

Rebuilding confidence. Leading responsibly.

A message from the Chairman

TO OUR STOCKHOLDERS:

I am pleased to write you this second annual letter as Chairman and CEO of Freddie Mac—the first covering developments under the company’s new leadership team.

What began as a triage year became a year of mounting progress. By the end of 2004, our steps forward had begun to build real momentum. While we still have many challenges, I feel good about where we are and where we’re going.

Our progress has come in three phases. First, we acted to repair the company’s accounting, reputation and key relationships. Second, we laid a strong organizational foundation for the future. This has meant putting in place a tested and talented senior management team and reorganizing the company to be more agile, control costs and move toward operating excellence. Third, we are taking specific steps to build on this foundation, fulfill our vital public mission and produce lasting value for our shareholders.

Freddie Mac’s employees are highly able, loyal and committed to our mission. The key is providing the right kind of leadership and sense of urgency.

PUTTING OUR HOUSE IN ORDER

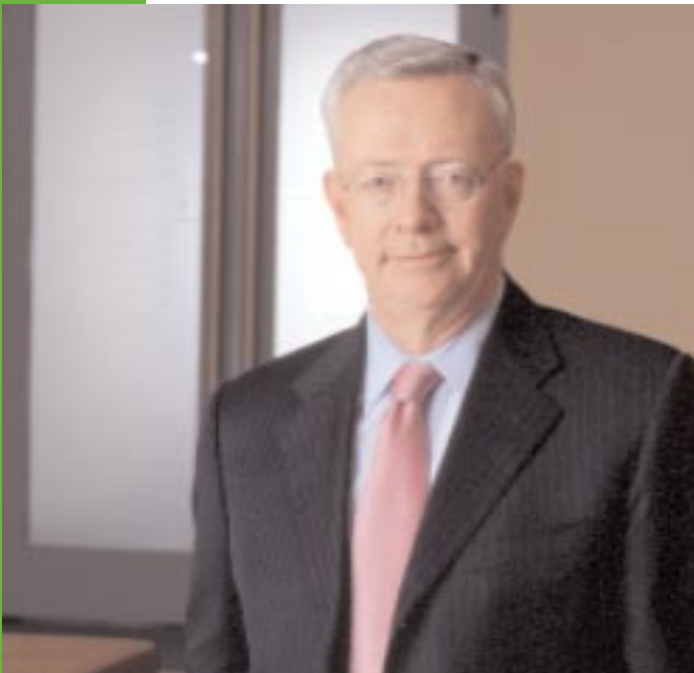
While much remains to be done, Freddie Mac made significant strides last year in putting our house in order. We met all our financial reporting targets. We continued to modernize and strengthen our internal controls. In March of this year, we met our important commitment to report 2004 results. And we are on track to become fully current early next year.

We have also taken steps to strengthen corporate governance. For example, we have conducted the orderly transition of more than half of our elected board. In an era when many companies have had

a hard time with board recruiting, the high quality of our board is a heartening sign of strong leadership and oversight for Freddie Mac.

FULFILLING OUR MISSION

Freddie Mac’s mission is to provide liquidity, stability and affordability to the housing market. On the first two, we have done a good job. Mortgage money has been widely available under a wide range of market conditions, and the GSEs have played a vital role in keeping the economy strong. On affordability, however, I have been “Johnny One-Note” about Freddie Mac’s need to do more. This is an area where we face substantial legislative and regulatory challenges. And the company has responded.



Freddie Mac made significant strides in recommitting ourselves to our affordable housing mission in 2004. We financed homes for more than 3.7 million families last year — more than half of whom were of low or moderate income. We reported to HUD that we met all of our affordable housing goals for 2004, which effectively increased by 14 percent. We also made progress on other measures such as our purchase of loans for minority families and first-time homebuyers.

We laid the groundwork for the successful rollout early this year of our new Home PossibleSM suite of affordable mortgages. Broadly available through our automated underwriting service, this initiative will bring new scale and influence to affordable housing finance. It also contains special terms to address the urgent problem of workforce housing. All told, we expect Home Possible to help hundreds of thousands of people—including first-time homebuyers and immigrant families—buy a home over the next few years.

As you can see, Freddie Mac is more focused today on our affordable housing mission. Our lender customers have recognized this change publicly. And this awareness has not only fed our mission progress, but our business progress as well.

BUILDING SHAREHOLDER VALUE

Last year we produced GAAP net income of approximately \$2.9 billion — increasing our capital surplus and maintaining a strong balance sheet. Our strong capital position allowed us this March to raise our common stock dividend by 17 percent. We are very conscious this is *your* capital we are working with.

Risk management continues to be a distinguishing strength of Freddie Mac. Across a range of rigorous measures — from standards of credit risk to interest-rate risk to risk-based capital — the company remains very safe and sound. Indeed, we consistently pass tests of safety and soundness that very few financial institutions could satisfy. For example, we measure the sensitivity of our portfolio to sudden interest-rate movements every business day. We publicly report this PMVS, as it's called, every month. And our published monthly duration gap results show that we have kept our assets and liabilities very well matched through a wide variety of market conditions.

