



The Euro Reference NotesSM road show team: (left to right) Louise Herrle, Greg Parseghian, Phil Guth, Peter Horvath, Jon Prince and Nazir Dossani.

A Letter From

Greg Parseghian Louise M. Herrle

Freddie Mac Expands its Global Franchise

Since our inaugural issue three months ago, Freddie Mac has further expanded its global investor base by launching the €20 billion €Reference NotesSM Programme, an innovative debt program denominated in euro. Additionally, we issued one of the year's largest bellwether securities in sterling. In U.S. dollar-denominated Reference Notes and Reference Bonds, we brought an additional \$17 billion to market, tying our own record for the largest-ever single tranche non-government issue with the \$6 billion 6-7/8% of September 2010. Our international borrowing efforts will play a vital role in helping Freddie Mac meet its goal of financing 15 million more homes for U.S. families over the next decade.

We will issue a minimum of \$4 billion Reference product in the month of October by reopening the 7% of July 15, 2005 and by issuing a new 30-year bond according to our 2000 financing calendar. During the past two and one-half years, approximately one-third of the \$110.5 billion of U.S. dollar Reference Notes and Bonds has been sold overseas to over 500 different

investors worldwide. The strong global franchise that Freddie Mac has established in U.S. dollar Reference products will continue to grow and expand market demand for our securities.

Freddie Mac broke new ground in August with its €Reference Notes Programme, the first euro-denominated debt funding program initiated by a U.S. government-sponsored enterprise (GSE). The inaugural September 10-year transaction of €5 billion represents the largest non-sovereign euro issue to date and firmly establishes the security as

a bellwether issue. Over 200 different investors participated in the issue, with widespread distribution among all major euro investor groups in more than 20 countries. Furthermore, over half of the investors had never previously purchased a Freddie Mac dollar Reference Note issue. This diversification will strengthen our ability to tap new sources of capital and thereby, provide lower cost funds for U.S. homeownership.

Most notably, with the introduction of the €Reference Notes Programme, Freddie Mac established a new asset class in the euro market that provides liquidity, transparency and regularity to euro investors. Beginning in the 3rd Quarter of 2000, we made the unprecedented commitment to issue €5 billion €Reference Notes per quarter. The bonds will trade on EuroMTS, the electronic trading platform previously the exclusive domain of European sovereign debt. Over time, we will build a complete yield curve of liquid 2- through 10-year maturities. Euro-denominated borrowings complement and build on the success of our U.S. dollar Reference program.

(continued on page 2)

This Issue

Letter from Greg Parseghian, Freddie Mac's Chief Investment Officer & Louise Herrle, VP Funding

Foreign Holdings of Agency Debt commentary by Lou Crandall of Wrightson Associates

Historical data on Freddie Mac's debt securities

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Market Talk

Growth of Foreign Holdings of Agency Debt

Lou Crandall
Wrightson Associates

Official government statistics have traditionally portrayed the Agency sector as one of the least globalized segments of the U.S. credit markets. In its latest *Report on Foreign Portfolio Investment in the United States*, the Treasury estimated that foreign investors at the end of 1997 held 38% of all Treasury notes and bonds and 19% of U.S. corporate bonds, but only 9% of long-term Agency securities.

A number of different factors lie behind this reported disparity. The first is a measurement issue. The Treasury's data lump Agency debentures and Agency mortgage-backed securities together into a single category. Particularly in the early years of the MBS market, the back-office complications of pass-through securities lessened their appeal to foreign investors. If conventional Agency debt were isolated in the official figures, the foreign participation rate would be significantly higher.

Even in the straight Agency debt market, though, there are reasons why foreign investors have played a smaller role than they have in the corporate bond market. The explosion of Eurobond issuance in the 1980s and 1990s was driven by multinational corporations whose global

presence made them natural borrowers in overseas capital markets (often in local currencies). The business operations of the major U.S. government-sponsored enterprises (GSEs), in contrast, are purely domestic. Moreover, tax considerations make the debt of some GSEs (notably the Federal Home Loan Banks) more attractive to domestic accounts than to overseas investors, further reinforcing the home bias of the Agency debt market. It comes as no surprise that foreign investors should own a smaller share of total U.S. Agency debt than of U.S. corporate debt.

The story is very different in the bellwether-style note and bond programs established by Freddie Mac and Fannie Mae in recent years. Foreign accounts play a major role in both the initial placement and the subsequent trading of these securities. It is not unusual for overseas investors to take down 50% or more of a new Agency note in the 2- or 3-year sector, and even at the long-end, foreign absorption rates can easily exceed 20%. This in itself is not a new development. Foreign investors have always had a healthy appetite for the largest and most liquid issues in the Agency sector. As the supply of large, liquid Agency issues has grown since the beginning of 1999, so too has foreign participation in the Agency market.

