

A letter from:

John Radwanski

Vice President & Assistant Treasurer, Debt Funding

Dear Freddie Mac Investor:

Throughout 2006, we continued to make strides in managing our business to generate value for homeowners and our stakeholders. We also made strides to improve our financial reporting and controls infrastructure. This progress came despite continuing challenges in the market from the tight spread environment and continuing concerns over the health of the U.S. housing market and the economy as a whole.

In a continued tight spread environment, it's increasingly important for us to innovate and improve efficiency in order to provide attractive returns in our mortgage investment business. From our perspective, one benefit of a tight spread environment is that, while we may lose some return on the asset side, we can make up some on the debt side. Since 2004, our funding levels relative to LIBOR have benefited meaningfully from investor demand for our debt securities amid slower issuance.

One way we capitalized on the funding environment in 2006 was through increased issuance of structured debt products. In 2006, we issued in excess of \$10 billion in structured debt securities, primarily in the form of Range Accrual Notes, as persistently low interest rates increased investors' appetite for higher yielding securities. Our dominant presence among the housing agencies in structured debt products demonstrates our commitment to provide the right types of securities to meet investors' interests, enabling us to attract a broad array of global capital to the U.S. housing finance system.

Another way that we've added value is through the opportunistic use of debt repurchases. In 2006, we repurchased or tendered for more than \$35 billion in outstanding debt issues, including a significant amount of securities with expired call options. In many instances, we repurchased these securities at a discount

to their originally issued prices. We also took advantage of the flat yield curve and locked-in attractive longer-term funding spreads. Despite a slight decline in growth of our mortgage portfolio, 2006 was the third largest year of USD Reference Notes® securities issuance. The additional sale of term debt enabled us to reduce our rollover risk, reducing our discount notes outstanding by \$24 billion.

Our return to the sub-debt and preferred stock markets last year — coupled with our ability to meet the Fed's revised PSR policy without incident — were milestones for us, exemplifying that we've made meaningful progress on our remediation of our financial reporting infrastructure. As we discussed on our market update call earlier this month, we expect to release full-year 2006 financials prior to the end of the first quarter, and to resume quarterly reporting in the second half of 2007. With the host of competitive pressures and market opportunities presenting themselves, it is more important than ever for us to complete the remediation of our financial reporting infrastructure.

We appreciate your continued confidence in our funding programs and look forward to communicating with you throughout 2007.

Sincerely,



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Freddie Mac's PSR Funding Strategy

Overview

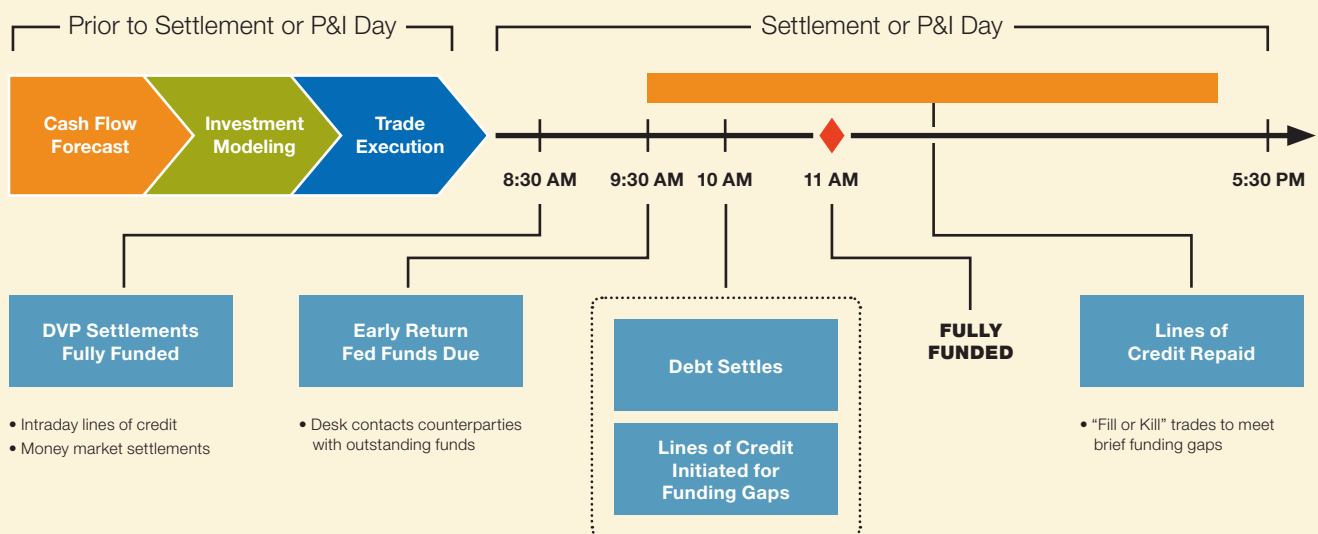
In September 2004, the Federal Reserve Board revised its Payment System Risk (PSR) policy, which became effective July 20, 2006. Under the previous model, the "Fed" did not charge Freddie Mac nor discourage an intraday overdraft position. If we had been subjected to daylight overdraft charges, these fees could have been substantial as daily net payments fluctuate widely, nearly reaching \$30 billion in 2006 on dates when we paid principal and interest (P&I) on our mortgage and/or debt securities. While the P&I payments are large, these dates and the amount due are calculated and managed well in advance of the payment date.

