



## 2006 Annual Report



## Freddie Mac Facts

- Since 1970, Freddie Mac has made home possible more than 50 million times.
- More than half of all Freddie Mac mortgage purchases support housing for low- to moderate-income families. More than 90% of all the apartment units financed by Freddie Mac are for low- to moderate-income families.
- **Corporate Responsibility Officer Magazine** has named Freddie Mac to its list of “100 Best Corporate Citizens” for 2007, putting our company near the top of America’s corporations based on environmental responsibility, corporate governance and ethics, fairness toward employees, accountability to local community, providing responsible products and service to customers and maintaining a healthy rate of return for investors.
- Since December 2003, we have increased the dividend on our common stock by 92%.
- Freddie Mac Foundation celebrated its 15th anniversary last year.
- Freddie Mac’s annual *Hoops for the Homeless* event raised more than \$900,000 for homeless families in 2006.
- Freddie Mac 2006 workplace awards:
  - Fortune Magazine**  
“Best Companies for Minorities”
  - Latina Style Magazine**  
“Best Places for Women—Honorary”
  - Hispanic Business Inc.**  
“Top Companies for Diversity”
  - Business Ethics Magazine**  
“100 Best Corporate Citizens”
  - Washington Business Journal**  
“Top Local Corporate Philanthropists”

## Company Overview

Congress chartered Freddie Mac in 1970 with the mission of bringing liquidity, stability and affordability to the nation's mortgage markets and expanding homeownership and affordable rental housing opportunities. Since then, Freddie Mac has made home possible more than 50 million times.

As one of the largest purchasers of mortgage loans in the United States, Freddie Mac provides a vital link between mortgage lenders and investors. We don't make mortgage loans directly to homebuyers. Rather, we benefit consumers by providing lenders across the country with a steady flow of low-cost mortgage funding in good times and bad. Because Freddie Mac also provides assistance for affordable rental housing, we've helped make home possible for more than 4 million renters.

Our mission of expanding affordable housing opportunities is the foundation of our business. It forms the framework for our business activities, shapes the products we bring to market and drives the services we provide to the nation's housing and mortgage industry. Everything we do comes back to making America's mortgage markets liquid and stable and increasing opportunities for homeownership and affordable rental housing across America. ■



## A Message from the Chairman

2006 was a challenging year in the U.S. housing and mortgage markets, and Freddie Mac shared in those challenges. But even though housing weakened last year, Freddie Mac gained some strength.

Housing starts tumbled by 13 percent in 2006. Home purchases fell 10 percent. Mortgage originations dropped and home prices began to decline in a number of local markets. And the possibility of further weakness in the sector remains a leading concern for economic growth in 2007 — particularly if accompanied by widespread loan defaults or a severe tightening of credit standards.

At this writing, defaults and late payments have remained relatively low on prime mortgages, which are made to lower-risk borrowers and account for the lion's share of home loans. But late payments have risen swiftly over the past year on subprime mortgages, those made to borrowers having spottier credit histories and posing higher risks.

Yet despite last year's many challenges—which included reduced housing affordability, rising mission demands, tight spreads, intense competition and voluntary limits on our retained portfolio—Freddie Mac made continued progress. We increased our earnings, served our vital public mission and strengthened our franchise.

We did not meet all our 2006 objectives, particularly as to financial reporting and internal controls. This was very disappointing to me and to your entire management team. But we have implemented a sound, comprehensive plan to make the needed improvements and are moving ahead briskly. The timing of this annual report is itself one small sign of progress. Our plan should allow us to resume quarterly reporting in the second half of 2007.

## Key Accomplishments

### *Building Shareholder Value*

I'll begin by summarizing Freddie Mac's improved business and financial performance. Our net income grew last year to approximately \$2.2 billion, up roughly 4 percent from 2005. Return on common equity was 8.6 percent, up from 7.7 percent for 2005. Fair value, another very important measure of our performance, grew before capital transactions by approximately \$2.5 billion last year, compared to a \$1.0 billion increase in 2005. Fair value return on equity was approximately 9.5 percent, rebounding from 3.7 percent the previous year.

This improved performance was based on several factors. For starters, we achieved strong growth of 10.6 percent in our credit guarantee portfolio—slightly outpacing the overall market. By earning high marks for customer satisfaction and purchasing a broader range of loans, we were able to buy not only a larger volume but also a more representative mix of mortgages in 2006. This performance reflected the company's enhanced responsiveness and the efforts of our sales force. We ended the year with a total of \$1.5 trillion in mortgage securities issued—up from less than \$1 trillion in 2001.

Another key to Freddie Mac's success in 2006 was our disciplined management of interest-rate risk. One of the many reasons was our extensive use of callable debt—which we use more than most mortgage investors and believe gives us a real comparative advantage in managing risk. As a result, we came through a challenging year well positioned to deal with a broad range of interest-rate conditions, and with the value of our shareholders' equity well protected from interest rate swings.

On the credit risk side, Freddie Mac's exposures remained well controlled and our total single-family 90-day delinquencies actually declined during the year. At year's end, only 6 percent of our total mortgage portfolio was in nontraditional mortgages and the portfolio's average loan-to-value ratio was 57 percent. Experience and recent market developments tell us to be careful, however, and we are keeping a watchful eye on our 2006 book of business. While we are in better position than many, we have set aside increased loan loss reserves, as our credit portfolio remains vulnerable to significant declines in house prices.

Low funding costs were another building block of our success in 2006, with improvements across the yield curve. As an example, our funding cost advantage relative to LIBOR for our 10-year Reference Notes<sup>®</sup> securities increased in 2005 and 2006 by almost 20 basis points. We've said before that when spreads are tight, we may lose some return on the asset side, but we can often make up ground on the debt side. That is exactly what we did last year, by capitalizing on our improved funding costs.

Capital management remains a priority for us. Freddie Mac increased our common dividend again in 2006 to \$2.00 per share annually, bringing the total increase in our dividend to 92 percent since the end of 2003. Moreover, we returned \$2 billion to our common shareholders in a preferred-for-common restructuring. All told, we returned some \$3.3 billion to common shareholders last year—the most in Freddie Mac history.

Going forward, Freddie Mac remains strongly capitalized. With a strong balance sheet, our estimated regulatory core capital grew in 2006 to over \$36 billion. As we complete our financial reporting and internal controls remediation, I hope we will be in a better position to return some of the capital in excess of our statutory minimum that we have accumulated over the past several years. And I'm pleased to report that, consistent with discussions with our regulator, our board has approved an additional \$1 billion in common repurchases and preferred offerings this year.

### ***Serving Our Mission***

As a government-sponsored enterprise (GSE), Freddie Mac faced mounting mission challenges in 2006: reduced affordability, rising concerns about credit quality and predatory lending, a housing sector losing momentum, and HUD affordable housing goals of unprecedented difficulty. Despite these challenges, we served our mission well—providing liquidity, affordability and stability to the housing finance market, and to a broader economy hoping to see a “soft landing” for housing.

I am proud that Freddie Mac's affordable performance in 2006 was among our strongest ever. We believe we met the most demanding affordable housing goals in the company's history, pending determination by the U.S. Department of Housing and Urban Development. Of the nearly 3.3 million homes we financed last year, almost 56 percent were affordable to low- or moderate-income families. We served 300,000 first-time homebuyers. And in another record year for our growing multifamily business, we financed almost half a million affordable apartment homes.

We also believe we achieved two of our three subgoals, although we reported to HUD that we just missed one of the extremely challenging subgoals by less than 700 loans out of more than 900,000 eligible mortgage purchases. The difficulty of this challenge was magnified by market forces affecting the entire housing sector that made the average home less affordable in 2006. It also highlighted the GSEs' need to strike a balance between striving to achieve demanding housing goals and ensuring that we do not encourage imprudent lending.

When Hurricane Katrina riveted the nation's attention in 2005, Freddie Mac was there to help. In 2006, long after most television cameras were gone, Freddie Mac stayed actively involved in rebuilding the Gulf Coast region. After the hurricanes struck, we pledged to

buy \$1 billion in mortgage revenue bonds (MRBs) from state and local housing finance agencies in the Gulf. We fully met that commitment in 2006, less than 12 months later. The MRBs we have purchased will provide low-cost financing for more than 10,000 families. In addition, Freddie Mac provided well over \$700 million in mortgage funding last year for multifamily properties along the Gulf Coast.

Freddie Mac acted last year to ease the increasing strains on housing affordability. We supported our lenders by introducing an innovative 40-year product that combines the advantages of a fixed-rate loan with lower monthly costs. And we expanded our special workforce housing initiative to include military families, as well as police, firefighters, teachers and nurses. Those who defend us from harm, teach our children and care for our sick should be able to live in the communities they serve.

This February, in order to protect consumers and raise underwriting standards, Freddie Mac took the lead in announcing that after September 1, we will not buy subprime mortgages that pose an unacceptable risk of excessive payment shock and possible foreclosure. As a GSE, we feel a responsibility not only to help families *buy* their own homes, but to help them *keep* their homes, as well.

Freddie Mac also exerted responsible leadership in 2006 by addressing concerns about credit quality and practices in the housing finance market. For instance, we developed and instituted workout policies that can significantly reduce the odds of home loss through foreclosure. We also continued educating consumers on how to avoid predatory practices, and maintained our pioneering policies that led the industry in recent years to reject abusive loans that limit consumers' rights.

### ***Strengthening Our Team***

We strengthened Freddie Mac last year by building out the company's executive team in several areas vital to our success. Of great interest to our investors is the addition of Buddy Pizsel as Chief Financial Officer. Buddy brings experience and zeal to the task of making Freddie Mac's financials more transparent, accessible and useful to investors. Other key additions included our new head of Enterprise Operational Risk, Gareth Davies; General Auditor, Kirk Die; Corporate Controller, Jim Egan; Chief Information Officer, Jim Hughes; Senior Vice President for Market Risk Oversight, Manoj Singh; and Vice President for Internal Controls, Jim Larkin, among others.

Of course, the strength of our team goes far beyond its executives. Freddie Mac's greatest asset is its skilled and dedicated employees, and their efforts are critical to our success. So we were gratified by our enhanced employee engagement in 2006, and we thank all our employees for their hard work.

## Challenges to be Addressed

While Freddie Mac reached many of our goals last year, some major challenges remained unmet. Foremost among them was the essential task of getting current in our financials and strengthening our internal controls. There's no question this has taken longer than any of us expected.

Fortunately, we have developed and are carrying out a comprehensive plan that embodies our detailed blueprint for completing this job. We have first-rate teams and project leaders implementing this plan and they are making good progress. Our goal is to return to quarterly financial reporting this year. And we are working assiduously to improve our internal controls systems and infrastructure. As I said in last year's letter to stockholders, Freddie Mac must become the standard of excellence not only for managing mortgage risk, but for the accounting and internal controls associated with it.

The highly competitive, tight-spread environment we faced last year is another ongoing challenge for us in 2007. Our improved funding costs are part of the answer, as I mentioned. More broadly, we must continue to take other steps going forward—as with our expanded use of structured securities, for example—to generate acceptable returns in spite of tight margins.

Freddie Mac worked hard to hold its own in market share last year. While last year's 43 percent share was marginally below our 2005 figure, we consciously turned away some business that would not have served our mission or return objectives, rather than pursue additional share for share's sake. Looking ahead, we are focused on pricing issues as well as strong customer relationships.

Senior management is also keenly focused on Freddie Mac's expenses. Although these rose modestly last year—mostly in professional services related to our financial remediation—their rate of growth still was exceeded by the rate of growth in our business. This was in keeping with our long-term goal of managing administrative expenses to be a decreasing percentage of our mortgage portfolio, subject to the near-term imperative that we complete our needed investments in financial reporting and internal controls.

Building a stronger future for this company includes building support for the GSE model. Freddie Mac continues to strongly support an appropriate legislative solution that would strengthen our oversight and enable us to fulfill our vital housing mission. And we are playing a constructive role toward that end. Throughout 2006, we worked closely with our regulators at OFHEO and HUD, with the Administration and with Congress, to achieve balanced legislative and regulatory solutions that address the concerns of the past but are consistent with the growing demands of the future. This will remain a focus for me, and for this company, until the job is done.

