



# **Freddie Mac's 2006 Financial Results**

March 23, 2007

## 2006 financial summary

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- Financial performance reduced by market conditions
- Capital position remains strong
- Asset quality continues to be very high
- Risk management exposure kept low
- Guarantee business volumes grew strongly
- Significant core spread generated on debt funded mortgage portfolio
- Returns from operating leverage recognized
- Control environment is strengthening

## GAAP financial results

(\$ Millions)	2005	2006	Change
1 Net interest income	\$ 5,370	\$ 4,235	\$ (1,135)
2 Management and guarantee income	1,450	1,672	222
3 Non-interest income (loss) (excluding G-Fees)	<u>(1,251)</u>	<u>(757)</u>	<u>494</u>
4 <b>Total revenues</b>	5,569	5,150	(419)
5 Administrative expenses	\$ (1,535)	\$ (1,641)	\$ (106)
6 Non-interest expense	(1,187)	(1,131)	56
7 Credit-related expenses	<u>(291)</u>	<u>(275)</u>	<u>16</u>
8 <b>Total expenses</b>	(3,013)	(3,047)	(34)
9 <b>Net income (loss) before taxes</b>	\$ 2,556	\$ 2,103	\$ (453)
10 <b>Income tax (expense) benefit</b>	<u>(367)</u>	<u>108</u>	<u>475</u>
11 Net income before change in accounting principle, net of taxes	2,189	2,211	22
12 Cumulative effect of change in accounting principle, net of taxes	<u>(59)</u>	<u>-</u>	<u>59</u>
13 <b>Net income</b>	<u><u>\$ 2,130</u></u>	<u><u>\$ 2,211</u></u>	<u><u>\$ 81</u></u>

## Net interest income (NII) and net interest yield (NIY)

(\$ Millions)	2005		2006		Change	
	\$	%	\$	%	\$	%
1 Contractual amounts of NII	\$ 8,897		\$ 8,059		\$ (838)	
2 Debt and mortgage amortization, net	(2,469)		(2,242)		227	
3 NII (excluding effect of derivatives)	\$ 6,428	0.86%	\$ 5,817	0.73%	\$ (611)	(0.13%)
4 Effect of derivatives on NII	(1,058)	(0.15%)	(1,582)	(0.20%)	(524)	(0.05%)
5 NII / NIY	\$ 5,370	0.71%	\$ 4,235	0.53%	\$ (1,135)	(0.18%)
6 Fully taxable-equivalent adjustments	339	0.05%	392	0.05%	53	-
<b>7 NII / NIY (FTE)</b>	<b>\$ 5,709</b>	<b>0.76%</b>	<b>\$ 4,627</b>	<b>0.58%</b>	<b>\$ (1,082)</b>	<b>(0.18%)</b>
8 Accrual of periodic settlements on NHD derivatives	\$ (337)	(0.04%)	\$ 92	0.01%	\$ 429	0.05%

## Detail of change in net interest yield

1	<b>NIY (FTE) - Full year 2005</b>	<b>0.76%</b>
	Estimated impact of:	
2	Expense related to derivatives	(0.05%)
3	Increased interest spread on short-term investments	0.02%
4	Retained portfolio asset spread compression due to increased cost of short-term debt	(0.03%)
5	Retained portfolio asset spread compression due to refunding of long-term debt	(0.13%)
6	Other	<u>0.01%</u>
7	<b>NIY (FTE) - Full year 2006</b>	<b>0.58%</b>
8	Accrual of periodic settlements on NHD derivatives (recorded in non-interest income)	0.05%

## Guarantee fee analysis

(\$ Millions, Rates in Basis Points)	2005	Rate	2006	Rate
1 Contractual management and guarantee fees	\$ 1,431	15.7 bps	\$ 1,613	15.4 bps
2 Amortization of pre-2003 deferred fees	19	0.2	59	0.6
<b>3 Total (Line 1 + Line 2)</b>	<b>\$ 1,450</b>	<b>15.9 bps</b>	<b>\$ 1,672</b>	<b>16.0 bps</b>
4 Amortization of deferred fees <sup>1</sup>	197	2.2	170	1.6
<b>5 Total (Line 3 + Line 4)</b>	<b>\$ 1,647</b>	<b>18.1 bps</b>	<b>\$ 1,842</b>	<b>17.6 bps</b>
6 Average outstanding PCs	\$ 908,719		\$ 1,044,756	

<sup>1</sup>Recognized in "Income on Guarantee obligation" on the income statement.

