Appendix

Effect of GAAP Accounting Policy Changes

Changes Related to the Guarantee Obligation

Effective December 31, 2007, the company changed its methods of accounting for its guarantee obligation and has retrospectively changed its prior years' financial results to reflect the new methods. As a result of these new methods, the company no longer extinguishes the guarantee obligation when purchasing all or a portion of a Freddie Mac-guaranteed security. The company has retrospectively removed the mortgage participation certificate (PC) residual, which previously was recorded upon extinguishment of the guarantee obligation, and no longer records a PC residual. Management and guarantee fees and delivery fees earned on all Freddie Mac PCs are now accounted for with no differentiation based on whether the underlying PC is owned by a third party or by Freddie Mac's retained portfolio.

In addition, Freddie Mac changed its method of accounting for recording amortization of its guarantee obligation. Under the new method, the company will amortize its guarantee obligation into earnings in a manner that corresponds more closely to its economic release from risk under its guarantee. The new method uses a static effective yield calculated and fixed at inception of the guarantee based on forecasted unpaid principal balances. The static effective yield will be evaluated and adjusted when significant changes in economic events cause a shift in the pattern of the company's economic release from risk. The previous method amortized the guarantee obligation according to the contractual expiration of the company's guarantee as observed by the decline in the unpaid principal balance of securitized mortgage loans.

The new amortization method better reflects the company's economic release from risk on its guarantee under changing economic conditions and is more consistent with Freddie Mac's competitors than the prior amortization method.

Giving effect to these changes in accounting methods resulted in:

- A downward revision in net interest income in prior periods resulting from the reclassification of guarantee and delivery fees on PCs held by the retained portfolio that were previously recognized as interest income when the guarantee was considered extinguished.
- An upward revision in management and guarantee income in prior periods resulting from the reclassification of guarantee and delivery fees on PCs held by the retained portfolio.
- A change in other non-interest income (loss) in prior periods to reflect reduced gains (losses) on investment activity resulting from the removal of PC residual fair value

changes, increased gains (losses) on guarantee asset relating to PCs held by the company that were previously recognized as part of PC residual and reduced gains (losses) on investment activity resulting from the removal of adjustments to the carrying value of the company's securities that were previously recognized upon purchase related to the extinguishment of deferred income items.

- Increased income on guarantee obligation reflecting both a change in the company's guarantee obligation balance resulting from no longer extinguishing its guarantee obligation and a change in the company's amortization policy for the guarantee obligation to one that recognizes revenue in a manner that corresponds more closely to its economic release from risk under the guarantee.
- Elimination of impairments on PCs held by the company that are now subject to a guarantee and increased provision for credit losses relating to additional PCs subject to the company's loan loss reserve model.
- Increased losses on loans purchased relating to PCs held by the company that were previously recognized as part of PC residual.

While the accounting methods the company applied before the changes are acceptable, Freddie Mac believes that the newly adopted accounting methods are preferable in that they significantly enhance transparency and understandability of the company's financial results, promote uniformity in the accounting model for the credit risk retained in its primary credit guarantee business and better align revenue recognition to the company's release from economic risk of loss under its guarantee. For a detailed explanation of these accounting policy changes, *see* "NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES" to the company's consolidated financial statements of its Information Statement and Annual Report dated February 28, 2008.

Adoption of SFAS No. 159

On January 1, 2008, Freddie Mac adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115" (SFAS 159) and elected the fair value option for certain available-for-sale mortgage-related securities that were identified as an economic offset to the changes in fair value of the guarantee asset, foreign-currency denominated debt and other investments classified as available-for-sale securities. For a detailed explanation of this accounting standard adoption, *see* "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" to the company's consolidated financial statements of its Information Statement and Annual Report dated February 28, 2008.

The company's election of the fair value option, for the items discussed above, was made in an effort to better reflect, in the financial statements, the economic offsets that exist related to items that were not previously recognized as changes in fair value through the income statement.

Giving effect to this accounting standard adoption resulted in the recognition of a $1.0 billion after-tax increase to the company's beginning retained earnings, and regulatory core capital, at January 1, 2008, above the $37.9 billion reported at December 31, 2007.

Consolidated Fair Value Balance Sheets

The following consolidated fair value balance sheets present the company's estimate of the fair value of its recorded financial assets and liabilities and off-balance sheet financial instruments at December 31, 2007 and 2006.

