricing models and assumptions could produce materially different estimates of fair value.

Estimates are also used in the assessment of legal and tax contingencies, reserves for credit losses on mortgage loans and guarantee losses on Mortgage Participation Certificates "PCs"), and other matters that affect the reported amounts and disclosure of contingencies in the financial statements. In accordance with Statement of Financial Accounting Standards ("SFAS") 5 "Accounting for Contingencies" ("SFAS 5"), contingencies that might result in gains are not recorded prior to realization; whereas, contingencies that result in losses must be accrued currently if the loss is both probable of occurring and the amount is reasonably estimable. Loss contingencies that are considered reasonably possible are not accrued, but are required to be disclosed. Loss contingencies that are considered to have a remote probability of occurrence are not required to be accrued or disclosed in accordance with SFAS 5.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Consolidation

The Consolidated Financial Statements include the accounts of the company and its subsidiaries. All material intercompany transactions have been eliminated in consolidation. For each entity with which Freddie Mac is involved, the company makes a determination as to whether the entity should be considered a subsidiary of the company and included in the company's Consolidated Financial Statements. Freddie Mac consolidates all subsidiaries in which it holds more than 50 percent of the voting rights and has the ability to exercise control over the entity. The company uses the equity method of accounting for companies over which it has the ability to exercise significant influence but not control. Under the equity method of accounting, Freddie Mac reports its recorded investment as an asset on the Consolidated Balance Sheets and recognizes its share of the entity's net income or losses in the Consolidated Statements of Income with an offset to the recorded investment on the Consolidated Balance Sheets.

The company consolidates its two majority-owned real estate investment trusts, Home Ownership Funding Corporation and Home Ownership Funding Corporation II, and certain other special purpose entity structures. Generally, the company does not use special purpose entities in its credit enhancement and resecuritization transactions. The company also consolidates the accounts of majority-owned West*Mac Associates Limited Partnership, the owner and developer of Freddie Mac's company headquarters, and wholly-owned Ignition Mortgage Technology Solutions, Inc. The equity and net earnings attributable to the minority shareholder interests which relate to the company's subsidiaries are reported separately in the Consolidated Balance Sheets as "Minority interest in consolidated subsidiaries" and in the Consolidated Statements of Income as "Minority interest in earnings of consolidated subsidiaries," respectively.

The company regularly invests as a limited partner in qualified low-income housing tax credit partnerships that are eligible for federal tax credits. These tax credits are reported as reductions in the company's provision for income taxes pursuant to Emerging Issues Task Force ("EITF") Issue 94-1, "Accounting for Tax Benefits Resulting from Investments in Affordable Housing Projects" ("EITF 94-1"). Freddie Mac consolidates those investments over which it has the ability to exercise control and accounts for the non-consolidated investments using the equity method of accounting, in accordance with Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures" ("SOP 78-9"). For partnerships accounted for under the equity method, Freddie Mac's recorded investment is reported as part of "Other assets" and its share of partnership income or losses is reported in the Consolidated Statements of Income as "Non-interest expense – Housing tax credit partnerships." Freddie Mac periodically reviews these investments for impairment and adjusts them to fair value when a decline in market value below the recorded investment is deemed to be "other than temporary" under GAAP. Impairment losses are included as part of "Non-interest expense – Housing tax credit partnerships."

Cash and Cash Equivalents

Freddie Mac accounts for highly liquid investment securities with an original maturity of three months or less and used for cash management purposes as cash equivalents. Cash equivalents are reported at cost, which is believed to be representative of their fair value because changes in short-term interest rates should have a minimal impact on the fair value of securities that have an original term of three months or less. Cash collateral obtained from counterparties to derivative contracts in an unrealized gain position is recorded as "Cash and cash equivalents."

Cash-Based Transfers of Financial Assets

Freddie Mac accounts for transfers of financial assets pursuant to the requirements of SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" and, prior to April 1, 2001, SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (collectively, "SFAS 125 / 140"). If Freddie Mac determines that it surrenders control over assets that it transfers to a third party, Freddie Mac accounts for the transfers as sales to the extent its counterparty provides consideration other than beneficial interests in the transferred assets. Likewise, if Freddie Mac determines that it obtains control over assets that were transferred to it, it accounts for the transfers as purchases to the extent Freddie Mac provides consideration other than beneficial interests in exchange for the transferred assets.

If a transfer of financial assets qualifies as a sale, Freddie Mac continues to carry on its Consolidated Balance Sheets any retained interests in financial assets that were securitized and/or re-securitized. Such retained interests generally take one of two forms. First, in connection with its right to receive guarantee payments (as further discussed below), Freddie Mac recognizes a retained interest that is classified on its Consolidated Balance Sheets as "Guarantee asset for Participation Certificates, at fair value." (This retained interest is referred to below as guarantee asset, or "GA.") Second, Freddie Mac recognizes PCs (or multiclass passthrough certificates ("Multiclass Certificates") issued by the company using PCs held in its portfolio) that are not transferred to third parties upon the completion of a securitization of mortgage loans (or, in the case of Multiclass Certificates, upon the resecuritization of PCs held in portfolio). These securities are accounted for pursuant to the requirements of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). The carrying amounts of retained interests are determined by allocating the previous carrying amount of the transferred assets between assets sold and the retained interests based on their relative fair values at the date of transfer. Freddie Mac's accounting policy for recognized GAs is further described below.

Upon completion of a transfer of financial assets that qualifies as a sale, Freddie Mac also de-recognizes all assets sold and recognizes all assets obtained and liabilities incurred in consideration as proceeds of the sale. Accordingly, Freddie Mac recognizes the fair value of its recourse obligation to guarantee the timely payment of principal and interest of single class PCs and Multiclass Certificates transferred in sale transactions. This recourse obligation, which is classified in Freddie Mac's Consolidated Balance Sheets as "Guarantee obligation for Participation Certificates, at fair value," is recorded as a reduction of proceeds in the calculation of the corresponding gain (loss) on the sale of transferred PCs. (The referenced guarantee obligation is referred to below as a "GO.") The resulting gain (loss) on sale of transferred PCs is reflected in Freddie Mac's Consolidated Statements of Income as a component of "Gains (losses) on investment activity."

Freddie Mac accounts for cash-based transfers of financial assets that do not qualify as sales as secured borrowings.

