Our board of directors approved a dividend per common share of $0.50 for the fourth quarter of 2006 and the first quarter of 2007, an increase over the $0.47 per share common dividend that was paid for each of the first three quarters of 2006 and the fourth quarter of 2005. Our common dividend per share was $0.35 for each of the first three quarters of 2005 and $0.30 for the fourth quarter of 2004. Our board of directors will determine the amount of future dividends, if any, after considering factors such as our capital position, and our earnings and growth prospects.

For the fourth quarter of 2004 through the first quarter of 2007, our board of directors also approved quarterly preferred stock dividends that were consistent with the contractual rates and terms of the preferred stock. See "NOTE 9: STOCKHOLDERS' EQUITY" to our consolidated financial statements for information regarding our outstanding issuances of preferred stock.

RISK MANAGEMENT

We are exposed to risks that include interest-rate and other market risks, operational risks and credit risks, among others, including those described in "RISK FACTORS." We manage risk through a framework, approved by our board of directors, that recognizes primary risk ownership and management by our business areas. Within this framework, our executive management committees and divisions responsible for independent risk oversight, which include Enterprise Risk Oversight, Corporate Compliance and Internal Audit, monitor performance against our risk management strategies and established risk limits, identify and assess potential issues, and provide oversight regarding changes in business processes and activities. Oversight of risk management is also provided by our board of directors and its committees. Together, these groups assess the adequacy and effectiveness of the risk management functions across the company.

While we consider both our day-to-day and long-term management of interest-rate and other market risks and credit risks to be satisfactory, we identified weaknesses in prior years in our overall risk governance framework. We created an executive management enterprise risk committee in June 2006 to provide a company-wide view of risk and have formed five subcommittees to focus on credit, market, models, operational and regulatory risks. Our board of directors has also assigned primary responsibility for oversight of enterprise risk management to the Governance, Nominating and Risk Oversight Committee of the board of directors. We have taken steps to strengthen our capacity in four important areas: risk governance, risk identification, risk measurement and assessment and related education and communication. Accordingly, we believe we have reduced the severity of the deficiencies in our risk governance framework so that they no longer represent a significant deficiency in our internal control over financial reporting.

Operational Risks

Operational risks are inherent in all of our business activities and can become apparent in various ways, including accounting or operational errors, business interruptions, fraud, failures of the technology used to support our business activities and other operational challenges from failed or inadequate internal controls. We face a number of significant operational risks, including material weaknesses and other significant deficiencies in our internal control over financial reporting. These operational risks may expose us to financial loss, may delay or interfere with our ability to return to and sustain timely financial reporting, or may result in other adverse consequences. Governance over the management of our operational risks takes place through the enterprise risk management framework described above. Business areas retain primary responsibility for identifying, assessing and reporting their operational risks.

Our business processes are highly dependent on our use of technology and business and financial models. We face challenges in the areas of system security, change management and information technology application and general controls. See "*Internal Control Over Financial Reporting*" for more information concerning material weaknesses related to our systems. In recent years, we have strengthened our processes to validate model assumptions, code, theory and the system applications that utilize our models. We are currently improving our model oversight processes and enhancing our staffing both within the business areas and in our risk oversight functions.

We continue to make significant investments to build new financial reporting systems and move to more effective and efficient business processing systems. Until those systems are implemented, we continue to remain more reliant on end-user computing systems than is desirable and we are challenged to effectively and timely deliver integrated production systems. Reliance on certain of these end-user computing systems increases the risk of errors in some of our core operational processes and increases our dependency on monitoring controls. In the near term, we are mitigating this risk by improving our documentation and controls over these systems and placing certain key end-user systems into a change management process controlled by our information technology group.

Our efforts to develop and deploy new financial reporting and business process systems have limited our flexibility to release new products and other business initiatives in response to competitive market forces. We manage this risk through a management committee that monitors key projects and allocates resources to development efforts.

We outsource certain key functions to external parties, including (a) processing functions for trade capture, market risk management analytics and asset valuation, (b) custody and recordkeeping and (c) processing functions for mortgage loan underwriting. In addition, we use a process of delegated underwriting for the single-family mortgages we purchase or securitize. We also expect to implement a process of delegated underwriting for certain multifamily mortgages we purchase or securitize. See "Credit Risks — *Mortgage Credit Risk — Underwriting Requirements and Quality Control Standards*" for information about how we mitigate the risks associated with delegated underwriting. We mitigate the risk from our use of external parties by engaging in active vendor management, such as establishing detailed vendor requirements, reviewing business continuity plans, monitoring quality assurance processes and using third party reviews of our vendors.

In recognition of the importance of the accuracy and reliability of our valuation of financial instruments, we engage in an ongoing internal review of our valuations. We perform analysis of internal valuations on a monthly basis to confirm the reasonableness of the valuations. This analysis is performed by a group that is independent of the business area responsible for valuing the positions. Our verification and validation procedures depend on the nature of the security and valuation methodology being reviewed and may include: comparisons with external pricing sources, comparisons with observed trades, independent verification of key valuation model inputs and independent security modeling. Results of the monthly verification process, as well as any changes in our valuation methodologies, are reported to a management committee that is responsible for reviewing and approving the approaches used in our valuations to ensure that they are well controlled and effective, and result in reasonable fair values.

We are also exposed to the risk that our business processes could be adversely affected by inadequate staffing, which strains existing resources and increases the risk that an error or fraud will not be detected. This risk is of particular concern for us because of high voluntary employee turnover rates experienced in 2005, critical vacancies and recent changes in our senior management. During 2006, we filled some important vacancies such as Chief Financial Officer, General Counsel, General Auditor, Corporate Controller and Principal Accounting Officer and Chief Information Officer. While we have made progress in our efforts to reduce voluntary employee turnover rates and to build a strong management team by filling several senior positions, we need to continue to recruit additional qualified people into key positions across the organization in order to achieve our remediation objectives. See "*Internal Control Over Financial Reporting*" for more information concerning staffing adequacy risk related to financial reporting.

In addition to the particular risks and challenges we are facing, we experience ongoing risks that are similar to those of other large financial institutions. For example, we are exposed to the risk that a catastrophic event, such as a terrorist event or natural disaster, could result in a significant business disruption and an inability to process transactions through normal business processes. To mitigate this risk, we maintain and test business continuity plans and have established backup facilities for critical business processes and systems away from, although in the same metropolitan area as, our main offices. In 2006, we established out-of-region capabilities for clearing and treasury services. However, we can make no assurances that these measures will be sufficient to respond to the full range of catastrophic events that might occur.

Internal Control Over Financial Reporting

Improving internal control over financial reporting and mitigating the risks presented by material weaknesses and significant deficiencies in our financial reporting processes continue to be top corporate priorities. During 2006, we developed a comprehensive plan for returning to quarterly financial reporting. The comprehensive plan includes mitigation and remediation of identified material weaknesses and significant deficiencies; strengthening of our financial close process; implementation of critical systems initiatives; and completion of a review of our system of internal controls related to the processing and recording of financial transactions.

We have made progress implementing changes to our accounting, financial reporting and operational infrastructure that have improved our internal control environment, including outsourcing the custody and recordkeeping functions for our Retained portfolio and Cash and investments portfolio, implementing a new accounting sub-ledger for our Cash and investments portfolio and upgrading our general ledger system. However, certain key initiatives, including the implementation of a new sub-ledger for our Retained portfolio, were not completed by year-end as originally planned and will continue to be part of our remediation efforts in 2007.

As a result of our efforts, we made significant progress toward the remediation of our material weaknesses, as described below. However, each of the material weaknesses identified in prior years persisted throughout 2006 and they continue to present challenges for us in 2007.

We also made progress in the remediation of the significant deficiencies in our internal control and we have mitigated some of them so that they have been reduced to control deficiencies in our internal control over financial reporting. For example, we enhanced our risk governance framework thereby reducing the severity of the weaknesses that existed in this area. We also improved our processes for identifying security impairments and the governance of and change management

processes related to the amortization of deferred premiums, discounts and deferred fees for assets held in our Retained portfolio.

While we have made progress in our remediation efforts, our material weaknesses and remaining significant deficiencies will continue to pose significant risks to our financial reporting processes until adequately remediated. The material weaknesses that affected us through December 31, 2006 and continue to present challenges for us, as well as our related remediation activities, are described below:

Integration among our systems, business units and external service providers. Our systems and processes related to our operational and financial accounting systems, business units and external service providers are not adequately integrated. This inadequate integration increases the risk of error in our financial reporting due to: (a) the potential failure to correctly pass information between systems and processes; (b) incompatibility of data between systems; (c) incompatible systems; or (d) a lack of clarity in process ownership. To compensate for this weakness, we have implemented mitigating controls, including extensive manual procedures to perform data validation and financial analytics. We have also enhanced the communication and coordination between our business units.

Our remediation efforts are targeted to address risks posed by (a) the hand-off of data between systems, business units and various data owners, (b) the reliance on end-user computing solutions or (c) reliance on simplifying assumptions in the applications of our accounting policies. We have also formalized internal guidance for controls over the hand-off of data at all stages of our financial close processes, end-user computing solutions and the use of simplifying assumptions in our accounting policies. Our remediation plans include identifying areas that require attention, evaluating our application of the new internal guidance for the hand-off of data and remediating any control deficiencies identified. We have also undertaken an initiative to more clearly link the application of our accounting policies to our systems and our end-user computing solutions.

We have undertaken an initiative to redesign our financial close process to make timely financial reporting possible. Our remediation efforts currently focus on implementing enhancements to our current financial close process, while addressing our objective of long-term sustainability in our processes. We have defined and begun monitoring performance metrics to evaluate our progress in achieving close targets, with a focus on accuracy and timeliness.

Information technology general controls as they relate to change management. Our controls over managing the introduction of program and data changes need improvement. Weaknesses in these controls include a lack of consistent standards and inadequate testing of changes prior to deployment; an environment and processes that increase the difficulties of establishing and maintaining internal control; and issues arising from inherent system limitations.

We are implementing new change management processes so that changes to our system applications and new system implementations are properly designed and approved, fully tested and meet the requirements of the business. We are also focused on promoting an environment of accountability for adhering to change management processes and providing our staff with the tools and training to implement system changes appropriately.

Information technology general controls as they relate to security administration, management and technology. Our controls over information systems security administration and management functions need to improve in the following areas: (a) granting and revoking user access rights; (b) segregation of duties; (c) monitoring user access rights; and (d) periodic review of the appropriateness of access rights. Weaknesses in these controls could allow unauthorized users to access, enter, delete or change data in these systems, as well as increase the possibility that entries could be duplicated or omitted inadvertently.

Our remediation efforts include reviewing the design of our existing controls against industry standards, establishing new procedures to secure data and restrict access to appropriate users, and the development of new tools to monitor access to data and the types of access granted to specific users. We are also centralizing the responsibility for granting user access to key system applications and enhancing our automation of controls designed to prevent unauthorized or inappropriate levels of system access.

Monitoring of results within financial operations and reporting functions. The controls we use to monitor the results of our financial reporting process, such as the performance of financial analytics and account reconciliations, failed to identify certain issues that required adjustments to our financial results prior to our reporting them.

Our remediation efforts have included a detailed evaluation and redesign of our financial analytics and reconciliation procedures, and the implementation of regular, structured reviews of monthly financial results and accounting matters. We are continuing to identify additional financial analytics improvements that we need to make. Additionally, we need to continue to execute the new controls for a period of time in order to assess their effectiveness.

Staffing adequacy. During 2006, we made progress in our efforts to build a strong management team by filling several key senior management positions. However, we must continue to recruit additional qualified people into leadership and key

staff positions in targeted functions within the company to achieve our objectives for the remediation of our internal control deficiencies. Our employee voluntary turnover rate was higher in 2005 than prior years, but voluntary turnover in 2006 was significantly lower than 2005. Undesirable voluntary turnover strains existing resources and contributes to increased operational risk. Furthermore, our standards of performance need to be enforced in order to create a more effective culture of accountability.

Our remediation activities are focused on addressing staffing issues in targeted areas across the company by identifying and filling critical vacancies, addressing staff development and training needs, and eliminating key person dependencies in critical roles. Additionally, we are taking steps to build a culture of accountability that supports operational risk management decision-making and promotes the urgency to identify and address deficiencies in our internal controls. For example, risk management accountability has been formally included as a performance objective for all our employees. We are also reinforcing accountability through staff training that raises the awareness of risks in our business and highlights the importance of maintaining effective internal controls.

Management risk and control self-assessment process. We do not currently have a self-assessment process for our internal control over financial reporting in order to reliably enable management to identify deficiencies in our internal control, evaluate the effectiveness of internal control or modify our control procedures in response to changes in risk in a timely manner.

Our remediation activities are focused on an in-depth assessment of the design of internal control over financial reporting in our existing business processes and the development of a self-assessment process that will provide management with a more timely and reliable tool to identify changes to our processes, risks, and controls in order to identify and remediate control deficiencies. The new management self-assessment process will be implemented under an enhanced risk governance structure designed to identify and escalate risk issues and control deficiencies in a timely manner. Our objective for this new process is to allow us to assess the design and effectiveness of our internal control over financial reporting in a manner consistent with the requirements of the Sarbanes-Oxley Act of 2002.

In addition to these material weaknesses, we identified a number of significant deficiencies in our internal control over financial reporting that, although not determined to be material weaknesses as of the end of the year, still present risks of error in our financial statements and disclosures. These significant deficiencies include:

- deficiencies in our processes related to the valuation of our guarantee-related assets and liabilities;
- deficiencies in our controls over the accuracy and completeness of data received from external counterparties or passed between our business processes and used in our transaction processing and financial reporting systems;
- over-reliance on end-user computing solutions with insufficient development, documentation and change controls;
- deficiencies in our new product implementation process; and
- deficiencies in our procedures for monitoring our use of simplifying assumptions in the application of our accounting policies, and our excessive reliance on such assumptions. The excessive use of simplifying assumptions increases the risk that insignificant differences, when compared to a stricter application of our accounting policies, could become consequential over time and result in errors that are not detected (*e.g.*, if the underlying transaction volume affected by a simplifying assumption increases).

As we continue our remediation activities, we may identify additional material weaknesses, significant deficiencies or other operational issues in our internal controls or conclude that significant deficiencies we have already identified should be regarded as material weaknesses, either individually or in the aggregate. Improvements to the processes and controls we put in place to remediate our control deficiencies need to operate for a period of time to enable us to evaluate their effectiveness.

The material weaknesses and significant deficiencies in our internal control over financial reporting adversely affect our ability to record, process, summarize and report financial data in a timely manner. Based on the continued existence of material weaknesses at December 31, 2006, our Chief Executive Officer and Chief Financial Officer have concluded that our internal control over financial reporting was not effective at December 31, 2006. In order to compensate for the material weaknesses and other deficiencies in our internal controls, we continue to perform extensive verification and validation procedures to provide reasonable assurance that our consolidated financial statements are prepared in accordance with GAAP. Therefore, in view of the additional procedures we performed, we believe that these weaknesses do not prevent us from preparing and issuing our consolidated financial statements in conformity with GAAP.

Our resumption of interim financial reporting will depend on continued progress with our remediation efforts; however, our objective is to return to quarterly reporting during the second half of 2007. We will begin the process of registering our common stock with the SEC after resuming timely quarterly reporting.

Disclosure Controls and Procedures

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in its financial reports is accumulated and communicated to its senior management team as appropriate to allow timely decisions regarding required disclosure. Full evaluation of our disclosure controls and procedures has been delayed as our resources are focused on the remediation of our internal control over financial reporting.

Interest-Rate Risk and Other Market Risks

Our interest-rate risk management objective is to serve our housing mission by protecting shareholder value in all interest-rate environments. Our disciplined approach to interest-rate risk management is essential to maintaining a strong and durable capital base and uninterrupted access to debt and equity capital markets.

Sources of Interest-Rate Risk and Other Market Risks

Our Retained portfolio activities expose us to interest-rate risk and other market risks arising primarily from the uncertainty as to when borrowers will pay the outstanding principal balance of mortgage loans and mortgage-related securities held in the Retained portfolio, known as prepayment risk, and the resulting potential mismatch in the timing of our receipt of cash flows on our assets versus the timing of our obligation to make payments on our liabilities. For the vast majority of our mortgage-related investments, the mortgage borrower has the option to make unscheduled payments of additional principal or to completely pay off a mortgage loan at any time before its scheduled maturity date (without having to pay a prepayment penalty) or to hold the mortgage loan to its stated maturity.

Our credit guarantee activities also expose us to interest-rate risk because changes in interest rates can cause fluctuations in the fair value of our existing credit guarantee portfolio. We generally do not hedge these changes in fair value except for interest-rate exposure related to net buy-ups and float. Float, which arises from timing differences between when the borrower pays us and when we reduce the PC balance, can lead to significant interest expense if the interest rate paid to a PC investor is higher than the reinvestment rate we earn on payments received from mortgage borrowers.

The types of interest-rate risk and other market risks to which we are exposed are described below.

