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Appendix

Effect of GAAP Accounting Policy Changes

Fair Value Measurements

Effective January 1, 2008, Freddie Mac adopted Statement of Financial Accounting Standards, No. 157, "Fair Value Measurements" (SFAS 157), which defines fair value, establishes a framework for measuring fair value in GAAP and expands required disclosures about fair value measurements. As discussed below, subsequent to the issuance of its 2007 Information Statement, the company reevaluated the impact of SFAS 157 on its valuation method for its guarantee obligation.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as exit price). SFAS 157 amends FIN 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34," to provide for a practical expedient in measuring the fair value at inception of a guarantee. As a result, the company changed its method for determining the fair value of its newly-issued guarantee obligations. Effective January 1, 2008 for new transactions, the fair value of the company's guarantee obligations will be equal to the fair value of compensation received in the related securitization transaction, which is a practical expedient for determining fair value. The company's adoption of SFAS 157 did not result in an immediate recognition of gain or loss, but the prospective change had a positive impact on the company's first quarter 2008 financial results. For the first quarter of 2008 and fourth quarter of 2007, the company's day one losses totaled $15 million and $1.3 billion, respectively.

For a detailed explanation of this accounting standard adoption, *see* "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 14: FAIR VALUE DISCLOSURES" to the company's consolidated financial statements in its Information Statement Supplement dated May 14, 2008.

The Fair Value Option for Financial Assets and Financial Liabilities

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," or SFAS 159 or the fair value option, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not required to be measured at fair value. The effect of the first measurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earnings. The company elected the fair value option for certain available-for-sale mortgage-related securities, foreign-currency denominated debt, and investments in securities classified as available-for-sale securities and identified as within the scope of Emerging Issues Task Force, or EITF, 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."

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. As a result of the adoption, the company recognized a $1.0 billion after-tax increase to its beginning retained earnings at January 1, 2008, representing the effect of changing its measurement basis to fair value for the above items with the fair value option elected.

For a detailed explanation of this accounting standard adoption, s*ee* "NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and "NOTE 14: FAIR VALUE DISCLOSURES" to the company's consolidated financial statements in its Information Statement Supplement dated May 14, 2008.

Hedge Accounting

Beginning in the first quarter of 2008, Freddie Mac commenced its use of cash flow hedge accounting relationships to include hedging the changes in cash flows associated with its forecasted issuances of debt. The company believes this expanded accounting strategy will reduce the effect of interest-rate changes on its capital.

For additional information about the company's derivatives designated as cash flow hedges, *see* "NOTE 10: DERIVATIVES" to the company's consolidated financial statements in its Information Statement Supplement dated May 14, 2008.

Internal Control Over Financial Reporting

As discussed in "CONTROLS AND PROCEDURES" in Freddie Mac's 2007 Information Statement, the company had material weaknesses and significant deficiencies in its internal control over financial reporting as of December 31, 2007. As of March 31, 2008, the company has remediated all of the previously identified material weaknesses and two of its previously identified significant deficiencies. The improvements the company implemented to remediate the material weaknesses have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting. Freddie Mac continues to execute its plan to remediate the remaining significant deficiencies in internal control over financial reporting and improve its financial reporting processes and infrastructure.

As discussed below, Freddie Mac has remediated the previously identified material weaknesses in its internal control over financial reporting. Because the company has not yet completed comprehensive testing of the operating effectiveness of its controls, the company cannot conclude on the effectiveness of its internal control over financial reporting in its entirety. Additionally, the company's external auditors have not conducted an evaluation of the company's internal control over financial reporting or of the specific controls it has implemented through the remediation activities discussed below. However, the company has identified no deficiencies in internal control over financial reporting that it considers to be material weaknesses based on preliminary internal control testing or other management self-assessment activities.

Remediation of Material Weaknesses

Material weaknesses that remained in Freddie Mac's internal control over financial reporting as of February 28, 2008, the date of the company's 2007 Information Statement, and the actions it took to remediate them are described below:

Integration between Operations and Finance — Data Hand-offs. Controls over data hand-offs between business units and from external providers needed to be improved. To remediate this material weakness, the company developed policies and standards to define control objectives related to hand-offs of information between people, processes and systems. The company identified the controls in place over higher risk hand-offs through its business process review, as well as through focused data hand-off assessments, and identified deficiencies in the design of controls at the data hand-off level. For specific control deficiencies identified, the company designed and implemented controls in the process to remediate the deficiencies. It tested the operation of these controls in the first quarter of 2008 and found them to be effective.

Additionally, Freddie Mac implemented new accounting applications that further enhanced the integration of its processes between Operations and Finance and streamlined its data hand-offs. These applications address accounting for the company's entire mortgage-related securities portfolio, debt and derivatives portfolios and guarantee asset valuation.

