



FREDDIE MAC ANNOUNCES RECORD EARNINGS FOR 2002
Expects Cumulative Earnings to be Restated Upward

McLean, VA—Freddie Mac (NYSE:FRE) today announced preliminary, unaudited full-year and fourth quarter 2002 earnings. Final audited results will be released upon completion of the audit for 2002 and re-audit of 2001 and possibly 2000.

GAAP Earnings ⁽¹⁾⁽²⁾⁽³⁾ (Unaudited)				Operating Earnings ⁽¹⁾⁽³⁾ (Unaudited)			
	2002	2001	Change		2002	2001	Change
Net Income (in millions)	\$5,764	\$4,147	39%	Earnings (in millions)	\$3,854	\$3,154	22%
Diluted EPS (in dollars)	\$7.95	\$5.64	41%	Diluted EPS (in dollars)	\$5.20	\$4.21	24%

(1) Subject to restatement.

(2) Subject to completion of 2002 audit and 2001 re-audit.

(3) Earnings results include income of \$0.23 per diluted common share associated with reducing the corporation's loan loss reserve in third quarter 2002 and expense of \$0.21 per diluted common share resulting from the corporation's special contribution to its philanthropic program announced in fourth quarter 2002. Absent these items, full-year 2002 diluted operating earnings per common share were \$5.18.

As previously announced by Freddie Mac, financial results included in this press release are unaudited or subject to re-audit and will change when the corporation's new auditor, PricewaterhouseCoopers ("PwC"), finishes its first full-year audit and re-audit of Freddie Mac's financial statements.

Based on the information currently available, Freddie Mac expects to restate its financial results for 2002, 2001 and possibly 2000. Freddie Mac currently believes that the likely cumulative effect of the restatement will be to materially increase the reported levels of GAAP earnings and "Operating Earnings," Freddie Mac's non-GAAP financial measure, and that there may be more volatility in reported quarterly earnings for those periods. Freddie Mac also believes that the effect of these adjustments will be limited to changes in the timing of the recognition of income and associated balance sheet effects. As a result, cumulative increases in prior periods will have offsetting effects in future

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periods. Expected adjustments will have no adverse impact on the economics of the corporation, as represented by Freddie Mac's current fair market value and market risk disclosures. Freddie Mac further believes that the adjustments will increase the corporation's cumulative capital surplus under regulatory capital requirements.

Freddie Mac recognizes that it is important for investors to have a clear understanding of the earnings effects associated with the anticipated adjustments. However, these effects cannot be quantified with sufficient precision until a detailed review is completed, including the impact of the adjustments on certain hedge accounting relationships. Freddie Mac will provide additional disclosure to the market when management is reasonably certain about the adjustments to be reflected in the audited financial statements.

"Freddie Mac is a strong company that is fully dedicated to meeting our obligations to the public and to investors. We have identified past issues. We are confronting them, and we are working to get audited financial statements in the hands of investors as quickly as possible," said Leland C. Brendsel, Chairman and Chief Executive Officer.

PwC was appointed as Freddie Mac's auditor in March 2002, replacing Arthur Andersen. It will take some time for PwC to finish its audit and re-audit because of the corporation's re-evaluation, in conjunction with PwC, of certain of Freddie Mac's accounting policies and practices. As previously communicated by the corporation, Freddie Mac and PwC have concluded that in some instances the application of certain accounting policies, as used by Freddie Mac and concurred with by Arthur Andersen, were not consistent with generally accepted accounting principles ("GAAP"). These include the application of SFAS 133 (accounting for derivative instruments) and SFAS 115 (classification of mortgage assets between available-for-sale and trading accounts through certain resecuritization transactions). Freddie Mac and PwC are in agreement about these matters and are working closely together as PwC completes the audit and re-audit.

Because PwC was not Freddie Mac's auditor prior to 2002, changes in the accounting practices and the related effects of those changes require a full re-audit of fiscal year 2001 and possibly 2000. The need to re-audit 2000 is dependent on the results of the 2002 audit and 2001 re-audit. As with any re-audit, it is possible that additional issues affecting Freddie Mac's financial results may arise.

The corporation has communicated these developments to the Office of Federal Housing Enterprise Oversight ("OFHEO"), the New York Stock Exchange and the Securities and Exchange Commission ("SEC"). The re-audit is likely to take several months. Freddie Mac's voluntary registration with the SEC, which had been expected to be completed in first quarter 2003, will occur after completion of the re-audit. Freddie Mac remains committed to the completion of the voluntary registration process.

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“Freddie Mac produced strong financial results in 2002, financing homes for a record 4.5 million families while adhering to our strict risk management discipline,” Brendsel said. “We expect continued strong performance in 2003.”

Brendsel added, “Freddie Mac is committed to the highest standards of financial integrity. We fully support the re-audit, and we are confident it will have no adverse impact on the company’s fundamental strength. Last week, all three major rating agencies affirmed our high ratings.”

“Strong portfolio growth and continued credit strength drove our performance during the year,” remarked David W. Glenn, Vice Chairman and President. “We produced high-quality, double-digit portfolio growth in both lines of business and successfully managed interest-rate risk in a challenging environment. Our credit losses for the year represented less than 1 basis point of our total mortgage portfolio.”

Earnings Summary

The financial results for 2002 presented in this press release are unaudited. These unaudited results, as well as the 2001 financial results presented, are subject to restatement and significant change.

GAAP net income was \$5.764 billion for 2002, an increase of 39 percent from \$4.147 billion for 2001. Diluted GAAP earnings per common share were \$7.95 for 2002, an increase of 41 percent from \$5.64 for 2001.

GAAP net income was \$1.703 billion for fourth quarter 2002, an increase of 25 percent from \$1.364 billion for fourth quarter 2001. GAAP net income increased in fourth quarter 2002 from \$1.538 billion for third quarter 2002. Diluted GAAP earnings per common share for fourth quarter 2002 were \$2.38, an increase of 27 percent from \$1.87 for fourth quarter 2001. Diluted GAAP earnings per share increased in fourth quarter 2002 from \$2.13 for third quarter 2002.

In addition to GAAP results, Freddie Mac also assesses its performance based on operating earnings (see the “Non-GAAP Financial Measure” section of this press release for additional information). Operating earnings for 2002 were \$3.854 billion, an increase of 22 percent from \$3.154 billion for 2001. Diluted operating earnings per common share were \$5.20 for 2002, an increase of 24 percent from \$4.21 for 2001.

Operating earnings were \$846 million for fourth quarter 2002, a decline of 1 percent from \$853 million for fourth quarter 2001. Operating earnings decreased in fourth quarter 2002 from \$1.147 billion for third quarter 2002. Diluted operating earnings per common share were \$1.14 for fourth quarter 2002, unchanged from fourth quarter 2001. Diluted operating earnings per share decreased in fourth quarter 2002 from \$1.57 for third quarter 2002.

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Both GAAP and operating earnings for fourth quarter and full-year 2002 include a contribution to the corporation's philanthropic program of \$225 million pre-tax (\$0.21 per diluted common share). GAAP and operating earnings for third quarter and full-year 2002 include an adjustment to the corporation's loan loss reserve of \$246 million pre-tax (\$0.23 per diluted common share).

2002 Highlights

- Freddie Mac's **total mortgage portfolio** grew by \$173 billion during 2002, representing growth of 15 percent. This strong growth reflects record new business purchases. Growth from mortgage purchases was partially offset by sharply higher liquidations, which were driven by the surge in refinance activity in the low interest-rate environment.
- Freddie Mac's **retained portfolio** grew by \$76 billion during 2002, representing growth of 15 percent. Growth was concentrated in the first and fourth quarters, when there were greater investment opportunities consistent with the corporation's disciplined investment management framework. Freddie Mac deploys capital only when long-term economic returns are attractive and it can prudently manage risk.
- Freddie Mac's **portfolio market value sensitivity ("PMVS")** averaged 2.90 percent in 2002. In addition, Freddie Mac's average **duration gap** was between plus and minus one month during every month of 2002. These results reflect the corporation's conservative interest-rate risk management.
- Freddie Mac's 2002 **credit losses** represented 0.7 basis points of its average total mortgage portfolio in 2002, unchanged from 2001. Due to the corporation's strong credit position and the sustained strength of the housing market, credit losses remained low in 2002 despite higher real estate owned ("REO") activity.
- Freddie Mac's **administrative expenses**, which exclude a \$225 million special contribution to its philanthropic program, increased by 9 percent in 2002, down from 18 percent growth in 2001. The slower expense growth in 2002 reflects the corporation's continued operating efficiencies and prudent management of expenses.
- Freddie Mac's safety and soundness regulator, OFHEO, announced that the corporation's total capital required under the **risk-based capital** standard at September 30, 2002, was \$4.9 billion, yielding a risk-based capital surplus of \$18.2 billion. This result reflects Freddie Mac's low risk profile and the conservative manner in which it operates. Freddie Mac's minimum capital surplus was \$2.1 billion at September 30, 2002.

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Freddie Mac's results and business outlook are further discussed in the following sections of this press release:

- Portfolio Growth
- Financial Results (Unaudited)
 - GAAP Basis
 - Non-GAAP Financial Measure (Operating Earnings Basis)
- Other Performance Results
 - Credit
 - Interest-Rate Risk Measures
 - Capital
- Business Outlook

Portfolio Growth

Freddie Mac achieved record new business volumes and very strong portfolio growth in 2002, as mortgage rates fell to historically low levels. The growth rates of the corporation's total mortgage portfolio, retained portfolio and Total PCs all exceeded the growth rate of U.S. residential mortgage debt outstanding, which increased by an estimated 11 percent in 2002.

Total Mortgage Portfolio

The total mortgage portfolio grew 15 percent to \$1.311 trillion at December 31, 2002, from \$1.138 trillion at December 31, 2001. This growth was driven by new business purchase volume (which excludes purchases of PCs for the retained portfolio) of \$642 billion in 2002, up from \$475 billion in 2001. Total mortgage portfolio growth also was affected by liquidations of \$469 billion in 2002, up from \$299 billion in 2001.

The total mortgage portfolio grew at a 16 percent annualized rate in fourth quarter 2002, from \$1.261 trillion at September 30, 2002. This growth was driven by new business purchase volume of \$239 billion in fourth quarter 2002, up from \$142 billion for fourth quarter 2001 and \$137 billion for third quarter 2002. Total mortgage portfolio growth also was affected by liquidations of \$189 billion in fourth quarter 2002, up from \$111 billion in fourth quarter 2001 and \$120 billion in third quarter 2002.

Retained Portfolio

The retained portfolio grew 15 percent to \$568 billion at December 31, 2002, from \$492 billion at December 31, 2001. The retained portfolio grew at a 28 percent annualized rate in fourth quarter 2002, from \$531 billion at September 30, 2002. Mortgage investment opportunities were generally attractive during the fourth quarter. Growth was tempered, however, by continued strong demand from other investors as well as increased liquidations driven by record refinance activity.