## Realized gains (losses) and mark-to-market items

(\$ Millions)	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 2006 vs 2005
1 Mark-to-market on Guarantee asset	\$ (165)	\$ 404	\$ 295	\$ (433)	\$ (57)	\$ 209	\$ 374
2 Mark-to-market on Participation Certificate residuals	(45)	206	196	(187)	(47)	168	213
3 Losses on certain credit guarantees	<u>(234)</u>	<u>(67)</u>	<u>(73)</u>	<u>(133)</u>	<u>(203)</u>	<u>(476)</u>	(242)
4 Subtotal (Line 1 + Line 2 + Line 3)	\$ (444)	\$ 543	\$ 418	\$ (753)	\$ (307)	\$ (99)	\$ 345
5 Gains (losses) on derivatives excluding interest carry	(1,020)	276	325	(829)	(1,028)	(1,256)	(236)
6 Gains (losses) on debt retirement	206	64	244	155	3	466	260
7 Other items	<u>(99)</u>	<u>(49)</u>	<u>(452)</u>	<u>(59)</u>	<u>137</u>	<u>(423)</u>	(324)
8 <b>Total realized gains (losses) and mark-to-market items</b>	<b>\$ (1,357)</b>	<b>\$ 834</b>	<b>\$ 535</b>	<b>\$ (1,486)</b>	<b>\$ (1,195)</b>	<b>\$ (1,312)</b>	<b>\$ 45</b>

## Fair value attributable to common stockholders

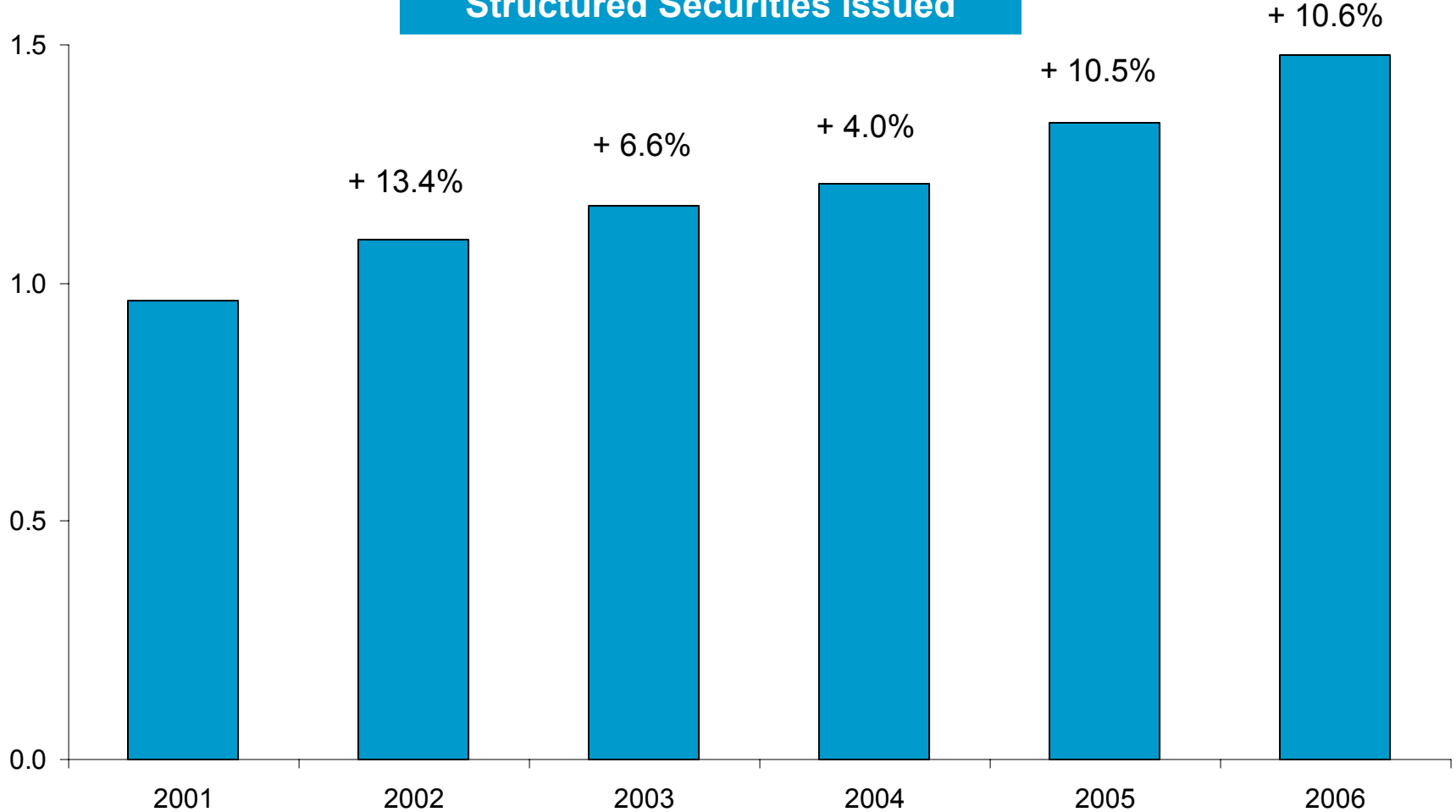
(\$ Billions)	2005	1Q06	2Q06	3Q06	4Q06	2006	Change 2006 vs 2005
1 Investment activities	\$ 0.5	\$ (0.1)	\$ 1.0	\$ 0.5	\$ (0.1)	\$ 1.3	\$ 0.8
2 <i>Impact of OAS</i>	(2.7)	(0.7)	0.1	-	(0.3)	(0.9)	1.8
3 Guarantee activities	1.1	1.1	1.2	(0.4)	-	1.9	0.8
4 <i>Effect of net GA/GO valuation methodology change</i>	(1.2)	-	-	-	-	-	1.2
5 Administrative expenses and other	(1.4)	(0.2)	(0.5)	(0.2)	(0.7)	(1.6)	(0.2)
6 Taxes and returns on capital	0.8	0.2	(0.3)	0.4	0.6	0.9	0.1
7 <b>Increase (decrease) in fair value before capital transactions<sup>1</sup></b>	<b>\$ 1.0</b>	<b>\$ 1.0</b>	<b>\$ 1.4</b>	<b>\$ 0.3</b>	<b>\$ (0.2)</b>	<b>\$ 2.5</b>	<b>\$ 1.5</b>
8 Fair value ROE before capital transactions	3.7%	14.8%	20.6%	3.7%	(2.7%)	9.5%	5.8%
9 Common dividends and repurchases	\$ (1.0)	\$ (0.3)	\$ (0.9)	\$ (1.3)	\$ (0.8)	\$ (3.3)	\$ (2.3)
10 <b>Common fair value</b>	<b>\$ 26.8</b>	<b>\$ 27.4</b>	<b>\$ 28.1</b>	<b>\$ 27.0</b>	<b>\$ 26.0</b>	<b>\$ 26.0</b>	<b>\$ (0.8)</b>

