



David Glenn, President of Freddie Mac, rings the opening bell on March 14th to begin the first day of the Agency futures contract trading.

Freddie Mac has had notable capital market achievements this year. We opened the U.S. dollar debt market with the first major bond deal of 2000, a \$6 billion five-year Reference Note launched on January 3rd. This transaction was also the first corporate deal to utilize the Internet to augment the traditional syndicated book-building process. Despite recent market volatility, we have sold \$24 billion of Reference Notes and Bonds per our Financing Calendar and over \$250 billion of

Reference Bills, Freddie Mac's newest debt product. With Reference Bills, Freddie Mac has become the first major borrower to offer a full spectrum (one- to twelve-months) of short-term debt in weekly Internet-based dealer auctions. Through May, we have issued nearly \$11.7 billion callable Medium Term Notes (MTNs) and \$10.2 billion non-callable MTNs in answer to investors' demand.

We are pleased by the positive response to our financing calendar. Soon after its introduction, the calendar drew interest from the futures markets and nurtured the genesis of futures contracts on the Chicago Board of Trade, the Chicago Mercantile Exchange and the Cantor Exchange for Freddie Mac and Fannie Mae securities. All of these developments signal that the comparative liquidity of Agency debt has never been better. As a result, investors and dealers are increasingly using government-sponsored enterprise (GSE) debt to hedge their positions.

(continued on page 2)

A Letter From

Greg Parseghian

Welcome to the inaugural issue of Reference Point! Our new quarterly publication will feature market commentary as well as independent, in-depth analysis by Lou Crandall, the well-respected economist at Wrightson Associates. You can expect historical data across our financial product line to assist in investment and hedging decisions. I hope you enjoy Reference Point and find it useful and informative.

For Freddie Mac, the declining supply of Treasuries has created opportunities and challenges for issuers and investors alike. In 2000, we have seen a lower correlation between Treasuries and spread products, with Treasury yields on a roller coaster ride and spread product yields gradually on the rise. In the mortgage securities market, higher interest rates (and the expectation of even higher rates) have meant a decrease in new product origination, with intermittent buying opportunities reflecting the sharp decline in new supply compared to recent years.

This Issue

Letter from Greg Parseghian, Freddie Mac's Chief Investment Officer

Futures market commentary by Lou Crandall of Wrightson Associates

Historical data on Freddie Mac's debt securities

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Market Talk

Agency Futures Contract Debuts

Lou Crandall
Wrightson Associates

The Chicago Board of Trade's (CBOT) 10-year Agency Note futures contract made an impressive debut in the spring of this year. Launched on March 15, the CBOT's contract generated open interest of 10,000 contracts within two weeks, 20,000 within three weeks and 30,000 within two months, making it the fastest-growing futures product in history. By contrast, the CBOT's own 10-year Treasury note contract needed two years to reach an open interest level of 30,000 contracts.

The CBOT estimates that nearly half of all trading in the early months of the Agency futures contract was generated by credit spread trades. The TAG (Treasury over Agency) spread is the natural successor of the late, lamented TED spread as a measure of generic credit risks. The TED spread was a dominant credit-risk indicator in the 1980s, but faded away by the late 1990s as supply distortions in the cash market for Treasury bills undermined the viability of the futures contract. The swaps market offers a comparable vehicle for trading credit spreads, but the swaps market is not accessible to small investors. The TAG spread, in contrast, is a highly-visible, low-margin retail product with enough market transparency to attract a wide range of players.

Ultimately, the CBOT's TAG spread could run into the same problems that were the undoing of the TED futures spread: volatile behavior in the Treasury leg of the trade due to supply constraints. Even if federal budget surpluses fall short of today's optimistic projections, it is clear that the supply of notes deliverable into the 10-year Treasury contract will shrink in the years ahead. The only question

is whether the shrinkage will be fast or slow. A rapid contraction in the cash market for Treasury notes would create erratic trading conditions, and investors might become disenchanted with the Treasury side of the TAG spread. This need not hamper the Agency futures product. The Chicago Mercantile Exchange's Eurodollar contract has continued to flourish in recent years despite the absence of a liquid T-bill contract to spread against.