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Total PCs

Total PCs grew 14 percent to \$1.082 trillion at December 31, 2002, from \$948 billion at December 31, 2001. Total PCs grew at a 9 percent annualized rate in fourth quarter 2002, from \$1.058 trillion at September 30, 2002.

Total PCs, net (which excludes PCs held in the retained portfolio) grew 15 percent to \$743 billion at December 31, 2002, from \$646 billion at December 31, 2001. For fourth quarter 2002, Total PCs, net grew at a 7 percent annualized rate from \$730 billion at September 30, 2002.

Financial Results (Unaudited)

GAAP Basis

Net Interest Income and Net Interest Yield

Freddie Mac's GAAP net interest income totaled \$6.777 billion for 2002, up 24 percent from \$5.480 billion for 2001. For fourth quarter 2002, GAAP net interest income was \$1.683 billion, down 10 percent from \$1.876 billion for fourth quarter 2001 and down 7 percent from \$1.811 billion for third quarter 2002.

Fully taxable equivalent ("FTE") GAAP net interest yield on earning assets was 112 basis points for 2002, compared to 110 basis points for 2001. FTE GAAP net interest yield on earning assets was 105 basis points for fourth quarter 2002, compared to 135 basis points for fourth quarter 2001 and 120 basis points for third quarter 2002.

The decline in FTE GAAP net interest yield from third quarter 2002 reflects higher PC variance expense, which was driven by sharply higher mortgage prepayment volumes. GAAP net interest yield also was affected by an increase in net amortization expense on certain hedged positions as required by SFAS 133.

Guarantee Fees

Management and guarantee income totaled \$1.911 billion for 2002, up from \$1.639 billion for 2001. The average balance of Total PCs increased by \$154 billion, or 18 percent for 2002. The average guarantee fee rate for 2002 was 18.5 basis points, down from 18.7 basis points for 2001.

Management and guarantee income totaled \$490 million for fourth quarter 2002, up from \$433 million for fourth quarter 2001 and unchanged from third quarter 2002. The average balance of Total PCs increased by \$9 billion in fourth quarter 2002, a 1 percent increase from third quarter 2002. The average guarantee fee rate was 18.5 basis points for

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fourth quarter 2002, down from 18.6 basis points for both fourth quarter 2001 and third quarter 2002.

Hedging Gains (Losses)

Freddie Mac uses derivative financial instruments to hedge market risks associated with our mortgage-related investments and debt financing, and to reduce financing costs. Under SFAS 133, hedging gains (losses) generally arise when the change in fair value of a derivative does not exactly offset the change in the fair value of the hedged item. The amount of hedging gains (losses) recognized will vary from period to period and is influenced primarily by changes in interest rates and volatility as well as the size of the corporation's derivative portfolio.

Hedging gains were \$496 million in 2002, compared to losses of \$27 million for 2001. Hedging gains were \$353 million for fourth quarter 2002, compared to gains of \$105 million for fourth quarter 2001 and \$18 million for third quarter 2002.

Losses on Debt Retirements

Freddie Mac repurchased \$20.3 billion of long-term debt in 2002, incurring losses that reduced diluted GAAP earnings per common share by \$0.69. This compares to debt repurchases of \$4.7 billion in 2001, with losses that reduced diluted GAAP earnings per common share by \$0.33.

Freddie Mac repurchased \$7.3 billion of long-term debt in fourth quarter 2002, incurring losses that reduced diluted GAAP earnings per common share by \$0.33. This compares to debt repurchases of \$2.1 billion in fourth quarter 2001, with losses that reduced diluted GAAP earnings per common share by \$0.19. Freddie Mac repurchased \$2.4 billion of long-term debt in third quarter 2002, incurring losses that reduced diluted GAAP earnings per common share by \$0.08.

Total Other Income, Net

Total other income, net consists of a variety of components that tend to fluctuate from period to period. The primary components of Total other income, net include securitization fees, gains or losses on investment activity, and gains or losses on derivatives that are not in SFAS 133 hedge relationships.

GAAP Total other income, net, was a gain of \$979 million for 2002, compared to a gain of \$273 million for 2001. GAAP Total other income, net, was a gain of \$873 million for fourth quarter 2002, compared to income of \$92 million for fourth quarter 2001 and a loss of \$33 million for third quarter 2002.

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The change in GAAP Total other income, net from third quarter 2002 reflects several factors. Higher resecuritization fees, higher gains on asset sales and lower write-downs on certain interest-only (“I/O”) securities contributed to increased GAAP Total other income, net. In addition, GAAP Total other income, net for fourth quarter 2002 includes approximately \$370 million of non-recurring gains on certain “no hedge designation” derivatives. When a derivative does not satisfy SFAS 133’s hedge criteria or hedge accounting treatment is not elected, the derivative is classified as no hedge designation and changes in the derivative’s fair value must be reported in current period earnings. Certain of the derivatives classified as no hedge designation in fourth quarter 2002 are expected to qualify for hedge accounting treatment prospectively, and in future periods changes in their fair value should not affect GAAP Total other income, net.

Administrative Expenses

Administrative expenses totaled \$920 million for 2002, compared to \$844 million for 2001. Administrative expenses totaled \$280 million for fourth quarter 2002, compared to \$259 million for fourth quarter 2001 and \$208 million for third quarter 2002. The increase in administrative expenses from third quarter 2002 primarily reflects higher compensation-related costs and consulting expense.

Administrative expenses represented 7.5 basis points of the average total mortgage portfolio for 2002, compared to 8.1 basis points for 2001. Annualized administrative expenses represented 8.8 basis points of the average total mortgage portfolio for fourth quarter 2002, compared to 9.3 basis points for fourth quarter 2001 and 6.7 basis points for third quarter 2002.

Special Contribution

In December 2002, Freddie Mac announced that it would make a \$225 million cash contribution to its philanthropic program, which includes the Freddie Mac Foundation and Freddie Mac’s corporate giving program. This special contribution resulted in a pre-tax charge of \$225 million in fourth quarter 2002. It reduced fourth quarter and full-year 2002 net income by \$146 million after-tax, or \$0.21 per diluted common share.

This special contribution is expected to provide operating funds to the Freddie Mac Foundation over the next six to eight years. This should result in lower administrative expenses for Freddie Mac over this period by reducing annual contributions to the Foundation.

Non-GAAP Financial Measure (Operating Earnings Basis)

Freddie Mac adopted SFAS 133 on January 1, 2001. SFAS 133 significantly revised the accounting for derivatives, resulting in inconsistent accounting treatment of derivatives used for risk management purposes and their cash market alternatives. In

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conjunction with Freddie Mac's implementation of SFAS 133, the corporation began reporting a supplemental, non-GAAP financial measure known as operating earnings, which provides for more consistent treatment of certain derivatives and their cash market alternatives.

Management uses operating earnings as an internal performance measure and believes that it enhances understanding of the corporation's financial performance. Freddie Mac's operating earnings may not be comparable to similarly titled measures used by other companies and should not be construed as an alternative to GAAP.

Management remains committed to the use of meaningful non-GAAP performance measures to assist investors in understanding the corporation's business. Freddie Mac's supplemental performance measures could change following the audit and re-audit.

Operating earnings reflect adjustments to certain of Freddie Mac's GAAP income statement results (including Net interest income, Hedging gains (losses), Losses on debt retirements and Total other income, net). The vast majority of these adjustments were made to provide consistent treatment of (i) the cost of purchasing options, whether in the form of callable debt issued by Freddie Mac or an option-based derivative, or (ii) the cost of debt funding, whether in the form of a contractual debt instrument or an interest-rate swap issued in conjunction with a contractual debt instrument. Appendix I (included in the financial tables that accompany this press release) provides a reconciliation of GAAP results to operating earnings.

Some financial results are identical on a GAAP and operating earnings basis. These include guarantee fees, administrative expenses and credit results. Guarantee fees and administrative expenses are discussed in the "GAAP Basis" section of this press release. Credit results are discussed in the "Other Performance Results" section.

The paragraphs that follow discuss key results presented on an operating earnings basis.

Operating Net Interest Income and Net Interest Yield

Freddie Mac's operating net interest income totaled \$5.079 billion for 2002, up from \$3.932 billion for 2001. Operating net interest income totaled \$1.197 billion for fourth quarter 2002, up from \$1.194 billion for fourth quarter 2001 and down from \$1.296 billion for third quarter 2002.

FTE operating net interest yield on earning assets was 84 basis points for 2002, compared to 80 basis points for 2001. FTE operating net interest yield on earning assets was 75 basis points for fourth quarter 2002, compared to 87 basis points for fourth quarter 2001 and 86 basis points for third quarter 2002.

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The decrease in operating net interest yield during the fourth quarter primarily reflects higher PC variance expense, which resulted from the significant increase in mortgage prepayments. In first quarter 2003, PC variance expense is likely to place continued downward pressure on net interest yield, although the magnitude of the decline will depend on prepayment levels and the steepness of the yield curve.

Operating Losses on Debt Retirement

Freddie Mac repurchased \$20.3 billion of long-term debt in 2002, incurring losses that reduced diluted operating earnings per common share by \$1.16. This compares to debt repurchases of \$4.7 billion in 2001, with losses that reduced diluted operating earnings per common share by \$0.33.

Freddie Mac repurchased \$7.3 billion of long-term debt in fourth quarter 2002, incurring losses that reduced diluted operating earnings per common share by \$0.53. This compares to debt repurchases of \$2.1 billion in fourth quarter 2001, with losses that reduced diluted operating earnings per common share by \$0.19. Freddie Mac repurchased \$2.4 billion of long-term debt in third quarter 2002, incurring losses that reduced diluted operating earnings per common share by \$0.16.

Total Operating Other Income, Net

Total operating other income, net was a gain of \$739 million for 2002, compared to a gain of \$273 million for 2001. Total operating other income, net was a gain of \$602 million for fourth quarter 2002, compared to a gain of \$92 million for fourth quarter 2001 and a loss of \$21 million for third quarter 2002. The change in Total operating other income, net from third quarter 2002 reflects several factors, including higher securitization fees, higher gains on asset sales and lower write-downs on certain I/O securities. In addition, as previously discussed, Total other income, net for fourth quarter 2002 includes approximately \$370 million of non-recurring gains on certain no hedge designation derivatives (see the "GAAP Basis—Total Other Income, Net" section of this press release for additional information).

Other Performance Results

Credit

Freddie Mac produced excellent credit results during 2002, driven by the strength of its portfolio and favorable economic conditions. The corporation's credit results continue to reflect the benefits of automated underwriting and loss mitigation, high levels of credit enhancement and strong nationwide house-price appreciation.

Specific indicators of Freddie Mac's strong credit performance are discussed in the paragraphs that follow.

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Single-Family Delinquencies—The corporation's single-family, at-risk delinquency rate, an indicator of potential future credit losses, was 0.40 percent for November 2002, compared to 0.41 percent for December 2001 and 0.38 percent for September 2002.