<sup>1</sup>Excludes "Impact of OAS" (line 2) and "Effect of net GA/GO valuation methodology change" (line 4).

# Customer focus improved growth in guarantee business

PCs and Structured Securities (\$ Trillions)

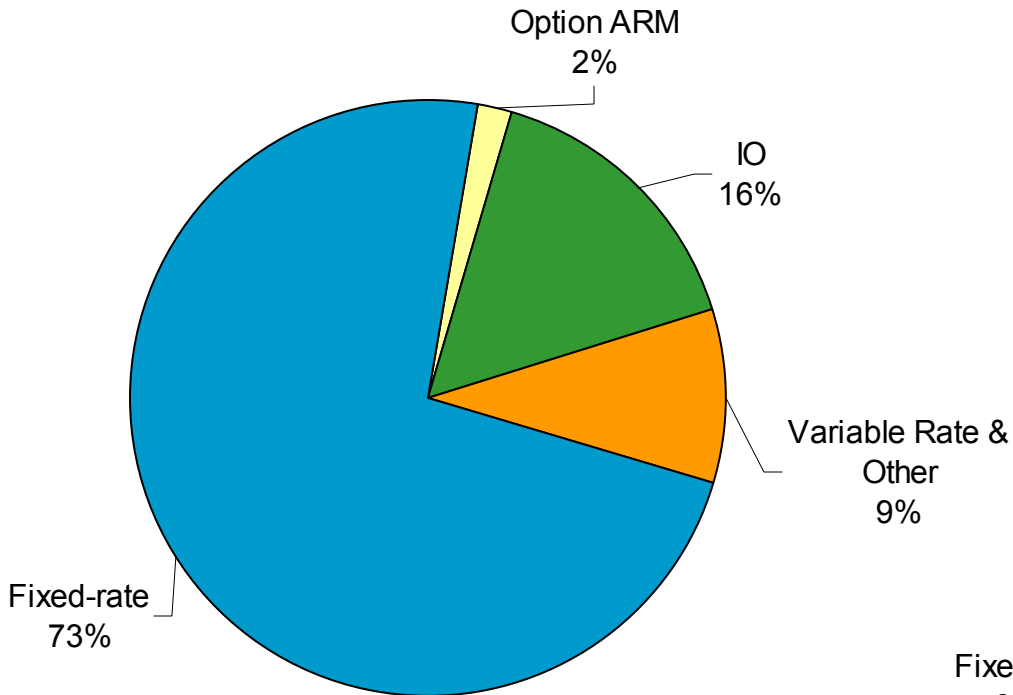
**Freddie Mac's total PCs and Structured Securities issued**