Duration Risk and Convexity Risk. Duration is a measure of a financial instrument's price sensitivity to changes in interest rates. Convexity is a measure of how much a financial instrument's duration changes as interest rates change. Our convexity risk primarily results from prepayment risk. We actively manage duration risk and convexity risk through asset selection and structuring (that is, by identifying or structuring mortgage-related securities with attractive prepayment and other characteristics), by issuing a broad range of both callable and non-callable debt instruments and by using interest-rate derivatives. Managing the impact of duration risk and convexity risk is the principal focus of our daily market risk management activities. These risks are encompassed in our PMVS and duration gap risk measures, discussed in greater detail below. We use prepayment models to determine the estimated duration and convexity of mortgage assets for our PMVS and duration gap measures. Expected results can be affected by differences between prepayments forecasted by the models and actual prepayments.

Yield Curve Risk. Yield curve risk is the risk that non-parallel shifts in the yield curve (such as a flattening or steepening) will adversely affect shareholder value. Because changes in the shape, or slope, of the yield curve often arise due to changes in the market's expectation of future interest rates at different points along the yield curve, we evaluate our exposure to yield curve risk by examining potential reshaping scenarios at various points along the yield curve. Our yield curve risk under a specified yield curve scenario is reflected in our PMVS-Yield Curve, or PMVS-YC, disclosure.

Volatility Risk. Volatility risk is the risk that changes in the market's expectation of the magnitude of future variations in interest rates will adversely affect shareholder value. Implied volatility is a key determinant of the value of an interest-rate option. Since mortgage assets generally include the borrower's option to prepay a loan without penalty, changes in implied volatility affect the value of mortgage assets. We manage volatility risk through asset selection and by maintaining a consistently high percentage of option-embedded liabilities relative to our mortgage assets. We monitor volatility risk by measuring exposure levels on a daily basis and we maintain internal limits on the amount of volatility risk exposure that is acceptable to us.

Basis Risk. Basis risk is the risk that interest rates in different market sectors will not move in tandem and will adversely affect shareholder value. This risk arises principally because we generally hedge mortgage-related investments with debt securities. We do not actively manage the basis risk arising from funding Retained portfolio investments with our debt securities, also referred to as mortgage-to-debt option-adjusted spread risk. See "CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS — Key Components of Changes in Fair Value of Net Assets — *Changes in mortgage-to-debt OAS*" for additional information. We also incur basis risk when we use LIBOR- or Treasury-based instruments in our risk management activities.

Foreign-Currency Risk. Foreign-currency risk is the risk that fluctuations in currency exchange rates (*e.g.*, foreign currencies to the U.S. dollar) will adversely affect shareholder value. We are exposed to foreign-currency risk because we have debt denominated in currencies other than the U.S. dollar, our functional currency. We eliminate virtually all of our foreign-currency risk by entering into swap transactions that effectively convert foreign-currency denominated obligations into U.S. dollar-denominated obligations.

Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk

We employ a risk management strategy that seeks to substantially match the duration characteristics of our assets and liabilities. To accomplish this, we employ an integrated strategy encompassing asset selection and structuring and asset and liability management.

Through our asset selection process, we seek to purchase mortgage assets with desirable prepayment expectations based on our evaluation of their yield-to-maturity, option-adjusted spreads and credit characteristics. Through this selection process and the restructuring of mortgage assets, we seek to retain cash flows with more stable risk and investment return characteristics while selling off the cash flows that do not meet our investment profile.

Through our asset and liability management process, we mitigate interest-rate risk by issuing a wide variety of debt products. The prepayment option held by mortgage borrowers drives the fair value of our mortgage assets such that the combined fair value of our mortgage assets and non-callable debt will decline if interest rates move significantly in either direction. We mitigate much of our exposure to changes in interest rates by funding a significant portion of our mortgage portfolio with callable debt. When interest rates change, our option to redeem this debt offsets a large portion of the fair value change driven by the mortgage prepayment option. At December 31, 2006, approximately 50 percent of our fixed-rate mortgage assets were funded and economically hedged with callable debt. However, because the mortgage prepayment option is not fully hedged by callable debt, the combined fair value of our mortgage assets and debt will be affected by changes in interest rates.

To further reduce our exposure to changes in interest rates, we hedge a significant portion of the remaining prepayment risk with option-based derivatives. These derivatives primarily consist of call swaptions, which tend to increase in value as interest rates decline, and put swaptions, which tend to increase in value as interest rates increase. With the addition of these option-based derivatives, the fair value of net assets becomes relatively stable over a wide range of interest rates because a greater portion of our prepayment risk has been hedged. The fair value of net assets is further stabilized by our ongoing portfolio rebalancing, primarily involving interest-rate swaps. Although we do not hedge all of our exposure to changes in interest rates, these exposures are generally well understood, are subject to established limits, and are monitored and controlled through our disciplined risk management process. See "CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS — Key Components of Changes in Fair Value of Net Assets — *Changes in mortgage-to-debt OAS*" for further information.

We measure our exposure to key interest-rate risks every day against both internal management limits and limits set by our board of directors. Throughout 2006, our interest-rate risk remained low and well below management and board limits.

PMVS and Duration Gap. Our primary interest-rate risk measures are PMVS and duration gap. PMVS is measured in two ways, one measuring the estimated sensitivity of our portfolio market value (as defined below) to parallel moves in interest rates (PMVS-L) and the other to nonparallel movements (PMVS-YC).

Our PMVS and duration gap estimates are determined using models that involve our best judgment of interest-rate and prepayment assumptions. In addition, in the case of PMVS, daily calculations are based on an estimate of the fair value of our net assets attributable to common stockholders. Accordingly, while we believe that PMVS and duration gap are useful risk management tools, they should be understood as estimates rather than as precise measurements.

While PMVS and duration gap estimate the exposure of the fair value of net assets attributable to common stockholders (measured as the fair value of total net assets less the fair value of preferred stock) to changes in interest rates, they do not capture the potential impact of certain other market risks, such as changes in volatility, basis, prepayment model, mortgage-to-debt option-adjusted spreads and foreign-currency risk. The impact of these other market risks can be significant. See "*Sources of Interest-Rate Risk and Other Market Risks*" discussed above and "CONSOLIDATED FAIR VALUE BALANCE SHEETS ANALYSIS — Key Components of Changes in Fair Value of Net Assets — *Changes in mortgage-to-debt OAS*" for further information.

- PMVS-L shows the estimated loss in pre-tax portfolio market value, expressed as a percentage of our after-tax fair value of net assets attributable to common stockholders, from an immediate adverse 50 basis point parallel shift in the level of LIBOR rates (*i.e.*, when the yield at each point on the LIBOR yield curve increases or decreases by 50 basis points).

- PMVS-YC shows the estimated loss in pre-tax portfolio market value, expressed as a percentage of our after-tax fair value of net assets attributable to common stockholders, from an immediate adverse 25 basis point change in the slope (up and down) of the LIBOR yield curve. The 25 basis point change in slope for the PMVS-YC measure is obtained by shifting the two-year and ten-year LIBOR rates by an equal amount (12.5 basis points), but in opposite directions. LIBOR rate shifts between the two-year and ten-year points are interpolated.
- Duration gap estimates the net sensitivity of the fair value of our financial instruments to movements in interest rates. Duration gap is presented in units expressed as months. A duration gap of zero implies that the change in value of assets from an instantaneous rate move will be accompanied by an equal and offsetting move in the value of debt and derivatives thus leaving the net fair value of equity unchanged. However, because duration does not capture convexity exposure (the amount by which duration itself changes as rates move), actual changes in fair value from interest-rate changes may differ from those implied by duration gap alone. For that reason, we believe duration gap is most useful when used in conjunction with PMVS.

The 50 basis point shift and 25 basis point change in slope of the LIBOR yield curve used for our PMVS measures represent events that are expected to have an approximately 5 percent probability of occurring over a one-month time horizon. We believe that our PMVS measures represent conservative measures of interest-rate risk because these assumed scenarios are unlikely, and because the scenarios assume instantaneous shocks, therefore these PMVS measures do not consider the effects on fair value of any rebalancing actions that we would typically take to reduce our risk exposure.

The expected loss in portfolio market value, which is the numerator in the fraction used to calculate the PMVS percentages, is an estimate of the sensitivity to changes in interest rates of the fair value of all interest-earning assets and interest-bearing liabilities and derivatives on a pre-tax basis. When we calculate the expected loss in portfolio market value and duration gap, we also take into account the cash flows related to certain credit guarantee-related items, including net buy-ups and expected gains or losses due to net interest from float. In making these calculations, we do not consider the sensitivity to interest-rate changes of the following assets and liabilities:

- *Credit guarantee portfolio.* We do not consider the sensitivity of the fair value of the credit guarantee portfolio to changes in interest rates except for the guarantee-related items mentioned above (*i.e.*, net buy-ups and float), because we believe the expected benefits from replacement business provide an adequate hedge against interest-rate changes.
- *Other assets with minimal interest-rate sensitivity.* We do not include other assets, primarily non-financial instruments such as fixed assets and REO, because of the minimal impact they would have on both PMVS and duration gap.

These two categories of assets and liabilities are included in our estimate of the after-tax fair value of net assets attributable to common stockholders, which is the denominator of the fraction used to calculate the PMVS-L and PMVS-YC percentages.

PMVS Results. Table 34 provides estimated point-in-time PMVS-L and PMVS-YC results at December 31, 2006 and 2005. Table 34 also provides PMVS-L estimates assuming an immediate 100 basis point shift in the LIBOR yield curve. Because we do not hedge all prepayment option risk, the duration of our mortgage assets changes more rapidly as changes in interest rates increase. Accordingly, as shown in Table 34, the PMVS-L results based on a 100 basis point shift in the LIBOR curve are disproportionately higher than the PMVS-L results based on a 50 basis point shift in the LIBOR curve.

Table 34 — Portfolio Market Value Sensitivity Assuming Shifts of the LIBOR Yield Curve

	Portfolio Market Value Sensitivity			Potential Pre-Tax Loss in Portfolio Market Value (in millions)		
	PMVS-YC	PMVS-L		PMVS-YC	PMVS-L	
	25 bps	50 bps	100 bps	25 bps	50 bps	100 bps
At:						
December 31, 2006	—%	1%	2%	$27	$146	$560
December 31, 2005	—%	1%	3%	$26	$236	$798

Derivatives have enabled us to keep our interest-rate risk exposure at consistently low levels in a wide range of interest-rate environments. By keeping PMVS-L and PMVS-YC low, we have been able to reduce the exposure of the fair value of our stockholders' equity to adverse changes in interest rates.

Table 35 shows that the low PMVS-L risk levels for the periods presented would generally have been higher if we had not used derivatives to manage our interest-rate risk exposure.

Table 35 — Derivative Impact on Portfolio Market Value Sensitivity

	Before Derivatives	After Derivatives	Effect of Derivatives
At December 31, 2006			
PMVS-L (50 bps)	2%	1%	(1)%
At December 31, 2005			
PMVS-L (50 bps)	2%	1%	(1)%

Duration Gap Results. Our estimated average duration gap for the months of December 2006 and 2005 was zero months.

The disclosure in our Monthly Volume Summary reports, which are available on our website at www.freddiemac.com, reflects the average of the daily PMVS-L, PMVS-YC and duration gap estimates for a given reporting period (a month, quarter or year).

Use of Derivatives and Interest-Rate Risk Management

Use of Derivatives. We use derivatives primarily to:

- hedge forecasted issuances of debt and synthetically create callable and non-callable funding;
- regularly adjust or rebalance our funding mix in order to more closely match changes in the interest-rate characteristics of our mortgage assets; and
- hedge foreign-currency exposure (see "*Sources of Interest-Rate Risk and Other Market Risks* — Foreign-Currency Risk.")

Hedge Forecasted Debt Issuances and Create Synthetic Funding. We typically commit to purchase mortgage investments on an opportunistic basis for a future settlement, typically ranging from two weeks to three months after the date of the commitment. To facilitate larger and more predictable debt issuances that contribute to lower funding costs, we use interest-rate derivatives to economically hedge the interest-rate risk exposure from the time we commit to purchase a mortgage to the time the related debt is issued. We also use derivatives to synthetically create the substantive economic equivalent of various debt funding structures. For example, the combination of a series of short-term debt issuances over a defined longer-term period and a pay-fixed swap with the same maturity as the last issuance is the substantive economic equivalent of a long-term fixed-rate debt instrument of comparable maturity. Similarly, the combination of non-callable debt and a call swaption, or option to enter into a receive-fixed swap, with the same maturity as the non-callable debt, is the substantive economic equivalent of callable debt. These derivatives strategies increase our funding flexibility and allow us to better match asset and liability cash flows, often reducing overall funding costs.

Adjust Funding Mix. We generally use interest-rate swaps to mitigate contractual funding mismatches between our assets and liabilities. We also use swaptions and other option-based derivatives to adjust the contractual funding of our debt in response to changes in the expected lives of mortgage-related assets in the Retained portfolio. As market conditions dictate, we take rebalancing actions to keep our interest-rate risk exposure within management-set limits. In a declining interest-rate environment, we typically enter into receive-fixed swaps or purchase Treasury-based derivatives to shorten the duration of our funding to offset the declining duration of our mortgage assets. In a rising interest-rate environment, we typically enter into pay-fixed swaps or sell Treasury-based derivatives in order to lengthen the duration of our funding to offset the increasing duration of our mortgage assets.

Types of Derivatives. The derivatives we use to hedge interest-rate and foreign-currency risk are common in the financial markets. We principally use the following types of derivatives:

- LIBOR- and Euribor-based interest-rate swaps;
- LIBOR- and Treasury-based exchange-traded futures;
- LIBOR- and Treasury-based options (including swaptions); and
- Foreign-currency swaps.

In addition to swaps, futures and options, our derivative positions include the following:

Forward Purchase and Sale Commitments. We routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Most of these commitments are derivatives subject to the requirements of SFAS 133.

Swap Guarantee Derivatives. We guarantee the payment of principal and interest on (a) multifamily mortgage loans that are originated and held by state and municipal housing finance agencies to support tax-exempt multifamily housing revenue bonds, (b) tax-exempt multifamily housing revenue bonds that support pass-through certificates issued by third parties and (c) Freddie Mac pass-through certificates which are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans. In connection with some of these guarantees, we may also guarantee the sponsor's or

the borrower's performance as a counterparty on any related interest-rate swaps used to mitigate interest-rate risk. Guarantees of these interest-rate swaps entered into after June 30, 2003 are treated as derivatives and are reported as swap guarantee derivatives.

Credit Derivatives. See "Credit Risks — *Mortgage Credit Risk — Mortgage Credit Risk Management Strategies*" for more information.

Derivative-Related Risks

Our use of derivatives exposes us to derivative market liquidity risk and counterparty credit risk.

Derivative Market Liquidity Risk. Derivative market liquidity risk is the risk that we may not be able to enter into or exit out of derivative transactions at a reasonable cost. A lack of sufficient capacity or liquidity in the derivatives market could limit our risk management activities, increasing our exposure to interest-rate risk. To help maintain continuous access to derivative markets, we use a variety of products and transact with many different derivative counterparties. In addition to over-the-counter, or OTC, derivatives, we also use exchange-traded derivatives, asset securitization activities, callable debt and short-term debt to rebalance our portfolio.

We limit our duration and convexity exposure to each counterparty. At December 31, 2006, the largest single uncollateralized exposure of our 27 approved OTC counterparties listed in "Table 36 — Derivative Counterparty Credit Exposure" was related to a AAA-rated counterparty, constituting $403 million, or 60 percent, of the total uncollateralized exposure of our OTC interest-rate swaps, option-based derivatives and foreign-currency swaps.

Derivative Counterparty Credit Risk. Counterparty credit risk arises from the possibility that the derivative counterparty will not be able to meet its contractual obligations. Exchange-traded derivatives, such as futures contracts, do not measurably increase our counterparty credit risk because changes in the value of open exchange-traded contracts are settled daily through a financial clearinghouse established by each exchange. OTC derivatives, however, expose us to counterparty credit risk because transactions are executed and settled between us and the counterparty. When an OTC derivative has a market value above zero at a given date (*i.e.*, it is an asset reported as Derivative assets, at fair value on our consolidated balance sheets), then the counterparty could potentially be obligated to deliver cash, securities or a combination of both having that market value to satisfy its obligation to us under the derivative.

We actively manage our exposure to counterparty credit risk using several tools, including:

- review of external rating analyses;
- strict standards for approving new derivative counterparties;
- ongoing monitoring of our positions with each counterparty;
- master netting agreements and collateral agreements; and
- stress-testing to evaluate potential exposure under possible adverse market scenarios.

On an ongoing basis, we review the credit fundamentals of all of our derivative counterparties to confirm that they continue to meet our internal standards. We assign internal ratings, credit capital and exposure limits to each counterparty based on quantitative and qualitative analysis, which we update and monitor on a regular basis. We conduct additional reviews when market conditions dictate or events affecting an individual counterparty occur.

Derivative Counterparties. Our use of OTC interest-rate swaps, option-based derivatives and foreign-currency swaps is subject to rigorous internal credit and legal reviews. Our derivative counterparties carry external credit ratings among the highest available from major rating agencies. All of these counterparties are major financial institutions and are experienced participants in the OTC derivatives market.

Master Netting and Collateral Agreements. We use master netting and collateral agreements to reduce our credit risk exposure to our active OTC derivative counterparties for interest-rate swaps, option-based derivatives and foreign-currency swaps. See "NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS" to our consolidated financial statements for additional information.