Multifamily Delinquencies—The net carrying value of delinquent multifamily loans was \$51 million at the end of November 2002, compared to \$44 million at December 31, 2001, and \$5 million at September 30, 2002. As a percentage of the unpaid principal balance of multifamily mortgages serviced, the multifamily delinquency rate was 0.15 percent at the end of November 2002, unchanged from December 31, 2001, and up from 0.01 percent at September 30, 2002.

REO Balances—At December 31, 2002, total REO balances were \$594 million, up from \$442 million at December 31, 2001, and \$575 million at September 30, 2002. Single-family REO balances were \$593 million at December 31, 2002, up from \$441 million at December 31, 2001 and \$575 million at September 30, 2002. Multifamily REO balances were \$1 million at December 31, 2002, unchanged from December 31, 2001 and up from zero at September 30, 2002.

Credit Losses—Freddie Mac's credit losses increased only \$12 million during 2002, despite higher REO activity. This reflects continued house-price gains as well as Freddie Mac's use of credit enhancements. For 2002, credit losses (charge-offs plus REO operations (income) expense) were 0.7 basis points of the average total mortgage portfolio (excluding non-Freddie Mac mortgage securities), unchanged from 2001. Annualized fourth quarter 2002 credit losses were 0.5 basis points of the average total mortgage portfolio, down from 0.7 basis points for fourth quarter 2001 and 0.8 basis points for third quarter 2002.

Mortgage Charge-offs—Total mortgage charge-offs were \$98 million for 2002, up from \$86 million for 2001. Single-family charge-offs were \$99 million for 2002, up from \$89 million for 2001. Both total mortgage charge-offs and single-family mortgage charge-offs were \$22 million for fourth quarter 2002, unchanged from fourth quarter 2001 and down from \$26 million for third quarter 2002.

Loan Loss Reserve Adjustment—As previously disclosed, in 2002 Freddie Mac reviewed its loan loss reserve balance and concluded that its loan loss reserve had been approximately \$246 million more than required by GAAP. As a result, Freddie Mac recorded a pre-tax adjustment of \$246 million to reduce its loan loss reserve balance as of September 30, 2002.

Credit-Related Income (Expense)—Excluding the loan loss reserve adjustment discussed above, Freddie Mac had credit-related income (provision for mortgage losses plus REO operations income (expense)) of \$36 million for 2002, compared to credit-

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related expenses of \$84 million for 2001. Management establishes the loan loss reserve based on its periodic assessment of probable mortgage charge-offs. The provision for mortgage losses may be income or expense, depending on whether management has determined to decrease or increase the loan loss reserve. The provision for mortgage losses was income of \$17 million for 2002, compared to expense of \$103 million for 2001.

Freddie Mac had credit-related income of \$8 million for fourth quarter 2002, compared to expenses of \$24 million for fourth quarter 2001 and income of \$48 million for third quarter 2002. The provision for mortgage losses was zero for fourth quarter 2002, compared to expense of \$29 million for fourth quarter 2001 and income of \$45 million for third quarter 2002.

Interest-Rate Risk Measures

Freddie Mac continued to be well protected against interest-rate changes. Despite the significant interest-rate volatility and record low mortgage rates experienced during 2002, the corporation's primary indicator of interest-rate risk—PMVS—remained at consistently low levels. PMVS averaged 2.90 percent in 2002, compared to 3.13 percent in 2001. In addition, Freddie Mac's average monthly duration gap ranged between plus and minus one month for each month during 2002.

Capital

The corporation's core capital was \$23.792 billion at December 31, 2002, compared to \$19.336 billion at December 31, 2001 and \$22.656 billion at September 30, 2002.

In 2002, Freddie Mac repurchased 9.1 million shares, or \$555 million of common stock, primarily in the second half of the year. In fourth quarter 2002, Freddie Mac repurchased 6.2 million shares, or \$372 million of common stock. In third quarter 2002, Freddie Mac repurchased 2.4 million shares, or \$150 million of common stock. The corporation did not repurchase common stock in 2001.

Freddie Mac must meet the higher of its minimum and risk-based capital requirements. Freddie Mac's minimum capital surplus, the excess of the corporation's core capital over the minimum capital requirement, was estimated at approximately \$2.2 billion at December 31, 2002, compared to \$0.8 billion and \$2.1 billion at December 31, 2001 and September 30, 2002, respectively.

During December 2002, OFHEO announced that Freddie Mac's total capital exceeded the risk-based capital standard by \$18.2 billion as of September 30, 2002. Freddie Mac's surplus against the risk-based capital standard reflects its low level of interest-rate and credit risk.

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Business Outlook

Given the pending re-audit and restatement discussed in earlier sections of this press release, Freddie Mac is not providing specific earnings and net interest margin guidance for 2003 at this time.

In 2003, Freddie Mac expects to achieve strong financial performance and maintain low levels of credit and interest-rate risk. This performance is expected to be driven by a growing mortgage market and the corporation's securitization and retained portfolio activities.

In 2003, Freddie Mac expects the growth rate of Total PCs to exceed the expected 7 to 9 percent growth in U.S. residential mortgage debt outstanding. The corporation also anticipates that its average guarantee fee rate will trend up in 2003 as the effects of previously announced fee increases are realized. In addition, given the corporation's strong credit position, Freddie Mac expects credit losses to remain low but to increase modestly in 2003. Freddie Mac continues to anticipate retained portfolio growth of 8 to 12 percent in 2003. The corporation expects that the growth rate of its administrative expenses will be modestly higher in 2003 than the 9 percent growth in 2002.

Conference Call

Freddie Mac will host a conference call discussing the corporation's fourth quarter 2002 results today at 4 p.m. eastern time. The conference call will be Web cast live on Freddie Mac's website at <http://www.freddiemac.com>.

A telephone recording of this conference call will be available continuously beginning at approximately 6:00 p.m. eastern time Monday, January 27, 2003 until midnight Monday, February 10, 2003. To access this recording, call 1-888-843-8996 and use access code 6619440.

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Freddie Mac's quarterly announcements of earnings results sometimes contain forward-looking statements pertaining to management's current expectations as to Freddie Mac's future business plans, results of operations and/or financial condition (see "Business Outlook" section). As noted above, the audit and re-audit could significantly affect Freddie Mac's financial results. In addition, management's expectations for the corporation's future necessarily involve a number of assumptions and estimates, and various factors could cause actual results to differ materially from these expectations. These assumptions and factors are discussed in the corporation's Annual Report to Shareholders and its Information Statement and quarterly Information Statement Supplements.

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Freddie Mac is a stockholder-owned corporation established by Congress in support of homeownership and rental housing. Freddie Mac purchases single-family and multifamily residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage passthrough securities and debt instruments in the capital markets. Over the years, Freddie Mac has opened doors for one in six homebuyers in America.

Freddie Mac's earnings releases and other financial disclosures are available on the Investor Relations page of its website.

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FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited, pending restatement)
(dollars in millions, except share-related amounts)

	Quarter Ended			Year Ended	
	December 31, 2002	September 30, 2002	December 31, 2001	December 31, 2002	December 31, 2001
Interest income					
Mortgages	\$ 1,070	\$ 1,068	\$ 1,101	\$ 4,297	\$ 4,394
Mortgage-related securities	7,405	7,260	6,964	28,799	25,786
Investments, securities purchased under agreements to resell and Federal funds sold	784	762	761	2,994	3,669
Net benefit of derivative contracts	83	170	205	683	439
Total interest income	9,342	9,260	9,031	36,773	34,288
Interest expense on debt securities					
Short-term debt	(761)	(870)	(1,705)	(3,905)	(8,805)
Long-term debt	(5,465)	(5,363)	(4,431)	(20,826)	(17,618)
Total interest expense on debt securities	(6,226)	(6,233)	(6,136)	(24,731)	(26,423)
Interest expense due to security program cycles	(466)	(274)	(305)	(1,236)	(987)
Net cost of derivative contracts	(967)	(942)	(714)	(4,029)	(1,398)
Total interest expense	(7,659)	(7,449)	(7,155)	(29,996)	(28,808)
Net interest income	1,683	1,811	1,876	6,777	5,480
Management and guarantee income (1)	490	490	433	1,911	1,639
Hedging gains (losses)	353	18	105	496	(27)
Losses on debt retirement	(354)	(85)	(201)	(738)	(355)
Resecuritization fees	109	75	51	302	145
Gains (losses) on investment activity	239	(208)	58	94	115
No hedge designation (2)	342	39	(71)	270	(157)
Other miscellaneous, net	183	61	54	313	170
Total other income, net	873	(33)	92	979	273
Total revenues	3,045	2,201	2,305	9,425	7,010
Adjustment to provision for mortgage losses (3)	-	246	-	246	-
Provision for mortgage losses	-	45	(29)	17	(103)
REO operations income (expense)	8	3	5	19	19
Total credit-related expenses	8	294	(24)	282	(84)
Salaries and employee benefits	(162)	(132)	(158)	(550)	(504)
Other administrative expenses	(118)	(76)	(101)	(370)	(340)
Total administrative expense	(280)	(208)	(259)	(920)	(844)
Special contributions expense (4)	(225)	-	-	(225)	-
Housing tax credit partnerships	(46)	(46)	(39)	(179)	(137)
Total non-interest expense	(543)	40	(322)	(1,042)	(1,065)
Income before income tax expense	2,502	2,241	1,983	8,383	5,945
Income tax expense	(799)	(703)	(619)	(2,619)	(1,803)
Income before cumulative effect of change in accounting principle, net of taxes	1,703	1,538	1,364	5,764	4,142
Cumulative effect of change in accounting principle, net of taxes of \$3 million, for the year ended December 31, 2001	-	-	-	-	5
Net income	\$ 1,703	\$ 1,538	\$ 1,364	\$ 5,764	\$ 4,147
Preferred stock dividends	(58)	(57)	(59)	(234)	(217)
Net income available to common stockholders	\$ 1,645	\$ 1,481	\$ 1,305	\$ 5,530	\$ 3,930
Basic earnings per common share before cumulative effect of change in accounting principle, net of taxes	\$ 2.39	\$ 2.14	\$ 1.88	\$ 7.98	\$ 5.65
Cumulative effect of change in accounting principle, net of taxes	-	-	-	-	0.01
Basic earnings per common share after cumulative effect of change in accounting principle, net of taxes	\$ 2.39	\$ 2.14	\$ 1.88	\$ 7.98	\$ 5.66
Diluted earnings per common share before cumulative effect of change in accounting principle, net of taxes	\$ 2.38	\$ 2.13	\$ 1.87	\$ 7.95	\$ 5.63
Cumulative effect of change in accounting principle, net of taxes	-	-	-	-	0.01
Diluted earnings per common share after cumulative effect of change in accounting principle, net of taxes	\$ 2.38	\$ 2.13	\$ 1.87	\$ 7.95	\$ 5.64
Weighted average common shares outstanding (thousands)					
Basic	689,577	693,551	695,139	692,874	694,096
Diluted	692,045	696,184	697,671	695,687	696,876

- (1) Includes "Management and guarantee income" associated with all mortgages securitized into PCs, including PCs in the retained portfolio. For the quarters ended December 31, 2002, September 30, 2002 and December 31, 2001 "Management and guarantee income" related to PCs in the retained portfolio was \$155 million, \$155 million and \$138 million, respectively. For the years ended December 31, 2002 and December 31, 2001 "Management and guarantee income" related to PCs in the retained portfolio was \$613 million and \$512 million, respectively.
- (2) Represents changes in the fair value of derivative financial instruments that do not satisfy Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133") hedging criteria or for which hedge accounting has not been elected.
- (3) Represents the effect of reducing the corporation's loan loss reserve by \$246 million on a pre-tax basis. This reserve reduction increased both GAAP net income and operating earnings by \$160 million on an after-tax basis or \$0.23 per diluted common share for 3Q 2002 and for the full-year 2002.
- (4) During 4Q 2002, Freddie Mac announced a \$225 million cash contribution to its philanthropic program which includes the Freddie Mac Foundation and corporate giving programs. The corporation's 4Q 2002 contribution is expected to provide operating funds to the Freddie Mac Foundation over the next six to eight years. This special contribution should result in lower "Other administrative expenses" as it reduces the corporation's need to make annual contributions to the Freddie Mac Foundation over this period.