Other Transfers of Financial Assets

Freddie Mac executes several types of non-cash-based exchanges of financial assets that receive different accounting treatment under GAAP. Transfers of PCs that are issued through the Freddie Mac Guarantor Program do not trigger sale accounting recognition under SFAS 125 / 140. In Guarantor transactions, Freddie Mac issues PCs that are backed by mortgage loans delivered to it by third parties, and these third parties receive the PCs in exchange for the mortgage loans they delivered. Because Freddie Mac does not have the ability to freely pledge or exchange the transferred mortgage loans, it has not acquired control over the loans. Therefore, the company is considered neither a transferee of the mortgages nor a transferor of the PCs for GAAP purposes and the exchange of PCs for mortgages does not trigger sale accounting recognition under SFAS 125 / 140. The accounting for guarantee fees that relate to Guarantor transfers is discussed further below.

Freddie Mac also issues and transfers Multiclass Certificates to third parties in exchange for PCs and other mortgage-backed securities. As with the Guarantor Program, Freddie Mac cannot freely pledge or exchange the securities that are delivered to it by third parties in these exchanges. As a result, Freddie Mac does not view such exchanges as triggering sale accounting recognition under SFAS 125 / 140. Freddie Mac receives a fee for resecuritizing PCs into Multiclass Certificates that is paid at the time of resecuritization. That portion of the transaction fee that relates to the estimated fair value of the company's future administrative responsibilities of issued Multiclass Certificates is deferred and amortized into income on a straight-line basis. Further, and in cases where Freddie Mac retains portions of the Multiclass Certificates, a portion of this fee is deferred under the requirements of SFAS 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases" ("SFAS 91"). The balance of transaction fees received, which relates to compensation earned in connection with structuring-related services rendered by Freddie Mac to third parties, is recognized immediately into "Resecuritization fees".

In addition to PCs issued under its Guarantor Program and PCs issued from mortgage loans acquired in exchange for cash consideration ("Cash Window Purchases"), Freddie Mac issues PCs through its MultiLender Program that are backed by mortgage loans delivered to Freddie Mac by more than one third party. Freddie Mac may itself contribute mortgage loans to Multilender pools from which PCs are then issued and delivered to third parties (and to Freddie Mac, to the extent that it contributed mortgage loans to a Multilender pool). Freddie Mac accounts for its contributions of mortgage loans to a Multilender pool as partial sales of those assets, the sold portion of which is dependent upon the contribution of collateral made by Freddie Mac relative to third parties. The portion of a Multilender transaction that qualifies as a sale is accounted for in the same manner as the cash-based transfers described above. The PC issuances and related transfers for the remaining portion are accounted for in a manner consistent with the accounting for PCs issued through the Guarantor Program.

Guarantee Fees, Buy-Up Fees and Buy-Down Fees

In return for providing its guarantee, Freddie Mac earns a management and guarantee fee ("Required G-Fee") that is paid to Freddie Mac over the life of an issued PC. Additionally, Freddie Mac occasionally receives upfront payments as additional compensation for its guarantee of loans with certain credit risk related characteristics. For PC transfers made in connection with Freddie Mac's Guarantor Program, it is also common for buy-up or buy-down fees ("Buy-Ups" or "Buy-Downs," respectively) to be exchanged between Freddie Mac and its counterparties upon issuance of the PC. Buy-Ups represent upfront payments that are made by Freddie Mac, which increase the Required G-Fee that Freddie Mac will receive over the life of the PC in connection with its guarantee. Buy-Downs represent upfront payments that are made to Freddie Mac, which decrease (i.e., partially prepay) the Required G-Fee that Freddie Mac will receive over the life of the PC in connection with its guarantee.

For PC transfers that qualify as sales under SFAS 125 / 140, Freddie Mac recognizes a GA. The GA that is recognized in connection with Cash Window sales represents the fair value of the difference between (i) the aggregate coupon cash flows of securitized mortgage loans less servicing cash flows due to third party mortgage servicers and (ii) the coupon cash flows on the related PC, plus the fair value of certain credit enhancements other than primary mortgage insurance. Freddie Mac views GAs as financial assets that can be prepaid or otherwise settled in a manner that may prevent Freddie Mac from recovering substantially all of its recorded investment. Freddie Mac accounts for GAs like investments in debt securities classified as trading under SFAS 115. All changes in the fair value of GAs, which are reported on Freddie Mac's Consolidated Balance Sheets as a component of "Guarantee asset for Participation Certificates, at fair value," are reflected in earnings as a component of "Gains (losses) on 'Guarantee asset for Participation Certificates, at fair value.'" All realized income associated with recognized GAs is reflected in earnings as "Management and guarantee income" on an accrual basis.

Required G-Fees, as decreased in connection with upfront Buy-Down payments, that relate to PCs issued through the Guarantor Program (and that have not been previously transferred in a SFAS 125 / 140 sale transaction) are realized as income on an accrual basis in accordance with the guidance in EITF 85-20, "Recognition of Fees for Guaranteeing a Loan" ("EITF 85-20"). The Required G-Fees in these transactions are recognized over the corresponding guarantee period. Additionally, Freddie Mac recognizes a guarantee liability for estimated, guarantee-related credit losses in accordance with SFAS 5. The accounting for Buy-Up or Buy-Down payments made or received at PC issuance follows:

- Buy-Up amounts paid at PC issuance are recognized on the Consolidated Balance Sheets as a GA if the corresponding PCs are held by third parties, and are accounted for like a debt security that is classified as trading under SFAS 115. If a Buy-Up was paid in connection with PCs that Freddie Mac holds, the Buy Up is recognized as a component of Participation Certificate Residual ("PCR") (discussed further below).

- Buy-Down and credit fee amounts received at PC issuance are deferred on Freddie Mac's Consolidated Balance Sheets as an adjustment of "Other liabilities." These amounts are amortized into "Management and guarantee income" pursuant to the requirements of SFAS 91.

If a PC is purchased by Freddie Mac, all recognized GAs are reclassified on Freddie Mac's Consolidated Balance Sheets as a component of "Participation Certificate Residuals, at fair value." Additionally, the unamortized balance of Buy-Downs and credit fees received in connection with the original issuance of purchased PCs is extinguished and treated as a basis adjustment to the recognized value of purchased PCs. Such basis adjustments are then amortized into earnings pursuant to the requirements of SFAS 91.

Guarantee Obligations

When a PC is issued or sold in a transfer that qualifies as a sale, Freddie Mac recognizes a GO. Freddie Mac accounts for recognized GOs at fair value, with all changes in fair value reflected in Freddie Mac's Consolidated Statements of Income as a component of "Gains (losses) on 'Guarantee obligation for Participation Certificates, at fair value.'"