Monitoring Controls within Financial Operations. The controls Freddie Mac used to monitor the results of its financial reporting process, such as the performance of financial analytics and account reconciliations, failed to identify certain issues that required adjustments to the company's financial results prior to its reporting of them. To remediate this material weakness, the company developed and implemented monitoring controls and standards to support the accounting processes at both the business unit and corporate levels, including a more structured, in-depth analytics process. These monitoring controls, combined with a newly implemented governance and review structure, have been designed and implemented to provide for detection, escalation and remediation of accounting and reporting issues prior to external disclosure of financial results. The company enhanced the operation of these controls through a more thorough documentation of their execution, including identifying and resolving items noted for investigation in the execution of these controls and the review and resolution of follow-up results.

Management Self-Assessment. Freddie Mac did not have a self-assessment process for its internal control over financial reporting that would reliably enable management to identify deficiencies in the company's internal control, evaluate the effectiveness of internal control or modify its control procedures in response to changes in risk in a timely manner. To remediate this material weakness, the company designed and deployed a quarterly management self-assessment process that will provide more timely and effective identification, documentation and remediation of control deficiencies within the financial reporting process. The process assigns accountability for assessment of control design and operating effectiveness to business officers who have organizational oversight responsibility for business, information technology and entity-level processes that impact the financial reporting process. The company has established a centralized internal control office to govern the management self-assessment process, as well as a formal assessment reporting, aggregation and review process. The company has executed the management self-assessment process across the organization for the fourth quarter of 2007 and first quarter of 2008. The company has assessed the management self-assessment process over these two quarters and concluded that it is operating effectively.

Progress Toward Remediation of Significant Deficiencies

Significant deficiencies that remained in Freddie Mac's internal control over financial reporting as of February 28, 2008, the date of its 2007 Information Statement, and its progress toward their remediation are summarized below. Progress toward remediation is reported in the following stages:

- In process — Freddie Mac is in the process of designing and implementing controls to correct identified internal control deficiencies and conducting ongoing evaluations to ensure all deficiencies have been identified.

- Remediation activities implemented — Freddie Mac has designed and implemented the controls that it believes are necessary to remediate the identified internal control deficiencies.

- Remediated — After a sufficient period of operation of the controls implemented to remediate the control deficiencies, management has evaluated the controls and found them to be operating effectively.

	Remediation Progress as of February 28, 2008	Remediation Progress as of March 31, 2008
Guarantee Asset/Guarantee Obligation Governance		
The company's process for valuation of and accounting for its guarantee asset and guarantee obligation was complex, manually intensive and dependent on end-user computing solutions, resulting in an unacceptable likelihood of risk of significant error.	Remediation activities implemented	Remediation activities implemented
End-User Computing Controls		
The company's financial reporting processes relied on models and end-user computing solutions (exclusive of those addressed through the Guarantee Asset/Guarantee Obligation Governance significant deficiency described above) that were not subject to adequate controls over their development, nor were they subject to adequate change control procedures.	Remediation activities implemented	Remediated
Tax Basis Balance Sheet		
The company does not maintain a tax basis balance sheet to support deferred tax accounting under GAAP, which could result in balance sheet misclassifications and potential income statement adjustments.	In process	In process
Controls over Data Quality		
Controls over the quality of data used in the company's financial reporting process were not effective.	Remediation activities implemented	Remediated
Oversight of Models and Model Applications		
The company's model governance and monitoring procedures (exclusive of those addressed through the Guarantee Asset/Guarantee Obligation Governance significant deficiency described above) did not effectively ensure that changes to and the company's use of models in its financial reporting process are appropriate.	Remediation activities implemented	Remediation activities implemented
IT Security — Shared IDs		
The company does not consistently executed security controls over system and user accounts that can be used by multiple individuals.	In process	In process
User Access Recertification		
The company does not effectively executed periodic review and recertification of user access to financial applications and related technical platforms.	In process	In process
Consideration of Controls in Application Design		
The company's business or technical design requirements for financial application development projects have not adequately considered requirements for automating process controls.	In process	In process
Pre-Deployment Application Testing and Maintenance Approval		
The company does not consistently executed the appropriate testing of new financial applications prior to their deployment nor has it consistently obtained the appropriate approvals of application maintenance changes.	In process	In process

For additional information about the company's internal control over financial reporting, *see* "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – CONTROLS AND PROCEDURES" in the company's Information Statement Supplement dated May 14, 2008.

Non-GAAP Financial Measure – Segment Earnings

In managing its business, Freddie Mac presents the operating performance of its segments using Segment Earnings. Segment Earnings 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 Segment Earnings as a measure of the company's financial performance. Among other things, the company's regulatory capital requirements are based on its GAAP results. Segment Earnings 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 Segment Earnings.