FREDDIE MAC
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, pending restatement)
(dollars in millions)

	December 31, 2002		September 30, 2002		December 31, 2001
Assets					
Retained portfolio					
Mortgages	\$ 63,887	\$	60,934	\$	62,792
Reserve for losses on retained mortgages	(154)		(153)		(326)
Mortgages, net	63,733		60,781		62,466
Mortgage-related securities	504,286		469,760		428,927
Premiums, discounts and deferred fees	(3,492)		(6,852)		(56)
Net unrealized gains on available-for-sale securities	18,742		18,726		2,922
Retained portfolio, net	583,269		542,415		494,259
Cash and cash equivalents	10,792		7,116		1,508
Investments ⁽¹⁾	63,242		74,595		69,274
Securities purchased under agreements to resell and Federal funds sold ⁽¹⁾	12,564		14,760		12,151
Accounts and trading receivables	36,718		31,024		33,073
Real estate owned (REO), net	594		575		442
Derivative assets, at fair value	10,340		7,677		1,598
Other assets	4,220		3,818		5,035
Total assets	\$ 721,739	\$	681,980	\$	617,340
Liabilities and stockholders' equity					
Debt securities, net					
Due within one year	\$ 226,035	\$	222,178	\$	250,338
Due after one year	417,274		396,473		311,608
Total debt securities, net	643,309		618,651		561,946
Principal and interest due to Mortgage Participation					
Certificate (PC) investors	36,232		26,195		25,628
Derivative liabilities, at fair value	1,111		2,052		2,482
Other liabilities	10,587		7,591		8,311
	691,239		654,489		598,367
Reserve for losses on Mortgage Participation Certificates	286		309		475
Commitments and contingent liabilities					
Subordinated borrowings	5,585		4,616		3,125
Stockholders' equity					
Preferred stock, at redemption value	4,609		4,609		4,596
Common stock, \$0.21 par value, 726,000,000 shares authorized, 725,882,280 shares issued	152		152		152
Additional paid-in capital	577		565		532
Retained earnings	19,924		18,431		15,004
Accumulated other comprehensive income (loss), net of taxes, related to:					
Available-for-sale securities	12,863		13,100		2,100
Certain derivative financial instruments	(12,026)		(13,190)		(6,063)
Treasury stock, at cost, 38,506,281 shares, 32,321,632 shares and 30,578,510 shares, respectively	(1,470)		(1,101)		(948)
Total stockholders' equity	24,629		22,566		15,373
Total liabilities and stockholders' equity	\$ 721,739	\$	681,980	\$	617,340

(1) During 4Q 2002, Freddie Mac reclassified Federal funds sold from "Investments" to "Securities purchased under agreements to resell and Federal funds sold." This reclassification has been retroactively applied to previous periods for comparability purposes.

FREDDIE MAC
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited, pending restatement)
(dollars in millions)

Year Ended December 31, 2002

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Treasury Stock, at Cost	Total Stockholders' Equity	Comprehensive Income
Balance, December 31, 2001	\$ 4,596	\$ 152	\$ 532	\$ 15,004	\$ (3,963)	\$ (948)	\$ 15,373	
Cash dividends declared:								
Preferred stock				(234)			(234)	
Common stock				(610)			(610)	
Preferred stock issuances, net	13		(2)				11	
Common stock issuances			15			33	48	
Common stock repurchases						(555)	(555)	
Unearned deferred compensation, net			3				3	
Stock-based compensation expense			13				13	
Income tax benefit from employee stock option exercises			16				16	
Changes in accumulated other comprehensive income (loss), net of taxes, related to:								
Available-for-sale securities					10,763		10,763	\$ 10,763
Certain derivative financial instruments					(5,963)		(5,963)	(5,963)
Net income				5,764			5,764	5,764
Total comprehensive income								<u>\$ 10,564</u>
Balance, December 31, 2002	<u>\$ 4,609</u>	<u>\$ 152</u>	<u>\$ 577</u>	<u>\$ 19,924</u>	<u>\$ 837</u>	<u>\$ (1,470)</u>	<u>\$ 24,629</u>	

FREDDIE MAC
SUMMARY OF OPERATING RESULTS
TABLE 1
FOURTH QUARTER 2002
(unaudited, pending restatement)

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002	2002 vs. 2001
Operating Earnings ⁽¹⁾ (dollars in millions, except share-related amounts)								
1 Operating Revenues	\$ 1,518	\$ 1,547	\$ 1,614	\$ 1,599	\$ 1,726	\$ 5,489	\$ 6,486	18%
2 Total Non-Interest Expense ⁽²⁾	(322)	(294)	(245)	40	(543)	(1,065)	(1,042)	(2%)
3 Operating Income Before Income Taxes	\$ 1,196	\$ 1,253	\$ 1,369	\$ 1,639	\$ 1,183	\$ 4,424	\$ 5,444	23%
4 Operating Income Taxes	(343)	(360)	(401)	(492)	(337)	(1,270)	(1,590)	25%
5 Operating Earnings ⁽²⁾	\$ 853	\$ 893	\$ 968	\$ 1,147	\$ 846	\$ 3,154	\$ 3,854	22%
6 Preferred Stock Dividends	(59)	(60)	(59)	(57)	(58)	(217)	(234)	8%
7 Operating Earnings Available for Common Shareholders ⁽²⁾	\$ 794	\$ 833	\$ 909	\$ 1,090	\$ 788	\$ 2,937	\$ 3,620	23%
8 Weighted Average Common Shares Outstanding - Diluted (Thousands)	697,671	697,572	698,370	696,184	692,045	696,876	695,687	
9 Operating Earnings per Common Share - Diluted ^{(2) (3)}	\$ 1.14	\$ 1.19	\$ 1.30	\$ 1.57	\$ 1.14	\$ 4.21	\$ 5.20	24%
10 Operating Effective Tax Rate	28.7%	28.7%	29.3%	30.0%	28.5%	28.7%	29.2%	

⁽¹⁾ Reflects adjustments illustrated on Appendix I and Appendix I-A.

⁽²⁾ Includes the effect of reducing the corporation's loan loss reserves by \$246 million on a pre-tax basis during 3Q 2002. This reserve reduction increased both GAAP net income and operating earnings by \$160 million on an after-tax basis (or \$0.23 per diluted common share) for 3Q 2002 and the full-year 2002. Also includes the effect of the corporation's \$225 million special cash contribution to its philanthropic program announced during 4Q 2002. This contribution decreased both GAAP net income and operating earnings by \$146 million on an after-tax basis (or \$0.21 per diluted common share) for 4Q 2002 and the full-year 2002. Absent these adjustments, 3Q 2002, 4Q 2002 and full-year 2002 operating earnings per diluted common share would have been \$1.34, \$1.35 and \$5.18, respectively.

⁽³⁾ Earnings per share is computed independently for each of the quarters presented. Due to the use of weighted-average common shares outstanding when calculating earnings per share, the sum of the four quarters may not equal the full-year amount. Earnings per share amounts may not recalculate due to rounding.

FREDDIE MAC
MORTGAGE PORTFOLIO ACTIVITY
TABLE 2 - A
FOURTH QUARTER 2002
(unaudited, pending restatement)
(dollars in billions)

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002	2002 vs. 2001
Total Mortgage Portfolio								
1 New Business Purchases	\$ 142	\$ 151	\$ 115	\$ 137	\$ 239	\$ 475	\$ 642	35%
2 Liquidations and Sales ⁽¹⁾	(111)	(86)	(74)	(120)	(189)	(299)	(469)	57%
3 Net Additions	31	65	41	17	50	176	173	(2%)
4 Ending Balance	\$ 1,138	\$ 1,203	\$ 1,244	\$ 1,261	\$ 1,311	\$ 1,138	\$ 1,311	15%
5 Percent Growth (annualized)	11%	23%	14%	5%	16%	18%	15%	
6 Liquidation Rate (annualized) ⁽²⁾	40%	30%	23%	38%	59%	31%	40%	
Retained Portfolio ⁽³⁾								
7 Retained Purchases	\$ 70	\$ 72	\$ 34	\$ 64	\$ 105	\$ 244	\$ 275	13%
8 Other ⁽⁴⁾	(10)	(5)	(13)	(12)	(12)	(28)	(42)	50%
9 Liquidations	(39)	(33)	(28)	(40)	(56)	(110)	(157)	43%
10 Net Additions	21	34	(7)	12	37	106	76	(28%)
11 Ending Balance	\$ 492	\$ 526	\$ 519	\$ 531	\$ 568	\$ 492	\$ 568	15%
12 Percent Growth (annualized)	18%	28%	(5%)	9%	28%	27%	15%	
13 Liquidation Rate (annualized) ⁽²⁾	33%	26%	21%	31%	42%	29%	32%	
14 PC Repurchases	\$ 49	\$ 60	\$ 20	\$ 37	\$ 62	\$ 159	\$ 179	13%
15 Retained Portfolio Commitments Outstanding, net ⁽⁵⁾	\$ 24	\$ 1	\$ 1	\$ 44	\$ 32	\$ 24	\$ 32	
Total PCs								
16 PC Issuances	\$ 121	\$ 139	\$ 101	\$ 111	\$ 196	\$ 390	\$ 547	40%
17 Liquidations	(101)	(75)	(60)	(106)	(172)	(264)	(413)	56%
18 Net Additions	20	64	41	5	24	126	134	6%
19 Ending Balance	\$ 948	\$ 1,012	\$ 1,053	\$ 1,058	\$ 1,082	\$ 948	\$ 1,082	14%
20 Percent Growth (annualized)	9%	27%	16%	2%	9%	15%	14%	
21 PCs Held in Retained Portfolio	\$ 302	\$ 335	\$ 328	\$ 328	\$ 339	\$ 302	\$ 339	12%
22 Total PCs, Net ⁽⁶⁾	\$ 646	\$ 677	\$ 725	\$ 730	\$ 743	\$ 646	\$ 743	15%
23 Percent Growth (annualized)	6%	19%	28%	3%	7%	12%	15%	
24 Liquidation Rate (annualized) ⁽²⁾	45%	33%	25%	42%	72%	32%	47%	

⁽¹⁾ Includes mortgage-related securities held in the retained portfolio that have been sold.