Table 1 - Consolidated Fair Value Balance Sheets [1]

	December 31,			
	2007		2006 (adjusted)	
	Carrying Amount[2]	Fair Value	Carrying Amount[2]	Fair Value
	(in billions)			
Assets				
Mortgage loans	$ 80.0	$ 76.8	$ 65.6	$ 65.4
Mortgage-related securities	629.8	629.8	634.3	634.3
Retained portfolio	709.8	706.6	699.9	699.7
Cash and cash equivalents	8.6	8.6	11.4	11.4
Investments	35.1	35.1	45.6	45.6
Securities purchased under agreements to resell and federal funds sold	6.6	6.6	23.0	23.0
Derivative assets, net	0.8	0.8	0.7	0.7
Guarantee asset [3]	9.6	10.4	7.4	8.3
Other assets [4]	23.9	31.8	16.9	14.4
Total assets	$ 794.4	$ 799.9	$ 804.9	$ 803.1
Liabilities and minority interests				
Total debt securities, net	$ 738.6	$ 749.3	$ 744.3	$ 742.7
Guarantee obligation	13.7	26.2	9.5	6.1
Derivative liabilities, net	0.6	0.6	0.2	0.2
Reserve for guarantee losses on PCs	2.6	-	0.6	-
Other liabilities	12.0	11.0	22.9	21.8
Minority interests in consolidated subsidiaries	0.2	0.2	0.5	0.5
Total liabilities and minority interests	767.7	787.3	778.0	771.3
Net assets attributable to stockholders				
Preferred stockholders	14.1	12.3	6.1	5.8
Common stockholders	12.6	0.3	20.8	26.0
Total net assets	26.7	12.6	26.9	31.8
Total liabilities, minority interests and net assets	$ 794.4	$ 799.9	$ 804.9	$ 803.1

(1) The consolidated fair value balance sheets do not purport to present the company's net realizable, liquidation or market value as a whole. Furthermore, amounts the company ultimately realizes from the disposition of assets or settlement of liabilities may vary significantly from the fair values presented.
(2) Equals the amounts reported on the company's GAAP consolidated balance sheets.
(3) The fair value of the guarantee asset reported exceeds the carrying value primarily because the fair value includes the guarantee asset related to PCs that were issued prior to the implementation of FIN 45 in 2003 and thus are not recognized on our GAAP consolidated balance sheets.
(4) Fair values include estimated income taxes calculated using the 35% federal statutory rate on the difference between the consolidated fair value balance sheets net assets, including deferred taxes from our GAAP consolidated balance sheets, and the GAAP consolidated balance sheets equity attributable to common stockholders.

For a detailed explanation of these fair value disclosures, *see* "NOTE 16: FAIR VALUE DISCLOSURES" to the company's consolidated financial statements of its Information Statement and Annual Report dated February 28, 2008.

<u>Non-GAAP Financial Measure – Adjusted Operating Income</u>

In managing its business, Freddie Mac presents the operating performance of its segments using Adjusted operating income. Adjusted operating income differs significantly from, and should not be used as a substitute for, net income (loss) as determined in accordance with GAAP. There are important limitations to using Adjusted operating income as a measure of the company's financial performance. Among other things, the company's regulatory capital requirements are based on its GAAP results. Adjusted operating income adjusts for the effects of certain gains and losses and mark-to-market items which, depending on market circumstances, can significantly affect, positively or negatively, the company's GAAP results and which, in recent periods, have contributed to GAAP net losses. Negative GAAP results will adversely impact the company's regulatory capital, regardless of results reflected in Adjusted operating income. With the introduction of a segment-based Adjusted operating income metric, the company has added another measure in addition to its GAAP and fair value results that investors can use to evaluate the performance of the company.

Also, Freddie Mac's definition of Adjusted operating income may differ from similar measures used by other companies. However, the company believes that the presentation of Adjusted operating income highlights the results from ongoing operations and the underlying results of the segments in a manner that is useful to the way the company manages and evaluates the performance of its business.

The objective of Adjusted operating income is to present Freddie Mac's results on an accrual basis, as cash flows from the company's segments are earned over time. Freddie Mac is primarily a buy and hold investor in mortgage assets, and given the company's business objectives, management believes it is meaningful to measure performance of its investment business using long-term returns, not on a short-term fair value basis. The company's business model for its investment activities is one where it generally holds investments for the long-term, funds the investments with debt and derivatives to minimize interest-rate risk, and generates net interest income in line with the company's return on equity objectives. The company's business model for its credit guarantee activities is one where the company is a long-term guarantor of the conforming mortgage markets, manages credit risk, and generates guarantee and credit fees, net of incurred credit losses. As a result of these business models, the company believes that an accrual-based metric is a meaningful way to present the emergence of its financial results as actual cash flows are realized, net of credit losses and impairments. In summary, Adjusted operating income provides a view of the company's financial results that is more consistent with management's business objectives, which helps management better evaluate the performance of the company's business, both from period to period and over the longer term.