Table 36 summarizes our exposure to counterparty credit risk in our derivatives, which represents the net positive fair value of derivative contracts and related accrued interest after netting by counterparty as applicable (*i.e.*, net amounts due to us under derivative contracts). This table is useful in understanding the counterparty credit risk related to our derivative portfolio.

Table 36 — Derivative Counterparty Credit Exposure

Rating[1]	Number of Counterparties[2]	Notional Amount	Total Exposure at Fair Value[3]	Exposure, Net of Collateral[4]	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
	December 31, 2006					
	(dollars in millions)					
AAA	2	$ 3,408	$ 411	$411	1.6	Mutually agreed upon
AA	8	269,126	2,134	92	4.7	$10 million or less
AA−	12	278,993	6,264	161	5.2	$10 million or less
A+	4	142,332	1,393	7	6.1	$1 million or less
A−	1	210	1	1	5.0	$1 million or less
Subtotal[5]	27	694,069	10,203	672	5.2	
Other derivatives[6]		49,554	—	—		
Forward purchase and sale commitments		10,012	24	24		
Credit derivatives		2,605	—	—		
Swap guarantee derivatives		957	—	—		
Total derivatives		$757,197	$10,227	$696		

Rating[1]	Number of Counterparties[2]	Notional Amount	Total Exposure at Fair Value[3]	Exposure, Net of Collateral[4]	Weighted Average Contractual Maturity (in years)	Collateral Posting Threshold
	December 31, 2005					
	(dollars in millions)					
AAA	2	$ 3,102	$ 93	$ 93	2.7	Mutually agreed upon
AA	7	148,135	619	16	4.3	$10 million or less
AA−	8	156,058	2,499	73	5.8	$10 million or less
A+	5	227,842	5,297	2	5.8	$1 million or less
A	2	24,879	364	5	4.0	$1 million or less
A−	1	210	3	1	6.0	$1 million or less
Subtotal[5]	25	560,226	8,875	190	5.3	
Other derivatives[6]		98,033	—	—		
Forward purchase and sale commitments		21,961	35	35		
Credit derivative		2,414	—	—		
Swap guarantee derivatives		738	—	—		
Total derivatives		$683,372	$8,910	$225		

(1) We use the lower of S&P and Moody's ratings to manage collateral requirements. In this table, the rating of the legal entity is stated in terms of the S&P equivalent.
(2) Based on legal entities. Affiliated legal entities are reported separately.
(3) For each counterparty, this amount includes derivatives with a net positive fair value (recorded as Derivative assets, at fair value), including the related accrued interest receivable/payable (net) (recorded in Accounts and other receivables, net or Accrued interest payable).
(4) Total Exposure at Fair Value less collateral held as determined at the counterparty level.
(5) Consists of OTC derivative agreements for interest-rate swaps, option-based derivatives (excluding written options), foreign-currency swaps and purchased interest-rate caps. Written options do not present counterparty credit exposure, because we receive a one-time up-front premium in exchange for giving the holder the right to execute a contract under specified terms, which generally puts us in a liability position.
(6) Consists primarily of exchange-traded contracts and written options.

Over time, our exposure to individual counterparties for OTC interest-rate swaps, option-based derivatives and foreign-currency swaps varies depending on changes in fair values, which are affected by changes in period-end interest rates, the implied volatility of interest rates, foreign-currency exchange rates and the amount of derivatives held. Our uncollateralized exposure to counterparties for these derivatives, after applying netting agreements and collateral, increased to $672 million at December 31, 2006 from $190 million at December 31, 2005. This increase was primarily due to a significant increase in uncollateralized exposure to AAA-rated counterparties, which typically are not required to post collateral given their low risk profile.

At December 31, 2006, the uncollateralized exposure to non-AAA-rated counterparties was primarily due to uncollateralized exposure below the applicable counterparty collateral posting threshold as well as market movements during the time period between when a derivative was marked to fair value and the date we received the related collateral. Collateral is typically transferred within one business day based on the values of the related derivatives.

As indicated in Table 36, approximately 93 percent of our counterparty credit exposure for OTC interest-rate swaps, option-based derivatives and foreign-currency swaps was collateralized at December 31, 2006. If all of our counterparties for these derivatives had defaulted simultaneously on December 31, 2006, our maximum loss for accounting purposes would have been approximately $672 million. Our economic loss, as measured by our potential additional uncollateralized exposure, may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our OTC counterparties for interest-rate swaps, option-based derivatives and foreign-currency swaps will increase under certain adverse market

conditions by performing daily market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level and implied volatility of interest rates and changes in foreign-currency exchange rates over a brief time period.

To date, we have not incurred any credit losses on OTC derivative counterparties or set aside specific reserves for institutional credit risk exposure. We do not believe such reserves are necessary, given our counterparty credit risk management policies and collateral requirements.

OTC Forward Purchase and Sale Commitments Treated as Derivatives. Because the typical maturity of our OTC commitments is less than one year, we do not require master netting and collateral agreements for the counterparties of these commitments. However, we monitor the credit fundamentals of our OTC commitments counterparties on an ongoing basis to ensure that they continue to meet our internal risk-management standards. As indicated in Table 36, the exposure to OTC commitments counterparties of $24 million and $35 million at December 31, 2006 and 2005, respectively, was uncollateralized.

Credit Risks

Our credit guarantee portfolio is subject primarily to two types of credit risk: mortgage credit risk and institutional credit risk. Mortgage credit risk is the risk that a borrower will fail to make timely payments on a mortgage or security we own or guarantee. Institutional credit risk is the risk that a counterparty that has entered into a business contract or arrangement with us will fail to meet its obligations. See "PORTFOLIO BALANCES AND ACTIVITIES — Table 47 — Total Mortgage Portfolio and Total Guaranteed PCs and Structured Securities Issued Based on Unpaid Principal Balances" for more information on the composition of our Total mortgage portfolio.

Mortgage Credit Risk

Mortgage Credit Risk Management Strategies. Mortgage credit risk is primarily influenced by the credit profile of the borrower on the mortgage, the features of the mortgage itself, the type of property securing the mortgage and the general economy. To manage our mortgage credit risk, we focus on three key areas: underwriting requirements and quality control standards; portfolio diversification; and portfolio management activities, including loss mitigation and the use of credit enhancements. While we have historically focused on obtaining credit enhancements at the time of mortgage purchase, we are continuing to expand our capabilities in this area to allow more active and ongoing credit portfolio rebalancing and risk transfers.

Underwriting Requirements and Quality Control Standards. All mortgages that we purchase for our Retained portfolio or guarantee have an inherent risk of default. We seek to manage the underlying risk by adequately pricing for the risk we assume using our underwriting and quality control processes.

We use a process of delegated underwriting for the single-family mortgages we purchase or securitize. In this process, we provide originators with a series of mortgage underwriting standards and the originators represent and warrant to us that the mortgages sold to us meet these requirements. We subsequently review a sample of these loans and, if we determine that any loan is not in compliance with our contractual standards, we may require the seller/servicer to repurchase that mortgage or make us whole in the event of a default. We provide originators with written standards and/or automated underwriting software tools, such as Loan Prospector® and other quantitative credit risk management tools that are designed to evaluate single-family mortgages and monitor the related mortgage credit risk for loans we may purchase. Loan Prospector® generates a credit risk classification by evaluating information on significant indicators of mortgage default risk, such as loan-to-value ratios, credit scores and other mortgage and borrower characteristics. These statistically-based risk assessment tools increase our ability to distinguish among single-family loans based on their expected risk, return and importance to our mission. In many cases, underwriting standards are tailored under contracts with individual customers. We have 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 system or guidelines. We regularly monitor the performance of mortgages purchased using these systems and standards, and if they underperform mortgages originated using Loan Prospector®, we may seek additional guarantee fee compensation for future purchases of similar mortgages.

The percentage of our single-family mortgage purchase volume evaluated using Loan Prospector® prior to purchase has declined over the last three years. As part of our post-purchase quality control review process, we use Loan Prospector® to evaluate the credit quality of virtually all single-family mortgages that were not evaluated by Loan Prospector® prior to purchase. Loan Prospector® risk classifications influence both the price we charge to guarantee loans and the loans we review in quality control.

For multifamily mortgage loans, we use an intensive pre-purchase underwriting process for the mortgages we purchase, unless the mortgage loans have significant credit enhancements. Our underwriting process includes assessments of the local

market, the borrower, the property manager, the property's historical and projected financial performance and the property's physical condition, which may include a physical inspection of the property. In addition to our own inspections, we rely on third-party appraisals and environmental and engineering reports. Beginning in 2007, we also expect to begin a program of delegated underwriting for certain multifamily mortgages we purchase or securitize.

Credit Enhancements. Our charter requires that single-family mortgages with loan-to-value ratios above 80 percent at the time of purchase must be covered by one or more of the following: (a) primary mortgage insurance; (b) a seller's agreement to repurchase or replace any mortgage in default (for such period and under such circumstances as we may require); or (c) retention by the seller of at least a 10 percent participation interest in the mortgages. In addition, for some mortgage loans, we elect to share the default risk by transferring a portion of that risk to various third parties through a variety of other credit enhancements. In many cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

At December 31, 2006 and 2005, credit-enhanced single-family mortgages and mortgage-related securities represented approximately 16 percent and 17 percent of the $1,541 billion and $1,395 billion, respectively, unpaid principal balance of the Total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of issued Structured Securities that is backed by Ginnie Mae Certificates. We exclude non-Freddie Mac mortgage-related securities because they expose us primarily to institutional credit risk. We exclude that portion of Structured Securities backed by Ginnie Mae Certificates because the incremental credit risk to which we are exposed is considered de minimis. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 19 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio" for additional information about our non-Freddie Mac mortgage-related securities. Our ability and desire to expand or reduce the portion of our Total mortgage portfolio with credit enhancements will depend on our evaluation of the credit quality of new business purchase opportunities, the risk profile of our portfolio and the future availability of effective credit enhancements at prices that permit an attractive return. While the use of credit enhancements reduces our exposure to mortgage credit risk, it increases our exposure to institutional credit risk.

Primary mortgage insurance is the most prevalent type of credit enhancement protecting our Total mortgage portfolio and is typically provided on a loan-level basis for certain single-family mortgages. Primary mortgage insurance transfers varying portions of the credit risk associated with a mortgage to a third-party insurer. The amount of insurance we obtain on any mortgage depends on our requirements and on our assessment of risk. We may from time to time agree with the insurer to reduce the amount of coverage that is in excess of our charter's minimum requirement and may also furnish certain services to the insurer in exchange for fees paid by the insurer. As is the case with credit enhancement agreements generally, these agreements often improve the overall value of purchased mortgages and thus may allow us to offer lower guarantee fees to sellers.

The second most prevalent type of credit enhancement that we use is pool insurance. Pool insurance provides insurance on a pool of loans up to a stated aggregate loss limit. In addition to a pool-level loss coverage limit, some pool insurance contracts may have limits on coverage at the loan level. For pool insurance contracts that expire before the completion of the contractual term of the mortgage loan, we seek to ensure that the contracts cover the period of time during which we believe the mortgage loans are most likely to default.

As of December 31, 2006 and 2005, in connection with PCs and Structured Securities backed by single-family mortgage loans, we had maximum coverage totaling $30.7 billion and $27.5 billion, respectively, in primary mortgage insurance. Other forms of credit enhancements on single-family mortgage loans include indemnification agreements (under which we may require a lender to reimburse us for credit losses realized on mortgages), government guarantees, collateral (including cash or high-quality marketable securities) pledged by a lender, excess interest and subordinated security structures. As of December 31, 2006 and 2005, in connection with PCs and Structured Securities backed by single-family mortgage loans, we had maximum coverage totaling $8.9 billion and $5.6 billion, respectively, in recourse to lenders and $3.2 billion and $3.4 billion, respectively, in other credit enhancements.

We occasionally use credit enhancements to mitigate risk on multifamily mortgages. The types of credit enhancements used for multifamily mortgage loans include recourse, third-party guarantees or letters of credit, cash escrows, subordinated participations in mortgage loans or structured pools, sharing of losses with sellers, and cross-default and cross-collateralization provisions. Cross-default and cross-collateralization provisions typically work in tandem. With a cross-default provision, if the loan on a property goes into default, we have the right to declare specified other mortgage loans of the same borrower or certain of its affiliates to be in default and to foreclose those other mortgages. In cases where the borrower agrees to cross-collateralization, we have the additional right to apply excess proceeds from the foreclosure of one mortgage to amounts owed to us by the same borrower or its specified affiliates relating to other multifamily mortgage loans we own. We also receive similar credit enhancements for multifamily PC Guarantor Swaps; for tax-exempt multifamily housing revenue bonds that support pass-through certificates issued by third parties for which we provide our guarantee of the

payment of principal and interest; for Freddie Mac pass-through certificates that are backed by tax-exempt multifamily housing revenue bonds and related taxable bonds and/or loans; and for multifamily mortgage loans that are originated and held by state and municipal agencies to support tax-exempt multifamily housing revenue bonds for which we provide our guarantee of the payment of principal and interest.

Portfolio Diversification. A key characteristic of our credit risk portfolio is diversification along a number of critical risk dimensions. We continually monitor a variety of mortgage loan characteristics such as product mix, loan-to-value ratios and geographic concentrations, which may affect the default experience on our overall mortgage portfolio. As part of our risk management practices, we have adopted a set of limits on our purchases and holdings of certain types of newer nontraditional mortgage products that are deemed to have higher risks or lack sufficient historical experience to confidently forecast performance expectations over a full housing cycle. These newer loan products include interest-only loans and option ARMs, loans with high loan-to-value ratios, and mortgages originated with limited or no underwriting documentation.

To improve our ability to fulfill our mission, we have increased our participation in nontraditional mortgage market products. To that end, we issue Structured Securities backed by mortgage loans or mortgage-related securities using collateral pools transferred to trusts that were specifically created for the purpose of issuing the securities. These trusts issue various senior interests, subordinated interests or both. We purchase senior interests of the trusts and simultaneously issue and guarantee Structured Securities backed by these interests. We refer to these Structured Securities as Structured Transactions. Although Structured Transactions generally have underlying mortgage loans with higher risk characteristics, they may afford us credit protection from losses due to the structure employed and other credit enhancement features.

Product mix affects the credit risk profile of our Total mortgage portfolio. In general, 15-year amortizing fixed-rate mortgages exhibit the lowest default rate among the types of mortgage loans we securitize and purchase, due to the accelerated rate of principal amortization on these mortgages and the credit profiles of borrowers who seek and qualify for them. The next lowest rate of default is associated with 30-year amortizing fixed-rate mortgages. In a rising interest environment, balloon/reset mortgages and ARMs typically default at a higher rate than fixed-rate mortgages, although default rates for different types of ARMs may vary. In the low interest rate environment experienced during 2006, 2005 and 2004, this trend was reversed with ARMs exhibiting lower default rates than fixed-rate mortgages. Table 37 provides the distribution of our Total mortgage portfolio.

Table 37 — Product Distribution[(1)(2)]

	December 31, 2006	December 31, 2005
	(dollars in millions)	
Unpaid Principal Balances related to:		
Guaranteed PCs and Structured Securities:		
Single-family	$1,442,306	$1,294,521
Multifamily	8,415	14,503
Structured Securities backed by non-Freddie Mac mortgage-related securities	26,302	26,500
Mortgage loans in the Retained portfolio:		
Single-Family	20,640	20,396
Multifamily	45,207	41,085
Total Unpaid Principal Balance	$1,542,870	$1,397,005
Product Distribution		
Single-family		
30-year amortizing fixed-rate[(3)]	63%	59%
15-year amortizing fixed-rate	19	23
ARMs/Variable-rate	7	8
Option ARMs	1	1
Interest Only	5	2
Balloon/Resets	1	2
Other	1	1
Total single-family	97%	96%
Multifamily		
Conventional[(4)]	3%	4%
Total multifamily	3%	4%
Total	100%	100%

(1) Based on unpaid principal balances.
(2) Excludes non-Freddie Mac mortgage-related securities held in our Retained portfolio other than those that underlie Freddie Mac Structured Securities.
(3) Includes 40-year and 20-year fixed-rate mortgages.
(4) Also includes Structured Transactions backed by multifamily collateral.

During the past several years, there was a rapid proliferation of nontraditional mortgage product types designed to address a variety of borrower and lender needs, including issues of affordability and reduced income documentation requirements. While features of these products have been on the market for some time, their prevalence in the market and our Total mortgage portfolio increased in 2006 and 2005. See "REGULATION AND SUPERVISION — Office of Federal Housing Enterprise Oversight — *Nontraditional Mortgage Product Risks*" and "RISK FACTORS — Legal and Regulatory Risks." We expect each of these products to default more often than traditional products and we consider this when determining our credit and guarantee fees. Our purchases of interest-only and option ARM mortgage products increased in 2006, representing approximately 18 percent of our Total mortgage portfolio purchases as compared to 11 percent in 2005. Despite this recent increase in purchases, these products represent a small percentage of the unpaid principal balance of our Total mortgage portfolio. At December 31, 2006 and 2005, interest-only and option ARMs collectively represented approximately 6 percent and 3 percent, respectively, of the unpaid principal balance of the Total mortgage portfolio. We will continue to monitor the growth of these products in our portfolio and, if appropriate, may seek credit enhancements to further manage the incremental risk.

