



**Supplement dated November 1, 2004 to
Information Statement dated September 24, 2004**

FREDDIE MAC PROVIDES MARKET UPDATE

**Company Provides Updated Business Results and Outlook;
Quarterly Financial Reporting to Resume in 2005**

Freddie Mac today updated the market on business results and volumes for the first nine months of 2004, management's current business outlook and the timetable for resuming timely financial reporting.

"Our business fundamentals have been strong in 2004 and we continue to make encouraging progress in strengthening Freddie Mac's core operations and renewing our mission focus," said Richard F. Syron, Freddie Mac chairman and chief executive officer. "I am particularly pleased with our progress this year in recruiting a distinguished new senior management team, most notably the addition of Gene McQuade as our president and COO. We have also made great strides in re-focusing the company on its core housing mission, including affordable housing; actively working to strengthen customer service and relationships by increasing our flexibility, creativity and responsiveness; and launching an aggressive cost-containment program to restrain administrative costs. Today's business update reflects the new management team's commitment to not only complete the work facing the company, but also to increase transparency and discuss the underlying performance of the business as we do so."

"As we look to 2005, we are maintaining our financial discipline, driving greater integration in our operations, taking steps to contain costs, and working hard to increase housing affordability for all Americans," said Eugene M. McQuade, Freddie Mac president and chief operating officer. "One of our top priorities is returning Freddie Mac to timely financial reporting, and today we are announcing our plans to accomplish that goal. We remain on track to provide full-year 2004 financial results by the end of the first quarter of 2005, and we will return to quarterly reporting for the second quarter of 2005. We'll continue to accelerate progress in 2005 and report our full-year 2005 results on a timely basis. At the same time, we are focusing intensely on the performance of our business and on our relationships with customers and business partners. Our goal is to become a more creative and nimble business partner for mortgage lenders of all sizes to do business with."

"The timetable we're announcing today will allow us to make significant progress on the major systems work and internal controls assessment and testing that we need in order to get current in our financial reporting," said Martin F. Baumann, executive vice president and chief financial officer. "These are aggressive objectives and we can't guarantee that we are going to

hit each and every one of these target dates. However, our senior management team is committed to getting this job done right and we believe we have the right people and plans in place to make it happen.”

The company will provide another update to the market following the end of the fourth quarter of 2004, in which we will discuss our business operations and volumes, update our business outlook and further update the market concerning our progress toward returning to timely financial reporting.

SENIOR MANAGEMENT TEAM

During the third quarter of 2004, the company announced the appointment of McQuade as president and chief operating officer, as well as that of Patricia L. Cook as executive vice president, investments. McQuade, who had previously served as president of Bank of America Corporation and president and chief operating officer of FleetBoston Financial Corp., is expected to join Freddie Mac’s board of directors at the company’s annual shareholders meeting later this week.

Cook, who has 25 years of experience in the fixed-income markets and served most recently as managing director and chief investment officer of global fixed income for JPMorgan Fleming Asset Management, has oversight responsibility of Freddie Mac’s retained portfolio and reports directly to Mr. Syron. These appointments are the latest in a series of senior management additions during 2004.

BUSINESS RESULTS AND VOLUMES

The following is a discussion of preliminary and unaudited year-to-date volume statistics for 2004, through September 30, which we regularly disclose in our Monthly Volume Summary. Please see our Monthly Volume Summary for information regarding these disclosures and qualifications that apply to our monthly figures.

Total Mortgage Portfolio

The total mortgage portfolio grew to \$1.489 trillion at September 30, 2004, from \$1.414 trillion at December 31, 2003. This increase represents an annualized growth rate of 7.1 percent. New business purchase volume (which excludes purchases of PCs for the retained portfolio) was \$383.8 billion year-to-date in 2004, down from \$668.5 billion for the first nine months of 2003. Total mortgage portfolio liquidations were \$308.7 billion year-to-date in 2004, down from \$631.1 billion for the first nine months of 2003.

Retained Portfolio

The retained portfolio grew to \$660.7 billion at September 30, 2004, from \$645.5 billion at December 31, 2003. This increase represents an annualized growth rate of 3.1 percent. The

primary drivers of net growth have been a reduction in liquidation rates compared to 2003 and purchases of mortgage-related asset-backed securities such as non-agency floating-rate securities backed by sub-prime or home equity mortgage loans. Mortgage-related investment opportunities in fixed-rate products have not been as attractive to us because strong demand from other investors, coupled with lower mortgage loan originations, have generally resulted in unattractive mortgage-to-debt option-adjusted spreads.