The fair value of the GO is intended to reflect the estimated amount that Freddie Mac would be required to pay to a third party to be relieved of Freddie Mac's obligations under the guarantee contract. The components of this calculation include: (i) estimates of expected future credit losses using statistically based models that evaluate a variety of factors (such as default experience, loss severity trends, expected proceeds from primary mortgage insurance, etc.) as well as an estimated risk premium for the uncertainty in expected credit losses that would be required to be paid to a third party with a credit standing, capital structure and regulatory oversight similar to those of Freddie Mac; (ii) estimates of the costs to administer the collection and distribution of payments on the mortgages underlying the PC; and (iii) expected gains / losses due to net interest from security program cycles.

The purchase of a PC by Freddie Mac prompts the extinguishment of a recognized GO pursuant to the requirements of SFAS 125 / 140. The de-recognition of a GO is reflected in earnings as "Gains (losses) on investment activity." The purchase of a PC that was previously included as part of a SFAS 125 / 140 sale also triggers a reduction in the fair value of the corresponding GA. This is because prior to the repurchase of a PC, the fair value of a GA does not consider the expected future cash outflows of the GO that a third party would otherwise have to assume if it purchased the GA from Freddie Mac. Therefore, after PC repurchase, a devaluation of the GA is necessary. Like the extinguishment of the GO, such a diminution in the value is reflected in earnings as "Gains (losses) on investment activity."

Participation Certificate Residuals

Participation Certificate Residual ("PCR") relates to PCs held by Freddie Mac and represents the fair value of the expected future cash flows associated with the guarantee contracts that are inherent within those PCs.

A PCR is recognized by Freddie Mac in connection with PCs held by Freddie Mac that (i) previously went through a SFAS 125 / 140 sale (in which case, a GA and GO were previously established for the held PC), (ii) were formed from Cash Window Purchases and that were never transferred to third parties or (iii) were purchased by Freddie Mac from third parties on the corresponding issue date of such PCs through the Guarantor Program.

Like a recognized GA, a PCR is accounted for like a debt security and is classified as either available-for-sale or trading under SFAS 115. PCRs relating to PCs that previously went through a SFAS 125 / 140 sale are accounted for as trading under SFAS 115. PCRs relating to PCs held in portfolio that were formed from Cash Window Purchases and that were never transferred to third parties are accounted for like debt investments and generally are classified as available-for-sale under SFAS 115. The same treatment applies to PCRs that correspond to PCs purchased by Freddie Mac from third parties on the corresponding issue date of such PCs, except that any portions of these PCRs that relate to Buy-Ups paid by Freddie Mac are accounted for as trading investments.

All changes in the fair value of PCRs that are designated as trading are reflected in earnings as a component of "Gains (losses) on investment activities." All changes in the fair value of PCRs that are accounted for as available-for-sale are reflected as a component of "Accumulated other comprehensive income (loss), net of taxes."

All realized income associated with recognized PCRs is recognized as a component of interest income.

Due to Participation Certificate Investors

Timing differences between Freddie Mac's receipt of scheduled and unscheduled principal and interest payments from seller/servicers on mortgages underlying Freddie Mac's PCs and the subsequent passthrough of those payments on PCs owned by third party investors results in the liability "Due to Participation Certificate investors." In those cases, payments from seller/servicers are generally received in a given month, yet the PC balance is not reduced for payments of principal until the first day of the next month, and Freddie Mac releases the cash (principal and interest) to the PC investor on the fifteenth day of that next month. The company generally invests these principal and interest amounts received in short-term investments from the time Freddie Mac receives the amounts until the time Freddie Mac pays the PC investor. Interest income resulting from investment of principal and interest payments from seller/servicers is reported in interest income over the period earned.

For unscheduled principal prepayment amounts, these timing differences result in an expense accrual upon prepayment of the mortgage as the related PCs continue to bear interest to the PC investor at the PC coupon rate from the date of prepayment until the date the PC security balance is reduced, while no interest is received from the mortgage on that prepayment amount. The expense recognized upon prepayment is reported in "Interest Expense – Due to Participation Certificate investors."

Freddie Mac reports PC coupon interest amounts relating to its investment in PCs consistent with the accounting practices generally applied by third party investors in PCs. Accordingly, the PC coupon interest on prepayments of a mortgage pending remittance on PCs held by Freddie Mac is reported as both "Interest Income – Mortgage-related securities in the retained portfolio" and "Interest Expense – Due to Participation Certificate investors." Scheduled and unscheduled principal payments received by Freddie Mac that relate to its investment in PCs are reported as a reduction to its investment in PCs on the Consolidated Balance Sheets.

Mortgages

Mortgage loans that management may sell are classified as "held for sale." When the decision is made to retain the loan, the loans are transferred to the "held for investment" portfolio or are securitized and classified as AFS securities. Held for sale mortgages are included in the retained portfolio and reported at the lower of cost or fair value, on a portfolio basis, with losses reported in "Gains (losses) on investment activity." If held for sale loans are transferred to the held for investment category, any related lower of cost or fair value adjustment is made on an individual loan basis. The determination of any lower of cost or fair value losses is done in aggregate by considering all open loan purchase commitment positions and outstanding forward sales commitments to investors.

Freddie Mac determines the fair value of held for sale mortgage loans based on comparisons to actively traded mortgage-backed securities with similar characteristics, with an adjustment for credit and liquidity, as discussed below, related to an implied guarantee fee. Specifically, Freddie Mac aggregates mortgage loans into pools by product type, coupon and maturity and then converts the pools into notional mortgage-backed securities based on their specific characteristics. Freddie Mac then calculates fair values for these notional mortgage-based securities using the process that is described in the "Securities" section below. The fair value of the whole loans also includes an adjustment representing the additional cash flows on the mortgage coupon of the whole loan in excess of the coupon expected on the notional mortgage-backed securities. This adjustment is net of the related credit and other guarantee obligation components.

Mortgage loans that management intends to hold for the foreseeable future or to maturity are classified as "held for investment." These mortgages are reported at their outstanding principal balances, net of deferred fees and costs (including premiums and discounts). These deferred items are amortized into interest income over the estimated lives of the mortgages using the effective interest method under SFAS 91. The company uses actual prepayment experience and estimates of future prepayments to determine the constant yield needed to apply the effective interest method. For purposes of estimating future prepayments, the mortgages are aggregated by similar characteristics such as origination date, coupon and maturity.