Interest-only and option ARM loans. These mortgages are designed to allow borrowers to have flexibility in their payment terms. Interest-only mortgages allow the borrower to pay only interest for a fixed period of time before the loan begins to amortize. Option ARM loans permit a variety of repayment options, which include minimum, interest only, fully amortizing 30-year and fully amortizing 15-year payments. Minimum payment option loans allow the borrower to make monthly payments that are less than the interest accrued for the period. The unpaid interest, known as negative amortization, is added to the principal balance of the loan, which increases the outstanding loan balance. The amount of option ARM mortgages within our Total mortgage portfolio was 1 percent for both 2006 and 2005 and the amount of related negative amortization in both years was not material.

We also hold securities issued by third parties where the underlying collateral may include interest-only and option ARM mortgage products. Delinquencies on total interest-only and option ARM products increased to 0.41 percent in 2006 from 0.08 percent in 2005. Mortgages generally have a lower rate of delinquency in the year in which they are originated. We generally mitigate credit risk inherent in these securities through a guarantee from the third party issuer or the underlying structure of the security. For additional information about the credit quality and credit risk management of non-Freddie Mac securities we hold see "*Institutional Credit Risk* — Non-Freddie Mac Mortgage-Related Securities" and "CONSOLIDATED BALANCE SHEETS ANALYSIS — Retained Portfolio."

Subprime loans. Participants in the mortgage market often characterize loans based upon their overall credit quality at the time of origination, generally considering them to be prime or subprime. There is no universally accepted definition of subprime. The subprime segment of the mortgage market primarily serves borrowers with poorer credit payment histories and such loans typically have a mix of credit characteristics that indicate a higher likelihood of default and higher loss severities than prime loans. Such characteristics might include a combination of high loan-to-value ratios, low FICO scores or originations using lower underwriting standards such as limited or no documentation of a borrower's income. The subprime market helps certain borrowers by increasing the availability of mortgage credit.

While we do not characterize the single-family loans underlying the PCs and Structured Securities in our credit guarantee portfolio as either prime or subprime, we believe that, based on lender-type, underwriting practice and product structure, the number of loans underlying these securities that are subprime is not significant. Also included in our credit guarantee portfolio are Structured Securities backed by non-agency mortgage-related securities where the underlying collateral was identified as being subprime by the original issuer. At December 31, 2006 and 2005, the Structured Securities backed by subprime mortgages constituted approximately 0.1 percent and 0.2 percent, respectively of our credit guarantee portfolio.

With respect to our Retained portfolio, we do not believe that any meaningful amount of the agency securities we hold is backed by subprime mortgages. However, at December 31, 2006 and 2005, we held approximately $124 billion and $139 billion, respectively, of non-agency mortgage-related securities backed by subprime loans. These securities include significant credit enhancement based on their structure and more than 99.9 percent of these securities were rated AAA at December 31, 2006.

We announced on February 27, 2007 that we would implement stricter investment standards for certain subprime ARMs with short adjustment periods originated after September 1, 2007. First, we will only buy ARMs, and mortgage-related securities backed by those loans, for which borrowers have been qualified at the fully-indexed and fully-amortizing rate in order to help protect these borrowers from the payment shock that could occur when the interest rates on their ARMs increase. Second, we will limit the use of low-documentation underwriting for these types of mortgages to help ensure that borrowers have the income necessary to afford their homes.

Table 38 — Characteristics of Single-Family Total Mortgage Portfolio[1]

	Purchases During the Year Ended December 31,			Ending Balance December 31,		
	2006	2005	2004	2006	2005	2004
Original Loan-to-Value, or LTV, Ratio Range[2]						
Less than 60%	19%	21%	23%	24%	25%	26%
Above 60% to 70%	14	16	16	16	17	17
Above 70% to 80%	54	50	46	46	44	42
Above 80% to 90%	7	7	8	7	8	9
Above 90% to 100%	6	6	7	7	6	6
Total	100%	100%	100%	100%	100%	100%
Weighted average original loan-to-value ratio	73%	71%	71%	70%	70%	70%
Estimated Current LTV Ratio Range[3][4]						
Less than 60%				53%	56%	52%
Above 60% to 70%				17	18	19
Above 70% to 80%				18	18	18
Above 80% to 90%				8	6	7
Above 90% to 100%				3	2	3
Above 100%				1	—	1
Total				100%	100%	100%
Weighted average estimated current LTV ratio				57%	56%	58%
Credit Score[5]						
740 and above	42%	44%	41%	45%	45%	44%
700 to 739	24	23	24	23	23	23
660 to 699	19	19	20	18	18	18
620 to 659	10	10	11	9	9	9
Less than 620	5	4	4	4	4	4
Not Available	—	—	—	1	1	2
Total	100%	100%	100%	100%	100%	100%
Weighted average credit score	720	722	719	725	725	723
Loan Purpose						
Purchase	53%	44%	40%	37%	32%	28%
Cash-out refinance	32	35	27	29	29	27
Other refinance	15	21	33	34	39	45
Total	100%	100%	100%	100%	100%	100%
Property Type						
1 unit	97%	97%	97%	97%	97%	97%
2-4 units	3	3	3	3	3	3
Total	100%	100%	100%	100%	100%	100%
Occupancy Type						
Primary residence	89%	91%	92%	92%	93%	94%
Second/vacation home	6	5	4	5	4	3
Investment	5	4	4	3	3	3
Total	100%	100%	100%	100%	100%	100%

(1) Purchases and ending balances are based on the unpaid principal balance of the single-family mortgage portfolio (excluding certain Structured Securities that are backed by non-Freddie Mac mortgage-related securities). Such purchases included in the data totaled $358 billion, $396 billion and $360 billion at December 31, 2006, 2005 and 2004, respectively. Such ending balances included in the data totaled $1,482 billion, $1,333 billion and $1,203 billion at December 31, 2006, 2005 and 2004, respectively.
(2) Our charter requires that mortgage loans purchased with loan-to-value ratios above 80 percent be covered by mortgage insurance or other credit enhancements.
(3) Current market values are estimated by adjusting the value of the property at origination based on changes in the market value of homes since origination. Estimated current LTV excludes Structured Transactions and option ARMs. Estimated current LTV ratio range is not applicable to purchases made during the year.
(4) 2005 and 2004 ratios have been revised to conform to the current year presentation.
(5) Credit score data are as of mortgage loan origination.

Loan-to-Value Ratios. An important safeguard against credit losses for mortgage loans in our single-family, non-credit-enhanced portfolio is provided by the borrowers' equity in the underlying properties. Mortgage loans with higher loan-to-value ratios (and therefore lower levels of borrower equity) at the time of purchase are also protected by credit enhancements, because our charter requires that loans with loan-to-value ratios above 80 percent at the time of purchase be covered by mortgage insurance or certain other credit protections.

The likelihood of single-family mortgage default depends not only on the initial credit quality of the loan, but also on events that occur after origination. Accordingly, we monitor changes in home prices across the country and the impact of

these home price changes on the underlying loan-to-value ratio of mortgages in our portfolio. While home prices rose significantly over the previous 10 years, this growth has slowed significantly in 2006 and home prices have declined in some parts of the United States. Home price appreciation over the past several years has increased the values of properties underlying the mortgages in our portfolio. We monitor regional geographic markets for changes in these trends, particularly with respect to new loans originated in regional markets that have had significant home price appreciation, and we may seek to reinsure a portion of this risk should we determine that the possibility of such changes warrants action. Historical experience has shown that defaults are less likely to occur on mortgages with lower estimated current loan-to-value ratios. In the event of a default, lower loan-to-value ratios generally reduce the total amount of loss, thereby mitigating credit losses.

Credit Score. Credit scores are a useful measure for assessing the credit quality of a borrower. Credit scores are numbers reported by credit repositories, based on statistical models, that summarize an individual's credit record and predict the likelihood that a borrower will repay future obligations as expected. FICO® scores, developed by Fair, Isaac and Co., Inc., are the most commonly used credit scores today. FICO® scores are ranked on a scale of approximately 300 to 850 points. Statistically, consumers with higher credit scores are more likely to repay their debts as expected than those with lower scores. At December 31, 2006, 2005 and 2004, the weighted average credit score for the Total mortgage portfolio (based on the credit score at origination) remained high at 725, 725 and 723, respectively, indicating borrowers with strong credit quality.

Loan Purpose. Mortgage loan purpose indicates how the borrower intends to use the funds from a mortgage loan. The three general categories are: purchase, cash-out refinance and other refinance. In a purchase transaction, funds are used to acquire a property. In a cash-out refinance transaction, in addition to paying off an existing first mortgage lien, the borrower obtains additional funds that may be used for other purposes, including paying off subordinate mortgage liens and providing unrestricted cash proceeds to the borrower. In other refinance transactions, the funds are used to pay off an existing first mortgage lien and may be used in limited amounts for certain specified purposes; such refinances are generally referred to as "no cash-out" or "rate and term" refinances. Other refinance transactions also include refinance mortgages for which the delivery data provided was not sufficient for us to determine whether the mortgage was a cash-out or a no cash-out refinance transaction. The portion of our single-family mortgage purchases that were refinance-related declined in 2006 as interest rates increased during the year. Given similar loan characteristics (*e.g.*, loan-to-value ratios), purchase transactions have the lowest likelihood of default followed by no cash-out refinances and then cash-out refinances. As a practical matter, however, no cash-out refinances tend to have lower loan-to-value ratios, borrowers with higher credit scores and better overall performance than purchase transactions.

Property Type. Single-family mortgage loans are defined as mortgages secured by housing with up to four living units. Mortgages on one-unit properties tend to have lower credit risk than mortgages on multiple-unit properties.

Occupancy Type. Borrowers may purchase a home as a primary residence, second/vacation home or investment property that is typically a rental property. Mortgage loans on properties occupied by the borrower as a primary or secondary residence tend to have a lower credit risk than mortgages on investment properties.

Geographic Concentration. Because our business involves purchasing mortgages from every geographic region in the U.S., we maintain a geographically diverse mortgage portfolio. This diversification generally mitigates credit risks arising from changing local economic conditions. Our Total mortgage portfolio's geographic distribution was relatively stable from 2004 to 2006, and remains broadly diversified across these regions. See "NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS" to our consolidated financial statements for more information concerning the distribution of our Total mortgage portfolio by geographic region.

Loss Mitigation Activities. Loss mitigation activities are a key component of our strategy for managing and resolving troubled assets and lowering credit losses. Our single-family loss mitigation strategy emphasizes early intervention in delinquent mortgages and providing alternatives to foreclosure. Other single-family loss mitigation activities include providing our single-family servicers with default management tools designed to help them manage non-performing loans more effectively and support fulfillment of our mission by assisting borrowers in retaining home ownership. Foreclosure alternatives are intended to reduce the number of delinquent mortgages that proceed to foreclosure and, ultimately, mitigate our total credit losses by eliminating a portion of the costs related to foreclosed properties and avoiding the credit loss in REO. Repayment plans, the most common type of foreclosure alternative, mitigate our credit losses because they assist borrowers in returning to compliance with the original terms of their mortgages. Forbearance agreements, the second most common type of foreclosure alternative, provide a temporary suspension of the foreclosure process to allow additional time for the borrower to return to compliance with the original terms of the borrower's mortgage or to implement another foreclosure alternative. Loan modifications, the third most common type of foreclosure alternative, involve changing the terms of a mortgage, such as the loan term. The total number of loans with foreclosure alternatives was approximately 59,100, 60,000 and 48,300 for the years ended December 31, 2006, 2005 and 2004, respectively. In 2005, the total number of

loans with foreclosure alternatives increased as forbearance agreements were extended to single-family borrowers affected by Hurricane Katrina in an effort to mitigate the risk of default and foreclosure and assist impacted borrowers. In 2006, the number of loans with foreclosure alternatives declined slightly as loans previously subject to forbearance either resumed payments, paid-off or defaulted. However, the number of loans with foreclosure alternatives in the North Central region of the U.S., which has been adversely affected by a downturn in the automotive industry, increased.

We require multifamily seller/servicers to closely manage mortgage loans they have sold us in order to mitigate potential losses. For loans over $1 million, servicers must generally submit an annual assessment of the mortgaged property to us based on the servicer's analysis of financial and other information about the property and, except for certain higher performing loans, an inspection of the property. We evaluate these assessments internally and may direct the servicer to take specific actions to reduce the likelihood of delinquency or default. If a loan defaults despite this intervention, we may offer a foreclosure alternative to the borrower. For example, we may modify the terms of a multifamily mortgage loan, which gives the borrower an opportunity to bring the loan current and retain ownership of the property. Because multifamily seller/servicers are an important part of our loss mitigation process, we rate their performance regularly and conduct on-site reviews of their servicing operations to confirm compliance with our standards.

Within our Total mortgage portfolio, our pricing reflects our expectation that some mortgage loans will become non-performing due to changes in general economic conditions, the financial status of individual borrowers or other factors. Table 39 summarizes our non-performing assets.

Table 39 — Non-Performing Assets

	Based on unpaid principal balance				
	December 31,				
	2006	2005	2004	2003	2002
	(in millions)				
Troubled debt restructuring:					
Reperforming or less than 90 days delinquent[1]	$2,633	$2,108	$1,807	$ 1,874	$1,776
Serious delinquencies[2]	470	497	490	496	388
Total troubled debt restructuring	3,103	2,605	2,297	2,370	2,164
Other serious delinquencies[3]	5,700	6,438	6,318	7,470	6,830
Non-accrual multifamily loans[4]	—	1	27	21	47
Subtotal[5]	8,803	9,044	8,642	9,861	9,041
REO, net[6]	743	629	741	795	594
Total	$9,546	$9,673	$9,383	$10,656	$9,635
Detail of other serious delinquencies:[7]					
Retained and repurchased mortgage loans[2]	$2,982	$2,889			
Loans underlying outstanding PCs and Structured Securities[8]	1,721	2,100			
Loans underlying outstanding Structured Transactions[9]	997	1,449			
Total serious delinquencies[3]	$5,700	$6,438			

(1) Includes previously delinquent loans whose terms have been modified.
(2) Includes single-family loans 90 days or more delinquent. We fully reserve current period accruals for mortgages greater than 120 days delinquent. For serious delinquencies in restructurings, we also fully reserve all uncollected interest after a mortgage becomes 90 days delinquent.
(3) Includes single-family loans 90 days or more delinquent and not in troubled debt restructurings. For multifamily loans, the population includes all loans 60 days or more delinquent but less than 90 days delinquent. Also included are multifamily loans greater than 90 days past due but where principal and interest are being paid to us under the terms of a credit enhancement agreement. For more information about delinquency rates, see "Table 6.3 — Delinquency Performance" in "NOTE 6: LOAN LOSS RESERVES" to our consolidated financial statements.
(4) Non-accrual mortgage loans are loans for which interest income is recognized only on a cash basis and only include multifamily loans that are 90 days or more delinquent. No single-family mortgage loans in our Retained portfolio are classified as non-accrual, since we generally begin establishing reserves for current accruals after 90 days delinquency.
(5) For the year ended December 31, 2006, $481 million was included in Net interest income and Management and guarantee income related to these mortgage loans. The amount of forgone net interest income and additional management and guarantee income that we would have recorded had these loans been current is $34 million for the year ended December 31, 2006.
(6) For more information about REO balances, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 7: REAL ESTATE OWNED" to our consolidated financial statements.
(7) Detail of other serious delinquencies is not available for 2004, 2003 and 2002.
(8) Includes mortgages greater than 90 days, but generally less than 120 days, delinquent. Once a loan is delinquent for 120 days it is generally repurchased out of the security and becomes part of our Retained portfolio.
(9) Consists of mortgages 90 days or more delinquent that underlie the non-agency securities that back our Structured Transactions.

Total non-performing assets declined during 2006 as many of the mortgages affected by Hurricane Katrina in 2005 have resumed payments following the forbearance period we offered and others were modified from their original terms to help borrowers avoid foreclosure. Many of these loans were reported as serious delinquencies at the end of 2005, but have been reclassified to troubled debt restructuring in 2006, as a result of loss mitigation activities. In addition, the increase in the REO balance is attributable to lower turnover caused by slower disposition of properties in the North Central region as well as an increase in market values of the new REO inventory due to appreciation in all regions over the last few years. The increase in troubled debt restructurings and serious delinquencies from 2004 to 2005 was in part a result of the effects of Hurricane Katrina as well as increases in the North Central region.

Other Credit Risk Management Activities. To compensate us for unusual levels of risk in some mortgage products, we may charge incremental fees above a base guarantee fee calculated based on credit risk factors such as the mortgage product type, loan purpose, loan-to-value ratio, and other loan or borrower attributes. In addition, we occasionally use financial incentives and credit derivatives, as described below, in situations where we believe they will benefit our credit risk management strategy. These arrangements are intended to reduce our credit-related expenses, thereby improving our overall returns.

In some cases, we provide financial incentives in the form of lump sum payments to selected seller/servicers if they deliver a specified volume or percentage of mortgage loans meeting specified credit risk standards over a defined period of time. These financial incentives may also take the form of a fee payable to us by the seller if the mortgages delivered to us do not meet certain credit standards.