The Treasury note market is not going to disappear overnight, obviously, but the recent changes in the long-term supply outlook are worth keeping in mind in evaluating the performance of the TAG spread. The Chicago Board of Trade has constructed theoretical values of the TAG spread from cash market prices for the past few years, and found that the TAG (like the TED before it) has been directional over long intervals – that is, falling interest rates have been associated with narrower TAG spreads while rising rates have pushed spreads out. The current fiscal environment could alter that pattern. Higher private interest rates associated with a strong economy will also be associated with expectations of larger Treasury paydowns and open market buybacks. On the other hand, a recession that pulled interest rates down from current levels would be associated with a pause in the process of paying off the public debt. The swaps market is already adapting to the fact that swap spreads reflect a Treasury market scarcity premium as well as a private sector credit risk premium. TAG spread traders will have to take this factor into account as well.

Of course, supply considerations affect the day-to-day behavior of the Agency contract in more concrete ways as well. As can be seen in the chart above, many of the heaviest trading volume days in the first two months after the product's introduction occurred on days when new 10- and 30-year GSE issues were being placed in the market. Over time, I would expect to see the Agency

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Letter continued from cover

Periodically, a vocal minority raises concerns about the GSEs in Washington, DC. Many of our most strident critics are other mortgage sector participants that have much to gain from a market devoid of the efficiencies the GSEs provide. The fact is, however, that we have long been extremely successful in maintaining strong, bi-partisan support. In our experience, once substantive discussions occur, policymakers are reminded of the enormous benefits we provide, and our place in the housing finance system is only strengthened.

The product attributes that have made Reference Bills, Notes and Bonds legitimate bellwethers in the U.S. dollar market have not changed. The importance of our housing mission to the American public and the vital intermediation role we serve in the secondary mortgage markets remain strong. I believe that Freddie Mac's debt securities offer tremendous value to investors concerned with quality, liquidity and value in their holdings.

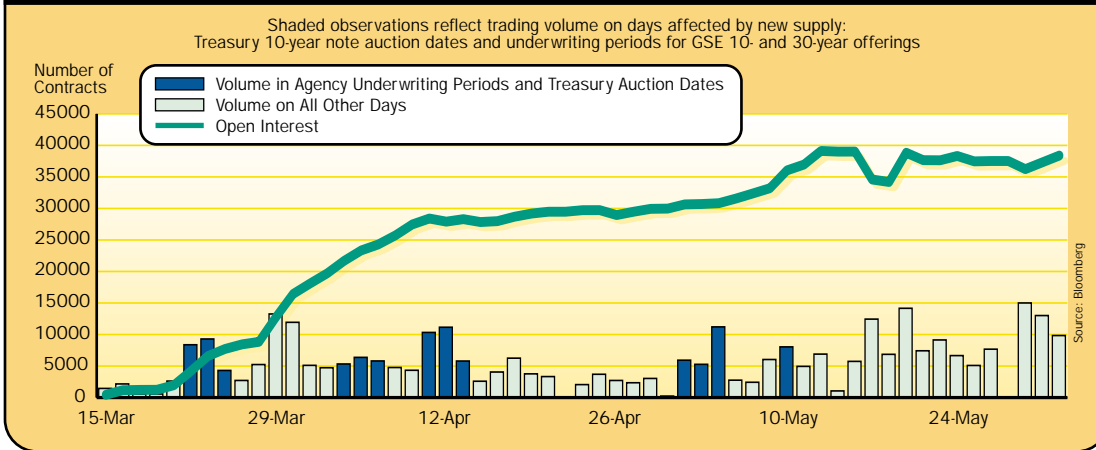
Greg Parseghian
CIO & SVP Corporate Finance
Freddie Mac

