FINAL TRANSCRIPT

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FRE - Q3 2005 Freddie Mac Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Freddie Mac conference call. At this time, all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session, and instructions will be given at that time. [OPERATOR INSTRUCTIONS] As a reminder, this conference is being recorded.

I would now like to turn the conference over to Peter Mahoney. Please go ahead.

Peter Mahoney - *Freddie Mac - VP, Global Investor Relations*

Thank you. Good afternoon, everyone. Welcome to our investor presentation and conference call. We're pleased to present our financial and business performance update for the third quarter of 2005. Speaking today are Freddie Mac's Chairman and Chief Executive Officer, Dick Syron, and our Executive Vice President for Finance and CFO, Marty Baumann. Also joining us for the Q&A portion are President and Chief Operating Officer, Gene McQuade, and Executive Vice President for Investments and Capital Markets, Patti Cook.

As we begin, let me make a couple of important points. First, during our presentation, which will begin in just a few minutes, our CFO, Marty Baumann will be referring to a slide presentation that we've posted on our website at FreddieMac.com. You can find a link to these slides at the end of our press release as well. You may want to get those slides if you haven't done so already. We would encourage you to have this presentation to follow along with Marty.

Second, in today's call, we will be discussing certain financial trend information. As we told you in our release dated November 8, 2005, the company continues to remediate weaknesses in internal controls. We will release full third-quarter financial results in an information statement supplement, when we have completed additional controls-related work, that will provide us with greater assurance on the accuracy of our financial reports. As a result of the accounting rules we follow, these financial results, the ones we discuss today are likely to change due to subsequent events, as well as potential adjustments that might arise from final management reviews, analysis and control testing, and any such changes could be material.

In addition, please note that in this presentation, we may make certain forward-looking statements regarding our business results. These statements are based upon a set of assumptions about our key business drivers and other factors. Changes in these factors could cause our actual results to vary materially from our expectations. You'll find a discussion of these assumptions in our 2004 information statement and related supplements, which are also posted on our website. We strongly encourage you to carefully review those factors.

Finally, if you would please limit yourself to one question and then a follow-up if you feel like you need it, I would be very grateful. Thank you and with that, let me now introduce our Chairman and CEO, Dick Syron.

Dick Syron - *Freddie Mac - Chairman, CEO*

Thanks, Peter. Thank all of you in advance for your time. In the past two years, we at Freddie Mac think we've made good progress in the completion of our restatement, to the rebuilding of our executive team, to the rebound in our market share. But we need to make more progress to become a world-class competitor. And we're very hard at work on continuing to do that. Let me start with today's good news – the increase in our common dividend.

Today, our Board declared a $0.47 per share quarterly dividend on the company's voting common. That's a $0.12, or 34 percent increase in the quarterly dividend. This is our third common stock dividend increase in the last two years, and in that time, we've delivered a cumulative dividend increase of approximately 81 percent. Today's increase reflects our strong capital position, and demonstrates our increasing confidence in Freddie Mac's long-term business prospects.

In acting today, we decided to accelerate our review of the dividend, which typically takes place in March, to our December Board meeting. As a result, we would not expect to conduct another such review until this time next year. However, we will continue to seek ways to manage our capital in a manner that keeps us unquestionably safe and sound, permits us to execute our mission, while generating long-term value for our shareholders.

Let me turn briefly now to our mortgage business. This year, we have increased our guarantee fee business, and our retained portfolio, at what we believe are very sustainable rates. This continued growth during the year in which we saw a tight mortgage spreads, and a persistently strong private label market is a testament to the competitive spirit of our people, our solid and improving customer relationships, and the strength of our capital position, which improved during the past two years.

Now, with respect to what's happening on Capitol Hill, we continue to support legislation that would strengthen the regulatory process. The bill passed in October by the House of Representatives, while tough, is workable. We were gratified and encouraged that in passing it, a large bipartisan majority in the House reaffirmed strong Congressional support for our charter, and for our housing mission.