We have also entered into credit derivatives, including risk-sharing agreements. Under these risk-sharing agreements, default losses on specific mortgage loans delivered by sellers are compared to default losses on reference pools of mortgage loans with similar characteristics. Based upon the results of that comparison, we remit or receive payments based upon the default performance of the specified mortgage loans. These agreements are accounted for as credit derivatives rather than financial guarantees, in part, because we may make payments to the seller/servicer under these agreements (depending upon actual default experience over the lives of the mortgages). The total notional amount of mortgage loans subject to these agreements was approximately $1.9 billion and $2.4 billion at December 31, 2006 and 2005, respectively. In addition, the total notional amount of mortgage loans in other credit derivatives was approximately $0.7 billion and $— billion at December 31, 2006 and 2005, respectively. All credit derivatives were classified as no hedge designation. The fair value of these credit derivatives was not material at either December 31, 2006 or 2005.

Although these arrangements are part of our overall credit risk management strategy, we have not treated them as credit enhancements for purposes of describing our Total mortgage portfolio characteristics because the risk-sharing and credit derivative agreements may result in us making payments to the seller/servicer.

Delinquencies. We report single-family delinquency information based on the number of single-family mortgages that are 90 days or more past due or in foreclosure. For multifamily loans, we report the delinquency when payment is 60 days or more past due. Delinquencies on mortgage loans underlying Structured Transactions may be categorized as delinquent on a different schedule than other mortgage loans due to variances in industry practice. We include all the single-family loans that we own and those that are collateral for our PCs and Structured Securities, including those with significant credit enhancement, in the calculation of delinquency information; however, we exclude that portion of Structured Securities that is backed by Ginnie Mae Certificates and certain Structured Transactions where delinquency data on the underlying mortgage-related securities is not available. The Structured Transactions we have excluded represented 0.06 percent, 0.04 percent and 0.07 percent of our Total mortgage portfolio at December 31, 2006, 2005 and 2004, respectively, and these securities were shadow rated AAA at the initial securitization. Shadow ratings are credit assessments performed by a rating agency at time of origination, but are not published nor subsequently monitored. Multifamily delinquencies may include mortgage loans where the borrowers are not paying as agreed, but principal and interest are being paid to us under the terms of a credit enhancement agreement. Table 40 presents delinquency information for the single-family loans underlying our Total mortgage portfolio.

Table 40 — Single-Family — Delinquency Rates — By Region[1]

	December 31,		
	2006	2005	2004
Northeast[2]	0.24%	0.22%	0.24%
Southeast[2]	0.30	0.38	0.31
North Central[2]	0.32	0.30	0.27
Southwest[2]	0.26	0.64	0.26
West[2]	0.12	0.11	0.15
Total non-credit-enhanced — all regions[3]	0.25	0.30	0.24
Total credit-enhanced — all regions[3]	1.86	2.46	2.75
Total credit-enhanced and non-credit-enhanced — all regions[3]	0.53%	0.69%	0.73%

(1) Region Designation: West (AK, AZ, CA, GU, HI, ID, MT, NV, OR, UT, WA); Northeast (CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI, VT, VA, WV); North Central (IL, IN, IA, MI, MN, ND, OH, SD, WI); Southeast (AL, FL, GA, KY, MS, NC, PR, SC, TN, VI); Southwest (AR, CO, KS, LA, MO, NE, NM, OK, TX, WY). Beginning in 2005, Puerto Rico and Virgin Islands were reclassified from Northeast to Southeast.
(2) Based on mortgage loans in the Retained portfolio and Total Guaranteed PCs and Structured Securities Issued, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates and Structured Transactions.
(3) Based on mortgage loans in the Retained portfolio and Total Guaranteed PCs and Structured Securities Issued, excluding that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Our total single-family delinquency rate has declined over the past three years, with some regional variation, reflecting generally strong economic conditions and strong, but recently slowing, home price appreciation.

Both our total credit-enhanced and total non-credit-enhanced delinquency rates improved in 2006. Many of the loans in the Southwest and Southeast regions that were affected by Hurricane Katrina, and were delinquent at the end of 2005, resumed payments following the forbearance period we offered and others were modified from their original terms to help borrowers avoid foreclosure. Excluding the loans affected by Hurricane Katrina, our total non-credit-enhanced delinquency rate at December 31, 2006 was unchanged from December 31, 2005. However, the total non-credit-enhanced delinquency rate for the North Central region rose in 2006, primarily due to a regional economic downturn.

In addition to the improvement attributable to loans affected by Hurricane Katrina, our total credit-enhanced delinquency rate declined as the number of loans added to the portfolio increased. The delinquency rates on new loans are generally lower than more seasoned loans and we expect that delinquency rates for these loans will increase as they age.

Our multifamily delinquency rate remained very low at 0.05 percent, zero percent and 0.06 percent at the end of 2006, 2005 and 2004, respectively. Hurricane Katrina has not affected our reported multifamily delinquency rate because the contractual terms of certain affected mortgage loans, with unpaid principal balances totaling $149 million at December 31, 2006, were modified.

Table 41 — Single-Family Mortgages By Year of Origination — Percentage of Mortgage Portfolio and Non-Credit-Enhanced Delinquency Rates(1)

	December 31,					
	2006		2005		2004	
Year of Origination	Percent of Single-Family UPB Balance	Non-Credit-Enhanced Delinquency Rate	Percent of Single-Family UPB Balance	Non-Credit-Enhanced Delinquency Rate	Percent of Single-Family UPB Balance	Non-Credit-Enhanced Delinquency Rate
Pre-1999	3%	0.57%	5%	0.70%	7%	0.61%
1999	1	0.67	1	0.89	2	0.78
2000	<1	1.83	<1	2.09	1	1.94
2001	3	0.60	4	0.75	6	0.59
2002	9	0.32	11	0.38	16	0.26
2003	26	0.15	34	0.17	44	0.06
2004	16	0.22	21	0.21	24	0.03
2005	23	0.19	24	0.08	—	—
2006	19	0.09	—	—	—	—
At December 31,	100%	0.25%	100%	0.30%	100%	0.24%

(1) Excludes Structured Transactions.

Our single-family portfolio was affected by heavy refinance volumes in recent years. At December 31, 2006, approximately 58 percent of our single-family mortgage portfolio consisted of mortgage loans originated in 2006, 2005 or 2004. Mortgage loans originated in 2003 and earlier, which represent approximately 42 percent of our single-family mortgage portfolio, have delinquency rates that are generally higher than the overall portfolio delinquency rate due to the natural aging of the loans and, in some instances, the weaker credit quality of these loans. The first year delinquency rate associated with new originations increased in each of the last three years due to a number of factors, including the expansion of credit terms under which loans are underwritten and an increase in our purchases of variable-rate and non-traditional mortgage products that have higher inherent credit risk than traditional fixed-rate mortgage products.

Table 42 — Single-Family — Delinquency Rates — By Product

	Non-Credit-Enhanced, December 31,					
	2006		2005		2004	
	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate
Conventional:						
30-year amortizing fixed rate[1]	55%	0.31%	52%	0.40%	49%	0.36%
15-year amortizing fixed rate	34	0.14%	38	0.19%	42	0.12%
ARMs/Variable rate	6	0.26%	6	0.23%	7	0.17%
Interest Only	3	0.30%	1	0.04%	—	—
Balloon/Resets	1	0.19%	2	0.19%	2	0.12%
Total Mortgage Loans, PCs and Structured Securities	99	0.25%	99	0.30%	100	0.24%
Structured Transactions	1	0.26%	1	0.08%	—	—
Total Mortgage Portfolio	100%	0.25%	100%	0.30%	100%	0.24%
Number of single-family loans (in millions)	9.22		8.67		8.19	

	Credit-Enhanced[2], December 31,					
	2006		2005		2004	
	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate
Conventional:						
30-year amortizing fixed rate[1]	76%	1.32%	73%	1.74%	71%	1.69%
15-year amortizing fixed rate	7	0.64%	9	0.81%	11	0.53%
ARMs/Variable rate	6	1.24%	7	1.08%	7	0.81%
Interest Only	3	1.05%	2	0.23%	—	—
Balloon/Resets	1	0.98%	1	0.91%	1	0.63%
FHA/VA	2	2.99%	2	4.03%	2	3.88%
Rural Housing Service and other federally guaranteed loans	1	2.65%	1	3.34%	1	3.20%
Total Mortgage Loans, PCs and Structured Securities	96	1.30%	95	1.61%	93	1.53%
Structured Transactions[3]	4	14.82%	5	19.19%	7	19.24%
Total Mortgage Portfolio	100%	1.86%	100%	2.46%	100%	2.75%
Number of single-family loans (in millions)	1.94		1.91		1.99	

	Total, December 31,					
	2006		2005		2004	
	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate	Percent of Number of Single-Family Loans	Delinquency Rate
Conventional:						
30-year amortizing fixed rate[1]	60%	0.54%	56%	0.72%	53%	0.71%
15-year amortizing fixed rate	29	0.16%	33	0.22%	36	0.15%
ARMs/Variable rate	6	0.44%	6	0.40%	7	0.31%
Interest Only	3	0.44%	1	0.10%	—	—
Balloon/Resets	1	0.25%	2	0.25%	2	0.17%
FHA/VA	< 1	2.99%	< 1	4.03%	<1	3.88%
Rural Housing Service and other federally guaranteed loans	< 1	2.65%	< 1	3.34%	<1	3.20%
Total Mortgage Loans, PCs and Structured Securities	99	0.42%	98	0.53%	98	0.48%
Structured Transactions[3]	1	7.71%	2	10.79%	2	16.01%
Total Mortgage Portfolio	100%	0.53%	100%	0.69%	100%	0.73%
Number of single-family loans (in millions)	11.16		10.58		10.18	
Net Charge-offs (dollars in millions)						
Mortgage Loans, PCs and Structured Securities	$ 141		$ 101		$ 140	
Structured Transactions[3]	1		—		—	
Total Mortgage Portfolio	$ 142		$ 101		$ 140	

(1) Includes 40-year and 20-year fixed-rate mortgages.
(2) Credit-enhanced loans are primarily those mortgage loans for which a third party has primary default risk. The total credit-enhanced unpaid principal balance as of December 31, 2006, 2005 and 2004 was $266 billion, $253 billion and $248 billion, respectively, for which the maximum coverage of third party primary liability was $58 billion, $53 billion and $52 billion, respectively.
(3) Structured Transactions generally have underlying mortgage loans with higher risk characteristics but provide inherent credit protection from losses due to the structure employed, including subordination, excess interest, overcollateralization and other features.

Credit Loss Performance. Table 43 provides detail on our credit loss performance, including REO activity, charge-offs and credit losses.

Table 43 — Credit Loss Performance

	Year Ended December 31,		
	2006	2005	2004
	(dollars in millions)		
REO			
REO balances:			
Single-family	$ 734	$ 611	$ 740
Multifamily	9	18	1
Total	$ 743	$ 629	$ 741
REO activity (number of properties):(1)			
Beginning property inventory, at January 1	8,070	9,604	9,170
Properties acquired	16,387	15,861	18,489
Properties disposed	(15,672)	(17,395)	(18,055)
Ending property inventory, at December 31	8,785	8,070	9,604
Average holding period (in days)(2)	175	186	177
REO operations income (expense):			
Single-family	$ (61)	$ (40)	$ (1)
Multifamily	1	—	4
Total	$ (60)	$ (40)	$ 3
CHARGE-OFFS			
Single-family:			
Foreclosure alternatives, gross	$ (50)	$ (44)	$ (47)
Recoveries(3)	11	23	21
Foreclosure alternatives, net	(39)	(21)	(26)
REO acquisitions, gross	(258)	(242)	(253)
Recoveries(3)	155	162	139
REO acquisitions, net	(103)	(80)	(114)
Single-family totals:			
Charge-offs, gross	(308)	(286)	(300)
Recoveries(3)	166	185	160
Single-family charge-offs, net	(142)	(101)	(140)
Multifamily:			
Charge-offs, gross	(5)	(8)	—
Recoveries(3)	—	—	—
Multifamily charge-offs, net	(5)	(8)	—
Total Charge-offs:			
Charge-offs, gross	(313)	(294)	(300)
Recoveries:			
Related to primary mortgage insurance	112	119	85
Not related to primary mortgage insurance	54	66	75
Total recoveries(3)	166	185	160
Charge-offs, net	$ (147)	$ (109)	$ (140)
CREDIT LOSSES(4)			
Single-family	$ (203)	$ (141)	$ (141)
Multifamily	(4)	(8)	4
Total	$ (207)	$ (149)	$ (137)
In basis points:(5)			
Single-family	(1.4)	(1.1)	(1.1)
Multifamily	—	—	—
Total	(1.4)	(1.1)	(1.1)

(1) Includes single-family and multifamily REO properties.
(2) Represents weighted average holding period for single-family and multifamily properties based on number of REO properties disposed.
(3) Includes recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements. Recoveries of charge-offs through credit enhancements are limited in some instances to amounts less than the full amount of the loss.
(4) Equal to REO operations income (expense) plus Charge-offs, net.
(5) Calculated as credit losses divided by the average Total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Table 44 and Table 45 provide detail by region for two credit performance statistics, REO activity and charge-offs. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends. Increases in the volume of REO properties in the North Central region were driven by impacts to borrowers affected by an economic downturn and weakening housing markets within the region.

Table 44 — REO Activity By Region[1]

	Year Ended December 31,		
	2006	2005	2004
	(number of properties)		
REO Inventory			
Beginning property inventory	8,070	9,604	9,170
Properties acquired by region:			
Northeast	1,253	1,306	1,500
Southeast	3,970	4,504	5,499
North Central	7,237	5,790	5,787
Southwest	3,497	3,412	3,926
West	430	849	1,777
Total properties acquired	16,387	15,861	18,489
Properties disposed by region:			
Northeast	(1,260)	(1,384)	(1,562)
Southeast	(4,132)	(5,221)	(5,596)
North Central	(6,294)	(5,715)	(5,111)
Southwest	(3,441)	(3,820)	(3,605)
West	(545)	(1,255)	(2,181)
Total properties disposed	(15,672)	(17,395)	(18,055)
Ending property inventory	8,785	8,070	9,604

(1) See "Table 40 — Single-Family — Delinquency Rates — By Region" for a description of these regions.

Table 45 — Single-Family Charge-offs and Recoveries By Region[1][2]

	Year Ended December 31,								
	2006			2005			2004		
	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net	Charge-offs, gross	Recoveries	Charge-offs, net
	(in millions)								
Northeast	$ 22	$ (9)	$ 13	$ 21	$ (10)	$ 11	$ 24	$ (10)	$ 14
Southeast	72	(42)	30	76	(54)	22	84	(49)	35
North Central	133	(66)	67	102	(66)	36	92	(49)	43
Southwest	73	(44)	29	68	(44)	24	66	(35)	31
West	8	(5)	3	19	(11)	8	34	(17)	17
Total	$308	$(166)	$142	$286	$(185)	$101	$300	$(160)	$140

(1) See "Table 40 — Single-Family — Delinquency Rates — By Region" for a description of these regions.
(2) Includes recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers, or other third parties through credit enhancements. Recoveries of charge-offs through credit enhancements are limited in some instances to amounts less than the full amount of the loss.

Single-family charge-offs, gross, increased in 2006 primarily due to a modest increase in the volume of REO properties acquired at foreclosure, as noted in Table 44.

We maintain two loan loss reserves — Reserve for losses on mortgage loans held-for-investment and Reserve for guarantee losses on Participation Certificates — at levels we deem adequate to absorb probable incurred losses on mortgage loans held-for-investment in the Retained portfolio and certain mortgages underlying PCs held by third parties. See "CRITICAL ACCOUNTING POLICIES AND ESTIMATES — Credit Losses," "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 6: LOAN LOSS RESERVES" to our consolidated financial statements for further information. Table 46 summarizes our loan loss reserves activity for both of our reserves in total.

Table 46 — Loan Loss Reserves Activity

	Year Ended December 31,				
	2006	2005	2004	2003	2002
	(dollars in millions)				
Total loan loss reserves:[1]					
Beginning balance	$ 414	$ 264	$ 299	$ 265	$ 224
Provision (benefit) for credit losses	215	251	143	(5)	122
Charge-offs, gross	(313)	(294)	(300)	(224)	(171)
Recoveries[2]	166	185	160	145	99
Charge-offs, net	(147)	(109)	(140)	(79)	(72)
Adjustment for change in accounting[3]	—	—	—	110	—
Transfers-out	(71)	(11)	(20)	(11)	(9)
Other transfers, net[4]	9	19	(18)	19	—
Ending balance	$ 420	$ 414	$ 264	$ 299	$ 265
Charge-offs, net to Total mortgage portfolio[5]	1.0 bps	0.8 bps	1.1 bps	0.7 bps	0.7 bps
Coverage ratio (reserves to charge-offs, net)	2.9	3.8	1.9	3.8	3.7

(1) Includes Reserves for loans held-for-investment in the Retained portfolio and Reserves for guarantee losses on Participation Certificates.
(2) Includes recoveries of charge-offs primarily resulting from foreclosure alternatives and REO acquisitions on loans where a share of default risk has been assumed by mortgage insurers, servicers or third parties through credit enhancements. Recoveries of charge-offs through credit enhancements are limited in some instances to amounts less than the full amount of the loss.
(3) On January 1, 2003, $110 million of recognized Guarantee obligation attributable to estimated incurred losses on outstanding PCs or Structured Securities was reclassified to Reserve for guarantee losses on Participation Certificates.
(4) Represents the portion of the Guarantee obligation recognized through Guarantor Swap transactions or upon the sale of PCs and Structured Securities that corresponds to incurred credit losses reclassified to Reserve for guarantee losses on Participation Certificates upon initial recognition of a Guarantee obligation. In addition, the amount includes an increase (reduction) of loan loss reserves of $9 million and $(31) million in 2005 and 2004, respectively, related to prior period adjustments for which the related income was recorded in Other income.
(5) Calculated using the average Total mortgage portfolio, excluding non-Freddie Mac mortgage-related securities and that portion of Structured Securities that is backed by Ginnie Mae Certificates.