Our guiding principle in this is that we support an independent regulatory structure modeled on that for banks. Once legislation is enacted, it is likely to remain in place for a very long time. Accordingly, we feel we have a responsibility to housing, our shareholders and the country at large to make our views known.

That's why I have explained publicly how the GSEs will become even more important in the years to come. And that, in turn, is why I have asked decision-makers not to unduly hamper the GSEs, just as the nation is about to need us most.

## **Conclusion**

Looking at 2006 as a whole—from our growing guarantee volumes and earnings, to our vital housing mission, to our internal and external progress—one overarching fact emerges. While we did not accomplish everything we wanted to, Freddie Mac ended the year in a stronger position than we began it.

Our challenge is to put enough years like that back to back and become a high performer. All my experience makes me confident that this is what is happening at Freddie Mac—and our trajectory is clear.

However, it is *your* confidence in this company that truly matters. For it is what allows us to make home possible for America's families; to exert responsible leadership; and to lower costs for homeowners and renters alike. The congressional genius in designing the GSEs was to accomplish a public mission not with federal expenditures, but using private capital.

So thank you for your confidence in this franchise. It is what makes the GSE model work. And our aim every day is to earn it. ■

Sincerely,

A handwritten signature in cursive script that reads "Dick Syron".

Richard F. Syron  
**Chairman and Chief Executive Officer**

# 2006 Annual Report to Stockholders

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**INFORMATION STATEMENT  
AND  
ANNUAL REPORT TO STOCKHOLDERS  
For the fiscal year ended December 31, 2006**

This Information Statement contains important financial and other information about Freddie Mac. We will supplement this Information Statement periodically. You should read all available supplements together with this Information Statement. We also provide information about the securities we issue in the Offering Circular for each securities program and any supplement for each particular offering. You can obtain copies of the Information Statement, Offering Circulars, all available supplements, financial reports and other similar information by visiting our Internet website ([www.freddiemac.com](http://www.freddiemac.com)) or by writing or calling us at:

**Freddie Mac  
Investor Relations Department  
Mailstop 486  
8200 Jones Branch Drive  
McLean, Virginia 22102-3110  
Telephone: 571-382-4732 or 1-800-FREDDIE (800-373-3343)  
[shareholder@freddiemac.com](mailto:shareholder@freddiemac.com)**

Our principal offices are located at 8200 Jones Branch Drive, McLean, Virginia 22102 (telephone: 703-903-2000).

**THIS INFORMATION STATEMENT IS DATED MARCH 23, 2007**

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*This Information Statement and Annual Report includes forward-looking statements, which may include expectations and objectives for our operating results, financial condition, business, remediation of internal controls and trends and other matters that could affect our business. You should not unduly rely on our forward-looking statements. Actual results might differ significantly from our forecasts and expectations due to several factors that involve risks and uncertainties, including those described in “BUSINESS,” “RISK FACTORS,” “FORWARD-LOOKING STATEMENTS” and “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS,” or MD&A. These forward-looking statements are made as of the date of this Information Statement and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date of this Information Statement, or to reflect the occurrence of unanticipated events.*

## **BUSINESS**

### **Overview**

Freddie Mac is a stockholder-owned company chartered by Congress in 1970 to stabilize the nation’s residential mortgage markets and expand opportunities for homeownership and affordable rental housing. Our mission is to provide liquidity, stability and affordability to the U.S. housing market. We fulfill our mission by purchasing residential mortgages and mortgage-related securities in the secondary mortgage market. We are one of the largest purchasers of mortgage loans in the U.S. We purchase mortgages and bundle them into mortgage-related securities that can be sold to investors. We can use the proceeds to purchase additional mortgages from primary market mortgage lenders, thus providing them with a continuous flow of funds. We also purchase mortgage loans and mortgage-related securities for our investments portfolio. We finance our purchases for our investments portfolio and manage associated interest-rate and other market risks primarily by issuing a variety of debt instruments and entering into derivative contracts in the capital markets.

Though we are chartered by Congress, our business is funded completely with private capital. We are responsible for making payments on our securities. Neither the U.S. government nor any other agency or instrumentality of the U.S. government is obligated to fund our mortgage purchase or financing activities or to guarantee our securities and other obligations.

### **Our Charter and Mission**

The Federal Home Loan Mortgage Corporation Act, which we refer to as our charter, forms the framework for our business activities, shapes the products we bring to market and drives the services we provide to the nation’s residential housing and mortgage industries. Our charter also determines the types of mortgage loans that we are permitted to purchase, as described in “Business Activities — *Types of Mortgages We Purchase.*”

Our mission is defined in our charter:

- to provide stability in the secondary market for residential mortgages;
- to respond appropriately to the private capital market;
- to provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- to promote access to mortgage credit throughout the U.S. (including central cities, rural areas and other underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

To facilitate our mission, our charter provides us with special attributes including:

- exemption from the registration and reporting requirements of the Securities Act of 1933, or the Securities Act, and the Securities Exchange Act of 1934, or the Exchange Act. We are, however, subject to the general antifraud provisions of the federal securities laws and have committed to the voluntary registration of our common stock with the Securities and Exchange Commission under the Exchange Act;
- favorable treatment of our securities under various investment laws and other regulations;
- discretionary authority of the Secretary of the Treasury to purchase up to \$2.25 billion of our securities; and
- exemption from state and local taxes, except for taxes on real property that we own.

Our activities in the secondary mortgage market benefit consumers by providing lenders a steady flow of low-cost mortgage funding. This flow of funds helps moderate cyclical swings in the housing market, equalizes the flow of mortgage funds regionally throughout the U.S. and makes mortgage funds available in a variety of economic conditions. In addition, the supply of cash made available to lenders through this process reduces mortgage rates on loans within the dollar limits

set in accordance with our charter. These lower rates help make home ownership affordable for more families and individuals than would be possible without our participation in the secondary mortgage market.

### Residential Mortgage Debt Market

We compete in the large and growing U.S. residential mortgage debt market. This market consists of a primary mortgage market that links homebuyers and lenders and a secondary mortgage market that links lenders and investors. At December 31, 2006, our Total mortgage portfolio was \$1.8 trillion, while the total U.S. residential mortgage debt outstanding was estimated to be approximately \$10.9 trillion.

Growth in the U.S. residential mortgage debt market is affected by several factors, including changes in interest rates, employment rates in various regions of the country, home ownership rates, home price appreciation, lender preferences regarding credit risk and borrower preferences regarding mortgage debt. The amount of residential mortgage debt available for us to purchase and the mix of available loan products are also affected by several factors, including the volume of single-family mortgages meeting the requirements of our charter and the purchase and securitization activity of other financial institutions. See “RISK FACTORS.”

Following several years of substantial growth in the residential mortgage market, driven by historically low interest rates and a strong housing market with record home sales and significant home price appreciation, the residential mortgage market slowed in 2006. Home sales declined, inventories of homes for sale increased and the rate of home price appreciation slowed. However, mortgage rates remained low by historical standards and continued to contribute to demand in the residential mortgage market.

Home price appreciation is an important market indicator for us because it represents the general trend in value associated with the single-family mortgage loans underlying our Mortgage Participation Certificates, or PCs, and Structured Securities. As home prices appreciate, the risk of borrower defaults generally declines and the severity of credit losses also declines. Estimates of nationwide home price appreciation varied for 2006, with some indicating a slight overall decline in home prices and others indicating moderate growth. However, by any measure, the nationwide rate of home price appreciation is well below that seen in recent years and we expect that it will continue to weaken in the near term. Despite the slowdown in the housing market, total residential mortgage debt outstanding in the U.S. grew by an estimated 9 percent in 2006 as compared with 14 percent in 2005. We expect that the amount of total residential mortgage debt outstanding will continue to rise in 2007, though at a slower rate than in the past few years. Table 1 includes some important indicators for the U.S. residential mortgage market.

**Table 1 — Mortgage Market Indicators**

	Year-Ended December 31,		
	2006	2005	2004
Home sale units (in thousands) <sup>(1)</sup>	6,737	7,463	7,161
Home price appreciation <sup>(2)</sup>	6%	13%	12%
Single-family mortgage originations (in billions)	\$ 3,000	\$ 3,257	\$2,906
Refinancing share of single-family mortgage originations	43%	44%	46%
U.S. residential mortgage debt outstanding (in billions) <sup>(3)</sup>	\$10,921	\$10,046	\$8,847

(1) Includes sales of new and existing detached single-family homes in the U.S. and excludes condos/co-ops. Sources: National Association of Realtors news release dated February 27, 2007 (sales of existing homes) and U.S. Census Bureau news release dated February 28, 2007 (sales of new homes).

(2) Source: Freddie Mac’s Conventional Mortgage Home Price Index release dated March 5, 2007.

(3) U.S. residential mortgage debt outstanding as of December 31 for 2006, 2005 and 2004. Source: Federal Reserve Flow of Funds Accounts of the United States dated March 8, 2007.

### Primary Mortgage Market — Our Customers

Our customers are predominantly lenders in the primary mortgage market that originate mortgages for homebuyers. These lenders include mortgage banking companies, commercial banks, savings banks, community banks, credit unions, state and local housing finance agencies and savings and loan associations. A lender that originates a mortgage can hold the mortgage in its own portfolio, securitize the mortgage or sell the mortgage to a secondary mortgage market investor, such as Freddie Mac.

We acquire a significant portion of our single-family mortgages from several large lenders. In 2006, three mortgage lenders each accounted for 10 percent or more of our single-family mortgage purchase volume. These lenders collectively accounted for approximately 51 percent of this volume. In addition, in 2006, our top ten lenders represented approximately 76 percent of our single-family mortgage purchase volume. These top lenders are among the largest mortgage loan originators in the U.S. We have contracts with a number of mortgage lenders that include a commitment by the lender to sell us a minimum percentage or dollar amount of its mortgage origination volume. These contracts typically last for one year. If a mortgage lender fails to meet its contractual commitment, we have a variety of contractual remedies, including the right to assess certain fees. As the mortgage industry has been consolidating, we, as well as our competitors, have been seeking

increased business from a decreasing number of key lenders. We are continuing to work to diversify our customer base and thus reduce the risk and impact of losing a key customer. See “RISK FACTORS — Competitive and Market Risks.”

### *Secondary Mortgage Market*

We participate in the secondary mortgage market generally by buying whole loans (*i.e.*, mortgage loans that have not been securitized) and mortgage-related securities for our Retained portfolio and by issuing guaranteed mortgage-related securities. We do not lend money directly to homebuyers. Our principal competitors are the Federal National Mortgage Association, or Fannie Mae, a similarly chartered government-sponsored enterprise, or GSE, the Federal Home Loan Banks and other financial institutions that retain or securitize mortgages, such as commercial and investment banks, dealers and thrift institutions. We compete on the basis of price, products, structure and service.

### **Business Activities**

We generate income primarily through two business activities — portfolio investment activities and credit guarantee activities — operating as one business segment. For a summary and description of our financial performance and financial condition, see “MD&A” and “CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA” and the accompanying notes to our consolidated financial statements. At December 31, 2006, we had total assets of \$813.1 billion and total stockholders’ equity of \$28.3 billion, and for the year ended December 31, 2006, we reported net income of \$2.2 billion. At February 28, 2007, we had 5,400 full-time and 135 part-time employees. Our principal offices are located in McLean, Virginia.