The increased importance of international investors in the Agency market can be seen in the rapid growth of cross-border trading activity this year. So far this year, U.S. financial institutions have reported a 65% increase in Agency debt transactions with foreign counterparties located outside of Caribbean banking centers.¹

¹ Trading volume in the Caribbean is dominated by U.S. hedge funds that are registered offshore. The inclusion of this hedge fund activity means that the official data sometimes paint a misleading picture of international trends. The active trading style of the hedge fund community makes this especially true of the data on gross turnover. Investors domiciled in Bermuda and the Caribbean account for just 16% of the net overseas purchases of Agency securities over the past three years, but they have been responsible for fully 50% of all cross-border trading activity over that period. Unless otherwise indicated, all trading volume data in this article exclude these offshore centers.

Letter continued from cover

To meet investors' demand for high quality, liquid securities in sterling, we issued our July 2005 500 million 6-1/4% 5-year global bond. This issue is one of the largest and most liquid of the year in sterling. Approximately two-thirds of this transaction was sold in the U.K., with the residual one-third placed internationally. Such a large percentage of sales outside of the U.K. (unusual for sterling-denominated issues) validates the growing global appeal for all types of Freddie Mac debt.

Freddie Mac aspires to be one of the world's premiere borrowers delivering value to investors globally. Our funding activities are the result of a deliberate strategy of diversification and demonstrate a continuous pattern of innovation. This strategy has positioned Reference Notes and Bonds (in both dollars and euro) as the

most liquid alternative to the declining supply of government issues in both the U.S. and Europe. It has also fostered a deeper international interest in our other debt products including Reference Bills, Discount Notes and Callable and Non-Callable Medium Term Notes (MTNs).

In the future, Freddie Mac will continue to expand its participation in the global capital markets through innovation, diversified primary market placement and with our marketing efforts to reach investors around the world.

Greg Parseghian
CIO & SVP
Funding &
Investments

Louise Herrle
VP, Funding
Funding &
Investments

“The increased importance of international investors in the Agency market can be seen in the rapid growth of cross-border trading activity this year.”



International activity in Agencies is still modest by the standards of the Treasury market, but the gap is narrowing. In 1997, cross-border trading volume in Agencies was equal to less than 3% of international volume in the Treasury market. By July 2000, that figure had risen to 15%.

Some of the increase in foreign participation in the Agency market can be attributed to foreign central banks. Historically, these institutions invested relatively few of their dollar reserves in the Agency market. As of the end of 1998, Fed data show just \$31 billion of foreign official holdings of long-term Agency securities, versus \$432 billion of Treasury notes and bonds. Over the subsequent 18 months, though, foreign central banks' holdings of long-term Agencies more than doubled to \$69 billion while their holdings of Treasuries were essentially unchanged.

This is not simply a matter of institutions being forced to find alternatives to a shrinking supply of Treasuries (though that is clearly part of the story). It also reflects the adoption of a more aggressive approach to the management of official assets in recent years. As the global stock of foreign exchange reserves shot through the \$1 trillion mark in the 1990s, monetary authorities in many countries were given a mandate to earn more competitive returns on their portfolios. This new investment philosophy has led central banks to dump (literally) tons of gold on the market and to re-deploy funds that might once have been parked in Treasury bills or other low-yielding instruments. But even as they reach for yield, central banks cannot afford to lose sight of the need for liquidity. Foreign exchange reserves must be held in a form that can easily be turned into cash

Daily Average Cross-Border Trading Volume in Agency and Corporate Bonds

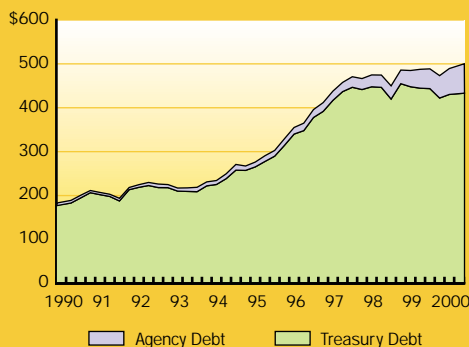
Daily total of foreign purchases and foreign sales of long-term agency securities.
Data exclude transactions with Bermuda and Caribbean banking centers.
Quarterly Observations, in Billions of Dollars



Note: Q3 2000 figures represent daily average for July 2000.
Source: Treasury Department

Foreign Official Holdings of Long-Term U.S. Government Securities: 1990-2000

Treasury and Agency Securities with original maturities of more than one year held by foreign official and international institutions.
Quarter-End Levels in Billions of Dollars



Source: Federal Reserve

if the need arises. The Agency market's capacity to absorb large transactions makes it a natural for central banks, many of whom have increased their Agency portfolio weightings in recent years.

There are at least three reasons why the recent growth in foreign participation in the Agency market should continue – or even accelerate – in the year ahead.