Our total loan loss reserves increased in 2006 as additional reserves we recorded to reflect incurred losses related to our single-family portfolio were partly offset by the reversal of $82 million of the Provision for credit losses recorded in 2005 associated with Hurricane Katrina. The increase in loan loss reserves during 2005 was primarily related to our estimate of incurred losses associated with Hurricane Katrina which was $128 million at December 31, 2005. See “CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Expense — Provision for Credit Losses,” for additional information.

Credit Risk Sensitivity. Our credit risk sensitivity analysis assesses the assumed increase in the present value of expected single-family mortgage portfolio credit losses over ten years as the result of an estimated immediate 5 percent decline in home prices nationwide, followed by a return to more normal growth in home prices based on historical experience. We use an internally developed Monte Carlo simulation-based model to generate our credit risk sensitivity analyses. The Monte Carlo model uses a simulation program to generate numerous potential interest-rate paths that, in conjunction with a prepayment model, are used to estimate mortgage cash flows along each path. In the credit risk sensitivity analysis, we adjust the home-price assumption used in the base case to estimate the level and sensitivity of potential credit costs resulting from a sudden decline in home prices. Our credit risk sensitivity results are presented in “RISK MANAGEMENT AND DISCLOSURE COMMITMENTS.”

Institutional Credit Risk

Our primary institutional credit risk exposure, other than counterparty credit risk exposure relating to derivatives, arises from agreements with the following entities: mortgage loan insurers; mortgage seller/servicers; issuers, guarantors or third party providers of credit enhancements on non-Freddie Mac mortgage-related securities held in our Retained portfolio; mortgage investors and originators; and issuers, guarantors and insurers of investments held in our Cash and investments portfolio. See “RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks — *Use of Derivatives and Interest-Rate Risk Management*” for information concerning counterparty credit risk exposure relating to derivatives.

Mortgage Loan Insurers. We have institutional credit risk relating to the potential insolvency or non-performance of mortgage insurers that insure mortgages we purchase or guarantee. We manage this risk by establishing eligibility standards for mortgage insurers and by regularly monitoring our exposure to individual mortgage insurers. We also monitor the mortgage insurers’ credit ratings, as provided by nationally recognized statistical rating organizations, and we periodically review the methods used by the nationally recognized statistical rating organizations. We also perform periodic on-site reviews of mortgage insurers to confirm compliance with our eligibility requirements and to evaluate their management and control practices. In addition, state insurance authorities regulate mortgage insurers. See “NOTE 17: CONCENTRATION OF CREDIT AND OTHER RISKS” to our consolidated financial statements for additional information.

Mortgage Seller/Servicers. We are exposed to institutional credit risk arising from the insolvency of or non-performance by our mortgage seller/servicers, including non-performance of their repurchase obligations arising from the representations and warranties made to us for loans they underwrote and sold to us. The servicing fee charged by mortgage

servicers varies by mortgage product. We generally require our single-family servicers to retain a minimum percentage fee for mortgages serviced on our behalf, typically 0.25 percent of the unpaid principal balance of the mortgage loans. However, on an exception basis, we allow a lower or no minimum servicing amount. The credit risk associated with servicing fees relates to whether we could transfer the applicable servicing rights to a successor servicer and recover amounts owed to us by the defaulting servicer in the event the current servicer is unable to fulfill its responsibilities.

In order to manage the credit risk associated with our mortgage seller/servicers, we require them to meet minimum financial capacity standards, insurance and other eligibility requirements. We do not believe we have any significant exposure to seller/servicers identified as primarily subprime lenders that are not currently in compliance with our financial monitoring standards. We institute remedial actions against seller/servicers that fail to comply with our standards. These actions may include transferring mortgage servicing to other qualified servicers or terminating our relationship with the seller/servicer. We conduct periodic operational reviews of our single-family mortgage seller/servicers to help us better understand their control environment and its impact on the quality of loans sold to us. We use this information to determine the terms of business we conduct with a particular seller/servicer.

We manage the credit risk associated with our multifamily seller/servicers by establishing eligibility requirements for participation in our multifamily programs. These seller/servicers must also meet our standards for originating and servicing multifamily loans. We conduct regular quality control reviews of our multifamily mortgage seller/servicers to determine whether they remain in compliance with our standards.

Non-Freddie Mac Mortgage-Related Securities. Investments for our Retained portfolio expose us to institutional credit risk on non-Freddie Mac mortgage-related securities to the extent that servicers, issuers, guarantors, or third parties providing credit enhancements become insolvent or do not perform. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 19 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio" for more information concerning our Retained portfolio.

Our non-Freddie Mac mortgage-related securities portfolio consists of both agency and non-agency mortgage-related securities. Agency mortgage-related securities, which are securities issued or guaranteed by Fannie Mae or Ginnie Mae, present minimal institutional credit risk due to the high credit quality of Fannie Mae and Ginnie Mae. Agency mortgage-related securities are generally not separately rated by nationally recognized statistical rating organizations, but are viewed as having a level of credit quality at least equivalent to non-agency mortgage-related securities rated AAA (based on the S&P rating scale or an equivalent rating from other nationally recognized statistical rating organizations). At December 31, 2006, we held approximately $45 billion of agency securities, representing approximately 2 percent of our Total mortgage portfolio.

Non-agency mortgage-related securities expose us to institutional credit risk if the nature of the credit enhancement relies on a third party to cover potential losses. However, most of our non-agency mortgage-related securities rely primarily on subordinated tranches to provide credit loss protection and therefore expose us to limited counterparty risk. In those instances where we desire further protection, we may choose to mitigate our exposure with bond insurance or by purchasing additional subordination. Bond insurance exposes us to the risks related to the bond insurer's ability to satisfy claims. At December 31, 2006, a significant portion of the bond insurers providing coverage for non-agency mortgage-related securities held by us were rated AAA or equivalent by at least one nationally recognized statistical rating organization. At December 31, 2006, we held approximately $238 billion of non-agency mortgage-related securities. Of this amount, 96.2 percent was rated AAA or equivalent.

We manage institutional credit risk on non-Freddie Mac mortgage-related securities by only purchasing securities that meet our investment guidelines and performing ongoing analysis to evaluate the creditworthiness of the issuers and servicers of these securities and the bond insurers that guarantee them. To assess the creditworthiness of these entities, we may perform additional analysis, including on-site visits, verification of loan documentation, review of underwriting or servicing processes and similar due diligence measures. In addition, we regularly evaluate our investments to determine if any impairment in fair value requires an impairment loss recognition in earnings, warrants divestiture or requires a combination of both. See "RISK FACTORS — Legal and Regulatory Risks" for more information.

Mortgage Investors and Originators. We are exposed to pre-settlement risk through the purchase, sale and financing of mortgage loans and mortgage-related securities with mortgage investors and originators. The probability of such a default is generally remote over the short time horizon between the trade and settlement date. We manage this risk by evaluating the creditworthiness of our counterparties and monitoring and managing our exposures. In some instances, we may require these counterparties to post collateral.

Cash and Investments Portfolio. Institutional credit risk also arises from the potential insolvency or non-performance of issuers or guarantors of investments held in our Cash and investments portfolio. Instruments in this portfolio are investment grade at the time of purchase and primarily short-term in nature, thereby substantially mitigating institutional

credit risk in this portfolio. We regularly evaluate these investments to determine if any impairment in fair value requires an impairment loss recognition in earnings, warrants divestiture or requires a combination of both.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements that are not recorded on our consolidated balance sheets or may be recorded in amounts that differ from the full contract or notional amount of the transaction. Most of these arrangements relate to our financial guarantee and securitization activity for which we record guarantee-related assets and obligations, but the related securitized assets are owned by third parties. See "CRITICAL ACCOUNTING POLICIES AND ESTIMATES — Issuances and Transfers of PCs and Structured Securities" for more discussion of off-balance sheet arrangements. These off-balance sheet arrangements may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets.

Guarantee of PCs and Structured Securities

As discussed in "BUSINESS — Business Activities — *Credit Guarantee Activities*," we guarantee the payment of principal and interest on issued PCs or Structured Securities. Mortgage-related assets that back PCs and Structured Securities held by third parties are not reflected as our assets, unless we retained or repurchased an interest in the PCs that back Structured Securities that were issued and sold to third parties.

We manage the risks of our credit guarantee activity carefully, sharing the risk in some cases with third parties through the use of primary loan-level mortgage insurance, pool insurance and other credit enhancements. "NOTE 4: FINANCIAL GUARANTEES" of our consolidated financial statements provides information about our guarantees, including details related to credit protections and maximum coverages that we obtain through credit enhancements. Also, see "RISK MANAGEMENT — Credit Risks" for more information.

Credit guarantee activity also occurs through the Guarantor Swap program in the form of mortgage swap transactions. In a mortgage swap transaction, a mortgage lender delivers mortgages to us in exchange for our guaranteed PCs that represent undivided interests in those same mortgages. We receive various forms of consideration in exchange for providing our guarantee on issued PCs, including (a) the contractual right to receive a management and guarantee fee, (b) delivery or credit fees for higher-risk mortgages and (c) other forms of credit enhancements received from counterparties or mortgage loan insurers.

Credit guarantee activity also occurs through our Cash Window and our MultiLender Swap program. Single-family mortgage loans we purchase for cash through the Cash Window are typically either retained by us in our Retained portfolio or pooled together with other single-family mortgage loans we purchase in connection with PC swap-based transactions in our MultiLender Program executed with various lenders. We may issue such PCs to these lenders in exchange for the mortgage loans we purchase from them or, to the extent these loans are pooled with loans purchased for cash, we may sell them to third parties for cash consideration through an auction.

In addition to the issuance and transfer of PCs to third parties, we also sell PCs from our Retained portfolio in resecuritized form. We issue single- and multi-class Structured Securities that are backed by securities held in our Retained portfolio and subsequently transfer such Structured Securities to third parties in exchange for cash, PCs or other mortgage-related securities. We generally earn resecuritization fees in connection with the creation of Structured Securities and can earn an ongoing management and guarantee fee for certain issued Structured Securities. Our principal credit risk exposure on Structured Securities relates only to that portion of resecuritized assets that consists of non-Freddie Mac mortgage-related securities. For information about our purchase, securitization and resecuritization activities, see "PORTFOLIO BALANCES AND ACTIVITIES."

Our maximum potential exposure to credit losses relating to our outstanding guaranteed mortgage-related securities held by third parties is primarily represented by the unpaid principal balance of those securities, which was $1,123 billion as of December 31, 2006. Based on our historical credit losses, which in 2006 averaged approximately 1.4 basis points of the balance of guaranteed securities outstanding (including those owned in our Retained portfolio), we do not believe that the maximum exposure is representative of our actual exposure on these guarantees. The maximum exposure does not take into consideration the recovery we would receive through exercising our rights to the collateral backing the underlying loans nor the available credit enhancements, which includes recourse and primary insurance with third parties.

The accounting policies and fair value estimation methodologies we apply to our credit guarantee activities significantly affect the volatility of our reported earnings. See "CONSOLIDATED RESULTS OF OPERATIONS — Non-Interest Income (Loss)" for an analysis of the effects on our consolidated statements of income related to our credit guarantee activities. See "CONSOLIDATED BALANCE SHEETS ANALYSIS" for a description of our Guarantee asset and Guarantee obligation. The accounting for our securitization transactions and the significant assumptions used to determine

the gains or losses from such transfers that are accounted for as sales are discussed in "NOTE 2: TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS" to our consolidated financial statements.

Other

We extend other guarantees and provide indemnification to counterparties for breaches of standard representations and warranties in contracts entered into in the normal course of business based on an assessment that the risk of loss would be remote. See "NOTE 4: FINANCIAL GUARANTEES" to our consolidated financial statements for additional information.

We are a party to numerous entities that are considered to be variable interest entities, or VIEs, in accordance with FASB Interpretation No. 46 (Revised December 2003), "Consolidation of Variable Interest Entities (revised December 2003), an interpretation of APB No. 51," or FIN 46(R). These variable interest entities include low-income multifamily housing tax credit partnerships, certain Structured Transactions and certain asset-backed investment trusts. See "NOTE 3: VARIABLE INTEREST ENTITIES" to our consolidated financial statements for additional information related to our significant variable interests in these VIEs.

As part of our credit guarantee business, we routinely enter into forward purchase and sale commitments for mortgage loans and mortgage-related securities. Some of these commitments are accounted for as derivatives with their fair values reported as either Derivative assets, at fair value or Derivative liabilities, at fair value on our consolidated balance sheets. See "RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks" for further information. Certain non-derivative commitments are related to commitments arising from mortgage swap transactions and commitments to purchase certain multifamily mortgage loans that will be classified as held-for-investment. These non-derivative commitments totaled $264.4 billion and $178.8 billion at December 31, 2006 and 2005, respectively. Such commitments are not accounted for as derivatives and are not recorded on our consolidated balance sheets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires us to make a number of judgments, estimates and assumptions that affect the reported amounts of our assets, liabilities, income, and expenses. Certain of our accounting policies, as well as estimates we make, are critical to the presentation of our financial condition and results of operations. They often require management to make difficult, complex or subjective judgments and estimates, at times, regarding matters that are inherently uncertain. The accounting policies discussed in this section are particularly critical to understanding our consolidated financial statements. Actual results could differ from our estimates and different judgments and assumptions related to these policies and estimates could have a material impact on the consolidated financial statements.

Our critical accounting policies and estimates relate to: (a) valuation of financial instruments; (b) issuances and transfers of PCs and Structured Securities; (c) derivative instruments and hedging activities; (d) credit losses; (e) amortization of cost basis adjustments using the effective interest method; and (f) impairment recognition on investments in securities. For additional information about these and other significant accounting policies, including recently issued accounting pronouncements, see "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements.

Valuation of Financial Instruments

A significant portion of our assets and liabilities are financial instruments that are recorded on our consolidated financial statements at estimated fair value. The estimation of fair value applies to instruments that are complex in nature and requires significant management judgments and assumptions. These judgments and assumptions, as well as changes in market conditions, may have a material effect on our GAAP consolidated balance sheets and statements of income as well as our consolidated fair value balance sheets.

Fair value is defined as the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The selection of a method to estimate fair value for each type of financial instrument depends on both the reliability and availability of relevant market data. The amount of judgment involved in estimating the fair value of a financial instrument is affected by a number of factors, such as the type of

instrument, the liquidity of the markets for the instrument and the contractual characteristics of the instrument. We estimate fair value according to the following hierarchy of sources:

- quoted market prices for identical and similar instruments;
- industry standard models that consider market inputs such as yield curves, duration, volatility factors and prepayment speeds; and
- internally developed models that consider inputs based on management's judgment of market-based assumptions.

We use quoted market prices when they are available and reliable. Financial instruments with active markets and readily available market prices are valued based on independent price quotations obtained from third party sources, such as pricing services, dealer marks or direct market observations. Independent price quotations obtained from pricing services are valuations estimated by a service provider using market information. Dealer marks are prices obtained from dealers that generally make markets in the relevant products and are an indication of the price at which the dealer would consider transacting in normal market conditions. Market observable prices are prices that are retrieved from sources in which market trades are executed, such as electronic trading platforms. When quoted market prices are not readily available, we utilize models, including industry-standard models and internally developed models. These models use market inputs such as interest rate curves, market volatilities and pricing spreads. We maximize the use of market inputs to the extent available. Certain complex financial instruments have significant data inputs that cannot be validated by reference to the market. These instruments are typically illiquid or unique in nature and require the use of management's judgment of market-based assumptions. The use of different pricing models or assumptions could produce materially different estimates of fair value.

Fair value affects our statement of income in the following ways:

- For certain financial instruments that are recorded in the GAAP consolidated balance sheets at fair value, changes in fair value are recognized in current period earnings. These include:
  - securities and PC residuals classified as trading, which are recorded in Gains (losses) on investment activity;
  - derivatives in a fair value hedge accounting relationship and the related adjustments to the hedged items, which are recorded in Hedge accounting gains (losses);
  - derivatives with no hedge designation, which are recorded in Derivative gains (losses); and
  - the Guarantee asset, which is recorded in Gains (losses) on Guarantee asset.
- For other financial instruments that are recorded in the GAAP consolidated balance sheets at fair value, changes in fair value are deferred, net of tax, in AOCI. These include:
  - securities and PC residuals classified as available-for-sale, which are initially measured at fair value with deferred gains and losses recognized in AOCI. These deferred gains and losses affect earnings over time through amortization, sale or impairment recognition; and
  - changes in derivatives that are designated in cash flow hedge accounting relationships.
- Our Guarantee obligation is initially measured at fair value, but is not remeasured at fair value on a periodic basis. This obligation affects earnings over time through amortization to Income on Guarantee obligation.
- Mortgage loans that are held-for-sale are recorded at the lower-of-cost-or-market with changes in fair value recorded through earnings in Gains (losses) on investment activity.