⁽²⁾ Reflects principal payments only and excludes mortgage-related securities held in the retained portfolio that have been sold.

⁽³⁾ Excludes "Reserve for losses on retained mortgages," "Premiums, discounts and deferred fees," and "Net unrealized gain (loss) on available-for-sale securities" related to mortgage-related securities.

⁽⁴⁾ Includes balloon/reset mortgages and delinquent mortgages required to be repurchased from Total PCs pursuant to the terms of such securities, net of Freddie Mac securities held in the retained portfolio that have been called by a third party and securities held in the retained portfolio that have been sold.

⁽⁵⁾ Includes commitments outstanding at period end to purchase mortgages and mortgage-related securities for the retained portfolio. Purchase commitments are reported net of commitments to sell securities.

⁽⁶⁾ Equal to ending balance of Total PCs (Line 19) less PCs held in the retained portfolio (Line 21).

FREDDIE MAC
MORTGAGE PORTFOLIO STATISTICS
TABLE 2 - B
FOURTH QUARTER 2002
(unaudited, pending restatement)
(dollars in billions)

Line :	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002
<u>Volume Data Statistics</u>							
1 Purchase Market Share ⁽¹⁾	41%	42%	41%	39%	41%	41%	41%
2 Refinance Percentage of New Business Purchases	71%	78%	64%	64%	82%	62%	74%
3 Credit-Enhanced Percentage of New Business Purchases ^{(2) (3)}	23%	19%	23%	24%	16%	28%	20%
<u>Outstanding Balance Data Statistics</u>							
4 Retained Portfolio	\$ 492	\$ 526	\$ 519	\$ 531	\$ 568	\$ 492	\$ 568
5 Total PCs, Net ⁽⁴⁾	646	677	725	730	743	646	743
6 Total Mortgage Portfolio	<u>\$ 1,138</u>	<u>\$ 1,203</u>	<u>\$ 1,244</u>	<u>\$ 1,261</u>	<u>\$ 1,311</u>	<u>\$ 1,138</u>	<u>\$ 1,311</u>
7 Retained Portfolio as Percentage of Total Mortgage Portfolio	43%	44%	42%	42%	43%	43%	43%
8 Credit-Enhanced Percentage of Total Mortgage Portfolio ^{(2) (3)}	35%	32%	31%	30%	28%	35%	28%
9 <u>Structured Securitization Volume</u> ⁽⁵⁾	\$ 69	\$ 77	\$ 72	\$ 76	\$ 107	\$ 192	\$ 332

⁽¹⁾ Based on mortgage purchase and PC issuance activity relative to Fannie Mae.

⁽²⁾ The total mortgage portfolio and related purchases exclude non-Freddie Mac mortgage securities. Credit enhancements include loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. In some cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

⁽³⁾ 4Q 2002 and full year 2002 are as of November 30, 2002.

⁽⁴⁾ Net of PCs Held in retained portfolio.

⁽⁵⁾ Includes issuances of mortgage-related securities in which the cash flows are structured into various classes having a variety of features, the majority of which qualify for treatment as Real Estate Mortgage Investment Conduits ("REMICs") under the Internal Revenue Code.

FREDDIE MAC
OPERATING REVENUES
TABLE 3
FOURTH QUARTER 2002
(unaudited, pending restatement)
(dollars in millions)

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002	2002 vs. 2001
<u>Operating Net Interest Margin</u>								
1 Operating Net Interest Income on Earning Assets ⁽¹⁾	\$ 1,194	\$ 1,294	\$ 1,292	\$ 1,296	\$ 1,197	\$ 3,932	\$ 5,079	29%
2 Operating Net Interest Income on Earning Assets (fully taxable equivalent basis) ⁽¹⁾	\$ 1,245	\$ 1,356	\$ 1,351	\$ 1,359	\$ 1,256	\$ 4,161	\$ 5,322	28%
3 Average Retained Portfolio ^{(2) (3)}	\$ 483,239	\$ 512,673	\$ 518,939	\$ 526,876	\$ 547,456	\$ 445,478	\$ 526,486	18%
4 Average Investments	91,678	95,338	99,408	105,549	124,370	80,016	106,166	33%
5 Total Average Interest-Earning Assets ⁽²⁾	\$ 574,917	\$ 608,011	\$ 618,347	\$ 632,425	\$ 671,826	\$ 525,494	\$ 632,652	20%
6 Operating Net Interest Yield on Earning Assets (fully taxable equivalent basis) ⁽¹⁾	0.87%	0.89%	0.88%	0.86%	0.75%	0.80%	0.84%	
<u>Guarantee Fees</u>								
7 Guarantee Fees	\$ 433	\$ 453	\$ 478	\$ 490	\$ 490	\$ 1,639	\$ 1,911	17%
8 Average Total PCs	\$ 932,284	\$ 978,430	\$ 1,033,092	\$ 1,051,610	\$ 1,060,509	\$ 876,630	\$ 1,030,910	18%
9 Guarantee Fees (in basis points)	18.6	18.5	18.5	18.6	18.5	18.7	18.5	
<u>Debt Retirement Activity</u>								
10 Losses on Debt Retirement ⁽¹⁾	\$ (201)	\$ (272)	\$ (242)	\$ (166)	\$ (563)	\$ (355)	\$ (1,243)	
11 Memo: Loss on Debt Retirement, Net of Taxes ⁽⁴⁾	\$ (131)	\$ (177)	\$ (157)	\$ (108)	\$ (366)	\$ (231)	\$ (808)	
12 Memo: Operating Earnings per Common Share Impact of Loss on Debt Retirement, Net of Taxes ^{(4) (5)}	\$ (0.19)	\$ (0.25)	\$ (0.23)	\$ (0.16)	\$ (0.53)	\$ (0.33)	\$ (1.16)	
<u>Total Operating Other Income, Net</u>								
13 Resecuritization Fees	\$ 51	\$ 60	\$ 58	\$ 75	\$ 109	\$ 145	\$ 302	
14 Gains (Losses) on Investment Activity ^{(1) (6)}	58	14	68	(196)	69	115	(45)	
15 No Hedge Designation ⁽⁷⁾	(71)	(24)	(87)	39	342	(157)	270	
16 Other Miscellaneous, Net ⁽¹⁾	54	22	47	61	82	170	212	
17 Total	\$ 92	\$ 72	\$ 86	\$ (21)	\$ 602	\$ 273	\$ 739	
18 <u>Operating Revenues</u> ⁽⁸⁾	\$ 1,518	\$ 1,547	\$ 1,614	\$ 1,599	\$ 1,726	\$ 5,489	\$ 6,486	18%

⁽¹⁾ Reflects pre-tax adjustments illustrated on Appendix I and Appendix I-A.

⁽²⁾ Includes the effect of reducing the corporation's loan loss reserve by \$246 million on a pre-tax basis. This reserve reduction increased both GAAP net income and Operating earnings by \$160 million on an after-tax basis or \$0.23 per diluted common share for the full-year 2002.

⁽³⁾ Excludes SFAS 133-related basis adjustments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - CRITICAL ACCOUNTING POLICIES" in the Information Statement dated March 29, 2002 for more information.

⁽⁴⁾ Represents operating after-tax effect of debt retirement prior to scheduled maturity.

⁽⁵⁾ Earnings per share is computed independently for each of the quarters presented. Due to the use of weighted-average common shares outstanding when calculating earnings per share, the sum of the four quarters may not equal the full-year amount. Earnings per share amounts may not recalculate due to rounding.

⁽⁶⁾ Includes write-downs on certain interest-only ("I/O") securities of \$147 million, \$316 million, \$65 million, \$5 million and \$42 million for 4Q 2002, 3Q 2002, 2Q 2002, 1Q 2002 and 4Q 2001, respectively. Includes write-downs on certain I/O securities of \$533 million and \$112 million for the years ended 2002 and 2001, respectively.

⁽⁷⁾ Represents changes in the fair value of derivative financial instruments that do not satisfy SFAS 133 hedging criteria or for which hedge accounting has not been elected.

⁽⁸⁾ Equal to the sum of Operating Net Interest Income on Earning Assets (Line 1), Guarantee Fees (Line 7), Losses on Debt Retirement (Line 10) and Total Operating Other Income, Net (Line 17).

FREDDIE MAC
OPERATING NET INTEREST YIELD ANALYSIS

TABLE 4
FOURTH QUARTER 2002
(unaudited, pending restatement)