While additional steps in the Legislative process remain, we'll continue to work constructively with all members of Congress toward the ultimate objective of a bill that strengthens both regulatory oversight and our vital housing mission, in a way that's consistent with our shareholder's interest.

Let me close by saying something about Freddie Mac's response to the terrible toll in the Gulf region from Hurricanes Katrina and Rita. We've been among the first to step in with what we think are some creative approaches for lenders and borrowers, and we put our strong balance sheet to work with state and local authorities, to get some important recovery efforts moving in the affected region. We've already seen some effects from that.

Gene McQuade has taken this on as a personal priority, and has coordinated a team across all of our front-end and operations divisions. In fact, just this morning, we announced a three-month extension of our mortgage relief policies, which are designed to give borrowers more time to recover their incomes and homes without the threat of foreclosure. There is still an enormous amount of work to be done in the relief and rebuilding effort in the Gulf area. But we're in it for the long haul, and we'll stay there until the job is done.

With that, let me turn things now over to Marty Baumann, our CFO, to review our third quarter performance in more detail.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Thanks, Dick. I'll now provide a high level review of our preliminary financial and business performance for the third quarter of the year. As usual, I'll use some slides along the way to illustrate the key points about our results. You can find them on our Investor Relations website, or from the direct link in our web version of our press release.

Slide one provides an outline of the topics I'll be covering. Let me put today's information in context, before getting into our performance update. As Peter mentioned and as we told you last month, we have decided to accelerate a number of controls-related initiatives into the fourth quarter that we initially had planned to complete in 2006 as part of our final process of getting ready to register our common stock with the SEC.

When we found the problem with our system for accruing interest on non-agency mortgage-related securities, we fixed it, and then determined we had better move up scheduled testing and controls work, to ensure that our quarterly and full-year financial reports are as accurate as possible. In the meantime, we very much want to provide you with relevant information about our financial trends and performance.

So, let's begin with our preliminary view of our regulatory capital level and surplus as of September 30, 2005, based on our regulatory filings with OFHEO. As slide two shows, through the third quarter of this year, the company has continued to maintain a strong capital position. The company's estimated minimum capital surplus as of September 30th was approximately $12 billion, and it’s estimated surplus in excess of the 30 percent target surplus was approximately $4.7 billion. At the current estimated capital level, Freddie Mac maintains almost a 50 percent surplus over our regulatory minimum capital, as well as a significant surplus over the 30 percent target.

These numbers demonstrate Freddie Mac's continued capital strength, and our ability to continue to serve our public mission through unexpected events, like the recent hurricanes. The reported increase in our capital position reflects estimated net income for the third quarter of approximately $600 million, including the effects of after-tax estimated losses of approximately $190 million related to Hurricanes Katrina and Rita, the approximately $220 million downward revision to first half net income announced on November 8th, and the payment of common and preferred stock dividends. Estimated net income for the first nine months of 2005 was approximately $2.1 billion compared to $2.6 billion for the first nine months of 2004.

Slide three presents our quarterly GAAP net income from the beginning of 2004 through our estimate of third quarter 2005. As reflected in the capital reports we have filed, we estimate that we earned about $600 million in the third quarter, net of the hurricane charge, down from approximately $750 million in the second quarter of 2005, but up sharply from the loss of $1.5 billion experienced in the third quarter of 2004.

In providing this information, we need to remind you that these figures are likely to change as a result of subsequent events. For example, today we are updating our estimates on losses we will report as a result of Hurricanes Katrina and Rita. These estimated losses will continue to be updated until we complete and finalize financial statements and related footnotes for the third quarter. Another example of a subsequent event we might experience is that any updates we implement in the models we use to run our business could require retroactive changes in our unissued financial statements.

In addition, we may find additional corrections as a result of our accelerated controls work. All of that is to say that we're providing the best information we have today on our high-level trends, but until we have completed our processes and issued full third quarter financial statements and footnotes, our results will continue to be subject to change.