We periodically evaluate our valuation methodologies and may change them to improve our fair value estimates, to accommodate market developments or to compensate for changes in data availability and reliability or other operational constraints.

At December 31, 2006 and 2005, the fair values for approximately 99 percent of our mortgage-related securities were based on prices obtained from third parties or were determined using models with significant market inputs. The fair values for the remainder of our mortgage-related securities are obtained from internal models with few or no market inputs. The majority of the fair values for our non-mortgage-related securities are based on prices obtained from third parties. For some of these securities, where the interest rates frequently reset, the carrying value is presumed to be a reasonable approximation of fair value. The majority of our derivative positions are valued using internally developed models that use market inputs because few of the derivative contracts we use are listed on exchanges. At December 31, 2006 and 2005, approximately 65 percent and 68 percent, respectively, of the gross fair value of our derivatives portfolio related to interest-rate and foreign-currency swaps that did not have embedded options. These derivatives were valued using a discounted cash flow model that projects future cash flows and discounts them at the spot rate related to each cash flow. The remaining 35 percent and 32 percent, respectively, of our derivatives portfolio was valued based on prices obtained from third parties or using models with significant market inputs. The fair values for all of our debt securities are based on prices obtained from third parties or are determined using models with significant market inputs.

See “RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks” for discussion of market risks and our interest-rate sensitivity measures, PMVS and duration gap.

Issuances and Transfers of PCs and Structured Securities

We issue PCs and Structured Securities to third parties in several different ways. In general, we account for such transfers as sales of financial assets or as financial guarantee transactions. We evaluate whether transfers of PCs or Structured Securities qualify as sales based upon the requirements of SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, a replacement of FASB Statement No. 125,” or SFAS 140. If a transfer of PCs or Structured Securities qualifies as a sale, we recognize a gain or loss on the sale immediately in earnings. The gain or loss is calculated as cash received less the recognized carrying value of interests sold and the fair value of liabilities incurred upon sale.

If we determine that a transfer of PCs or Structured Securities does not qualify as a sale, we account for the transfer as a secured borrowing pursuant to SFAS 140 or as a financial guarantee transaction pursuant to the provisions of FIN 45. Many of the transfers of PCs and Structured Securities that we make are accounted for as financial guarantee transactions pursuant to FIN 45. For such transactions, we recognize a Guarantee obligation at the inception of an executed guarantee. We also recognize the fair value of any consideration received in such transactions.

For transfers of PCs and Structured Securities to third parties, the fair value measurements involve our best estimate with respect to key assumptions. These key assumptions include expected credit losses, exposure to credit losses that could be greater than expected, prepayment rates, forward yield curves and discount rates. We believe that these assumptions are comparable to those used by other market participants. The use of different pricing models or assumptions could produce materially different results. See “NOTE 2: TRANSFERS OF SECURITIZED INTERESTS IN MORTGAGE-RELATED ASSETS” to our consolidated financial statements for further discussion of the approach we use to determine fair values.

Derivative Instruments and Hedging Activities

The determination of whether a derivative qualifies for hedge accounting requires significant judgment and has a significant impact on how such instruments are accounted for in our consolidated financial statements. As described more fully in “NOTE 12: DERIVATIVES” to our consolidated financial statements, by December 31, 2006 we had discontinued substantially all of our hedge accounting relationships.

We report the change in fair value of derivatives that are not designated in hedge accounting relationships on our consolidated statements of income in the period in which the change in value occurs. We record the change in fair value of derivatives that are in cash flow hedge accounting relationships, to the extent these relationships are effective, as a separate component of AOCI and reclassify this amount into earnings when the hedged item or forecasted transaction affects earnings. We record the change in fair value of derivatives in fair value hedge relationships each period in earnings along with the change in fair value of the hedged item attributable to the hedged risk.

The determination of whether a derivative qualifies for hedge accounting requires judgment about the application of SFAS 133, as amended by SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133,” and SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities,” collectively referred to as SFAS 133. SFAS 133 requires contemporaneous documentation of our hedge relationships, including identification of the hedged item, the hedging instrument, the nature of the hedged risk and the method used to assess the effectiveness of the hedge relationship.

Derivatives previously designated as cash flow hedges generally have hedged interest-rate risk related to the forecasted issuances of debt. For these hedging relationships to qualify for hedge accounting both at inception and over the life of the derivative, we must estimate the probable future level of certain types of debt issuances. These estimates are based on our expectation of future funding needs and the future mix of debt issuances. Our expectations about future funding are based upon projected growth and historical activity. If these estimates had been lower, a smaller notional amount of the derivatives would have been eligible for designation as cash flow hedges and potentially material amounts that were deferred and reported in AOCI would have been reported as Derivative gains (losses) on our consolidated statements of income in the period in which they occurred. If estimated future fundings do not occur, or are probable of not occurring, potentially material amounts that were deferred and reported in AOCI would be immediately recognized in Derivative gains (losses) on our consolidated statements of income.

We believe that the forecasted issuances of debt previously hedged in cash flow hedging relationships are probable of occurring, therefore we may continue to include previously deferred amounts in AOCI. For a more detailed description of our use of derivatives and summaries of derivative positions, see “CONSOLIDATED RESULTS OF OPERATIONS — Derivative Overview” and “NOTE 12: DERIVATIVES” to our consolidated financial statements.

Credit Losses

We maintain a Reserve for losses on mortgage loans held-for-investment to provide for incurred credit losses from our mortgage loan portfolio. We also maintain a Reserve for guarantee losses on Participation Certificates to provide for losses incurred on mortgages underlying PCs or Structured Securities held by third parties that we guarantee. We use the same methodology to determine our Reserve for losses on mortgage loans held-for-investment and our Reserve for guarantee losses on Participation Certificates, as the relevant factors affecting credit risk are the same. The Reserve for losses on mortgage loans held-for-investment and the Reserve for guarantee losses on Participation Certificates are collectively referred to as the loan loss reserves.

To calculate the loan loss reserves for the single-family loan portfolio, we aggregate homogenous loans into pools based on common underlying characteristics, using statistically based models to evaluate relevant factors affecting loan collectibility, and determine the best estimate of loss. To calculate loan loss reserves for the multifamily loan portfolio, we use models, evaluate certain larger loans for impairment, and review repayment prospects and collateral values underlying individual loans.

We regularly evaluate the underlying estimates and models we use when determining the loan loss reserves and update our assumptions to reflect our own historical experience and our current view of overall economic conditions and other relevant factors.

Determining the adequacy of the loan loss reserves is a complex process that is subject to numerous estimates and assumptions requiring judgment. Key estimates and assumptions that impact our loan loss reserves include:

- loss severity trends;
- default experience;
- expected proceeds from credit enhancements;
- collateral valuation; and
- identification and impact assessment of macroeconomic factors.

No single statistic or measurement determines the adequacy of the loan loss reserves. We exercise a significant amount of judgment in selecting the above factors. Changes in one or more of the estimates or assumptions used to calculate the loan loss reserves could have a material impact on the loan loss reserves and provisions for credit losses.

We believe the level of our loan loss reserves is reasonable based on internal reviews of the factors and methodologies used. An independent management group reviews the level of loan loss reserves, as well as the factors and methodologies that give rise to the estimate, and submits the best point estimate for review by senior management. This review process provides consistent implementation and disclosure.

Loan loss reserves associated with Hurricane Katrina in 2005 were established based on preliminary estimates that were higher than current estimates. We have revised these estimates based on additional information about property damage and recoveries. During 2006, our revised estimates of incurred losses related to Hurricane Katrina resulted in a reduction of $82 million in the loan loss reserves originally recorded in 2005 for loans affected by the hurricane.

Amortization of Cost Basis Adjustments Using the Effective Interest Method

We recognize interest income on certain mortgage-related and non-mortgage-related investments, using the retrospective effective interest method in accordance with SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17," or SFAS 91. Deferred items, including premiums, discounts and other basis adjustments, are amortized into interest income over the estimated lives of the securities using the retrospective effective interest method. SFAS 91 allows estimates of principal prepayments for pools of assets containing similar characteristics where prepayments are probable and the timing and amount of prepayments can be reasonably estimated. Most of our mortgage-related and non-mortgage-related investments meet this requirement. Therefore, we recalculate the constant effective yield at each period end using our current estimate of principal prepayments. Adjustments that result from applying the updated effective yield as if it had been in effect since the acquisition of the securities are recognized through interest income.

For certain other investments in mortgage-related securities classified as available-for-sale, interest income is recognized using the prospective effective interest method in accordance with Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," or EITF 99-20. Under this method, changes in the effective yield due to changes in estimated lives are recognized as adjustments to interest income in future periods rather than as

catch up adjustments in the current period. We specifically apply such guidance to beneficial interests (including undivided interests which are similar to beneficial interests) in securitized financial assets that:

- can contractually be prepaid or otherwise settled in such a way that we may not recover substantially all of our recorded investment (such as interest-only securities); or
- were not of high credit quality at the date that we acquired them.

Determination of the effective yield requires significant judgment in estimating expected prepayment behavior, which is inherently uncertain. Estimates of future prepayments are derived from market sources and our internal prepayment models. Judgment is involved in making initial determinations about prepayment expectations and in changing those expectations over time in response to changes in market conditions, such as interest rates and other macroeconomic factors. The effects of future changes in market conditions may be material. We believe that the above assumptions are comparable to those used by other market participants. However, the use of different assumptions in our prepayment models could have resulted in materially different income recognition results. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements for more information on interest income recognition on securities.

Impairment Recognition on Investments in Securities

We recognize impairment losses on available-for-sale securities through the income statement when we have concluded that a decrease in the fair value of a security is not temporary. For securities accounted for under EITF 99-20, an impairment loss is recognized when there is both a decline in fair value below the carrying amount and an adverse change in expected cash flows. Determination of whether an adverse change has occurred involves judgment about expected prepayments and credit events. We review securities not accounted for under EITF 99-20 for potential impairment whenever the security's fair value is less than its amortized cost. This review considers a number of factors, including the severity of the decline in fair value, credit ratings, the length of time the investment has been in an unrealized loss position, and the likelihood of sale in the near term. We recognize impairment losses when quantitative and qualitative factors indicate that it is likely that we will not fully recover the unrealized loss. One of the factors we consider is our intent and ability to hold the investment until a point in time at which recovery can be reasonably expected to occur. We apply significant judgment in determining whether impairment loss recognition is appropriate. We believe our judgments are reasonable. However, different judgments could have resulted in materially different impairment loss recognition. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements for more information on impairment recognition on securities.

Accounting Changes and Recently Issued Accounting Pronouncements

See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to our consolidated financial statements for more information concerning our accounting policies and recently issued accounting pronouncements, including those that we have not yet adopted, that will likely affect our consolidated financial statements.

PORTFOLIO BALANCES AND ACTIVITIES

Total Mortgage Portfolio

Our Total mortgage portfolio includes the unpaid principal balances of mortgage loans and mortgage-related securities held in our Retained portfolio and the unpaid principal balances of guaranteed PCs and Structured Securities held by third parties. Guaranteed PCs and Structured Securities held by third parties are considered outstanding and are not included on our consolidated balance sheets.

Table 47 provides information about our Total mortgage portfolio at December 31, 2006 and 2005.

Table 47 — Total Mortgage Portfolio and Total Guaranteed PCs and Structured Securities Issued Based on Unpaid Principal Balances[1][2]

	December 31,			
	2006		2005	
	Amounts	% of Total Mortgage Portfolio	Amounts	% of Total Mortgage Portfolio
	(dollars in millions)		(dollars in millions)	
Outstanding Guaranteed PCs and Structured Securities[3]	$1,122,761	61%	$ 974,200	58%
Retained portfolio:				
PCs and Structured Securities	354,262	19	361,324	21
Non-Freddie Mac mortgage-related securities	283,850	16	287,541	17
Mortgage loans	65,847	4	61,481	4
Total Retained portfolio[4]	703,959	39	710,346	42
Total mortgage portfolio	$1,826,720	100%	$1,684,546	100%

(1) Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) The 2006 amounts exclude the effect of credit-related impairments on mortgage-related securities in our Retained portfolio. The 2005 amounts have been revised to conform with the current year presentation.
(3) Represents Guaranteed PCs and Structured Securities held by third parties.
(4) The Retained portfolio presented in this table differs from the Retained portfolio presented on our consolidated balance sheets because the amounts presented on our consolidated balance sheets include valuation adjustments and deferred balances. See "CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 19 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio" for a reconciliation of the Retained portfolio amounts shown in this table to the amounts shown under such caption on our consolidated balance sheets.

See "Table 50 — Guaranteed PCs and Structured Securities Issued and Outstanding" for more information concerning outstanding guaranteed PCs and Structured Securities. Also see "CONSOLIDATED BALANCE SHEETS ANALYSIS — Table 19 — Characteristics of Mortgage Loans and Mortgage-Related Securities in the Retained Portfolio" for more information concerning the non-Freddie Mac mortgage-related securities in our Retained portfolio.

Table 48 presents the distribution of unsecuritized mortgage loans held in our Retained portfolio.

Table 48 — Mortgage Loans Held in the Retained Portfolio[1]

	December 31,	
	2006	2005
	(in millions)	
Single-family:		
Conventional		
Fixed-rate	$18,427	$18,532
Variable-rate	1,233	903
Total conventional	19,660	19,435
FHA/VA — Fixed-rate	196	255
Rural Housing Service and other federally guaranteed loans	784	706
Total single-family	20,640	20,396
Multifamily:		
Conventional		
Fixed-rate	41,863	36,961
Variable-rate	3,341	4,121
Total conventional	45,204	41,082
Rural Housing Service	3	3
Total multifamily	45,207	41,085
Total mortgages	$65,847	$61,481

(1) Based on unpaid principal balances. Excludes mortgage loans traded, but not yet settled.

Table 49 summarizes purchases into our Total mortgage portfolio.

Table 49 — Total Mortgage Portfolio Activity Detail[1]

	Year Ended December 31,					
	2006		2005		2004	
	Amounts	% of Purchase Amounts	Amounts	% of Purchase Amounts	Amounts	% of Purchase Amounts
			(dollars in millions)			
New business purchases:[2]						
Single-family mortgage purchases:						
Conventional:						
30-year amortizing fixed-rate[3]	$251,143	67%	$272,702	67%	$220,867	59%
15-year amortizing fixed-rate	21,556	6	40,963	10	72,754	19
ARMs/Variable-rate[4]	18,854	5	35,677	9	50,187	14
Interest Only[5]	58,176	16	26,516	7	818	—
Option ARMs[6]	—	—	3,918	1	—	—
Balloon/Resets[7]	419	—	1,720	—	9,658	3
FHA/VA[8]	946	—	—	—	319	—
Rural Housing Service and other federally guaranteed loans	176	—	177	—	209	—
Total single-family	351,270	94	381,673	94	354,812	95
Multifamily:						
Conventional	13,031	4	11,172	3	12,712	3
Total multifamily	13,031	4	11,172	3	12,712	3
Total mortgage purchases	364,301	98	392,845	97	367,524	98
Non-Freddie Mac mortgage-related securities purchased for Structured Securities:						
Ginnie Mae Certificates	48	—	37	—	85	—
Structured Transactions[9]	8,592	2	14,331	3	7,205	2
Total Non-Freddie Mac mortgage-related securities purchased for Structured Securities	8,640	2	14,368	3	7,290	2
Total single-family and multifamily mortgage purchases and total non-Freddie Mac mortgage-related securities purchased for Structured Securities	$372,941	100%	$407,213	100%	$374,814	100%
Non-Freddie Mac mortgage-related securities purchased into the Retained portfolio:						
Agency securities:						
Fannie Mae:						
Single-family:						
Fixed-rate	$ 4,259		$ 2,854		$ 756	
Variable-rate	8,014		3,368		3,282	
Total Fannie Mae	12,273		6,222		4,038	
Ginnie Mae:						
Single-family:						
Fixed-rate	—		64		—	
Total Ginnie Mae	—		64		—	
Total agency mortgage-related securities	12,273		6,286		4,038	
Non-agency securities:						
Single-family						
Single-family:						
Fixed-rate	718		2,154		1,294	
Variable-rate	96,906		148,600		101,620	
Total single-family	97,624		150,754		102,914	
Commercial mortgage-backed securities:						
Fixed-rate	2,534		10,343		8,841	
Variable-rate	13,432		4,497		2,037	
Total commercial mortgage-backed securities	15,966		14,840		10,878	
Mortgage revenue bonds:						
Single-family:						
Fixed-rate	3,062		2,374		1,499	
Variable-rate	—		27		—	
Multifamily:						
Fixed-rate	116		434		414	
Variable-rate	—		5		31	
Total mortgage revenue bonds	3,178		2,840		1,944	
Total non-agency mortgage-related securities	116,768		168,434		115,736	
Total non-Freddie Mac mortgage-related securities purchased into the Retained portfolio	129,041		174,720		119,774	
Total new business purchases	$501,982		$581,933		$494,588	
Mortgage purchases with credit enhancements	17%		17%		19%	
Mortgage liquidations[10]	$339,814		$384,674		$401,029	
Mortgage liquidations rate[10]	20%		26%		28%	
Freddie Mac securities repurchased into the Retained portfolio:						
Single-family:						
Fixed-rate	$ 76,378		$106,682		$ 72,147	
Variable-rate	27,146		29,805		23,942	
Multifamily:						
Variable-rate	—		—		146	
Total Freddie Mac securities repurchased into the Retained portfolio	$103,524		$136,487		$ 96,235	

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded but not yet settled.
(2) 2004 data includes certain mortgage-related securities that have been transferred from the Investments caption to the Retained portfolio caption on our consolidated balance sheets.
(3) Includes 40-year and 20-year fixed-rate mortgages.
(4) Includes ARMs with 1-, 3-, 5-, 7- and 10-year initial fixed-rate periods.
(5) Represents loans where the borrower pays interest only for a period of time before the borrower begins making principal payments.