The company recognizes interest income on mortgages on an accrual basis, except when management believes the collection of principal or interest is doubtful. For single-family mortgages, reserves for uncollectible interest are estimated using statistical models, which quantify accrued but unpaid interest at the balance sheet date. Freddie Mac reports this reserve as a reduction to the accrued loan interest balance in "Accounts and other receivables, net." For multifamily mortgages, the accrual of interest is generally discontinued and any existing accruals are reversed against interest income on loans that become 90 days past due as to principal or interest unless collection of both principal and interest is assured.

Freddie Mac has the option to purchase loans out of PC pools under certain circumstances, such as to resolve an existing or impending delinquency or default. When loans are purchased out of pools (generally when the loans are 120 days delinquent), the loan is recorded at its purchase price (i.e., its unpaid principal balance), the loan's effect on "Guarantee obligation for Participation Certificates, at fair value" or the "Reserve for guarantee losses on Participation Certificates" is removed as applicable, and a new credit reserve is established which is recorded in "Reserve for losses on mortgage loans held for investment."

Reserves for Losses on Mortgage Loans Held for Investment and Losses on PCs

Freddie Mac maintains its "Reserve for losses on mortgage loans held for investment" to provide for credit losses on mortgages included in its Retained Portfolio (excluding mortgage loans held for sale) and it maintains its "Reserve for guarantee losses on Participation Certificates" to provide for credit losses on mortgages underlying PCs held by third parties that have never previously been accounted for as sales by Freddie Mac under SFAS 125 / 140 (and which, therefore, have no recognized GO). The "Reserve for losses on mortgage loans held for investment" and "Reserve for guarantee losses on Participation Certificates" are referred to collectively as "Loan Loss Reserves."

The fair value of expected credit losses relating to PCs that have been accounted for as sales by Freddie Mac under SFAS 125/140 are reflected in the "Guarantee obligation for Participation Certificates, at fair value."

The reserve for credit losses associated with the single-family held for investment portfolio (comprising loans backed by one-to-four family properties) and PC guarantees for which a GO has not been recognized is evaluated using the criteria of SFAS 5, which provides that large groups of homogenous loans should be evaluated for impairment on a collective basis. To establish a reserve under SFAS 5, impairments must be both (i) probable and (ii) reasonably estimable. The reserve for credit losses associated with the multifamily held for investment loan portfolio and issued PCs that were not transferred as part of a GAAP-based sale are evaluated pursuant to the requirements of SFAS 114, "Accounting by Creditors for Impairment of a Loan" ("SFAS 114"), for those loans determined to be impaired based on the criteria described below. The remainder of the multifamily loan portfolio is evaluated for impairment using SFAS 5. The "Reserve for losses on mortgage loans held for investment" and "Reserve for guarantee losses on Participation Certificates" are increased through charges to the "Provision for credit losses" and decreased by charge-offs, net of recoveries. Setting the level of reserves requires significant judgment and the resultant reserve levels are regularly evaluated by management.

Management estimates incurred credit losses on homogenous pools of single-family loans using statistically based models that evaluate a variety of factors, resulting in a range of probable losses related to impaired single-family loans at the balance sheet date. The factors used to estimate incurred losses as of period-end include actual and expected loss severity trends for similar loans; actual and expected default experience; actual and expected proceeds from private mortgage insurance and other credit enhancements; actual and expected pre-foreclosure real estate taxes and insurance; the year of the loan origination; geographic location; and estimated selling costs should the loan ultimately be foreclosed upon and sold. Management reviews the range of probable losses to determine the point within the range that represents the best estimate of incurred losses. Management also considers macroeconomic factors, including regional housing trends, applicable home-price indices, unemployment and employment dislocation trends, consumer credit statistics, recent changes in credit underwriting practices, extent of third party insurance, and other measurable factors that influence the quality of the portfolio at the balance sheet date. Favorable trends in these factors produce a reserve requirement toward the lower end of the range; adverse trends in these factors produce a reserve requirement toward the higher end of the range.

Management estimates a range of incurred credit losses on the multifamily portfolio based on an individual review of each loan as well as an evaluation of loan-level and market-level risk characteristics of the portfolio in the aggregate to determine reserve needs. Management reviews the range of probable losses to determine the point within the range that represents the best estimate of incurred losses. Loans individually evaluated for impairment include loans that become 60 days past due for principal and interest, loans with observable collateral deficiencies, and loans whose contractual terms were modified due to credit concerns.

For both single-family and multifamily mortgages where the original terms of the agreement are modified for economic or legal reasons related to the borrower's financial difficulties, losses are recorded at the time of modification in accordance with SFAS 114. For mortgages that are foreclosed upon and thus transferred to Real Estate Owned ("REO") or involved in a pre-foreclosure sale, losses at the time of transfer or pre-foreclosure sale are charged-off against Loan Loss Reserves. In the case of REO transfers, losses arise when the carrying basis of the loan (including accrued interest) exceeds the fair value of the foreclosed property (after deduction for estimated selling costs and consideration of third party insurance or other credit enhancements). REO gains arise when the fair market value of the acquired asset (after deduction for estimated disposition costs and consideration of third party insurance or other credit enhancements) exceeds the carrying value of the mortgage (including accrued interest). REO gains are included in "REO operations income (expense)."

Securities

The company classifies mortgage-related securities and non-mortgage securities as available-for-sale ("AFS") or "trading", as defined in SFAS 115. Such securities include PCs that are purchased from third parties and PCs that were created using mortgage loans that were held by Freddie Mac. The company is not permitted to classify securities as held-to-maturity ("HTM"), as defined in SFAS 115, until at least January 1, 2004, due to invalid transfers out of that portfolio in prior years. Securities classified as AFS and trading are reported at fair value with changes in fair value included in "Accumulated other comprehensive income (loss), net of taxes" and "Gains (losses) on investment activity," respectively. Mortgage-related securities are recorded as part of the "Retained Portfolio" except when they are purchased to support our PC market making and support activities, in which case they are recorded as part of "Investments".

The fair value of securities with readily available third-party market prices is based on market prices obtained from brokers and dealers or reliable third-party pricing service providers. For all other securities, an option-adjusted spread ("OAS") approach is used to estimate fair value. This OAS approach uses a model developed from market data and management judgment to estimate the OAS risk premium an investor would require as compensation for a given product's prepayment uncertainty and interest-rate volatility. Once an OAS has been determined, fair value is calculated by using the OAS as an input to Freddie Mac's interest-rate and prepayment models in order to determine the estimated net present value of projected cash flows. The remaining instruments are priced using other modeling techniques or by using other securities as proxies.