Slide four lists the major drivers of GAAP net income in the third quarter and first nine months of 2005. We currently expect to report net interest income and margin for the third quarter that are relatively flat compared to net interest income we reported in the second quarter of 2005, and down significantly from that reported in the third quarter of 2004. This is consistent with what we told you earlier this year. The decrease in net interest income is largely due to the compression of net interest margins in our existing portfolio of fixed-rate mortgage-related securities, and lower nominal margins on new floating rate mortgage-related securities purchases.

In March of this year, we also advised the market that we expected significantly reduced losses in non-interest income to largely offset the declines in net interest income on a full-year basis. Through the first nine months of this year, we estimate significantly lower losses in non-interest income as compared to last year, primarily due to decreased losses in derivatives. On the non-interest expense side, we expect to report non-interest expense for the third quarter of 2005 that is relatively flat compared to the third quarter of 2004, excluding charges related to Hurricanes Katrina and Rita. In addition, we are on-track to meet our objectives of keeping full-year 2005 administrative expenses relatively flat to 2004 levels.

Finally, on slide five, we expect to report that while the fair value of net assets attributable to common stockholders before capital transactions increased by approximately $800 million during the first nine months of 2005, we experienced a net decline on fair value of equity before capital transactions during the third quarter. This decline in the third quarter primarily resulted from a negative fair value mark due to wider mortgage-to-debt option-adjusted spreads, which had the effect of decreasing the fair value of our retained portfolio assets, relative to our outstanding debt securities.

While the recent widening in option-adjusted spreads has reduced our growth in fair value during 2004, this widening has presented us with a broader range of attractive mortgage purchase opportunities for the future. As we have previously told you, our long-term expectation, looking beyond 2005, is to generate low- to mid-teens returns on the average fair value of net assets attributable to common stockholders before capital transactions, although, from period-to-period, these returns may fluctuate substantially, due to market conditions.

Slide six illustrates the growth in our common dividend from December 2003 through our announcement today. As you can see, during that time, we've increased our quarterly common dividend by approximately 81 percent from $0.26 per share in December of 2003, to $0.47 per share effective today, which is $1.88 per share on an annualized basis. We've been able to accomplish this increase because of the continued strength of our capital position, and the sound risk management practices we apply, which help us to deliver long-term shareholder value to you, the owners of our company.

Turning to operations and business volumes, slide seven shows the mix of Freddie Mac PCs, non-Freddie Mac MBS and home loan mortgages, held in our retained portfolio as of September 30, 2005. Largely due to the relative attractiveness of spreads, on variable rate, non-agency mortgage-related securities, the share of non-Freddie Mac MBS has increased to about 41 percent of the retained portfolio, from about 36 percent at year-end 2004. The pie chart on the right-hand side of the slide shows that mortgage-related ABS, which are largely variable rate in nature, and which are almost all rated AAA by the rating agencies, accounted for approximately 63 percent of all non-Freddie Mac MBS in our retained portfolio as of September 30th, up from about 53 percent at year end 2004.

On slide eight, the chart on the left shows that in 2005, we have guaranteed and purchased an increased share of ARM, interest-only, and option ARM mortgages. This shift in the mix of mortgages reflects our focus on broadening the value proposition we bring to our customers, as we strive to improve our share of the GSE mortgage market, and the mortgage market as a whole. At the same time, as the chart on the right illustrates, fixed-rate mortgages continue to comprise more than 80 percent of our total mortgage portfolio.

Slide nine shows the result of our increased customer focus, as we have increased our share of the GSE mortgage securitization market from about 41 percent for 2004, to about 44 percent year-to-date through September. This number will move around from month to month, but we're committed to maintaining a relevant share of the GSE market over time through improved product offerings and customer service.

On the risk management side, slide 10, we continue to report very low levels of both credit risk and interest-rate risk. On the chart on the left, our total credit losses, the blue line on the bottom of the chart, have actually fallen for the first nine months of the year versus 2004, continuing a favorable credit performance. 90-day single-family delinquencies, the green line on the left, also have fallen from their year-end 2004 levels, to about 59 basis points as of September 30, 2005.