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002
<u>Operating Net Interest Income: (dollars in millions)</u>							
Operating Interest Income:							
1 Mortgages	\$ 1,101	\$ 1,086	\$ 1,073	\$ 1,068	\$ 1,070	\$ 4,394	\$ 4,297
2 Mortgage-Related Securities	6,823	7,148	7,131	7,066	7,067	25,575	28,412
3 Total Retained Portfolio	7,924	8,234	8,204	8,134	8,137	29,969	32,709
4 Investments, Securities Purchased Under Agreements to Resell and Federal Funds Sold	761	698	750	762	784	3,669	2,994
5 Total Earning Assets	8,685	8,932	8,954	8,896	8,921	33,638	35,703
Operating Interest Expense:							
6 Short-Term Debt	(1,705)	(1,231)	(1,043)	(870)	(761)	(8,805)	(3,905)
7 Long-Term Debt	(4,640)	(5,014)	(5,416)	(5,644)	(5,788)	(18,123)	(21,862)
8 Total Contractual Debt	(6,345)	(6,245)	(6,459)	(6,514)	(6,549)	(26,928)	(25,767)
9 PC Variance - Prepayments ⁽¹⁾	(297)	(279)	(203)	(269)	(460)	(963)	(1,211)
10 - ARM Rate Adjustments ⁽²⁾	(8)	(8)	(6)	(5)	(6)	(24)	(25)
11 Total Expense on Interest-Bearing Liabilities	(6,650)	(6,532)	(6,668)	(6,788)	(7,015)	(27,915)	(27,003)
12 Net Cost of Derivative Contracts	(841)	(1,106)	(994)	(812)	(709)	(1,791)	(3,621)
13 Operating Net Interest Income on Earning Assets	\$ 1,194	\$ 1,294	\$ 1,292	\$ 1,296	\$ 1,197	\$ 3,932	\$ 5,079
14 Fully Taxable Equivalent and Other Adjustments	51	62	59	63	59	229	243
15 Operating Net Interest Income (fully taxable equivalent basis)	\$ 1,245	\$ 1,356	\$ 1,351	\$ 1,359	\$ 1,256	\$ 4,161	\$ 5,322
<u>Operating Average Balances: (dollars in billions)</u>							
16 Mortgages	\$ 61.5	\$ 61.0	\$ 58.8	\$ 59.9	\$ 63.5	\$ 60.5	\$ 60.8
17 Mortgage-Related Securities	421.7	451.7	460.1	467.0	483.9	385.0	465.7
18 Total Retained Portfolio	483.2	512.7	518.9	526.9	547.4	445.5	526.5
19 Investments, Securities Purchased Under Agreements to Resell and Federal Funds Sold	91.7	95.3	99.4	105.5	124.4	80.0	106.2
20 Total Earning Assets	\$ 574.9	\$ 608.0	\$ 618.3	\$ 632.4	\$ 671.8	\$ 525.5	\$ 632.7
21 Short-Term Debt	\$ 223.1	\$ 214.6	\$ 194.0	\$ 178.1	\$ 173.1	\$ 202.2	\$ 190.0
22 Long-Term Debt ⁽³⁾	316.2	357.4	395.7	420.3	452.5	292.8	406.5
23 Total Contractual Debt	539.3	572.0	589.7	598.4	625.6	495.0	596.5
24 PC Variance	17.1	16.1	11.9	16.2	28.2	13.6	18.1
25 Total Interest-Bearing Liabilities	556.4	588.1	601.6	614.6	653.8	508.6	614.6
26 Net Non-Interest-Bearing Funding	18.5	19.9	16.7	17.8	18.0	16.9	18.1
27 Total Funding of Interest-Earning Assets	\$ 574.9	\$ 608.0	\$ 618.3	\$ 632.4	\$ 671.8	\$ 525.5	\$ 632.7
<u>Yield/Cost:</u>							
28 Mortgages	7.15%	7.13%	7.30%	7.14%	6.73%	7.26%	7.07%
29 Mortgage-Related Securities	6.47%	6.33%	6.20%	6.05%	5.84%	6.64%	6.10%
30 Total Retained Portfolio	6.56%	6.43%	6.32%	6.18%	5.95%	6.73%	6.21%
31 Investments, Securities Purchased Under Agreements to Resell and Federal Funds Sold	3.27%	2.93%	2.99%	2.84%	2.48%	4.54%	2.79%
32 Yield on Total Earning Assets	6.03%	5.88%	5.79%	5.62%	5.30%	6.39%	5.64%
33 Contractual Short-Term Debt	2.99%	2.29%	2.13%	1.91%	1.72%	4.30%	2.03%
34 Contractual Long-Term Debt	5.86%	5.61%	5.47%	5.37%	5.11%	6.19%	5.38%
35 Total Contractual Debt	4.68%	4.37%	4.37%	4.34%	4.17%	5.42%	4.31%
36 Net Cost of PC Variance	7.15%	7.16%	7.03%	6.78%	6.59%	7.28%	6.83%
37 Cost of Interest-Bearing Liabilities	4.75%	4.44%	4.42%	4.40%	4.28%	5.47%	4.38%
38 Net Cost of Funding	4.60%	4.30%	4.30%	4.28%	4.16%	5.29%	4.26%
39 Operating Net Interest Yield (fully taxable equivalent basis) ⁽⁴⁾	0.87%	0.89%	0.88%	0.86%	0.75%	0.80%	0.84%

⁽¹⁾ Mortgage liquidations on which interest continues accruing to the security holder.

⁽²⁾ Rate changes on Adjustable Rate Mortgages ("ARM")/Floating-Rate mortgages for which the related security rate changes one month later.

⁽³⁾ Includes current portion of long-term debt.

⁽⁴⁾ Includes Net Cost of Derivative Contracts (Line 12) and Fully Taxable Equivalent and Other Adjustments (Line 14).

**FREDDIE MAC
OPERATING FUNDING COMPOSITION**

**TABLE 5
FOURTH QUARTER 2002
(unaudited, pending restatement)
(dollars in billions)**

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002	
<u>Interest-Earning Assets, Average Balances</u>								
<u>Floating-Rate</u>								
1	\$ 52.8	\$ 56.5	\$ 66.2	\$ 70.8	\$ 83.3	\$ 51.0	\$ 69.2	
2	74.7	77.5	80.4	85.4	103.6	65.7	86.7	
3	<u>\$ 127.5</u>	<u>\$ 134.0</u>	<u>\$ 146.6</u>	<u>\$ 156.2</u>	<u>\$ 186.9</u>	<u>\$ 116.7</u>	<u>\$ 155.9</u>	
<u>Fixed-Rate</u>								
4	\$ 430.4	\$ 456.2	\$ 452.7	\$ 456.1	\$ 464.1	\$ 394.5	\$ 457.3	
5	17.0	17.8	19.0	20.1	20.8	14.3	19.5	
6	<u>\$ 447.4</u>	<u>\$ 474.0</u>	<u>\$ 471.7</u>	<u>\$ 476.2</u>	<u>\$ 484.9</u>	<u>\$ 408.8</u>	<u>\$ 476.8</u>	
7	<u>\$ 574.9</u>	<u>\$ 608.0</u>	<u>\$ 618.3</u>	<u>\$ 632.4</u>	<u>\$ 671.8</u>	<u>\$ 525.5</u>	<u>\$ 632.7</u>	
<u>Liabilities and Equity, Average Balances</u>								
<u>Floating-Rate</u>								
8	\$ 223.1	\$ 214.6	\$ 194.0	\$ 178.1	\$ 173.1	\$ 202.2	\$ 190.0	
9	8.4	11.8	18.8	22.4	22.5	7.7	18.9	
10	<u>(97.7)</u>	<u>(92.4)</u>	<u>(57.6)</u>	<u>(11.6)</u>	<u>19.3</u>	<u>(55.5)</u>	<u>(35.6)</u>	
11	<u>\$ 133.8</u>	<u>\$ 134.0</u>	<u>\$ 155.2</u>	<u>\$ 188.9</u>	<u>\$ 214.9</u>	<u>\$ 154.4</u>	<u>\$ 173.3</u>	
<u>Fixed-Rate</u>								
12	\$ 226.2	\$ 249.8	\$ 268.9	\$ 278.7	\$ 288.9	\$ 192.8	\$ 271.6	
13	81.6	95.8	108.0	119.2	141.1	92.3	116.0	
14	(14.4)	(10.3)	(7.6)	(11.4)	(17.7)	(15.4)	(11.7)	
15	<u>112.1</u>	<u>102.7</u>	<u>65.2</u>	<u>23.0</u>	<u>(1.6)</u>	<u>70.9</u>	<u>47.3</u>	
16	<u>\$ 405.5</u>	<u>\$ 438.0</u>	<u>\$ 434.5</u>	<u>\$ 409.5</u>	<u>\$ 410.7</u>	<u>\$ 340.6</u>	<u>\$ 423.2</u>	
17	17.1	16.1	11.9	16.2	28.2	13.6	18.1	
18	<u>18.5</u>	<u>19.9</u>	<u>16.7</u>	<u>17.8</u>	<u>18.0</u>	<u>16.9</u>	<u>18.1</u>	
19	<u>\$ 574.9</u>	<u>\$ 608.0</u>	<u>\$ 618.3</u>	<u>\$ 632.4</u>	<u>\$ 671.8</u>	<u>\$ 525.5</u>	<u>\$ 632.7</u>	
20	Percent of Average Fixed-Rate Retained Portfolio with Rate Protection ^{(1) (2)}	68%	71%	75%	75%	79%	63%	75%

⁽¹⁾ Does not include short-term London Inter-Bank Offered futures contracts that could affect the corporation's near-term funding composition.

⁽²⁾ Includes callable debt and option-based derivative financial instruments that provide upward and downward interest-rate protection.

FREDDIE MAC
CREDIT QUALITY INDICATORS
TABLE 6
FOURTH QUARTER 2002
(unaudited, pending restatement)
(dollars in millions)

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002	2002 vs. 2001
<u>Delinquencies</u> ⁽¹⁾								
Single-family: ⁽²⁾								
1 At-Risk Portfolio ⁽³⁾	0.41 %	0.39 %	0.36 %	0.38 %	0.40 %	0.41 %	0.40 %	
2 Total Portfolio	0.65 %	0.65 %	0.62 %	0.69 %	0.77 %	0.65 %	0.77 %	
Multifamily: ⁽⁴⁾								
3 Total Portfolio	0.15 %	0.14 %	0.02 %	0.01 %	0.15 %	0.15 %	0.15 %	
4 Net carrying value	\$ 44	\$ 43	\$ 5	\$ 5	\$ 51	\$ 44	\$ 51	16%
<u>REO Balances</u>								
5 Single-family	\$ 441	\$ 483	\$ 504	\$ 575	\$ 593	\$ 441	\$ 593	34%
6 Multifamily	1	1	1	-	1	1	1	-
7 Total	\$ 442	\$ 484	\$ 505	\$ 575	\$ 594	\$ 442	\$ 594	34%
<u>REO Inventory</u>								
8 Properties Acquired	2,984	2,981	3,231	3,563	3,745	10,091	13,520	34%
9 Properties Disposed	(2,204)	(2,463)	(2,922)	(2,863)	(3,763)	(8,942)	(12,011)	34%
10 Ending Property Inventory	5,713	6,231	6,540	7,240	7,222	5,713	7,222	26%
<u>Charge-Offs</u>								
11 Single-family	\$ 22	\$ 25	\$ 26	\$ 26	\$ 22	\$ 89	\$ 99	11%
12 Multifamily	-	(1)	-	-	-	(3)	(1)	(67%)
13 Total Charge-offs	\$ 22	\$ 24	\$ 26	\$ 26	\$ 22	\$ 86	\$ 98	14%
14 Annualized Charge-Offs/Average Total Mortgage Portfolio ⁽⁵⁾	0.9 bp	0.9 bp	1.0 bp	0.9 bp	0.8 bp	0.9 bp	0.9 bp	
15 Memo: Interest Recovered at Foreclosure ⁽⁶⁾	\$ (19)	\$ (15)	\$ (16)	\$ (19)	\$ (15)	\$ (66)	\$ (65)	(2%)
<u>Credit Losses</u> ⁽⁷⁾								
16 Total Credit Losses	\$ 17	\$ 20	\$ 22	\$ 23	\$ 14	\$ 67	\$ 79	18%
17 Annualized Credit Losses/Average Total Mortgage Portfolio ⁽⁵⁾	0.7 bp	0.8 bp	0.8 bp	0.8 bp	0.5 bp	0.7 bp	0.7 bp	
<u>Loan Loss Reserves</u>								
18 Total Loan Loss Reserves ⁽⁸⁾	\$ 801	\$ 805	\$ 779	\$ 462	\$ 440	\$ 801	\$ 440	(45%)
19 Reserves/Ending Total Mortgage Portfolio ⁽⁵⁾	7.9 bp	7.5 bp	7.0 bp	4.1 bp	3.8 bp	7.9 bp	3.8 bp	

⁽¹⁾ 4Q 2002 and full-year 2002 are as of November 30, 2002. Includes mortgages in the total mortgage portfolio (excluding non-Freddie Mac mortgage securities).