Effective January 1, 2002, Freddie Mac began recognizing the financial statement effects of non-derivative forward purchases and sales of securities on a trade date basis. Such accounting is required under SOP 01-6, "Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others" ("SOP 01-6"), when the purchase and sale commitments are not accounted for as derivative financial instruments ("derivatives"). Under trade date accounting, forward purchases and sales are recorded as an increase or decrease to the security account on the trade date, with a corresponding increase to "Other liabilities" or "Accounts and other receivables, net", respectively. In the case of sales, the gain or loss is also recognized on the trade date. Prior to January 1, 2002, Freddie Mac recorded all security transactions on the settlement date. For non-derivative forward purchase commitments, accounting between trade date and settlement date was recorded pursuant to EITF 96-11, "Accounting for Forward Contracts and Purchased Options to Acquire Securities Covered by FASB Statement No. 115" ("EITF 96-11"). EITF 96-11 requires that changes in the fair value of commitments to acquire AFS securities be recorded through "Accumulated other comprehensive income (loss), net of taxes" and changes in the fair value of commitments to acquire trading securities be recorded through earnings. The cumulative effect of transitioning from settlement date to trade date accounting was not material to the financial statements.

For a majority of the company's investments in securities, interest income is recognized using the effective interest method in accordance with SFAS 91. Deferred items, including premiums, discounts and other basis adjustments, are amortized into interest income over the estimated lives of the securities using the effective interest method in accordance with SFAS 91. The company uses actual prepayment experience and estimates of future prepayments to determine the constant yield needed to apply the effective interest method. In estimating future prepayments and cash flows, the company aggregates securities by similar characteristics of their underlying collateral such as origination date, coupon and maturity. For securities with structured cash flow payments, such as multi-class securities, estimates of future prepayments and cash flows also consider the characteristics of other security classes within the same multi-class structure. On a periodic basis, the company recalculates the constant effective yield based on changes in estimated prepayments as a result of changes in interest rates and actual prepayments versus anticipated prepayments. When the constant effective yield changes, an adjustment to interest income is made for the amount of premiums and discounts that would have been recorded if the new effective yield had been applied since the mortgage assets were acquired.

For certain of the company's investments in securities, interest income is recognized using the prospective effective interest method in accordance with EITF 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" ("EITF 99-20"). The company specifically applies such guidance to beneficial interests (including undivided interests similar to beneficial interests) in securitized financial assets that (i) can contractually be prepaid or otherwise settled in such a way that the company may not recover substantially all of its recorded investment (such as interest-only strips) or (ii) are not of high credit quality at the effective date of EITF 99-20 (April 1, 2001) or at the company's acquisition date, if later. EITF 99-20 requires that the company recognize as interest income (throughout the life of a retained interest) the excess of all estimated cash flows attributable to retained interests over its initial investment using the effective yield method. The company updates its estimates of expected cash flows periodically and recognizes changes in calculated effective yield on a prospective basis. Prior to the company's implementation of EITF 99-20, the company recognized interest income for interest-only strips on the prospective effective interest method in accordance with EITF 89-4, "Accounting for a Purchased Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate" ("EITF 89-4"). Freddie Mac's adoption of EITF 99-20 on April 1, 2001, resulted in a cumulative $35 million after-tax decrease to net income.

Declines in fair value below the amortized cost basis of a security are recognized as impairment losses when such losses are considered to be "other-than-temporary" under SFAS 115. When a security is deemed to be impaired, the cost basis of the security is written down to fair value, with the loss recorded to "Gains (losses) on investment activity." The security cost basis is not changed for subsequent recoveries in fair value. For securities within the scope of EITF 99-20, as described above, other-than-temporary impairments are defined as occurring whenever there is an adverse change in estimated cash flows coupled with a decline in fair value below the amortized cost basis. Prior to the company's implementation of EITF 99-20, other-than-temporary impairment for such securities was defined under SFAS 115 or EITF 93-18, "Recognition of Impairment for an Investment in a Collateralized Mortgage Obligation Instrument or in a Mortgage-Backed Interest-Only Certificate" ("EITF 93-18"), as applicable

Gains and losses on the sale of securities are included in "Gains (losses) on investment activity." The company uses the specific identification method for determining the cost of a security in computing the gain or loss.

Repurchase and Resale Agreements

Freddie Mac enters into repurchase and resale agreements primarily as an investor or to finance its security positions. Freddie Mac also enters into (i) "dollar roll" transactions, which consist of simultaneous agreements with the same counterparty to purchase a security and sell back substantially the same security at a future date at an agreed-upon price and (ii) "reverse dollar roll" transactions, which consist of simultaneous agreements with the same counterparty to sell a security held by Freddie Mac and repurchase substantially the same security at a future date at an agreed-upon price. These transactions are accounted for as financings when the sale criteria of SFAS 125 / 140 are not satisfied. Freddie Mac's policy is to take possession of securities purchased under agreements to resell and dollar roll transactions. Freddie Mac presents mortgage-related and non-mortgage-related securities pledged under repurchase agreements and reverse dollar roll transactions parenthetically in the relevant securities captions in the Consolidated Balance Sheets.

Debt Securities

Debt securities are classified as either "Due within one year" or "Due after one year" based on their remaining contractual maturity. The classification of interest expense on debt securities as either short-term or long-term is based on the original contractual maturity of the debt security. Deferred items, including premiums, discounts, issuance costs and hedging-related basis adjustments, are amortized and reported through interest expense using the effective interest method over the period during which the related indebtedness is outstanding or, for callable debt, the period during which the related indebtedness is expected to be outstanding. Amortization of hedging-related basis adjustments is initiated upon the termination of the related hedge relationship whereas amortization of premiums, discounts and issuance costs begin at the time of debt issuance. Deferred items, including premiums, discounts and hedging-related basis adjustments are reported as a component of "Debt securities, net" whereas issuance costs are reported as a component of "Other assets." Debt securities denominated in a foreign currency are translated into U.S. dollars using foreign exchange spot rates as of the balance sheet date. The company uses foreign currency swaps to hedge against the risk of changes in foreign currency exchange rates.

Freddie Mac adopted SFAS 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"), in the second quarter of 2002. SFAS 145 eliminates the extraordinary treatment of gains and losses on debt extinguishments. Those gains and losses are now reported as "Non-interest income -- Gains (losses) on debt retirement." Prior periods have been reclassified to conform to the new classification.

Derivatives

Generally, derivatives are financial instruments with little or no initial net investment and whose value is based upon an underlying asset, index, reference rate or other variable. Over-the-counter derivatives are privately negotiated contractual agreements that can be customized to meet specific needs. Exchange-traded derivatives are standardized contracts executed through organized exchanges. The fair value of derivatives is generally reported net by counterparty, provided that a legally enforceable master netting agreement exists. Derivatives in a net asset position are reported as "Derivative assets, at fair value." Similarly, derivatives in a net liability position are reported as "Derivative liabilities, at fair value."