On the interest rate risk side, our exposures have remained very low as demonstrated by the low levels of duration gap, the chart on the right, and other interest rate risk metrics we have reported. Let me conclude with a few words about our progress on financial reporting and remediation.

During the first half of 2005, we tested a significant portion, but not all of our key controls. As we advised you in November, when we discovered the error in the computer system application that had not yet been subject to testing, we corrected it. We then decided to accelerate planned future tests of computer applications into the fourth quarter. In addition, we initiated further improvements in our analytical reviews, the documentation of the design of our internal controls, and did further employee training.

In other words, we're doing a lot more testing and due diligence, to give us greater assurance of the reliability of our financial reports going forward. While our full third-quarter financial reporting has been delayed pending further progress on this control work, we continue to look toward the first quarter of 2006, as the time at which we'll complete the process of generating financial results that meet our regulatory obligations on accuracy and timeliness.

As slide 11 indicates, our objective is to release fourth quarter and full year 2005 results, and to begin filing timely GAAP compliant monthly capital reports with OFHEO, no later than the end of March 2006. Following this, we're aiming to begin the registration process with the SEC in mid-2006. It has been a tremendous process to catch up on our financial reporting, but we're committed to finishing the job and moving the company forward.

Thanks for your continued confidence in this, and now let me turn things back over to Dick for some closing remarks.

Dick Syron - *Freddie Mac - Chairman, CEO*

Thank you, Marty. I just want to echo what Marty said, which is that we're committed to moving this company forward to meet our mission, and to deliver value to you. Your confidence in our overall direction thus far has been gratifying.

For our part, your entire management team is confident that we're headed in the right direction, and that our business prospects for the long-term are quite promising. Thank you, and let's open it up for questions.

Peter Mahoney - *Freddie Mac - VP, Global Investor Relations*

Go ahead with the first caller, please.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Our first question is from the line of Paul Miller from FBR. Please go ahead.

Paul Miller - *Friedman, Billings, Ramsey - Analyst*

Thank you very much. You mention that the OAS spreads are widening out relative to mortgage spreads. That was one of the reasons why your fair value market went down a little bit over the quarter. Can you tell us how much they have gone down, and how much more they need to wind down, before Freddie Mac starts to see some profitability to adding to the portfolio in some of the TBA markets?

Patricia Cook - *Freddie Mac - EVP, Investments and Capital Markets*

Sure. Over the course of the year, fixed-rate current coupon mortgages have probably widened 15 basis points, and that is a substantial change, and you're right, that has changed the opportunity set for us as we look at that product. So I think going forward, you could see both a change in the mix of our purchases, and potentially a slight increase in the rate of growth of the portfolio.

Paul Miller - *Friedman, Billings, Ramsey - Analyst*

Would you still be in the TBA markets?

Patricia Cook - *Freddie Mac - EVP, Investments and Capital Markets*

You know, we've been in the TBA market all year long. I think you could see going forward a shift in the mix between the ABS we find, we've bought, and fixed-rate product as well potentially, in our growth rate if the widening were to persist.

Paul Miller - *Friedman, Billings, Ramsey - Analyst*

And you did not report a net interest margin. I know you've been feeling a lot of pressure through the quarter. Would this start to stabilize the NIM?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

I think as I indicated in my comments that in the third quarter we saw relatively flat net interest margins compared to the second quarter of this year.

Paul Miller - *Friedman, Billings, Ramsey - Analyst*

Okay. Thank you very much, gentlemen.

Operator

We'll now move on to the line of Robert Lacoursiere from Banc of America.

Robert Lacoursiere - *Banc of America Securities - Analyst*

If I understand you correctly, you could be changing the hurricane-related charges retroactively, but do you have any estimate of what the latest change in forbearance could potentially mean?

Gene McQuade - *Freddie Mac - President, COO*

Yes, let me jump in. This is Gene McQuade. The forbearance policy we originally sent out said don't try to collect for 90 days, and then on a one-on-one basis, as you see situations that are deserving, you have up to a year to forbear them.