Our primary driver of the variability in our intraday cash position

revolves around delivery versus payment ("DvP") settlements. When we purchase an asset (e.g., a mortgage security) or outstanding liability (i.e., repurchase a debt security), the securities are settled by the Fed at the counterparty's initiation. The Fed simultaneously debits our account for the purchase price of the security, completing the transaction. This presents cash management variability due to our inability to control the timing of the intraday settlements. DvP cash outflows can fluctuate significantly due to concentrated settlements that occur on designated settlement dates for mortgage products. While most days experience relatively modest DvP cash outflows, these outflows can be as high as \$10 billion on the days (i.e., reg dates) the market settles certain types of mortgage securities.

Freddie Mac's PSR Funding Strategy: Funding & Disbursement Timing

Key Activity Timeline



PSR Funding Strategy

In an attempt to avoid an intraday overdraft position, in 2006 we implemented five funding and investment strategies to ensure our accounts at the Fed were fully funded by 11:00 AM daily and remained in a positive cash position throughout the day. Our funding models are used to determine the most effective application of these strategies, based on short- and long-term cash projections.

■ **Early return of Fed Funds trades**

Traditionally, our overnight and short-term “Fed Funds” investment transactions were settled throughout the course of the trading day. With the adoption of this new early return market, we now consistently receive the return of our Fed Funds investments by 9:30 – 10:00 AM daily, meeting 85 percent of our MBS P&I funding needs.

■ **Early settlement of Discount Note trades**

We enhanced our internal systems and processes to allow for earlier settlement of discount notes if needed as a source of funding before the target repayment time.

■ **Intraday lines of credit**

Currently, we have access to several uncommitted lines of credit from commercial banks to ensure availability of funds in the early morning to protect against potential unexpected DvP settlements.

■ **Money market portals**

We implemented these new investment products to acquire additional sources of early morning settlement funds.

■ **“Fill or kill” trades**

We maintained and ensured our ability to raise cash immediately through the Fed Funds market as a short-term way to borrow funds.

Since the Fed’s PSR policy change on July 20, 2006, we have successfully operated without any incident of overdraft and have met our self-imposed market funding deadline of 11:00 AM. Thus far, the market has been receptive to the timing and liquidity changes of the intraday cash flows without any significant resistance on settlement time or price impact for both the funding and investment mechanisms.

Conclusion

Daily modeling of our funding and investment strategies based on short- and long-term cash needs, along with close intraday position monitoring, not only improves our funding and investment efficiencies, but also provides greater assurance that we will avoid falling into an overdraft position. Overall, the expenses incurred due to this policy change have been far less than initially anticipated due to our improved cash management methods. These costs are incurred primarily from interest payments associated with the uncommitted lines of credit, slight increases in cost of funding for preferred settlement of short-term debt instruments, lost opportunity costs in the Fed Funds market for preferred settlement timing of money market investments, and expenses associated with the implementation of enhanced cash management systems.

However, at the same time, we have benefited from other investments that have been used to offset future outgoing cash flows. Specifically the adoption of the money market portals as a cash management tool has proven to provide a higher return on investment than the effective Fed Funds rate over the course of the fourth quarter of 2006. Although early return trades generally have lower yields than standard Fed Fund trades, we generated returns above the effective Fed Funds rate. While we are enthusiastic with the results thus far, we continue to explore new and unique ways in which to fulfill our cash management needs. ■