Although Freddie Mac is operating today in a challenging, lower-growth environment, I am confident we can continue to produce long-term value for our investors. One big reason is our greatly improved focus on the customer, under the strong leadership of President and COO Gene McQuade. In 2003, the company lost customers, partly because of our worsening security price performance, resulting in the loss of market share. In 2004, we turned that around — winning customers, improving the price of our mortgage-backed securities, and setting the stage for further gains in market share. Another plus was our introduction of more new products last year than in the previous four years combined. By year's end, our GSE market share had rebounded toward historic levels — climbing six percentage points from its 2003 low. And we expect to build on our gains this year.

The substantial improvement in our mortgage security prices was a major factor in our success last year. This turnaround didn't happen by accident. EVP for Investments Patti Cook leads a consolidated division whose holistic approach links the sourcing side of our business with the investment side. We also developed an important new product that was introduced successfully earlier this year. The Freddie Mac Reference REMICSM will provide simplicity, predictability, transparency and liquidity.

We are streamlining the company in further ways to achieve operational efficiencies. Most notably, we have created a unified operations and technology division, under EVP Joe Smialowski.

This brings together all of our back office and IT operations that previously were scattered throughout the different business areas.

We are taking a very hard look at costs — striving to be a least-cost producer wherever this fits our strategy. One goal this year is to arrest the growth in our General and Administrative expenses. To do so, we have already cut some 1,300 consultants from the company's payroll through the early months of this year. We are hopeful our G&A costs have peaked and we see further progress in the years ahead.

Some of our recent spending has been a classic case of making investments today to save money tomorrow. For example, the new systems we are building will allow us to rely more on automated internal controls over financial reporting, replacing many costly manual controls and reducing audit costs. As our CFO Marty Baumann can attest, our large investments in this area will pay off not just in better and more efficient accounting systems, but in a better-run company.

STRENGTHENING HOW WE ARE REGULATED

Since coming to Freddie Mac, I have made it clear we support sound legislation that will strengthen GSE regulation and market confidence. Achieving this outcome has been my highest priority. It's unfortunate that a bill didn't pass last year and we are working hard to achieve one this year.

The genius of the GSE business model established by Congress is that it employs private capital to achieve a vital public mission. In the political environment of the past year, the full meaning of this point has often been obscured. So it is one I have made clearly and vigorously as part of the legislative process. For the truth is, Freddie Mac's investors provide capital that is indispensable to fulfilling our mission with minimum risk — and maximum benefit — to the public.

That's why my being a vigilant steward of your capital is not a diversion from my public mission responsibilities. It *advances* those responsibilities.

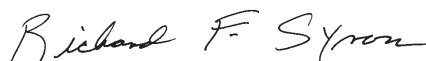
CONCLUSION

Thanks to the foundation we laid and the steps we took in 2004, Freddie Mac is turning the corner. This is a company working from traditional strengths and adding new ones: a strong balance sheet and capital position; low and rigorously managed levels of risk; improved market share and funding costs; and a stronger competitive position with customers. We're doing more on our affordable mission. And the year brought us that much closer to resolving our two big remaining issues: GSE legislation and our financial reporting.

Going forward, we've got the right leadership for our most critical challenges, the right focus on winning over customers, and the right plan to achieve operational excellence.

Thank you for investing in Freddie Mac. Your confidence in us has helped millions of America's families achieve homeownership. Our responsibility is to justify that confidence. And we are fully committed to doing so.

Sincerely,



Richard F. Syron
Chairman and Chief Executive Officer



PRESIDENT AND CHIEF OPERATING OFFICER

As a former commercial banker, I marvel at what a great market Freddie Mac serves—and at the strength of this franchise. We've got a strong business model, increasing customer focus, much improved funding costs and a dynamic, growing housing market.

Dick Syron acted decisively to bring in new top executives who quickly gelled into a cohesive team. This helps make even our hard decisions a bit easier. Today there's a new sense of commitment and teamwork not only in our senior management, but

throughout the company. Freddie Mac's people are responding to the challenge.

You can sense the momentum. We're working to delight our customers and make the company simpler and easier to deal with. We're becoming nimbler—developing products, seizing opportunities. And we're executing better, with streamlined organizations, tighter internal controls, smarter use of IT.

Yes, our market share and several other dashboard dials have been moving the right way. But beyond the numbers, experience has given me a feel for what operating excellence feels like. And Freddie Mac is getting closer every day.