### *Types of Mortgages We Purchase*

Our charter establishes general parameters for the terms and principal amounts of the mortgages we may purchase, as described below. We also purchase mortgage-related securities that are backed by single-family or multifamily mortgages. Within our charter parameters, the residential mortgage loans we purchase or that underlie mortgage-related securities we purchase generally fall into one of two categories:

- *Single-Family Mortgages.* Single-family mortgages are secured by one- to four-family properties. The types of single-family mortgages we purchase include 40-year, 30-year, 20-year, 15-year and 10-year fixed-rate mortgages, interest-only mortgages, adjustable-rate mortgages, or ARMs, and balloon/reset mortgages.
- *Multifamily Mortgages.* Multifamily mortgages are secured by properties with five or more residential rental units. These mortgages have terms generally ranging from five to thirty years. Our multifamily mortgage products, services and initiatives are designed primarily to finance affordable rental housing for low- and moderate-income families.

*Conforming Loan Limits.* Our charter places a dollar amount cap, called the “conforming loan limit,” on the size of the original principal balance of single-family mortgage loans we purchase. This limit is determined annually using a methodology that is based on changes in the national average price of a one-family residence, as surveyed by the Federal Housing Finance Board, or FHFB, each October. For 2007 and 2006, the conforming loan limit for a one-family residence was set at \$417,000; for 2005, the limit was set at \$359,650; and for 2004, the limit was set at \$333,700. Higher limits apply to two- to four-family residences. The conforming loan limits are also 50 percent higher for mortgages secured by properties in Alaska, Guam, Hawaii and the U.S. Virgin Islands. No comparable limits apply to our purchases of multifamily mortgages.

*Loan-to-Value Ratios and Mortgage Insurance.* Under our charter, mortgages that are not guaranteed or insured by any agency or instrumentality of the U.S. government are referred to as “conventional mortgages.” Our charter requires that we obtain additional credit protection if the unpaid principal balance of a conventional single-family mortgage that we purchase exceeds 80 percent of the value of the property securing the mortgage. See “MD&A — RISK MANAGEMENT — Credit Risks — Mortgage Credit Risk — Credit Enhancements” for more information regarding the credit enhancements and other credit protections we obtain.

*Loan Quality.* Under our charter, our mortgage purchases are limited, so far as practicable, to mortgages we deem to be of a quality, type and class that generally meet the purchase standards of private institutional mortgage investors. To manage credit risks with respect to our mortgage purchases, we have developed internal credit policies and appraisal, underwriting and other purchase policies and guidelines. We design mortgage loan underwriting guidelines to enable primary mortgage market lenders to assess the creditworthiness of the borrower and the borrower’s capacity to fulfill the obligations of the mortgage. We review these guidelines in an effort to ensure their effectiveness and to address the needs of the changing marketplace — including the needs of minorities, low- and moderate-income borrowers and other borrowers who are underserved by the traditional housing finance system. In many cases, underwriting standards are tailored under contracts with individual customers. We have also been expanding the share of mortgages we purchase that were underwritten by our seller/servicers using alternative automated underwriting systems or agreed-upon underwriting

standards that differ from our systems or guidelines. See “MD&A — RISK MANAGEMENT — Credit Risks — *Mortgage Credit Risk — Underwriting Requirements and Quality Control Standards*” for additional information regarding our underwriting standards.

### ***Investment and Funding Activities***

We purchase mortgage loans and mortgage-related securities and hold them in our Retained portfolio for investment purposes. We invest in mortgage-related securities issued by GSEs or government agencies, referred to as agency securities. We also invest in non-agency mortgage-related securities. Our portfolio purchases replenish the capital available for mortgage lending. We face competition from other financial institutions that buy mortgage-related securities issued by the GSEs and non-agency issuers.

We manage our Retained portfolio through a strategy of long-term capital deployment. We apply our expertise in mortgage markets and mortgage assets to identify attractive asset purchase opportunities while managing our interest-rate risk. Our asset selection process may contemplate restructuring activities to improve our investment returns and fair value results. We may purchase mortgage loans and mortgage-related securities with less attractive investment returns as part of our efforts to achieve our affordable housing goals and subgoals.

In response to a request by the Office of Federal Housing Enterprise Oversight, or OFHEO, we announced on August 1, 2006 that we would voluntarily limit the growth of our Retained portfolio to no more than 2.0 percent annually (and 0.5 percent quarterly on a cumulative basis), based on its carrying value as contained in our minimum capital report to OFHEO filed on July 28, 2006, which was \$710.3 billion. We expect to keep the limit, which was effective as of July 1, 2006, in place until we return to producing and publicly releasing quarterly financial statements prepared in conformity with U.S. generally accepted accounting principles, or GAAP. Changes in the carrying value of our Retained portfolio are affected by several factors, including purchases, sales, prepayments on mortgage-related investments and changes in fair value primarily related to changes in interest rates. As market interest rates change, we may adjust our purchase and/or sale decisions in order to remain within the limit.

We issue short-, medium- and long-term debt securities, subordinated debt securities and preferred stock to finance purchases of mortgages and mortgage-related securities and other business activities. Our debt funding program is designed to offer liquid securities to the global capital markets in a transparent and predictable manner. By diversifying our investor base and the types of debt securities we offer, we believe we enhance our ability to maintain continuous access to the debt markets under a variety of conditions. We manage our debt funding costs by issuing debt of various maturities that is either callable (*i.e.*, redeemable at our option at one or more times before its scheduled maturity) or non-callable. Our funding mix also helps us manage our interest-rate risk by closely matching the interest obligations on our debt with the expected cash inflows from our mortgage-related investments. To further manage interest-rate risks, we use a variety of derivatives. We also use Structured Securities, described below, to restructure cash flows from mortgage-related securities, retaining a portion of these restructured cash flows. See “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” for more information.

Because of our GSE status and the special attributes granted to us under our charter, our debt securities and those of other GSE issuers trade in the so-called “agency sector” of the debt markets. This highly liquid market segment exhibits its own yield curve reflecting our ability to borrow at lower rates than many other corporate debt issuers. As a result, we mainly compete for funds in the debt issuance markets with Fannie Mae and the Federal Home Loan Banks, which issue debt securities of comparable quality and ratings. However, we also compete for funding with other debt issuers. The demand for, and liquidity of, our debt securities, and those of other GSEs, benefit from their status as permitted investments for banks, investment companies and other financial institutions under their statutory and regulatory framework. Competition for funding can vary with economic, financial market and regulatory environments.

For additional information about our debt securities, see “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — *Debt Securities*.”

### ***Credit Guarantee Activities***

We guarantee the payment of principal and interest on mortgage-related securities in exchange for a fee, which we refer to as a guarantee fee. The types of mortgage-related securities we guarantee include the following:

- PCs we issue;
- single-class and multi-class Structured Securities we issue; and
- securities related to tax-exempt multifamily housing revenue bonds.

We enhance our ability to attract a representative mix of mortgage debt outstanding by diversifying our seller base, expanding new product capabilities and improving customer service. Through investor and dealer outreach programs,

securitization product development and improvements to liquidity, transparency and predictability, we attract a broad array of investors. Our efforts to improve the supply of, and demand for, our products are critical to their liquidity and support our mission.

The securitization market is extremely competitive and we have reduced our guarantee fees on new business in order to maintain our market share. At the same time, the expected future credit costs associated with our new credit guarantee business have increased. We make trade-offs in our pricing in order to support liquidity in various segments of the residential mortgage market, to support the liquidity and price performance of our PCs and to acquire business in pursuit of our affordable housing goals and subgoals. In addition, we seek to maintain our share of the total residential mortgage securitization market and our share of the GSE securitization market by improving customer service, and expanding our customer base, the types of mortgages we guarantee and the products we offer.

Because the price performance of, and demand for, our PCs have generally been less than Fannie Mae's securities, we may use market-adjusted pricing for our guarantees through which we provide guarantee fee or other transaction fee price adjustments to partially offset weaknesses in prevailing security prices. We believe these price-adjustments increase the competitiveness of our credit guarantee business. The use of such market-adjusted pricing reduces the profitability of our new credit guarantee business over its life.

*Guarantees of PCs.* We issue single-class mortgage-related securities that represent undivided interests in pools of mortgages we have purchased. We refer to these mortgage-related securities as PCs. We guarantee the payment of principal and interest to the holders of our PCs. We issue most of our PCs in transactions in which our customers sell us mortgage loans in exchange for PCs. Other PC investors may include pension funds, insurance companies, securities dealers, money managers, foreign central banks and other fixed-income investors. Investors may choose to hold these PCs in their portfolios or sell them to others. Our guarantee increases the marketability of our PCs, providing additional liquidity to the mortgage market.

*Guarantees of Structured Securities.* We also issue securities representing beneficial interests in pools of PCs and certain other types of mortgage-related assets. We refer to these mortgage-related securities as Structured Securities. We guarantee the payment of principal and interest on most of the Structured Securities we issue. By issuing Structured Securities, we seek to provide liquidity to alternative segments of the mortgage market. We issue many of our Structured Securities in transactions in which securities dealers or investors sell us the mortgage-related assets underlying the Structured Securities in exchange for the Structured Securities. We also sell Structured Securities to securities dealers or investors in exchange for cash.

We issue single-class Structured Securities and multi-class Structured Securities. Single-class Structured Securities pass through the cash flows on the underlying mortgage-related assets. Multi-class Structured Securities divide the cash flows of the underlying mortgage-related assets into two or more classes that meet the investment criteria and portfolio needs of different investors. Our principal multi-class Structured Securities qualify for tax treatment as Real Estate Mortgage Investment Conduits, or REMICs. For purposes of this Information Statement, multi-class Structured Securities include Structured Securities backed by non-agency mortgage-related securities.

*Guarantees Related to Tax-Exempt Multifamily Housing Revenue Bonds.* We guarantee the payment of principal and interest on tax-exempt multifamily housing revenue bonds that support pass-through certificates issued by third parties. These housing revenue bonds are collateralized by mortgage loans on low- and moderate-income multifamily housing projects. In addition, we guarantee the payment of principal and interest related to low- and moderate-income multifamily mortgage loans underlying tax-exempt multifamily housing revenue bonds.

*PC and Structured Securities Support Activities.* We support the liquidity and depth of the market for PCs through a variety of activities, including educating dealers and investors about the merits of trading and investing in PCs, enhancing disclosure related to the collateral underlying our securities and introducing new mortgage-related securities products and initiatives. We support the price performance of our PCs through a variety of strategies, including the issuance of Structured Securities and the purchase and sale by our Retained portfolio of PCs and other agency securities, including Fannie Mae securities. While some purchases of PCs may result in expected returns that are substantially below our normal thresholds, this strategy is not expected to have a material effect on our long-term economic returns. Depending upon market conditions, including the relative prices, supply of and demand for PCs and comparable Fannie Mae securities, as well as other factors, such as the voluntary limit on the growth of our Retained portfolio, there may be substantial variability in any period in the total amount of securities we purchase or sell for our Retained portfolio in accordance with this strategy. We may increase, reduce or discontinue these or other related activities at any time, which could affect the liquidity and depth of the market for PCs.

*The To Be Announced Market.* In connection with our credit guarantee activities, we issue PCs that represent pools of mortgages with similar characteristics. Because these PCs are homogeneous and are issued in high volume, they are highly

liquid and trade with similar securities on a “generic” basis, also referred to as trading in the To Be Announced, or TBA, market. A TBA trade in Freddie Mac securities represents a contract for the purchase or sale of PCs to be delivered at a future date; however, the specific PCs that will be delivered to fulfill the trade obligation, and thus the specific characteristics of the mortgages underlying those PCs, are not known (*i.e.*, “announced”) at the time of the trade, but only shortly before the trade is settled. The Securities Industry and Financial Markets Association publishes guidelines pertaining to the types of mortgages that are eligible for TBA trades.

The use of the TBA market increases the liquidity of mortgage investments and improves the distribution of investment capital available for residential mortgage financing, thereby helping us to accomplish our statutory mission. During 2006, we issued approximately \$264.7 billion of PCs backed by single-family mortgage loans that were eligible to be delivered to settle TBA trades, representing approximately 74 percent of our total guaranteed PCs and Structured Securities issuances.