Freddie Mac Funding Summary

2006 Quarter 4

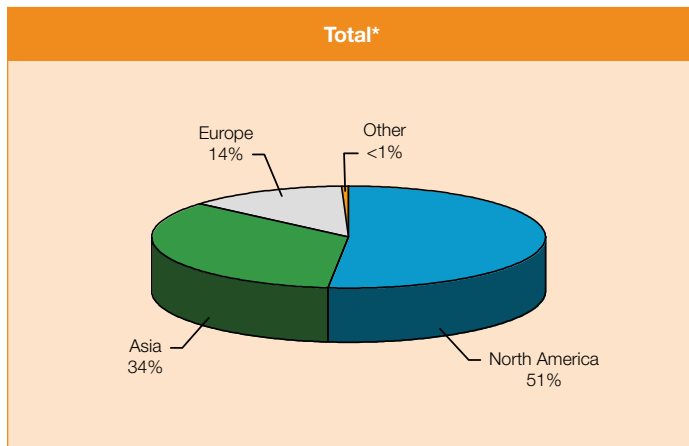
Estimated issuance, redemption and balances - unaudited (1, 2, 3)

	Outstanding 9/30/2006	Gross Issuance (4)	Matured	Called/Puts	Repurchased (4)	Callable with Expired Options	Net Issuance (5)	Outstanding 12/31/2006
Reference Bills & Discount Notes	\$ 156.5	115.9	(112.8)	—	—	—	3.1	\$ 159.5
Medium Term Notes								
Global Floating Rate	\$0.0	—	—	—	—	—	—	\$0.0
Syndicated Callable	4.0	—	—	—	—	—	—	4.0
MTN Callable	214.7	34.1	(5.3)	(16.0)	(1.4)	(17.6)	11.3	208.5
Callables with Expired Options	78.3	—	(6.3)	(7.2)	(5.0)	17.6	(18.5)	77.4
MTN Other	59.2	1.4	(8.2)	—	(0.4)	—	(7.3)	51.9
FreddieNotes	20.5	0.6	—	(0.1)	—	—	0.5	21.0
Total Medium Term Notes	\$ 376.7	36.1	(19.8)	(23.3)	(6.9)	0.0	(13.9)	\$ 362.8
Reference Notes								
USD Reference Notes	\$ 229.6	7.0	(9.0)	—	—	—	(2.0)	\$ 227.6
€Reference Notes (6)	25.6	—	—	—	(5.2)	—	(5.2)	20.3
Total Reference Notes	\$ 255.1	7.0	(9.0)	0.0	(5.2)	0.0	(7.2)	\$ 247.9
Subordinated Debt	\$6.1	2.0	—	—	(1.5)	—	0.4	\$ 6.7
Total Debt	\$ 794.5	160.9	(141.6)	(23.3)	(13.6)	0.0	(17.7)	\$ 776.9

Disclaimer: (1) All figures are estimates based on Freddie Mac's unaudited internal reports and are subject to change. Totals may not recalculate due to rounding. (2) All figures represent face amounts in USD billions. These figures could differ significantly from proceeds, amortized principal amount and book value figures, particularly for zero-coupon securities. (3) Effective date for inclusion in the reported period is trade date. (4) "Gross Issuance" and "Repurchased" amounts include transactions that may be considered exchanges for financial reporting purposes under generally accepted accounting principles, or GAAP. (5) Represents the sum of the "Gross Issuance", "Matured", "Called" and "Repurchased" columns. (6) The US dollar amounts reflected for non-dollar debt are based on the exchange rate at issuance.

Geographical Distribution

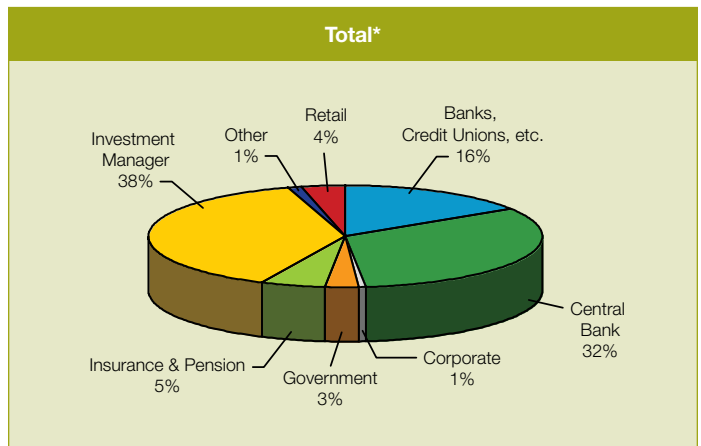
Last 12 Months through December 31, 2006



*Includes exchanged securities' cash portion only.

Investor Type Distribution

Last 12 Months through December 31, 2006



*Includes exchanged securities' cash portion only.

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