⁽²⁾ Based on the number of mortgages 90 days or more delinquent or in foreclosure.

⁽³⁾ "At-risk" includes only those loans for which Freddie Mac has assumed primary default risk plus loans covered by primary mortgage insurance. Excludes non-Freddie Mac mortgage securities, securities subject to subordination agreements and loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. In some cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

⁽⁴⁾ Based on net carrying value of mortgages 60 days or more delinquent or in foreclosure.

⁽⁵⁾ Average and ending total mortgage portfolio exclude non-Freddie Mac mortgage securities.

⁽⁶⁾ Foreclosure settlement proceeds (including fair value of REO acquired) in excess of loan principal are applied as a recovery of interest deemed uncollectible.

⁽⁷⁾ Equal to Charge-Offs plus "REO operations income (expense)."

⁽⁸⁾ Includes the effect of reducing the corporation's loan loss reserve by \$246 million on a pre-tax basis. This reserve reduction increased both GAAP net income and operating earnings by \$160 million on an after-tax basis or \$0.23 per diluted common share for 3Q 2002 and for the full-year 2002.

FREDDIE MAC
NON-INTEREST EXPENSE
TABLE 7
FOURTH QUARTER 2002
(unaudited, pending restatement)
(dollars in millions)

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002	2001	2002	2002 vs. 2001
<u>Non-Interest Expense</u>								
1 Adjustment to Provision for Mortgage Losses ⁽¹⁾	\$ -	\$ -	\$ -	\$ 246	\$ -	\$ -	\$ 246	-
2 Provision for Mortgage Losses	(29)	(28)	-	45	-	(103)	17	
3 SF REO Operations Income (Expense)	5	4	4	3	8	20	19	(5%)
4 MF REO Operations Income (Expense)	-	-	-	-	-	(1)	-	(100%)
5 Total REO Operations Income (Expense)	<u>5</u>	<u>4</u>	<u>4</u>	<u>3</u>	<u>8</u>	<u>19</u>	<u>19</u>	-
6 Total Credit-Related (Expense) Income	(24)	(24)	4	294	8	(84)	282	
7 Total Administrative Expenses	(259)	(228)	(204)	(208)	(280)	(844)	(920)	9%
8 Special Contributions Expense ⁽²⁾	-	-	-	-	(225)	-	(225)	
9 Housing Tax Credit Partnerships	<u>(39)</u>	<u>(42)</u>	<u>(45)</u>	<u>(46)</u>	<u>(46)</u>	<u>(137)</u>	<u>(179)</u>	31%
10 Total Non-Interest Expense	\$ (322)	\$ (294)	\$ (245)	\$ 40	\$ (543)	\$ (1,065)	\$ (1,042)	(2%)
<u>Other Data</u>								
11 Average Total Mortgage Portfolio	\$ 1,118,826	\$ 1,165,605	\$ 1,220,030	\$ 1,245,853	\$ 1,271,206	\$ 1,047,825	\$ 1,225,674	
12 Total Administrative Expenses (in basis points) ⁽³⁾	9.3 bp	7.8 bp	6.7 bp	6.7 bp	8.8 bp	8.1 bp	7.5 bp	

⁽¹⁾ Represents the effect of reducing the corporation's loan loss reserve by \$246 million on a pre-tax basis. This reserve reduction increased both GAAP net income and operating earnings by \$160 million on an after-tax basis or \$0.23 per diluted common share for 3Q 2002 and the full-year 2002.

⁽²⁾ During 4Q 2002, Freddie Mac announced a \$225 million cash contribution to its philanthropic program which includes the Freddie Mac Foundation and corporate giving programs. The corporation's 4Q 2002 contribution is expected to provide operating funds to the Freddie Mac Foundation over the next six to eight years. This special contribution should result in lower "Other administrative expenses" as it reduces the corporation's need to make annual contributions to the Freddie Mac Foundation over this period.

⁽³⁾ Annualized expenses as a percentage of the average total mortgage portfolio.

FREDDIE MAC
SUMMARY OF EQUITY AND CAPITAL
TABLE 8
FOURTH QUARTER 2002
(unaudited, pending restatement)
(dollars in millions)

Line:	4Q 2001	1Q 2002	2Q 2002	3Q 2002	4Q 2002
<u>Summary of Common Shares and Equivalents</u>					
1	695,132	695,787	695,370	693,210	687,020
2	9,523	10,044	10,347	10,307	10,226
<u>Summary of Capital Measures</u>					
3	\$ 4,596	\$ 4,609	\$ 4,609	\$ 4,609	\$ 4,609
4	10,777	11,256	13,325	17,957	20,020
5	15,373	15,865	17,934	22,566	24,629
6	(3,963)	(4,693)	(3,512)	(90)	837
7	\$ 19,336	\$ 20,558	\$ 21,446	\$ 22,656	\$ 23,792
<u>Periodic Issuance of Subordinated Debt</u>					
8	\$ 19,336	\$ 20,558	\$ 21,446	\$ 22,656	\$ 23,792
9	\$ 801	\$ 805	\$ 779	\$ 462	\$ 440
10	\$ 2,972	\$ 4,465	\$ 4,465	\$ 4,466	\$ 5,462
11	3.3%	3.5%	3.6%	3.6%	3.7%

(1) Stock options issued under Freddie Mac's stock-based compensation plans are described in Note 9 to Freddie Mac's Information Statement dated March 29, 2002. Only options whose exercise price is at or below the average market price for the periods presented are included in the computation of diluted earnings per common share.

(2) Stated at redemption value.

(3) Includes "Additional paid-in capital," "Retained earnings," "Accumulated other comprehensive income (loss), net of taxes" and "Treasury stock, at cost."

(4) Equal to "Stockholders' equity" excluding "Accumulated other comprehensive income (loss), net of taxes." See Freddie Mac's Condensed Consolidated Statement of Stockholders' Equity.

(5) Includes the effect of reducing the corporation's loan loss reserve by \$246 million on a pre-tax basis. This reserve reduction increased both GAAP net income and operating earnings by \$160 million on an after-tax basis or \$0.23 per diluted common share for 3Q 2002 and for the full-year 2002.

(6) Represents the book value of debt outstanding under Freddie Mac's subordinated debt securities program (Freddie SUBSSM), which commenced in 2001. Freddie Mac's other outstanding series of subordinated debt are not applicable to this Voluntary Commitment. Additional information about Freddie Mac's Voluntary Commitments is available on its website.

(7) Calculated as the sum of Core Capital (Line 8), Total Loan Loss Reserves (Line 9) and Freddie SUBSSM (Line 10) less 0.45 percent of Total PCs, net of PCs held in the Retained Portfolio, divided by "Total assets."

FREDDIE MAC
OPERATING EARNINGS RECONCILIATION
APPENDIX I
(unaudited, pending restatement)
(dollars in millions, except share-related amounts)

GAAP requires that Freddie Mac recognize on its balance sheets all derivative financial instruments as either assets or liabilities measured at their fair value. Beginning with first quarter 2001 reporting, Freddie Mac began providing a non-GAAP financial measure known as "operating earnings." Management believes that results presented on an operating basis, while not a GAAP measurement nor comparable in many cases to non-GAAP financial measures used by other companies, are beneficial in understanding Freddie Mac's financial performance because they provide a more consistent treatment of transactions with similar economic effects. Management believes this consistency is important for Freddie Mac and beneficial for investors, given the corporation's substantial use of option-based derivatives, interest-rate swaps, callable debt, and non-callable debt for managing interest-rate risk. See Freddie Mac's Information Statement dated March 29, 2002 or the 2001 Annual Report and the Information Statement Supplement dated November 14, 2002 for additional information on operating earnings.

Line:

	YTD 2002			Explanation of Adjustment Column
	GAAP	Operating	Adjustment	
1 Net Interest Income	\$ 6,777	\$ 5,079	\$ (1,698)	Freddie Mac's principal hedging strategies include the use of purchased options and interest-rate swaps. The adjustment column primarily represents the difference in option expense recognition between GAAP and operating earnings. Straight-line option premium amortization expense is recognized over the life of the option for operating earnings purposes. Conversely, GAAP requires the recognition of the effective portion of the mark-to-market of option positions over the estimated life of the hedged mortgage securities. Option costs recorded for operating earnings and GAAP vary with respect to timing, but not with respect to amount cumulatively recognized. In addition, with respect to outstanding interest-rate swaps, the adjustment column includes the effect of excluding certain GAAP hedged item amortization from operating earnings. Under GAAP, changes in hedged item fair values are reported as part of the hedged item's carrying value and amortized over the life of the hedged item. These fair value changes reverse if the related swaps are held to maturity and are therefore excluded from operating earnings.
2 Management and Guarantee Income	1,911	1,911	-	
3 Hedging Gains (Losses)	496	-	(496)	Under SFAS 133, hedging gains (losses) generally arise when the change in fair value of a derivative financial instrument does not exactly offset the change in the fair value of the hedged item. Because these amounts are not realized until a derivative financial instrument is terminated, they are removed from GAAP net income in deriving operating earnings.
4 Losses on Debt Retirement	(738)	(1,243)	(505)	Represents the difference in gain/loss recognition on repurchases of hedged debt between GAAP and operating earnings. Gain/loss is included in operating earnings based on the cost basis of repurchased debt (which <i>excludes</i> certain fair value changes) whereas GAAP requires the mark-to-market of hedged debt and recognition of gain/loss based on the carrying value of the debt (which <i>includes</i> fair value changes.)
5 Total Other Income, Net	979	739	(240)	Represents the difference in gain/loss recognition on sales of hedged assets or options between GAAP and operating earnings. For hedged assets, the gain/loss is included in operating earnings based on the unamortized cost basis of items sold (which <i>excludes</i> certain fair value changes), whereas GAAP requires the mark-to-market of hedged assets and recognition of gain/loss based on the carrying value of the items sold (which <i>includes</i> fair value changes.) For options, gain/loss is included in operating earnings based on the difference between the unamortized option premium cost and the fair value of the time component of the sold option. Since GAAP requires the mark-to-market of the option, there is no gain/loss to recognize upon sale. In addition, this category includes occasional non-recurring adjustments.
6 Total Revenues	9,425	6,486	(2,939)	
7 Total Non-Interest Expense	(1,042)	(1,042)	-	
8 Income Tax Expense	(2,619)	(1,590)	1,029	Federal income tax effect (35%) of adjustments on Lines 1, 3, 4 and 5.
9 Net Income or Earnings	\$ 5,764	\$ 3,854	\$ (1,910)	
10 Preferred Stock Dividends	(234)	(234)	-	
11 Net Income Available to Common Stockholders	\$ 5,530	\$ 3,620	\$ (1,910)	
12 Weighted Average Common Shares Outstanding - Diluted (thousands)	695,687	695,687	-	
13 Earnings per Common Share - Diluted	\$ 7.95	\$ 5.20	\$ (2.75)	