#### Available Information

Our Information Statements, Supplements and other financial disclosure documents are available free of charge on our website at [www.freddiemac.com](http://www.freddiemac.com). (We do not intend this internet address to be an active link and are not using references to this internet address here or elsewhere in this Information Statement to incorporate additional information into this Information Statement.) Our corporate governance guidelines, Codes of Conduct for employees and members of the board of directors (and any amendments or waivers that would be required to be disclosed) and the charters of the board’s five standing committees (the Audit; Finance and Capital Deployment; Mission, Sourcing and Technology; Governance, Nominating and Risk Oversight; and Compensation and Human Resources Committees) are also available on our website at [www.freddiemac.com](http://www.freddiemac.com). Printed copies of these documents may be obtained upon request from our Investor Relations department.

### REGULATION AND SUPERVISION

#### Department of Housing and Urban Development

The U.S. Department of Housing and Urban Development, or HUD, has general regulatory power over Freddie Mac, including power over new programs, affordable housing goals and fair lending. HUD periodically conducts reviews of our activities to ensure conformity with our charter and other regulatory obligations. For example, HUD is currently reviewing certain of our investments and other assets and liabilities.

#### Housing Goals

We are subject to affordable housing goals set by HUD. The goals, which are set as a percentage of the total number of dwelling units underlying our total mortgage purchases, have risen steadily since they became permanent in 1995. The goals are intended to expand housing opportunities for low- and moderate-income families, low-income families living in low-income areas, very low-income families and families living in HUD-defined underserved areas. The goal relating to low-income families living in low-income areas and very low-income families is referred to as the “special affordable” housing goal. This special affordable housing goal also includes a multifamily subgoal that sets an annual minimum dollar volume of qualifying multifamily mortgage purchases. In addition, HUD has established three subgoals that are expressed as percentages of the total number of mortgages we purchased that finance the purchase of single-family, owner-occupied properties located in metropolitan areas.

The HUD goals and subgoals are summarized in Table 2 below. Our performance with respect to the goals and subgoals, as reported to HUD, is set forth in Table 3.

**Table 2 — Housing Goals and Home Purchase Subgoals for 2006 through 2008<sup>(1)</sup>**

	Housing Goals		
	2008	2007	2006
Low- and moderate-income goal	56%	55%	53%
Underserved areas goal	39	38	38
Special affordable goal	27	25	23
Multifamily special affordable volume target (dollars in billions)	\$3.92	\$3.92	\$3.92
	Home Purchase Subgoals		
	2008	2007	2006
Low- and moderate-income subgoal	47%	47%	46%
Underserved areas subgoal	34	33	33
Special affordable subgoal	18	18	17

(1) An individual mortgage may qualify for more than one of the goals or subgoals. Each of the goal and subgoal percentages will be determined independently and cannot be aggregated to determine a percentage of total purchases that qualifies for these goals or subgoals.

**Table 3 — Housing Goals and Home Purchase Subgoals and Reported Results<sup>(1)</sup>**

*Housing Goals and Reported Results*

	Year Ended December 31,					
	2006		2005		2004	
	Goal	Result	Goal	Result	Goal	Result
Low- and moderate-income goal .....	53%	55.9%	52%	54.1%	50%	51.6%
Underserved areas goal .....	38	42.6	37	42.2	31	32.3
Special affordable goal .....	23	26.5	22	24.5	20	22.7
Multifamily special affordable volume target (dollars in billions) .....	\$3.92	\$14.01	\$3.92	\$11.41	\$2.11	\$7.77

*Home Purchase Subgoals and Reported Results*

	Year Ended December 31,			
	2006		2005	
	Subgoal	Result	Subgoal	Result
Low- and moderate-income subgoal .....	46%	46.9%	45%	46.9%
Underserved areas subgoal .....	33	33.7	32	35.4
Special affordable subgoal .....	17	16.9	17	17.8

(1) An individual mortgage may qualify for more than one of the goals or subgoals. Each of the goal and subgoal percentages and each of our percentage results is determined independently and cannot be aggregated to determine a percentage of total purchases that qualifies for these goals or subgoals.

Meeting our affordable housing goals and subgoals is increasingly challenging and there can be no assurance that we will do so. See “RISK FACTORS — Legal and Regulatory Risks.” However, we view the purchase of mortgage loans that count toward our affordable housing goals to be a principal part of our mission and business and we are committed to facilitating the financing of affordable housing for low- and moderate-income families.

We reported to HUD that we met our three affordable housing goals and the multifamily special affordable volume target subgoal for 2006. With respect to the home purchase subgoals, we reported that we met the low- and moderate-income subgoal and the underserved areas subgoal. However, our result for the special-affordable subgoal was 16.9 percent as compared with the subgoal of 17.0 percent. HUD has determined that we met the goals and subgoals for 2005 and 2004, and will evaluate our performance with respect to 2006.

We are engaged in ongoing discussions with HUD regarding interpretive issues relating to the purchase and counting of mortgages for purposes of housing goals and subgoals performance for 2006. If the Secretary of HUD finds that we failed to meet a housing goal established under section 1332, 1333, or 1334 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, or the GSE Act, and that achievement of the housing goal was feasible, the GSE Act states that the Secretary shall require the submission of a housing plan with respect to the housing goal for approval by the Secretary. The housing plan must describe the actions we would take to achieve the unmet goal in the future. HUD has the authority to take enforcement actions against us, including issuing a cease and desist order or assessing civil money penalties, if we: (a) fail to submit a required housing plan or fail to make a good faith effort to comply with a plan approved by HUD; or (b) fail to submit certain data relating to our mortgage purchases, information or reports as required by law. See “RISK FACTORS — Legal and Regulatory Risks.” While the GSE Act is silent, HUD has indicated that it has authority under the GSE Act to establish and enforce a separate specific subgoal within the special affordable housing goal.

***Fair Lending***

Our mortgage purchase activities are subject to federal anti-discrimination laws. In addition, the GSE Act prohibits discriminatory practices in our mortgage purchase activities, requires us to submit data to HUD to assist in its fair lending investigations of primary market lenders and requires us to undertake remedial actions against lenders found to have engaged in discriminatory lending practices. In addition, HUD periodically reviews and comments on our underwriting and appraisal guidelines for consistency with the Fair Housing Act and the GSE Act.

***Predatory Lending***

A core component of our mission is to facilitate the financing of affordable housing for low- and moderate-income families. Predatory lending practices include the origination of loans with excessive interest rates or financing costs. Such practices are in direct opposition to our mission, our goals and our practices. Since 2000, we have taken a number of voluntary steps to combat predatory lending and support responsible lending. We have instituted anti-predatory lending policies intended to prevent the purchase or assignment of mortgage loans with unacceptable terms or conditions or resulting from unacceptable practices. In addition to the purchase policies we have instituted, we promote consumer education and financial literacy efforts to help borrowers avoid abusive lending practices and we provide competitive mortgage products to reputable mortgage originators so that borrowers have a greater choice of financing options.

### ***New Program Approval***

We are required under our charter and the GSE Act to obtain the approval of the Secretary of HUD for any new program for the purchasing, servicing, selling, lending on the security of, or otherwise dealing in, conventional mortgages that is significantly different from programs that have been approved by HUD or that were approved or engaged in before the date the GSE Act was enacted in 1992; or that represents an expansion of programs above limits expressly contained in any prior approval regarding the dollar volume or number of mortgages or securities involved. HUD must approve any new program unless the Secretary determines that the new program is not authorized under our charter or that the program is not in the public interest.

### **Office of Federal Housing Enterprise Oversight**

OFHEO is the safety and soundness regulator for Freddie Mac and Fannie Mae. The GSE Act established OFHEO as a separate office within HUD, substantially independent of the HUD Secretary. OFHEO is headed by a Director who is appointed by the President and confirmed by the Senate. The OFHEO Director is responsible for ensuring that Freddie Mac and Fannie Mae are adequately capitalized and operating safely in accordance with the GSE Act. OFHEO's authority with regard to Freddie Mac and Fannie Mae includes authority to:

- issue regulations to carry out its responsibilities;
- conduct examinations;
- require reports of financial condition and operation;
- develop and apply critical, minimum and risk-based capital standards, including classifying the capital levels not less than quarterly;
- prohibit excessive executive compensation under prescribed standards; and
- impose temporary and final cease-and-desist orders and civil money penalties, provided certain conditions are met.

From time to time, OFHEO also has adopted examination guidance on a number of different topics, including accounting practices, corporate governance and compensation practices.

OFHEO also has exclusive administrative enforcement authority that is generally similar to that of other federal financial institutions regulatory agencies. That authority can be exercised in the event we fail to meet regulatory capital requirements; violate our charter, the GSE Act, OFHEO regulations, a written agreement with or order issued by OFHEO; or engage in conduct that significantly threatens our Core capital. Core capital consists of the par value of outstanding common stock (common stock issued less common stock held in treasury), the par value of outstanding non-cumulative, perpetual preferred stock, additional paid-in capital and retained earnings, as determined in accordance with GAAP.

### ***Consent Order***

On December 9, 2003, we entered into a consent order and settlement with OFHEO that concluded its special investigation of the company related to our restatement. Under the terms of the consent order, we agreed to undertake certain remedial actions related to governance, corporate culture, internal controls, accounting practices, disclosure and oversight. We have taken actions to comply with the terms of the consent order and OFHEO continues to monitor our progress.

### ***Nontraditional Mortgage Product Risks***

In December 2006, OFHEO notified us that it expects us to take action consistent with the Interagency Guidance on Nontraditional Mortgage Product Risks adopted in October 2006 by the federal financial institutions regulatory agencies. The Interagency Guidance clarifies how financial institutions should offer nontraditional mortgage products in a safe and sound manner and in a way that clearly discloses the risks that borrowers may assume. We have submitted a report to OFHEO describing the actions we propose to take consistent with the Interagency Guidance. Our proposed actions include measures to consistently apply the principles of the Interagency Guidance to all of our mortgage purchases. It is possible that implementation of the Interagency Guidance and the actions we propose to take will reduce the number of mortgages available to us for purchase and increase the difficulty we face in meeting our affordable housing goals and subgoals. See "RISK FACTORS — Legal and Regulatory Risks."

### ***Capital Standards***

OFHEO's oversight of our safety and soundness includes the implementation, monitoring and enforcement of capital standards. OFHEO's regulatory capital requirements include ratio-based minimum and critical capital requirements and a risk-based capital requirement designed to ensure that we maintain sufficient capital to survive a sustained severe downturn in the economic environment. The GSE Act requires OFHEO to classify our capital adequacy at least quarterly. OFHEO has always classified us as "adequately capitalized," the highest possible classification.

If we were classified as less than adequately capitalized, our ability to pay dividends on common or preferred stock could be restricted. Also, if a dividend payment on our common or preferred stock would cause us to fail to meet our minimum capital or risk-based capital requirements, we would not be able to make the payment without prior written approval from OFHEO. For additional information about our regulatory capital requirements, see “NOTE 10: REGULATORY CAPITAL” to our consolidated financial statements.

In a letter dated January 28, 2004, OFHEO created a framework for monitoring our capital due to our higher operational risk, including our inability to produce timely financial statements in conformity with GAAP. The letter directed that we maintain a mandatory target capital surplus of 30 percent over our minimum capital requirement, subject to certain conditions and variations; that we submit weekly reports concerning our capital levels; and that we obtain prior approval of certain capital transactions including common stock repurchases, redemption of any preferred stock or payment of dividends on preferred stock above stated contractual rates. For additional information about the OFHEO mandatory target capital surplus framework, see “NOTE 10: REGULATORY CAPITAL” to our consolidated financial statements. Also, see “RISK FACTORS — Legal and Regulatory Risks — *Developments affecting our legislative and regulatory environment could materially harm our business prospects or competitive position*” for more information.

### **Department of the Treasury**

Under our charter, the Secretary of the Treasury has approval authority over our issuances of notes, debentures and substantially identical types of unsecured debt obligations (including the interest rates and maturities of these securities), as well as new types of mortgage-related securities issued subsequent to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989. The Secretary of the Treasury has performed this debt securities approval function by coordinating GSE debt offerings with Treasury funding activities. The Treasury Department is reviewing its process for approving our debt offerings.