- The supply of Treasuries will continue to shrink. The supply of marketable Treasury coupons held outside the Federal Reserve has fallen by 10% over the past twelve months, and is likely to decline by another 11% or 13% in the coming fiscal year. Despite recent diversification efforts, foreign investors remain overweighted in Treasuries and need to find replacements.
- Agency issuance in the short coupon sector will rise. Foreign investors have shown a particular fondness for shorter-dated coupons, and they'll have plenty to buy in the year ahead. The new coupon offering calendars for 2001 published by Freddie Mac and Fannie Mae this summer include fourteen separate 2- and 3-year notes, up from eight issues in 2000.
- Agency marketing efforts will continue to raise the sector's profile abroad. Freddie Mac's main objective in launching its new euro-denominated €Reference Notes was to diversify its funding sources, but the program should have the added benefit of making international investors more familiar with Freddie Mac debt in general. The fact that the Euro-MTS trading system has accepted €Reference Notes as a liquid alternative to European sovereign debt will encourage international investors to consider the Agency sector as an alternative to U.S. Treasury debt.

“It is not unusual for overseas investors to take down 50% or more of a new Agency note in the 2- or 3-year sector, and even at the long-end, foreign absorption rates can easily exceed 20%.”

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

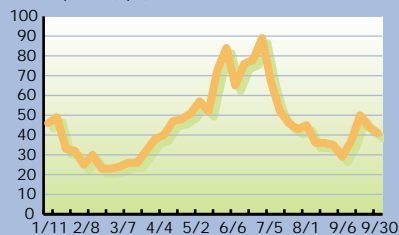
September 2000



Data Bank

Reference BillsSM Spread to Treasuries (3-month) January 1 - September 30, 2000

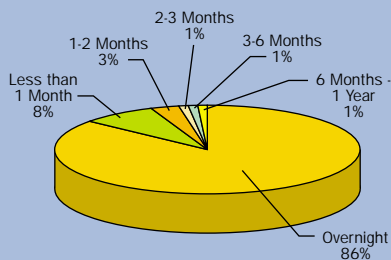
Yield Spread (bps)



Reference Bills Issuance

Maturity	Par Amount (billions)
1 Month	195.0
2 Month	138.0
3 Month	117.5
6 Month	17.0
12 Month	21.5
TOTAL	489.0

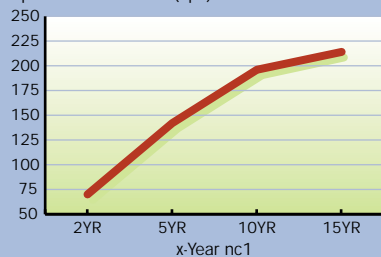
Discount Note Issuance January 1 - September 30, 2000



Maturity	Par Amount (billions)
Overnight	1,123
< 1 Month	101
1-2 Months	34.7
2-3 Months	6.8
3-6 Months	10.9
6 Months - 1 YR	7.6
TOTAL	1,284

Callable MTNs Yield Spreads of x-Year nc1 to Treasuries on September 30, 2000

Spread to Treasuries (bps)



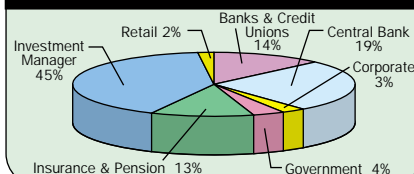
Maturity	Non-Callable MTN O/S (billions)	Callable MTN O/S (billions)
1-3 YRS	21.0	33.7
3-5 YRS	2.2	29.3
5-10 YRS	7.9	42.2
> 10 YRS	5.8	32.4
TOTAL	36.9	137.6

through September 30, 2000

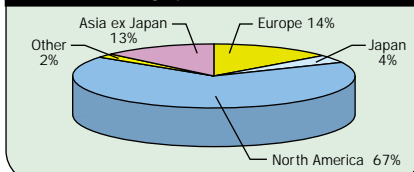
Reference NotesSM and Reference BondsSM Outstandings

Maturity	Structure	CUSIP	Issued (billions)
15-Feb-01	2 YR	3134A2507	4.00
15-Jun-01	2 YR	3134A3U07	5.00
15-Aug-00	2 YR	3134A35B8	4.00
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-10	10 YR	3134A35H5	6.00
15-Sep-29	30 YR	3134A3U46	3.00
TOTAL			110.50

Reference NotesSM & Reference BondsSM Issuance Investor Distribution

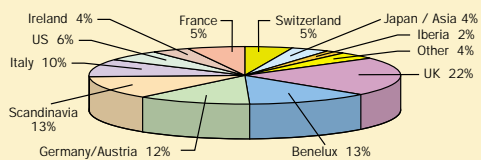


Reference NotesSM & Reference BondsSM Issuance Geographic Distribution

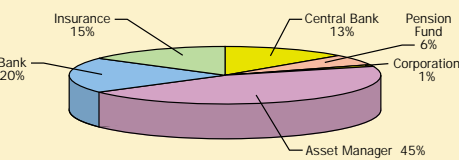


€Reference NotesSM

Geographic Distribution



Investor Distribution



Inaugural Issue

€5 Billion
CUSIP
3134A35G7
Structure
5 - 3/4%
of 9/15/2010

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