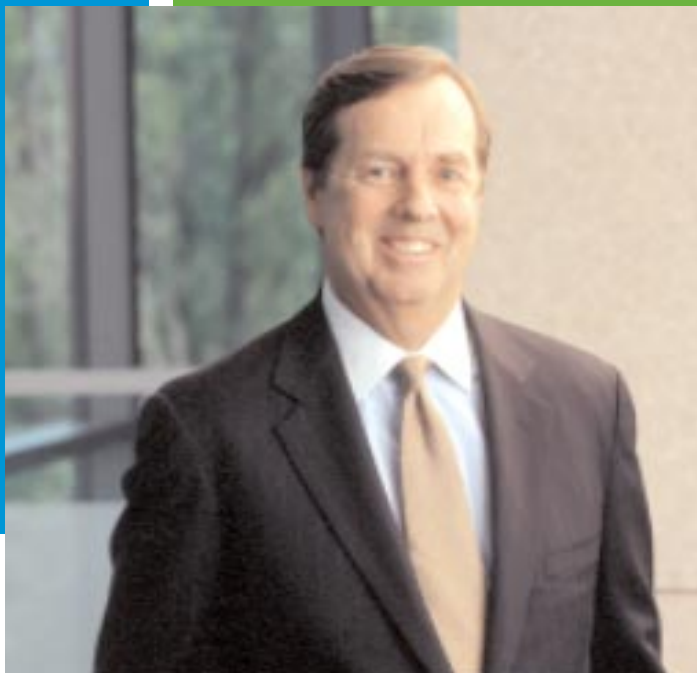
Eugene M. McQuade

Martin F. Baumann

When I joined Freddie Mac in April 2003, my immediate task was to create a plan to return the company to timely financial reporting and create a first-class financial reporting structure. It's been a long road, but today we are well on the way to fulfilling these goals.

We've met a series of financial reporting commitments on our announced timetable, and we're progressing along the final steps of our plan to resume timely financial reporting and become an SEC registrant. Across the company, our senior management team has made it a priority to enable investors to better assess our business performance. We remain on track to do these things.

The investments and efforts we've made to improve our accounting and financial controls are yielding tangible results. They will make us not only a better reporting company, but a better-run company as well. By creating a culture of accountability and teamwork, we are streamlining and improving our operations. And that is helping Freddie Mac remain focused on the business of our mission.



*EXECUTIVE VICE PRESIDENT — FINANCE
AND CHIEF FINANCIAL OFFICER*

Patricia L. Cook

Freddie Mac's mission is to provide liquidity, stability and affordability to the housing market—all while maintaining the company's safety and soundness. We ensure a steady supply of low-cost funds to mortgage lenders by continuously securitizing home mortgages and providing a competitive investment bid. We use our retained portfolio, our debt issuance and securitization capabilities to tap the power of the global markets to finance housing in America.

Today, we're exploring new approaches to meet the challenges of our mission, such as increased mortgage funding for minority and immigrant households, and creative new investment options designed to meet investors' changing needs. Doing so means we have to challenge ourselves constantly to innovate and create new ways to satisfy our mission objectives while also achieving our financial return objectives. It's not an either/or proposition. Rather, it's a holistic approach to capital market and investment activities—and one that serves both our mission and our investors.

Prudently deploying capital while managing risk to provide low-cost mortgage funding—that's a mission we're proud to serve every day.



EXECUTIVE VICE PRESIDENT—INVESTMENTS



EXECUTIVE VICE PRESIDENT — OPERATIONS AND TECHNOLOGY

Operational excellence and a commitment to creating a performance-based culture drive me every day at Freddie Mac.

We're delivering new technology-based initiatives and executing on strategies to return the company to timely financial reporting, make it easier for our customers to do business with us, and help fulfill the company's mission.

The operational challenges ahead for Freddie Mac are demanding, varied and exciting. They range from applying technology to meet our

business needs to ensuring we're agile enough to seize opportunities and meet the ever-changing needs of an emerging and diverse generation of homebuyers.

Today, we're implementing new efficiencies in our operations and use of technology to reduce the costs of doing business, strengthen our competitive position in the marketplace and deliver on our commitment to our mission and shareholders.

By focusing on operational excellence—the ability to define a problem, determine a solution and execute for success—Freddie Mac can do more than ever to make home possible for millions of families.

Joseph A. Smialowski



*EXECUTIVE VICE PRESIDENT—COMMUNITY RELATIONS
AND CHAIRMAN OF THE FREDDIE MAC FOUNDATION*

Being a trusted friend to the community is a Freddie Mac hallmark. Through our extensive philanthropic program, anchored by the Freddie Mac Foundation, we make stronger communities possible for children and families. We do this by investing goodwill, expertise, leadership, volunteer power and money—nearly \$32 million in 2004.

This commitment has led us to partner with organizations to increase affordable housing for families and to develop our signature program—Freddie Mac's Hoops for the

Homeless—to raise awareness and money to combat family homelessness. Our foundation works every day to prevent child abuse and neglect, find homes for foster children and develop our young people. Our employees also give generously of their time, talent and treasure.

Freddie Mac's community and our nation can continue to count on us as a neighbor and friend to make streets into neighborhoods and help strengthen America's families.

Ralph F. Boyd, Jr.



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