### **Securities and Exchange Commission**

While we are exempt from Securities Act and Exchange Act registration and reporting requirements, we are dedicated to fulfilling our commitment to register our common stock under the Exchange Act. We plan to begin the process of registering our common stock with the SEC after resuming timely quarterly financial reporting. Once this process is complete, we will be subject to the financial reporting requirements applicable to registrants under the Exchange Act, including the requirement to file with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. In addition, OFHEO issued a supplemental disclosure regulation that will obligate us to submit proxy statements and insider transaction reports to the SEC in accordance with rules promulgated under the Exchange Act. After our common stock is registered under the Exchange Act, our securities will continue to be exempt from the securities offering registration requirements of the Securities Act and certain other provisions of the federal securities laws.

### **GSE Regulatory Oversight Legislation**

We face a highly uncertain regulatory environment in light of GSE regulatory oversight legislation currently under consideration in Congress. During 2005, the House of Representatives and the Senate Committee on Banking, Housing, and Urban Affairs each passed a bill that would have resulted in significant changes in the existing GSE regulatory oversight structure. Congressional consideration of those bills ended with the expiration of the 109th Congress in December 2006.

A new session of Congress began in January 2007. Legislation has been introduced in the House of Representatives, containing provisions that would substantially alter the current regulatory framework under our charter and the GSE Act. The bill that was introduced includes provisions that would:

- give our regulator substantial authority to regulate the amount and composition of our portfolio investments and to require substantial reductions in those investments;
- increase the regulator’s authority to require us to maintain higher minimum and risk-based capital levels and to approve new products;
- modify our affordable housing goals; and
- for 2007 through 2011, require us to make an annual contribution to an affordable housing fund in an amount equal to 1.2 basis points of our average total mortgage portfolio.

While new GSE oversight legislation has yet to be introduced in the Senate, we believe the Senate is likely to consider legislation that poses similar issues, but may also include provisions that differ materially from any bill considered in the House. Provisions of the bill introduced in the House or any other bill considered by the House or Senate, individually and in certain combinations, could have a material adverse effect on our ability to fulfill our mission, future earnings, stock price and stockholder returns, the rate of growth in our fair value and our ability to recruit qualified officers and directors.

We believe appropriate GSE regulatory oversight legislation would strengthen market confidence and promote our mission. We cannot predict the prospects for the enactment, timing or content of any final legislation.

## RISK FACTORS

Before you invest in our securities, you should know that making such an investment involves risks, including the risks described below and in “BUSINESS,” “FORWARD-LOOKING STATEMENTS,” “MD&A” and elsewhere in this Information Statement. The risks that we have highlighted here are not the only ones that we face. These risks could lead to circumstances where our business, financial condition and/or results of operations could be adversely affected. In that case, the trading price of our securities could decline and you may lose all or part of your investment. Some of these risks are managed under our risk management framework, as described in “MD&A — RISK MANAGEMENT.” We may also encounter risks of which we are currently not aware or that we currently deem immaterial. These risks also may impair our business operations, financial results or your investment in our securities.

### Business and Operational Risks

*Material weaknesses and other deficiencies related to internal control over financial reporting could result in errors, affect operating results and cause investors to lose confidence in our reported results.*

Effective internal control over financial reporting and effective disclosure controls and procedures are essential to management’s ability to produce reliable and timely financial statements and other disclosures and to prevent fraud. While we have not completed our evaluation of our internal control over financial reporting, we have identified, and may in the future identify, material weaknesses and significant deficiencies in our internal controls that impair our ability to produce reliable and timely financial reports. Because of the material weaknesses, management concluded that our internal control over financial reporting was not effective as of December 31, 2006. A “material weakness” is a significant deficiency or combination of significant deficiencies that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A “significant deficiency” is a control deficiency or combination of control deficiencies that adversely affects a company’s ability to initiate, authorize, record, process, or report external financial data reliably in accordance with GAAP such that there is a more than remote likelihood that a misstatement of our annual or interim financial statements that is more than inconsequential will not be prevented or detected. For a description of our existing material weaknesses and certain of our significant deficiencies and our efforts to mitigate and remediate them, see “MD&A — RISK MANAGEMENT — Operational Risks — *Internal Control Over Financial Reporting.*”

We face continuing challenges because of the deficiencies in our accounting infrastructure and the operational complexities of our business. We have not made sufficient progress remediating our material weaknesses and significant deficiencies to return to regular, timely reporting and we have been unable to provide investors with timely quarterly financial reports.

In order to devote the resources needed to complete the remediation of our internal control environment, we decided to limit the number of systems and business related initiatives we undertook in 2006 and will undertake in 2007. Because of delays in some of our systems initiatives, lower priority systems initiatives continue to be deferred until we progress further with the remediation of our internal control deficiencies. As a result, our flexibility to deploy new products for business and credit-risk management purposes in response to competitive market forces and changing trends has been limited. Additional delays or limits on our ability to implement new initiatives may arise in connection with our remediation activities and could further constrain our ability to introduce new products or execute new business strategies. Such constraints may adversely impact our business and results of operations.

Although we have implemented a comprehensive plan to remediate our internal control deficiencies and return to quarterly financial reporting, there are a number of factors that may impede our efforts to remediate our internal control weaknesses and deficiencies, including: the complexity associated with the interdependent nature of the remediation activities; uncertainty regarding the quality and sustainability of newly established controls; and potentially ineffective compensating controls. We cannot be certain that our efforts to improve our internal control over financial reporting will be successful.

Controls and procedures, no matter how well designed and operated, provide only reasonable assurance of achieving the desired control objectives. A failure to establish and maintain effective internal control over financial reporting could result in a material error in our reported financial results and additional delays in our financial reporting timeline. Depending on the nature of a failure and any required remediation, ineffective controls could have a material adverse effect on our business. Failure to effectively and timely implement the remediation plan we have undertaken to correct the identified deficiencies in our internal control over financial reporting could similarly adversely affect our business. Further, OFHEO could require us to take additional remedial actions.

Delays in meeting our financial reporting obligations could affect our ability to maintain the listing of our securities on the New York Stock Exchange, or NYSE. Ineffective controls could also cause investors to lose confidence in our reported financial information, which may have an adverse effect on the trading price of our securities.

***We rely on internal models for financial accounting and reporting purposes, to make business decisions, and to manage risks, and our business could be adversely affected if those models fail to produce reliable results.***

We make significant use of business and financial models for financial accounting and reporting purposes and to manage risk. For example, we use models in determining the fair value of financial instruments for which independent price quotations are not available or reliable or to extrapolate third-party values to our portfolio. We also use models to measure and monitor our exposures to interest-rate and other market risks and credit risk. The information provided by these models is also used in making business decisions relating to strategies, initiatives, transactions and products.

Models are inherently imperfect predictors of actual results because they are based on assumptions about future performance. Our models could produce unreliable results for a number of reasons, including invalid or incorrect assumptions underlying the models or incorrect data being used by the models. The valuations, risk metrics, amortization results and loan loss reserve estimations produced by our internal models may be different from actual results, which could adversely affect our business results, cash flows, fair value of net assets, business prospects and future earnings. Changes in any of our models or in any of the assumptions, judgments or estimates used in the models may cause the results generated by the model to be materially different. The different results could cause a revision of previously reported financial condition or results of operations, depending on when the change to the model, judgment or assumption is implemented. Any such changes may also cause difficulties in comparisons of the financial condition or results of operations of prior or future periods. If our models are not reliable we could also make poor business decisions, including loan purchase decisions, guarantee fee pricing decisions, asset and liability management decisions, or other decisions, which could result in an adverse financial impact. Furthermore, any strategies we employ to attempt to manage the risks associated with our use of models may not be effective. See “MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES — Valuation of Financial Instruments” and “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” for more information on our use of models.

***Changes in our accounting policies, as well as estimates we make, could materially affect how we report our financial condition or results of operations.***

Our accounting policies are fundamental to understanding our financial condition and results of operations. We have identified certain accounting policies and estimates as being “critical” to the presentation of our financial condition and results of operations because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and for which materially different amounts could be recorded using different assumptions or estimates. For a description of our critical accounting policies, see “MD&A — CRITICAL ACCOUNTING POLICIES AND ESTIMATES.” As new information becomes available and we update the assumptions underlying our estimates, we could be required to revise previously reported financial results if our results for accounting periods remain subject to change as a result of delays in the release of financial statements.

From time to time, the Financial Accounting Standards Board, or FASB, and the SEC can change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes are beyond our control, can be difficult to predict and could materially impact how we report our financial condition and results of operations. We could be required to apply a new or revised standard retroactively, which may result in the restatement of prior period financial statements by material amounts.

***A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation and cause losses.***

Shortcomings or failures in our internal processes, people or systems could lead to impairment of our liquidity, financial loss, disruption of our business, liability to customers, legislative or regulatory intervention or reputational damage. For example, our business is highly dependent on our ability to process a large number of transactions on a daily basis. The transactions we process have become increasingly complex and are subject to various legal and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. The inability of our systems to accommodate an increasing volume of transactions or new types of transactions or products could constrain our ability to pursue new business initiatives.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities and derivatives transactions. Any such failure or termination could adversely affect our ability to effect transactions, service our customers and manage our exposure to risk.

Most of our key business activities are conducted in our principal offices located in McLean, Virginia. Despite the contingency plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our business and the communities in which we are located. Potential disruptions may include those involving electrical, communications, transportation or other services we use or that are provided to us. If a disruption occurs and our employees are unable to occupy our offices or communicate with or travel to other locations, our ability to service and interact with our customers or counterparties may suffer and we may not be able to successfully implement contingency plans that depend on communication or travel.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties, which could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are not fully insured. For a discussion of our material weaknesses related to our information technology and systems and our plans to remediate such weaknesses, see “MD&A — RISK MANAGEMENT — Operational Risks — *Internal Control Over Financial Reporting.*”

***We rely on third parties for certain functions that are critical to financial reporting, our Retained portfolio activity and mortgage loan underwriting. Any failures by those vendors could disrupt our business operations.***

We outsource certain key functions to external parties, including but not limited to (a) processing functions for trade capture, market risk management analytics, and asset valuation, (b) custody and recordkeeping for our investments portfolios, and (c) processing functions for mortgage loan underwriting. We may enter into other key outsourcing relationships in the future. If one or more of these key external parties were not able to perform their functions for a period of time, at an acceptable service level, or for increased volumes, our business operations could be constrained, disrupted or otherwise negatively impacted. Our use of vendors also exposes us to the risk of a loss of intellectual property or of confidential information or other harm. Financial or operational difficulties of an outside vendor could also hurt our operations if those difficulties interfere with the vendor’s ability to provide services to us.

***Our risk management efforts may not effectively mitigate the risks we seek to manage.***

We could incur substantial losses and our business operations could be disrupted if we are unable to effectively identify, manage, monitor and mitigate operational risks, interest-rate and other market risks and credit risks related to our business. We have devoted significant resources to develop an enterprise risk management framework establishing governance over certain risks we face. However, our risk management policies, procedures and techniques may not be sufficient to mitigate the risks we have identified or to appropriately identify additional risks to which we are subject. See “MD&A — RISK MANAGEMENT” for a discussion of our approach to managing the risks we face.

***Our ability to hire, train and retain qualified employees affects our business and operations.***

Our continued success depends, in large part, on our ability to hire and retain highly qualified people. Our business is complex and many of our positions require specific skills. Undesirable voluntary employee turnover strains existing resources and contributes to increased operational risk. Although voluntary employee turnover improved in 2006, if we experience turnover rates at or above the level experienced in 2005 or are unable to attract, train and retain talented people, our business and operations could be impaired or disrupted. Competition for highly qualified personnel is intense and there can be no assurances that we will retain our key personnel or that we will be successful in attracting, training or retaining other highly qualified personnel in the future. Furthermore, there is a risk that we may not have sufficient personnel or personnel with sufficient training in key roles. See “MD&A — RISK MANAGEMENT — Operational Risks” for a description of the impact of our staffing and turnover.