# Changed guarantee activities reflect market demand

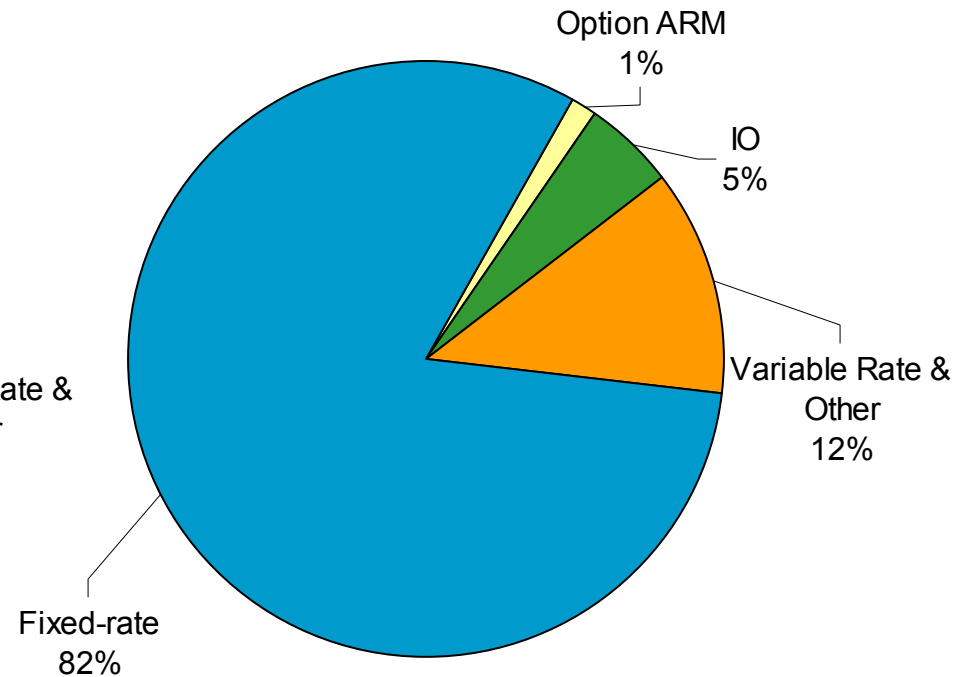
**Total mortgage portfolio purchases  
Twelve months ended December 31, 2006**

**\$373 Billion**



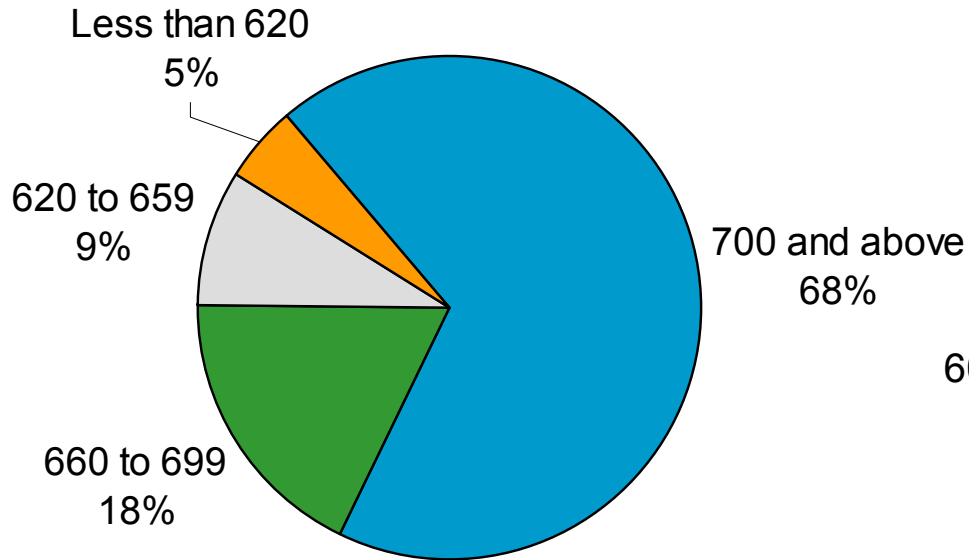
**Total mortgage portfolio  
As of December 31, 2006**

