



CONTINUING
Progress

A MESSAGE FROM THE CHAIRMAN



2005 was a year of continuing progress for Freddie Mac.

Overall, our business performed well. We were successful in improving our position with customers, meeting extraordinary mission demands, and strengthening our capital position and balance sheet. We grew our mortgage portfolio and our share of the market. At the same time, we kept our interest-rate and credit risks exceptionally low. These were all major accomplishments, given rising interest rates and diverse challenges that included increased competition, diminished housing affordability, and widespread storm devastation along the Gulf Coast.

No less important, we provided more support for affordable housing than ever before. And we made this key aspect of our broad mission part of the everyday flow of our business.

When the Gulf hurricanes struck, Freddie Mac demonstrated the kind of leadership and market influence that sets us apart as a government-sponsored enterprise, or GSE. By moving quickly to provide relief to affected homeowners and mortgage servicers — and taking the lead by investing in state and local mortgage revenue bonds — we helped bring stability and hope to the affected region. Although we are a large, national company, our actions in the Gulf region made a real difference, at the local level, for thousands of struggling families and individuals.



These and other steps underscore our capacity and commitment to help protect homeowners, the housing sector and the economy from the shock of unexpected events. They demonstrate once again how we serve our congressional charter both in good times and in times of crisis.

While the year brought reason for pride, it also brought some disappointment. None of us was satisfied with the company's progress in financial reporting, where we met some of our targets, but fell short of others. This is an area in which we are accelerating our efforts this year, as we focus on a number of internal controls and infrastructure upgrades.

In this and many other ways, Freddie Mac's transformation continues. Let me detail some of the progress we have made:

Strong Business Performance

Even in the face of a challenging financial environment and a competitive secondary market, our business remained strong in 2005.

Freddie Mac's portfolio of issued mortgage securities grew by 10.5 percent and our retained portfolio grew by 8.7 percent. In a robust mortgage market, these were both significant improvements over 2004. Together, they brought our growth almost in line with that of the overall mortgage market. We achieved this healthy growth by executing on our underlying franchise strengths of excellent credit and interest-rate risk management and low debt funding costs.

We met the market's changing needs by improving our ability to purchase non-traditional mortgage products and making core improvements in our business operations. We also took major steps forward in such areas as customer satisfaction and market share.

Our focus on the customer continued to bear fruit. For instance, we cut in half the time it took to get a customer contract. We also expanded our mortgage product line and launched new types of securities (such as the Reference REMIC and whole-loan REMICs). Foreign investors were particularly attracted to these securities — thus continuing our “insourcing” of low-cost global funds to support the U.S. housing market.

Not only did we gain substantial GSE market share, but in the face of stiff competition from the banking sector, we also grew overall market share. And we diversified our customer base by reaching beyond our usual largest customers.

Building Shareholder Value

Increasing market share and customer satisfaction is only part of our strategy to build shareholder value. A strong balance sheet and expert risk management are also essential. In 2005, we built on these enduring strengths.

Turning to our balance sheet, Freddie Mac's regulatory core capital grew to over \$35 billion — well above the capital requirements set by our safety and soundness regulator.

As a result of our strong capital position and confidence in our profitability, we increased our quarterly common stock dividend twice last year. In fact, since December 2003, we have raised this dividend by 81 percent.

Regarding our credit and interest-rate risk management record, it remains a hallmark of the industry. Our ready access to callable debt and specialized mortgage risk expertise are key competitive advantages. The company's interest-rate and credit risks are near historic lows. Our delinquency rates remain low as well. Our key measures of interest-rate risk are disclosed monthly — transparent to all — demonstrating that we continue to manage risk prudently and consistently in a world of rapidly changing rate conditions.

In May we reported 2005 earnings in excess of \$2 billion in GAAP net income. These results reflect a cyclical narrowing of spreads as well as costs associated with the settlement of litigation stemming from the events of 2003, charges related to Hurricane Katrina, and the cumulative impact of a number of accounting changes. Fair value, another very important measure of our performance, grew before capital transactions, but at a rate well below our long-term expectations and continuing guidance.

Creating value for shareholders depends in part on our ability to hold down expenses, and in 2005 we were successful in this area. But I want to be clear: we also have an absolute duty



to make the necessary investments to ensure that Freddie Mac has world-class controls, reporting and accounting systems. Our goal is to reduce our expense ratio over time, so that as the company grows, expenses become a diminishing share of our overall business.

Serving Our Mission

Freddie Mac's statutory mission is a broad one: to provide stability, liquidity and affordability to the nation's housing finance markets. Our response to the Gulf Coast hurricanes was just one example of our commitment to this mission.

Though the U.S. Secretary of Housing and Urban Development makes the final determination, we reported that we met the toughest set of affordable housing goals in the company's history. Our affordable performance was strong — with well over half the units financed by our mortgage purchases being affordable to low- and moderate-income families. In addition, Single Family's purchase of mortgages from underserved areas increased, and our goal-rich Multifamily business set a new record for annual volume.