## **Legal and Regulatory Risks**

***Developments affecting our legislative and regulatory environment could materially harm our business prospects or competitive position.***

Various developments or factors may affect our applicable legislative or regulatory environment, including any changes or developments affecting our charter, affordable housing goals, or regulatory capital requirements (including the 30 percent mandatory target capital surplus OFHEO imposed on us in January 2004); the interpretation of these requirements by our regulators; the adequacy of internal systems, controls and processes related to these requirements; the exercise or assertion of

regulatory or administrative authority beyond current practice; the imposition of additional remedial measures; voluntary agreements with our regulators; or the enactment of proposed legislation. In August 2006, we announced that we would voluntarily limit the growth of our Retained portfolio, as described in “BUSINESS — Business Activities — *Investment and Funding Activities*.” HUD is reviewing certain of our investments and other assets and liabilities to ensure conformity with our public purpose, charter authorities and investment guidelines. In addition, the Treasury Department is reviewing its process for approving our debt offerings. We cannot predict the outcomes of these reviews or whether our business activities will be restricted as a result of these or other reviews.

We are also exposed to the risk that weaknesses in our internal systems, controls and processes could affect the accuracy or timing of the data we provide to HUD or OFHEO or our compliance with legal requirements, and could ultimately lead to regulatory actions (by HUD, OFHEO or both) or other adverse impacts on our business (including our ability or intent to retain investments). Any assertions of non-compliance with existing or new statutory or regulatory requirements could result in fines, penalties, litigation and damage to our reputation.

Furthermore, we could be required, or may find it advisable, to change the nature or extent of our business activities if our various exemptions and special attributes were modified or eliminated, new or additional fees or substantive regulation of our business activities were imposed, our relationship to the federal government were altered or eliminated, or our charter, the GSE Act, or other federal legislation affecting us were significantly amended. Any of these changes could have a material adverse effect on the scope of our activities, financial condition and results of operations. For example, such changes could (a) reduce the supply of mortgages available to us, (b) limit a significant revenue source by imposing restrictions on the size of our Retained portfolio, (c) make us less competitive by otherwise limiting our business activities or our ability to create new products, (d) increase our capital requirements, or (e) require us to make an annual contribution to an affordable housing fund equal to a specified percentage of our average total mortgage portfolio. We cannot predict when or whether any potential legislation will be enacted or regulation will be promulgated.

Any of the developments or factors described above could materially adversely affect: our ability to fulfill our mission; our ability to meet our affordable housing goals; our ability or intent to retain investments; the size and growth of our mortgage portfolios; our future earnings, stock price and stockholder returns; the value of our assets; the rate of growth of the fair value of our assets; or our ability to recruit qualified officers and directors.

***We are making certain changes to our business to meet HUD’s housing goals and subgoals, which may adversely affect our profitability.***

We are making significant adjustments to our mortgage sourcing and purchase strategies in an effort to meet our housing goals and subgoals, including changes to our underwriting guidelines and the expanded use of targeted initiatives to reach underserved populations. For example, we are purchasing loans and mortgage-related securities that offer lower expected returns on our investment and increase our exposure to credit losses. In addition, in order to meet future housing goals and subgoals, our purchases of goal-eligible loans need to increase as a percentage of total new mortgage purchases, which is causing us to forego other purchase opportunities that we would expect to be more profitable. If our current efforts to meet the goals and subgoals prove to be insufficient, we may need to take additional steps that could lead to a further reduction of service to portions of the conventional conforming mortgage market, and also a reduction in our profitability. In fact, for 2006, we reported to HUD that we did not meet one of the three home purchase subgoals. See “REGULATION AND SUPERVISION — Department of Housing and Urban Development” for additional information about HUD’s regulation of our business.

***We are involved in legal proceedings that could result in the payment of substantial damages or otherwise harm our business.***

We are a party to various legal actions. In addition, certain of our former directors, officers and employees are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings. The defense of these or any future claims or proceedings could divert management’s attention and resources from the needs of the business. We may be required to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings. Any legal proceeding, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. Furthermore, developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. See “NOTE 13: LEGAL CONTINGENCIES” to our consolidated financial statements for information about our pending legal proceedings and related reserves.

***Legislation or regulation affecting the financial services industry generally may adversely affect our business activities.***

Our business activities may be affected by a variety of legislative and regulatory actions related to the activities of banks, savings institutions, insurance companies, securities dealers and other regulated entities that comprise a significant part of our customer base. Legislative or regulatory provisions that create or remove incentives for these entities either to sell

mortgage loans to us or to purchase our securities could have a material adverse effect on our business results. Among the legislative and regulatory provisions applicable to these entities are capital requirements for federally insured depository institutions and regulated bank holding companies.

For example, the Basel Committee on Banking Supervision, composed of representatives of certain central banks and bank supervisors, has developed a proposed set of risk-based capital standards for banking organizations. The U.S. banking regulators have proposed new capital standards for certain banking organizations that would incorporate the Basel Committee's proposed risk-based capital standards into existing requirements. If final rules adopted by the U.S. banking regulators revise the capital treatment of mortgage assets, decisions by U.S. banking organizations about whether to hold or sell such assets could be affected. However, the contents and timing of any final rules remain uncertain, as does the manner in which U.S. banking organizations may respond to them.

The actions we expect to take in connection with the Interagency Guidance on Nontraditional Mortgage Product Risks are described in "REGULATION AND SUPERVISION — Office of Federal Housing Enterprise Oversight — *Nontraditional Mortgage Product Risks*." On March 2, 2007, the federal financial institutions regulatory agencies issued for public comment a "statement" on subprime mortgage lending. If adopted, the statement would instruct lenders to apply underwriting standards similar to those in the Interagency Guidance on non-traditional products to hybrid ARMs. In addition, on February 27, 2007, we announced that we would implement stricter investment standards for certain subprime ARMs originated after September 1, 2007 and develop new mortgage products providing lenders with more choices to offer subprime borrowers. This initiative could reduce the number of subprime mortgages available to us for purchase, potentially reducing our profitability, and is likely to make it more difficult for us to achieve our housing goals and subgoals.

In addition, our business could also be adversely affected by any modification, reduction or repeal of the federal income tax deductibility of mortgage interest payments.

### **Competitive and Market Risks**

#### ***Changes in general business and economic conditions may adversely affect our business and earnings.***

Our business and earnings may be adversely affected by changes in general business and economic conditions, including changes in the markets for our portfolio investments or our mortgage-related and debt securities. These conditions include employment rates, fluctuations in both debt and equity capital markets, the value of the U.S. dollar as compared to foreign currencies, and the strength of the U.S. economy and the local economies in which we conduct business. An economic downturn or increase in the unemployment rate could result in fewer mortgages for us to purchase, an increase in mortgage delinquencies or defaults and a higher level of credit-related losses than we estimated, which could reduce our earnings or reduce the fair value of our net assets. Various factors could cause the economy to slow down or even decline, including higher energy costs, higher interest rates, pressure on housing prices, reduced consumer or corporate spending, natural disasters such as hurricanes, terrorist activities, military conflicts and the normal cyclical nature of the economy.

#### ***A general decline in U.S. housing prices or changes in the U.S. housing market could negatively impact our business and earnings.***

The rate of home price appreciation in the U.S. declined in 2006 as the housing market slowed. This decline follows a decade of strong appreciation and particularly dramatic price increases in the past few years. Home price appreciation generally has increased the values of properties underlying the mortgages in our portfolio. A continued reversal of this strong home price appreciation in any of the geographic markets we serve could result in an increase in delinquencies or defaults and a higher level of credit-related losses, which could reduce our earnings. For more information, see "MD&A — RISK MANAGEMENT — Credit Risks."

If the conforming loan limits are decreased as a result of a decline in the index upon which such limits are based, we may face operational and legal challenges associated with changing our mortgage purchase commitments to conform with the lower limits and there could be fewer loans available for us to purchase. In October 2006, the FHFB reported that the national average price of a one-family residence had declined slightly, the first time this has occurred since its 1992-1993 survey. OFHEO announced that the conforming loan limits would be maintained at the 2006 limits for 2007 and deferred the decrease for one year.

In addition, our business volumes are closely tied to the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market. The rate of growth in total residential mortgage debt declined to 9 percent in 2006 from 14 percent in 2005. If the rate of growth in total outstanding U.S. residential mortgage debt were to continue to decline, there could be fewer mortgage loans available for us to purchase. A decline in the volume of loans available for us to purchase could reduce our earnings and margins, as we could face more competition to purchase a smaller number of loans.

***Competition from banking and non-banking companies may harm our business.***

We operate in a highly competitive environment and we expect competition to increase as financial services companies continue to consolidate to produce larger companies that are able to offer similar mortgage-related products at competitive prices. Increased competition in the secondary mortgage market and a decreased rate of growth in residential mortgage debt outstanding may make it more difficult for us to purchase mortgages to meet our mission objectives while providing favorable returns for our business. Furthermore, competitive pricing pressures may make our products less attractive in the market and negatively impact our profitability.

We also compete for low-cost debt funding with Fannie Mae, the Federal Home Loan Banks and other institutions that hold mortgage portfolios. Competition for debt funding from these entities can vary with changes in economic, financial market and regulatory environments. Increased competition for low-cost debt funding may result in a higher cost to finance our business, which could decrease our net income.

***We may face limited availability of financing, variation in our funding costs and uncertainty in our securitization financing.***

The amount, type and cost of our funding, including financing from other financial institutions and the capital markets, directly impacts our interest expense and results of operations and can therefore affect our ability to grow our assets. A number of factors could make such financing more difficult to obtain, more expensive or unavailable on any terms, both domestically and internationally (where funding transactions may be on terms more or less favorable than in the U.S.), including:

- adverse business or financial results or other adverse changes to our financial condition;
- specific events that adversely impact our reputation;
- changes in the activities of our business partners;
- disruptions in the capital markets;
- specific events that adversely impact the financial services industry;
- counterparty availability;
- changes in the preferences of the holders of our securities;
- changes in the breadth of our investor base;
- changes affecting the fair value of our assets;
- interest-rate fluctuations, or rating agency actions;
- changes in our charter or regulatory oversight;
- changes to or developments in the legal, regulatory, accounting and tax environments governing our funding transactions, including the outcome of the Treasury Department’s review of its process for approving our debt offerings;
- the general state of the U.S., Asian and other world economies, and factors affecting those economies; and
- public perception of any of the foregoing.

Foreign investors, particularly in Asia, hold a significant portion of our debt securities and are an important source of funding for our business. Foreign investors’ willingness to purchase and hold our debt securities can be influenced by many factors, including changes in the world economies, changes in foreign currency exchange rates, regulatory and political factors, as well as the availability of and preferences for other investments. If foreign investors were to divest their holdings or reduce their purchases of our debt securities, our funding costs may increase. The willingness of foreign investors to purchase or hold our debt securities, and any changes to such willingness, may materially affect our liquidity, our business and results of operations. Foreign investors are also significant purchasers of mortgage-related securities and changes in the strength and stability of foreign demand for mortgage-related securities could affect the overall market for those securities and the returns available to us on our portfolio investments.

Other GSEs also issue significant amounts of agency debt, which may negatively impact the prices we are able to obtain for our debt securities. An inability to issue debt securities at attractive rates in amounts sufficient to fund our business activities and meet our obligations could have an adverse effect on our liquidity, financial condition and results of operations. See “MD&A — LIQUIDITY AND CAPITAL RESOURCES — Liquidity — *Debt Securities*” for a more detailed description of our debt issuance programs.

We maintain secured intraday lines of credit to provide additional intraday liquidity to fund our activities through the Fedwire system. These lines of credit may require us to post collateral to third parties. In certain limited circumstances, these secured counterparties may be able to repledge the collateral underlying our financing without our consent. In addition, because these secured intraday lines of credit are uncommitted, we may not be able to continue to draw on them if and when needed.