As described below, Adjusted operating income is calculated for the segments by adjusting net income (loss) for certain investment-related activities and credit guarantee-related activities. Adjusted operating income includes certain reclassifications among income and expense categories that have no impact on net income but provide the company with a meaningful metric to assess the performance of each segment and the company as a whole.

Investment activity-related adjustments

GAAP-basis earnings related to investment activities of the Investments segment, and to a lesser extent, the Multifamily segment, are subject to significant period-to-period variability, which management believes is not necessarily indicative of the risk management techniques it employs and the performance of these segments. The adjustments made, and described below, to the GAAP-basis results are consistent with the financial objectives of the company's investment activities and related hedging transactions and provide management with a view of expected investment returns and effectiveness of the company's risk management strategies that it believes are useful in managing and evaluating its investment-related activities.

Investment activity-related adjustments include the following:

- Derivative and foreign currency translation-related adjustments: Adjusted operating income excludes fair value adjustments on derivative positions as these positions economically hedge the company's investments activities. The payments received or paid to terminate derivative positions and the payment of up-front premiums are amortized prospectively into Adjusted operating income on a straight-line basis. The up-front payments, primarily for option premiums, are amortized to reflect the periodic cost associated with the protection provided by the option contract. Foreign-currency translation gains and losses associated with foreign-currency denominated debt along with the foreign-currency derivatives gains and losses are excluded from Adjusted operating income, as the foreign currency exposure is economically hedged.
- Investment sales, debt retirements and fair value-related adjustments: Gains and losses on securities sold out of the retained portfolio and cash and investments portfolio and debt retirements are amortized prospectively into Adjusted operating income on a straight-line basis. Trading losses or impairments that reflect expected or realized credit losses are realized immediately pursuant to GAAP and in Adjusted operating income since they are not economically hedged. Fair value adjustments to trading securities related to investments that are economically hedged are not included in Adjusted operating income. Similarly, non-credit related impairment losses on securities are not included in Adjusted operating income. These amounts are deferred and amortized prospectively into Adjusted operating income on a straight-line basis. GAAP-basis accretion income that may result from these impairment adjustments is also not included in Adjusted operating income.
- Fully taxable-equivalent adjustment: Interest income generated from tax-exempt investments is adjusted to reflect its equivalent yield on a fully taxable basis.

As discussed above, the company funds its investment assets with debt and derivatives to minimize interest-rate risk as evidenced by its portfolio market value sensitivity (PMVS) and duration gap metrics. As a result, in situations where gains and losses are recorded on derivatives, securities or debt buybacks, these gains and losses are offset by economic hedges that the company does not mark-to-market for GAAP purposes. For example, when the company realizes a gain on the sale of a security, the debt that is funding the security has an embedded loss that is not recognized under GAAP, but instead over time as the company realizes the interest expense on the debt. As a result, in Adjusted operating income, the company defers and amortizes the security gain to interest income to match the interest expense on the debt that funded the asset. Because of Freddie Mac's risk management strategies, the company believes that amortizing gains or losses on economically hedged positions in the same periods as the offsetting gains or losses is a meaningful way to assess performance of its investment activities.

Credit guarantee activity-related adjustments

Freddie Mac's credit guarantee activities consist largely of the company's guarantee of the payment of principal and interest on mortgages and mortgage-related securities in exchange for a guarantee and other fees. Over the longer-term, earnings from this business consist almost entirely of the guarantee fee revenues Freddie Mac receives less related credit costs (*i.e.*, provision for credit losses), as well as interest earned on assets held in the Investments segment related to single-family guarantee activities, net of allocated funding costs and operating expenses. The company's measure of Adjusted operating income for the credit guarantee business consists primarily of these elements of revenue and expense. Management believes this measure is a relevant indicator of operating performance for specific periods, as well as trends in results over multiple periods, because it more closely aligns with how the company manages and evaluates the performance of the credit guarantee business.