Accounting for Derivatives Under SFAS 133—On January 1, 2001, Freddie Mac adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively, "SFAS 133"). Under SFAS 133, Freddie Mac recognizes all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value on a trade date basis.

A significant portion of the company's derivative portfolio is not designated in hedge accounting relationships. For most derivatives not qualifying as an accounting hedge, fair value gains and losses are reported as "Derivative gains (losses)" on the Consolidated Statements of Income. For purchase and sale commitments of securities classified as trading under SFAS 115, fair value gains and losses are reported as "Gains (losses) on investment activity" on the Consolidated Statements of Income.

Subject to certain qualifying conditions, Freddie Mac may designate a derivative as either a hedge of the cash flows of a variable-rate instrument or forecasted transaction ("cash flow hedge"), a hedge of the fair value of a fixed-rate instrument ("fair value hedge"), or a foreign-currency fair value or cash flow hedge ("foreign currency hedge"). For a derivative qualifying as a cash flow hedge, Freddie Mac reports changes in the fair value of these instruments in a separate component of "Accumulated other comprehensive income (loss), net of taxes" to the extent the hedge is effective. The remaining ineffective portion, representing the cumulative change in fair value of the derivative from inception of the hedge to the extent it is greater than the cumulative change in the fair value of the expected future cash flows on the hedged item, is reported as "Hedge accounting gains (losses)." Freddie Mac recognizes this effective portion of the cumulative changes in fair value as "Income (expense) related to derivatives" during the period(s) in which the hedged item affects earnings, unless occurrence of the forecasted transaction is probable of not occurring, in which case the amount in "Accumulated other comprehensive income (loss), net of taxes" is reclassified to earnings immediately. The effective portion of the cumulative changes in fair value associated with purchase and sale commitments accounted for as derivatives in cash flow hedges is recognized as interest income for assets held and "Gains (losses) on investment activity" for assets sold. For a derivative qualifying as a fair value hedge, Freddie Mac reports changes in the fair value of the derivative as "Hedge accounting gains (losses)" along with the changes in the fair value of the hedged item attributable to the risk being hedged. When the hedge is terminated or redesignated, the fair value adjustment to the carrying amount of the hedged asset or liability is amortized to earnings as a component of the hedged item's interest income or expense over the remaining life of the hedged item using the effective yield method.

If a derivative no longer qualifies as a cash flow or fair value hedge, the company discontinues hedge accounting prospectively. Freddie Mac continues to carry the derivative on the Consolidated Balance Sheets at fair value and record further fair value gains and losses in the Consolidated Statements of Income as "Derivative gains (losses)" until the derivative is terminated or redesignated.

For any component of a derivative that is excluded from hedge effectiveness assessment, Freddie Mac reports fair value gains and losses as "Income (expense) related to derivatives." The net income/expense related to derivatives contracts currently accrued, which is derived primarily from interest rate swap contracts, is classified as "Income (expense) related to derivatives" (including derivatives not in hedge accounting relationships).

Freddie Mac's adoption of SFAS 133 on January 1, 2001, resulted in a cumulative $78 million after-tax increase to net income and a $2.6 billion after-tax reduction to "Accumulated other comprehensive income (loss), net of taxes."

<u>Accounting for Derivatives Prior to 2001</u>—Prior to the adoption of SFAS 133, accrual accounting was applied when derivatives exhibited high correlation with the hedged item's effect on interest income or expense. In all other cases, hedge accounting, generally under the requirements of SFAS 80, "Accounting for Futures Contracts" ("SFAS 80"), was applied. When these financial instruments failed to meet such criteria, they were reported at fair value, with related gains or losses reported in "Other income."

When derivatives were accounted for under accrual accounting, generally applicable to interest-rate contracts, the net differential received or paid was recognized on an accrual basis and recorded in "Income (expense) related to derivatives." Net premiums paid to enter into derivatives as well as gains and losses on terminated derivatives, were deferred and amortized to interest income or expense. Unrealized changes in fair value were not recognized in the financial statements.

When non-option-based derivatives qualified for hedge accounting treatment, related fair value gains or losses were deferred as an adjustment to the carrying value of the hedged asset or liability. Upon termination of a hedge relationship, the deferred gain or loss was amortized over the remaining effective life of the asset or liability. Interest payments received or paid under derivatives qualifying as hedges were recognized on an accrual basis and recorded in "Income (expense) related to derivatives."

When option-based derivatives qualified for hedge accounting treatment, related intrinsic gains were deferred as an adjustment to the carrying value of the hedged asset or liability. Upon termination of a hedge relationship, any deferred intrinsic gain was amortized over the remaining effective life of the asset or liability. Premiums paid to enter into these option-based contracts were deferred and amortized to earnings over the term of the option period as "Income (expense) related to derivatives."

Upon termination of the option-based derivative, the difference between the remaining unamortized premium and the time value component of the option-based derivative's fair value was recorded in earnings as "Gains (losses) on investment activity."

For foreign-currency swaps, amounts received or paid, together with the hedged assets and liabilities that were also denominated in a foreign currency, were translated into U.S. dollars using foreign exchange spot rates as of the date of the balance sheet. Transaction gains and losses for both foreign-currency swaps and foreign denominated assets and liabilities were reported in "Other income."

Real Estate Owned

Real estate owned is carried at the lower of cost or fair value (after deduction for estimated disposition costs). Amounts expected to be received from third party insurance or other credit enhancements are reported as a component of "Accounts and other receivables, net" in the Consolidated Balance Sheets. Material development and improvement costs relating to the REO are capitalized. Operating expenses on the properties, net of any rental or other income, are included in "REO operations income (expense)." Declines in REO fair value that result from ongoing valuation of the properties are provided for and charged to "REO operations income (expense)" when identified, and are treated as a lower of cost or fair value adjustment to the basis of the property. The resulting REO allowance is included in the property's cost basis when the property is sold. Any gains and losses on REO dispositions are included in "REO operations income (expense)."

Income Taxes

Freddie Mac uses the asset and liability method of accounting for income taxes pursuant to SFAS 109, "Accounting for Income Taxes." Under the asset and liability method, deferred tax assets and liabilities are recognized based upon the expected future tax consequences of existing temporary differences between the financial reporting and the tax reporting basis of assets and liabilities using enacted statutory tax rates. To the extent tax rates change, deferred tax assets and liabilities are adjusted in the period that the tax change is enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. For all periods presented, no such valuation allowance was deemed necessary by management. Reserves are recorded for income tax and contingent interest where the potential for loss is probable and reasonably estimable in accordance with SFAS 5.