Also, Freddie Mac's definition of Segment Earnings may differ from similar measures used by other companies. However, the company believes that the presentation of Segment Earnings 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 Segment Earnings 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 in 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. The company believes Segment Earnings provide 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, Segment Earnings is calculated for the segments by adjusting net income (loss) for certain investment-related activities and credit guarantee-related activities. Segment Earnings include 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 denominated debt-related adjustments: Segment Earnings exclude 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 Segment Earnings 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 as well as the unrealized fair value adjustments associated with foreign-currency denominated debt along with the foreign-currency derivatives gains and losses are excluded from Segment Earnings, 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 Segment Earnings on a straight-line basis. Trading losses or impairments that reflect expected or realized credit losses are realized immediately pursuant to GAAP and in Segment Earnings since they are not economically hedged. Fair value adjustments to trading securities related to investments that are economically hedged are not included in Segment Earnings. Similarly, non-credit related impairment losses on securities are not included in Segment Earnings. These amounts are deferred and amortized prospectively into Segment Earnings on a straight-line basis. GAAP-basis accretion income that may result from these impairment adjustments is also not included in Segment Earnings.
- Fully taxable-equivalent adjustment: Interest income generated from tax-exempt investments is adjusted in Segment Earnings 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 Segment Earnings, 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 management and guarantee and other fees. Over the longer term, earnings from this business consist almost entirely of the management and guarantee fee revenues, including management and guarantee fees collected throughout the life of the mortgage loan and upfront compensation Freddie Mac receives, trust management fees less related credit costs (*i.e.*, provision for credit losses) and operating expenses. The company's measure of Segment Earnings 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:

- Segment Earnings excludes: (i) certain amortization and valuation adjustments pertaining to the guarantee asset and guarantee obligation, (ii) initial recognition of gains and losses recorded prior to January 1, 2008 and 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 securities that Freddie Mac guarantees. Segment Earnings include the amortization of the upfront credit fees.
- Under Segment Earnings, 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 Segment Earnings metric and segment reporting, *see* "NOTE 16: SEGMENT REPORTING" to the company's consolidated financial statements in its Information Statement Supplement dated May 14, 2008.

Reconciliations

The following table reconciles Segment Earnings to GAAP net income (loss).

Appendix to Freddie Mac's First Quarter 2008 Financial Results
May 14, 2008

Table 1 - Reconciliation of Segment Earnings (Loss) to GAAP Net Income (Loss)

	Three Months Ended March 31,	
	2008	2007
	(in millions)	
Segment Earnings (loss) after taxes:		
Investments	$ 113	$ 514
Single-family Guarantee	(458)	224
Multifamily	98	125
All Other	(4)	(16)
Total Segment Earnings (loss), net of taxes	(251)	847
Reconciliation to GAAP net income (loss):		
Derivative- and foreign-currency denominated debt-related adjustments	(1,194)	(1,082)
Credit guarantee-related adjustments	(174)	(502)
Investment sales, debt retirements and fair value-related adjustments	1,525	69
Fully taxable-equivalent adjustments	(110)	(93)
Total pre-tax adjustments	47	(1,608)
Tax-related adjustments	53	628
Total reconciling items, net of taxes	100	(980)
GAAP net income (loss)	$ (151)	$ (133)

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

Table 2 - Segment Earnings and Reconciliation to GAAP Results

	Three Months Ended March 31, 2008										
	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)
						(in millions)					
Investments	$ 299	$ -	$ 15	$ (131)	$ -	$ -	$ -	$ (9)	$ -	$ (61)	$ 113
Single-family Guarantee	77	895	104	(204)	(1,349)	(208)	-	(19)	-	246	(458)
Multifamily	75	17	8	(49)	(9)	-	(117)	(4)	149	28	98
All Other	-	-	4	(13)	-	-	-	(3)	-	8	(4)
Total Segment Earnings (loss), net of taxes	451	912	131	(397)	(1,358)	(208)	(117)	(35)	149	221	(251)
Reconciliation to GAAP net income (loss):											
Derivative- and foreign-currency translation-related adjustments	(10)	-	(1,184)	-	-	-	-	-	-	-	(1,194)
Credit guarantee-related adjustments	16	(161)	4	-	73	-	-	(106)	-	-	(174)
Investment sales, debt retirements and fair value-related adjustments	103	-	1,422	-	-	-	-	-	-	-	1,525
Fully taxable-equivalent adjustments	(110)	-	-	-	-	-	-	-	-	-	(110)
Reclassifications[(1)]	348	38	(431)	-	45	-	-	-	-	-	-
Tax-related adjustments	-	-	-	-	-	-	-	-	-	53	53
Total reconciling items, net of taxes	347	(123)	(189)	-	118	-	-	(106)	-	53	100
Total per consolidated statement of income	$ 798	$ 789	$ (58)	$ (397)	$ (1,240)	$ (208)	$ (117)	$ (141)	$ 149	$ 274	$ (151)

(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 our Investments segment; b) implied management and guarantee fees from net interest income (expense) to other non-interest income (loss) within our Investments and Multifamily segments; c) net buy-up and buy-down fees from management and guarantee income to net interest income (expense) within the Singe-family Guarantee segment; d) interest income foregone on impaired loans from net interest income (expense) to provision for credit losses within our Single-family Guarantee segment; and e) certain hedged interest benefit (cost) amounts related to trust management income from other non-interest income (loss) to net interest income (expense) within our Investments segment.