The retained portfolio and its related debt funding are the primary source of our interest-rate risk. In 2004, our interest-rate risk has remained low. We provide investors with monthly interest-rate risk sensitivity disclosures in our Monthly Volume Summary using our primary interest-rate risk measures: Portfolio Market Value Sensitivity (“PMVS”) and duration gap. PMVS-L, one of the two ways we measure PMVS, estimates the sensitivity of our fair value of net assets attributable to common stockholders to immediate adverse shifts in the level of interest rates. Duration gap estimates the net sensitivity of the fair value of our financial instruments to movements in interest rates. Year-to-date in 2004, PMVS-L and duration gap have averaged two percent and zero months, respectively.

Total PCs Issued and Outstanding PCs

Total PCs issued increased to \$1.202 trillion at September 30, 2004, from \$1.162 trillion at December 31, 2003. This increase represents an annualized growth rate of 4.6 percent as of September 30, 2004, lagging the estimated 13 percent growth in U.S. residential mortgage debt outstanding for the year. Our lower year-to-date growth in 2004 is due in part to rising fixed-rate mortgage rates and a corresponding increase in the percentage of adjustable-rate mortgages (ARMs) and other non-traditional mortgage products originated. As mortgage rates rise, the market tends to produce a higher percentage of ARMs. Bank portfolios typically retain a higher percentage of ARMs than fixed-rate mortgage loans. As a result, we estimate that the percentage of mortgage loans sold to the GSEs has declined in 2004 as mortgage rates have increased.

Outstanding PCs (equal to Total PCs issued less PCs held in the retained portfolio or held as part of our PC market-making and support activities) grew to \$808.2 billion at September 30, 2004, from \$752.2 billion at December 31, 2003. This represents an annualized growth rate of 9.9 percent.

BUSINESS OUTLOOK

Retained Portfolio

During the first quarter of 2004, our retained portfolio purchases were low due to tight mortgage-to-debt option-adjusted spreads. Together with high liquidations, these factors caused a net decrease in the retained portfolio. During the second quarter of 2004, the combination of an increase in the percentage of non-agency securitizations of ARMs, wider option-adjusted spreads on these products, and slower liquidation rates on our existing portfolio resulted in higher retained portfolio growth. Agency and AAA-rated non-agency ARM products continue to produce attractive risk-adjusted returns and represent an increasing percentage of our total

purchases. We expect that the retained portfolio growth rate for the year will be in the low- to middle-single digits. However, market conditions such as demand from other investors, mortgage origination volumes and product mix, and liquidation rates could cause the actual growth rate to vary substantially from our current expectations.

Regulatory Capital

We believe the current level of our capital is adequate to meet all regulatory capital requirements, as well as the target capital surplus established pursuant to the Office of Federal Housing Enterprise Oversight's (OFHEO) letter dated January 28, 2004 equal to 30 percent of our regulatory minimum capital requirement.

Fair Value Balance Sheet Net Asset Growth

A significant portion of our consolidated fair value balance sheet net asset growth for 2003 was due to the tightening of mortgage-to-debt option-adjusted spreads as of December 31, 2003. As a result, the increase in consolidated fair value balance sheet net assets for 2003 was above our long-term expectations. The 2004 outlook for this metric is inherently uncertain because the final results will depend heavily on market conditions as of December 31, 2004. Mortgage-to-debt option-adjusted spreads widened during the first half of 2004 and have since tightened. If current conditions remain in place, we expect consolidated fair value balance sheet net asset growth in 2004 to be significantly below the 19 percent growth seen in 2003.

Total PCs Issued

In 2004, we expect the growth rate of our Total PCs issued to be between four percent and seven percent, which is below the 13 percent anticipated growth rate in U.S. residential mortgage debt outstanding for the year. In 2004, periods of higher interest rates have resulted in an increase in the proportion of ARMs and other non-traditional mortgage products originated. We believe lenders have been retaining a larger percentage of these ARMs and other non-traditional mortgage products in their portfolios and that non-GSE market participants have been retaining or acquiring a larger percentage of loans for non-agency securitizations. As a result, we believe that the primary market has reduced the overall percentage of loans sold to the GSEs.

Guarantee Fees

Our core guarantee-fee business has remained relatively stable over the first nine months of 2004. To date, the contractual guarantee fee rate has decreased slightly as a result of our Market Adjusted Pricing feature and our product mix.

Credit Losses

Although we expect single-family market conditions to remain favorable, we also expect single-family credit losses to increase from their recent, very low levels. Given our strong credit

position, we expect single-family credit losses to remain low as a percentage of the average total mortgage portfolio. We now expect multifamily delinquencies and credit losses to remain low for the remainder of 2004.

Administrative Expenses

We expect administrative expenses, which include salaries and employee benefits, occupancy expense and certain other expenses such as professional services and audit fees, to be higher than historical levels in 2004 and at least through 2005 due to the significant infrastructure and control remediation efforts that are necessary to address the material weaknesses in controls surrounding our financial reporting. We continue to expect that administrative expenses for full-year 2004 will be approximately \$1.5 billion, compared to \$1.3 billion for 2003. This includes approximately \$35 million in exit costs we expect to incur in connection with our previously announced decision to cease the market-making activities of the Securities Sales & Trading Group. We expect such exit costs to include \$30 million in cash payments, \$25 million of which are related to employee severance and associated costs. We have recently launched cost-containment initiatives intended to address the growth rate of our administrative expenses and ensure that resources are focused on achieving our critical corporate objectives.