Our current policy, the policy we just sent out, said give another three months in terms of foreclosures, but we would expect that you would begin to start dialoguing with the customers now, in terms of how to put together payment plans. The impact of that will be diminimus.

Robert Lacoursiere - *Banc of America Securities - Analyst*

Thank you.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Let me comment on your point on the hurricane and the provision. Of course, at this point in time, we've made our best estimate of our provision in connection with that, but obviously as more and more information unfolds around the experiences in that area, we'll certainly update those forecasts on the loss based upon any further information we get.

Peter Mahoney - *Freddie Mac - VP, Global Investor Relations*

Next question.

Operator

Thank you. We'll move on to the line of Brad Ball from Citigroup. Please go ahead.

Brad Ball - *Citigroup - Analyst*

Thanks. Could you give us a little color on your G-fee income, especially in light of the changing mix of your total mortgage portfolio? And, I know this is the second question Peter, I'm sorry, but can you give us a sense of whether you're in the market buying back any stock, after you announced the $2 billion repurchase program a couple months back?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Let me comment first on the G-fee income which has been,. I think our estimated results with respect to our management and guarantee income in the third quarter are pretty level compared to the second quarter. Not a lot of change in that. So, I think we're obviously, total management in guarantee income is increasing along with the growth in our outstanding PC portfolio, but the rate is staying reasonably constant.

Brad Ball - *Citigroup - Analyst*

How does the changing mix impact your G-fees?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

By and large, the mix does have some effect, but not large.

Brad Ball - *Citigroup - Analyst*

Okay.

Dick Syron - *Freddie Mac - Chairman, CEO*

This is Dick Syron. We have authority, as you know, from our Board, to engage in some capital transactions. As a matter of policy, we do not comment on the timing or quantities of actions that we would take.

Brad Ball - *Citigroup - Analyst*

Okay, if I could just follow up. Marty mentioned in his prepared remarks that by the end of March, you'll meet your regulatory obligations. Do you view that as essentially complying with OFHEO's requirements around the 30 percent capital surplus, and would that then potentially free you to use some of that excess capital in the creative ways that you talked about to return to shareholders?

Dick Syron - *Freddie Mac - Chairman, CEO*

The short answer to your question is yes. But you know, the decision is ultimately OFHEO's, but that is one certainly very strong incentive to have us become current, because our understanding with OFHEO is that once that happens, we'll be able to come out from under the 30 percent surplus requirement.

Brad Ball - *Citigroup - Analyst*

Great. Thanks.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Thanks, Brad.

Operator

Our next question comes from David Hochstim from Bear, Stearns. Please go ahead.

David Hochstim - *Bear, Stearns & Co. - Analyst*

I wonder if you could give us any color on the change in fair value in the third quarter, or the first two quarters for that matter, relative to the change in market pricing? So, basically break the fair value of equity into the component parts.

Patricia Cook - *Freddie Mac - EVP, Investments and Capital Markets*

I think when we look at the change in fair value, we're committed in the future to be more precise about the effect that wider OAS have on fair value. I made the comment earlier that mortgage spreads are wider by 15 basis points over the course of the year – that has a meaningful impact on the mark-to-market of our retained portfolio in a negative way.

David Hochstim - *Bear, Stearns & Co. - Analyst*

Right. Can you give us a sense of how much?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

David, this is Marty. That's one of the things that we are working on. We promise that we would get you some supplemental information going forward.

David Hochstim - *Bear, Stearns & Co. - Analyst*

Right.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Going forward, we are putting together the capabilities in a reliable way to get that information to you. Not only how many basis points did it widen, but what was the impact of the widening on our particular portfolio. That's one of the additional supplemental disclosures planned for the future.

David Hochstim - *Bear, Stearns & Co. - Analyst*

Okay. I think that would be welcomed.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Good.

David Hochstim - *Bear, Stearns & Co. - Analyst*

Thanks.

Peter Mahoney - *Freddie Mac - VP, Global Investor Relations*

Thanks, David.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Thanks.

Operator

Our next question is from the line of Eric Wasserstrom from UBS. Please go ahead.