The next generation of homeowners will need trillions of dollars in mortgage capital, and minorities and immigrants will be the source of most household growth. To meet these growing needs, Freddie Mac has a central role to play. That's why we are focused on our mission. And why, more than ever, what's good for our mission is good for our business.

Focusing on the Future

Freddie Mac is better positioned to compete than it has been in years. We achieved good growth in line with the overall market, increased our penetration of the secondary conforming market that we serve and maintained a very strong balance sheet. We also streamlined our business operations; reinforced corporate governance, ethics and compliance; and added real strength and depth to our management team. These and other developments — including trends in the market — give me confidence in Freddie Mac's long-term business prospects.

Clearly, much more needs to be done. Our most urgent task is to do everything it takes to ensure that our internal controls and accounting systems are of the same high caliber as our financial risk management and reporting. There is no higher priority for Freddie Mac's senior management than completing this work and becoming timely in our financial reporting. This company must become the standard of excellence not only for managing mortgage risk, but for the accounting and internal controls associated with it.

Over the past year, Congress has worked to overhaul regulatory oversight of the housing GSEs, and we have supported this effort in a constructive way. Last fall, acting on a broad bipartisan basis, the U.S. House of Representatives passed tough legislation to enhance GSE oversight. This tough bill goes well beyond current banking law in a number of areas. Going forward, we will continue to support federal legislation that strengthens regulatory oversight and allows us to fulfill our mission.

As part of the ongoing policy discussion, we made good progress last year in publicly articulating the value and vital role of the GSEs. That includes how we insulate households from interest-rate risk and transfer it out to the capital markets; how we provide stability, liquidity and affordability in good times and bad; and how we harness market means — and private capital — to achieve a public mission.

As Freddie Mac stockholders, you share a vital role in making home possible for millions of families. So when I pledge to you that I will finish the job of making a strong franchise run better than ever, that is not a diversion from my mission responsibilities. It is an expression of those responsibilities.

And it is a promise I intend to keep. ■

Sincerely,

A handwritten signature in black ink that reads "Dick Syron". The signature is written in a cursive, flowing style.

Richard F. Syron

Chairman and Chief Executive Officer

CONTINUING Commitment

Freddie Mac brings stability, liquidity and affordability to the nation's housing finance system during good times and tough times. That's our reason for being. And our continuing commitment.

Stability. When a trio of hurricanes battered the Gulf Coast in the fall of 2005, Freddie Mac responded decisively — putting both our balance sheet and our expertise to work. We helped jumpstart home rebuilding and community renewal by providing relief to borrowers, originators and servicers. We also brought stability to the market, using our retained portfolio, by committing to buy up to \$1 billion of mortgage revenue bonds issued by state and local housing authorities. With well over half of Freddie Mac's purchases already completed, housing officials are using these low-cost funds to provide affordable housing for thousands of affected families. In these and other ways, we are fulfilling our mission as a government-sponsored enterprise (GSE) to protect homeowners, the housing sector and the economy from the shock of unexpected events. And our leadership has been widely recognized by public officials and lenders alike.

Liquidity. Through Freddie Mac's investment and securitization activities, we ensure a ready supply of money for lenders. We excel at tapping global financial markets to support housing in America — and at transferring interest-rate risk from households to these markets, which are much better equipped to handle it. In 2005, we made home possible for millions of families by providing the residential secondary mortgage market with more than

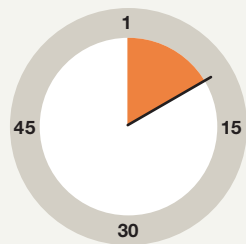
Building hope in the wake of the 2005 hurricanes, more than 800 Freddie Mac employees joined Habitat for Humanity's *America Builds on the National Mall*. Fifty-one homes were shipped to waiting families in the Gulf Coast region.



\$580 billion in liquidity. Our dependable presence in the market lowers rates for consumers of conforming mortgages. And it helps make mortgage-backed securities (MBS) the most widely traded non-sovereign instruments in the world.

Affordability. In 2005, Freddie Mac financed homes for more than 4 million borrowers. Our affordable performance was among our strongest on record — with more than 54 percent of the units financed through our mortgage purchases being affordable to low- and moderate-income families. We created new affordable housing opportunities

by launching a product line with special benefits for police officers, firefighters, teachers and health care workers who want to live in the communities they serve. And while the Secretary of HUD makes the final determination, thanks in part to our expanding multifamily business, we reported to HUD that we exceeded the 2005 affordable housing goals — the toughest ever set for us by the federal government.



Every 10 seconds Freddie Mac makes it possible for another family to own a home.

Freddie Mac also maintains a strong philanthropic commitment to America's communities, opening the doors of hope and opportunity to children and their families. Through our Corporate Giving program and the Freddie Mac Foundation, we awarded almost \$35 million to nonprofit organizations in 2005. In fact — with our DC-area grants providing almost a fifth of the top 50 companies' combined giving — the *Washington Business Journal* ranked us first among local corporations in contributions to the community.

Meeting our mission and serving our communities. That's Freddie Mac's continuing commitment. ■

CONTINUING Strength

Freddie Mac continues to build on its strengths.