**\$1.5 Trillion**

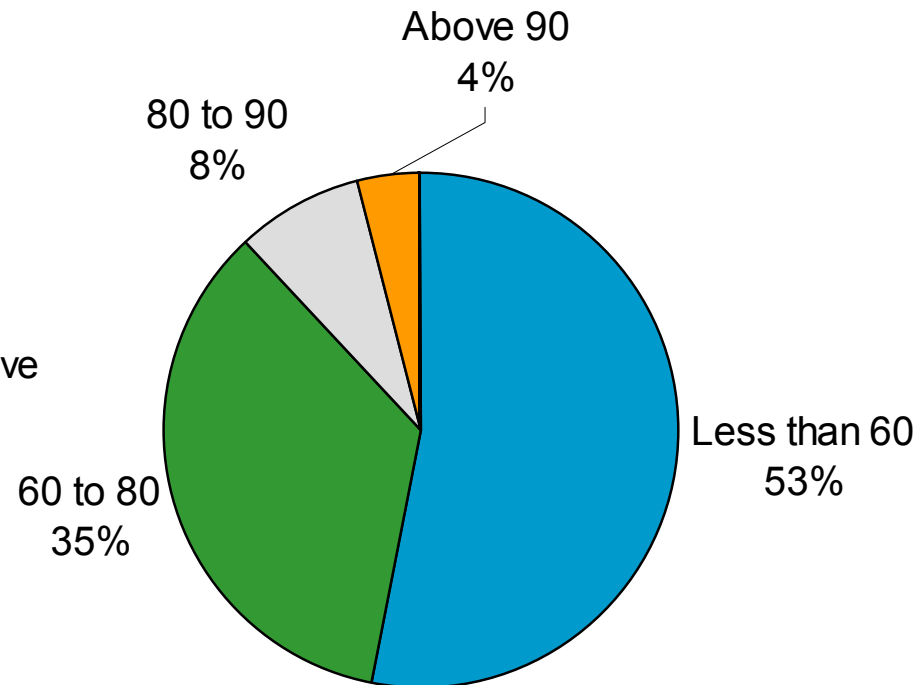


# Portfolio characteristics demonstrate relatively low inherent risk

**FICO score**

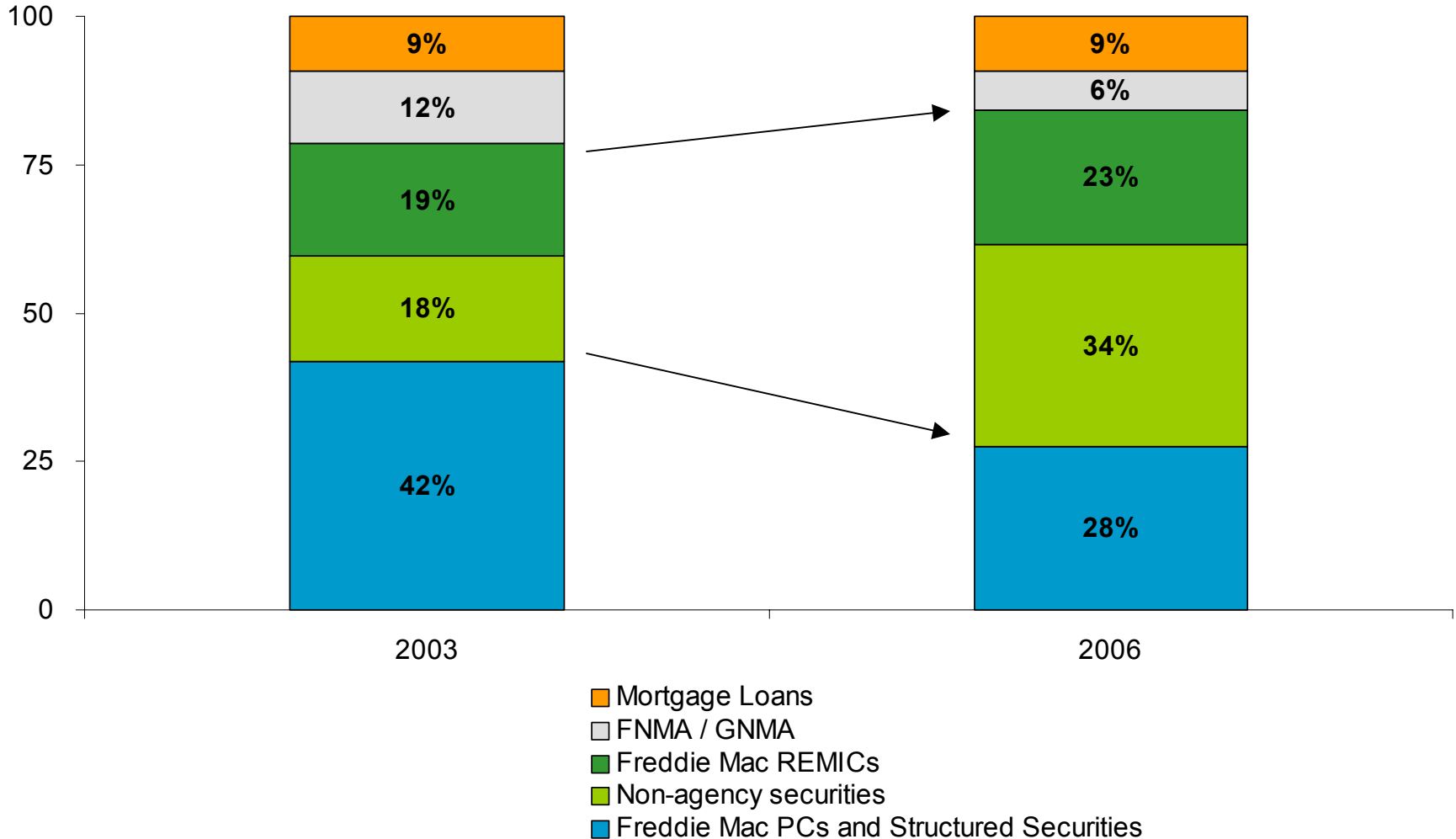