Credit guarantee activity-related adjustments include the following:

- Adjusted operating income excludes: (i) certain amortization and valuation adjustments pertaining to the guarantee asset and guarantee obligation, (ii) initial recognition of gains and losses in connection with the execution of either securitization transactions that qualify as sales or guarantor swap transactions, such as losses on certain credit guarantees, and (iii) fair value adjustments recorded upon the purchase of delinquent loans from pools that underlie Freddie Mac guarantees.
- Under Adjusted operating income, the GAAP-basis loan loss provision is adjusted to reflect the company's estimate of the losses it will ultimately realize on delinquent loans it purchases from pools that underlie securities that Freddie Mac guarantees.

For a detailed explanation of the company's Adjusted operating income metric and segment reporting, *see* "NOTE 15: SEGMENT REPORTING" to the company's consolidated financial statements of its Information Statement and Annual Report dated February 28, 2008.

Reconciliations

The following table reconciles Adjusted operating income to GAAP net income (loss).

Table 2 - Reconciliation of Adjusted Operating Income to GAAP Net Income (Loss)

	Year Ended December 31, 2007	2006	2005
		(in millions)	
Adjusted operating income (loss) after taxes:			
Investments	$ 2,028	$ 2,111	$ 2,284
Single-family Guarantee	(256)	1,289	965
Multifamily	398	434	363
All Other	(103)	19	(437)
Total Adjusted operating income, net of taxes	2,067	3,853	3,175
Reconciliation to GAAP net income (loss):			
Derivative- and foreign currency translation-related adjustments	(5,667)	(2,371)	(1,644)
Credit guarantee-related adjustments	(3,268)	(201)	(458)
Investment sales, debt retirements and fair value-related adjustments	987	231	570
Fully taxable-equivalent adjustments	(388)	(388)	(336)
Total pre-tax adjustments	(8,336)	(2,729)	(1,868)
Tax-related adjustments	3,175	1,203	865
Total reconciling items, net of taxes	(5,161)	(1,526)	(1,003)
Net income (loss) [1]	$ (3,094)	$ 2,327	$ 2,172

(1) Net income (loss) reflects the impact of the adjustments described in "NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES" to the company's consolidated financial statements of its Information Statement and Annual Report dated February 28, 2008. Additionally, Net income (loss) is presented before the cumulative effect of a change in accounting principle related to 2005.

The following tables reconcile certain financial information for the company's reportable segments and All Other.

Table 3 - Adjusted Operating Income Results and Reconciliation to GAAP Results

Year Ended December 31, 2007

(in millions)

	Net Interest Income (Expense)	Management and Guarantee Income	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	LIHTC Partnerships	Other Non-Interest Expense	LIHTC Partnerships Tax Benefit	Income Tax (Expense) Benefit	Net Income (Loss)
Investments	$ 3,626	$ -	$ 40	$ (515)	$ -	$ -	$ -	$ (31)	$ -	$ (1,092)	$ 2,028
Single-family Guarantee	703	2,889	117	(806)	(3,014)	(205)	-	(78)	-	138	(256)
Multifamily	426	59	24	(189)	(38)	(1)	(469)	(21)	534	73	398
All Other	(1)	-	11	(164)	-	-	-	(4)	-	55	(103)
Total Adjusted operating income (loss), net of taxes	4,754	2,948	192	(1,674)	(3,052)	(206)	(469)	(134)	534	(826)	2,067
Reconciliation to GAAP net income (loss):											
Derivative- and foreign currency translation-related adjustments	(1,066)	-	(4,601)	-	-	-	-	-	-	-	(5,667)
Credit guarantee-related adjustments	(106)	(342)	915	-	198	-	-	(3,933)	-	-	(3,268)
Investment sales, debt retirements and fair value-related adjustments	266	-	721	-	-	-	-	-	-	-	987
Fully taxable-equivalent adjustments	(388)	-	-	-	-	-	-	-	-	-	(388)
Reclassifications[(1)]	(361)	29	332	-	-	-	-	-	-	-	-
Tax-related adjustments	-	-	-	-	-	-	-	-	-	3,175	3,175
Total reconciling items, net of taxes	(1,655)	(313)	(2,633)	-	198	-	-	(3,933)	-	3,175	(5,161)
Total per consolidated statement of income[(2)]	$ 3,099	$ 2,635	$ (2,441)	$ (1,674)	$ (2,854)	$ (206)	$ (469)	$ (4,067)	$ 534	$ 2,349	$ (3,094)

Year Ended December 31, 2006

(in millions)