"Income tax expense" includes (i) deferred tax expense, which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance, and (ii) current tax expense, which represents the amount of tax currently payable to or receivable from a tax authority plus amounts accrued for expected tax deficiencies (including both tax and interest).

Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" ("SFAS 148"), which amends SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). This statement provides alternative methods of transition for a voluntary change to the fair value expense recognition method of accounting for stock-based employee compensation. The annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002, and the interim disclosure provisions are effective for interim periods beginning after December 15, 2002.

Freddie Mac initially adopted the fair value compensation expense provisions of SFAS 123 prospectively for awards granted, modified, or settled effective January 1, 2002 in accordance with SFAS 123's original transition provision. However, Freddie Mac has elected to adopt SFAS 123 retroactively to January 1, 1995 as permitted by SFAS 148. Accordingly, Freddie Mac records compensation expense equal to the estimated fair value of the stock-based compensation on the grant date, amortized on a straight-line basis over the vesting period, which is generally three to five years for options, restricted stock and restricted stock units and one year for the Employee Stock Purchase Plan. The offset to the recorded compensation expense is an adjustment to "Additional paid-in capital" in Freddie Mac's Consolidated Balance Sheets.

The fair value of stock-based compensation is estimated using a Black-Scholes option-pricing model, taking into account the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk free interest rate for the expected term of the option.

For stock-based compensation granted prior to 1995, Freddie Mac continues to apply the provisions of Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, typically no compensation expense is recorded if the option exercise price is equal to the market price of the stock on the date of grant. Freddie Mac recognized compensation expense for restricted stock grants and dividend rights associated with stock-based compensation. No compensation expense was recognized for the Employee Stock Purchase Plan since it is a qualifying plan under tax regulations.

Earnings Per Common Share

Basic earnings per common share is computed as net income available to common stockholders divided by the weighted average common shares outstanding for the period. Diluted earnings per common share is determined using the weighted-average number of common shares during the period, adjusted for the dilutive effect of common stock equivalents. Dilutive common stock equivalents reflect the assumed issuance of additional common shares pursuant to certain of the company's stock-based compensation plans that could potentially reduce or "dilute" earnings per share, based on the treasury stock method as defined in SFAS 128, "Earnings per Share" ("SFAS 128").

Comprehensive Income

Comprehensive income, as defined in SFAS 130, "Reporting Comprehensive Income" ("SFAS 130"), is the change in equity, on a net of tax basis, resulting from transactions and other events and circumstances from non-owner sources during a period. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners. For Freddie Mac, comprehensive income is comprised of net income plus changes in the unrealized gains and losses on AFS securities and on the effective portion of derivatives accounted for as cash flow hedges.

New Accounting Pronouncements

Accounting and Disclosure Requirements by Guarantors— In November 2002, the FASB published FASB Interpretation ("FIN") 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires additional disclosures about guarantee obligations and requires companies to recognize a liability at the inception of a guarantee representing the fair value of the obligation undertaken in issuing the guarantee. These requirements will apply primarily to PCs issued under Freddie Mac's Guarantor Program and will require the company to recognize the fair value of the guarantee fee income stream as an asset and the fair value of the guarantee obligation as a liability. FIN 45 is applicable to guaranteed mortgage-related securities issued on or after January 1, 2003. Although the company has not completed its analysis of the impact, management believes that FIN 45 will have a material impact on Freddie Mac's future financial condition and results of operations.

Consolidation of Variable Interest Entities—In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 provides guidance for determining when a company must consolidate the assets, liabilities and activities of a variable interest entity ("VIE"). Under FIN 46, a company is considered the "primary beneficiary" and must consolidate a VIE when it participates in the majority of expected losses or expected residual returns, or both. The provisions of FIN 46 are effective February 1, 2003 for VIEs created after January 31, 2003. This interpretation is also effective as of December 31, 2003 for VIEs created before February 1, 2003. Freddie Mac's guaranteed mortgage security activities are not affected by the issuance of FIN 46, because PCs issued under Freddie Mac's securitization and resecuritization activities, representing undivided interests in the underlying mortgages, are not conducted through a legal structure or other entity under FIN 46. Management is currently assessing the impact of adopting FIN 46.

SFAS 133 Amendment—In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies the financial accounting and reporting for derivative instruments to incorporate decisions made by the FASB and the FASB's Derivatives Implementation Group subsequent to the original issuance of SFAS 133 and in connection with other FASB projects. In particular, SFAS 149 clarifies the circumstances when a financial guarantee contract is not subject to SFAS 133, when a contract with an initial net investment qualifies as a derivative, when a contract qualifies for the regular-way securities trade exemption, when a mortgage loan commitment is scoped out of SFAS 133, and when a derivative contains a financing component that requires special reporting in the statement of cash flows. SFAS 149 is generally effective prospectively for contracts entered into or modified, and hedging relationships designated after June 30, 2003. Management is currently assessing the impact of adopting SFAS 149.

Financial Instruments with Characteristics of both Liabilities and Equity—In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity, and imposes certain additional disclosure requirements. The provisions of SFAS 150 are generally effective for financial instruments entered into or modified after May 31, 2003. Freddie Mac must apply the provisions of SFAS 150 to all financial instruments beginning October 1, 2003. Freddie Mac does not expect the adoption of SFAS 150 to have a material effect on its financial condition, results of operations or cash flows.

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Appendix C

Freddie Mac

Supplement dated December 8, 2003 to
Information Statement dated March 29, 2002

RECENT EVENTS

Board of Directors and Management

On December 4, 2003, Freddie Mac announced that the Board of Directors has elected Richard K. Goeltz as a member of the Board. Mr. Goeltz's term will expire on the date of the next annual meeting of shareholders. He is a former Vice Chairman and Chief Financial Officer of American Express Corporation.

On December 7, 2003, Freddie Mac announced that the Board of Directors has appointed Richard F. Syron as Chairman and Chief Executive Officer. Mr. Syron's appointment will become effective on December 31, 2003. He is currently Executive Chairman of Thermo Electron Corporation, a position he has held since November 2002. He joined Thermo Electron in June 1999 as its Chief Executive Officer and became its Chairman of the Board in January 2000. Prior to that, he was Chairman and Chief Executive Officer of the American Stock Exchange for five years, President of the Federal Reserve Bank of Boston for five years and President of the Federal Home Loan Bank of Boston for three years.