**Current loan-to-value (Percent)**



## Retained portfolio mix has shifted

Percent

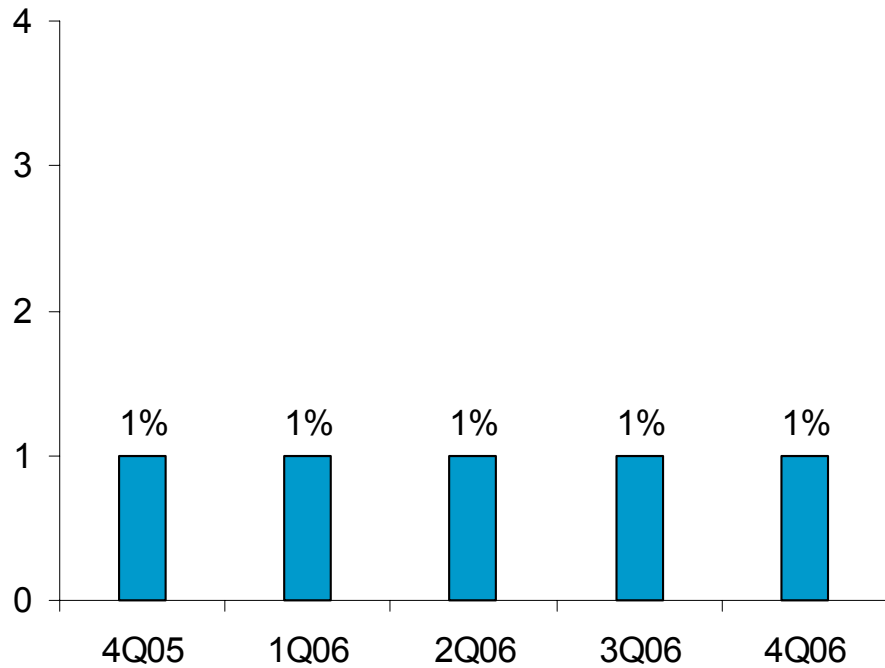


# Interest-rate risk remained low in 2006

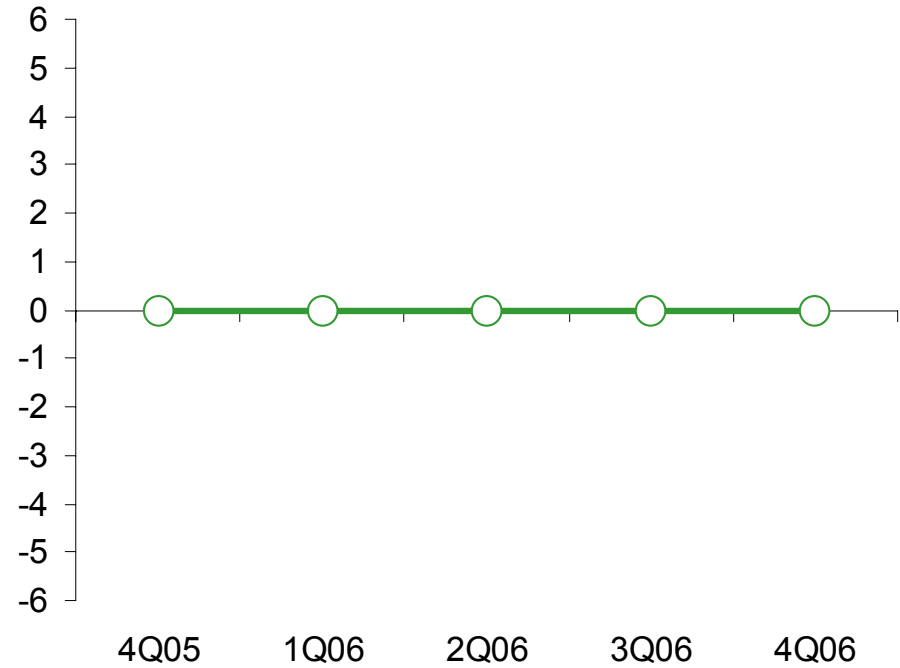