Our PCs and Structured Securities are also an integral part of our mortgage purchase program and any decline in the price performance of or demand for our PCs could have an adverse effect on the profitability of our securitization financing activities. There is a risk that our PC and Structured Securities support activities may not be sufficient to support the liquidity and depth of the market for PCs.

***A reduction in our credit ratings could adversely affect our liquidity.***

Nationally recognized statistical rating organizations play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of debt funding. We currently receive ratings from three nationally recognized statistical rating organizations for our unsecured borrowings. Our credit ratings are important to our liquidity. Actions by governmental entities or others could adversely affect our credit ratings. A reduction in our credit ratings could adversely affect our liquidity, competitive position, or the supply or cost of equity capital or debt financing available to us. A significant increase in our borrowing costs could cause us to sustain losses and impair our liquidity by requiring us to find other sources of financing.

***Fluctuations in interest rates could negatively impact our reported net interest income, earnings and fair value of net assets.***

Our portfolio investment activities and credit guarantee activities expose us to interest-rate and other market risks and credit risks. Changes in interest rates — up or down — could adversely affect our net interest yield. Although the yield we earn on our assets and our funding costs tend to move in the same direction in response to changes in interest rates, either can rise or fall faster than the other, causing our net interest yield to expand or compress. For example, when interest rates rise, our funding costs may rise faster than the yield we earn on our assets, causing our net interest yield to compress until the effect of the increase is fully reflected in asset yields. Changes in the slope of the yield curve could also reduce our net interest yield.

Changes in interest rates could reduce our GAAP net income materially, especially if actual conditions vary considerably from our expectations. For example, if interest rates rise or fall faster than estimated or the slope of the yield curve varies other than expected, we may incur significant losses. Changes in interest rates may also affect prepayment assumptions thus potentially impacting the fair value of our assets, including investments in our Retained portfolio, our derivative portfolio and our Guarantee asset. When interest rates fall, borrowers are more likely to prepay their mortgage loans by refinancing them at a lower rate. An increased likelihood of prepayment on the mortgages underlying our mortgage-related securities may adversely impact the performance of these securities. An increased likelihood of prepayment on the mortgage loans we hold may also negatively impact the performance of our Retained portfolio. Interest rates can fluctuate for a number of reasons, including changes in the fiscal and monetary policies of the federal government and its agencies, such as the Federal Reserve. Federal Reserve policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. The availability of derivative financial instruments (such as options and interest-rate and foreign-currency swaps) from acceptable counterparties of the types and in the quantities needed could also affect our ability to effectively manage the risks related to our investment funding. Our strategies and efforts to manage our exposures to these risks may not be as effective as they have been in the past. See “MD&A — RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” for a description of the types of market risks to which we are exposed and how we manage those risks.

***Higher credit losses and increased expected future credit costs could adversely affect our financial condition and/or results of operations.***

There can be no assurances that our risk management strategies will be effective to manage our credit risks or that our credit losses will not be higher than expected. Higher credit losses on our guarantees could require us to increase our allowances for credit losses through charges to earnings. Other credit exposures could also result in financial losses. Although we regularly review credit exposures to specific customers and counterparties, default risk may arise from events or circumstances that are difficult to detect or foresee. In addition, concerns about, or default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions. This risk may also adversely affect financial intermediaries, such as clearing agencies, clearinghouses, banks, securities firms and exchanges with which we interact. These potential risks could ultimately cause liquidity problems or losses for us as well.

Changes in the mortgage credit environment also affect our credit guarantee activities through the valuation of our Guarantee obligation. If expected future credit costs increase and we are not able to increase our guarantee fees due to competitive pressures or other factors, then the overall profitability of our new business would be lower and could result in losses on guarantees at their inception. Moreover, an increase in expected future credit costs generally increases the fair value of our existing Guarantee obligation.

*The loss of business volume from one or more key lenders could result in a decline in our market share and revenues.*

Our business depends on our ability to acquire a steady flow of mortgage loans from the originators of those loans. We purchase a significant percentage of our single-family mortgages from several large mortgage originators. The mortgage industry has been consolidating and a decreasing number of large lenders originate most single-family mortgages. We could lose significant business volume and may be unable to replace it if one or more of our key lenders significantly reduces the volume of mortgages it delivers to us or is acquired or otherwise ceases to exist. The loss of business from any one of our key lenders could adversely affect our market share, our revenues and the performance of our mortgage-related securities.

*Negative publicity causing damage to our reputation could adversely affect our business prospects, earnings or capital.*

Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion could adversely affect our ability to keep and attract customers or otherwise impair our customer relationships, adversely affect our ability to obtain financing, impede our ability to hire and retain qualified personnel, hinder our business prospects or adversely impact the trading price of our securities. Perceptions regarding the practices of our competitors or our industry as a whole may also adversely impact our reputation. Adverse reputation impacts on third parties with whom we have important relationships may impair market confidence or investor confidence in our business operations as well. In addition, negative publicity could expose us to adverse legal and regulatory consequences, including greater regulatory scrutiny or adverse regulatory or legislative changes. These adverse consequences could result from our actual or alleged action or failure to act in any number of activities, including corporate governance, regulatory compliance, financial reporting and disclosure, purchases of products perceived to be predatory, safeguarding or using nonpublic personal information, or from actions taken by government regulators and community organizations in response to our actual or alleged conduct. Negative public opinion associated with our accounting restatement and material weaknesses in our internal control over financial reporting and related problems could continue to have adverse consequences.

## MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Market Information

Our common stock, par value \$0.21 per share, is listed on the NYSE under the symbol "FRE." From time to time, our common stock may be admitted to unlisted trading status on other national securities exchanges. Put and call options on our common stock are traded on U.S. options exchanges. At February 28, 2007, there were 661,430,516 shares outstanding of our common stock.

On December 14, 2006, we announced our intent to withdraw our common stock from listing on NYSE Arca, Inc., formerly the Pacific Exchange. The decision to voluntarily withdraw listing from NYSE Arca was made to eliminate duplicative administrative requirements inherent with dual listings as a result of the NYSE Group's recent merger with Archipelago Holdings, the parent company of NYSE Arca. NYSE Arca will continue trading our common stock on an unlisted trading privilege basis.

Table 4 sets forth the high and low sale prices of our common stock for the periods indicated.

**Table 4 — Quarterly Common Stock Information**

	Sale Prices <sup>(1)</sup>	
	High	Low
<b>2006 Quarter Ended</b>		
December 31 .....	\$71.92	\$64.80
September 30 .....	66.47	55.64
June 30 .....	63.99	56.50
March 31 .....	68.75	60.64
<b>2005 Quarter Ended</b>		
December 31 .....	\$67.49	\$54.85
September 30 .....	66.91	54.50
June 30 .....	67.87	58.51
March 31 .....	73.91	59.74

(1) The principal market is the NYSE and prices are based on the Composite Tape.

At February 28, 2007, the closing price for our common stock was \$64.13 per share.

**Holders**

As of February 28, 2007, we had 2,201 common stockholders of record.

**Dividends**

Table 5 sets forth the cash dividend per common share that we have declared for the periods indicated.

**Table 5 — Dividends Per Common Share**

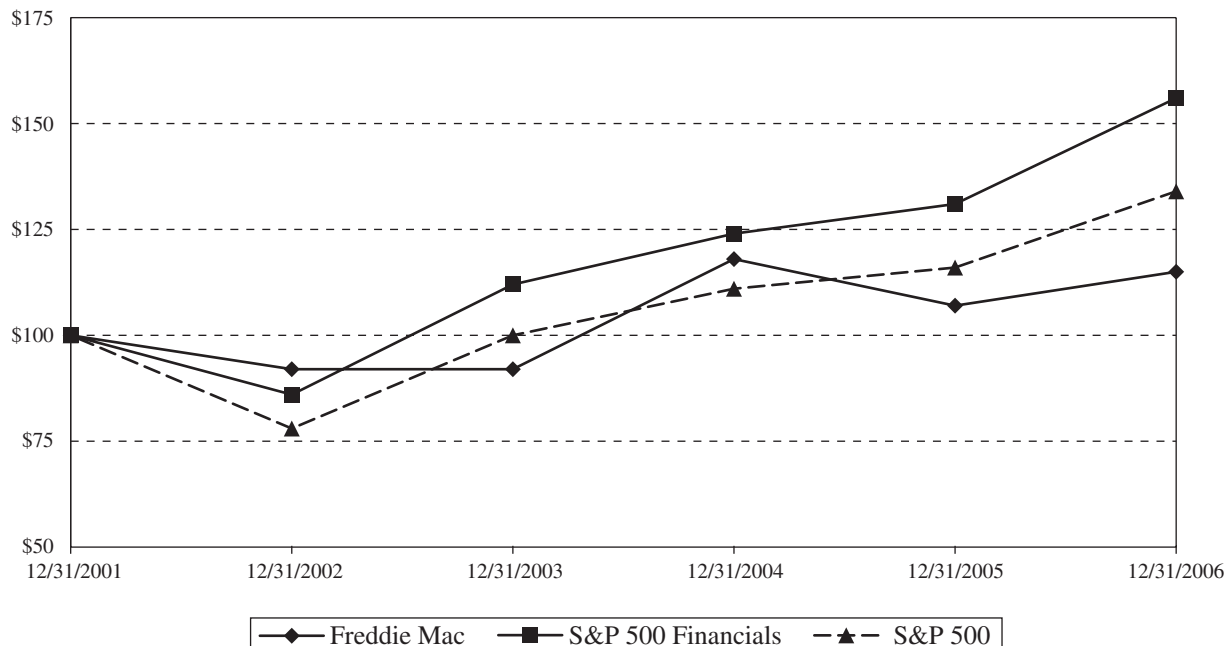
	<u>Regular Cash Dividend Per Share</u>
<b>2007 Quarter Ended</b>	
March 31 .....	\$0.50
<b>2006 Quarter Ended</b>	
December 31 .....	\$0.50
September 30 .....	0.47
June 30 .....	0.47
March 31 .....	0.47
<b>2005 Quarter Ended</b>	
December 31 .....	\$0.47
September 30 .....	0.35
June 30 .....	0.35
March 31 .....	0.35

We have historically paid dividends to our stockholders in each quarter. Our board of directors will determine the amount of dividends, if any, declared and paid in any quarter after considering our capital position and earnings and growth prospects, among other factors. See “NOTE 10: REGULATORY CAPITAL” to our consolidated financial statements for additional information regarding dividend payments and potential restrictions on such payments and “NOTE 9: STOCKHOLDERS’ EQUITY” to our consolidated financial statements for additional information regarding our preferred stock dividend rates.

## Stock Performance Graph

The following graph compares the five-year cumulative total stockholder return on our common stock with that of the Standard and Poor's, or S&P, 500 Financial Sector Index and the S&P 500 Index. On January 1, 2002, the composition of the S&P 500 Financial Sector Index was modified. Historical data has been recalculated to reflect this change. The graph assumes \$100 invested in each of our common stock, the S&P 500 Financial Sector Index and the S&P 500 Index on December 31, 2001. Total return calculations assume annual dividend reinvestment. The graph does not forecast performance of our common stock.

**Comparative Cumulative Total Stockholder Return  
(in dollars)**



	At December 31,					
	2001	2002	2003	2004	2005	2006
Freddie Mac.....	\$100	\$92	\$92	\$118	\$107	\$115
S&P 500 Financials.....	100	86	112	124	131	156
S&P 500.....	100	78	100	111	116	134

## Issuer Purchases of Equity Securities

Table 6 sets forth our common share repurchase activity during 2006. See “MD&A — LIQUIDITY AND CAPITAL RESOURCES” for additional information.