In 2005, we buttressed a rock-solid capital position and balance sheet. Throughout the year, we exceeded all regulatory capital requirements. In fact, by year end, Freddie Mac's regulatory core capital grew to more than \$35 billion — well above the capital requirements set by our safety and soundness regulator. And we expect to be able to maintain our strong position across a wide range of market conditions.

Our credit risks remained low, as measured both by single-family delinquency rates and total credit losses. Indeed, despite the effects of the Gulf Coast hurricanes, 90-day delinquencies at the end of 2005 were lower than they were on December 31, 2004.

Prudent and consistent risk management amid a changing interest-rate environment kept our interest-rate risks low as well. Portfolio Market Value Sensitivity Level (PMVS-L), which measures our sensitivity to a 50-basis point parallel shift in the level of interest rates, averaged 1 percent throughout 2005. Our duration gap also remained steady at near zero months. All of which means that Freddie Mac is well positioned to deal with interest-rate swings that would place great stress on many financial institutions.

Freddie Mac's solid business strength grows from its company-wide commitment to shareholders, customers and homebuyers.



To put it simply, Freddie Mac's financial strength is beyond question.

Reflecting our strong capital position and confidence in Freddie Mac's long-term business prospects, we raised the amount of capital returned to shareholders twice in 2005, through dividend increases in March and December. Our senior management is acutely aware that putting shareholder capital to work is a major priority. Since year-end 2003, our quarterly common stock dividend has grown by 81 percent.

Freddie Mac has benefited shareholders by increasing its common stock dividend significantly over the past three years.

(Dividends per common share)



And our business is growing, too — with 2005 bringing expansion in key areas. Growth in our share of the market. Growth in our mortgage portfolio. Growth in our product line and ability to serve lender needs. Growth in customer satisfaction.

Results like these from across the company reflect Freddie Mac's business strengths in 2005, as we continued to build long-term shareholder value and deliver on our charter mission as a leader in the secondary mortgage market.

Much of Freddie Mac's progress is the result of a new, integrated focus on customers. We improved customer service, diversified our lender base and increased our share with key business partners. And we enhanced our value proposition for customers by expanding the types of mortgages we guarantee and launching new products to meet evolving needs.

Abundant capital. Disciplined risk management. Strong customer relationships. An established franchise in a defined and growing market. These are Freddie Mac's continuing strengths. ■

CONTINUING Transformation

A transformation is underway at Freddie Mac.

We're rebuilding ourselves from the inside out. Strengthening our infrastructure and controls. Designing financial products that meet customer and market needs. Deploying innovative technologies. Developing new strategies and initiatives.

Our goal? To make Freddie Mac a top financial services firm of enduring strength, increased transparency and the highest integrity. A company that leads the industry, delivers first-class financial reporting, provides new levels of customer service and makes both single-family and rental housing more accessible and more affordable for more Americans.

That means optimizing our capital structure and further improving our mortgage security performance. It means revamping our systems, processes and financing tools to better match the market. And it means enhancing our capability to structure and trade credit risk, for both single-family and multifamily loans.

In other words, taking a strong franchise and making it better.

That's our challenge. And while our transformation is not nearly complete, we're making solid progress. Including the essential next step: upgrading Freddie Mac's financial reporting systems and strengthening our internal controls environment, so we can meet all

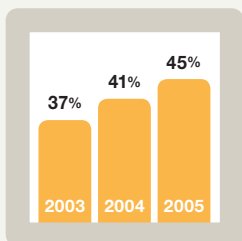
Freddie Mac's transformation into an even stronger franchise begins at its headquarters in McLean, Virginia.



our regulatory and financial reporting commitments. We're taking every step necessary to get this done and to do it right. And we will not rest until the job is complete.

We have continued to build a strong management team by filling key senior positions. Since our 2004 Annual Report, for example, we've brought in Tim Bitsberger, a widely respected former Treasury Department official and Wall Street veteran, as Treasurer; Paul Mullings, a customer-oriented mortgage industry executive from JP Morgan Chase, as Senior Vice President for Single Family Mortgage Sourcing; Anurag Saksena, a seasoned risk management professional from GMAC, to be our new Chief Enterprise Risk Officer; and Bob Bostrom, a recognized expert on corporate governance and financial institutions compliance matters, as General Counsel.

We've made progress in adapting the company culture to a more competitive market environment that requires us to be agile, aggressive and responsive. And we've strengthened our corporate governance.



Freddie Mac has continued to grow its share of the GSE securitization market.

This is a company doing good things — and *Business Ethics* magazine agrees. It named Freddie Mac to its 2006 list of “Top 100 Corporate Citizens” for best practices in the area of corporate social responsibility.

Today, we have the right team, the right plan and a strong, well-capitalized franchise that's focused on serving our vital housing mission and generating value for shareholders.

Continuing transformation today, to generate new growth and new opportunities tomorrow. That's our aim and our vision. That's Freddie Mac. ■

Freddie Mac

2005 Annual Report to Stockholders



We make home possible®