TIMETABLE FOR FINANCIAL REPORTING

As announced in our June 30, 2004 release of 2003 results, our current objective is to provide quarterly and full-year financial results for 2004 by March 31, 2005. We have established current objectives for additional financial reporting as follows:

- Release of first and second quarter 2005 results at the end of August 2005;
- Release of third quarter 2005 results in mid-November 2005; and
- Release of fourth quarter and full-year 2005 results, including the timely filing of a GAAP-compliant minimum capital report with OFHEO, our safety and soundness regulator, at the end of January 2006.

We also anticipate filing our Form 10 registration statement with the Securities and Exchange Commission, for the purpose of registering our common stock under the Securities Exchange Act of 1934, in the second quarter of 2006, and becoming a 1934 Act registrant as soon as possible after that filing.

2004 FINANCIAL REPORTING UPDATE

Significant systems revisions are still required as a result of our adoption of revised accounting policies from the 2002 restatement and new accounting rules promulgated for 2003 and subsequent periods. While we have made substantial progress, we face continuing challenges because of the prior deficiencies in our accounting infrastructure and the operational

complexities caused by the enormous volume of revised and new accounting policies that we have adopted.

Our prior year and current close processes are executed in two steps – first, producing preliminary financial figures with our existing systems and then “remeasuring” the figures using interim processes, with several dependencies on manual off-line processes, to adjust to GAAP standards. As a result, we must complete substantial back-end validation and analytical review procedures of our financial results to mitigate our current inability to rely extensively on more automated internal controls. Capital reports that we submit to OFHEO for 2004 will be revised when we complete the second step in our closing process and issue our quarterly and full year 2004 results by March 31, 2005. More information on the company’s systems remediation and internal controls assessment work is provided in our Information Statement dated September 24, 2004, available on the Investor Relations page of Freddie Mac’s Web site.

As part of our second-step review process, we have determined that substantially all pay-fixed interest-rate swaps and other derivatives that previously had been reported in cash-flow hedge accounting relationships no longer meet the hedge accounting requirements under the accounting policies we apply in accordance with SFAS 133. As a result, we expect to discontinue hedge accounting for these relationships for financial reporting periods beginning in the second quarter of 2004.

We also have made an additional, voluntary determination to discontinue hedge accounting treatment for the majority of our receive-fixed interest rate swaps. This election will be effective November 1, 2004. We believe that voluntary discontinuance of hedge-accounting treatment for receive-fixed swaps, as permitted by GAAP, will assist us in addressing period-to-period volatility in the total portfolio of no hedge designation derivatives. In addition, we believe that discontinuing hedge accounting treatment for these receive-fixed swaps will help us to reduce the operational complexity and the related controls remediation efforts that would otherwise be needed in order to ensure ongoing compliance with the requirements for obtaining and maintaining hedge accounting treatment. Finally, we believe that discontinuing these hedge accounting strategies at this time will enable Freddie Mac to develop and implement more durable and well-controlled hedge accounting strategies in future periods.

We have concluded that these determinations have no impact on our prior audited financial results, our previously reported interest-rate risk disclosures or our belief that we maintain adequate capital to meet all regulatory capital requirements.

As a result of these two changes we expect the notional amounts of pay-fixed and receive-fixed interest rate swaps not in current hedge accounting relationships to increase significantly from those reported at year end 2003. We expect the notional amount of pay-fixed swaps in no hedge designation to increase by a net amount of approximately \$110 billion during the second quarter of 2004 as compared to the balance at year-end 2003, and the notional amount of receive-fixed swaps to increase by a net amount of approximately \$40 billion, as of November 1, 2004, as compared to the balance at year-end 2003. As we have previously stated, the large

notional amount of derivatives not designated in hedge accounting relationships is likely to produce continued earnings volatility, as periodic changes in the fair value of these derivatives are reflected through the “Derivative gains (losses)” line item on our income statement.

SUPPLEMENTAL PERFORMANCE MEASURES

We will provide quarterly consolidated fair value balance sheets as part of our 2004 financial results and thereafter along with our quarterly financial reports. In addition, we are committed to providing a historic-cost based non-GAAP supplemental performance measure that we will use to monitor performance internally and that will assist investors in understanding our GAAP results. We are working toward providing this supplemental measure with our full-year 2005 results, subject to meeting our primary obligation of getting our financial reporting current. We will also consider providing results for prior periods under this measure in order to facilitate analysis and understanding of our results over time.