Reference Point

June 2000



Open Interest and Daily Volume in the Chicago Board of Trade's 10-Year Agency Note Futures Contract



futures market become a routine hedging vehicle for underwriters of Agency as well as corporate debt, but that does not appear to be the explanation for the bursts of activity around Agency debt pricings this spring. Volume breakdowns provided by the CBOT show that TAG spread trading increased both in absolute terms and as a percentage of total activity in the Agency futures contract during launch periods for Freddie Mac and Fannie Mae 10- and 30-year issues. Traders used the Agency futures contract as a way of playing the impact of supply on inter-market spreads rather than as a straight hedging vehicle. With Freddie Mac and Fannie Mae scheduled to offer either 10- or 30-year debt at least fifteen times a year (and with the Treasury still weighing in with six 10- or 30-year offerings of its own), short-term supply dynamics will be an important factor in TAG spread trading.

TAG traders will also pay close attention to the duration mismatch embedded in the spread. As a general matter, the Treasury market yield curve tends to make relatively short notes the cheapest to deliver (CTD). On-the-run 10-year Treasury notes enjoy a substantial liquidity premium, and are almost always too expensive to be delivered. The Agency market does not at present attach the same liquidity premium to active issues. In fact, at current yield levels, the most recently issued Agency notes in the eligible basket usually will be among the cheapest to deliver into the contract. As of June 2, the CTD issue for the 10-year Treasury note contract was the 6 1/8% note of November 2007, with a duration of 5.7 years. The CTD issue for the CBOT's Agency contract was Freddie Mac's 7% Reference Note of March 2010, with a duration of 6.9 years. That mismatch will not make much difference to investors who want to take a view on the direction of credit spreads, but it will be one of several complicating factors for institutions attempting to hedge swaps or other forms of credit exposure.

“Over time, I would expect to see the agency futures market become a routine hedging vehicle for underwriters of agency as well as corporate debt . . .”

Securities Deliverable into June 2000 10-Year Agency Futures Contract on the Chicago Board of Trade

Deliverable Treasury Notes			Deliverable Agency Notes		
Maturity	Coupon (Par in Billions)*	Issuer	Maturity	Coupon (Par in Billions)	
8/15/2007	6.125	21.957	FRE	3/1/2010	7 8
5/15/2007	6.625	11.96	FRE	9/1/2009	6.625 9
2/15/2008	5.5	12.2	FNM	9/1/2009	6.625 8.5
11/15/2008	4.75	22.6	FRE	3/1/2009	5.75 7
2/15/2007	6.25	11.98	FNM	6/1/2009	6.375 7.63
5/15/2008	5.625	23.1	FNM	1/1/2010	7.25 9
5/15/2009	5.5	12.745	FNM	1/1/2009	5.25 7
8/15/2009	6	23.975	FRE	10/1/2008	5.125 7
2/15/2010	6.5	19.6	FRE	4/1/2008	5.75 9
			FNM	5/1/2008	6 5
			FNM	2/1/2008	5.75 4.75
			FNM	3/1/2007	7.125 4
Total Deliverable Supply			85.88		
Notional Par Value of Futures Outstanding			58.97 3.84		

Securities in each basket listed in order of cheapness to deliver as of June 2, 2000

*Treasury note sizes exclude holdings of the Federal Reserve.

Source: Bloomberg, Wrightson Associates

This will not be the only source of slippage between swaps and the TAG spread in the short run. As documented in work done by the Chicago Board of Trade and available on its website (<http://www.cbote.com/ourproducts/financial/agencystrat3rdabstract.html>), the theoretical TAG spread has tracked swaps spreads closely enough to be a viable hedging vehicle over time. However, the relationship is loose enough to provide some opportunities to profit from divergences between the two. I suspect that this will be a short-lived game, as the availability of an inexpensive way to trade the Treasury-Agency spread is likely to speed the adjustment process in the future. ■

Mr. Crandall is chief economist of Wrightson Associates and is the principal author of its market-leading newsletter, "The Money Market Observer" (www.wrightson.com).