## Average quarterly PMVS-Level

## Average quarterly duration gap

Percent



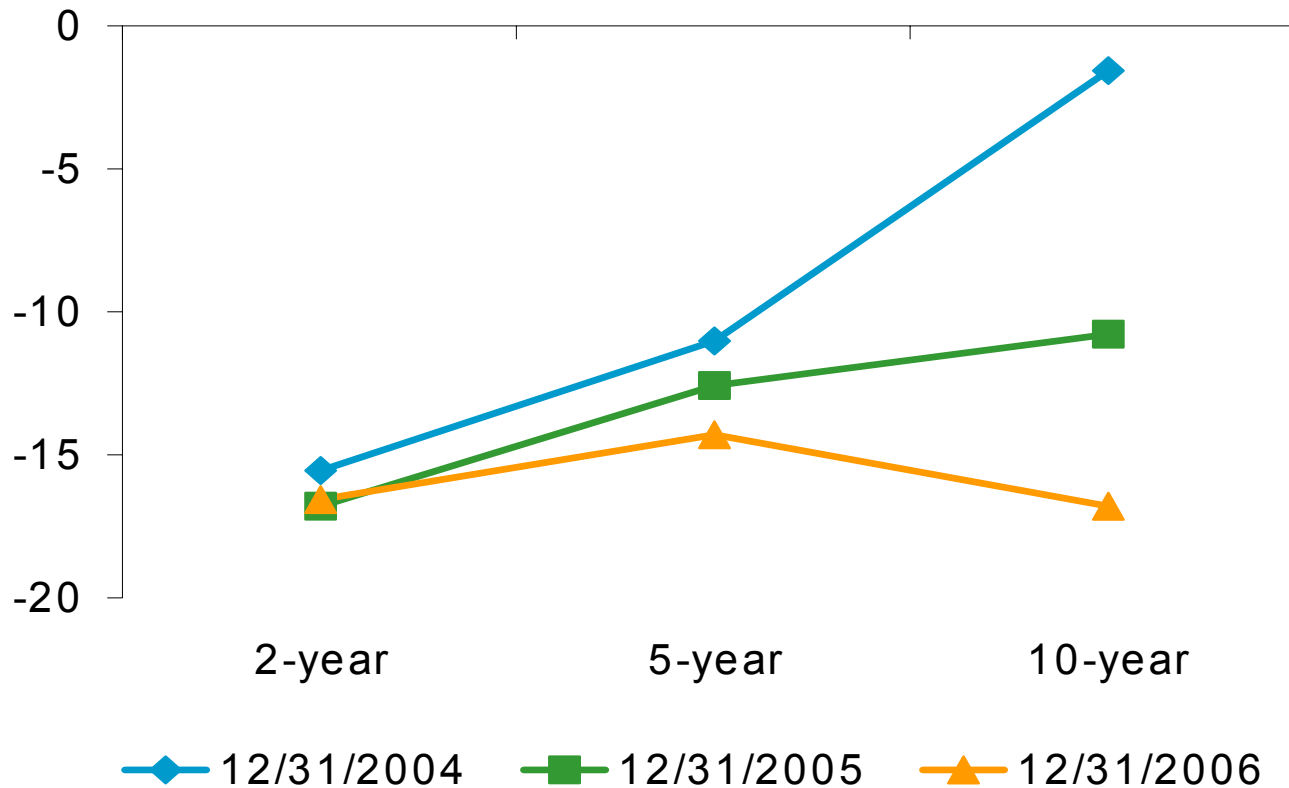
Months



# Capitalized on improved funding levels in 2006