Mr. Syron will replace Shaun F. O'Malley as Chairman of the Board of Directors. Mr. O'Malley will assume the role of Presiding Director. George Gould, the former Presiding Director, will continue to chair the Board's Governance Committee.

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Appendix D

Freddie Mac

Supplement dated December 10, 2003 to
Information Statement dated March 29, 2002

RECENT EVENTS

Legal Proceedings

OFHEO Investigation

Freddie Mac today announced that it has entered into a consent order and settlement resolving matters with the Office of Federal Housing Enterprise Oversight ("OFHEO") relating to Freddie Mac's restatement of prior financial results. The company released restated and revised financial statements for the years 2000 through 2002 on November 21, 2003.

Under the terms of the consent order, the company is undertaking remedial actions relating to governance, corporate culture, internal controls, accounting practices, disclosure and oversight. In addition, the company will pay a civil money penalty in the amount of $125 million.

Freddie Mac's consent to the order was made in the interest of resolving this matter with OFHEO expeditiously and in the best interests of all the company's stakeholders. In agreeing to the consent order and settling these matters, the company has made no admission regarding any wrongdoing or any asserted or implied findings. The company is pleased that potential OFHEO enforcement action against it has been resolved.

Separately, OFHEO released its staff report on its investigation of matters relating to the restatement. The report is not part of the consent order, and Freddie Mac did not consent to any part of the report. The report represents OFHEO's interpretation of the facts, and Freddie Mac had no opportunity to provide input into the text of the report. There are characterizations, findings and conclusions in the report with which the company strongly disagrees.

The text of the Consent Order detailing the remediation steps agreed to with OFHEO is available on Freddie Mac's website, www.freddiemac.com.

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Appendix E

Freddie Mac

Supplement dated December 18, 2003 to
Information Statement dated March 29, 2002

RECENT EVENTS

Legal Proceedings

OFHEO Investigation. As previously disclosed, on September 4, 2003, OFHEO announced that it was initiating a regulatory process intended to lead to the termination for cause of Leland Brendsel and Vaughn Clarke, who had originally resigned from their management positions at Freddie Mac. On December 17, 2003, OFHEO issued notices of charges against Messrs. Brendsel and Clarke and the company seeking the termination of Mr. Brendsel for cause, the termination of Mr. Clarke for loss of confidence and a prohibition of any payments by Freddie Mac to Messrs. Brendsel and Clarke in excess of payments to which they would be entitled based on such termination. The notices of charges against Messrs. Brendsel and Clarke also seek the restitution to Freddie Mac of certain bonus payments previously made by the company to them, as well as the imposition of civil money penalties.

Shareholder Derivative Lawsuits. As previously disclosed, on July 1, 2003, certain former and current members of the Board of Directors of Freddie Mac were named as defendants in a shareholder derivative action alleging breach of fiduciary duty and abuse of trust. The current members of the Board of Directors were subsequently dismissed as defendants from this lawsuit with the consent of the plaintiff. The individual defendants in this suit are Mr. Brendsel and David Glenn (the former Chairman and Vice Chairman, respectively), Vaughn Clarke and John Gibbons (both former Chief Financial Officers) and Greg Parseghian. Freddie Mac is named as a nominal defendant in that action, which is still pending in the U.S. District Court for the Southern District of New York. A similar lawsuit was filed against the same defendants in the U.S. District Court for the Eastern District of Virginia on December 11, 2003.

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Appendix F

Freddie Mac

Supplement dated December 23, 2003 to
Information Statement dated March 29, 2002

FREDDIE MAC REPORTS BUSINESS INFORMATION FOR NOVEMBER 2003

Risks Remain Low; Liquidations Slow

Freddie Mac today reported business performance and risk measures for November 2003 in the company's November 2003 Monthly Volume Summary.

- Freddie Mac's interest rate risk levels remain low. The company's average **portfolio market value sensitivity ("PMVS")**, a measure of interest-rate risk, was 3.7% in November, down from October. Freddie Mac's average duration gap was zero in November, unchanged from October.

- For full year 2003, Freddie Mac now anticipates that the growth rate of the company's **Total PC Portfolio** will be between 7% and 8%, which is less than the expected overall mortgage debt outstanding ("MDO") growth of 11%.

- Freddie Mac's **retained portfolio** growth realized during the balance of 2003 will depend upon a variety of factors, including the availability of attractive investment opportunities and the level of portfolio liquidations. Given current market conditions, the company expects retained portfolio growth for the fourth quarter to be relatively flat.

- The company has seen a significant slowdown in **liquidation levels**, reflecting the rise in long-term interest rates during the summer. November's liquidation rate was the lowest in the past 12 months.

FREDDIE MAC AND CITIBANK AGREE TO MULTIFAMILY MORTGAGE LOAN SWAP TRANSACTION

Transaction Will Contribute Significantly to Freddie Mac's Ability to Meet Its Affordable Housing Goals

Freddie Mac announced today that it has agreed to purchase a portfolio of multifamily mortgages from Citibank, NA, Citibank, FSB and Citibank West, FSB (collectively, Citibank) in exchange for Freddie Mac PCs. The total value of the multifamily mortgages to be exchanged for PCs under this agreement could reach approximately $5 billion.

The transaction will contribute significantly to Freddie Mac's ability to meet the affordable housing goals set by the Department of Housing and Urban Development. The purchase of this portfolio, which consists primarily of 5- to 50-unit mortgages, is especially significant because affordable housing goal regulations provide special incentives for purchases of mortgages on apartment buildings of this size. For that reason, Freddie Mac is providing a number of contractual incentives to Citibank, including fees totaling approximately $65 million.

The first of the Freddie Mac securities associated with this transaction were issued during December 2003 and the remaining PCs are expected to be issued in the first quarter of 2004.

"Freddie Mac and Citibank share a commitment to financing small multifamily properties, because we recognize that these apartments offer an attractive housing option for millions of Americans," said Adrian Corbiere, senior vice president of Freddie Mac's multifamily division.

Since the introduction of the Freddie Mac Program Plus network of multifamily loan originators and servicers in 1993, Freddie Mac has provided financing for over 20,000 multifamily properties totaling more than $55 billion. That volume represents nearly two million rental units across the country, a large portion of which are affordable to people whose income levels are at or below area median income – including newly established households, single-parent households, large family households at lower salaries as well as other renters.

RECENT EVENTS

Voluntary Commitments

Freddie Mac has posted an update regarding the current status of its compliance with the Voluntary Commitments (announced in October 2000) on the Investor Relations page of its website, *www.freddiemac.com*.

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Freddie Mac