**Table 6 — Common Share Repurchase Activity in 2006**

Period	Total Number of Shares Purchased (in millions)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program <sup>(1)</sup>	Approximate Dollar Value of Shares That May Yet be Purchased Under the Program
			(in millions)	(in millions)
January - May .....	—	\$ —	—	\$2,000
June .....	8.6	58.05	8.6	1,500
July .....	4.1	57.47	4.1	1,263
August .....	12.2	59.56	12.2	540
September .....	0.6	63.99	0.6	501
October .....	2.9	68.74	2.9	299
November .....	4.3	69.06	4.3	—
December .....	—	—	—	—
Total .....	<u>32.7</u>	<u>61.06</u>	<u>32.7</u>	

(1) On October 5, 2005, we announced our board of directors authorized us to repurchase up to \$2 billion of outstanding shares of common stock. The repurchase program was completed in November 2006.

### **Recent Sales of Unregistered Securities**

The securities we issue are “exempted securities” under the Securities Act and the Exchange Act. As a result, we do not file registration statements with the SEC with respect to offerings of our securities.

During 2006, we completed two preferred stock offerings, underwritten by syndicates of dealers headed by (a) Bear Stearns & Co. Inc. and UBS Securities LLC and (b) Lehman Brothers and Merrill Lynch, for aggregate offering proceeds of \$1.5 billion and an aggregate underwriting discount of \$15 million. See “NOTE 9: STOCKHOLDERS’ EQUITY” to our consolidated financial statements for more information.

We regularly provide stock compensation to our employees and members of our board of directors. We have three stock-based compensation plans under which grants are currently being made: (a) the Employee Stock Purchase Plan, or ESPP; (b) the 2004 Stock Compensation Plan, or 2004 Employee Plan; and (c) the 1995 Directors’ Stock Compensation Plan, as amended and restated, or Directors’ Plan. Prior to the stockholder approval of the 2004 Employee Plan, employee stock-based compensation was awarded in accordance with the terms of the 1995 Stock Compensation Plan, or 1995 Employee Plan. Although grants are no longer made under the 1995 Employee Plan, we currently have awards outstanding under this plan. We collectively refer to the 2004 Employee Plan and 1995 Employee Plan as the Employee Plans.

During the year ended December 31, 2006, 914,368 stock options were exercised and 423,294 stock options were granted under our Employee Plans and Directors’ Plan. Under our ESPP, 222,703 options to purchase stock were exercised and 226,266 options to purchase stock were granted. Further, for the year ended December 31, 2006, under the Employee Plans and Directors’ Plan, 1,486,080 restricted stock units were granted and restrictions lapsed on 384,649 and 28,542 restricted stock units and restricted stock awards, respectively. See “NOTE 11: STOCK-BASED COMPENSATION” to our consolidated financial statements for more information.

### **Transfer Agent and Registrar**

Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, RI 02940-3078  
Telephone: 781-575-2879  
<http://www.computershare.com>

### **NYSE Corporate Governance Listing Standards**

On October 9, 2006, our Chief Executive Officer submitted to the NYSE the certification required by Section 303A.12(a) of the NYSE Listed Company Manual regarding our compliance with the NYSE’s corporate governance listing standards.

## FORWARD-LOOKING STATEMENTS

We regularly communicate information concerning our business activities to investors, securities analysts, the news media and others as part of our normal operations. Some of these communications, including this Information Statement, contain “forward-looking statements” pertaining to our current expectations and objectives for financial reporting, remediation efforts, future business plans, results of operations, financial condition and market trends and developments. Forward-looking statements are often accompanied by, and identified with, terms such as “predict,” “ability,” “intent,” “indicator,” “trend,” “efforts,” “assumptions,” “judgments,” “models,” “developments,” “estimates,” “continue,” “promote,” “affect,” “consider,” “enable,” “currently,” “priorities,” “remain,” “anticipate,” “initiative,” “ongoing,” “believe,” “expect,” “plan,” “targeted,” “depend,” “proposed,” “projections,” “until,” “attempt,” “forecasts,” “outlook,” “over time,” “future,” “seek,” “potential,” “objective,” “long-term,” “ultimately,” “goal,” “will,” “may,” “might,” “should,” “can,” “could,” “would,” “likely,” “if,” “typically,” “generally,” “new,” “uncertain” and similar phrases. These statements are not historical facts, but rather represent our expectations based on current information, plans, estimates and projections. Forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. You should be careful about relying on any forward-looking statements and should also consider all risks, uncertainties and other factors described in this Information Statement in considering any forward-looking statements. Actual results may differ materially from those discussed as a result of various factors, including those factors described in the “RISK FACTORS” section of this Information Statement. Factors that could cause actual results to differ materially from the expectations expressed in these and other forward-looking statements by management include, among others:

- our ability to effectively and timely implement the remediation plan undertaken as a result of the restatement of our consolidated financial statements and the consent order entered into with OFHEO, including particular initiatives relating to technical infrastructure and controls over financial reporting;
- changes in applicable legislative or regulatory requirements, including enactment of GSE oversight legislation, changes to our charter, affordable housing goals, regulatory capital requirements, the exercise or assertion of regulatory or administrative authority beyond historical practice, or regulation of the subprime market;
- our ability to effectively implement our business strategies and manage the risks in our business, including our efforts to improve the supply and liquidity of, and demand for, our products;
- changes in our assumptions or estimates regarding rates of growth in our business, spreads we expect to earn, required capital levels, the timing and impact of capital transactions;
- our ability to effectively manage and implement changes, developments or impacts of accounting or tax standards and interpretations;
- the availability of debt financing and equity capital in sufficient quantity and at attractive rates to support growth in our Retained portfolio, to refinance maturing debt and to meet regulatory capital requirements;
- changes in pricing or valuation methodologies, models, assumptions, estimates and/or other measurement techniques;
- volatility of reported results due to changes in fair value of certain instruments or assets;
- changes in general economic conditions;
- the rate of growth in total outstanding U.S. residential mortgage debt and the size of the U.S. residential mortgage market;
- preferences of originators in selling into the secondary market;
- borrower preferences for fixed-rate mortgages or ARMs;
- investor preferences for mortgage loans and mortgage-related and debt securities versus other investments;
- the occurrence of a major natural or other disaster in geographic areas in which portions of our Total mortgage portfolio are concentrated;
- other factors and assumptions described in this Information Statement, including in the sections titled “BUSINESS,” “RISK FACTORS” and “MD&A;”
- our assumptions and estimates regarding the foregoing and our ability to anticipate the foregoing factors and their impacts; and
- market reactions to the foregoing.

We undertake no obligation to update forward-looking statements we make to reflect events or circumstances after the date of this Information Statement or to reflect the occurrence of unanticipated events.

**SELECTED FINANCIAL DATA<sup>(1)</sup>**

	At or for the Year Ended December 31,				
	2006	2005	2004	2003	2002
	(dollars in millions, except share-related amounts)				
<b>Income Statement Data</b>					
Net interest income	\$ 4,235	\$ 5,370	\$ 9,137	\$ 9,498	\$ 9,525
Non-interest income (loss)	915	199	(3,039)	(244)	7,154
Net income before cumulative effect of changes in accounting principles	2,211	2,189	2,937	4,816	10,090
Cumulative effect of changes in accounting principles, net of taxes	—	(59)	—	—	—
Net income	2,211	2,130	2,937	4,816	10,090
Net income available to common stockholders	\$ 1,936	\$ 1,907	\$ 2,727	\$ 4,600	\$ 9,851
Earnings per common share before cumulative effect of changes in accounting principles:					
Basic	\$ 2.84	\$ 2.84	\$ 3.96	\$ 6.69	\$ 14.22
Diluted	2.84	2.83	3.94	6.68	14.17
Earnings per common share after cumulative effect of changes in accounting principles:					
Basic	\$ 2.84	\$ 2.76	\$ 3.96	\$ 6.69	\$ 14.22
Diluted	2.84	2.75	3.94	6.68	14.17
Dividends per common share	\$ 1.91	\$ 1.52	\$ 1.20	\$ 1.04	\$ 0.88
Weighted average common shares outstanding (in thousands):					
Basic	680,856	691,582	689,282	687,094	692,727
Diluted	682,664	693,511	691,521	688,675	695,116
<b>Balance Sheet Data</b>					
Total assets	\$ 813,081	\$ 806,222	\$ 795,284	\$ 803,449	\$ 752,249
Senior debt due within one year	294,861	288,532	282,303	295,262	244,429
Senior debt due after one year	452,677	454,627	443,772	438,738	415,662
Subordinated debt due after one year	6,400	5,633	5,622	5,613	5,605
Miscellaneous liabilities <sup>(2)</sup>	30,326	29,290	30,662	30,420	52,914
Minority interests in consolidated subsidiaries	516	949	1,509	1,929	2,309
Stockholders' equity <sup>(3)</sup>	28,301	27,191	31,416	31,487	31,330
<b>Portfolio Balances</b>					
Retained portfolio (unpaid principal balances) <sup>(4)</sup>	\$ 703,959	\$ 710,346	\$ 653,261	\$ 645,767	\$ 567,366
Total Guaranteed PCs and Structured Securities issued (unpaid principal balances) <sup>(5)</sup>	1,477,023	1,335,524	1,208,968	1,162,068	1,090,624
Total mortgage portfolio (unpaid principal balances)	1,826,720	1,684,546	1,505,531	1,414,700	1,316,703
<b>Ratios</b>					
Return on average assets <sup>(6)</sup>	0.3%	0.3%	0.4%	0.6%	1.4%
Return on common equity <sup>(7)</sup>	8.6	7.7	10.2	17.2	47.2
Return on total equity <sup>(8)</sup>	8.0	7.3	9.3	15.3	39.6
Dividend payout ratio on common stock <sup>(9)</sup>	67.7	56.4	30.7	15.6	6.2
Equity to assets ratio <sup>(10)</sup>	3.4	3.7	3.9	4.0	3.7

- (1) Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards, or SFAS, No. 123(R), "Share-based Payment" and also changed our method of estimating prepayments for the purpose of amortizing premiums, discounts and deferred fees related to mortgage revenue bonds and commercial mortgage-backed securities held in the Retained portfolio. Effective December 31, 2006, we adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)," or SFAS 158. Effective January 1, 2005, we changed our method of accounting for interest expense related to callable debt instruments to recognize interest expense using an effective interest method over the contractual life of the debt and changed our method for determining gains and losses upon the re-sale of PCs and Structured Securities related to deferred items recognized in connection with our guarantee of those securities. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements for more information regarding these accounting changes. Effective January 1, 2003, we adopted the provisions of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57 and 107 and rescission of FASB Interpretation No. 34," or FIN 45, and FASB Staff Position FIN 45-2, "Whether FASB Interpretation No. 45 Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value."
- (2) Includes (a) Due to Participation Certificate investors, (b) Accrued interest payable, (c) Guarantee obligation, (d) Derivative liabilities, at fair value, (e) Reserve for guarantee losses on Participation Certificates and (f) Other liabilities, as presented on our consolidated balance sheets.
- (3) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
- (4) The Retained portfolio presented on our consolidated balance sheets differs from the Retained portfolio in this table because the consolidated balance sheet caption includes valuation adjustments and deferred balances. See "MD&A — CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 19 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio" for more information.
- (5) Excludes Structured Securities where we have restructured PCs and other previously issued Structured Securities. These excluded Structured Securities do not increase our credit-related exposure and consist of single-class Structured Securities backed by PCs, REMICs and principal-only strips. The notional balances of interest-only strips are excluded because this line item is based on unpaid principal balance. Also excluded from this line item are modifiable and combinable REMIC tranches and interest and principal classes where the holder has the option to exchange the security tranches for other pre-defined security tranches.
- (6) Ratio computed as Net income divided by the simple average of beginning and ending Total assets.
- (7) Ratio computed as Net income available to common stockholders divided by the simple average of beginning and ending Stockholders' equity, net of Preferred stock, at redemption value.
- (8) Ratio computed as Net income divided by the simple average of beginning and ending Stockholders' equity.
- (9) Ratio computed as Common stock dividends declared divided by Net income available to common stockholders.
- (10) Ratio computed as the simple average of beginning and ending Stockholders' equity divided by the simple average of beginning and ending Total assets.