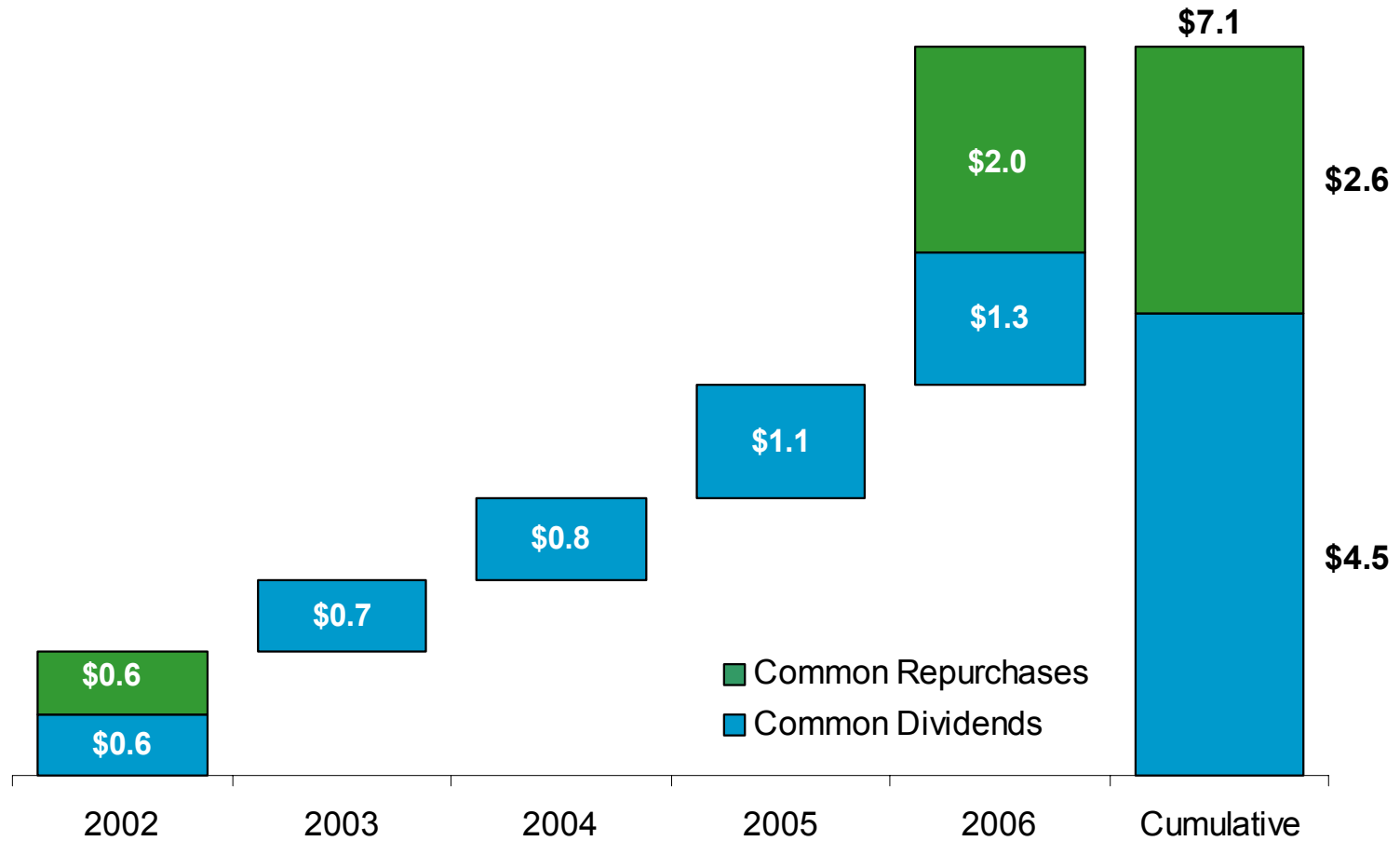
## US\$ Reference Notes® versus LIBOR

Spread  
(Basis Points)



# Progress on returning capital

\$ Billions





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