Eric Wasserstrom - *UBS Warburg - Analyst*

Great. Thanks. Actually, just to follow up on David's question on slide five – I'm having difficulty reconciling the comment at the bottom with the chart. Can that be explained?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Sure. The slide is showing the actual change in fair value of net assets and fair value of net assets increased $100 million from the third quarter to the second quarter. The fair value of net assets before capital transactions, before dividends, increased by $800 million for the nine months. So, $26.8 billion to $26.9 billion is the actual change in fair value for the nine months, but if you add the capital transactions, the increase in fair value that we generated is $800 million. We paid out $700 million of it to you.

Eric Wasserstrom - *UBS Warburg - Analyst*

Okay. And that $800 million is inclusive of the impact of the spread widening, of course.

Patricia Cook - *Freddie Mac - EVP, Investments and Capital Markets*

Correct.

Eric Wasserstrom - *UBS Warburg - Analyst*

Thanks very much.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Sure.

Peter Mahoney - *Freddie Mac - VP, Global Investor Relations*

Thanks, Eric.

Operator

We move on to the line of Bob Napoli from Piper Jaffray.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Good afternoon. You probably can't answer this first question, but if you could give us some color. When you talk about low- to mid-teens return on equity, wondering if you could size up to some extent the difference between the G-fee business and return on equity, versus the portfolio return on equity.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Right now, we're really giving that information on a company-wide basis, and one of the other things we're working on for future is disaggregated disclosures for investors. But right now, I think we're just saying on a company-wide base, we see that's our forecast for future returns.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Okay.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

We generate the returns out of both businesses, but we haven't disaggregated those returns yet.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Which business do you get a higher return on?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

We shouldn't get into that right yet until we publish more disaggregated disclosures.

Dick Syron - *Freddie Mac - Chairman, CEO*

The spirit of this is, particularly given some issues in the past, we want to be sure the numbers are absolutely correct before we give them to people.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Sure.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

That's right.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Since you can't answer that, I guess could I ask a question on the OCI. I was wondering if you could give us a feel for, in trying to understand the GAAP and the fair value, et cetera, the change in the AOCI account in the third quarter, and then over what period of time should we expect for the OCI to flow through the income statement – the negative mark in the FAS 133?

Peter Mahoney - *Freddie Mac - VP, Global Investor Relations*

This is Peter. We actually published a schedule, Bob, in our Annual Report of amortization, because those pay-fixed hedge positions are closed. So, there is an amortization schedule that is buried in our voluminous financial reporting, which I can point out to you, that not a lot of folks have picked up on. In terms of what we can say about the current period OCI, let me turn that to Marty.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Yes, so the cash, included in OCI are two items – the mark on the available-for-sale securities, and the deferred debits on the cash flow hedges that are closed. Those are amortizing on a regular basis, as Peter said. And you can see some information on that in the Annual Report. They were about $7.9 billion at the beginning of the year, and they've amortized down to approximately $6.7 billion now.

The other thing though is given the increase in interest rates, there have been therefore unrealized losses on the available-for-sale securities, so they've moved from an unrealized gain position probably to an unrealized loss position, but that is an unrealized position, and so that just stays in equity for the time being. We'll have more details when we publish the full financials.

Bob Napoli - *Piper Jaffray & Co. - Analyst*

Thank you.

Operator

Our next question is from the line of Ed Groshans from Fox-Pitt Kelton.

Ed Groshans - *Fox-Pitt Kelton - Analyst*

Good evening. The acceleration of your control work – does that give us additional confidence in meeting the March deadlines? Is that part of the reason you're moving those up?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

It gives us additional confidence in the reliability of our numbers. We think that, you know, we have built the system capabilities to get our numbers out faster, and getting the numbers, and getting the controls up to the levels we want to get them, improves both the timeliness and reliability of the numbers. So, I think the answer is yes in the long run. We'll get the numbers out faster, and we'll all be more comfortable about the reliability of them.

Ed Groshans - *Fox-Pitt Kelton - Analyst*

Okay. And then you talk about derivative losses, I guess, being less year-over-year.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Yes.