(6) Includes mortgage loans we purchased that underlie whole-loan REMICs except for $83 million of mortgage loan purchases that collateralize the non-guaranteed portion of whole-loan REMICs.
(7) Mortgages whose terms require lump sum principal payments on contractually determined future dates unless the borrower qualifies for and elects an extension of the maturity date at an adjusted interest rate.
(8) Excludes FHA/VA loans that back Structured Transactions.
(9) Includes $6,908 million, $14,331 million and $5,653 million at December 31, 2006, 2005 and 2004, respectively, of option ARM loans.
(10) Based on total mortgage portfolio. Excludes the effect of sales of non-Freddie Mac mortgage-related securities.

Our new business purchases consist of mortgage loans and non-Freddie Mac mortgage-related securities that are purchased for our Retained portfolio and serve as collateral for our issued PCs and Structured Securities. We generate a significant portion of our mortgage purchase volume through several key mortgage lenders that have entered into unique business arrangements with us. See "BUSINESS — Business Activities — *Credit Guarantee Activities*" for information about these relationships and consequent risks. During 2006 and 2005, we increased purchases of adjustable-rate (*i.e.*, ARMs/Variable-rate and option ARMs) and interest-only mortgage loans and non-Freddie Mac mortgage-related securities because these products generally offered more attractive option-adjusted spreads than fixed-rate products.

Guaranteed PCs and Structured Securities

Guaranteed PCs and Structured Securities Issued represent the unpaid principal balances of the mortgage-related securities we issue or otherwise guarantee. Table 50 presents the distribution of underlying mortgage assets for total PCs and Structured Securities issued and outstanding.

Table 50 — Guaranteed PCs and Structured Securities Issued and Outstanding

	December 31,			
	2006		2005	
	Total Issued PCs and Structured Securities(1)	Outstanding PCs and Structured Securities(2)	Total Issued PCs and Structured Securities(1)	Outstanding PCs and Structured Securities(2)
	(in millions)			
PCs and Structured Securities				
Single-family:				
Conventional:				
30-year fixed-rate(3)	$ 956,842	$ 763,563	$ 810,897	$614,112
15-year fixed-rate	290,314	202,747	321,176	220,225
ARMs/Variable-rate	169,254	116,910	131,294	88,898
Option ARMs	2,808	303	3,830	414
Balloons/Resets	21,551	20,508	26,321	24,973
FHA/VA(4)	1,398	1,267	849	823
Rural Housing Service and other federally guaranteed loans	139	139	154	154
Total single-family	1,442,306	1,105,437	1,294,521	949,599
Multifamily:				
Conventional:				
Fixed-rate	3,449	3,208	10,149	9,902
Variable-rate	4,966	4,825	4,354	4,210
Total multifamily	8,415	8,033	14,503	14,112
Structured Securities backed by non-Freddie Mac mortgage-related securities:				
Ginnie Mae Certificates(5)	1,510	1,481	2,021	1,900
Structured Transactions(6)	24,792	7,810	24,479	8,589
Total Structured Securities backed by non-Freddie Mac mortgage-related securities	26,302	9,291	26,500	10,489
Total	$1,477,023	$1,122,761	$1,335,524	$974,200

(1) Based on unpaid principal balances. Excludes mortgage loans and mortgage-related securities traded, but not yet settled.
(2) Represents PCs and Structured Securities held by third parties.
(3) Issued balances include $42 million and $— million of 40-year fixed-rate mortgages at December 31, 2006 and 2005, respectively; and $66,779 million and $67,937 million of 20-year fixed-rate mortgages at December 31, 2006 and 2005, respectively.
(4) Excludes FHA and VA loans that are collateral for Structured Transactions.
(5) Represents Ginnie Mae Certificates that are backed by FHA/VA loans.
(6) Represents Structured Securities backed by non-agency securities that include $1,122 million and $1,520 million of fixed-rate, $4,019 million and $3,472 million of ARMs/variable-rate, $2,648 million and $3,566 million of FHA/VA, $9 million and $12 million of the Rural Housing Service and other federally guaranteed loans and $12 million and $19 million of second mortgages, which are mortgage loans that are subordinate to a superior mortgage lien on the property, at December 31, 2006 and 2005, respectively.

Table 51 provides further detail regarding both issued and outstanding Guaranteed PCs and Structured Securities.

Table 51 — Single-Class and Multi-Class PCs and Other Structured Securities Based on Unpaid Principal Balances[1]

December 31, 2006	PCs and Structured Securities in Retained Portfolio	PCs and Structured Securities Outstanding (held by third parties)	Total Guaranteed PCs and Structured Securities Issued
		(in millions)	
PCs and Structured Securities:			
Single-class[2]	$194,057	$ 624,383	$ 818,440
Multi-class[3][4]	160,205	491,696	651,901
Other[5]	—	6,682	6,682
Total PCs and Structured Securities[6]	$354,262	$1,122,761	$1,477,023
December 31, 2005			
PCs and Structured Securities:			
Single-class[2]	$202,970	$529,901	$ 732,871
Multi-class[3][4]	158,354	437,668	596,022
Other[5]	—	6,631	6,631
Total PCs and Structured Securities[6]	$361,324	$974,200	$1,335,524

(1) Excludes Freddie Mac mortgage-related securities traded, but not yet settled.
(2) Includes PCs not backing Structured Securities and single-class Structured Securities backed by PCs and Ginnie Mae Certificates.
(3) Includes that portion of multi-class Structured Securities that are backed by PCs and non-agency mortgage-related securities. Also includes multi-class Structured Securities backed by Ginnie Mae Certificates.
(4) Principal-only strips backed by Freddie Mac mortgage-related Securities held in the Retained portfolio are classified as multi-class for the purpose of this table.
(5) See "NOTE 4: FINANCIAL GUARANTEES" to our consolidated financial statements for a discussion of our guarantees of principal and interest related to these securities.
(6) PCs and Structured Securities Issued exclude $1,240,221 million and $961,777 million at December 31, 2006 and 2005, respectively, of Structured Securities backed by resecuritized PCs and other previously issued Structured Securities. These excluded Structured Securities, which do not increase our credit related exposure, 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 table is based on unpaid principal balances. Also excluded 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.

Table 52 provides settlement detail for the mortgage-related securities that we issued during the past three years.

Table 52 — Total Guaranteed PCs and Structured Securities Issued[1]

	Year Ended December 31,		
	2006	2005	2004
		(in millions)	
Total Guaranteed PCs and Structured Securities Issuance Detail:			
Single-family:			
Conventional:[2]			
30-year amortizing fixed-rate[3]	$250,616	$272,910	$220,137
15-year amortizing fixed-rate	21,542	41,037	72,358
ARMs/Variable-Rate	18,819	35,666	50,226
Interest Only	58,112	26,487	818
Option ARMs	—	3,918	—
Balloon/Resets	410	1,817	9,737
FHA/VA	946	—	319
Rural Housing Service and other federally guaranteed loans	8	10	48
Total single-family	350,453	381,845	353,643
Multifamily:			
Conventional	930	1,654	4,175
Total multifamily	930	1,654	4,175
Non-Freddie Mac mortgage-related securities purchased for Structured Securities:			
Ginnie Mae Certificates	48	37	85
Structured Transactions[4]	8,592	14,331	7,205
Total Non-Freddie Mac mortgage-related securities purchased for Structured Securities	8,640	14,368	7,290
Total Guaranteed PCs and Structured Securities Issued	$360,023	$397,867	$365,108
Resecuritization Activity:			
Multi-class	$169,396	208,450	$215,506
Single-class	219,493	204,984	72,686
Total activity	$388,889	$413,434	$288,192

(1) Based on unpaid principal balances. Excludes Freddie Mac mortgage-related securities traded, but not yet settled.
(2) The single-family product detail in this table does not agree to similar detail in "Table 49 — Total Mortgage Portfolio Activity Detail" due to timing differences associated with mortgage loan purchases into the Retained portfolio and sales from the Retained portfolio. Specifically, we report mortgage loans in Table 49 when we purchase them into the Retained portfolio whereas we report mortgage loans in Table 52 when we sell them from the Retained portfolio to create PCs and Structured Securities.
(3) Includes 40-year and 20-year fixed-rate mortgages.
(4) Represents Structured Securities backed by non-agency securities that are backed by a mixture of prime, FHA/VA and subprime mortgage loans, including $6,908 million, $14,331 million and $5,653 million at December 31, 2006, 2005 and 2004, respectively, of Option ARMs.

QUARTERLY SELECTED FINANCIAL DATA

In our opinion, financial data for each quarter and full-year 2006 and 2005 reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of operations for such periods. See "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — Estimates" and "— Changes in Accounting Principles" for more information concerning some of these adjustments.

	2006				
	1Q	2Q	3Q	4Q	Full-Year
	(in millions, except share-related amounts)				
Net interest income	$1,131	$1,172	$ 959	$ 973	$ 4,235
Non-interest income (loss)	1,347	979	(868)	(543)	915
Non-interest expense	(584)	(714)	(827)	(922)	(3,047)
Income tax benefit (expense)	115	(40)	21	12	108
Net income (loss)	$2,009	$1,397	$ (715)	$ (480)	$ 2,211
Earnings (loss) per common share:					
Basic[1]	$ 2.81	$ 1.93	$(1.17)	$(0.85)	$ 2.84
Diluted[1]	$ 2.80	$ 1.93	$(1.17)	$(0.85)	$ 2.84

	2005				
	1Q	2Q	3Q	4Q	Full-Year
	(in millions, except share-related amounts)				
Net interest income	$1,501	$1,269	$ 1,363	$1,237	$ 5,370
Non-interest income (loss)	(292)	(278)	423	346	199
Non-interest expense	(940)	(583)	(729)	(761)	(3,013)
Income tax benefit (expense)	16	(68)	(177)	(138)	(367)
Net income before cumulative effect of change in accounting principle	285	340	880	684	2,189
Cumulative effect of change in accounting principle, net of taxes	(59)	—	—	—	(59)
Net income	$ 226	$ 340	$ 880	$ 684	$ 2,130
Earnings per common share before cumulative effect of change in accounting principle:					
Basic[1]	$ 0.34	$ 0.41	$ 1.19	$ 0.90	$ 2.84
Diluted[1]	$ 0.33	$ 0.41	$ 1.19	$ 0.90	$ 2.83
Earnings per common share after cumulative effect of change in accounting principle:					
Basic[1]	$ 0.25	$ 0.41	$ 1.19	$ 0.90	$ 2.76
Diluted[1]	$ 0.25	$ 0.41	$ 1.19	$ 0.90	$ 2.75

(1) Earnings (loss) per share is computed independently for each of the quarters presented. Due to the use of weighted average common shares outstanding when calculating earnings (loss) per share, the sum of the four quarters may not equal the full-year amount. Earnings (loss) per share amounts may not recalculate using the amounts in this table due to rounding.

RISK MANAGEMENT AND DISCLOSURE COMMITMENTS

In October 2000, we announced our voluntary adoption of a series of commitments designed to enhance market discipline, liquidity and capital. In September 2005, we entered into a written agreement with OFHEO that updated these commitments and set forth a process for implementing them. The letters between the company and OFHEO dated September 1, 2005 constituting the written agreement are available on the Investor Relations page of our website at www.freddiemac.com/investors/reports.html#commit. As noted in these letters, disclosures may be affected by situations where current financial statements are not available. The status of our commitments at December 31, 2006 follows:

Description	Status
1. *Periodic Issuance of Subordinated Debt:*	
• We will issue Freddie SUBS® securities for public secondary market trading that are rated by no less than two nationally recognized statistical rating organizations. • Freddie SUBS® securities will be issued in an amount such that the sum of Total capital (Core capital plus general allowance for losses) and the outstanding balance of "Qualifying subordinated debt" will equal or exceed the sum of 0.45 percent of outstanding PCs and Structured Securities we guaranteed and 4 percent of total on-balance sheet assets. Qualifying subordinated debt is discounted by one-fifth each year during the instrument's last five years before maturity; when the remaining maturity is less than one year, the instrument is entirely excluded. We will take reasonable steps to maintain outstanding subordinated debt of sufficient size to promote liquidity and reliable market quotes on market values. • Each quarter we will submit to OFHEO calculations of the quantity of qualifying Freddie SUBS® securities and Total capital as part of our quarterly capital report. • Every six months, we will submit to OFHEO a subordinated debt management plan that includes any issuance plans for the six months following the date of the plan.	• Consistent with promoting the liquidity of our securities, in December 2006 we issued approximately $2.0 billion of Freddie SUBS® securities, including approximately $1.5 billion issued in exchange for previously issued Freddie SUBS® securities. In addition, we called approximately $1.0 billion of previously issued Freddie SUBS® securities in August 2006 and issued approximately $1.25 billion of Freddie SUBS® securities in June 2006. We did not issue, call or repurchase any Freddie SUBS® securities during 2005 and 2004. Our ability to issue additional subordinated debt may be limited until we return to regular financial reporting. • All Freddie SUBS® securities issued in 2006 were rated by no less than two nationally recognized statistical rating organizations. • We reported to OFHEO that at December 31, 2006, we had $42.6 billion in Total capital plus qualifying subordinated debt, resulting in a surplus of $5.0 billion. During 2006, we submitted our quarterly Total capital plus qualifying subordinated debt reports to OFHEO. • We have submitted our semi-annual subordinated debt management plans to OFHEO.
2. *Liquidity Management and Contingency Planning:*	
• We will maintain a contingency plan providing for at least three months' liquidity without relying upon the issuance of unsecured debt. We will also periodically test the contingency plan in consultation with OFHEO.	• We have in place a liquidity contingency plan, upon which we report to OFHEO on a weekly basis. We periodically test this plan in accordance with our agreement with OFHEO.
3. *Interest-Rate Risk Disclosures:*	
• We will provide public disclosure of our duration gap, PMVS-L and PMVS-YC interest-rate risk sensitivity results on a monthly basis. See "RISK MANAGEMENT — Interest-Rate Risk and Other Market Risks — *Portfolio Market Value Sensitivity and Measurement of Interest-Rate Risk*" for a description of these metrics.	• For the twelve months ended December 31, 2006, our duration gap averaged zero month, PMVS-L averaged 1 percent and PMVS-YC averaged zero percent. Our 2006 monthly average duration gap, PMVS results and related disclosures are provided in our Monthly Volume Summary which is available on our website, www.freddiemac.com/investors/volsum.

Description	Status
4. *Credit Risk Disclosures:*	
• We will make quarterly assessments of the impact on expected credit losses from an immediate 5 percent decline in single-family home prices for the entire U.S. We will disclose the impact in present value terms and measure our losses both before and after receipt of private mortgage insurance claims and other credit enhancements.	• Our quarterly credit risk sensitivity estimates are as follows:

	Before Receipt of Credit Enhancements[1]		After Receipt of Credit Enhancements[2]	
	Net Present Value, or NPV[3] (dollars in millions)	NPV Ratio[4]	Net Present Value, or NPV[3] (dollars in millions)	NPV Ratio[4]
As of:				
12/31/06	$1,128	7.6 bps	$770	5.2 bps
09/30/06	$1,071	7.4 bps	$724	5.0 bps
06/30/06	$1,018	7.2 bps	$686	4.9 bps
03/31/06	$ 915	6.6 bps	$598	4.3 bps
12/31/05	$ 873	6.5 bps	$564	4.2 bps

(1) Assumes that none of the credit enhancements currently covering our mortgage loans has any mitigating impact on our credit losses.
(2) Assumes we collect amounts due from credit enhancement providers after giving effect to certain assumptions about counterparty default rates.
(3) Based on single-family Total mortgage portfolio, excluding Structured Securities backed by Ginnie Mae Certificates.
(4) Calculated as the ratio of net present value of increase in credit losses to the single-family Total mortgage portfolio, defined in footnote (3) above.

Description	Status
5. *Public Disclosure of Risk Rating:*	
• We will seek to obtain a rating, that will be continuously monitored by at least one nationally recognized statistical rating organization, assessing "risk-to-the-government" or independent financial strength.	• At March 1, 2007, our "risk-to-the-government" rating from S&P was "AA−" and Moody's Bank Financial Strength Rating for us was "A−".