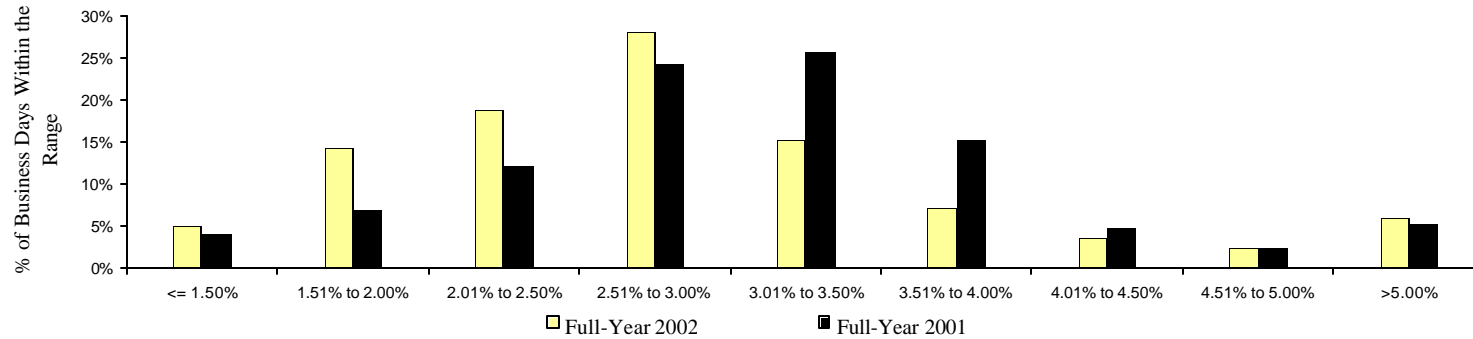
FREDDIE MAC
OPERATING EARNINGS RECONCILIATION
APPENDIX I-A
(unaudited, pending restatement)
(dollars in millions, except share-related amounts)

Line:	4Q 2002			Explanation of Adjustment Column
	GAAP	Operating	Adjustment	
1 Net Interest Income	\$ 1,683	\$ 1,197	\$ (486)	Freddie Mac's principal hedging strategies include the use of purchased options and interest-rate swaps. The adjustment column primarily represents the difference in option expense recognition between GAAP and operating earnings. Straight-line option premium amortization expense is recognized over the life of the option for operating earnings purposes. Conversely, GAAP requires the recognition of the effective portion of the mark-to-market of option positions over the estimated life of the hedged mortgage securities. Option costs recorded for operating earnings and GAAP vary with respect to timing, but not with respect to amount cumulatively recognized. In addition, with respect to outstanding interest-rate swaps, the adjustment column includes the effect of excluding certain GAAP hedged item amortization from operating earnings. Under GAAP, changes in hedged item fair values are reported as part of the hedged item's carrying value and amortized over the life of the hedged item. These fair value changes reverse if the related swaps are held to maturity and are therefore excluded from operating earnings.
2 Management and Guarantee Income	490	490	-	
3 Hedging Gains (Losses)	353	-	(353)	Under SFAS 133, hedging gains (losses) generally arise when the change in fair value of a derivative financial instrument does not exactly offset the change in the fair value of the hedged item. Because these amounts are not realized until a derivative financial instrument is terminated, they are removed from GAAP net income in deriving operating earnings.
4 Losses on Debt Retirement	(354)	(563)	(209)	Represents the difference in gain/loss recognition on repurchases of hedged debt between GAAP and operating earnings. Gain/loss is included in operating earnings based on the cost basis of repurchased debt (which <i>excludes</i> certain fair value changes) whereas GAAP requires the mark-to-market of hedged debt and recognition of gain/loss based on the carrying value of the debt (which <i>includes</i> fair value changes.)
5 Total Other Income, Net	873	602	(271)	Represents the difference in gain/loss recognition on sales of hedged assets or options between GAAP and operating earnings. For hedged assets, the gain/loss is included in operating earnings based on the unamortized cost basis of items sold (which <i>excludes</i> certain fair value changes), whereas GAAP requires the mark-to-market of hedged assets and recognition of gain/loss based on the carrying value of the items sold (which <i>includes</i> fair value changes.) For options, gain/loss is included in operating earnings based on the difference between the unamortized option premium cost and the fair value of the time component of the sold option. Since GAAP requires the mark-to-market of the option, there is no gain/loss to recognize upon sale. In addition, this category includes occasional non-recurring adjustments.
6 Total Revenues	3,045	1,726	(1,319)	
7 Total Non-Interest Expense	(543)	(543)	-	
8 Income Tax Expense	(799)	(337)	462	Federal income tax effect (35%) of adjustments on Lines 1, 3, 4 and 5.
9 Net Income or Earnings	\$ 1,703	\$ 846	\$ (857)	
10 Preferred Stock Dividends	(58)	(58)	-	
11 Net Income Available to Common Stockholders	\$ 1,645	\$ 788	\$ (857)	
13 Weighted Average Common Shares Outstanding - Diluted (thousands)	692,045	692,045	-	
14 Earnings per Common Share - Diluted	\$ 2.38	\$ 1.14	\$ (1.24)	

FREDDIE MAC
PORTFOLIO MARKET VALUE SENSITIVITY RANGES
APPENDIX II
(unaudited, pending restatement)

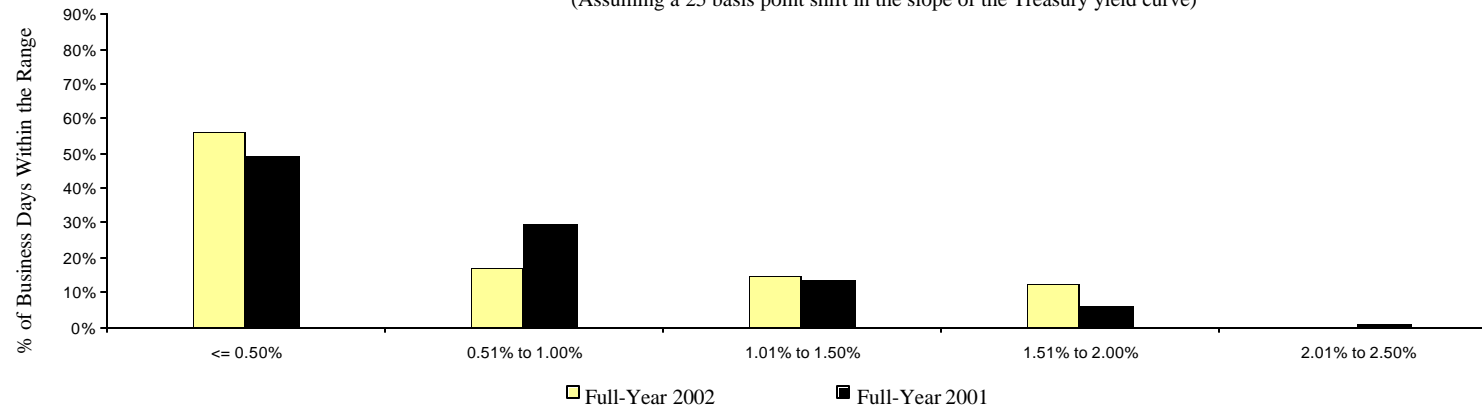
Portfolio Market Value Sensitivity - Level (PMVS-L)

(Assuming a 50 basis point parallel shift of the Treasury yield curve)



Portfolio Market Value Sensitivity - Yield Curve (PMVS-YC)

(Assuming a 25 basis point shift in the slope of the Treasury yield curve)



As an investor in mortgage assets, Freddie Mac's most significant market risk exposure relates to changes in the level of interest rates. The charts above illustrate the percentage of business days Portfolio Market Value Sensitivity ("PMVS") was within certain ranges. Risk exposure is stated in terms of PMVS, the estimated percentage decline in the market value of the corporation's assets and liabilities. Freddie Mac measures, on a daily basis, its risk exposure resulting from an immediate, adverse 50 basis point parallel shift of the Treasury yield curve ("PMVS-L") and from an immediate, adverse 25 basis point shift in the slope of the Treasury yield curve ("PMVS-YC"). For the year ended December 31, 2002, average PMVS-L and average PMVS-YC were 2.90% and 0.65%, respectively. For the year ended December 31, 2001, average PMVS-L and average PMVS-YC were 3.13% and 0.62%, respectively. Further information regarding the PMVS methodology is available in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of Freddie Mac's Information Statement dated March 29, 2002 and on the Investor Relations page of Freddie Mac's website.

FREDDIE MAC
SINGLE-FAMILY AT-RISK DELINQUENCY AND FORECLOSURE ACTIVITY BY REGION ⁽¹⁾

APPENDIX III
(Based on Number of Loans)
(unaudited, pending restatement)

Line:		4Q 2001	1Q 2002	2Q 2002	3Q 2002	11/30/2002
	<u>Northeast</u>					
1	Total number of loans	1,856,649	1,922,184	1,969,466	1,976,571	1,974,166
2	Total delinquent and foreclosed	8,571	7,999	7,411	7,356	7,700
3	Percent delinquent and foreclosed	0.46%	0.42%	0.38%	0.37%	0.39%
	<u>Southeast</u>					
4	Total number of loans	1,471,436	1,537,151	1,581,409	1,595,396	1,611,459
5	Total delinquent and foreclosed	6,857	7,008	6,896	7,466	8,153
6	Percent delinquent and foreclosed	0.47%	0.46%	0.44%	0.47%	0.51%
	<u>North Central</u>					
7	Total number of loans	1,859,862	1,975,355	2,036,158	2,046,495	2,064,385
8	Total delinquent and foreclosed	7,009	7,018	6,984	7,659	8,121
9	Percent delinquent and foreclosed	0.38%	0.36%	0.34%	0.37%	0.39%
	<u>Southwest</u>					
10	Total number of loans	1,040,295	1,089,762	1,120,676	1,127,860	1,138,825
11	Total delinquent and foreclosed	3,846	3,826	3,872	4,367	4,721
12	Percent delinquent and foreclosed	0.37%	0.35%	0.35%	0.39%	0.42%
	<u>West</u>					
13	Total number of loans	1,756,841	1,839,444	1,885,599	1,877,678	1,889,909
14	Total delinquent and foreclosed	6,671	6,624	5,926	5,839	6,095
15	Percent delinquent and foreclosed	0.38%	0.36%	0.31%	0.31%	0.32%
	<u>Corporate</u>					
16	Total number of loans	7,985,083	8,363,896	8,593,308	8,624,000	8,678,744
17	Total delinquent and foreclosed	32,954	32,475	31,089	32,687	34,790
18	Percent delinquent and foreclosed	0.41%	0.39%	0.36%	0.38%	0.40%

⁽¹⁾ "At-risk" includes only those loans for which Freddie Mac has assumed primary default risk plus loans covered by primary mortgage insurance. Excludes non-Freddie Mac mortgage securities, securities subject to subordination agreements and loans for which the lender or a third party has retained primary default risk by pledging collateral or agreeing to accept losses on loans that default. In some cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.