Ed Groshans - *Fox-Pitt Kelton - Analyst*

Can you give us some color on the direction quarter over quarter?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Derivative losses – certainly year-over-year they're down. We have both of our pay-fixed swaps and receive-fixed swaps largely in no hedge designation. And therefore, last year, we did not have that, and so we had larger losses on derivatives. This year, on a quarter-over-quarter basis, let me just take one second on that. I don't think there was a big change quarter-over-quarter.

There's not a large change this year, with respect to the derivative losses quarter-over-quarter, because we have a relatively symmetrical balance of swaptions – both call and put swaptions, as well as receive- and pay-fixed swaps. Those losses are largely offsetting each other against gains. While we have losses, it is way down from a year ago.

Ed Groshans - *Fox-Pitt Kelton - Analyst*

Okay. And then I guess, was it the last quarter, there was a significant markdown for the guaranteed assets? And due to the rally in the tenure as you stated, and I guess the expectation here is that most of that is retraced, and is there material difference between what happened in the guaranteed asset last quarter versus this quarter?

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Given the change in rates this quarter.

Ed Groshans - *Fox-Pitt Kelton - Analyst*

Right.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

We would expect the GA to go the other direction.

Ed Groshans - *Fox-Pitt Kelton - Analyst*

Right.

Marty Baumann - *Freddie Mac - EVP, Finance, CFO*

Right. So, non-interest income is benefited probably from the rates that move, with respect to the guarantee assets. Derivative losses, probably up a bit from last quarter, but still way down compared to prior year.

So, there is a bit less, a lot less noise in the non-interest income first of all, but more importantly, we told you back in March, that you would see this decline in net interest margins because of the various reasons we've discussed. Margin compression, and the shift to floating rate assets, but that would be largely offset by declines in the losses in non-interest income. You can expect that's what's happening.

Ed Groshans - *Fox-Pitt Kelton - Analyst*

All right. Thank you very much.

Peter Mahoney - *Freddie Mac - VP, Global Investor Relations*

Thanks.

Dick Syron - *Freddie Mac - Chairman, CEO*

I think we can take one more question.

Operator

Thank you. We have a follow-up from the line of David Hochstim from Bear, Stearns. Please go ahead.

David Hochstim - *Bear, Stearns & Co. - Analyst*

I wonder, you made a comment about not reviewing the dividend again for a year. I just wonder if you could talk about the ability of the company to address the $4 billion of excess capital above the 30 percent between now and then, and why that wouldn't perhaps factor into somewhat higher cash dividends, as well as share repurchases?

Dick Syron - *Freddie Mac - Chairman, CEO*

Well, you know, nothing is ever impossible but we've obviously changed the cycle a little bit with this action. And we've offered some significant action, and that we wanted to review this largely on a yearly basis. And in doing so, you know, we're taking into account, and will take into account going forward, what is the most efficient way both from the company and since the company and the shareholders are identical from the shareholder's perspective, to return capital to you in the surplus that you mentioned.

David Hochstim - *Bear, Stearns & Co. - Analyst*

Okay. So it possible then that the Board might consider increasing the cash dividend sooner?

Dick Syron - *Freddie Mac - Chairman, CEO*

I'm not saying we will, but it is possible.

David Hochstim - *Bear, Stearns & Co. - Analyst*

Okay. Thank you.

Dick Syron - *Freddie Mac - Chairman, CEO*

Okay. Thank you, all very much. We appreciate your time. And we did this even obviously without having the complete numbers, but we're anxious to be as transparent as possible as we can be with you. Thank you, again.

Operator

Ladies and gentlemen that does conclude our conference call for today. It will be available for replay after 8pm Eastern Time today, through midnight December 5th. You may access the replay service by dialing 1-800-475-6701, and entering access code 805718. International participants may dial 320-365-3844. Those numbers again are 1-800-475-6701, and 320-365-3844, access code 805718. Thank you for using AT&T Executive Teleconference, you may now disconnect.