	Net Interest Income (Expense)	Management and Guarantee Income	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	LIHTC Partnerships	Other Non-Interest Expense	LIHTC Partnerships Tax Benefit	Income Tax (Expense) Benefit	Net Income (Loss)
Investments	$ 3,736	$ -	$ 38	$ (495)	$ -	$ -	$ -	$ (31)	$ -	$ (1,137)	$ 2,111
Single-family Guarantee	556	2,541	159	(815)	(313)	(61)	-	(84)	-	(694)	1,289
Multifamily	479	61	28	(182)	(4)	1	(407)	(17)	461	14	434
All Other	(3)	-	15	(149)	-	-	-	(42)	-	198	19
Total Adjusted operating income (loss), net of taxes	4,768	2,602	240	(1,641)	(317)	(60)	(407)	(174)	461	(1,619)	3,853
Reconciliation to GAAP net income (loss):											
Derivative- and foreign currency translation-related adjustments	(1,215)	-	(1,156)	-	-	-	-	-	-	-	(2,371)
Credit guarantee-related adjustments	(12)	(172)	600	-	21	-	-	(638)	-	-	(201)
Investment sales, debt retirements and fair value-related adjustments	315	-	(84)	-	-	-	-	-	-	-	231
Fully taxable-equivalent adjustments	(388)	-	-	-	-	-	-	-	-	-	(388)
Reclassifications[(1)]	(56)	(37)	93	-	-	-	-	-	-	-	-
Tax-related adjustments	-	-	-	-	-	-	-	-	-	1,203	1,203
Total reconciling items, net of taxes	(1,356)	(209)	(547)	-	21	-	-	(638)	-	1,203	(1,526)
Total per consolidated statement of income[(2)]	$ 3,412	$ 2,393	$ (307)	$ (1,641)	$ (296)	$ (60)	$ (407)	$ (812)	$ 461	$ (416)	$ 2,327

Year Ended December 31, 2005

(in millions)

	Net Interest Income (Expense)	Management and Guarantee Income	Other Non-Interest Income (Loss)	Administrative Expenses	Provision for Credit Losses	REO Operations Expense	LIHTC Partnerships	Other Non-Interest Expense	LIHTC Partnerships Tax Benefit	Income Tax (Expense) Benefit	Net Income (Loss)
Investments	$ 4,117	$ -	$ (74)	$ (466)	$ -	$ -	$ -	$ (63)	$ -	$ (1,230)	$ 2,284
Single-family Guarantee	349	2,341	78	(767)	(447)	(40)	-	(30)	-	(519)	965
Multifamily	417	59	19	(151)	(7)	-	(320)	(20)	365	1	363
All Other	(3)	-	(7)	(151)	-	-	-	(436)	-	160	(437)
Total Adjusted operating income (loss), net of taxes	4,880	2,400	16	(1,535)	(454)	(40)	(320)	(549)	365	(1,588)	3,175
Reconciliation to GAAP net income (loss):											
Derivative- and foreign currency translation-related adjustments	(694)	-	(950)	-	-	-	-	-	-	-	(1,644)
Credit guarantee-related adjustments	(131)	(315)	190	-	147	-	-	(349)	-	-	(458)
Investment sales, debt retirements and fair value-related adjustments	562	-	8	-	-	-	-	-	-	-	570
Fully taxable-equivalent adjustments	(336)	-	-	-	-	-	-	-	-	-	(336)
Reclassifications[(1)]	346	(9)	(337)	-	-	-	-	-	-	-	-
Tax-related adjustments	-	-	-	-	-	-	-	-	-	865	865
Total reconciling items, net of taxes	(253)	(324)	(1,089)	-	147	-	-	(349)	-	865	(1,003)
Total per consolidated statement of income[(2)]	$ 4,627	$ 2,076	$ (1,073)	$ (1,535)	$ (307)	$ (40)	$ (320)	$ (898)	$ 365	$ (723)	$ 2,172

(1) Includes the reclassification of: a) the accrual of periodic cash settlements of all derivatives not in qualifying hedge accounting relationships from Other non-interest income (loss) to Net interest income (expense) within the Investments segment; b) implied guarantee fees on whole loans from Investments segment's Net interest income (expense) to Single-family Guarantee segment's Other non-interest income (loss); and c) net buy-up and buy-down fees from Single-family Guarantee segment's Management and guarantee income to Investments segment's Net interest income (expense).

(2) Total per consolidated statement of income reflects the impact of the adjustments described in "NOTE 20: CHANGES IN ACCOUNTING PRINCIPLES" to the company's consolidated financial statements of its Information Statement and Annual Report dated February 28, 2008. Additionally, Net income (loss) is presented before the cumulative effect of a change in accounting principle related to 2005.