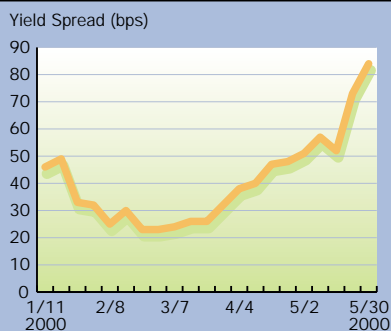


Reference Point

June 2000

Data Bank

Reference BillsSM Spread to Treasuries (3-month) January 1 - May 31, 2000



Reference Bills Issuance

Maturity	Par Amount (billions)
1 Month	115.5
2 Month	79.5
3 Month	63.5
6 Month	7.5
12 Month	10.5
TOTAL	276.5

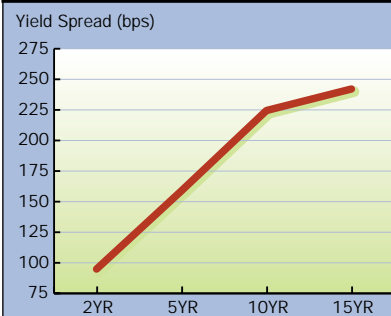
Discount Note Issuance January 1 - May 31, 2000



Discount Note Issuance

Maturity	Par Amount (billions)
Overnight	611.4
> 1 Month	77.3
1-2 Months	26.1
2-3 Months	4.3
3-6 Months	4.7
6 Months - 1 YR	728.5
TOTAL	728.5

Callable MTNs Yield Spreads of x-Year nc1 to Treasuries on May 31, 2000



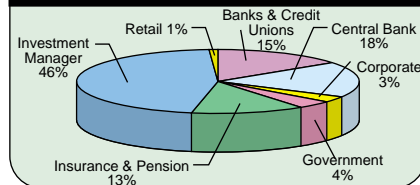
Maturity	Non-Callable MTN Issuance (billions)	Callable MTN Issuance (billions)
1-3 YRS	18.6	25.5
3-5 YRS	2.8	28.1
5-10 YRS	8.3	41.1
> 10 YRS	3.3	32.1
TOTAL	33.0	126.8

through May 31, 2000

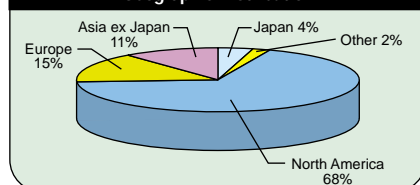
Reference NotesSM and Reference BondsSM Outstandings

Maturity	Structure	CUSIP	Issued (billions)
15-Feb-01	2 YR	3134A2507	4.00
15-Jun-01	2 YR	3134A3U07	5.00
14-Dec-01	3 YR	3134A2ZJ0	3.00
15-May-02	3 YR	3134A3RE8	5.50
15-Oct-02	3 YR	3134A3T48	5.00
15-Feb-03	3 YR	3134A33D6	5.00
15-May-03	3 YR	3134A34H6	5.00
15-Jul-03	5 YR	3134A2KZ0	5.00
15-Jan-04	5 YR	3134A2T99	6.00
15-Jul-04	5 YR	3134A3YM2	6.00
15-Jan-05	5 YR	3134A32S4	8.00
15-Apr-08	10 YR	3134A2DT2	5.00
15-Oct-08	10 YR	3134A2UJ5	7.00
15-Mar-09	10 YR	3134A3EM4	7.00
15-Sep-09	10 YR	3134A3M78	9.00
15-Mar-10	10 YR	3134A33L8	5.00
15-Sep-29	30 YR	3134A3U46	3.00
TOTAL			93.50

Reference NoteSM & Reference BondSM Issuance Investor Distribution



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